Address by

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to the Association of Chartered Certified Accountants

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Introduction

Thank you inviting me to speak to you this morning.

The last time I spoke to a group of ACCA members in Galway in May 2012 I outlined NAMA's commitment to significant investment in this country in the years leading up to 2016. The first question I was asked after I finished speaking was where is the funding going to come from? Given that I was speaking to accountants, this was hardly surprising but it was a fair question. This morning is a good opportunity, therefore, to give an update on our plans – including indeed where the money is coming from!

Before I do, however, I'd like to begin my remarks with some thoughts on the performance on the Irish property market, which as you'll appreciate is an important backdrop to NAMA's activities. The pace of recovery of the market is important in terms of the realisation of NAMA's objectives and ultimately the level of return to the taxpayer.

Resurgence in the market?

There seems to be an emerging view that the market in general is stabilising and in particular areas is indeed showing signs of recovery.

There's almost a consensus in fact that recovery is well underway for prime offices and other prime segments in Dublin. This is evidenced over the first nine months of the year by both the volume of transactions and the improvement in pricing, with prime office yields contracting faster than might have been anticipated a year ago. CBRE analysis of transactions greater than €1m shows there has been a significant increase in the level of investment over the last 12 months. CBRE estimate that such transactions totalled €557m in 2012 and almost €970m in the first eight months of 2013 (excluding loan sales). It appears very likely that the full year performance in 2013 will be more than twice that in 2012. Prime commercial property is now generating positive total returns, which is leading to the recovery in demand. The most recent Irish IPD Index showed a total return of 2.3% being achieved in Quarter 2, 2013 – the seventh consecutive quarter where total returns have been positive. In addition, the nature of investors has matured. There are an increasing number of investors in the market, such as pension funds and real estate investment trusts, which focus more on the value of regular cash flows rather than on price appreciation alone. As a result there is downward pressure on investment yields for prime properties, that is, modern, well located properties that are fully let to satisfactory tenants.

While welcome, we should be careful not to jump to the conclusion that this is evidence of a widespread resurgence in the Irish market at this stage. Many of the investors who are looking to acquire Irish assets are tending to gravitate towards prime Dublin office space and income-yielding apartment blocks and there are only a limited number of such assets available. As market recovery matures of course and the economy revives and bank finance becomes more readily available, we would expect investor interest to diversify into secondary office and residential assets, into retail and industrial assets and into areas other than "prime Dublin". And we will do what we can to encourage them into those areas. We work hard to stimulate investor interest and market activity on a broad basis – broad in terms of asset class and geographic location. An audience like yourselves of course will appreciate that investors are canny – they will not be rushed into areas where they do not see value as of yet. But I am confident that they will get there in time.

NAMA sales activity

Through our own sales approvals, we are making a very substantial contribution to market activity at present – total sales to date in the Irish market top €1.3bn and involve over 2,000 individual properties. Our debtors and receivers currently have €1.5bn of worth of residential and commercial property on the market here. The steady flow of sales approved by NAMA – including a number of significant sales in this region, such as the River Lee Hotel in Cork city and a number of others that are in the pipeline - is contributing to international perceptions that there are ample opportunities in the Irish market right now for investors – and that not all of these opportunities are in Dublin. We have, to date, completed €142m of property sales in Munster for instance.

I think it's fair to say that the pace of sales activity by NAMA in the Irish market will pick up perceptibly in the coming months and I would just highlight a few of the initiatives that are helping here.

We have indicated that we are willing to lend €2bn in vendor finance to support transactions involving commercial property and loans. We have already advanced €375m of this in six transactions and right now there are other interesting transactions in the pipeline. Vendor finance has already been important in terms of stimulating investor interest and will continue to be so in the future – it brings more people to the table, increases competition, improves the pricing, is good for NAMA – and ultimately stimulates market activity.

Part of our sales strategy also is to create portfolios of property – in essence to bundle assets or loans together - that will be attractive to the big institutional buyers in the markets, including REITS, who are looking to transact in sizeable chunks. We will be bringing two portfolios, prime retail and residential as well as offices, with an estimated value of €350m-€400m, to the market over the coming weeks. This follows the recent sale of the €800m Aspen loan portfolio – which is secured almost entirely on Irish commercial property - to US investment group Starwood in a joint venture deal that sees NAMA retaining a 20% stake. That transaction also included vendor finance.

The IDA has great success in bringing business to Ireland - we are working closely with them to facilitate important transactions in the Irish market and for the Irish economy that might not otherwise happen. Recent good examples include the letting of a number of office blocks at Elm Park to the Swiss pharmaceutical firm, Novartis; the purchase by Scottish and

Southern Energy of its new corporate headquarters at Leopardstown and the investment of over €100m by the Kerry Group at Millennium Park in Naas.

In total then, we have completed over €9bn of asset and loans sales in just over three and a half years. 80% of these sales have been in the UK, mainly London, where we are selling assets at sub 5% yields and in some cases closer to 3%. Some people have suggested that in selling in London we are selling the low-hanging fruit. So? Of course, we have taken advantage of strong demand in the UK market – it would have been foolish not to have done so. The UK has indeed been good for NAMA. It has enabled us to take a longer-term view of the market in Ireland and to put long-term strategies in place to enhance the value of our Irish assets. To ripen indeed the low hanging fruit of the future.

NAMA's approach to asset sales

I would like to make just a few comments about NAMA's approach to asset sales, whether they are properties or loans. We will not be forced into deals that are not in the best interests of the taxpayer. We will not dump assets. We will not fire sell assets. Our record bears this out. We didn't sell in Ireland when the few buyers that were in the market thought that they could buy at distressed prices, flip the assets and exit with a quick gain.

Our clear policy is that properties and loans that are for sale are openly marketed. This ensures a competitive and transparent sales process and the best possible financial return for the taxpayer. There is no question of granting exclusive access to any one potential purchaser. This would militate against achieving maximum value for the assets concerned and would be anathema to NAMA's way of doing business.

This, of course, does not preclude third party approaches. Where we receive such approaches and the price offers are realistic, our practice is to put the asset concerned on the market to the test the interest from the original bidder and other parties.

Nor do we preclude potential buyers from directly approaching debtors to discuss their property assets or to indicate interest in acquiring either properties or loans. To do so would be counterproductive and could stifle normal commercial discussions in the property market and, in particular, could discourage international investors from exploring acquisition possibilities here. But if we agree to proceed to sale, the property or loan is then openly marketed.

The message is that we have an open door to any investors with an interest in acquiring an asset or loan from us on the basis that they are serious and are willing to deal at realistic, rather than fire sale, prices.

Investing in our assets

When speaking to your fellow ACCA members in Galway last year, I stated that we would be making €2 billion in development funding available for projects in Ireland under the control of our debtors and receivers. By the end of August, we had in fact approved funding of €2bn across our entire portfolio. €900m relates to Ireland and €500m of this has been drawn down. It includes investment in the Beacon South Quarter in Dublin, at Charlestown Shopping Centre, at Scotch Hall in Drogheda, in Cork city centre, in Kildare and in Galway. It involves new projects as well as project completions. The provision of half a billion euro in this economy right now is a very significant contribution to helping our country get back on its feet and to protecting existing jobs and providing new jobs. I am very confident that we will continue to add substantially to that figure in the months and years ahead.

The proviso of course is that the projects concerned have to be commercially viable. There has to be a commercial reality to every investment that we make. We are not going to get into speculative investment. Remember we are dealing with and investing taxpayer money – there are enough monuments in this country right now to ill-advised and imprudent investment without NAMA adding to them.

A lot of effort then goes into assessing the commercial viability of projects. One very likely area is that of prime office space in Dublin where there is going to be a real shortage within the next two to three years. Part of our investment funding will respond to this emerging demand and in particular in the Dublin Docklands, where we have significant holdings that can be attractive in terms of the expansion of the IFSC and the development of new business and technology hubs in line with Government enterprise creation policy. In the Docklands, as elsewhere, the timing of actual drawdowns of funding is dependent on the resolution of planning and infrastructure issues but we are working with local authorities to ensure that these offices are built and ready for the corporate clients of the IDA and others when that demand arises. It's important for the economy that we are able to meet this demand.

Our plans also include new residential development. We are currently funding a number of house building projects, particularly in Dublin and Cork. An example is Forest Hill in Carrigaline, where we funded the completion of 30 new houses in 2013. You might ask why we are funding new housing supply when there is a problem of oversupply in the country. The reality is that the Irish housing market – like most housing markets - is not homogeneous. We have been seeing strong demand for new houses in parts of Dublin and Cork over the past 12 to 18 months due to limited supply of existing stock and the fact that the level of housing completions is very low. That demand is now being borne out in the various house price indices and you will see a number of new NAMA-funded housing developments commencing over the next year or so in response.

Here in Limerick NAMA is right now actively engaged with the City Council, IDA and others in assessing opportunities for some assets that have potential to add to the impressive regeneration that is taking place in the City. Our sale of the Opera site to the City Council is a good example of what's possible – but is also a clear pointer to what we can do together in the coming months with some other sites, which, in their present state, add nothing to the vibrancy or image of the City.

Wider economic and social contribution

While the bottom line is very important for us, it is not our exclusive focus. NAMA is committed to supporting initiatives that are for the wider good. You can see this in a number of aspects of our work – such as social housing, making properties available for sports or community groups, addressing the problems posed by unfinished housing estates, or agreeing rent abatements with businesses to support jobs. I will focus on two of these this morning – social housing and rent abatements.

Social Housing

Social housing is a particularly important area for NAMA and one in which we have devoted a huge amount of resources. We have identified over 4,300 houses and apartments, controlled by our debtors and receivers, as being available for social housing. More than 1,800 of these have been confirmed as suitable by local authorities and another 400 are being evaluated. This brings the total number of properties that can potentially be provided under this initiative to over 2,000 – probably the biggest single tranche of social housing ever to be delivered in this country. More than 400 of these houses and apartments have already been leased by local authorities and housing groups with another 100 due to transferred shortly.

Whilst NAMA doesn't control the pace of delivery, we are working with all the stakeholders in the process to make the properties available for social housing in the shortest possible time frame. Where obstacles have emerged, there's been no shortage of effort to work around them – whether that's by the Agency, by our debtors or receivers, by local authorities or by the housing groups. Along the way we've collectively identified ways in which the process can be streamlined. In our case, we have set up a special purpose company to expedite the acquisition of suitable units. The first homes delivered by this mechanism will include 23 houses at College Wood in Mallow and a further 13 houses at Cooline in Cobh. We are making progress and we intend to keep making progress.

Delivering these properties for social housing is a win-win situation. First and foremost, people who need a home get a home. It solves a problem for the local authority and shortens the waiting list for social housing. And a property that wasn't being occupied is now brought into use, which is good for the Agency and good for the taxpayer.

We are also working to accommodate the release of land and property for schools, health care facilities, community and recreational amenities and other uses. We are also working directly with local authorities to accommodate the release of lands and property that they require for economic regeneration and wider social provision. The sale of the Opera Centre site in Limerick to Limerick City Council is an example of this.

Rent Abatements

What we are doing in the area of rent abatements is also very important. You are all familiar with the debate in this country in recent years about upwards only rent reviews. In the end, the Government was advised that on constitutional grounds they could not interfere in these leases. They did however ask NAMA to do what we could in relation to cases where we held security. We have responded very positively. We have had 312 eligible applications for rent abatements to date. We have granted 267 of these and are currently reviewing a further 35 cases. We have refused just 10 applications. The aggregate annual value of these abatements is €17m. That assistance is very important to many shops and small retail outlets which have been struggling over recent years.

Rent abatements are typically agreed for a period of 12 months and reviewed after that. The purpose is to support the short-term future of businesses around the country that are intrinsically viable but are struggling because of current economic conditions, particularly subdued consumer spending. In a significant number of other cases, including some recent high profile Examinerships, we are centrally involved in trying to find longer-term solutions to keep businesses trading. This often involves facilitating rent relief over the remainder of the lease term. The rental value of these long-term reliefs is of the order of €40m.

For NAMA and for the taxpayer, these measures help to preserve the value of the properties supporting our loans by ensuring that tenants remain in business and continue to generate rent, albeit at a reduced level. They also safeguard jobs and economic activity in general. We consider that the costs of these measures are more than offset by these long-term benefits.

Conclusion

Before concluding, I'd like to return to the bottom line, which is maximising the return to the taxpayer. In this regard, NAMA's results to date have been very positive. We have generated €13.5 billion in cash, including €9 billion from the sale of assets and loans and €4.5bn in recurring cash from rentals and basic good management

All of that is enabling us to fund the investments that I have talked about this morning, the €2bn in development funding and the €2bn in vendor finance. It is also enabling us to pay our own way by covering all our administration expenses. Importantly too it is enabling us to repay our debt. We issued senior bonds on our original portfolio to the tune of €30 billion. We have redeemed €6.25 billion of these bonds and are firmly on course to meet our first major debt repayment milestone – the repayment of €7.5bn by the end of this year. That will mean 25% of our senior debt paid off. Our key objective is that we will have repaid all of the senior debt on our original portfolio by 2020 and I firmly believe that will happen.

IBRC

As you may be aware, NAMA is likely to acquire a new and probably substantial loan portfolio from the Special Liquidators to IBRC, following the conclusion of a loan valuation and sales process by them later in the year or early next year. The acquisition could – depending on what transfers - increase our Balance Sheet by over 50%. This will bring significant challenges with it, not least those arising from the need to recruit a lot of staff against the backdrop of public sector pay restrictions. We have been working hard over the last number of months to prepare the ground for the acquisition of this new portfolio but, given its scale, it is likely that much of our focus in 2014 will be on absorbing and integrating it into our business.

Our objective with this IBRC portfolio, whatever it may contain, can be quite simply articulated - to maximise the return for the taxpayer and to do so as expeditiously as possible.

That’s exactly what we have been doing with the initial portfolio that came our way – the same simply articulated objective – but a challenge that was far from simple but that has been tackled with considerable energy, creativity and hard work and that has met with a very fair degree of success.

Thank you.