

Irish Keep U2, Sell Pink Floyd to Meet Targets: Mortgages

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May 8, 2013 — 1:38 PM BST



In July, Malaysia's SP Setia Bhd. and Sime Darby Bhd. were part of a group that bought the iconic Battersea Power Station for 400 million pounds from banks led by Lloyds Banking Group Plc and NAMA. The building has been vacant since it closed in 1982. Photographer: Chris Ratcliffe/Bloomberg

Brendan McDonagh traveled to Madrid last month brandishing a map with about 120 hotels. Unlike other visitors to the Spanish capital, they were all in Ireland.

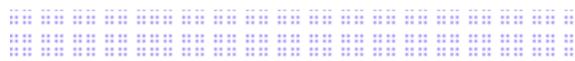
“In case any of you want to buy them,” McDonagh, 45, who heads the Irish government's National Asset Management Agency in Dublin, told the chuckling audience of analysts, economists and diplomats at a seminar. “NAMA is a complex business, but it comes down to a simple thing: cash.”

By the end of last year, the agency had generated 10.6 billion euros (\$13.9 billion), 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 and on to a Dublin plot once earmarked for the U2 Tower, backed by



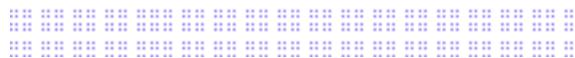
the rock band, to the Irish Glass Bottle site on the Poolbeg Peninsula, slated to house 2,000 apartments at the height of Ireland's property boom.



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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.

Taxpayer Cost

"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 26.2 billion euros, Dublin-based NAMA paid an extra 5 billion euros to reflect the long-term economic value of the portfolio. In all, the agency paid five banks 31.8 billion euros in bonds for the loans, a discount of about 58 percent on the debt with a par value of 71.2 billion euros.

"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, west of Dublin. "But the wider economy has to turn for that to happen."

Ireland's Economy

Ireland's 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 percent from 1.5 percent, unemployment stands at 14 percent and home prices are falling again.

By focusing on selling overseas assets, NAMA is on track to reach a target of redeeming 7.5 billion of bonds by the end of this year, McDonagh told the gathering at the Rafael del Pino Auditorium in central Madrid, organized 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 percent of NAMA’s portfolio by value was in the U.K., the legacy of a building spree by Irish real estate developers during the boom that ended abruptly in 2008. By contrast, the U.K. accounts for about 75 percent of the 7 billion euros NAMA raised through asset sales by the end of 2012. The agency also raised cash through rent.

Buying Battersea

In July, Malaysia’s SP Setia Bhd. and Sime Darby Bhd. were part of a group that bought the iconic Battersea Power Station for 400 million pounds (\$619 million) from banks led by Lloyds Banking Group Plc 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 188 million euros last year, ratings company Dun & Bradstreet Inc. said on April 30. Last year, NAMA posted an unaudited net profit of 230 million euros, boosted in part by falling interest payments on its bonds.

“NAMA is viewed by international investors as having been a very good idea,” U.S. billionaire Wilbur Ross, whose WL Ross & Co. owns 9 percent of Bank of Ireland Plc, said in an e-mail. The strategy of focusing on U.K. sales first “provided near-term proceeds from a relatively stronger market while not flooding the Irish market before the sovereign had stabilized,” he said.

Irish Bonds

That’s helped bolster investor confidence in Irish government debt. Yields on the country’s two-year note fell to 0.742 percent today, the lowest since Bloomberg began tracking the securities in November 2003.

The Spanish government set up Sareb, a bad bank to absorb 50.8 billion euros 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 Corp., which could swell McDonagh's portfolio by as much as 50 percent.

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 800 million euros to a joint venture controlled by Starwood Capital Group, a U.S. private equity fund.

NAMA, which has a 20 percent stake in the venture, will partly finance the purchase. It didn't disclose how much it paid for the loans, citing market sensitivity. The Irish Times newspaper reported, without citing anyone, that the group paid 195 million euros for the loans.

Transparency Lacking

"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 Williams, the academic at University College Dublin.

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 percent 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 Ltd. said. Companies including Facebook Inc. and Google Inc. have expanded in the Irish 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.

Agency's Reach

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 flavor of the agency's reach and exposure to Ireland.

To the south of the city center lies the Irish Glass Bottle site on the Poolbeg Peninsula. A consortium bought the site for 413 million euros in 2006. By 2009, it had fallen in value by 88 percent. 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 120-meter (394-foot) 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 theater, the centerpiece of Dublin's rejuvenated docklands, on the other side of the square. Just months earlier, the venue hosted "Anglo The Musical," a satire about the economy's destruction by bankers and real estate developers named for the bankrupt Anglo-Irish Bank.

The theater 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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