

**Opening Statement by  
Mr. Brendan McDonagh, Chief Executive of NAMA,**

**Public Accounts Committee  
Thursday, 18 December 2014**

Good morning Chairman and Deputies,

In this brief opening statement, I propose to update you on the major progress which has been made by NAMA in 2014 in what has been an important and successful year for us across the broad range of our activities.

NAMA, which was established almost exactly five years ago to the day, has generated €23.2 billion in cash since its inception. Taking into account the €500m in senior bonds that were redeemed yesterday, NAMA has now redeemed €9.1 billion in senior bonds this year and a total of €16.6 billion to date (55% of the senior bonds that we initially issued to the banks).

That means that we are more than half way towards repaying our total debt of €31.8 billion (€30.2 billion of senior debt and €1.6 billion of subordinated debt). We are two years ahead of our Strategic Plan debt redemption targets. To put this year's progress into perspective, we had redeemed a cumulative 25% of our senior debt by the end of 2013; in 2014 alone, we have redeemed another 30% of that debt.

Our aim now is to redeem a cumulative 80% (€24 billion) of the senior debt by the end of 2016 and we hope that we will have redeemed all of it by the end of 2018. That target is predicated on conditions in the Irish market remaining favourable and on NAMA being in a position to retain sufficient specialist staff to enable it to generate the optimal financial return from the realisation of its residual loan portfolio.

Our faster-than-anticipated progress on debt redemption has been made possible by the major improvement in conditions in the Irish commercial property market over the past eighteen months and the depth of investor capital being deployed towards Ireland. The volume of direct investment activity in the Irish commercial property market is likely to exceed €4 billion in 2014 but this does not tell the full story: when all activity is taken into account, including loan sales, it is estimated that the aggregate value of all Irish market transactions in 2014 will be well in excess of €12 billion.

### **Taxpayers' contingent liability**

The much improved market conditions have given us a strategic opportunity to de-risk our portfolio and to reduce the contingent liability (Government-guaranteed) exposure of Irish taxpayers. At the start of 2013, taxpayers had a total contingent liability of close to €40 billion to IBRC and NAMA; following loan sales by the IBRC Special Liquidators and assets and loan sales by NAMA, particularly over the past year, taxpayers' contingent liability has now been reduced to €13.6 billion. I think that this very substantial reduction in taxpayers' contingent exposure deserves to be highlighted as we approach the end of 2014. Indeed, it may be noted that Standard & Poor's, when upgrading Ireland's credit rating to an A rating just two weeks ago, referred to the significant contribution of NAMA's deleveraging activity on the sovereign's enhanced creditworthiness.

### **NAMA's engagement with debtors**

We have been before this committee and others in the past and have had to defend ourselves against the view that perhaps we have been too soft on debtors by allowing them to retain part of the income from their asset cashflows as salaries. More recently, there seems to be a suggestion that we have been too demanding of some debtors. NAMA disagrees with both of these assertions.

**Our approach is very clear, consistent and straightforward: we look for settlements with debtors which are fair and reasonable by reference to the assets available and by reference to the interests of all parties, including taxpayers.**

Our approach to dealing with any debtor – be they large or small, cooperative or uncooperative – is to be resolute but fair. We seek the course of action which will deliver the best return for taxpayers but which is also within the debtor’s capacity to deliver, given our knowledge of the debtor’s assets and the remaining assets available to the debtor to meet his debt obligations.

The NAMA Board has a statutory obligation to pursue debtors so as to secure the best achievable outcome for taxpayers. Most debtors work consensually with us but unfortunately in some cases litigation is the only feasible option left to us. For instance, this can arise in cases where debtors refuse to acknowledge that they are liable for their debts or where they fail to declare assets or where there is evidence of the transfer of assets.

NAMA is prohibited by law from discussing its debtors’ confidential business in the same way as a bank would be. And when litigation is involved, with cases usually due for hearing before the High Court or the Commercial Court, we are faced with additional obligations not to discuss matters which are *sub judice*. We are not, therefore, in a position to comment on coverage by the media of cases which are due before the courts, no matter how much the current coverage may fail to indicate the true position. The rationale for our actions only becomes evident therefore when the full facts of the case emerge during court hearings. We leave it to the courts to determine any matters of fact and any matters of law which are in dispute.

I would contend that NAMA has been far more patient in its dealings with debtors than many corresponding private sector commercial bank or private equity entities would be in similar circumstances. However, NAMA, as a commercial entity, cannot allow negotiations to continue indefinitely in circumstances where there appears to be no meaningful prospect of reaching a settlement which is fair and reasonable to all parties, including the interests of taxpayers.

## **Performance measures**

When we last appeared before this committee in May of this year, following the publication of the C&AG's Section 226 review of NAMA, there was some discussion of possible performance measures for NAMA. The C&AG's report had included recommendations to the effect that the NAMA Board should set an expected or target rate of return to measure its overall performance and that it should also measure its performance by reference to targets for the return on disposals and on property held by debtors and insolvency practitioners. The Board has further reviewed these recommendations and last week approved a number of rate of return measures which it considers appropriate for its business. We have issued an invitation to C&AG staff to meet us to discuss the approach that we propose to adopt and we intend to report on these new measures in our 2014 Annual Report.

## **Dublin Docklands SDZ**

In addition to the progress which has been made in terms of debt reduction, we are also pleased at the progress which has been made in facilitating the development of the Dublin Docklands SDZ (Strategic Development Zone). I wish to reiterate what I have said before: NAMA is not a developer and has no ambitions in that regard. However, with a number of important strategic sites in the North Lotts and Grand Canal Docks area of the Dublin Docklands under the control of our receivers, we are well placed to co-ordinate and drive the potential and delivery of viable commercial and residential projects in the SDZ area. What NAMA can provide is the oversight, funding and co-ordination to ensure that these sites, which are of national importance, will be developed in a phased and cohesive manner so that office and other accommodation will come on stream in line with market demand; clearly, this cohesiveness would be much more difficult to achieve if the sites were controlled by numerous different owners.

We have prepared a detailed business plan which includes strategies for each of the sites within the SDZ in which we have an interest. These comprise 75% of the 22

hectares of developable land in the Docklands SDZ area and our initial appraisal suggests that up to 3.4m sq ft of commercial space and 1,848 apartments could potentially be delivered if all these sites were to be fully developed over the next five to seven years. Over recent weeks, we have announced a number of initiatives which will kickstart Docklands development:

- We will provide funding to the site receivers to initiate the planning process for the development of the landmark Boland's Mill site in Dublin's south Docklands. The planning application submitted by the receivers includes proposed office, residential, cultural and retail development totalling almost 400,000 square feet.
- NAMA is a minority shareholder in a Qualifying Investor Fund (QIF) with Oaktree Capital – known as the South Docks Fund - which has recently submitted a planning application to Dublin City Council for the development of over 450,000 square feet of office and residential accommodation at 5 Hanover Quay and 76 Sir John Rogerson's Quay in the Docklands. Subject to planning approval, construction is likely to begin during the first quarter of 2015 and the new developments are expected to accommodate up to 2,400 workers and 158 apartments.
- NAMA is also a minority shareholder in another Qualifying Investor Fund (QIF) with Oaktree Capital - the City Development Fund – which will begin the construction of a new building comprising 50,000 square feet of office space at 6-8 Hanover Quay. When completed, the building will accommodate 300 staff in the European headquarters of a major U.S.-based corporation.
- Yesterday, we announced that Oxley Holdings Limited, a company which is quoted on the Singapore Stock Exchange, is our preferred bidder for a key site at 72-80 North Wall Quay, next to the proposed new headquarters of the Central Bank of Ireland. Subject to completion of the transaction, Oxley will acquire a long leasehold interest with the right to develop, manage and realise the site.

NAMA will retain the freehold interest and will receive a secure income stream in addition to a percentage of any future sales proceeds.

Oxley was selected as preferred bidder after the completion of Project Wave, a competitive tendering process that was launched in June 2014. In their proposal, Oxley envisage a development of more than 645,000 square feet of Grade A office space, with capacity for up to 5,500 employees, and the delivery of over 200 apartments. The planning application is likely to be submitted in early 2015 and, subject to this, it is envisaged that construction will begin in late 2015/early 2016.

In total, these initiatives are expected to provide over 1.5 million square feet of office, retail, residential and cultural accommodation in the Docklands. They will make a major contribution to addressing the shortage of high-quality Grade A office space in the Dublin central business area (where vacancy levels are just 3%) and, by so doing, will facilitate IDA Ireland in continuing to attract and grow FDI activity and employment in Ireland. It is estimated that the new offices when completed will accommodate over 10,000 workers. We estimate that these initiatives will result in the creation of over 10,000 jobs in the construction sector and another 2,500 jobs in ancillary sectors.

We are not wedded to any particular approach when setting strategy for individual SDZ sites. We have made it clear that we are in a position to fund all of the development if that is required but we are also conscious of the need to ensure that not all of the risk falls on taxpayers. For that reason, we see substantial scope for private investors to provide the necessary funding for at least some of the sites. For each site, it will be a matter of which strategy offers the best risk-adjusted return for NAMA. We also see the Docklands SDZ being developed on a phased basis with new construction being funded in line with proven prospective demand rather than on a purely speculative basis.

## **Residential development**

It is worth pointing out also that NAMA is making its contribution to addressing residential supply shortages in the Greater Dublin area. In April of this year, we established a dedicated Residential Delivery team to co-ordinate and drive the delivery of our commitment to facilitate the completion of 4,500 residential units in the period to the end of 2016 and to assess the scope for delivery of additional units thereafter. We have exceeded our end-2014 target of funding the delivery of 1,000 residential units and we expect that another 1,500 residential units will be delivered in 2015 with the residual to be delivered in 2016.

In addition, we are facilitating 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 achieved planning permission and were to be developed, it is estimated that they could deliver over 27,000 residential units in the years after 2016.

## **Social Housing**

We are also contributing, to the greatest extent that we can, to the provision of social housing. Local authorities have confirmed demand for just over 2,000 of the 5,500 houses and apartments that we made available for social housing. By the end of this year, we will have exceeded the target of delivering 1,000 of these units for social housing and expect to deliver the remaining social housing units over the course of 2015. This is based on the assumption that local authorities and approved housing bodies confirm their intention to buy or lease the properties – NAMA has no role in that. In addition, we have committed, through our special purpose vehicle, NARPS, to delivering Part V social housing on all new housing developments that NAMA funds. This means that NAMA will bear the upfront capital cost of constructing these units and it means that local authorities will not have to seek off-site solutions due to financial constraints, as was indeed the case in the past.

As regards the provision of accommodation to homeless people, we responded positively to the recent request from the Minister for the Environment, Community and Local Government to identify potentially suitable accommodation. We identified four unoccupied office buildings in central Dublin and a former hotel in Tallaght which might be suitable, if appropriately modified, as accommodation for homeless people. We understand that the Department does not consider the office buildings to be suitable but is currently assessing the suitability of the hotel. We have indicated our willingness to provide a loan to one of the local authorities for the purchase of the hotel if it is deemed to be suitable.

Chairman and Committee members, I thank you for your time and attention. My colleagues and I are happy to respond to any issues that you may now wish to discuss.