

## **Speech by Mr Frank Daly, Chairman of NAMA, to the Northern Ireland Chamber of Commerce, October 2013, Belfast**

### **Introduction**

I would like to thank the Northern Ireland Chamber of Commerce for your invitation to speak here today. Events such as this are important to NAMA. NAMA is a State sector agency but also very clearly a commercial organisation and as such we do not operate in a vacuum. We welcome every opportunity to explain what we are doing and to engage with all stakeholders. In Northern Ireland, those stakeholder interactions have included public representatives, government and state agencies, banks and other lenders, the property sector, business organisations, the universities, and social housing groups. We have sought to build clarity and understanding around the Agency's role in Northern Ireland through these interactions. I see today as yet another important opportunity to do this - to update you on NAMA's activities, initiatives and funding – particularly in the Northern Ireland property market.

### **NAMA in context in Northern Ireland**

It may be useful, first of all, to put NAMA in its proper context as far as the Northern Ireland property market is concerned. We are far from being the largest player in this market and indeed in some sectors our exposure is very low. In the residential sector, for example, our debtors and receivers control only 900 residential properties in Northern Ireland, a miniscule exposure in the context of the total housing stock of over 750,000. Our exposure to the land and development sector is more substantial but I would point out that we are by no means the largest player in this sector either. So we are substantial and influential but by no means dominant.

### **NAMA's approach in the Northern Ireland property market**

As an influential player our approach to the Northern Ireland market needs to be explained. That approach has been determined by our own strategic analysis and by listening to all our stakeholders here.

In the four years that we have been engaging with political and business interests in Northern Ireland, the single point most often made to us is that any attempt by NAMA to engage in asset 'fire sales' or to operate in an overly aggressive manner would be very damaging to the property market and to the economy here. This political and business feedback – almost a consensus, in fact - was, as it happens, aligned very well with our own analysis of our Northern Ireland portfolio and the market here. Out of both emerged our strategy of a very measured approach towards Northern Ireland which was, and is, to oversee a phased and orderly disposal of assets – this is the same measured approach we have adopted in the Republic. We gave a commitment to that effect and we have abided by that commitment.

That does not mean that we encourage debtors to stockpile assets. Since the Agency's establishment, NAMA debtors have sold €125m (stg£106m) of property in Northern Ireland - a significant contribution to market activity - and ultimately of course all assets are intended for sale. What it means in practice is that we seek to ensure that the volume of assets offered for sale is reasonably well aligned with the market's absorption capacity. We are, of course, primarily a commercial entity and therefore we must be, and will be, flexible and responsive to evolving market conditions. As the Northern Ireland economy recovers, we will make sure that our debtors and receivers are ready and prepared to sell assets for which there is real demand. We will also look to opportunities to assist market liquidity and to increase transactions where that is appropriate.

Sometimes people get impatient with measured approaches and I get the feeling that there is a minority view in Northern Ireland, as indeed there is in the Republic, that NAMA should administer some shock therapy to the market by flooding it with supply – the hope perhaps being that such radical treatment will somehow accelerate its recovery. A senior figure in the Republic's property business has recently expressed support for this approach, even if, as he acknowledged, it would mean that Irish taxpayers would have to accept 'sub-optimal'

prices for NAMA assets. Our view is that Irish taxpayers have endured enough fiscal pain - €64bn (stg£54bn) to date - from the property speculation and misadventures of the last decade. I would suggest that they have no great appetite to be further exposed to some misconceived intervention in the property markets, not least because they would be left to pick up the bill if this experiment were to misfire.

Flooding the market, either in the Republic or Northern Ireland, makes no sense at a time when demand is still relatively weak and credit availability is limited. We know that banks are not lending or may not yet have the capacity to lend at normalised levels and this remains a challenge. The only beneficiaries of the 'market flooding' approach would be some cash-rich short-term investors who would like to buy assets at distressed prices, generate a quick return and then exit, leaving the rest of us, at best, back where we started. There can be no certainty that such an approach would stimulate a **sustained** recovery in the market but it would more than likely leave taxpayers at a further loss.

If we had decided four years ago that our strategy in relation to the Northern Ireland market was to try to recover as quickly as possible the €4bn (stg£3.4bn) lent into Northern Ireland by NAMA banks and if, in executing that strategy, we had contributed to a serious destabilisation of the market, I doubt very much if you would be welcoming me, or any other representative of NAMA, here today

### **Contrast the GB market**

In contrast to the Republic and Northern Ireland, our approach in GB has been to encourage debtors to sell assets sooner rather than later. This is based particularly on the fact that the London market has been buoyant over recent years and has a safe haven reputation which attracts many cash buyers. Furthermore, our exposure to the GB market – about stg£10bn - is not large by reference to the overall size of that market which is of the order of stg£600bn. Reflecting this, 80% of NAMA's €9.4bn (stg£8bn) of completed asset sales has been in GB, mainly in London.

These divergent approaches to asset sales in GB and Northern Ireland/Republic make the point that in the heel of the hunt we are sensitive and responsive to the market, follow a commercial approach and take our opportunities. We are not in the business of selling assets at less than their intrinsic value in any geography. We have deliberately pursued a strategic approach of not doing anything which would impair the recovery of either the Republic's or the Northern Ireland property markets from the serious trauma which enveloped them six years ago – but it's not enough to simply do nothing to impair recovery. We also have to actively intervene to help recovery – to contribute at every opportunity to greater stability and increased transactional activity, at sustainable levels, in both markets. This works both ways for NAMA - the achievement of our objectives is closely connected with what happens in these property markets.

#### **Active intervention - adding value to assets**

We cannot therefore sit about twiddling our thumbs waiting for things to happen. In sectors where demand is rising, as is now the case with the Dublin office and residential sectors (and indeed there are some recent positive indicators in Belfast) we are moving quickly to address any supply shortages that can be met from our portfolio – evidenced by some very important transactions in recent weeks and a noticeable acceleration of such in recent months. As the economy picks up, North and South, our debtors will respond by releasing supply in response to emerging demand. In some cases that supply will be market ready – in others it will need investment in completion, in yet other cases it will mean brown field or green field development. NAMA is interested in all three.

Because of course we are more than simply a transaction vehicle – we do not exist simply to sell off assets as they are and as quickly as we can. We are an asset management company, which means we work to identify and deliver opportunities that add value across our portfolio. As part of this, we are delivering significant investment through a combination of completing existing work in progress and the construction of new developments to meet demand. In Northern Ireland, we have already invested €167m (stg£141m) in a number of commercially viable projects. This includes €18m (stg£15m) to finance the completion of

two offices at Lanyon Place, in the centre of Belfast, and €10.5m (stg£9m) to fund a 95-unit housing development in Millmount, Dundonald.

Our rationale is very straight forward. We are willing to invest where we are confident we can get that investment back and more besides. In the case of Millmount, for example, we were faced with the prospect of selling the site to the highest bidder or funding the development to create a more valuable asset. We are confident that the choice we have made will deliver a better commercial return. This is consistent with our policy - in Northern Ireland and elsewhere - of managing our assets with a longer-term perspective and taking account of local market conditions. These projects are also generating substantial employment in local companies during the construction and fit-out phases, which is important at any time but not least in the current environment.

### **Investment opportunities encouraged**

We are currently reviewing other opportunities for investment. I would have to say, however, that the response to date, in terms of Northern Ireland-based projects proposed by debtors, has been somewhat disappointing. This obviously reflects the current depressed market for property in Northern Ireland and the fact that, in most sectors, values remain below replacement costs. This will change as the economy here recovers and we are confident that we will be presented with opportunities for further significant investment in Northern Ireland. We certainly expect to invest in new Grade A office accommodation in Belfast, as we do in Dublin, and we certainly expect to invest in refurbishment of some existing but tired commercial properties. We are also conscious of the housing need in Northern Ireland and would welcome opportunities to invest in projects similar to that in Dundonald. Across all these sectors then we encourage our debtors in Northern Ireland to share their investment proposals with us – if they have projects that can deliver a strong commercial return then we are interested in funding them. That is a key message here today.

I would also reiterate here today the fact that we are willing to make vendor finance available to purchasers of our assets, including Northern Ireland assets. We have done one

such deal here this year and expect to do more as the profile of investment in the market changes. Vendor finance has been an important stimulus in terms of generating a number of transactions in the Republic over the past year. Where it makes commercial sense, we are also happy to enter into joint venture (JV) arrangements with investors and indeed have already done so.

### **Supporting employment in debtor enterprises**

As I'm talking about encouraging debtors to come to us with viable projects for funding, I'd better make a few comments about the state of our present engagement with debtors.

Over four years on, we are well into 'business as usual' mode. We have adopted a broadly supportive stance towards those debtors with whom we have been able to work consensually - debtors whose loans constitute about two-thirds of our portfolio. As with a bank, we work with debtors on the basis that they have given undertakings, and are willing to take tangible actions, to maximise the extent to which they can repay their debts. We have to see evidence that debtors are willing and capable of meeting realistic asset management, disposal and debt repayment milestones; that statements of their interests and liabilities are accurate and complete; and that appropriate cash controls are in place to ensure that income from assets is directed towards debt repayment. Debtors working with us on this basis have received funding from us to secure their existing operations and to complete projects or initiate new projects where that has made commercial sense. The cumulative effect is that we are supporting debtor enterprises that directly employ over 2,000 people in Northern Ireland right now not including those jobs in construction projects that NAMA is funding. NAMA is also supporting employment directly through the Participating Institutions, service providers and across the professional services sectors in Northern Ireland. This is a very tangible contribution at a somewhat difficult time.

If it is not possible to work consensually with a debtor, which has happened for about a third of our portfolio, we will use whatever enforcement options are available to us. **A key point I wish to make is that our approach to debtors is the same, regardless of whether they are based in the Republic, GB, Northern Ireland or elsewhere.** They all ultimately

borrowed from banks which had to be rescued by the Irish taxpayer. For many decades to come, taxpayers will be paying the cost of this reckless lending by these banks to debtors in the Republic, GB, Northern Ireland and elsewhere. Any suggestion that debtors in one jurisdiction should be treated more favourably than those in any other jurisdiction is not grounded in reality. That is why we need maximum co-operation from debtors. We only resort to enforcement where all other avenues have been exhausted.

### **Making a wider contribution**

The bottom line – maximum financial return - is clearly important to NAMA but it's not the only consideration. We try to make a wider economic and social contribution as we go along. Through the stakeholder interactions that I talked about at the beginning, we are working with Invest NI to identify assets that might be suitable for indigenous and FDI clients in Northern Ireland. We are working with other agencies and professional and representative bodies to promote the availability of vendor finance as a means of attracting international investment into the Northern Ireland property market.

We are keen to contribute to the delivery of social housing, where commercially viable, and are working with the Northern Ireland Federation of Housing Associations (NIFHA) to assist their members in delivering on the Social Housing Development Programme. We have facilitated a number of acquisitions of land and homes for social housing and we are exploring opportunities with the NIFHA, the Department of Social Development and individual housing associations for future transactions that will contribute to meeting social housing need in Northern Ireland. I would point out again, however, that the Agency has a finite exposure to the type and location of sites and properties that may be suitable for social housing and, as in the Republic, that there is need for structured engagement between the social housing sector and other lenders.

Before concluding, I would like to briefly refer to NAMA's Northern Ireland Advisory Committee. This Committee is one of only two advisory committees which have been established by the Board and that reflects the importance that we attach to our work in Northern Ireland. The Committee, which I chair and which meets on a quarterly basis,

advises the Agency on all aspects of our strategy here. It includes NAMA directors and senior executives, as well as external members drawn from the Northern Ireland business community, and is an important mechanism in ensuring that there is strong mutual understanding between NAMA and its various stakeholders in Northern Ireland.

I regard this engagement today as another opportunity to foster that strong mutual understanding.

Thank you