

# Dragon Lords

## Ireland's New Real Estate Empire



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*The National Asset Management Agency (NAMA) now owns most of the real estate and development loans previously made by Irish banks. NAMA is not the owner of the underlying assets, although it can trigger a statutory process to become the owner in specific circumstances. In the Year of the Dragon, will the Irish people experience the associated dragon traits of power and wisdom from NAMA, or will its intended advantages prove to be illusory?*

NAMA acquired loans at the market value of the underlying assets in November 2009. Real estate values have continued to fall since then and NAMA is now facing substantial paper losses. It is difficult for NAMA to explain this reality to the public, but it must do so, as otherwise public opinion will not tolerate the resulting losses.

### *To Hold or Not to Hold?*

One of the basic principles of establishing NAMA was that it would be in a position to hold real estate in the longer term, thereby allowing for a recovery in market value before realisation.

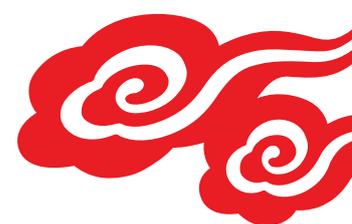
Some might consider that the very low cost of NAMA funding, compared with most other funding sources, would mean that it should hold all assets for as long as possible to maximise the chance of some return for the Irish taxpayer. Additionally, this would minimise the risk of embarrassment to NAMA and the State if a purchaser from NAMA was to make a substantial profit as a result of NAMA selling at the bottom of the market.

However, real estate as an asset class needs active management to maximise its value. Ireland has had a very costly experience of what happens when one assumes that real estate is a 'sure bet', needing no expertise to generate a profit.

If NAMA intends to hold substantial assets in the long-term, then it needs to develop real estate management processes and share these with the market. Such measures would help to ensure that all stakeholders understand how NAMA would work on the many elements needed, such as consent to assignment, rent review, negotiating variations and exploiting opportunities for further development.

The December 2011 guidance note on how NAMA will assess requests for rent reductions is useful, but more is needed. NAMA has recently requested expressions of interest from advisors regarding a Qualifying Investor Fund (QIF) it intends to form. This may indicate that NAMA will move to a public-private partnership approach, with investors contributing to a fund in return for a share in the value of either relevant loans or underlying assets, depending on how the QIF is structured.

The lack of certainty about NAMA's plans for real estate sales has led to other market participants waiting to see what NAMA will do. The longer the wait, the more the market collapses and the more difficult it becomes to get anyone to move. NAMA has a statutory obligation to publish details of its strategies and the policies it will follow to achieve its objectives.



**NAMA has set out its objectives for 2012:**

1. agree detailed asset sale schedules with debtors;
2. optimise NAMA cashflow from loans and debtors;
3. adopt an active loan sales strategy;
4. attract international investor capital; and
5. increase market activity in both commercial and residential markets through a number of initiatives.

**As well as setting out its objectives, NAMA has also specified further significant areas of activity for 2012:**

1. completion of the loan acquisition process;
2. consolidation of loan-servicing arrangements;
3. liquidity and balance-sheet management;
4. management information systems; and
5. communication strategy.

Of most interest to market participants will be the measures to generate activity. NAMA has confirmed that it is willing to provide up to 70% stapled vendor debt finance to purchasers of commercial real estate. It has implied that the focus will be on office buildings, shopping centres and other retail and industrial properties. NAMA expects that its programme of vendor financing is likely to gain "significant momentum" in 2012.

NAMA estimates that the portfolio of real estate assets securing NAMA loans includes approximately 8,000 apartments and 1,700 houses in Ireland. NAMA is in discussions about a possible limited measure that would give purchasers

protection if the value of the real estate falls during the first five years of their mortgage. This project is still at the feasibility stage but there may be a pilot roll-out during 2012.

NAMA currently publishes details of assets subject to enforcement and whether such an asset is on the market at the moment. NAMA has yet to organise any distressed asset auctions.

**Commercial Operation or Political Construct?**

NAMA has been working with borrowers to ascertain whether they have viable business plans, what the framework might be for orderly disposals and whether any transactions previously undertaken should be unwound. In many



cases, the maths will be starkly simple. The borrowers will never be in a position to repay all of the debt.

If it was purely a private sector operation, NAMA could decide to base its decisions on whether it would ultimately realise more by enforcing now or by allowing borrowers to continue to manage assets. However, NAMA is a creature of the political/media world and is in an invidious position. It must manage a huge portfolio with many competing commercial imperatives, while at the same time giving due regard to Government directives and media scrutiny.

**The Future**

Asset disposals so far have occurred largely outside of Ireland. Perhaps an indicator of the relative weakness of the Irish market, it may also reflect a possible unwillingness to crystallise losses when the market is either at its lowest or approaching its lowest. However, the overhang of potential NAMA disposals has had a depressing effect on the Irish market and in the meantime, foreign lenders have been enforcing and selling Irish real estate.

Given the current credit squeeze, NAMA's willingness to engage in various forms of vendor financing is most welcome. Whether that risks creating another artificial real estate bubble in a few years' time remains to be seen. NAMA will have to release assets to the market for deal flow to really start.

**Will Do Better**

NAMA has recruited a substantial number of expert personnel to enable it to deal with the myriad of matters which require its attention as the effective controller of shopping centres, housing estates, apartment complexes, office blocks, retail parks, warehouses, derelict sites, half-completed developments and fields.

NAMA's decision-making process has perhaps inevitably been much slower than market participants would like, but hopefully this investment in staff and systems will mean that a more streamlined process shall emerge during 2012. NAMA does need to foster a reputation for sector-leading processes and decision-making. It is one of the largest real estate controlling groups in the world and it must become one of the best as well. ■