

**Opening Statement by  
Mr. Brendan McDonagh, Chief Executive of NAMA, to the  
Joint Committee on Finance, Public Expenditure and Reform  
Wednesday, 16 December 2015**

Chairman, Deputies and Senators,

The Chairman has already spoken about the progress which has been made on the redemption of NAMA's senior debt and on the development of the Dublin Docklands SDZ. My comments will be directed at another initiative which, we expect, will form a major part of NAMA's work in the years ahead, namely, our role in funding the development of a major residential delivery programme between 2016 and 2020.

The shortage of housing in the main urban areas and particularly in Dublin has been well documented by now. The cause of the shortage is no great mystery: a fall of over 50% nationally in residential prices between their peak in 2007 and their lowest point in 2013 meant that residential development, by and large, became commercially unviable, given that construction costs remained fairly constant throughout that period. It is worth bearing in mind that it has taken an increase of 35% in residential sales prices from their low point in 2013 to bring many sites to the point where development might be a commercially viable option, as is now the case for a minority of sites.

As an example, take an average 3-bedroom home in the Dublin area which, on many of the sites which we propose to fund, costs about €260,000-€280,000 to build (taking all costs including site value into account) and which currently sells at about €300,000. Based on the official CSO house price indices, even as recently as April 2014, such a house would have achieved a sales price of only about €240,000. This would have been well short of breakeven and no funder in the Irish market, including NAMA, would have

been willing to engage in speculative funding of residential construction based on a hope that prices might rise in the future.

There have been suggestions from some quarters that NAMA and the banks should indeed have been actively funding residential development during the period from 2010 to 2012 when prices were in freefall. This viewpoint is seriously out of touch with any commercial reality. The NAMA Board could not have done it as it would have been at variance with Section 10 of the NAMA Act. It is simply not realistic to suggest that any funder, be it NAMA or a bank or a private investor, would have sunk funds into property projects that were not commercially viable and it is certainly not realistic to suggest that this would have happened while the country was still reeling from a major property market collapse.

As CEO of NAMA, I doubt if this Committee would have been too impressed if I had appeared before you in those earlier years and told you that we were funding loss-making residential development at a time when prices were still falling and when there were few sales taking place in the market. You would, quite rightly, have drawn my attention to NAMA's statutory obligation to act in a commercially sensible manner.

### **Residential delivery programme**

Price rises over the past year or so prompted us to review the residential sites securing our loan portfolio to assess whether funding the development of those sites would be a commercially viable proposition. In particular, we asked our specialist residential delivery team to carry out a detailed, site-by-site, review so as to assess the scope within the portfolio for funding a delivery target of 20,000 units by the end of 2020.

Arising from that detailed review, we are confident that sites capable of delivering **13,200 units** are commercially viable to develop at current prices. We also believe that intensive asset management work on other sites, including enhanced planning and the provision of strategic infrastructure, will ensure that **the residual 6,800 units** (of the 20,000 unit target) will be delivered. With that in mind, we intend to work closely with

local authorities, with Irish Water and with Transport Infrastructure Ireland to address any infrastructural issues which are impeding the development of sites which would otherwise be commercially viable. The 20,000 unit target set for the period from 2016 to 2020 is in addition to the 2,300 units which have been delivered since the beginning of 2014.

In addition to working towards funding housing delivery, NAMA has also focused on funding new or improved planning permission for other sites which secure its loans:

- In addition to the **2,300 units** which have been completed to date, construction has begun on sites which will ultimately deliver another **3,000 units**.
- Over **900 units** have been built on sites sold by debtors and receivers since early 2014 – these sites have a capacity to deliver 11,000 units ultimately.
- Another **5,000 units** have received planning permission with construction expected to begin on the majority of these in 2016.
- Planning applications have been lodged or will be lodged within 12 months for another **9,900 units**.
- Another **32,500 units** are at the pre-planning stage or feasibility stages.

Delivery of this programme will be a major challenge. NAMA, through its funding and management activity, aims to increase delivery from an average of **1,250 units** per annum (2014-2015) to an annual average of **4,000 units** (2016-2020). We would expect that much of our funding will go towards the construction of starter homes in the €250,000 to €300,000 price bracket.

Construction is currently taking place on some 40 sites and this will need to be increased to 100 concurrently active sites if the target is to be met. It is estimated that NAMA debtors and receivers control only about **30%** of zoned residential sites in the Dublin area. To achieve the 20,000 unit end-2020 target, NAMA will work with existing debtors and receivers but we also plan to work with joint venture partners and with non-NAMA housebuilding firms. NAMA is keen to ensure that a wide array of market participants will contribute to this programme and, to that end, is seeking 'expressions

of interest' from potential partners willing to work with it over the next five years to deliver badly-needed housing in Ireland.

A new Residential Delivery division has been established in NAMA to bring drive and focus to its expanded residential delivery programme. Our projections indicate that total funding for the programme will be €5.6 billion (assuming 20,000 units) and that peak funding will be €1.8 billion. Based on sites which are currently viable, NAMA's overall return on the programme is projected to be **15%**.

### **Commercial viability**

Under Section 10 of the NAMA Act, NAMA is required to operate on a commercial basis. Since its inception, it has funded numerous development projects relating to assets securing its loans. Our key criterion for funding any development project is whether the project will generate a better commercial return with funding than it would generate from alternative options such as an asset sale. For the debtor or receiver, that higher return means that more of his debt can be redeemed.

As with all projects, funding for residential development projects must meet a stringent commercial viability threshold – a commercial return which is broadly in line with what a private investor/lender would require. NAMA will only fund projects that pass this test. The funding rates that we propose to apply to construction funding will be in line with corresponding rates in the market.

We are aware that a complaint has been submitted to the EU Commission alleging that there may be State aid implications to our proposal to fund commercially viable residential projects under the control of our debtors and receivers. In conjunction with the Department of Finance, we have had preliminary engagement with the Commission. I am reluctant to comment further at this stage other than to indicate that the NAMA Board is satisfied that our proposed programme does not constitute State aid.

It has been claimed that NAMA's involvement will leave the market in a state of crisis by forcing competitors out of business. This I reject out of hand. Most forecasts suggest that aggregate market demand will be for about 100,000 units up to 2020. It is worth pointing out that the NAMA programme, if fully delivered, will meet only 20% of the 100,000 housing units required over that period. That suggests that there is a lot of scope left for others to contribute the additional 80,000 units that will be needed to meet expected demand over the period.

In addition, I would point out that the NAMA debtors whose projects are likely to be funded by us are among the best house builders in the country in terms of their track record over the years, both in terms of the volume of houses delivered and the quality of their developments. It is vitally important for the future of the sector that these developers are working to full capacity over the next five years. Not only can they make a major contribution within that period but it is also important that, when they emerge from NAMA, they are in a position to exert a positive and significant impact on residential delivery for many years to come.

Finally, it is worth bearing in mind that any financial surplus generated by the residential delivery programme will be transferred to the Exchequer and will thereby reduce the losses incurred by taxpayers as a result of poor property lending by financial institutions and excessive borrowing by debtors during the last decade.

### **Social Housing**

We have also been working hard to contribute to the delivery of social housing. Since the start of 2012, we have identified over 6,500 houses and apartments, controlled by our debtors and receivers, as available for social housing. 2,500 of these have been confirmed as suitable by local authorities. NAMA has been working with its debtors and receivers, together with local authorities, housing groups and charities, to ensure that these 2,500 houses and apartments are delivered as quickly and as efficiently as possible.

I am happy to confirm that by last Friday, 2,000 of the 2,500 houses and apartments had been delivered. This was our target for end-2015. To put this into context, the 2,000 units equate to more than one-third of the total delivery of Part V social housing between 2002 and 2011 of 5,700 units; this was during a period of unprecedented housing output in Ireland when 550,000 new residential units were built.

These 2,000 homes have been delivered across 131 individual projects spread over 18 counties and have involved transactions with 18 approved housing bodies and 9 local authorities. Along the way, we have invested over €70m to remediate and complete properties.

We have also taken initiatives which have helped to streamline the process, including the establishment of a special purpose company, NARPS. The NARPS vehicle, together with the direct leasing or sale of social housing units by NAMA debtors and receivers, has become an increasingly important mechanism in delivering units: over 70% of the units delivered in 2015 were delivered through NARPS. We have invested more than €150m through NARPS to buy houses and apartments from our debtors and receivers and to lease them directly to local authorities and approved housing bodies.

By the time all properties are delivered under this initiative, NAMA will have spent more than a ***quarter of a billion euro*** in remediating and completing properties and in buying properties through NARPS. Delivering these units for social housing is a win-win situation. First and foremost, people who need a home get a home. For the local authority, it means a shorter waiting list for social housing. And an unoccupied property is finally brought to its intended use. This has also helped us to reduce the number of unfinished housing estates from 332 in 2010 to 47 at end-2015 and we expect these last 47 estates to be resolved by end-2016.

In addition to the 2,000 social housing units delivered by end-2015, and in line with Part V requirements, a significant delivery of social housing will be part of NAMA's expanded 2016-2020 residential delivery programme. As you know, the revised requirement is that 10% of all new schemes be reserved for social housing.

Wherever feasible, NAMA will facilitate the provision by its debtors and receivers of future Part V housing on NAMA-funded developments through the NARPS vehicle. This will mean that NAMA, rather than local authorities, will bear the upfront capital cost of delivering Part V housing on developments that it funds. Instead of the local authority purchasing the units from the developer, NARPS will do so and will then enter into a leasing arrangement with the local authority/approved housing body.

There have been some representations made to the Minister for Finance recently to the effect that NAMA-funded development sites should be required to include a higher proportion of social housing than applies in the case of Part V housing generally. I would suggest that it is neither equitable nor feasible to impose different social housing obligations on developers, based purely on their sources of development finance. To impose on a NAMA debtor a higher obligation to deliver social housing than is imposed, for instance, on a developer who is funded by a bank or who has access to other sources of finance, would be arbitrary, discriminatory and very likely to be subjected to legal challenge.

It will also have the effect of reducing the commercial viability of sites. Given that, under Section 10 of the NAMA Act, NAMA can only fund commercially viable projects, the net effect therefore would be to reduce the total number of units which could be delivered.

From the perspective of a NAMA debtor, his primary objective is to redeem as much of his debt as he can. If he is faced with additional obligations over and above those that are imposed on non-NAMA developers, he will clearly find it more difficult to repay any given amount of debt than would his counterpart who has borrowed from a bank or from another private source. I cannot see how such an additional imposition could survive legal challenge.

### **Unfinished housing estates**

There was a widespread perception in earlier years – although less so now - that every unfinished estate in the country was under the control of NAMA. In fact, that was far from the true position: after we analysed the collateral securing our acquired loans, we

estimated that only about one in ten unfinished estates in Ireland were under our control. At that stage, NAMA loans were secured by 332 estates that were classified as unfinished. As mentioned earlier, that number is now down to 47 and we expect these to be addressed over the course of 2016 once 'site resolution plans' are finalised with local authorities. It is worth adding that about half of the 2,000 social housing units that NAMA has delivered to date are located on estates that had originally been classified as unfinished. In completing these units, not only have the new residents benefited but existing residents have also benefited from the enhancement of the estates concerned.

## **Staffing**

What has been achieved over the past six years, in often difficult circumstances, is a great tribute to the NAMA Board, the Executive team and particularly to NAMA staff. As you may know, officers assigned to NAMA are typically employed on specified purpose contracts which expire at NAMA's discretion. There cannot be many situations whereby the better you perform your work, the sooner you will be out of a job. This has been the context in which NAMA staff have been operating over the past six years.

Over recent years, unlike employees of other commercial State bodies, NAMA staff became subject to FEMPI legislation, including the consequential salary cuts. As a result, we lost many experienced and expert members of staff. Throughout 2013 and 2014, the level of staff turnover was such that we faced a challenge in maintaining sufficient continuity to ensure that our functions were carried out to the high professional standards that we had set for ourselves.

The decision of the Minister for Finance last year to approve a redundancy programme for NAMA staff was very helpful in stabilising the staffing situation. The programme is expected to cost €20m over NAMA's lifetime. €14m of this relates to standard public sector redundancy terms: two weeks' statutory pay per year of service, capped at €600 per week, plus three additional weeks of base salary per year of service with an overall cap of two years base salary. The other €6m relates to an additional redundancy



payment which is designed to ensure that staff remain for as long as NAMA needs them – this element equates to a once-off payment of 10 weeks of final salary.

It should be borne in mind that this scheme only applies in circumstances where staff members are being made redundant and have remained with NAMA for the period required to fulfil the Agency's statutory mandate at NAMA's discretion.

The NAMA scheme should not be confused with certain retention schemes which have been the subject of recent public discussion, whereby certain staff in State bodies receive payments whilst remaining employed within an organisation. NAMA has made no such payments since inception and I reiterate that the NAMA scheme only applies when a staff member is leaving at NAMA's discretion.

Thank you.