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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

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.

Context Phase

Mr. John Moran

Chairman: I welcome everyone to the 18th public hearing of the Joint Committee of Inquiry into the Banking Crisis. This morning we will be 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. In our first session we will hear from a representative of Jones Lang LaSalle, Mr. John Moran. Jones Lang LaSalle is an international professional services and investment management firm which offers specialised real estate services, with annual fee revenue of $4.7 billion and gross revenue of $5.4 billion. It has more than 230 corporate offices and operates in 80 countries. It has a global workforce of approximately 58,000. It is a wholly owned subsidiary of Jones Lang LaSalle Inc. Jones Lang LaSalle Ireland was established in 1964 and provides a full service offering across all aspects of Irish real estate. The company employs 80 people and provides services for occupiers, tenants, developers, landlords, owners, banks and institutions. Services offered include valuation, sales, letting, acquisition, rent reviews, rating, consultancy advice, research and property management. Mr. Moran is an international director of Jones Lang LaSalle and managing director of Jones Lang LaSalle Ireland. He is a qualified chartered valuation surveyor and has been in practice for 29 years. He joined Jones Lang LaSalle in 1986 and has had various roles within the company. He was appointed managing director in January 2009 and is still the lead director for the investment department. His day-to-day role, alongside running the business, is advising on the acquisition and disposal of investment properties on behalf of pension funds, life assurance companies, financial institutions, receivers, private investors, property companies and high net worth individuals. He is very welcome.

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 so do, 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 Mr. Moran to make his opening comments.

Mr. John Moran: I have provided the committee with a detailed opening statement which I will run through again this morning. I was asked to comment on issues relating to the nature and functioning of the commercial real estate market in the period up to 2008 in the context of the banking crisis in Ireland. I will deal with the size and nature of the real estate market in Ireland and I will give a brief overview of Jones Lang LaSalle and the nature of the services that we provide. I will give broad details of our client base, the sources and extent of funding to the commercial real estate market, the composition of investors in that market, its interrelationship with international markets and investors, and the understanding of risk at the time.

My comments relate to the commercial property market though I will occasionally reference the residential market, particularly as it affected land levies. The Irish retail real estate market is made up of various components. There is the residential market, the development land and agricultural market, the investment market and the various occupier markets such as offices, retail, industrial, hotels and licensed and leisure premises.

Up to 2008 the commercial real estate market was growing strongly. There were increased levels of purchasing, leasing and construction activity. Ireland's economy was performing well with GDP and employment driving the expansion. It is worth remembering that, at that time, we were the fastest growing economy in western Europe, the second wealthiest economy on a *per capita* basis measured by GDP and we had the fastest growing population in Europe. During that period unemployment averaged just over 4%, which was effectively full employment. That is important because the real strength in occupier and investor demand is what was supporting the property market. That demand was driving activity levels and increases in values and the capital values of Irish commercial investment property increased by 72% in the five-year period up to 30 September 2007, the date we define as the peak of the market in terms of value appreciation. Property yields were at record levels, which was a reflection of both the strong investor demand and the availability of significant amounts of debt. The graph on page 1 of my submission shows the 72% appreciation in capital value from Q1 2002 to Q3 2007.

This all translated itself into particularly strong transactional activity. Between 2004 and 2008, €8 billion worth of commercial investment property was sold in Ireland. The peak year for investment volumes was 2006, with €3.6 billion traded in 12 months. For context, this compares to the previous record of €1.2 billion in 2005 and an average of €768 million per annum between 2001 and 2004, and they were record levels in comparison with what had happened in the 30 or 40 years preceding that. In addition to domestic spending, there was also considerable Irish investment activity overseas, particularly in the UK and continental Europe. The graph shows the spending patterns of Irish investment in Ireland over the six-year period. All sectors of the market were active, with demand outstripping supply. Demand was not solely focused on prime assets, with secondary and tertiary assets also trading. There was evidence of demand across all size categories and activity was taking place in all locations across the country.

The investment market was characterised by large amounts of money seeking product. Demand was exceptionally strong, with the vast majority of transactions involving domestic purchasers. Values really intensified in 2005 and 2006 and so did attitudes towards investment, with investors seeking to move more aggressively up the risk curve and undertake either development in their own right or in conjunction with developers as joint ventures in search of better returns.

Alongside a very strong investment market there were also exceptionally strong occupier markets. The letting market for offices averaged 2.3 million sq. ft. per annum between 2004 and 2008, totalling 11.6 million sq. ft. over the five years. This is significantly higher than the 8.8 million sq. ft. in the last five years 2010 to 2014. The record years for office take-up in Dublin remain 2006 and 2007. Demand was focused on core, city centre locations, accounting for approximately 60% of take-up per annum. Traditional banking, financial and professional service companies were driving demand during this period, with a new wave of the technology sector just starting to take off. Page 3 shows graphically how office take-up compares from 2002 to 2014 and members will see that the peaks were 2005, 2006 and 2007. In response to that demand there was a response from developers in supplying office construction, with 8.8 million sq. ft. constructed between 2004 and 2008. This represented a 33% increase on the total stock levels at the end of 2003.

The retail market was also performing strongly, with improvements in the economy boosting consumer sentiment and spending. A number of international chains and domestic retailers were entering the market and trading well. As demand continued, vacancy in core schemes and high streets was tightening, with limited choice for occupiers. The market responded to this with a surge in retail development. Between 2004 and 2008, total shopping stock in Ireland increased from 13.7 million sq. ft. to 22.4 million sq. ft., an increase of almost 9 million sq. ft. and a lot of this was in provincial locations. By the end of 2008 Ireland had the second highest shopping stock *per capita* in Europe.

Other sectors performed relatively steadily in comparison to retail and offices. Industrial activity was relatively subdued until 2006, when again there was record occupier take-up of 2.9 million sq. ft. Industrial land values saw significant growth due to a scarcity of supply in areas where people wanted to locate, generally in the south west of the city and in north west Dublin. Occupiers were predominantly general distribution companies which, as is often the case in the Irish distribution and industrial market, are generally purchasers rather than renters.

The values of commercial property adjusted to this strong demand with significant increases over a short period of time. Rents experienced similar growth, with prime office rents increasing from €40 to €60 per sq. ft. and retail rents such as on Grafton Street increasing by more than 100%. Industrial premises also saw rental growth but not at the same pace. The highest rent levels ever achieved in the market remain 2006 and 2007, which is graphically illustrated on page 5.

In response to very strong occupier markets and investment markets, development land also saw an enormous increase in activity. The land market always responds to occupier markets and as activity and pricing grew significantly across all sectors this was also mirrored in development land. Between 2004 and 2006, the number of deals in Ireland increased significantly, reaching over 250 transactions in 2006. The market was characterised by strong demand from developers and investors, who were chasing product and competitively bidding on all assets that came onto the market. In 2006, the highest sale price for a development site was achieved, which was €155 million per acre. This compares to the current top values of approximately between €35 million and €37 million per acre. There was a push for higher densities by the planning authorities but, in the absence of clear guidelines, many developers factored very ambitious densities into their land pricing. The underlying strength of the residential market and residential values also contributed enormously to the high levels of land value that pertained.

I was asked to comment on what JLL do in this market so I will run through the details very quickly. The Chairman has already given members the global overview of the company. In Dublin we have a full service offering, with expertise across all sectors and processes involved in buying, selling and managing real estate. This involves investment sales and acquisitions, leasing activity for both landlord and tenant, property and asset management, planning and building services, valuation advisory services, land and research.

Our main area of focus is commercial property across all sectors, namely, office, retail, industrial, land and hotels. We have undertaken some residential work for clients, but this is not a core specialism. Our client base varies significantly, but historically our largest client profile is institutional, such as pension funds, life assurance companies and banks. We have also acted for developers and occupiers and provide a broad service to everybody in the real estate industry.

From our perspective the advice we give to clients is strategic and consultancy-based. Given that we act for both landlords and tenants and vendors and purchasers, our aims and objectives vary, depending on the instructions, but in any deal we do or any piece of work we perform our duty of care is to the client. As we act for buyers, sellers, occupiers and landlords, we have no vested interest in the performance of the market. We prefer to see a steady performing rising market at the rate of inflation rather than the dramatic booms and busts recently experienced.

Our firm's staff have the necessary academic and professional qualifications to work in the property sector. Most of our staff are members of all relevant professional bodies, including the Royal Institution of Chartered Surveyors, the Society of Chartered Surveyors in Ireland. Various other professional organisations are represented within the office. Being a member of a professional body means that one must adhere to a strict standard and ethic on a daily basis. It is noteworthy that yesterday, for the eighth consecutive year, Jones Lang LaSalle was announced as being one of the world's most ethical companies by the Ethisphere Institute.

I will deal next with the sources and extent of funding in the commercial real estate market in Ireland. It should be noted that we are not directly involved in the funding element of commercial real estate transactions. Our expertise is in real estate and the details of funding acquisitions and developments are left for discussions between our clients and funding institutions directly. While we might introduce parties and provide some background information, specific details of terms and agreements did not involve Jones Lang LaSalle and were not shared with us. Our view of funding conditions relates to what our clients told us and what was common knowledge in Ireland at the time.

Between 2004 and 2008 the largest sources of funding for the commercial real estate market were domestic banks, the UK representatives which had offices here and a couple of European banks. I do not think I need to name them as everybody knows who they are. Each bank had a differing exposure and concentration across all sectors. We were sure at the time that there was a lot of funding available in the marketplace. We were not involved in final loan-to-value calculations between our clients and the banks, but we are aware that loans were available at high value ratios. Funding was also available for almost every type of property transaction, whether for a pure investment purchase or a speculative development. Initially, a significant proportion of the lending was non-recourse, that is, the asset was the only security that the bank held. With the benefit of hindsight, the practice of borrowers giving personal guarantees to secure debt became increasingly common in 2006 and 2007 and led to significant cross-collateralisation of debt. Any further detail of funding and lending during this time would be more accurate coming directly from the banks, lenders and borrowers. Aside from the banks, the market was also awash with a lot of equity, which leads me on to my penultimate comments on the composition of investors in the Irish commercial real estate market.

The major players in Ireland were domestic and accounted for approximately 90% of all investment volumes between 2005 and 2007. They were a mix of private syndicates, private high net worth individuals, institutions and developers. The largest proportion of transactions were undertaken by private Irish individuals or syndicates. These purchasers were backed by funding from banks, with very limited, if any, pure cash purchases. There were also a number of purchasers who were backed by equity. The broad investor profile comes from four sets of investor: private syndicates that used pooled equity and debt; private high net worth individuals who used a mix of equity and debt; and institutions such as pension funds and life assurance companies which purchased with 100% equity. The developers were the final cohort and used equity and significant amounts of debt. Over time it became less certain how much actual cash was employed as opposed to equity release lending. Overseas investors had a limited presence in Ireland during this time, as pricing had intensified significantly and Irish real estate was regarded as too expensive for international investors. Up until the current cycle, the Irish market had traditionally been domestic in nature, with a very limited international input, other than occupiers. It was regarded as an expensive market in the period to 2008 and, as a consequence, there was limited overseas investment in Ireland during this time. I have graphically demonstrated on page 8 of my submission how yields tightened between 2003 and 2006. They compressed from 6% to 3.7% for offices. At these levels, international investors were priced out of the market, with more competitive yields available in other European countries.

A noteworthy feature of the time was that Irish purchasers were not just focused on domestic assets. Significant levels of Irish money were spent across Europe and the world. In particular, it was reported in 2006 that Irish investors had invested approximately €3.5 billion in the United Kingdom and a further €2 billion in the rest of Europe and the USA.

As a real estate advisory firm, it is our job to advise clients on real estate issues. It is, therefore, imperative that we understand levels and impact of risk. Prior to the banking crisis, we were advising our clients on the nature and impacts of the property market and how it was performing. Any advice was informed and reinforced with key primary research data. We collect and monitor research for each property sector, with some of our data sets dating back to the early 1970s. We believe our advice was strategic, using our expert opinion to assess, for example, saleability and letting ability at the time. We would provide details for clients on end-use values based on current market levels, providing strategic advice on sentiment and general market performance. Any valuation we provided for clients was carried out in accordance with the RICS Red Book Guidance Notes and based on evidence of historical market values. It is very important to understand valuation reports are not forward-looking documents; they are a snapshot in time based on current market evidence. It is not within our scope or remit as real estate advisers to put any application to these numbers, particularly in order to generate future projections, unless we are asked to do so. Our clients take our advice and it is their responsibility to apply our recommendations to their models to generate cash flows, repayment models and profit and loss projections for themselves. From this, they can formulate their own inputs and assumptions, but that is not a process in which we are involved. The responsibility for this lies with the property owners and, we assume, their bankers.

I will give an example of how this worked on an almost daily basis. There were numerous development sites sold in Dublin at the time. We would have given numbers to our clients and appraised the value of sites. We would have said to our clients that they could bid X for them. Any number of times developers or clients came back and said, "I am going to bid X plus 20% or X plus 50%." We had no input into these decisions and, frankly, were always unsure as to how they had come to these conclusions.

The strong demand from investors and occupiers essentially was what dictated market performance during this period and drove market activity. It is important to note that a functioning property market is not driven purely by value. Capital values are often used as an indicator to show how a market is performing. Value can be affected by a variety of factors. As well as value, to determine what is a functioning property market we also consider depth. A more reliable method for assessing whether a market is functioning properly is focusing on demand and supply, using market transactions and depth. Having lived through the horrendous recession in recent years we all run the risk of forgetting what the market was actually like in 2005 and 2006. There was enormous depth to it. Any asset for sale had a number of bidding investors in competition with one another. As 2007 and 2008 developed, we saw that there were risks in the market. The warning signs were a shallowing of the depth of bidders in the market, a shallowing of the depth of occupiers and the fact that house prices had started to wobble. We noticed that the number of bidders during the sales process had started to decrease significantly. As a consequence, we advised most of our client base not to participate in the market on the buy-side and, where appropriate, we advised clients to sell. We did this in 2005, which at the end of 2006 had proved to be the wrong decision. Anyone who did not buy at the end of 2005 had lost the opportunity to participate in an additional 40% capital growth. It was only in 2008 that this decision proved to be correct. I can assure the committee that it was not a populist decision and we were not very popular for doing it.

We think our client investors were aware of risks at the time. The market in Ireland is relatively transparent and it would have been impossible not to have been aware of some of these signs, as transaction processes are open. There is reasonable availability for sharing information and data. Data is a big issue in the Irish real estate market and I will happily talk about it later if necessary.

Jones Lang produced a transparency index in 2006. We were ranked the 15th most transparent market in the world which is a "high" transparency category. We are now in the top ten in the world because there have been improvements in transparency over recent years.

Other participants in the marketplace, such as investors, developers and the banks had the benefit of professional advice, or had significant in-house expertise to assist in their decision-making processes. By 2008, there was a recognition within the property industry that market conditions were over-heating, however, I do not believe that most market participants realised the extent of bank lending to the property market, and second, that we would ever witness the collapse in value that subsequently occurred, which was due to an extraordinary confluence of global macro-economic events, combined with an over-reliance on debt in the property market.

Chairman: I thank Mr. Moran. I will deal with Mr. Moran's concluding comments before calling the first questioner this morning. Mr. Moran spoke about how Jones Lang viewed the market between 2006 and 2007. Does Jones Lang employ or retain its own economists or does it buy in financial intelligence that specialises in property market trends and developments?

Mr. John Moran: We employ a property researcher. The one we have at the moment has a degree in geography but the one we had during that time had a degree in economics. Their job is to review other economic commentary and to keep us informed of economic trends. They review Central Bank and ESRI reports and advise us on economic conditions at the time.

Chairman: Would they be feeding into the 58,000 employees or are there other intelligence units?

Mr. John Moran: There are intelligence units right around the organisation, and there is a centralised European research department which sits in London.

Chairman: What was the global and national position of Jones Lang LaSalle in the lead-up to the crisis period for the development of the banking crisis and the guarantee? Who was it warning or was it aware that warnings were necessary?

Mr. John Moran: We never anticipated the global financial crisis. I would be lying if I said we did. At that time we felt that values had appreciated so significantly they were bound to have a correction at some stage. We never envisaged the adjustment that took place afterwards. A normal valuation correction that one would expect in a market that had six years of exceptional growth is between 5% and 15% for investment property, perhaps 30% for development land. We told our clients there was no way this would continue forever and if they wanted to take a profit they should get out now. By no means did we foresee what was around the corner.

Chairman: Was Jones Lang advising sellers and purchasers in equal measure?

Mr. John Moran: We were telling buyers not to buy because we could not see where there was any particular value in the market. Where it suited their investment strategy we were telling them to exit to take profit.

Chairman: I want to digress. Would it be correct to state that the valuation of a property in commercial terms, for retail or whatever, would be determined by the rent yield that could be acquired over the lease period of the rental agreement?

Mr. John Moran: That is correct.

Chairman: In that context, does Mr. Moran know what a side letter is or could he explain what it would be when a rental agreement is put in place?

Mr. John Moran: A side letter would be an agreement between a landlord and tenant where they agree to vary the terms of a lease which may or may not be personal to that relationship.

Chairman: Am I correct in saying that there was a change in the legislation about the disclosure of side letters around 2009?

Mr. John Moran: That is correct.

Chairman: Prior to 2009 how were side letters impacting on the visible rate of rent?

Mr. John Moran: It might be important to take a step back to say how a valuation is calculated. This is a circular room so it is not the best example because it would be difficult to measure. When we arrive at a valuation of a piece of property we assess the rental evidence in the market at the time.

Chairman: Does Jones Lang arbitrate as well?

Mr. John Moran: We do, yes. We assess the rental evidence at the time and apply what we think is the appropriate rent for the piece of real estate, adjust that for size and location, or otherwise, to arrive at what we think is the true market rental value of the property. We then apply an investment yield to that. That is based on whatever transactions are taking place in the market at the time. There is usually a sufficient depth of transactions to allow one to make that comparison. One takes that rental value, capitalises it at that yield, deducts the necessary purchaser's costs which are-----

Chairman: I want to focus on side letters. Let us say, for instance, the revealed rent that is now in the register of commercial leases, prior to 2009, was €100,000 a year for a shop in Dublin. Would a side letter create things such as a fitting cost for the shop?

Mr. John Moran: It is possible. Each transaction is different.

Chairman: It might contain things such as a rent break in the lease agreement.

Mr. John Moran: Normally, one would expect to see the break options in the lease agreement.

Chairman: What other examples are there of things that might be contained in side letters?

Mr. John Moran: Side letters would be concessions that would be agreed with the landlord that would be personal to that tenant.

Chairman: Prior to 2009 these would have been private and confidential. Is that right?

Mr. John Moran: Absolutely, yes.

Chairman: During the arbitration process were those side letters private or were they revealed? If a tenant moved into a shopping centre and went into an arbitration, would that tenant, whose rent was benchmarked on that headline rent of €100,000, have access to those side letters or were they confidential at the time?

Mr. John Moran: I presume they were confidential at the time but I do not particularly practise in the arbitration area.

Chairman: Mr. Moran would understand what side letters were.

Mr. John Moran: I know exactly what side letters mean.

Chairman: Given that the side letters were private, did they give a true reflection of what the tenant next door paid in rent?

Mr. John Moran: Not necessarily, no.

Chairman: When an arbitration of a rent was conducted in the bubble period, was full and accurate information available as part of the arbitration process?

Mr. John Moran: The basis of arbitration is not just one single piece of evidence. In a shopping centre there would be evidence of a range of lettings in that scheme. I very rarely came across side letters.

Chairman: They are confidential by nature.

Mr. John Moran: One would assume that, based on the range of evidence, one would get a reasonable consideration of market value.

Chairman: Was there a potential for side letters to distort the rental market and to create valuations or rent agreements coming out of arbitrations that may not have reflected the true price in the market?

Mr. John Moran: I do not think so. I do not think they were all that common. We do not take one single aspect into account when we are assessing value. Rental evidence is important. We also draw comparisons with other shopping centres and other retail lettings. Sometimes people think a valuation report is a single piece of paper. A valuation report can quite comfortably on occasion run to 100 pages. It details significant comparable evidence. We do a huge amount of analysis to arrive at our opinions. When we are valuing we are valuing independently.

Chairman: Between 2002 and 2007, was Jones Lang ever engaged in a rent review where the rents went down?

Mr. John Moran: Not that I am aware of.

Deputy Eoghan Murphy: I welcome Mr. Moran. When Mr. Moran makes a valuation of a commercial property what are the main factors he takes into account, apart from the potential rent that might be earned for the client?

Mr. John Moran: It is an opinion of market value on the date of valuation. It is important that it is done on a specific date because property is not a static asset. It changes so it is only a snapshot in time. It is our best assessment of the open market value that would be agreed by a willing seller and willing buyer acting without compulsion. That is the definition contained within the Red Book. It has to be based on an appraisal of evidence of current sale prices, current rental values, current property yields and real transactions in the marketplace at the time. It must use the most up-to-date and relevant evidence for the specific property involved. We then take that evidence into account. We adapt it for location, the size of the property and the type of the property. In an investment, we will analyse the length of the lease and look at the strength of the covenant. We ask whether it has the ability to pay the rent and the potential for future rental growth. We determine whether the property itself is over rented or under rented. All those components are taken into account, and that will deal with most investment values.

Development land values are slightly different. We use an approach called the residual valuation approach. What we do is estimate what the completed value of the development will be, less the cost to bring it there, and that generally gives the residual value, which should be the land value. We test that against market evidence, which is based on the value per square foot and per acre being paid for sites. That is the general process.

Deputy Eoghan Murphy: What is the position on the fee?

Mr. John Moran: The fee is either a fixed fee or it is based on a percentage of value. The percentage of value has tended to fall away, and it tends to be a fixed fee at this stage.

Deputy Eoghan Murphy: Percentage of value in terms of what?

Mr. John Moran: Scale fees, when they existed – they do not any longer – used to be 0.2% of value. That would mean a €2,000 fee for a €1 million valuation.

Deputy Eoghan Murphy: That no longer exists.

Mr. John Moran: Fees are generally decided by negotiation now and are generally fixed.

Deputy Eoghan Murphy: In the one transaction, can one work for both sides?

Mr. John Moran: No, not unless we declare a conflict of interest and both buyer and seller are willing to abide by that. We generally do not, as a rule.

Deputy Eoghan Murphy: When someone pays in excess of the valuation price provided, does it mean the property has been undervalued or that the purchaser is overpaying?

Mr. John Moran: It could be either. Without being flippant, obviously when somebody buys for a price in excess of the valuation price, they see something significant in the property that is more valuable to them than perhaps anybody else in the marketplace. It can happen particularly with land value. Perhaps people assume buildings can be constructed on the site at a higher density than one assumed in the valuation. Perhaps they have assumed a lower building cost than the valuer has assumed. Land value *per se* is volatile and can move around with investment value. One would be disappointed if one's valuations were being exceeded all the time in sales.

One thing that is important to understand, though, is that valuation is backwards looking; it is not forward looking. Values are based on the most recent previous evidence. Therefore, if a buyer wants to make a market by paying more, he is entitled to do so. It is vitally important that it be understood that we are not market makers.

Deputy Eoghan Murphy: When did this idea of moving to a fixed fee occur? Is that a recent development?

Mr. John Moran: No. It was probably happening around 2002 and 2003. Fee levels were changing completely at that stage.

Deputy Eoghan Murphy: Why was there a shift away from percentage of value to a fixed fee?

Mr. John Moran: It was primarily led by the banks and developers themselves saying they would not pay a percentage and that they wanted to know exactly what they were paying us for. The professional bodies, I think, were happy enough with it because it meant there was absolutely no risk of somebody trying to increase the value to increase the fee, so it suited from everybody's perspective.

Deputy Eoghan Murphy: Mr. Moran said valuation reports are not forward looking but also said that in 2007 and 2008 he began to advise clients to sell. Was he not doing that based on fear of a future fall in value?

Mr. John Moran: Not in a valuation. That would be in general property advice that we would be giving to people. Where we would have been talking to them about pricing and the prospects for their assets, or otherwise, we would have given forward-looking advice but a valuation does not give forward-looking advice; it is set at the specific date and time.

Deputy Eoghan Murphy: I seek clarification on this. Mr. Moran referred to a valuation at a particular point in time but he is aware of risks coming down the line. Does that not affect the valuation being set? Does the valuer not have to take that into account in some way, even if it is just looking at future rent yields?

Mr. John Moran: As I said, that is why valuations are not forward looking. It is really important to understand that. A valuation is set at the particular time. In calculating the investment yield, will we look at the prospects for the future rental growth and for the property and will we look at the duration of the receipt of income? Absolutely, we will, and we will take that yield and start to adjust that yield, but what tends to happen in real estate, in particular, is that it is a lagging indicator. Generally, what happens is that by the time one makes the projections, the transaction will have happened already, and this will have set a new benchmark. One has to take into account the evidence one has and also make judgment calls on how one believes the property will perform. However, that will relate purely to the yield one has chosen.

Deputy Eoghan Murphy: I might come back to that but first I want to consider valuations and the valuer's relationship to financing, investment and where the money is coming from. Mr. Moran said in page 5 of his submission that, "The practice of borrowers giving personal guarantees to secure debt became increasingly common in 2006 / 2007, and led to significant cross-collaboration of debt". What would his relationship be with the funding of a transaction?

He said he introduces parties.

Mr. John Moran: That might be open to clarification. We do not introduce parties per se to banks or otherwise; that is not part of our role. We have no involvement in the debt markets whatsoever. Obviously, we would know what would be going on when somebody is buying a piece of property. We understand and realise that they go to the banks to seek their funding. What became very clear – some of this is with the benefit of hindsight – is that personal guarantees became quite common in 2006 and 2007, in particular. What that really meant was that the banks started making their lending decisions based primarily on the apparent net worth of the borrower rather than the real underlying value of the security. That is one of the issues that we have. Those personal guarantees meant that the lending practices started to look away from the actual real estate itself and relied-----

Chairman: Could I seek clarification on one point? In page 5 of his statement, under the heading "Sources and extent of funding of the commercial real estate market in Ireland", Mr. Moran uses the phrase, "Whilst we may introduce parties". I think this is what Deputy Murphy was referring to. Mr. Moran is on the record as saying he is introducing parties. Perhaps he could clarify that.

Mr. John Moran: We do not introduce them *per se.* If a client comes into our office and does not have a banking relationship, we will say to him that he can go talk to Mr. X, Mr. Y or Mr. Z of a particular bank. That is as far as we get involved in it. That is for clarity.

Deputy Eoghan Murphy: I am interested in that. In terms of the transaction point, does someone come to Jones Lang LaSalle before he actually has the finances to make an investment in something the company is managing?

Mr. John Moran: Not necessarily. We provide two services when it comes to investment property: we sell investments and we also provide buy-side advice. Therefore, when somebody comes in to us and wants to buy an investment, he will either be fully backed by equity or will say to us he will use debt as part of the transaction. At that moment in time, we will turn around to them and say that if they are going to use debt, we do not provide a debt advisory service or provide any corporate finance advice and that they need to talk to a bank.

Deputy Eoghan Murphy: Is it typical that someone would come into Jones Lang LaSalle for a big transaction, which I imagine would happen given the size of the company, and that they would not have negotiated a position with the bank looking for-----

Mr. John Moran: The vast majority of people already had their banking relationships in place long before they came near us.

Deputy Eoghan Murphy: Would Mr. Moran's company or companies like it have had particular relationships with particular institutions or banks before that?

Mr. John Moran: No.

Deputy Eoghan Murphy: When Mr. Moran was talking about the practice of giving personal guarantees, was he expressing a hindsight view? Was he aware of it at the time?

Mr. John Moran: No. That was a hindsight view.

Deputy Eoghan Murphy: Would he have had particular concerns about individual investors' exposure given his view of the market in its totality?

Mr. John Moran: One would have had a concern towards the end of 2007, in particular, when values started to weaken, that if lending decisions were still being made at that time on the basis of personal guarantees underwritten by the personal net worth of those borrowers, perhaps they would become and start to look more risky.

Deputy Eoghan Murphy: What about syndications? Mr. Moran said they were a significant part of the market at the time. Would he be involved in putting together syndicates or helping people to-----

Mr. John Moran: I will describe syndication so everybody understands exactly how it worked. There was a variety of people. There were private syndicators, private wealth managers, stockbroking firms and the private banking arms of the banks, which effectively pooled together private investors to pool together their equity to allow them to buy larger assets. Those assets would have been out of an individual's reach in terms of their size and scale so the syndicates pooled the equity, put debt in behind it to support those types of transactions and then proceeded to acquire. They pooled together the equity, put debt in behind it to support that type of transactions and then proceeded to acquire. Coincidentally, that started in the financial services centre in the mid-1990s, where a lot of syndicated deals were put together to benefit from what were quite attractive tax allowances and then continued into 2000 onwards. We do not involve ourselves in syndicates and never put together any syndicates. Our job, with regard to any private syndicate, was to advise it on trying to find opportunities for it. If the syndicate was successful in buying, it then was to do the due diligence for the syndicate on that transaction.

Deputy Eoghan Murphy: I thank Mr. Moran. I will move on to risks and indicators because my time is vanishing for some reason. Jones Lang LaSalle became increasingly aware of risks in the Irish commercial property market. Did the company express or report any of those fears? Did Jones Lang LaSalle discuss this with any other players in the property market or did Mr. Moran speak to the Government about those risks or fears?

Mr. John Moran: We did not discuss them with the Government. Throughout that entire period, no approach was made to us by anybody from the Government as to what were our views on the market. Again, with the benefit of hindsight, we found that to be slightly unusual. We expressed our concerns on risks with our client base, because we have our duty of care to that base. In or about March 2007, my research team stated publicly that we were cautious about the market and that the market required a significant amount of caution at the time. That is when we started to make statements publicly about it.

Deputy Eoghan Murphy: In 2006, a number of significant sale and lease-back agreements of substantial size were made. What is that telling us at that point in time?

Mr. John Moran: At that point in time, the sale and lease-backs, which I believe primarily were by the banks themselves, were designed to provide tier 1 capital to the banks in order that they could continue to lend.

Deputy Eoghan Murphy: While that is how the banks explained it, does Mr. Moran agree with this explanation?

Mr. John Moran: Yes.

Deputy Eoghan Murphy: At the time. It was not a case of fear over future values and trying to capitalise their position.

Mr. John Moran: I was involved with all those and I can assure the Deputy that was the reason behind them.

Deputy Eoghan Murphy: If I may, I wish to look at a specific interesting case pertaining to Athlone Town Centre. In September 2007, it was valued at €345 million and at the time, *The Irish Times* stated it would be the second major shopping mall in the town and had raised questions about whether the local population was large enough to sustain both. In February 2015, it was being valued at €60 million. What has happened there? That is not a small overvaluation but is a significant change in value. Even in 2007, Mr. Moran's company would have been aware that there were risks in the market, as was *The Irish Times* itself. While people were aware this actually might not have been sustainable as a development, it was valued at €345 million but then, in 2015, it has been valued again at €60 million.

Mr. John Moran: First, I do not think it was valued at €345 million in 2007. A transaction, which is not a valuation, was agreed but was never concluded and, consequently, the property never transacted at €345 million. That is the starting point.

Deputy Eoghan Murphy: Can Mr. Moran remember what the valuation was at the time?

Mr. John Moran: I am not privy to that and have no idea. At the time in 2007, Athlone Town Centre was being leased up to international occupiers such as Zara, H&M and Marks & Spencer's. These were the type of companies that were going into it. At the time, shopping centre yields probably were trailing in at approximately 3% or 4% capitalisation rates so the valuation probably was sustainable at that moment in time. However, it goes to the fact that it is a snapshot in time.

Deputy Eoghan Murphy: Does something then need to change, if this moment-in-time valuation-----

Chairman: That is it for the present. I will bring the Deputy back in later.

Deputy Eoghan Murphy: ----- was seen as sustainable at that point in time, even though a national newspaper was warning about there not being enough demand to use the shops going into the supermarket? One should remember this was in September 2007.

Mr. John Moran: That is about looking at what journalists say about shopping centres and not knowing in reality what was happening on the ground. In September 2007, that shopping centre was 80% pre-let to international occupiers. These occupiers were stating they were prepared to occupy the scheme for a period of a minimum of ten years and most times agreeing to pay rents. These were the facts of the situation.

Chairman: As I must deal with an in-house procedural issue, I must suspend the committee's public hearings for a short period and in so doing, must clear the Public Gallery. While Mr. Moran may remain in the room, I wish to attend to a matter that has occurred outside of this morning's proceedings as such.

The joint committee went into private session at 10.25 p.m. and resumed in public session at 10.38 a.m.

Chairman: I propose to bring the committee back into public session. Is that agreed? Agreed. Senator O'Keeffe has asked to be excused from this morning's session because of illness. This is a procedural issue to which the committee gave consideration during preparation for our work. In such a situation the committee is of the view that it is necessary to proceed with the evidence. Following consideration of legal advice, it may proceed with the meeting where the witness consents to having his evidence heard without that member being present for the session. Mr. Moran, formally for the record, are you agreeable to the committee proceeding in Senator O'Keeffe's absence this morning?

Mr. John Moran: I am.

Chairman: With that said I will continue to the business at hand and invite our second lead questioner this morning, Deputy Joe Higgins, who has 15 minutes.

Deputy Joe Higgins: In Mr. Moran's opening statement, on page one, he says:

> In the period prior to 2008, the commercial real estate market grew strongly, with increasing levels of purchasing, leasing and construction activity. Ireland's economy was performing well, with GDP and employment growth driving the expansion.

Quite a number of witnesses who came in here as well as various reports on the banking crisis have stated that, in fact, it was a credit-fuelled bubble as a result of inordinate amounts of money lent by banks and financial institutions that drove the growth. How does Mr. Moran reconcile his view that it was economic fundamentals with that?

Mr. John Moran: At no time did we realise the scale and extent of bank lending that existed within the marketplace. If one looks at CSO forecasts, which I happen to have in front of me, the forecast for 2006 was 6% economic growth and the forecast for 2007 was 5%. The forecast was due to tail off in 2008 at 3% to 4% per annum. We took all our economic commentary from a variety of sources. We looked at ESRI reports. We looked at Central Bank reports. At no stage were what I would regard as the pillars of economic commentary, which would be Government-backed organisations or alternatively organisations such as the ratings agencies or otherwise, saying that we were about to witness the cataclysmic crash that we did. We were aware that there was a lot of credit in the marketplace, but it is the oft-used word, that there was an expectation to which I referred earlier, that there would be a soft landing, and that the soft landing would result in an adjustment of prices but never to the extent that actually happened.

Deputy Joe Higgins: In that regard, in the research referred to on page 7 of the document he submitted, Mr. Moran said:

> As a real estate advisory firm, it is our job to advise clients on real estate issues. It is therefore imperative that we understand levels and impact of risk.
>
> Prior to the banking crisis, we were advising our clients on the nature and impacts of the property market and how it was performing. Any advice was informed and reinforced with key primary research data. We collect and monitor research for each property sector, with some datasets going back to the early 1970s.
>
> Any valuations ... were based on evidence of historical market values. Valuation reports are not forward-looking.

Let us take that on the one hand, and then on the other hand we take an article by a UCD academic called Morgan Kelly in December 2006 in which he stated:

> Offering no evidence except wishful thinking, estate agents and politicians assure us that we have nothing to worry about: the Irish housing market can look forward to a soft landing

... 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.

Professor Kelly goes on then to instance research in the property sector in many countries from the 1970s on. His conclusion, by common consent turned out to be absolutely correct. Mr. Moran said he had done the same research, or that he was basing his prognosis on historical research as well. How does he reconcile-----

Mr. John Moran: It was historical research with regard to the commercial real estate market not with regard to the housing market. I have made it abundantly clear that we are not experts in the residential property market. What Morgan Kelly was talking about was the housing market. Our research relates to property data relating to what happened in the commercial real estate market, namely, how many offices are occupied in a year, how many retail units are occupied in a year, and what pricing has taken place. We also said in Q1 2007 that we had concerns over the state of the residential market. At the time we actually saw developers seeking change of use from residential to commercial opportunities. Effectively, we anticipated price drops. I think I have said that. We anticipated price drops of between 5% and 15%. We certainly did not anticipate price drops of 70% for commercial property and 90% for development land.

Deputy Joe Higgins: Does Jones Lang LaSalle deal in development land on which houses will later be built?

Mr. John Moran: Absolutely. Yes. We have to have a knowledge of the residential market, which we do, but I would by no means describe that as expert knowledge. The vast majority of our business is in commercial development land not in residential development land.

Deputy Joe Higgins: I am aware Mr. Moran's competitors were involved in significant deals with development land which was earmarked for housing. Was Mr. Moran's company involved in such deals?

Mr. John Moran: Not with us, in particular.

Deputy Joe Higgins: Does Mr. Moran see a relationship between what happened-----

Mr. John Moran: Absolutely, I understand completely how development land value is calculated. If one is talking about a housing estate for example, the value will be calculated on what the developer thinks he will be able to get for the houses, the end value of the houses less the cost of getting him there will lead one to the residual portion of the land. I have no doubt developers made significant mistakes in that regard. They were over optimistic in their assumptions. They assumed increasing prices, which we felt were unsustainable. They assumed higher densities than we felt they could probably get and therefore they started bidding the market up accordingly. As a consequence, each time a developer bought a site, he set a new level so the price went up by another 10% and that became the next benchmark for the market to look at.

Deputy Joe Higgins: Mr. Moran said also on page 7: "By 2008, there was a recognition within the property industry that market conditions were over-heating, however I do not believe that most market participants realised the extent of bank lending to the property market". Mr. Moran was at the coalface. He saw the size of the deals that were going down and the huge increase in price for commercial properties. Where did he think the money came from if not from the banks?

Mr. John Moran: We knew there was excessive lending in the marketplace. I do not deny that for one moment. It is very important to make clear that as practitioners we did not know how much equity was going into the deals. We did not know whether equity releases were going into the deals. We were never privy to or involved in any of the negotiations around the terms of those transactions. We did not know what personal guarantees were being given. What became very apparent afterwards, again this is with the benefit of hindsight, is that we did not know the level of lending. We did not know the geographical concentration of it, nor did we know the level of lending to specific borrowers. That is information to which real estates advisers would never be privy.

Deputy Joe Higgins: Did developers Mr. Moran acted for not discuss with him how they were going to fund the purchase?

Mr. John Moran: Generally not. No.

Deputy Joe Higgins: On page 6, Mr. Moran said, "Irish yields tightened significantly between 2003 and 2006, compressing from 6.00% to 3.70% for prime offices for example. At these levels, international purchasers were priced out of the market, with more competitive yields available in other European countries". Do I understand that European capitalists became wary of what was going on because they felt that prices were far too high in Ireland and they went elsewhere? Is that how to read this? If that is the case should alarm bells have sounded?

Mr. John Moran: I would almost read it the opposite way, in so far as what it actually caused was Irish capital to fly out of the country to seek better returns elsewhere. There is no tradition of foreign ownership of Irish real estate going right back to the 1970s when commercial real estate started to get really developed in Ireland. The proportion of foreign owners in the Irish market has always been exceptionally low but that has changed significantly in the past three years.

Deputy Joe Higgins: Yes, but if I could interrupt, Mr. Moran, if they thought there were significant yields in Ireland given that capitalists go where there is profit, why were they so wary as to move?

Mr. John Moran: It is because they felt that Ireland was too expensive in terms of risk-adjusted return.

Deputy Joe Higgins: Should that not have sounded alarm bells with estate agents and developers?

Mr. John Moran: Could Deputy Higgins please repeat the question?

Deputy Joe Higgins: Should that fact have sounded alarms bells with estates agents such as Jones Lang LaSalle and the people they were advising?

Mr. John Moran: That is what it did, and that is why we turned around to our client base at the end of 2005 and said, "We cannot see that these type of returns are sustainable in the longer term. If you want to take a profit perhaps you should think of exiting now". As I said at the outset we were proven wrong for two consecutive years because values continued to rise in 2005, 2006 and the first three quarters of 2007. I can assure the Deputy that a number of our clients were less than happy with the advice they received from us.

Deputy Joe Higgins: Looking at the period from 2002 or 2003 to 2007, Jones Lang LaSalle and estate agents generally would have been market participants in the huge increases in land prices etc. Presumably, estate agents made good money from that. In a book authored by Shane Ross and Nick Webb, on page 161 they say:

> Looking back at that period, you could have advised a developer to pay tens of millions for a field in the middle of nowhere based on valuations that turned out to be nonsensical, but it did not damage your career. NAMA paid hefty salaries to people who had been at the coalface of the crash. NAMA was there to take up the slack and all previous errors were forgotten. It was a bailout for the professional classes.

Is that fair or unfair? Is it an assessment Mr. Moran would agree or disagree with?

Mr. John Moran: I think it is grossly unfair. As I have said and I repeat, we do not make the market. We give opinions and developers, owners and investors make their own decisions. We do not take their decisions for them. We do not know what their endgame actually is. Did people get it wrong? Absolutely. There is no doubt that was the case, but we do not turn around and say, "You should do this at X". People have their own teams, they are professionally advised and take their own choices. I have never turned around to somebody in my entire career and said, "You should go and buy that for X." I would say, "We think it is worth X" and it is up to them then to decide what they want to do with it or otherwise.

Deputy Joe Higgins: Can Mr. Moran tell me a little bit about the syndicates that operated in the market? What was their main field of activity and what was the profile of their participants?

Mr. John Moran: The profile of the participants in the syndicates ranged from high net worth individuals, professionals - those were generally the syndicate members. The syndicates were put together, as I said, by people who specialised in putting them together so you had specialist companies that were putting syndicates together. There were private wealth managers, the stockbroking houses and the private banking arms of the banks putting them together. The profile was people putting in relatively small - I use the word carefully - amounts of equity so they could participate in significantly larger projects. It would not have been unusual for clubs of ten to 20 people to be put together that would put a certain amount of equity into a transaction which would enable them to buy a property that was significantly larger than if they were trying to buy it themselves.

Deputy Joe Higgins: When Mr. Moran says "high net worth" does he mean very rich people?

Mr. John Moran: High net worth individuals would be the rich people in business or some of the professions as well.

Deputy Joe Higgins: Would they have any expertise in the area they were putting money into?

Mr. John Moran: I would presume so.

Deputy Joe Higgins: I have seen some deals, for example, concerning doctors, lawyers and such people being involved in syndicates, buying development land. What expertise or interest would those people have in buying development land that was, say, for housing?

Chairman: As Deputy Higgins was interrupted by the inadvertent playing out loud of a podcast just now, I will give him some grace time-wise given the commercial break he had to endure.

Mr. John Moran: I can only give the Deputy what I would have said to any doctor or lawyer who was trying to participate in a syndicate, buying development land and developing housing. I would have asked, "What in God's name are you up to?" I certainly would not have participated in something like that and did not participate in anything like that because I am not an expert. People are entitled to invest your money any way they want but to my mind, for doctors and lawyers, taking significant development risk on housing developments is not what they should be doing.

Deputy Joe Higgins: May I ask whose side estate agents are on? Whose side are the boys on? I ask that in reference to a predecessor of Mr. Moran who, in 2006, made this statement: "Amazingly, the fundamental that is missed by those looking at the property market is that the price of land is high because the price that people are prepared to pay for houses is high, not vice versa." The suggestion there is that young people trying to purchase a home wanted to pay the by any standard inordinate prices that were demanded to put a roof over their head.

Mr. Moran's predecessor finishes by saying, "there is the Chinese proverb which counsels 'be careful what you wish lest your dream come true'". It seems to me that a Government which engineers a fall in house prices in order to pick up first time buyers' votes may not alone be confusing action with progress but may also live to repent at leisure. Is the suggestion by this particular estate agent, that house prices should be kept at the inflated levels they rose to up to 2006, in the interest of young people buying their homes? Does Mr. Moran agree or disagree with this view?

Mr. John Moran: I would disagree. We are on no side, that is the reality of the situation. We act for buyers and sellers all the time. I think I said at the outset and I passionately believe this - we need a functioning property market. People forget that property is effectively land, which is a factor of production, which is necessary for economic activity to take place. As a practitioner I would much rather see a property market that has increasing values in line with whatever the prevailing inflation rates are at the time. I have no interest in participating in booms and busts, I have no interest in keeping values artificially high. I have to run a business and I can assure the committee running a business in the cyclical industry that is property is not very pleasant. We would rather see slow, steady growth.

As I said, property is a factor of production. Without it people do not have roofs over their heads. They do not have shops to shop in or offices to work in. It is a necessary function of a functioning economy. I believe that slow, steady growth rather than this boom and bust cycle we have seen time and time again is far preferable.

Senator Marc MacSharry: At the outset I must declare an interest as an estate agent. I have been involved in buying and selling property in the past. I welcome Mr. Moran and thank him for his presentation.

If I were to commission his firm and nine other property valuing companies, would I be likely to get the same answer from all ten?

Mr. John Moran: No.

Senator Marc MacSharry: Why is that?

Mr. John Moran: The correct academic answer is because valuation is an inexact science. It will be down to assumptions that have been made around the piece of real estate that is being valued, and opinion.

Senator Marc MacSharry: Is it fair to say that there are bounds within which there is no wrong answer?

Mr. John Moran: I think if you asked those ten people that same question, they should all be relatively within a close percentage of each other.

Senator Marc MacSharry: What kind of percentage?

Mr. John Moran: You would expect valuations should be - the rule of thumb used within the industry is that nobody should be out by more than 5%.

Senator Marc MacSharry: If Mr. Moran was commissioned to do a valuation by a developer, a bank or anybody else, would he accept a client brief in advance?

Mr. John Moran: Could the Senator explain to me what he means by "client brief"?

Senator Marc MacSharry: If I was developing company A, I was buying site B and I wanted bank D to finance that, would Jones Lang LaSalle prepare the valuation that would be required to assist me in securing 70% finance on that?

Mr. John Moran: The valuation would be prepared for the developer, yes. Then the developer provides the valuation to the bank.

Senator Marc MacSharry: Within the bounds of no wrong answer, would it be Jones Lang LaSalle policy to focus on the higher end of that 5% threshold rather than the lower to facilitate the developer in that instance?

Mr. John Moran: Absolutely not.

Senator Marc MacSharry: What determines that?

Mr. John Moran: What we do when we undertake a valuation is give our true, fair and accurate representation of what we think that property is worth in the market. If one consulted my peers, the financial community or the developer community, we would be known for being at the conservative, not aggressive, end of the market and we take our responsibilities very seriously. We also realise that now, in particular, one has a duty of care to the bank or financial institution as well.

Do valuers get pressured by developers to increase their valuation figures? Absolutely, they do. Our policy is we will resign from an instruction, if that happens.

Senator Marc MacSharry: Was Jones Lang LaSalle above reproach in that regard?

Mr. John Moran: Yes, absolutely.

Senator Marc MacSharry: Did Mr. Moran ever prepare in an application process for a major syndicate for finance of many hundreds of millions of euro?

Mr. John Moran: I would have prepared valuation reports for syndicates that were, yes,-----

Senator Marc MacSharry: Preparing to purchase?

Mr. John Moran: -----preparing to purchase, yes.

Senator Marc MacSharry: Would that be in the €200 million to €1 billion category or lower?

Mr. John Moran: Certainly, not up to €1 billion. Certainly, I would have been involved in syndicated deals of up to and over €200 million, yes.

Senator Marc MacSharry: Mr. Moran mentioned in his testimony earlier that syndicates came together to purchase property which, if I am quoting him correctly, he stated were out of reach of the individual. Is that correct?

Mr. John Moran: Correct.

Senator Marc MacSharry: As a result of properties being out of reach of individuals, is it Mr. Moran's view that syndicates came together so that they could afford this or to increase the potential of leverage for less collateral from the individual?

Mr. John Moran: It was probably a combination of both.

Senator Marc MacSharry: As a result, did syndicates coming together fuel the boom?

Mr. John Moran: I think they played a part in it, yes.

Senator Marc MacSharry: In the 2000-01 era, the then Government was preparing a national spatial strategy. Did Jones Lang LaSalle make a submission to that?

Mr. John Moran: I would have to check that for the Senator. I cannot recall.

Senator Marc MacSharry: The national spatial strategy, Mr. Moran may recall, involved a call for public submissions, and individuals, local authorities, auctioneers or anybody else could make one. Then it was prepared, as I understand it, by the Department of the Environment, Community and Local Government with input from spatial planners from Denmark or other such expertise that was procured by the State at the time. I ask the Chair for a little latitude here. The strategy stated that towns such as Sligo, for example, would have to prepare an infrastructure for a population of 100,000 by 2020 and, obviously, that was mirrored in other towns, villages and cities throughout the country. To what extent was this analysis wrong? Why was it wrong? To what extent did it fuel the policy agenda of the day that led to the property boom?

Mr. John Moran: I have to pause before I answer.

Chairman: I would ask Mr. Moran to comment upon that rather than take the lead of a question. He should give his view on it.

Mr. John Moran: At the time, everybody in the profession was well aware of the spatial strategy. It enabled towns as gateway towns and it was pro-development to the extent that people were anticipating that population growth. Where the issue arose is it was very difficult. If the Senator will recall, we had a rapidly growing population at the time. We had quite significant immigration and there was a view afoot that the population was going to continue to expand and that we were going to have to provide both residential and commercial accommodation to all these new population centres. Hindsight proves that we were completely wrong. Did it assist in fuelling development in locations where perhaps development was not sustainable otherwise? Absolutely.

One point I will make, and which I feel quite strongly about, is there has been a lot of blame delivered at the doors of the banks, estate agents, developers and various other stakeholders. The town planners in this country are also equally as culpable for fuelling the development boom. Planning policies were extraordinarily lax. They were difficult and virtually impossible, and incoherent in a number of respects. Certainly, in a chase for rates income and in a chase for each town wanting to out-develop each other, they led to completely and totally unsustainable development.

Chairman: This is Senator MacSharry's final question and he should keep it brief.

Senator Marc MacSharry: Mr. Moran mentioned that Jones Lang LaSalle does not comment on the future. In July 2007, its then chairman stated that while accepting house prices might fall 10%, the prospects for the following year for commercial property look very promising. At the time, did Mr. Moran believe the assessment by the ESRI that there was going to be a soft landing? Did his clients? To what extent does he believe the comments of his then chairman? I do not know whether or not it is the current chairman, but we are not allowed mention names here.

Chairman: I would ask Senator MacSharry to be brief. He is over time.

Senator Marc MacSharry: To what extent were those comments providing false confidence to the market?

Mr. John Moran: I reiterate we believed that there would be a soft landing. We thought that values would fall by 5% to 15%, not by, as I stated, 70%. We were aware of all the economic commentary that was in the marketplace but what nobody, certainly in Dublin anyway, was aware of was what was happening globally. We were not aware that Lehman Brothers was about to collapse. We were not aware that there was going to be a credit crunch. We, certainly, were not aware that the banks had over-lent in every aspect of real estate which led to the cataclysmic events that we have endured. What we have just been through in the property market is unprecedented. It has never happened before. We knew there was an adjustment coming, but certainly not of the magnitude that we have currently undertaken.

Chairman: I thank Mr. Moran. I call Deputy John Paul Phelan, who has six minutes.

Deputy John Paul Phelan: I welcome Mr. Moran.

At the start, I have a couple of questions about loan-to-value ratios in the commercial property sector. First, for the committee and for those from outside watching, what is the purpose of loan-to-value ratios in the commercial property sector?

Mr. John Moran: The purpose of a loan-to-value ratio is to provide a buffer to the lending institutions so that, should values decline, there is still some level of equity or value left in the loan.

Deputy John Paul Phelan: I refer to page 5, paragraph 6 of Mr. Moran's opening statement, which states:

> At the time, there was a lot of funding available in the market place. Whilst we were not involved in final loan-to-value calculations between our clients and the banks, were are aware that loans were available at high value ratios.

Is there any particular emphasis on the word “final”? Was Jones Lang LaSalle involved in loan-to-value ratio calculations at processes other than the final?

Mr. John Moran: We were never involved in loan-to-value calculations *per se*. That is the job of the bank, not us. What we would have been aware of, through general market knowledge and anecdotal pieces of people to people, was the level of types of loan-to-value ratios that were available in the market at the time and they could have been, I am sure, in certain circumstances, up to 90%, and, in other circumstances, they were exceeded by that. That, to us, is an exceptionally high level of loan-to-value ratio.

If I compare it to today, which might be a useful benchmark, a very high-quality investment property in Dublin today will get a loan-to-value ratio of perhaps 65% at the outside. One can see where the differentials lay.

Deputy John Paul Phelan: Referring to Mr. Moran’s last answer, was Jones Lang LaSalle involved at the time with financial institutions in their calculation of those loan-to-value ratios?

Mr. John Moran: Absolutely not.

Deputy John Paul Phelan: I refer to page 6 of Mr. Moran’s opening statement where he stated that Irish real estate had become too expensive for international investors. In terms of international investors, was that a particular cause of concern? Mr. Moran indicated already that Jones Lang LaSalle gave advice to some of its investors to dispose of assets. In terms of international investors, how did the company express that concern?

Mr. John Moran: The reality is that most international investors never even looked at Ireland. I think one has to understand as well that the real estate market in Ireland is actually quite small. We have 40 million sq. ft. of modern office space in Dublin, compared to 400 million sq. ft. in London, for example. International real estate investors generally seek markets where there is scale. In the period 2002-07 it was the first time ever that the Irish market had shown any signs of scale. There are a number of international investors who will not invest in a market unless it trades at least €2 billion a year, so it simply was not on their radar screen.

Deputy John Paul Phelan: In terms of international branches of Jones Lang LaSalle, was Ireland registering in those offices and were those concerns being expressed in those offices at that time?

Mr. John Moran: We were registering more as a location for occupiers than investors. We were regarded, at that time, as a pretty good place to do business. We produced a regional growth index across various cities in Europe. Dublin, at the time, was at No. 3 in the regional growth index. That was around 2004-05. It was predicated on things like employment growth, GDP growth, increase in consumer spending, and increase in consumer sentiment. As an investment location, because the yields were so tight, we simply did not feature.

Chairman: Senator Sean Barrett has six minutes.

Senator Sean D. Barrett: I thank the Chairman and welcome Mr. Moran. Are the fees that Jones Lang LaSalle get in any way related to the amount of the valuation?

Mr. John Moran: No.

Senator Sean D. Barrett: There is no incentive to talk up-----

Mr. John Moran: There is absolutely no incentive. Again, for clarity, our fee income from the banks for valuations during that period was less than 2% of our total fee income.

Senator Sean D. Barrett: The evidence to us has been that commercial property is much more volatile than residential and was a cause of the instability we are investigating here. Why does Mr. Moran think that is?

Mr. John Moran: I think the component of volatility that really impacts, and it relates to both commercial and residential, is land. Land is exceptionally volatile in value and that is because it is open to so many various different interpretations. If there is a one-acre site, for example, and I think I can build 12 houses on that site, I know I can sell them for a certain amount. I know what it will cost to build them. I know what my services and financing costs will be. That tells me what I can afford to pay for the land. However, if somebody beside me thinks that he can build 50 apartments on it, he knows that the end value will be significantly higher. His construction costs may be slightly higher but he can afford to pay a lot more for it.

That pertains through commercial land as well. If I think on an office site I can build a 100,000 sq. ft. of offices to deal with a company of 700 or 800 people and the person beside me thinks he can build 200,000 sq. ft. of offices, different values will arise. That is where the real volatility around value arises. The other aspect of it is in a scenario where there were high loan-to-value ratios. The level of equity that was being put into the transactions was relatively low so when one is operating in a market where values fall by 70% to 75%, everybody's equity gets wiped and I think that is why we are in the situation that we are in where, obviously, loan levels then become unsustainable because the natural buffer that one would expect to be in a normal piece of lending was not adhered to.

Senator Sean D. Barrett: Mr. Moran told the committee that Ireland had the second highest shopping stock per head in Europe. Was that a bubble mentality?

Mr. John Moran: Yes, and in the wrong locations.

Senator Sean D. Barrett: Yes.

Chairman: Is that a retail bubble or a shopping bubble or what is it?

Mr. John Moran: I would describe it as-----

Chairman: We over-retailed.

Mr. John Moran: We over-retailed, yes, absolutely. We built too much.

Senator Sean D. Barrett: If we had a fire sale when this happened rather than NAMA where would be now in terms of Mr. Moran's industry?

Mr. John Moran: We probably would have incurred even greater losses than we have already incurred. The scale of this was unprecedented. If there had been a fire sale there would have been buyers for it, there is no doubt about that. The same people who had been buying over the previous three to four years would have been active participants but they simply would have paid less. I think, in hindsight, the benefit of holding the assets for as long as we possibly could was probably a wise thing. Also, I do not think - and the members of the committee would be better qualified than me to say this - that the State could have taken the hit, unless we dealt with in the way that we did. It is arguable that the State has not been able to take the hit. The scale of this is that €74 billion worth of loans were transferred into NAMA, or €74 billion worth of face value. That does not take into account the other hundreds of billions that the banks had on their balance sheets that were not put into NAMA. It is mind-blowing in its magnitude.

Senator Sean D. Barrett: Did tax breaks exacerbate the situation?

Mr. John Moran: The original tax breaks that existed around the IFSC and the designated areas achieved what they were supposed to achieve which was urban rejuvenation. As a firm, we had been involved with the IFSC since its inception. I doubt without the tax benefits, either the capital allowances or the double rent allowances, it would have been successful because it was a location the people simply did not want to go to. Those tax breaks became a little less attractive after 2002 when the cap was brought in on the amount of income that could be used against them so they did not feature as much. I believe that the other array of tax allowances that were provided for holiday villages and all the various other hotels, in particular, led to a proliferation of development in some fairly obscure locations where there was obviously no end user demand. So I think latterly those types of allowances were ineffective and led to overdevelopment. Also, the preponderance of the Government to say at the time that the allowance would be gone at the end of the following year and then suddenly extending it again exacerbated and fuelled developers trying to take advantage of those allowances.

Senator Sean D. Barrett: With the bargains that were available until fairly recently, did we need to get involved in real estate investment trusts and the fiscal privilege attached to them?

Mr. John Moran: I think we do because I think we need liquidity in our marketplace. We need people to buy all these distressed assets which are now being re-sold back into the market place. Therefore, in order to widen the potential buyer pool I think REITs were a good idea. I also think they will play a role in future development. They are allowed to develop 35% of their portfolios so they will become important providers of space which should help us to respond to the supply side issues that we have in the marketplace at the moment for both residential and office accommodation.

Deputy Pearse Doherty: Cuirim fáilte roimh Mr. Moran. I was looking at *The Irish Times* piece that Mr. Moran had in 2008 looking forward to 2009, when the podcast went off. I am not being paid by *The Irish Times* to do that deliberately. It is the second time it has happened, so my apologies.

Mr. Moran has said that in 2005 he suggested to his clients to sell and not buy at that point in time. Clearly they ignored his advice, given that levels of investment by Irish investors increased dramatically in the 2005-06 peak year, and 2007. Why does Mr. Moran believe that they ignored his advice?

Mr. John Moran: That advice would have been delivered to what I would regard as our core client base, which would have been the pension funds and life assurance companies. We, as a firm, did not have an enormous involvement in the private investor market. We were considered, and probably still are, the institutional firm in town, for want of a better expression. Most of them adhered to our advice. Some 90% of the buying activity at that time was private investor led. Quite frankly, it was stoked by a lot of people. Private syndicators were making a great deal of money out of it so it was in their interests to try to continue to push property acquisition and investment as an asset class.

Deputy Pearse Doherty: If we consider the peak year of 2006, some €3.6 billion worth of transactions took place in Ireland. How many individuals or syndicates were involved in those transactions?

Mr. John Moran: I would have to carry out an analysis but I can provide the Deputy with a broad sense of the number of transactions which took place that year. In that context, some 121 transactions accounted for the €3.6 billion. Of these, 39 involved amounts of less than €2 million so one would assume that they related to private individuals. A further 23 involved amounts of between €2 million and €4 million, so they probably also related to private individuals. Above that, some 20 involved amounts greater than €40 million and I would say 90% of these were probably syndicated transactions. Out of the total of 121, one could probably argue that 40 or 50 were syndicated transactions.

Deputy Pearse Doherty: Mr. Moran stated that people were interested in stoking up the property market. The figures he provided indicate that a small number of individuals or syndicates were involved in the transactions in question. How could it have been in their interests to continue to invest when the suggestion was that the market was overheated?

Mr. John Moran: They were deriving significant fee income from it. When a syndicate was put together, an acquisition fee was charged by the syndicator involved and he then charged an asset management fee throughout the life of the syndicate as well. So it was fee driven.

Deputy Pearse Doherty: Mr. Moran mentioned the fact that very little, if any, purchasing was done through the medium of cash and that lending was very much bank led. We know that €3.6 billion was spent here by Irish investors in 2006. However, large multiples of that amount were invested outside of the jurisdiction. Will Mr. Moran outline the type of investments involved in that regard?

Mr. John Moran: As I alluded to earlier, that type of investment was driven by two considerations. First, and believe it or not, with €3.6 million being traded, there simply was not enough opportunity in terms of supply in the Irish market in 2006. There was still a lot of cash washing around the system at the time so people were starting to seek better returns. There were better returns available in other countries, so people opted for them. People were also perhaps seeking to "de-risk" their strategies to some degree and said, "I do not need complete exposure of my property investment strategy to Ireland and I would like to take some exposure in London or elsewhere". In that context, people invested money in all sorts of God-forsaken places. There was an element of that involved and a certain proportion of it was fuelled by the same syndicators to whom I referred earlier and who needed to continue to build their businesses. As well as being active in Ireland, most of those syndicators were also active overseas.

Deputy Pearse Doherty: Am I correct in stating that Irish investors invested approximately twice as much in the UK property market as they did in the Irish property market?

Mr. John Moran: Yes, that is correct.

Deputy Pearse Doherty: In Mr. Moran's experience, would that have been funded by Irish-based banks?

Mr. John Moran: Primarily Irish-based banks, yes.

Deputy Pearse Doherty: Mr. Moran referred to his firm's responsibility to its clients and also to the financial institutions. What is his opinion regarding the financial stability update issued in 2007 which stated that when loans relating to commercial properties fall into arrears, banks expect to write off 60% of the money involved whereas the level of write-off in the context of residential properties is 18%? That update also highlighted the risk of investing in commercial property. Was Mr. Moran aware of the update to which I refer, which, I believe, was written by Marie Hunt? Was his firm aware of the risks the banks were undertaking as a result of the huge level of investment to which I refer?

Mr. John Moran: We would have been concerned. However, as I stated at the outset, we were surprised - we remain surprised to this day - that very few people came and spoke to us about any of our concerns. Where one could see things were becoming unsustainable, one would say it to people but they did not necessarily seem to want to listen or, alternatively they did not ask.

Deputy Pearse Doherty: To whom in official circles did Mr. Moran's firm offer its opinion?

Mr. John Moran: We did not offer it to anyone in official circles. There was no contact whatsoever between ourselves and anyone in official circles. Again, I found that surprising. We would have fed some of our views into our professional institute, which presumably was in contact with those in official circles. As a firm, however, we did not speak to anybody.

Deputy Pearse Doherty: I thank Mr. Moran.

Senator Michael D'Arcy: I welcome Mr. Moran and thank him for coming. He seemed to suggest earlier that he would prefer if we did not have boom-bust cycles and that it would be better if a much less volatile structure held sway. Am I correct in stating that?

Mr. John Moran: Absolutely.

Senator Michael D'Arcy: Do certain high-profile sites contribute to boom-bust cycles?

Mr. John Moran: For example?

Senator Michael D'Arcy: The Irish Glass Bottle site.

Mr. John Moran: They can contribute to the boom-bust cycle in the manner in which they set a new price level. When the next site becomes available, the market knows exactly what was paid for the previous site. Prices are recorded and they are accurate at the time but then, and as already stated, property is not a static asset. Values change all the time.

Senator Michael D'Arcy: Was Jones Lang LaSalle involved in the deal relating to the Irish Glass Bottle site?

Mr. John Moran: We were the joint agents on its sale.

Senator Michael D'Arcy: Jones Lang LaSalle's website states that "The achievement of the almost record-breaking €412 million sale price would not have been possible had it not been for the Jones Lang LaSalle team's significant time investment in devising a range of innovative strategies aimed at maximising value on what was quite a complex site". Was the company involved in a deal relating to a boom-bust site in that instance?

Mr. John Moran: Our job, in the context of that particular sale, was to maximise the value for the two stakeholders, namely, South Wharf plc and the Dublin Port Company. As I said at the outset, our duty of care is to our clients. So, yes, we tried to show the site in its best benefits and we tried to tell people what we thought they could build on it. I do not apologise for that for one moment.

Senator Michael D'Arcy: Did the high-profile nature of the site contribute to the creation of the boom-bust cycle in respect of commercial property?

Chairman: Did it set a benchmark?

Mr. John Moran: Yes, it set a benchmark. However, it was an end-of-cycle sale so it probably had a very limited impact at that time. I think it preceded the sale of a certain well-known hotel in Dublin 4 and that was basically the end of those sort of high-profile sales.

Senator Michael D'Arcy: An official from the Department of the Environment, Community and Local Government gave evidence to the Committee of Public Accounts to the effect that the sale value of the site doubled in the space of one month.

Chairman: Is that correct?

Senator Michael D'Arcy: It is correct.

Chairman: Let us ask the witness.

Mr. John Moran: I am not sure how the sale value of the site doubled in one month. That does not make any sense to me.

Senator Michael D'Arcy: A lot of things do not make any sense.

Mr. John Moran: We sold the site. People often obsess about value. The truest value is what the market paid, freely and clearly, at the time. The market paid the price it thought the piece of property was worth, so that is its true value. Any values before that were merely opinions.

Senator Michael D'Arcy: I wish to read the following into the record, "A former Dublin Docklands Development Authority board member, who was also a senior Department of the Environment official, has expressed "deep regret" at the failure of the Irish Glass Bottle development."

Chairman: What is the Senator citing?

Senator Michael D'Arcy: I am citing evidence given by a person who attended a meeting of the Committee of Public Accounts.

Chairman: So the Senator is quoting from the minutes or the transcript of proceedings of that meeting.

Senator Michael D'Arcy: The individual in question, who I will not name was, and I quote, "head of the department's planning division, said she did not tell then Minister for the Environment [who I also will not name] when the price of the Ringsend site almost doubled from €220 million to €412 million in just over a fortnight".

Chairman: What date was that?

Senator Michael D'Arcy: May 2013.

Mr. John Moran: We acted for the seller in the sale, but as I have no idea what the Dublin

Docklands Development Authority or the Department of the Environment was doing, I cannot comment on that matter.

Senator Michael D'Arcy: Will Mr. Moran outline his fees in regard to it? Had he moved from a percentage of the valuation?

Mr. John Moran: I think that is confidential information.

Senator Michael D'Arcy: Mr. Moran says he was not aware that the banks had over-lent, yet Jones Lang LaSalle Ireland is an international section of a company that has access to specialist analysis of the commercial property market and also international comparators. I have two questions. The previous record, €1.2 billion in 2005, was trebled in 2006. Is there any other sector or jurisdiction in which the previous record was trebled? Mr. Moran has said he was not aware banks had over-lent. Should he have been aware of this? I assume an analysis of the banks was available-----

Mr. John Moran: I will answer the second question first.

Chairman: The Senator should conclude.

Senator Michael D'Arcy: I might not get a chance to complete my questions.

Chairman: The Senator should put his questions because he is already over time.

Senator Michael D'Arcy: Should Mr. Moran have been aware that the banks had over-lent?

Mr. John Moran: No, because there was no analysis available to anybody that would have enabled them to make that judgment call.

Senator Michael D'Arcy: The balance sheets of the banks were available year on year and showed extraordinary growth.

Mr. John Moran: There was extraordinary growth, but nobody realised its scale or its geographical concentration.

Senator Michael D'Arcy: Nobody.

Mr. John Moran: Certainly not in our organisation or generally in the profession.

Senator Michael D'Arcy: Just nobody within.

Chairman: There is no "just" about it. If the delegate gives an answer, there is no "just" about it.

Senator Michael D'Arcy: Is it correct that nobody within his organisation was aware of it?

Mr. John Moran: Yes, that is correct.

Deputy Kieran O'Donnell: I wish to take up the issue of the Irish Glass Bottle site. Mr. Moran has said the sale went through when the market was at its peak and that it did not have any impact. However, is it not clear from his company's website that it was involved with the site from 2000 onwards? Is that correct?

Mr. John Moran: No.

Deputy Kieran O'Donnell: Was it not involved in putting together a development plan? The company has a case study on its website.

Mr. John Moran: No. We were involved but not in developing the site. We had nothing to do with it.

Deputy Kieran O'Donnell: No, but the company was involved in coming up with a strategic plan. It was one of the consultants that had been brought in.

Mr. John Moran: Yes, that is right but not me personally.

Deputy Kieran O'Donnell: Yes, but Jones Lang LaSalle was involved.

Mr. John Moran: Yes, it was involved from 2000 onwards.

Deputy Kieran O'Donnell: There is a case study on the website dealing with it.

Mr. John Moran: Yes, I presume there is.

Deputy Kieran O'Donnell: The company claims in the case study that it was involved in coming up with an intricate strategic structure to maximise the value of the site. The point I am making, therefore, is that it is fair to say property agents such as Jones Lang LaSalle were directly involved in maximising the value of particular sites, this site in particular, which was over €400 million.

Mr. John Moran: That was our job; that was what we were being paid for. Our duty of care was to the vendor of the site. Our job was to get the maximum value for him. That is no different from selling a three bedroom semi-detached house, something we do not do, on behalf of a private individual. That is my job.

Deputy Kieran O'Donnell: Does Mr. Moran believe estate agents have a moral or prudent responsibility where assets are being sold on behalf of a vendor and where clearly the price does not stand up?

Mr. John Moran: Presumably, that is why buyers take professional advice, to ensure they do not do such a thing. We do not have a moral obligation to the buyer, absolutely not.

Deputy Kieran O'Donnell: Is Mr. Moran saying we are relying on the buyer beware principle?

Mr. John Moran: Absolutely. It must be understood the property market is primarily about supply and demand. It is about the general state of the economy. The market, buyers in particular, was not populated by people who did not take advice, who did not have internal advisers or who did not take external advice. People made mistakes and if they paid too much money for a property, they did so with their eyes wide open.

Deputy Kieran O'Donnell: Mr. Moran will appreciate that the consequence of many of these transactions was that the ordinary man in the street ended up taking much of the burden.

Mr. John Moran: I agree.

Deputy Kieran O'Donnell: Does Mr. Moran believe agents had a duty of care? Reading back, he says the property market was supported by the economy. In our case, it was driving the economy. It accounted for some 25% of GDP when it should have been only 8%, 9% or 10%.

He says it peaked on 30 September 2007, but it is now generally acknowledged that it peaked around July 2006. Jones Lang LaSalle is one of the main estate agents and puts itself forward as such. However, the ordinary person would have to ask this question. How can it state the property market peaked 14 months after the time we now know that it peaked, in July 2006?

Mr. John Moran: In terms of commercial property investment values, as measured by our index, which goes back to 1973, the market peaked on 30 September 2007. I did say values tend to lag in the market, so activity levels had started to fall off. That is why I said there were two reasons for looking at the property market. We look at the property market in terms of value appreciation, but we also look at the depth of and activity in bidding. I contend that the depth of and activity in bidding had started to wane towards the end of 2006, but that is a matter of opinion.

Deputy Kieran O'Donnell: On page 7 Mr. Moran said that, as a consequence, they had advised most of the client base not to participate in the market on the buy side and, where appropriate, advised clients to sell. When specifically did the company start to advise clients to sell?

Mr. John Moran: We would have started to tell people that we did not think the value appreciation was sustainable probably towards the end of 2005. I could not give the specific time and date, but it was in that general time period.

Deputy Kieran O'Donnell: When did it advise people not to buy?

Mr. John Moran: Around the same time.

Deputy Kieran O'Donnell: Therefore, by the end of 2005 the company's internal reviews were advising that the market had peaked or was peaking at that time. However, page 1 tells me the market did not peak until 30 September 2007.

Mr. John Moran: We had got it wrong and I have no hesitation in saying this. We had absolutely got it wrong because values increased by 40% between 2005 and 2007. We had got it wrong and were pilloried for it.

Deputy Kieran O'Donnell: Based on Jones Lang LaSalle's expertise, could we have another property bubble in the current market?

Mr. John Moran: There are a couple of things we need to take into account in answering that question. Much of the investment taking place is with equity rather than debt. The general financial circumstances of the global market - it is not often we use the term "global market" in Ireland's case - are that there are significant amounts of equity seeking homes and a yield in the absence of decent returns elsewhere. The occupier market and the general economic fundamentals support a reasonably performing property market. Should these factors change, should there be an economic shock or significantly increased interest rates, for example, values will decline. Are we at the bubble stage? Not just yet. Am I concerned that we might be getting there? Quite possibly.

Deputy Michael McGrath: I welcome Mr. Moran and thank him for his time. When was the peak and when was the trough in the price of commercial property and development land?

Mr. John Moran: The peak, by value, as I said, was on 30 September 2007. The odd thing happened after that, but that is where we define it. We probably did not see values starting to pick up again until 2012.

Deputy Michael McGrath: Mr. Moran mentioned a percentage drop in commercial property values, from peak to trough, of 70%.

Mr. John Moran: It was 72% for commercial investment property and up to 90% for development land.

Deputy Michael McGrath: Reference was made to the lack of a price register for commercial property. We now have such registers for residential property and commercial leases. Would the existence of a national register of commercial property prices have made any difference in what happened and should we have one now?

Mr. John Moran: There should be such a register. If we compare ourselves with other economies in Europe, some countries centrally fund their data collection and these data are available to everybody to assist them in making business decisions. In this country data are opaque and not necessarily always shared. The industry generally would welcome far better data provisions. It is not just down to the availability of a commercial property register or the residential property price register; it goes much further than this, into some of the issues on which I have touched, including concentration of risk for banks and the geographics and borrowers to which they are lending. To use a favoured expression currently, the information we can access needs to be far more granular than it is to allow us to undertake a proper, rigorous analysis.

Deputy Michael McGrath: In Mr. Moran's view, we should have a national register of commercial property prices.

Mr. John Moran: Absolutely.

Deputy Michael McGrath: What toll did the collapse have on Mr. Moran's firm in Ireland in terms of a reduction in head count, for instance?

Mr. John Moran: Our turnover halved. From a point where we were employing more than 90 people at the beginning of 2007, we ended up back at 63. Fortunately for us, as we were not overstaffed in the boom, a lot of it was natural attrition rather than having to let people go. However, we did have several redundancies.

Deputy Michael McGrath: Was it Mr. Moran's experience during the boom that there was a lot of competition among the banks to lend to the commercial property and development land sector? Did clients who were buying have a choice of banks and was there intense competition among banks for that business?

Mr. John Moran: There certainly was no shortage of funding available in the market at the time.

Deputy Michael McGrath: Part of our remit is to look forward and make recommendations. Where do we stand today in terms of the availability of high quality office accommodation, where there is a demand for such, in Dublin and other cities, and in terms of our competitive position when it comes, for instance, to rent per square foot?

Mr. John Moran: There remains an acute shortage of good quality spaces in the locations where people want to occupy such spaces. The vacancy rate for what we describe as grade A accommodation, the best space in the best location in the city, is sub 3%. I understand there is only one building of over 100,000 sq. ft. available in Dublin city at this time. It is a serious issue which has led to very significant increases in office rents. We do a lot of work for foreign occupiers and it is now a major concern in terms of our FDI competitiveness. People look around Dublin and think certain postal districts compete against each other. Our experience, however, is that Dublin, when trying to attract foreign investment, is competing against Birmingham and Berlin. We are at a stage where our rent prices are getting to the level of being unsustainable. A rental price in the order of €50 to €55 per square foot is sustainable in Dublin, given that it is an international capital and the amount of technology companies based here.

Deputy Michael McGrath: What is the current price per square foot?

Mr. John Moran: It is starting to hit €50 to €55. We would rather it did not go over these levels. It goes back to my general tenet that we need a slowly rising and consistent market, not one that goes up and down and up and down again.

Deputy Michael McGrath: Are we facing a serious risk of Ireland losing out on certain investments because of the lack of affordable office accommodation?

Mr. John Moran: It is a combination of two factors - lack of affordable office accommodation and, probably even more importantly, a lack of affordable residential accommodation. The latter is as serious an issue as the non-availability of office accommodation. Unfortunately, real estate is a little like a super tanker - it takes a long time to stop it and a long time to start it. Until such time as we get our supply side organised which will probably not be until 2017, we are going to see these inflationary pressures in the office market.

Deputy Michael McGrath: Has Mr. Moran done a lot of work for the private equity funds which have been investing so much in Ireland in recent years?

Mr. John Moran: A fair degree of work.

Deputy Michael McGrath: Has he any view on the consequences for Ireland of, for example, the National Asset Management Agency selling 90% of its commercial property to private equity firms? We are looking at a different landscape in terms of the ownership of very important commercial property in Dublin and around the country. What impact might this huge shift in the ownership dynamic have in a context where the investment decisions these firms make are typically not long-term ones?

Mr. John Moran: That dynamic will change and will continue to do so. Any property recovery has three phases and we are only starting to enter the third phase. We then have the private equity houses or other investors that come in to take it out. People think these companies are all vultures and have been coming here to steal all of our assets and everything else, but I regard their involvement as probably the greatest amount of foreign direct investment we have ever seen in this country in capital terms. That is what it is - people investing their money. Yes, they are here to make money, but they are also investing.

Deputy Michael McGrath: However, is it long term-investment?

Mr. John Moran: No, it is not long-term investment. That is the next phase, which is starting to happen, where these properties will end up being recycled and sold to new investors. That is why things like real estate investment trusts, REITs, are beneficial for us because we will need people to buy these assets.

Chairman: As Deputy Michael McGrath noted, part of the committee's work is to look to the future, consider policy matters and make recommendations based on the evidence presented to us. Mr. Moran has referred to the current rental cost per square foot in Dublin. How does it compare with prices in other urban centres such as Cork and Limerick? How far ahead is the cost in Dublin?

Mr. John Moran: We are starting to see rents in Cork getting to €20 per square foot, which means that the cost in Dublin is two and half a times ahead. Lack of supply is also an issue in Cork.

Chairman: Is the issue at this time one of supply rather than demand or a mixture of both?

Mr. John Moran: It is a combination of both, but it is more a supply-led issue than a demand-led issue.

Chairman: At what point during what might be called the bubble years, 2002 to 2007, was the cost around €50 per square foot in Dublin?

Mr. John Moran: It was around 2005 or 2006. We should bear in mind, however, that we had reached the figure of €65 by 2007.

Chairman: There was an escalation to the peak when the figure was at about €50?

Mr. John Moran: Yes.

Chairman: Would Mr. Moran say, therefore, that there is a warning signal flashing?

Mr. John Moran: Yes.

Chairman: I have another question which brings us back to the 2002 to 2007 period. From our testimony a witness came here and said red lights were flashing in other areas, such as if a bank's profitability was growing so fast, questions would need to be asked as to why that profit is growing so fast. The consumer price index between 2000 and 2007 was running at about 30%. Research carried out by Colm McCarthy for Retail Excellence Ireland showed that commercial rents increased by 240% in that period. So the CPI was running at 30% and commercial rents were running at 240% - was that a red light or not?

Mr. John Moran: We would have said that rents increased by closer to a factor of about 120% rather than 240%, but irrespective -----

Chairman: We will split the difference.

Mr. John Moran: It does not matter anyway. One way or the other they were ahead of where inflation was. Should it have been a warning signal - yes absolutely. There was a lot of catch up going on. We had started from a very, very low base but at the same time, one does not look just at the CPI as one of the metrics, one also had to look at what was happening with consumer spending which was increasing rapidly.

Chairman: The consumer price index was at 30%. If one divides 30% into 240%, or into 120% by the witness's reckoning, one still comes out with percentages that do not really match. They are severalfold what they are.

Mr. John Moran: I am probably on the record somewhere as saying that retail rents became unsustainably too high.

Chairman: One of Professor Nyberg's reports talks about the bonus culture and incentivisation that took place in the financial and banking sector. Mr. Moran explained earlier how the valuation model works. Are fees for estate agents, valuers and agencies like Jones Lang LaSalle derived from a percentage of the overall sale?

Mr. John Moran: In some circumstances, or else it is a fixed fee, but yes we are incentivised to get as much for the vendor as possible.

Chairman: So, for example, if the site sells for €1,000 and the agency is on 1%, then the agency gets €10. Is it still a percentage driven industry?

Mr. John Moran: It is a combination of both, depending on what service level one offers. Valuations are done for fixed fees, so there is no incentive there whatsoever and nor should there be. Sales fees are still a percentage of the ultimate sale price - or fixed fees depending on which the client wants.

Chairman: Are there bonuses on top of the fees?

Mr. John Moran: No.

Chairman: Senator D'Arcy mentioned the Irish Glass Bottle site earlier. Is there a bonus for sales people, if they were to "land a whale" like that, as they say in Las Vegas?

Mr. John Moran: No. People will not thank me for this, or perhaps think I am being self-serving, but it is worth pointing out that professional fees generally in the industry have been absolutely annihilated over the course of the last five or six years.

Chairman: I wish to ask the witness about the broader regulation of the industry. Is the regulatory structure representative of the regulator and the representative body - both sides of the house in the one organisation?

Mr. John Moran: I am not sure what the Chair means exactly.

Chairman: That is okay. Who regulates or who gives oversight and monitoring to the industry?

Mr. John Moran: Monitoring of the industry is primarily done by the Property Services Regulatory Authority and the Society of Chartered Surveyors Ireland - one being the Government and one being a professional organisation.

Chairman: Is there a potential for conflict of interest there or not?

Mr. John Moran: I would not have thought so.

Deputy Eoghan Murphy: Can I clarify with the witness about the Irish Glass Bottle site? His company provided the valuation for the sellers of that site?

Mr. John Moran: No, we sold the site.

Deputy Eoghan Murphy: Was Mr. Moran at any point involved in the valuation for that site?

Mr. John Moran: Not that I am aware of.

Deputy Eoghan Murphy: There were significant difficulties and costs when it came to clearing that site that were not expected. Would site clearance have been a factor when coming to a potential sale value for the site?

Mr. John Moran: Again, if one used the approach I outlined earlier on when one is working out what the cost is to develop this site, and if remediation was necessary, one would have estimated the costs of remediation as part of the overall costs. If enormous remediation costs were required, the natural assumption would be that one would pay less for the actual land value, because there were additional costs over and above normal.

Deputy Eoghan Murphy: Would Mr. Moran work those costs into a sale price in order for the purchaser to calculate?

Mr. John Moran: We would have made people aware that the land was contaminated and required remediation.

Deputy Eoghan Murphy: Did Mr. Moran at any point in time provide a valuation or a change upwards in valuation during negotiations?

Mr. John Moran: Not that I am aware of.

Deputy Eoghan Murphy: Mr. Moran's company was aware there was a risk long-term regarding the Athlone Shopping Centre site and he was advising clients not to buy. Earlier the witness said that if he was talking to a barrister involved in a syndicate he would be telling him or her to not get involved in investing at that point in time.

Mr. John Moran: The specific example given was doctors and lawyers clubbing together to buy land to develop a housing estate. We did not talk to any of the participants in the syndicate preparing to buy in Athlone. That was not our job; that was the job of the syndicator.

Deputy Eoghan Murphy: But the witness was advising on the Athlone Shopping Centre.

Mr. John Moran: We advised on its acquisition yes.

Deputy Eoghan Murphy: In advising a client to not invest -----

Mr. John Moran: Which is what we did in the end - we made the decision to not buy the shopping centre because we felt the pricing was too high and was unsustainable.

Deputy Eoghan Murphy: But Mr. Moran also talked in public, and on record, about why it was a good investment deal.

Mr. John Moran: It was good investment deal. It touches perhaps on the issue of capital allowances, that it was a tax-led deal - there were significant capital allowances available to any of the investors in that transaction. That is what made it attractive rather than its longer term property fundamentals.

Deputy Eoghan Murphy: Would Mr. Moran consider that going on record in public and talking about the attractiveness of the investment, even from a tax point of view, is stoking the sector? Mr. Moran himself was advising clients to not invest in it.

Mr. John Moran: We did not stoke the sector; I deal in facts and facts alone.

Deputy Eoghan Murphy: Mr. Moran talked about the Government extending tax schemes year on year and how it exacerbated things. Can he explain exactly how?

Mr. John Moran: There would be an announcement about whatever relief scheme was available that year. There were so many of them it is quite difficult to encapsulate them all, but take holiday home villages for example. There would be an announcement that the tax incentive for building these schemes was going to be finished by 18 months or by six months time. There would be a surge of development activity responding to that. Then in the next budget the tax incentive would be rolled over again, so instead of finishing it and completing it, which I believe would have been the preferable thing to do, it just caused people to think "There is that tax incentive, I'll utilise that again". If one drives around parts of the midlands or parts of the west, there are developments that have no reason to be there, other than they were tax based.

Deputy Eoghan Murphy: Why roll it over, why extend it?

Mr. John Moran: I do not know, that is the political question.

Deputy Eoghan Murphy: Would Mr. Moran's real estate industry or company have been involved in those questions?

Mr. John Moran: We were not involved at all.

Deputy Joe Higgins: The witness said he began to advise clients towards the end of 2005 to sell and to be cautious. Those clients included syndicates, people he himself described as high net worth individuals or very rich people.

Mr. John Moran: I did not say that. I said I advised institutions and pension funds. I did not advise private syndicates. Unless I am mistaken -----

Deputy Joe Higgins: Jones Lang LaSalle had nothing to do with syndicates.

Mr. John Moran: No, we looked at buying opportunities for syndicates but we did not advise syndicates that were still in buying mode at the time. We advised our institutional and pension fund clients that if they wanted to take profit, now was the time to sell.

Deputy Joe Higgins: What was Mr. Moran advising syndicates to do?

Mr. John Moran: So that members understand how syndication works, syndicates generally came with the property already acquired and our role at that juncture was primarily to underwrite the property, doing the due diligence to make sure what they were buying was what it was supposed to be. We were an institutional and pension fund house and we had very few syndicated clients we were buying property for.

Deputy Joe Higgins: Mr. Moran said that former clients did not want to listen, in his words. Did greed for profits play a role in skewing their judgment?

Mr. John Moran: Yes, I would say so.

Deputy Joe Higgins: Mr. Moran advises NAMA in certain aspects. Quoting again from the book by Deputy Shane Ross and Nick Webb:

> Jones Lang Lasalle was able to keep afloat through hefty fees from NAMA [after the crash]. In September 2011, John Moran said that the company's work for NAMA was relatively good for us in 2010. He was putting it mildly. The former firm was the biggest recipient of valuation fees from NAMA, as noted above [in the figures given]. That figure represented only a portion of Jones Lang Lasalle's income from NAMA. The company also

earned €2.8 million for portfolio management fees over the same period.

Is it unfair that someone thinks estate agents in general, including Jones Lang Lasalle, cleaned up in the bubble and prices were going well and were cushioned in the crash while many ordinary people who suffered had no such lifeline? Is that unfair or fair?

Mr. John Moran: It is unfair. Our revenue halved and we did not earn €2.8 million in portfolio fees from NAMA. That is inaccurate. We do not segregate where we earn our money from and we report normally. Our accounts are publicly available. No one who wrote that book consulted with us about the level of fee income we earned. Like every other agent in Dublin, we earned fees from NAMA. We are not advisers to them and NAMA takes its own advice and has its own team. At the moment, our role is now is to implement what it asks us to do.

Deputy Joe Higgins: Was the firm----

Mr. John Moran: Our firm was decimated like everyone else.

Deputy Joe Higgins: Was it cushioned by being engaged with NAMA?

Mr. John Moran: It depends on what we define as being cushioned. Did we earn valuation fees from NAMA? Yes, we did.

Deputy Joe Higgins: Mr. Moran approved of the real safe investment trusts, bringing in foreign investment into a distressed market, as I understand it. He said that such people were sometimes referred to as vulture funds. Is it socially beneficial that tenants are at the mercy of vulture funds, in Mr. Moran's view as an estate agent who sees various aspects of the situation?

Mr. John Moran: Socially beneficial is a wide-ranging term. The benefits of having professional owners of real estate, as opposed to one of private investors, can be beneficial in that they give the opportunity to provide professional management. Rapid rent increases in residential accommodation, which we witnessed, are wrong. If I were creating Government policy, which I am not, I would look to change leasing structures in residential investment to have something that is fairer for both landlords and tenants.

Deputy Joe Higgins: Is it inevitable that vulture funds, so-called, coming in for short-term periods will increase rents? Does Mr. Moran favour rent control legislation?

Mr. John Moran: I do not necessarily favour rent control legislation in the manner of the Rent Restrictions Act but I favour when a market rent is set, it is set for a reasonable duration and escalates by the inflation rate. That is fairer for everyone and creates a more sustainable model. Putting on my foreign direct investment hat, which we wear because we are trying to encourage business into the country, ultimately that will be beneficial for occupiers and ultimately beneficial from the ownership perspective because people know the kind of income they would receive.

Chairman: Mr. Moran is already into the space of final comment on policy recommendations for the future. This can refer to both broader recommendations and for the sector. Does Mr. Moran have anything to add in that regard?

Mr. John Moran: These are answered from the property perspective rather than from the policy perspective and some are with the benefit of hindsight. There is a key lesson to learn about regulation of bank lending. There should always be detailed central knowledge of the volume and nature of bank lending, including risk concentration in a sector, a location or to borrowers. Development lending should include a detailed assessment, not only of the land value, which is a snapshot in a volatile sector, but a detailed assessment of how the money will be paid back. We did not feel that happened and there should be sensitivity analysis contained within that. When preparing a development land valuation, one can turn around and say that if it goes right there is likely to be one outcome and if it goes wrong there is likely to be a different outcome. That did not happen and it is still missing in the industry.

All valuations for bank lending should be commissioned by the bank, paid for by the bank and with the duty of care exclusively with the bank. The practice of borrowers commissioning bank valuations should be ceased.

Chairman: On valuation, should it be regulated or should regulation be put in place by the Central Bank?

Mr. John Moran: There should be regulation from the Central Bank. There have been some improvements in the past number of years but it is not at the stage it needs to be. Banks should have more in-house qualified property professionals as a key part of decision-making or take proper external impartial advice. There was not a property professional to be found in any of the banks between 2002 and 2007.

Valuation should be more frequent on security because property is not a static asset and changes. If zoning changes, the value can change. Valuing it and not looking at the file for five or six years is unacceptable. The planning system needs a serious overhaul in how it links up and how it gives clear guidance to the development community. It does not so people make mistakes based on incorrect assumptions. I have spoken about data sharing, which is something we would welcome

The final point is the limited interaction between the regulatory side of the Government and experts in the industry. I am open to correction but I do not think there is a property professional in the Central Bank, which I find astounding given the amount of property lending that goes on. I would welcome the introduction of an expert panel from experienced practitioners to advise the Government on an ongoing basis.

Chairman: With regard to a property professional in the Central Bank, is that someone who-----

Mr. John Moran: Someone who has a surveying background and who understands how real estate really works. Real estate is exceptionally complex and, to the best of my knowledge, no one of that qualification works there. There should be an extra panel, not necessarily of the regulatory bodies like the Society of Chartered Surveyors, the PRSA or other professional institutes. The CEOs of the main estate agencies, like myself, or of REITs can give really valuable insight to Government as to what is happening on the ground. If we see overheating - and it is in nobody's interests to have an overheated market - we can tell Government we think we have a problem. The Government can then introduce a policy to deal with it. Where we see supply-side issues, like we see in offices and residential at the moment, we can also make that known. We have been banging the supply-side drum for the past 24 months and saying there are simply not enough offices in this city. NAMA has taken up the ball and run with it to an extent but nobody seems to be really listening to our calls for policy interventions to be put in place as quickly as possible.

Chairman: I will bring this morning's proceedings to a conclusion. The meeting with Mr.

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 so do, 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,