

Ghost Towns May Haunt Ireland in Property Loan Gamble

Sept. 15 (Bloomberg) -- The skeleton of an eight-story Dublin office block lays deserted on the north bank of the River Liffey, just next to the financial district that less than two years ago was the heart of Ireland's economic boom.

Four cranes stand idle at the site, one of at least 35,000 unfinished or empty new offices and homes that dot Ireland's landscape after the collapse of its real estate market.

Finance Minister [Brian Lenihan](#) will detail tomorrow how much Ireland will pay for about 90 billion euros (\$131 billion) of real estate loans now crippling what as recently as 2006 was one of Europe's most dynamic economies. In what may be the biggest financial gamble in 87 years as a sovereign state, the government will become the [owner](#) of loans for property developments that have plunged in value.

"Short of declaring war, this is the most important decision these guys will ever make," said [Brian Lucey](#), associate professor of finance at Trinity College Dublin, who opposes the plan. "Our entire economic credibility and independence is at stake."

Ireland is suffering the worst economic slump of any developed nation since the Great Depression, according to the Economic & Social Research Institute in Dublin.

The banking system came close to collapse after the bankruptcy of New York-based Lehman Brothers Holdings Inc. a year ago today froze global credit markets and swelled bad debts. Ireland's banks are now in a "vegetative state," according to RBC Capital in London. The government is hoping that by purging toxic assets, the banks will revive lending and reignite the economy.

Seize Land

"If we don't take that basic step, our banks are going to evolve into zombie banks" that won't support the economy, Lenihan said in an interview in Athlone, central Ireland, late yesterday.

The [National Asset Management Agency](#), known as NAMA, will buy 18,000 loans at a discount from lenders led by [Allied Irish Banks Plc](#) and [Bank of Ireland Plc](#). The agency will manage the loans, which amount to about half of Ireland's gross domestic product. Should any of the 1,500 borrowers default, the agency can seize the land or other security put up.

Most of the property-related loans of the biggest Irish banks are being taken over by the agency, excluding residential mortgages.

Finding Right Price

For Lenihan, it's a tightrope: pay too much, and he risks damaging the taxpayer, opponents of the plan say. Pay too little, and he wipes out the banks.

Bank of Ireland rose 5.1 percent to 2.96 euros at 10:41 a.m. in Dublin trading, while Allied Irish advanced 3.3 percent to 2.69 euros.

NAMA may pay more than current market prices for some loans as it seeks to place a "long-term economic value" on the debt, Lenihan told a parliamentary committee on Aug. 31, a strategy which could keep the banks alive.

The agency may discount the loans of Allied Irish by 23 percent and Bank of Ireland by 18 percent, according to an estimate by Merrion, a Dublin-based securities firm. The loans taken over by the agency may include those given to developer [Liam Carroll](#) by [Anglo Irish Bank Corp.](#) to build its new headquarters on the north bank of the Liffey.

With Carroll now seeking protection from creditors amid debts of 1.3 billion euros, the building lies unfinished. Anglo, owed about 30 million euros, is offering another 8 million euros to allow the developer to complete the building.

Ghost Villages

The office vacancy rate at the end of the second quarter was 21 percent in Dublin, compared with 8 percent in London and 10 percent in Berlin, according to [CB Richard Ellis Group Inc](#). As many as 35,000 new homes are now vacant, estimates Davy, the country's largest securities firm, up from 20,000 18 months ago.

"We are familiar with the specter of the ghost village that have seven or eight housing developments but hardly a house sold," said [Joan](#)

[Burton](#), finance spokeswoman of the opposition Labor Party. "All of us have been in NAMA-land."

Close to the village of Gowna, 80 miles from Dublin, the price of five-bedroom [houses](#) has been cut to 400,000 euros from 550,000 euros, according to Liam Reilly, the realtor selling the houses, some of which overlook Swan Lake.

Seven of the 14 houses remain unsold, as banks hoard cash after "going crazy" during the boom, he said.

'Paying the Price'

The share of banking assets in property-related lending grew to more than 60 percent in 2006 from less than 40 percent before 2002, according to [Patrick Honohan](#), chosen by the government as the new central bank governor on Sept. 4. Much of it was used to finance developments which now lie idle or unfinished.

"The big people made the mistakes and the little people are paying the price," said Reilly, 54. "NAMA is the only game in town now, but I'm nervous about it in the long term because some of the debt will never be recouped."

At Gowna, there are few cars in the driveways or signs of life in the built homes, detached houses with stone walls and slate roofs replete with walk-in wardrobes, under-floor heating and built-in televisions in the bathroom. Land earmarked for more houses is cordoned off with a green fence.

NAMA is the only way, said Reilly. "It's a reality check for everyone," he said, leaning on an island in the kitchen of a show house. "It's brought my generation back to the 1980s. For the younger generation, it's been an eye opener."

-- With assistance from Ian Guider in Dublin, Louisa Fahy in Gowna and Colm Heatley in Athlone. Editors [Rodney Jefferson](#), [Frank Connelly](#)

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