Address to the Waterford Chamber of Commerce 'Summer Lunch'

Mr Frank Daly, Chairman of NAMA

Friday, 4th July 2014

Introduction

Thank you for inviting me to address you today. Let me start by making three points.

First, NAMA is achieving its commercial objectives. From where we stand today, NAMA expects to repay its borrowings – both senior and subordinated – and we are cautiously optimistic about our ability to generate a surplus.

Second, NAMA is ahead of schedule in terms of its targets. Assuming market conditions remain supportive, we are confident that our work will be completed ahead of the 2020 completion date that we originally envisaged.

Third, NAMA is delivering on a number of other fronts for the Irish economy. In particular, we are doing all we can to support the recovery of the country's property markets, the construction sector and to channel investment into the Irish economy.

NAMA sales

The common thread between all three points is NAMA's ability to maximise cash generation. NAMA has reported profits in excess of €200m in each of the past three years. That's important. It clearly indicates that NAMA is making progress. An even more important measure of that progress, however, is the generation to date of over €20bn in gross cash flows - €16bn from property and loans sales and over €4bn from other income.

I want to dwell on that €20bn for a moment.

The significance of these very large numbers can easily be lost unless we talk about what they are doing for us. Essentially we are using the cash to reduce the taxpayer's €30bn contingent liability from the senior bonds that we issued to acquire loan portfolios from the banks. These bonds were guaranteed by the State. NAMA's work in recovering that €30bn is only part, but an important part, of Ireland's long haul back to solvency.

NAMA has been in business for four and a half years now and, for much of that period, we had little choice but to concentrate our sales activities in Britain, particularly London. That allowed us to take advantage of the strong demand and substantial liquidity in that market. Indeed, such has been the demand in London that we have been able to sell assets at very attractive yields, often in the 3% to 5% range.

There have been occasional suggestions (usually from not disinterested parties!) that we sold assets in London too early and perhaps missed out on gains by not holding out longer. My response to this is twofold. First, it was clear, during the Troika period from 2010 to 2013, that Ireland was expected to make substantial progress in addressing its difficulties. NAMA was not exempted from that requirement; indeed, the Troika monitored closely the progress that we were making in meeting our first major debt redemption target - €7.5 billion by the end of 2013. In order to meet that target, and given the fact that the Irish market was moribund we had little option but to press ahead with sales in Britain.

Secondly, NAMA was never intended to be a permanent, or indeed a long-term, feature of the Irish financial landscape. Rather, we were established as a mechanism to facilitate the normalisation of the property and financial markets **here**. Under Section 10 of the NAMA Act, we were required to conduct our work **expeditiously** and our role requires us to respond pragmatically to market conditions. This means taking advantage of opportunities to sell assets in cases where demand and pricing are favourable, as they have been in London since 2010. We do not have the luxury of waiting around for years in the hope that prices might improve still further.

However, notwithstanding sales to date, it is important to stress that we still have a significant exposure to London. There is still a lot to gain for the taxpayer and we will strive to maximise that gain. We have invested heavily in completing a number of residential developments in London and I am pleased to say that based on sales activity and prices achieved to date these are likely to yield very strong returns indeed.

In Ireland, the past year has witnessed a step change in our sales activity. We have been able to increase significantly the flow of assets to the market to tap into the increased international – and increasingly domestic – investor interest in Irish real estate. And, critically, we have been able to sell those assets at significantly higher prices than we would have got for them two or three years ago. Total sales in 2013 across our entire portfolio generated €3.7bn but to date in 2014, just half way through, our sales are over €5bn.

Moreover, the most recent quarter - Q2 2014 - was the strongest quarter to date in terms of NAMA cash generation and sales. 50% of that €5bn has come from Irish sales and we expect that trend to continue over the remainder of the year. Indeed, it is clear that Irish sales will be an increasingly important component of total cash generation as we look to capitalise on the recovery of the Irish market to accelerate the deleveraging of our book over the coming years. In the period between 2010 and mid-2013, we resisted pressures to sell Irish assets at fire sale prices to predator buyers who had an eye on flipping those assets to make quick returns. We consistently said over that period that fire selling assets in Ireland would be bad for NAMA, for taxpayers and for the Irish economy. Our ability to resist that pressure was directly linked to our strategy in London. We got it right in both markets and we are now experiencing the benefits.

The recovery in the Irish market has been accompanied by a change in the profile of investors dealing with us and the type of transactions we are dealing in. Loan and property portfolio sales are becoming an increasingly important part of the overall mix compared to individual assets sales. Already this year, we have sold a significant volume of assets through these types of transactions, including:

- Project Eagle – a €5.5bn nominal loan portfolio consisting of loans owned by Northern-Ireland based debtors and secured by assets primarily located in Ireland and Britain;

- Project Tower – a €1.8bn loan portfolio secured on assets in Ireland, Britain and Germany;

- Central Park – a portfolio of offices and residential assets in Dublin; and

- Platinum – a portfolio of four office buildings in Dublin.

In addition, there are a number of significant loan and property portfolios currently for sale in Ireland, including:

- Redwood – a portfolio of commercial and retail properties in Dublin;

- Venue – a portfolio consisting of hotels located in Cork, Kerry and Kilkenny;

- Orange – a portfolio of residential and commercial property;

- Acorn – a portfolio comprising three shopping centres located in Dublin, Cork and Tipperary; and

- Project Spring – a €440m loan portfolio secured on offices and apartments in Dublin and Kildare and offices in London.

To help sustain positive momentum and provide investors with certainty as to transaction flow, we recently signalled to the market that we will offer for sale property portfolios in Ireland with a minimum value of €250m in each quarter. Indeed, we currently have in excess of €800m worth of assets on the market through the loan and property portfolios just mentioned. Of course, there isn't a one size fits all approach to sustaining the market's buoyancy and durability. The sale of individual properties – whether that's development land, individual apartments and houses or offices – is an equally important part of the proper functioning of the market. At any one time, in addition to loan and property portfolio sales, our debtors and receivers have between €1.5bn and €2bn worth of individual properties for sale on the Irish market. One such asset currently on the market is the very fine Port of Waterford Building, the first floor of which is occupied by Waterford Chamber.

You will see then that NAMA is a very visible player in the Irish property market right now – we are meeting the market demand, taking opportunistic advantage of the positive sentiment but doing so in a measured and responsible way which will assist recovery rather than risk damage to a sector which still needs careful management.

Indeed we are significant players not just on the Irish market. Cushman and Wakefield has estimated that NAMA has accounted for 22% of all completed European loan sales in 2014 to date or 49% if you exclude the IBRC Special Liquidation process in which NAMA was the reserve buyer.

Commercial and residential development

Most of the €20bn I mentioned earlier is, of course, going to paying down our debt – and I'll come back to that before I finish. However we also have the capacity to invest significant amounts of the €20 billion in Ireland - and right now are investing in assets located in this country to take advantage of the favourable market trends. To date we have advanced €1bn to fund viable Irish construction projects. That €1bn is being used to fund many large-scale commercial and residential development projects and is contributing to the noticeable pick-up in output and employment in construction and related parts of the economy. It includes funding for site resolution works on partially built housing estates around the country. A good local example of this is Airfield Point in Dunmore East where NAMA has funded remediation works including the upgrading of internal roads and paths and the completion of remaining houses to a saleable standard. I should add that, contrary to the common association of NAMA with so-called 'ghost estates', NAMA's exposure to the most problematic housing estates in the country is quite limited, and certainly less than most people would expect.

Staying close to home for a moment, we have also funded works relating to the site of a potential 10,000 sq. metres retail development on Michael Street close to the old Apple Market. That has included carrying out repairs to a protected structure on Stephen Street, renovating shop units on Michael Street itself and demolishing derelict housing. As part of our overall assessment of the site's commercial feasibility, we are funding BKD Architects, whose past projects include Dundrum Town Centre, The Square and the Crescent Shopping Centre in Limerick, to prepare drawings. This forms part of the pre-planning process that we are working closely on with the City Council. We have also provided 50% funding for an independent 'Waterford City Retail Study', which is currently being finalised. Waterford City Council has provided the other 50% for the study, the purpose of which is to identify a vision for the renewal of the retail core of Waterford City and delineate the opportunities available to prospective investors in the city.

In respect of our overall portfolio, we have signalled that we expect to make further substantial investments over the remainder of NAMA's life – at least another €1.5bn. That investment will follow where the bulk of our Irish assets are located – the areas surrounding Dublin, Limerick, Cork and Galway. A particular focus of that investment will be meeting the existing and future demand for new office accommodation in Dublin in response to the on-going expansion of the key financial services sector and the development of new FDI business and technology hubs. Of the 350,000 sq. metres of envisaged new office space in the Dublin Docklands Strategic Development Zone (SDZ), 280,000 sq. metres relate to sites currently under the control of NAMA debtors and receivers. Now that An Bord Pleanála has approved the SDZ scheme, we are working to accelerate the delivery of that new office space and you can expect to see cranes return to the Docklands very shortly. Our funding in the Docklands will be delivered through a range of mechanisms, including directly via debtors and receivers and through joint venture arrangements. For example:

- NAMA is funding the Receiver to the Boland's Mill site on Grand Canal Dock to prepare a detailed planning application for a 35,000 sq. metres mixed-use development, with an estimated gross development value of €200m. It is intended to submit the planning application in early autumn;

- NAMA is currently seeking proposals for the purchase of a leasehold interest in a 2.35 hectares site on North Wall Quay, next to the proposed new headquarters of the Central Bank of Ireland. Potential purchasers are being offered the right to develop, manage and realise the site, which will include 50,000 sq. metres of commercial space. The Agency will retain the freehold interest, thereby generating and maximising its return through a ground rent structure;

- A Qualifying Investor Fund (QIF) comprising Oaktree Capital Management, Bennett Group and NAMA (known as South Docks Fund) is in the process of preparing a planning application for the development of 50,000 sq. metres of new commercial space in the south Docks; while separately

- City Development Fund – again involving Oaktree Capital, Bennett Group and NAMA – is preparing planning applications in respect of land and property at City Quay and Hanover Quay in the south Docks with a combined development potential of 17,000 sq. metres.

As a general point NAMA can also play a very positive role in helping to unlock funding barriers to infrastructure delivery to support both commercial and residential development. In fact, because of the nature of our exposure in areas such as the Docklands, where we have an interest in a number of key sites, it makes sense for us to provide funding upfront for infrastructure if the alternative is that commercial and residential projects would otherwise be delayed. Because of the current tight fiscal position, we know that local authorities do not always have the resources to fund the infrastructure that is a prerequisite for commercial and residential development. A priority for us in the Docklands is to work with other key stakeholders, including the City Council which has a defined development agency role within the SDZ, to remove obstacles to development, including infrastructure deficits. We have done this already: for instance we provided funding to Fingal County Council for the development of an N2-N3 link road in north County Dublin to facilitate development of adjoining lands.

So a very significant level of activity is in prospect – activity that is NAMA led, NAMA funded and NAMA facilitated.

Evolution of the commercial property sector

This is probably an opportune time to say that a side effect of the property crash here has been the evolution of the commercial property sector – I could easily have made the same point when I was talking about the changing investor profile and types of transactions now commonplace in the Irish market. The commercial property sector is increasingly moving away from the traditional builder/trader/owner structure to regulated and professionally managed entities. The creation of three REITs on the Dublin Stock Exchange is an example of this. In addition, as you can see, QIFs regulated by the Central Bank are being created. NAMA has co-invested in three QIFs to date and there are additional proposals in the pipeline. We are, more generally, exploring opportunities for joint ventures with appropriate partners and such arrangements will be an important part of our funding and development armoury over the next few years.

Housing demand – NAMA's response

It is clear that there is a real need and a real opportunity for residential development to meet the acute demand for new housing in Dublin and increasingly in the other main growth areas. To illustrate the scale of this, current estimates are that Dublin needs 8,000 to 10,000 new houses and apartments a year – last year, it produced 1,600.

NAMA can do a lot in this area.

Our analysis shows that NAMA sites have the capacity to deliver somewhere between 40% and 50% of Dublin's residential demand over the next five years. On what we call Tier 1 sites – sites that are shovel ready – we will deliver approximately 3,000 new residential units. Half of these are already under construction. On Tier 2 sites – sites with development potential over a short-term horizon – we have capacity for a further 19,000 new units. And on top of all that, NAMA can call on an additional 500 hectares of development land, which could accommodate new units in Dublin if we can overcome planning and infrastructure impediments. Furthermore in the counties immediately adjoining Dublin, NAMA is currently assessing the potential for delivery across 1,000 hectares of residentially-zoned lands.

We are not sitting on our hands.

We have established a cross-functional residential delivery team within NAMA to identify the potential for and drive the delivery of new houses and apartments to respond to unmet demand. We are well placed to do this and we **should** do this. NAMA, given its public remit, has no intention of hoarding development land. Instead, if there is an identified need for housing in the Dublin area – and there clearly is – we are not in the business of sitting on development land assets until their value appreciates as the supply shortage becomes more acute. If a residential development project can break even or do better, then we will fund it. Many of those who are interested in buying development land in the Dublin area at the moment will have rate of return targets of 15%-20% and realistically those targets are unlikely to be met unless market prices rise significantly from current levels. Which means that they are unlikely to be in a position to initiate development projects in the near future. NAMA, taking account of its public and societal remit as well as its commercial remit, can move more quickly to develop residential sites as soon as they become commercially viable. What that means in practice is that we will be able to develop in the near term what might otherwise be developed in the medium-term. We will therefore focus on the development land within our portfolio in a way that helps to meet the broader requirements of the economy and society. This manifestly includes a requirement for increased housing output in the Dublin and Greater Dublin areas in particular.

Social housing

I've just mentioned society and before I move off the topic of housing, I'd like to briefly touch on an aspect of our work that's very important to NAMA – the delivery of houses and apartments for social housing. I am on record as saying that where we can make properties available for social housing, it's a win-win for everybody involved. We have identified over 5,000 residential properties as being available and potentially suitable for social housing. Local authorities have confirmed demand for about 2,000 of these. Whilst I am a little disappointed that take-up hasn't been higher, I understand that local authorities are obliged to comply with their own policies on the location of social housing.

We are working hard to deliver the properties for which demand has been confirmed. At the end of March, 684 had been delivered. By the end of the year, that figure will be more than 1,000 and the remainder of the properties will come on stream over the course of 2015/2016. It's important to say that it's not just a case of handing over the keys to the local authorities. In most cases, significant investment is required to complete the properties and carry out estate-wide works. In this way, the beneficiaries of NAMA social housing extend beyond the new residents of the properties. For existing residents, empty houses become inhabited and outstanding works are completed. In Waterford, we are currently finalising the delivery of social housing at a number of sites, including:

- The sale of 19 houses at Ceol na Mara, Kill to Respond Housing Association,

- The sale of sites for seven houses at The Paddocks, Williamstown Road, Waterford City to Anvers Housing Association in association with Brain Injury Ireland, and

- The long-term lease of eight houses at The Mills, Lismore to the National Association of Building Co-operatives (NABCO).

We are making considerable progress in this area of our work and intend to continue that progress.

Conclusion

NAMA's strong cash performance - the €20bn I referred to at the outset – is the basis for our confidence that NAMA will achieve its commercial objectives and do so ahead of schedule. At the end of last year, NAMA successfully met its first milestone by repaying 25% of our senior debt in line with our schedule. Events since then mean that we now firmly ahead of that schedule. Because of the strong sales and cash generation that I talked about earlier, we have already exceeded the bond redemption targets we initially set for 2014. Indeed, by the end of this year, we expect to have repaid 50% of our senior bonds – two years earlier than we originally envisaged. That's important. We paid €31.8bn to five Irish banks in exchange for taking over their riskiest property-related loans. €30.2bn of that was in the form of senior debt, which was guaranteed by the Irish Government and consequently a contingent liability on the Irish State. NAMA's minimum objective is to extinguish that contingent liability. After that, the next hurdle is to repay our subordinated debt and thereafter to generate a surplus for taxpayers. I can assure you today that we are working very hard on both fronts and are quietly confident that we will get there.

The faster rate at which NAMA is paying down its debt and reducing Ireland's contingent liability was one of the reasons given by Standard and Poor's and Moody's for raising Ireland's debt rating recently. So, NAMA is beating its targets and playing its part in building confidence – home and abroad – in Ireland's economic recovery story. We are also putting the cash that we are generating to productive use in the Irish economy and are helping to provide the infrastructure needed to meet Ireland's existing as well as future growth needs.

I hope that I have been able to give you today a strong sense of what has been achieved to date and the further contribution that we hope to make to Ireland's recovery in the years ahead.