

**Opening Statement by
Mr. Brendan McDonagh, Chief Executive of NAMA,
to the
Joint Committee on Finance, Public Expenditure and Reform
Wednesday, 22 October 2014**

Chairman, Deputies and Senators,

We reverted to you yesterday with our responses to the list of 37 questions which you submitted to us and we are happy to elaborate on those responses later this afternoon. In this brief opening statement, I propose to focus on some of the major issues that arise for NAMA at this point in its evolution.

Irish property market

Since we last appeared before this Committee, I am pleased to note the remarkable transformation which has taken place in the Irish property market in the interim. In my address to the Committee at that time, I noted that we were beginning to see a positive movement in the Dublin commercial market as evidenced by buyer enquiries and transactions. That reflected a desire amongst institutional investors to spread their real estate risk over wider geographic areas and it also reflected improving sentiment towards Ireland. I also observed that we were seeing some signs at that stage that the residential market in Dublin was bottoming out.

Since then, both of those tentative signs of recovery have gained momentum and 2014 in particular has seen investment in the Irish commercial market on an unprecedented scale. Current projections indicate that the volume of direct investment activity will exceed €4 billion in 2014 – the previous peak was €3.5 billion in 2006. Italy by

comparison had €4 billion of commercial property transactions in 2013. When all activity is taken into account, including loan sales, it is estimated that the aggregate of all Irish market transactions in 2014 will be of the order of €12 billion. In addition to NAMA sales, that projection includes the loan sales activity of the Special Liquidators to IBRC and of a number of banks based in Ireland and it represents an exceptionally high level of investment activity in Irish assets by historical standards and even by reference to activity elsewhere in Europe.

NAMA has not been slow to respond to the opportunities created by the much-improved market conditions. Up to last Friday, October 17th, we had generated €6.6 billion from loan and asset sales to date in 2014, including close to €3 billion from sales linked to assets in the Republic and €800m from sales linked to assets in Northern Ireland. Since inception, the total amount generated from the portfolio has been €22.3 billion, including €17.5 billion in asset sales and €4.8 billion in recurring income.

Strategic opportunity

While we in NAMA see the improved market conditions as a strategic opportunity to de-risk our portfolio and to reduce the contingent liability exposure of Irish taxpayers to the property sector, there has been some commentary to the effect that NAMA should slow down the pace of deleveraging so as to manage out its loan portfolio over a longer time horizon than is currently envisaged. There has also been some commentary to the effect that we should not sell asset and loan portfolios to private equity and similar funds. As regards this commentary, I would like to make a number of points.

Our strategy in each of our main markets has been to release assets for sale in a phased and orderly manner consistent with the level of demand, the availability of credit and the absorption capacity of each market. In Ireland, over the period from 2010 to 2012, that meant limiting asset disposals into a market where demand was practically non-existent, where prices were still trending downwards and where other non-Irish banks were selling off large portfolios quickly. Releasing too many assets for sale could have intensified and prolonged the market's downturn here.

In 2013, the Irish market stabilised and the subsequent recovery has enabled NAMA to increase the flow of assets for sale and to sell loan portfolios and properties at very competitive prices. This in turn has enabled us to accelerate our redemption of senior debt. Today, we are redeeming another €600m in senior debt, thereby bringing to €7.6 billion our senior debt redemption for the year to date and bringing to €15.1 billion our cumulative redemption since inception. This is 50% of the senior debt that we issued originally and it marks a notable milestone in NAMA's evolution.

This 50% target was one that we initially set for the end of 2016. Our revised target for end-2016 – one which has been endorsed by the Minister - is to redeem 80% of our senior debt by then. Achieving this 80% target will require a substantial volume of NAMA loan and asset disposals in Ireland as well as Britain and elsewhere; for the most part, sales will involve commercial assets (offices, retail, hotel and leisure and industrial assets) or loans secured by commercial assets.

I am also pleased to inform you that we are also redeeming today the last tranche of €134m of the senior bonds that we issued to the Central Bank to acquire the floating charge over IBRC assets. That means that all of the €12.9 billion in senior bonds that we issued in February 2013 as part of the IBRC liquidation process has now been fully redeemed.

Contingent liability of taxpayers

While NAMA is commercially autonomous in how it goes about its business, it cannot ignore the wider ramifications of its activities. The Minister, through the Section 227 review which was published in July of this year, endorsed the view of the NAMA Board that it should take advantage, to the greatest extent possible, of favourable Irish market conditions by increasing the flow of assets to the market.

Such deleveraging creates wider collateral benefits. NAMA senior debt represents a contingent liability on taxpayers and its reduction yields benefits in terms of the creditworthiness of the sovereign. This was clearly demonstrated some months ago when the credit rating agencies stated that their upgraded ratings for Ireland reflected,

in part, the positive impact they considered that NAMA's actual and planned accelerated disposal programme would have on the country's creditworthiness.

Section 10 obligations

The main constraint on asset disposal activity is that it must be managed in line with NAMA's obligations under Section 10 of the NAMA Act 2009, namely to obtain the best achievable return for the State. This means that NAMA must be careful to ensure that the volume of assets and loans which it offers for sale does not exceed the market's absorption capacity and thereby adversely affect the pricing that may be realised. In that regard, the level of investor interest in the Irish market over the past year has had the effect of expanding substantially the market's capacity to absorb new supply of assets and of the loans which they secure.

NAMA also fulfils its Section 10 obligations by ensuring that assets offered for sale are subject to a competitive bidding process, involving the widest possible array of bidders, with the objective of obtaining the best price available in the market at the time of sale.

We do not discriminate against certain bidders or give preferential treatment to certain other bidders based on their country of origin or on their future investment strategy. To do so would be to place NAMA and, by extension, Irish taxpayers, at a competitive disadvantage relative to other deleveraging entities.

The strategies which are pursued by purchasers after they acquire NAMA loans or the assets securing them are a commercial matter for them. The imposition of conditionality in the sale of loan or asset portfolios, even if they were enforceable, would have the effect of reducing the pricing achieved and would also reduce the number of bidders willing to participate in sales processes, both of which would run counter to NAMA's obligation to maximise the return on its acquired assets.

Dublin Docklands SDZ

NAMA is not a developer and has no ambitions in that regard. However, in its capacity as a secured lender, it facilitates development through funding of viable commercial and residential projects under the control of its debtors and receivers. With emerging shortages in the Dublin residential and office sectors, it is reasonable that NAMA should seek to contribute, in so far as this is consistent with achieving the best financial return, to meeting those emerging shortages. That position has been endorsed by the Minister for Finance in his recent Section 227 review.

In addition to the revised debt redemption objective (80% by end-2016), there are two other main strands to current NAMA strategy. One is to facilitate the delivery of office accommodation within the Dublin Docklands SDZ area and the other is to facilitate the delivery of residential housing units in areas where supply shortages are most acute.

The North Lotts and Grand Canal Docks area of the Dublin Docklands was designated as a Strategic Development Zone (SDZ) in December 2012 and the Docklands SDZ scheme was adopted by Dublin City Council in May 2014. NAMA has prepared a detailed business plan which includes strategies for each of the 13 individual sites within the Dublin Docklands SDZ in which it has an interest. These comprise 16.74 hectares (41.25 acres) - 75% of the 22 hectares of developable land in the Docklands SDZ area.

From the initial appraisal exercise conducted by NAMA, it is estimated that up to 3.4m sq ft of commercial space and 1,848 apartments could potentially be delivered if all the sites in which NAMA has an interest were to be fully developed over the next five to seven years. NAMA is engaging actively with Dublin City Council, in the Council's capacity as both planning authority and development agency, to ensure the earliest possible delivery of both commercial and residential space in the Docklands area.

It is also willing to advance funds for the early provision of necessary infrastructure to service the area. Already, terms have been agreed with Irish Water for a loan facility to fund the cost of delivering the required drainage infrastructure in the Docklands SDZ Area. NAMA is also willing to provide upfront funding of up to €10m to the City Council

to fund costs associated with the design and construction of a new pedestrian/cyclist bridge over the River Liffey to link the North and South Docks areas.

Residential development

I should point out that, when preparing portfolios of assets for sale, NAMA normally excludes from the sales process those sites which are likely to be suitable for residential development within a three-/four-year horizon (typically, sites in the Greater Dublin area). This is in line with the commitment we gave, as part of the Section 227 review, that we would protect our ability to exercise sufficient control to facilitate the delivery, over the medium term, of residential housing units in the areas of most need.

As part of its contribution to address emerging residential supply shortages in the Greater Dublin area, NAMA established a dedicated Residential Delivery team in April 2014. The team's purpose is to co-ordinate and drive the delivery of NAMA's commitment to facilitate the completion of 4,500 new residential units in the period to the end of 2016 and to assess the scope for delivery of additional units thereafter. Of the end-2016 target, it is envisaged that 1,000 units will be delivered in 2014, another 1,500 units in 2015 with the residual to be delivered in 2016.

In addition, NAMA is engaged in preparatory work on a second group of sites in the Greater Dublin area which are currently in the planning process or where additional planning work is required. If all of these sites were to be developed, it is estimated that they could deliver over 27,000 units in the years after 2016.

Staffing

NAMA has been fortunate that it has been able to assemble very professional, dedicated and expert staff. Its success to date has been down to their very considerable efforts in helping the Board and helping me as Chief Executive to deliver strategically.

From my perspective as Chief Executive, the biggest risk to NAMA achieving its various objectives is the very real risk that it will not be able to retain the specialist staff that it needs. In total, some 108 members of staff have left since inception, including 23 in the first half of this year and another 24 in just over three months since then.

The fact that staff are leaving as market conditions improve is not surprising. However, the rate of exodus is accelerating and I am concerned not only at that but also at the fact that many of those departing have specialist skills and experience which, in current buoyant property and financial market conditions, cannot be replaced.

It is vital that NAMA retains key staff if it is to deliver on the various objectives that I outlined earlier. The business we are in depends crucially on market knowledge and specialist skills in property, banking, planning, finance and law, skills which are generally not available in the civil service.

To recruit the necessary expertise, we had to go to the private sector and that meant hiring staff at private sector levels of remuneration to ensure that NAMA's mandate was carried out professionally. There was simply no alternative given the amounts that were at stake. The point remains valid given the amounts that are still at stake.

Because of NAMA's finite lifespan, we were in a position to offer staff only specified purpose contracts. Against that background, it is understandable that staff in mid-career, many with mortgages and young children, would tend to seek employment which will provide them with long-term job security and career prospects. The departure of experienced staff causes considerable disruption and loss of momentum in the management of debtors and assets. Given its expected lifespan, NAMA may face a diminished prospect of recruiting experienced replacements at this stage and must therefore rely on some of its less experienced, albeit fully committed, existing resources.

For a number of reasons which I will outline, it is especially important at this point in its evolution that NAMA retains a sufficient complement of specialist and duly experienced staff to enable it to complete its work and generate a positive return for taxpayers.

1. It is necessary to take full advantage of current strong conditions in the Irish market to de-risk the remaining €17 billion NAMA portfolio expeditiously. Notwithstanding the very positive growth outlook for the Irish economy over the next two/three years, we are not sheltered from the impact of macroeconomic, financial, monetary or political developments in the US, Europe or elsewhere.
2. There is also an increased risk that investors will shift their attention elsewhere as the increased pace of deleveraging in other European markets creates more competition for investor funds. Cushman and Wakefield, a property consultancy, estimates that €584bn of non-performing loans held by European institutions will have to be sold or worked out over the coming years, mainly due to the new single supervisory ECB mechanism which imposes tighter capital requirements on banks. From Ireland's perspective, we are currently ahead of many of those competitor markets in terms of the progress we are making in deleveraging our risk and we should aim to retain that advantage for as long as possible.
3. Increasingly, NAMA's deleveraging activity will take the form of loan and asset portfolio sales rather than the sale of individual assets. The amount of work required to prepare a portfolio of loans or assets for sale is considerable. Typically, up to nine months' preparatory work is required and that can be longer for portfolios of smaller assets. Such lengthy preparatory phases are necessary to ensure that data disclosed to investors is of sufficient quality to enable them to lodge competitive bids. Otherwise, their bids will be priced very conservatively or they will decline to bid and the net impact will be sub-optimal pricing on asset disposals.

The retention of specialist expertise is necessary not only to complete NAMA's asset disposal activity in a professional manner but also to enable it to bring coherence, direction and drive (and, as appropriate, funding) to the two major initiatives of the Docklands and residential development.

As a follow on from the Minister's Section 227 review and his comments about the need for NAMA to retain its operational capabilities, we are currently exploring mechanisms designed to ensure that we can retain sufficient corporate knowledge and expertise to

enable us to complete our work successfully. On a cost/benefit analysis, the return to the taxpayer from NAMA being in a position to repay its remaining €15.1 billion of senior debt and €1.6 billion of subordinated debt, and potentially to generate a surplus, and to deliver on its Docklands and residential initiatives, would be a huge multiple of the costs involved.

Chairman and Committee members, I thank you for the opportunity to address you. We are happy to respond further on these or on any other issues that you may now wish to discuss.