National Asset Management Agency

Address by

Mr. Frank Daly, Chairman of NAMA

to the Association of Chartered Certified Accountants

Galway

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Introduction

Thank you for the invitation to address you today. It is a useful opportunity to outline what we, in NAMA, see as our priorities at this juncture and the contribution we hope to make to Ireland's economic resurgence.

This morning I want to look forward more than look back.

It's timely to do so because the first phase of NAMA's evolution is now largely complete – the loans have been acquired and valued. We have removed from banks' balance sheets the €74 billion in loans which was secured by property which has fallen steeply in value from its original peak valuation and we have replaced those loans by providing €32 billion of liquid assets to the banks.

You will be well aware that the banks are still far from functioning normally: their balance sheets proved to be more brittle than was foreseen three years ago when NAMA was in gestation and when it was thought that their problems largely related just to land and development and commercial property loans. The problems extended to other types of loans on their Balance Sheets, as was clearly demonstrated by the Central Bank's PCAR2 exercise. The process of repair and recuperation is now taking longer than could then have been envisaged. Though they are far from agile as things stand, one can only imagine how inert they would now be if €74 billion in land and development and associated property loans had been left on their books and they had not received the €32 billion liquidity injection from

NAMA. The banks are estimated to have lost a net €100bn of liquidity since 2008 and that would be €30bn worse without NAMA.

I would emphasise that NAMA's primary objective, as set by the legislature, is to repay its debt and our overall strategy is geared towards meeting this objective over the shortest possible time span, subject of course to evolving market conditions. Our Board has recently completed a review of its strategy and has re-affirmed its expectation that its core commercial objective will be fulfilled by 2020. An important interim milestone is the repayment of €7.5 billion of our debt by the end of 2013 and we are confident of meeting this target.

NAMA portfolio has good potential

Our focus in NAMA has now shifted towards ensuring that we recover, on behalf of the taxpayer, the debt that we have incurred to acquire the bank loans. That means an intensive working of our portfolio of loans and the collateral securing them. In broad terms, our acquired loans are secured by assets (mainly property) which were valued at about €32 billion, by reference to property valuations as at November 2009. Any long-term economic value uplift was eliminated by the net present value discounting methodology approved by EU Commission.

As we all know only too well, the property market in Ireland has continued to fall further over the intervening two and a half years. Assets located in Ireland are therefore worth less than their original acquisition price. On the other hand, assets located in Britain and elsewhere have generally appreciated in value and that has to some extent mitigated the impact of the decline in Irish prices. But overall, it would be fair to say that the incline facing NAMA in achieving its commercial objectives is steeper than it was when we were established in December 2009.

With due diligence now complete however, and having had the opportunity to assess the property portfolio in more detail, ***our view is that it has more potential than we originally had reason to expect.*** 71% of the portfolio comprises completed property – offices, retail, residential, industrial, hotels and so on. 20% is undeveloped land and 9% comprises developments which are at various stages of completion. In terms of geography, 56% of properties are located in Ireland and 34% in Britain with the rest in Northern Ireland (4%), Europe and the US.

A high proportion of the property assets in Ireland – 90% - are located in or close to counties with large urban centres of population (Dublin and neighbouring counties, Cork, Limerick and Galway) and the long-term prospects for much of this property will be better after the economic situation stabilises. In terms of our exposure to unfinished estates, our debtors and receivers control only about 180 or 10% of the estates which fall into the two most seriously affected categories designated by the Department of the Environment, Community and Local Government. The Board of NAMA is committed to resolving these estates and we will not be found wanting.

We are currently carrying out an extensive analysis of data on residential property under the control of our debtors and receivers. Our best estimate, at this stage in the analysis, is that some 9,200 residential units linked to NAMA loans are generating rental income from tenants; 4,000 of these were rented for the first time over the past 18 months. Another 700 units have been sold and 4,000 will be ready to rent or sell in the short term, depending on the detail of the asset disposal and asset management plans which we have agreed with individual debtors and receivers.

Two thirds of NAMA debtors can be commercially viable

We have, by and large, completed our assessment of the capacity and willingness of debtors to work with us. In about two-thirds of cases, we are satisfied that we can work with debtors who have demonstrated that they can be commercially viable and where we feel there is sufficient trust and goodwill to enable us together to extract the best value from the assets. We see our ongoing engagement with these debtors as collaborative and the establishment of trust is therefore very important to us. I think the likelihood of us working with two thirds of our debtors who, with our support, can be commercially viable, is perhaps a more optimistic outcome than many would have envisaged two years ago.

In dealing with debtors, we have attempted to act reasonably and fairly. There are a minority of debtors who apparently believe that we should keep them on life support until the market improves and, in the meantime, that we should not be too demanding in terms of looking for repayment of debt. On the other hand, there is a view among some pundits that we should consign all debtors to some outer darkness as punishment for the state in which the country finds itself.

But we have to deal with reality. When I hear some of the advice doled out to us from time to time, I am reminded of a quotation attributed to the American writer, John Barth, who said: '***Reality is a nice place to visit but you wouldn't want to live there'***. Well, frankly, unlike some of the commentariat, we do not have the option of living anywhere else.

One of the realities we face is that, in many but not all cases, those best placed to manage the assets securing our loans are those who purchased and developed them in the first place.

Do we allow them to retain part of the income from their assets in the form of a reasonable salary that reflects the value they contribute? Yes, we do, because the alternative would involve paying someone else, with less property expertise, a lot more to do the job, with no guarantee that it would be done as well. We expect them to deliver a return to us in the form of enhanced assets, higher sales prices and better rental streams than would have been achieved under someone else's management. And there is a *quid pro quo* for keeping them in business. For instance, the debtors must grant us charges over unencumbered assets or reverse asset transfers to connected parties. Some of them find this too exacting and will not agree to this.

Commercial reality has meant that we have had to face some unpalatable choices in dealing with debtors. We would much prefer if there were a coterie of accomplished and experienced property experts in Ireland who had absolutely no connection with the property boom and who were willing to work for nothing in order to manage the assets for us. But given that this cavalry shows no sign of appearing from over the hill, we must deal with circumstances as we find them.

Asset disposal

Part of any agreement we reach with viable and co-operative debtors includes asset disposal schedules and asset management plans. A few points, first, about asset disposal.

We were established as an asset management vehicle with the intention that we would have a reasonably long timeframe within which to work out our assets. In looking at our Irish assets, therefore, our approach is to develop and enhance them as much as possible with a view to a phased and orderly disposal over time. We do not consider ourselves under pressure to sell a substantial part of our Irish portfolio now at current rock-bottom prices, particularly given that it makes a lot more sense to sell many of those assets in two, three or five years' time in a stronger market after we have developed them and enhanced their value.

But even if we were to try to sell a substantial part of our €18 billion Irish portfolio today, we could not do so as demand and liquidity are very limited. At what was arguably the peak of the market in 2006, commercial property transactions totalled €3 billion and that was at a time when domestic and foreign-owned banks were lending on an unconstrained basis into the market. ***If, for whatever reason, we were forced into a fire sale, the only beneficiaries would be those who have cash to invest and who would benefit handsomely by purchasing in current subdued market conditions where there would be very little competition. The taxpayer, on the other hand, would lose heavily*** and I think this is a point which is well appreciated by the public in general. The CEO of Danske Bank put it well recently when describing the objective behind the establishment of a separate unit in that bank to deal with troubled property loans: "The main focus is to recover as much as possible, not necessarily as fast as possible".

So we in NAMA envisage no fire sales.

We cannot sit around and wait for a moribund market to revive

On the other hand, the scale of NAMA's operations in Ireland means that we cannot sit around and wait for a moribund market to revive of its own volition. Therefore, there will be no hoarding of assets either. In some cases, the best time to sell an asset is right now because it will never be worth more. Through our debtors and receivers, we have been making property in Ireland available for sale but there is a limit to what the market can absorb given the current state of domestic demand. There is over €1 billion of property currently available for sale, or likely to be available for sale in the near future, through receivers and a list of these assets can be accessed through our website. This is in addition to assets which our debtors, as part of their agreed business plans, are also making available for sale.

The picture in Britain is somewhat brighter. We have been working with our debtors to sell many of the assets based in Britain as we have taken the view that this makes sense in the context of the upturn in that market over recent years and the risks that it now faces. I have heard comments to the effect that all we have done to date is to sell trophy assets in Britain.

This is not the case. Yes, we have sold assets in Britain which would be regarded as prestigious but we have also sold many other assets which have attracted little attention. And where we have sold we have got a good result for the Irish taxpayer in the form of the very attractive prices achieved.

NAMA will invest in our assets

A major focus for us is not only the immediate horizon of this year and next but also the period beyond that and, in particular, the need to invest in assets so that they are available to meet future demand. ***NAMA will not achieve its objective by focusing solely on the disposal of property. As I mentioned earlier, we must invest in the assets securing our loans so as to make them more attractive to purchasers over a medium-term horizon and thereby enhance their ultimate disposal value.*** Part of our role is to respond, not just to current supply and demand conditions, but also to prospective supply and demand over our projected lifespan up to 2020. In some market segments - large offices, for instance – supply shortages are already emerging and we need to address that now.

We have now put in place within NAMA an Asset Management team with long-standing property expertise whose sole focus is on ***identifying and developing assets, in conjunction with debtors, receivers and joint venture partners, so as to create and add value.*** The team's activities will range from initial appraisal of significant development projects, where there is proven or anticipated market demand, right through to financing and overseeing the delivery of those projects. We recognise, however, that investments such as these must be commercially judicious and that there is no point in compounding the sins of the past by advancing funds to develop property for which there is no foreseeable demand.

As mentioned earlier, 90% of the property assets in Ireland securing NAMA's loans are located in Dublin and neighbouring counties and in counties Cork, Galway and Limerick, all of which have large urban centres of population. Our view is that long-term prospects for much of this property are good and, on that basis, we propose to invest, particularly over the next three years, with a view to ensuring that this property is available to meet commercial and residential demand over the rest of the decade. In this context, we work closely with other State Agencies with a direct interest in this – one good example being the IDA in respect of provision of first-class office space for interested FDI companies.

NAMA plans €2billion investment to 2016

We plan to invest, given the right opportunities, at least €2 billion in Ireland in development capital in order to preserve, enhance and complete commercial and residential projects in Ireland over the period to 2016. This includes the completion of properties which are currently under development but, more importantly, it means the development of land in anticipation of future supply shortages and demand.

We have already committed €500m of investment in new working capital and development capital advances for projects which are located in Ireland. This includes some projects that will be familiar to you, such as our investment in the Montevetro Building which was sold to Google.

There are many other investments throughout the country, smaller in scale perhaps, but significant on a local scale in terms of preserving and creating jobs. We have committed over €75m to a number of residential developments in South Dublin which meet current and prospective demand for housing in that area and another €30m to a number of other residential developments throughout the country. In the case of a housing development built by the Cosgrave Brothers in Dun Laoghaire, we have committed over €50m to the project, including the first phase of the development comprising 143 apartments which was completed last year. The new phase of the development, which has attracted strong interest from potential buyers, involves the construction of 60 houses and site works, a commercial centre and extensive recreational amenities.

We have also been funding a number of retail developments, including the next phase of Charlestown Shopping Centre in Dublin which has been pre-let to tenants and to which we have committed €13m to date. This will see the creation of 250 full-time and 50 part-time jobs. Funding totalling €47m has been committed to three other shopping centres, located in Co. Laois, North Co. Dublin and Co. Waterford. Other funding commitments include €11m to a mixed commercial and residential development in South Dublin, €7m towards the completion of a cinema in central Dublin, €3m for a hotel renovation in Co. Cork and €3m for a hospital in Dublin. In Co. Galway, there are property assets valued in excess of €800m securing our loans and we have provided support to a number of retail and leisure developments.

In addition, a further €600m has been approved for NAMA debtors in respect of projects located outside Ireland and this will ultimately enhance the return to the Irish taxpayer.

These are just some examples of active funding by NAMA – we expect plenty of others in the near future.

Our support is not confined to advances of capital. We have also facilitated the letting of office space by a number of major companies: for instance, we approved funding for fit-out costs to facilitate sizeable lettings to a number of prominent tenants recently. We also provide financial support for planning applications and other essential infrastructure activity in various locations.

Property market initiatives

NAMA's Board recognises that its success in meeting our commercial objective is closely linked to the performance of the economy in general: a vibrant domestic economy means increased demand for the property assets which secure NAMA's loans. We fully recognise our role in making whatever contribution we can towards instigating a renewal of sustainable activity in the property market in Ireland and the current and future funding I have just mentioned is a key component of that.

We also need however to be innovative in other ways.

Turning to the commercial property market, the availability of NAMA vendor financing can play an increasingly important role in attracting international investor capital into Ireland. ***We are willing to provide funding of up to 75% of an asset's purchase price to suitable purchasers in an effort to stimulate sales activity.*** One transaction already completed is the sale of 1 Warrington Place, a transaction facilitated by vendor finance provided by us.

Vendor finance provides a number of benefits from our perspective: it will generate transactions that might not otherwise take place and ensure that we thereby receive 25% or more of the asset price upfront. It will also involve a favourable shift in credit risk from debtors to more creditworthy investors. Applied judiciously, vendor finance will enhance competition and price tension and will enable us to convert international interest into sales. It is inherently difficult to estimate in advance the volume of future vendor finance transactions but our working assumption is that at least €2 billion will be involved. We are doing this is to fill a gap in the market where buyers with equity cannot obtain bank finance to buy our assets.

Attracting international investor interest is a major objective for us. ***Before the end of the year, we aim to launch at least one qualifying investor fund (QIF) as a way of attracting institutional investors such as pension funds and sovereign wealth funds to buy properties on a phased basis.*** I also note and welcome the Minister's commitment to keep under review the possibility of introducing REIT legislation in Ireland. The NAMA Board is supportive of the introduction of REIT legislation in Ireland on the basis that international investors understand the product and that it represents a further potential aid to international investment here.

Where we consider that there is latent demand which may need to be encouraged, we are willing to take initiatives to foster it; for instance, ***the recently-launched 80/20 Deferred Payment Initiative is aimed at owner-occupiers who are interested in house purchase but nervous about the risk of negative equity.*** Whilst the initiative has been launched on a pilot basis in respect of 115 family homes in Dublin, Meath and Cork, the intention, based on successful uptake during the pilot, is to make the protection more widely available across our housing portfolio. I am pleased to say that the early signs are positive, with 16 units sold and reservations placed on another 16 of the 115 houses in the pilot phase. The value of these transactions generated in the two weeks since launch is €8.4 million.

Rent Abatements

In terms of attracting investor interest, the measures introduced by the Minister in last December's Budget are proving very helpful, including the reduction in the rate of stamp duty, the Capital Gains Tax relief and the clarification of the position on upward only rent reviews for existing contracts.

On the latter point, we are willing to play our part in actively supporting small businesses who are struggling to meet their current contractual rental arrangements. Where the level of rent is the key factor in determining whether or not a business remains in operation, we will be sympathetic to applications for rent abatement. Last December, we issued a Guidance Note setting out the application process involved. By the end of March, we had received 152 applications for rent abatement from tenants of our debtors and had approved 118 of these. One was refused and the remaining 33 applications were under review at that stage.

In cases where there is genuine hardship which can be ameliorated by rent abatement, we are happy to approve rent reductions. Not only are jobs safeguarded and economic activity sustained but the value of the collateral supporting our loans is preserved by ensuring that tenants remain in business and continue thereby to generate rent. I would point out, however, that our rent abatement programme is not designed to benefit large profitable trading groups, including multinational corporations, which are in a position to discharge their original contractual obligations.

Jobs

I mentioned earlier just some of our numerous funding commitments to projects all over the country. Through these advances, and our day-to-day working with debtors, we estimate that we directly support some 10,000 jobs spread across a range of business sectors and locations in Ireland. Without this support (which will continue for commercially viable businesses who work with us) many of these jobs would have been lost as indeed would additional jobs which are indirectly dependent on them; the Exchequer would also have lost out through reduced taxation and increased social welfare expenditure.

I also mentioned that we envisage spending at least €2 billion in supporting and developing projects over the period to 2016. Based on recent studies[1], an investment of €2 billion through advances of development capital for projects in Ireland would be expected to generate up to 25,000 direct and indirect construction jobs and potentially an additional 10,000 jobs in the wider economy.

This investment is extremely important in the context of Ireland's construction industry which has experienced a precipitous fall in output and employment since reaching a peak in 2007. CSO data indicate that construction employment has fallen from a peak of 270,000 in the second quarter of 2007 to just over 100,000 in the fourth quarter of 2011. Against that background, NAMA's contribution in terms of jobs – up to 25,000 in the construction sector

[1] Infrastructure Investment Priorities 2010-2016, Department of Finance, July 2010;
Jobs and Infrastructure, Construction Industry Council, April 2009.

and potentially 35,000 in total - will have a significant impact on the sector and a positive impact also on Exchequer revenues.

Property market

It would be heroically brave of anyone to suggest that the property market in Ireland has bottomed out, particularly given that our economic wellbeing is so heavily influenced by events elsewhere. Developments in Greece and Spain over recent weeks mean that only the very wise or the very foolish would venture to make confident forecasts about where we might find ourselves in six or twelve months' time.

However, perhaps there are times when one should be at least a little heroic when the signs encourage it! There are more and more indications that the economy, and with it some important segments of the Irish property market, have turned the corner. While there have always been some transactions even in a subdued market, there is now evidence of sales volumes increasing. There is also a view, amongst some analysts, that the market has overcorrected and they point to positive affordability data. Practitioners in the residential market report an increase in viewing levels and some competitive bidding for quality properties. Sales are taking place and sentiment is becoming more positive – I note a recent article in the *Irish Independent* on a poll which indicated that four out of five people consider that this is a good time to buy. Interest in our own 80:20 initiative has been very encouraging; we see realistic interest in our portfolio from overseas investors; the residential rental market is strong and pipeline demand for premium office space from FDI companies is encouraging. On the wider economic front we have seen a stream of jobs announcements over recent months, not least the announcement of the creation of over 400 jobs here in Galway alone.

So let me be a little heroic – we have a distance to travel but there is a confidence in people and a positive energy that has been missing for a while but that I think is returning.

Conclusion

A key message I wished to get across this morning is that NAMA is absolutely focused on making a positive and vigorous contribution to investment, jobs and the economic resurgence of Ireland in the years ahead through the funding, investment and support policies I have outlined above.

In fulfilling our objective of getting the best financial return for the Irish taxpayer, we intend to support commercially viable businesses which are prepared to work with us and we intend not just to manage our assets but to invest judiciously in them where this will bring tangible benefits to Ireland in terms of financial outcomes, jobs and confidence building.

Thank you for your attention this morning.