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Squeeze on Space Lifts Profit but Shrinks Living Standards

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As long as you do your prep and tie up finance, there is no reason to shy away from buying at auction, writes Grainne Rothery

When Edna and Tony Carthy's dream home in New Ross, in Co Wexford, came up for auction four years ago, they were thrilled to find out that the price had been reduced from €350,000 to a reserve of €175,000, which was within their budget.

The event was a single auction, held by Sherry FitzGerald in the town. On the day of the sale, in late August 2011, the couple turned up at the auction rooms, along with 12 other people, many of them local.

About four people bid on the house, and a tense battle ensued. However, the price fell short of the reserve, with Edna and Tony placing the last bid, at €152,500. The auctioneers left the room to consult with their clients and returned to say the Carthys were successful.

"We were thrilled and started to jump around the place," says Edna, 65.

"We went into the process knowing very little about auctioneering, and thought we'd never have a chance of being successful. We didn't even know you could bid in amounts less than €5,000. We were as nervous as nervous could be."

Tony is a builder by trade, so was quite familiar with the house before making the purchase. The couple had also sold Tony's father's house prior to the sale, so had enough money for a cash purchase.

"We managed to get the house we wanted for a bargain price, and for well below the reserve," says Edna.

If you are considering buying a home at auction, it's critical to be completely prepared before the bidding starts.

"Review the legal documents, have a survey done and have finance in place," says Ed Dempsey, principal at REA Ed Dempsey in Dublin, part of the Real Estate Alliance network, which staged its first Leinster property auction in October. "You need to have everything lined up. If the hammer falls in your favour and you end up buying on the day at auction, you will be expected to sign and exchange unconditional contracts and pay 10% of the purchase price."

The main prerequisite is to ensure all the legal documents are in order, according to Chris Smith, regional manager of Quillens in Navan. "You need to contact a solicitor and get them to check everything out." He explains that auctions can be used as a way to sell properties with title issues, "so people need to be careful of that".

It's also essential to have loan approval in place, or the cash to meet the price. "When you buy at the auction, there's no going back," says Smith, adding that if you cannot pull the required funds together, "you will lose your deposit".

If you are interested in a property, but haven't been to an auction before, Robert Ganly, auctioneer and managing director of Ganly Walters – which runs auctions under its GW2 brand – advises bringing a professional to bid on your behalf. "Bring a trusted solicitor or a good estate agent who knows the process," he explains. But Smith believes going along to one or two auctions should be sufficient to glean how the process works.

Private auctions usually involve the sale of at least two properties, which will have been marketed for three or four weeks beforehand. Interested parties will have been able to view them and see conditions of sale and contracts.

The auction process itself will normally begin with the auctioneer seeking opening bids somewhere around the advised minimum value (AMV). "Generally, you would get an opening bid close to that, or 60% or 70% of it," Ganly



says. There's a temptation, when bidding, to hang back and bid slowly. "That doesn't achieve anything," he says. "Generally, if you want to buy, you're better off to try and bid up quickly and show strength."

At Allsop's most recent residential auction 24% of the properties were sold on reserve and 76% over reserve.

Smith advises against making the bids too small. "If they're coming in €1,000 increments, people are just thinking, 'Just one more, just one more' – they're not focusing in on the €800,000 they might be spending. You need to be careful to bid strategically and not get caught up in that 'one more' syndrome."

While it may sound obvious, it's important, Smith says, as it was for the Carthys, to be the highest bidder in the room if it's the house you really want. "If the property is withdrawn from auction because we haven't reached the reserve price, we go to negotiate afterwards. It's

important to be the highest bidder because that's the person the agent will focus on to try to secure a deal."

Multiple auctions, where pre-registered parties can participate remotely by phone or online, have become increasingly more common in Ireland over the past three or four years. "In multiple auctions, you have 20 or 30 properties [to be sold] and the rule is that the reserve has to be met and that's it," says Ganly. There is no room to negotiate a sale if the reserve has not been met.

While a private auction sale could take 15 minutes or so to complete, it's about two-and-a-half minutes in a multiple auction. "It's an express service," says Ganly. "The multiple auctions are



BE CAREFUL TO BID STRATEGICALLY AND NOT GET CAUGHT UP IN THAT 'ONE MORE' SYNDROME

The lowdown

As the property market picks up, more estate agents are setting up auctions, and many are looking at ways to differentiate themselves from the competition and attract the uninitiated buyer. Allsop, for example, has introduced an online auction, which enables people to bid from the comfort of their own homes.

The Leinster Property Auction network, meanwhile, uses what it refers to as the "modern method of auction", which involves a smaller deposit being paid – 5% or a minimum

of €6,000 – and gives 28 days for exchange of contracts and another 28 days to close.

While it relieves some of the pressure in the marketplace, bidders still need to have done all their homework in advance.

"Auction in Ireland is largely used by cash purchasers, and for investment properties," says Leinster Property Auction director Patrick Folan.

"The modern method of auction opens up the door to first-time buyers and mortgage buyers."

the Ryanair of the business." In general, those attending multiple auctions will need to register in advance or on the day by paying a fee, and show identification when they arrive. "Some multiple auctions are for distressed properties," he says. "It's to stop someone trying to appear with no money and buying the property back or messing it up by bidding way beyond the reserve to knock everybody else out."

One of the pioneers of multiple auctions in Ireland is Allsop, which sold 80% of the 190 lots on offer at its October auction, raising €300m. "About 400 people were registered to attend, with probably another 600 filtering in on the day," says Jonathan Fenn, associate director of residential auctions, Allsop Ireland. "We disclose our reserve prices, so it's not the same as the AMV model."

Among the bidders at Allsop's September auction was Kodaline frontman Steve Garrigan, who had his sights set on a five-bedroom house on the grounds of Roganstown golf club in Swords, in Co Dublin, but chose not to top a bid of €717,500.

According to Fenn, prospective buyers at multiple auctions need to do the same checks as they would before a private auction and have their finance set up.

"You can still go and inspect the property. You can bring your builder or your surveyor with you. Your bank valuer or surveyor can also inspect it. And be comfortable that you've reviewed legals before bidding."

Fenn says the most important message is: "If you're uncertain of anything, don't bid."

New angle on loans to refresh old values

LINDA DALY
MARKET WATCH



The government's inaction over rent control and Dublin city council's (DCC) plans for modular units for homeless people kept the property market in the news last week. First there were denials of a rift in government over rent control, then there were recriminations about the failure to introduce measures in the budget. Environment minister Alan Kelly called his anonymous detractors cowards, and it all got very interesting.

When DCC's planned locations for modular housing units were announced there was a noticeable presence of working-class areas on the list – with Ballymun, Finglas and Drimmagh making the cut. Tweeters wondered why Clontarf or Terenure were absent. Shocking isn't it?

The focus on the accommodation mess relegated property prices and homebuyers to the sidelines, but they are set to be the focus of a summit on property valuation this Wednesday, led by the Institute of Professional Auctioneers and Valuers.

Mortgage lending value (MLV) – the valuation standard used in Germany and other European countries such as Spain and Portugal – is on the agenda. While we continue to nurse the bruises from the property crash, the German property market has remained relatively consistent.

Instead of reflecting the sharp rises and dips of the economy in the short term, the MLV is based on the future marketability of the property. In Ireland, mortgage lenders tend to look at the current property market when assessing a property's value, using it as a reference point for loan-to-value lending decisions. So, they don't weigh up the estimated rise in value over time nor the future prospects of a building.

Some form of creative approach is needed to steady the property market, and it's worth examining new ways to do things.

Price watch: Dublin

Property	2010	2015	Change
Sitric Road Stoneybatter 2-bed terraced	€196,500	€240,000	Up 22%
Smithfield Village Smithfield 2-bed apartment	€182,000	€226,000	Up 24%
Bannow Road Cabra 2-bed terraced	€190,000	€200,000	Up 5%
Shandon Drive Philbsboro 3-bed terraced	€405,000	€458,000	Up 11%

Squeeze on space lifts profit but shrinks living standards

When it comes to the topic of apartment sizes, planners and local authorities should keep this old adage to the forefront of their minds: less is not more.

Ireland's size standards for residential housing have tended to follow Britain's since about the 1940s. The UK has been producing ever-smaller units and with, in effect, no minimum national standard, it has the smallest homes in western Europe. This is not a trend we

need to follow. Minimum space standards for a one-bedroom apartment in Dublin reduced from 484 sq ft in 1961 to 344 sq ft in 1987 – and finally up to a more habitable 592 sq ft in 2011. The damage had been done, with undersized units already having been built, but better late than never.

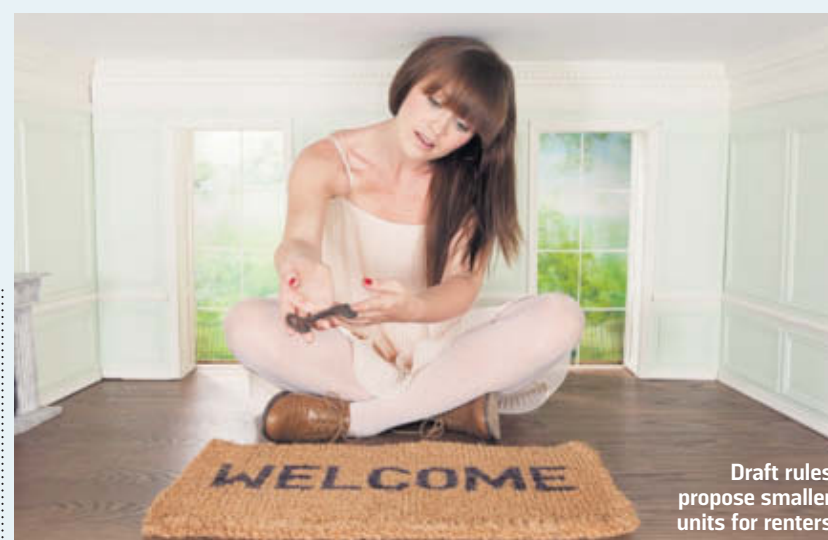
Dublin city council's increased minimum standard benefits individuals living alone, as well as couples living in one-bedroom apartments. The new

bank-lending restrictions mean people will be moving home less often, so it is important that apartments are built that match people's developing living needs.

Some members of the city council don't seem to appreciate this. The authority's Draft Development Plan 2016–2022 includes a clause saying: "Up to a quarter of the one-bedroom units in certain residential schemes may be for studios with a minimum floor area of 45 sq m [484 sq ft]." The plan goes on to say: "This provision applies to long-term, purpose-built managed schemes with over 100 units, developed under the 'build-to-rent' model and located in the inner city/docklands areas."

The build-to-rent idea, in which units are designed with a view to renting rather than selling, is a good one. Such apartment schemes will have communal laundry rooms – something we've never done here but should. There's no clear rationale for the knee-jerk size-reduction proposal, however.

The proposed 484 sq ft is almost one-fifth smaller than is permitted. The



argument has been made that the smaller apartments will be 20% cheaper to build, thus kickstarting "the market". This is naive: the more expensive components have to be used whatever the size, so they'll be about 5% cheaper to build. Neither will they be 20% cheaper to rent: the difference in monthly rent between a 592 sq ft and a 484 sq ft one-bedroom apartment will also be about 5%. The only person who benefits from the proposal is the developer who can squeeze in more units.

There is a further issue that seems to

have escaped the attention of those rushing to facilitate "the market". Government housing policy stresses that people should not be discriminated against because of their choice of tenure. The city council's proposal goes against the idea of equity, reserving these smaller units for rental accommodation. Support for these proposals comes from property and construction lobby groups, and that's understandable. Surprisingly, further support has come from the Royal Institute of the Architects of Ireland (RIAI), which appears to be at

one with the Construction Industry Federation. This stance is at odds with the Royal Institute of British Architects, whose members are more supportive of fairer standards for living space. Given the legacy of poor residential design and construction of the past, I'd have thought that the RIAI would support higher, not lower, standards.

There are more pressing issues that Dublin City Council and proposers of this size reduction could examine, beginning with their own consciences and then moving on to such issues as unnecessary parking requirements and minimum net usable space per room standards. Many of these bodies could focus on meeting standards that exist.

A minimum net usable size per room standard would mean that apartments had a decent-sized bedroom, bathroom, and so on, rather than the current situation where the rules say you have to build a minimum 484 sq ft apartment but can have rooms of any size.

If these proposals become part of the next development plan, the minimum size may become the maximum. The heavy mix of lower standards and a hunger for profit can only go in one direction. More importantly, this latest proposal doesn't address the issue of affordability in any meaningful way.

I would urge people to make submissions on the Draft Development Plan on the city council's website in support of maintaining a civilised, sustainable standard of living for all.

LORCAN SIRR
ON THE HOME FRONT

