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Commercial Property

Nama will do the business

Garda offices, Harcourt Street, Dublin: once a part-built 'distressed' asset that was acquired for around £100,000 during the severe property crash of 1973/74. Owner Irish Life subsequently developed the complex at a cost of around £3 million and, by 1982, it had a capital value of £6 million. Irish Life sold the complex in 2002 for just over €70 million.
Photograph: Brenda Fitzsimons

The market should return to 2002 levels, with turnover of around €2bn, once Nama beds in, writes **BILL NOWLAN**

WILL NAMA resurrect a dead commercial property market? Will Nama work for the taxpayer?

Move forward from the arguments of the economists, the plight of the bankers and the bickering of the politicians and focus on life with Nama!

As a property asset manager for over 40 years, my answer to both of the above questions is that I strongly believe it will.

First, Nama is in essence an insolvency vehicle. It will be expected to repay its borrowings – but over time. Its asset managers will be told to sell but not in the sorts of quantities that will destabilise the market. So we should have a working market with a supply of property coming on stream in 2010 and not just from Nama. Next year will be unlike the 2008/09 commercial market in “permafrost”.

Second, Nama must, in its own interest, ensure that supply does not exceed demand. Nama will/must balance its disposal and pricing strategies carefully with other market activity. If Nama does its job properly this will involve an orderly disposal over time and not a sell-at-any-price mandate.

Third, buyers are there for good property at sensible prices that reflect the risk and current condition of the Irish economy. Acquisitions will not be in the huge volume experienced in 2005/07 when market turnover was up to €10 billion. Instead, turnover will probably be at the depressed levels of 2002 when there was over €2 billion of deals. This would be far better than almost zero deals in 2009.

Fourth, prices have probably bottomed. Asking prices are likely to be sensible. Good investment property showing yields in the 7–9 per cent spectrum for building on fair rents will be good value – subject to all of the usual technical details such as location and so on. Vacant property will be bought by patient money but at prices reflecting the wait for occupiers.

Fifthly, the banks should have cash to lend. They will lend on well secured property. Never again, you might say, will they lend on property – but business is business and the property lending business can be profitable if properly managed. The margins will be higher and the loan-to-value ratios conservative. Also Nama will have power to lend and an initial lending capacity of €5 billion should help the process.

Reality should prevail at vendor level. The period of doing nothing and hoping that things will get better quickly are over. Cash flow will become king. Rational analysis by buyers and sellers who have been chastened by the market in the last two years should prevail and this should result in an orderly market with the potential for a sustained recovery over time.

Nama should also work for the taxpayer because, as an asset manager, it has a core of good ingredients and a clear mandate.

It will be significantly cash flow positive on day one. It will have income from performing loans of about €1.5 billion which will be about twice its interest bill of €0.8 billion a year.

It will only have assets it acquired at the bottom of the market and at realistic prices (provided the valuation of the assets is an honest reflection of the market). It should have a benevolent financier, indirectly the ECB, who will be relaxed about getting its money back.

Its shareholder has set a minimum target of a 1 per cent return a year. This is ridiculously low in asset management terms and should be closer to 10 per cent per annum. (If an asset manager cannot add value of at least 5 per cent a year with the use of almost free money, he should be fired.)

Up to 30 per cent of Nama's holdings are overseas where it does not have to worry about managing the Irish market and this should enable it to move quickly in the markets liquidating significant assets and repay its (our) borrowings.

Nama's success will come down to the nature of its assets linked to their actual buy-in price. Some of them are "dogs" but, if the buy-in price is fair, then achieving a profit will not perhaps be as challenging over a reasonable term as many first believed.

Regarding valuation, the Minister for Finance has emphasised that he has only given us an estimate of the open market value of the loans/assets at €47 billion. The draft legislation provides that there will now be an arm's length independent valuation process which may give a higher or a lower figure based on market prices.

Property values have fallen to levels that are sensible and generally affordable. The land, the homes and the commercial buildings scattered around the country will be objectively valued by experienced valuers in accordance with international valuation standards set out in the RICS Red Book – the bible of property valuers.

This will be a transparent exercise at current open market levels. The much discussed "economic value" premium over current market values (which will be applied by Nama and not the independent valuers) of 15 per cent should not be a significant obstacle to Nama's success, particularly as it will have an annual cash flow surplus to start with which will contribute almost 1 per cent a year to its coffers.

I had been concerned that this premium would be set at a much higher level but, as an asset manager, I believe that 15 per cent over 10 years is an achievable target, particularly with ultra-low funding costs.

The evidence of the recklessness of the past will be there: the half-built estates, the empty hotels, office buildings and the derelict sites. But we have been here before and in time all will be forgotten by a new generation. That is the nature of property cycles. I have seen at least four serious property recessions here, in the UK and overseas. The worst Irish recession that I remember was in 1973. Then there were also half-built estates, empty hotels, office buildings and the derelict sites that now litter our urban edges.

As a property asset manager in Irish Life in 1973/74, I took responsibility for many similar situations now being faced by Nama's asset managers. These included a part-built office building on Harcourt Street at the old High School, a large housing site in Rathmines with only slabs poured, and a weed-covered, horse-occupied industrial site in Coolock.

By careful asset management and patience the site in Harcourt Street became Garda offices; the site in Rathmines was worked out house-by-house and these are now upmarket residences; and the land in Coolock is now an industrial estate reaching the end of its normal life.

In no situation did Irish Life lose money. In fact, the Harcourt Street property was to become the most profitable project I ever executed where Irish Life more than doubled its money.

The big risk for Nama is that the Irish economy will not grow quickly enough to absorb the surplus stock of buildings. But apart from some reckless provincial housing schemes which are getting a lot of media time, most of the surplus stock is of reasonable or good quality and will be taken up over time by a growing economy.

My only serious fear for Nama is that the focus on asset disposal to repay its borrowings as soon as possible could get distracted by the myriad social, town planning, green and other issues that will come down the political tracks at the Nama board. It is possible that these issues, some of which are real and important such as social housing, could be tackled by other vehicles that would acquire land from Nama at market prices and then do their thing with a separate and formal mandate from the State.

But please leave Nama alone – its job is too important to get sidetracked chasing other agendas.

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