Jury still out on Nama

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By Dara Doyle

Nama may be viewed by international investors as a good idea. Whether its efforts to generate revenue from risky assets can be a template for other countries remains to be seen, writes Dara Doyle

BRENDAN McDonagh travelled to Madrid last month brandishing a map with about 120 hotels, all in Ireland.

"In case any of you want to buy them," McDonagh, 45, who heads the National Asset Management Agency in Dublin, told the chuckling audience of analysts, economists and diplomats at a seminar. "Nama is a complex business, but it comes down to a simple thing: cash."

By the end of last year, the agency had generated €10.6bn, in part through sales of loans such as those secured by its interest in Battersea Power Station on the banks of the River Thames in London, featured on the cover of Pink Floyd's 1977 album Animals.

Since Nama was set up in December 2009 to take on and sell the toxic mortgages purged from Ireland's lenders, McDonagh's strategy has been to sell overseas assets while awaiting a recovery at home.

The agency has held on to a Dublin plot once earmarked for the U2 Tower — backed by the rock band — on the Irish Glass Bottle site on the Poolbeg Peninsula, slated to house 2,000 apartments at the height of Ireland's property boom.

Whether his efforts to generate revenue from risky assets can be a template for other European countries remains to be seen. Spain is preparing to sell assets held by Sareb, its bad bank, while Slovenia's government is working out the details of its own to avoid becoming the sixth euro member to be forced to seek a bailout.

While Nama was lauded by international investors who then pushed Irish borrowing costs down to near pre-crisis levels, at home the jury is still out.

"Nama has contained the crisis, put it in a box, but at a cost to taxpayers," Brendan Williams, who lectures on urban economics at University College Dublin, said last week. "Nama paid over the odds, so it's a gamble."

While the market value of the loans was €26.2bn, Nama paid an extra €5bn to reflect the long-term economic value of the portfolio. In all, the agency paid five banks €31.8bn in bonds for the loans, a discount of about 58% on the debt with a par value of €71.2bn.

"The strategy has been to sell the overseas portfolio and hope the Irish market bounces back in the meantime," said Rob Kitchin, director of the National Institute of Regional and Spatial Analysis in Maynooth. "But the wider economy has to turn for that to happen."

The economy is struggling to rebound after plunging into its worst recession on record. The Government last month trimmed its economic growth forecast for 2013 to 1.3% from 1.5%, unemployment stands at 14% and home prices are falling again.

By focusing on selling overseas assets, Nama is on track to reach a target of redeeming €7.5bn of bonds by the end of this year, McDonagh told the gathering at the Rafael del Pino Auditorium in central Madrid, organised by the Irish embassy.

"Three years on, thankfully, Nama is now financially robust," McDonagh said. "We are meeting every key target in terms of cash and profitability."

McDonagh declined to comment for this article, according to Ray Gordon, a Nama spokesman who works for Gordon MRM.

At the outset, 37% of Nama's portfolio by value was in the UK, the legacy of a building spree by Irish real estate developers during the boom that ended abruptly in 2008. By contrast, the UK accounts for about 75% of the €7bn Nama raised through asset sales by the end of 2012. It also raised cash though rent.

In July, Malaysia's SP Setia Bhd and Sime Darby Bhd were part of a group that bought the iconic Battersea Power Station for £400m (€472.5m) from banks led by Lloyds and Nama. The building has been vacant since it closed in 1982.

While Nama doesn't disclose details of individual deals, gains on the sales of loans and properties generated €188m last year, ratings company Dun & Bradstreet said on April 30. Last year, Nama posted an unaudited net profit of €230m, boosted in part by falling interest payments on its bonds.

"Nama is viewed by international investors as having been a very good idea," US billionaire Wilbur Ross, whose WL Ross & Co owns 9% of Bank of Ireland, said in an e-mail. The strategy of focusing on UK sales first "provided near-term proceeds from a relatively stronger market while not flooding the Irish market before the sovereign had stabilised", he said.

The Spanish government set up Sareb, a bad bank to absorb €50.8bn of soured real estate loans, last year. Slovenia's government is planning the first transfers of assets to its bad bank next month.

Back in Dublin, Nama's remit is growing. The Government in February ordered the agency to take over the unsold loans of former Anglo Irish Bank, which could swell McDonagh's portfolio by as much as 50%.

Some progress is also now being made in selling Irish loans. On May 2, the agency said it sold an Irish loan portfolio, known as Project Aspen, with a par value of €800m to a joint venture controlled by Starwood Capital Group, a US private equity fund.

Nama, which has a 20% stake in the venture, will partly finance the purchase. It didn't disclose how much it paid for the loans, citing market sensitivity. It was reported in the media the group paid €195m for the loans.

"The lack of transparency in operations means, put simply, you cannot trust the result of the sum if you are not allowed see the numbers which are being added or used," said Brendan Williams, the UCD academic.

The slower start to selling the Irish debt is a deliberate strategy as McDonagh waits out the crash, he said.

While Irish commercial real estate prices have dropped 65% from their 2007 peak, some tentative signs of recovery are emerging. In the first quarter, the value of income-producing office buildings in central Dublin rose for the first time in six years, Investment Property Databank said. Companies including Facebook and Google have expanded in the capital.

“It’ll be an orderly sale of assets, not a fire sale of assets, which disappoints a lot of people who come to visit me,” he told his audience in Madrid.

In all, the Nama website lists more than 1,700 properties for sale or controlled by receivers, and a stroll around the docklands gives a flavour of the agency’s reach and exposure to Ireland.

To the south of the city centre lies the Irish Glass Bottle site on the Poolbeg Peninsula. A consortium bought the site for €413m in 2006. By 2009, it had fallen in value by 88%. It’s now idle.

Heading toward the river close to Facebook’s Irish headquarters in nearby Grand Canal Square, a site that had been earmarked for the U2 Tower, a 394ft-high development supported by the rock band, also lies idle.

After suspending the development in 2008, the Dublin Docklands Development Authority handed the site over to Nama in 2011.

In April, Nama also took control of the 2,000-seater Daniel Libeskind- designed Grand Canal Theatre, the centrepiece of Dublin’s rejuvenated docklands, on the other side of the square. Months earlier, the venue hosted Anglo The Musical, a satire about the economy’s destruction by bankers and developers and named after the bankrupt Anglo Irish Bank.

The theatre added to McDonagh’s portfolio of unlikely assets, including a cinema, quarries, golf courses and the hotels dotted across the country on McDonagh’s map.

“We have a lot of challenges,” McDonagh said in Madrid. “The Irish market is very difficult, the economy is taking longer to recover than anybody expected and the financial institutions not in Nama are deleveraging as well. It’s a very competitive marketplace.”

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