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COMMERCIAL PROPERTY

# 2010 will be the year of Nama

**Reality will start to emerge next year as Nama sets the standard for a market which has been largely in denial up to now, writes** BILL NOWLAN

SO THE POLITICAL and economic wrangling is over. Nama exists.

Next year, 2010, will be the year of Nama and the Nama man. What will this mean for the various players in the commercial property industry?

Well it can't be worse for anyone than 2009, when virtually nothing happened. All property businesses and professional practices were in survival mode during 2009.

The developers with borrowings over €5 million now have a new bank manager in Nama. This will be a sea change.

The big developers will be dealing directly with Nama and smaller developers will still be meeting their old bankers who will now be acting as agents for Nama and directed by Nama.

The old approach of relationship banking is over and everything will now be totally objective and clinical with public procurement-type procedures.

These Nama'd developers will end 2010 either with the support of Nama or in bankruptcy – or equivalent.

In 2010 they will be assessed by Nama on the quality and veracity of the business plans they will have to present to Nama. This will be a commercial life or death document.

Turning to the commercial property market, I am reasonably optimistic for a number of reasons.

Firstly, the property valuation currently being prepared for the Nama banks will be quite realistic and will call the market as it is – which is very depressed. The red book valuations will reflect the reality of the market. Up to this denial prevailed!

Secondly, Nama will be buying its loans based on these realistic valuations plus an "economic value" premium of between zero and 25 per cent.

This will give a base to the market. It should halt the fear of buyers of catching a falling knife. This fear prevailed in the second half of 2008 and all of 2009, and undermined the market.

Thirdly, Nama is unlikely to force the sale of properties below its buy-in valuations and probably not below these figures plus the addition of the premium.

Fourthly, Nama will not be in a hurry to sell its portfolio of loans and/or underlying assets and this will probably result in a scarcity of investments.

The issue of the negligible supply of good investments in 2009 has been a puzzle to me and others in the market. In 2009 there were only one or two portfolios for sale but little of any real quality.

The many good new buildings let on 10 or 15-year FRI (full repairing and insuring) leases to good tenants did not come to the market. The explanation is that investors did not want to sell at fire sale prices and the banks were not putting on pressure to repay loans because of their uncertainty about Nama.

Those institutions with liquidity issues within their property portfolios did not want to look silly selling properties which they had acquired at high figures – so they simply bought time and postponed meeting encashment.

For the investment market the effect of a firm valuation base in 2010 should give confidence to investors and vendors alike. With a lot of cash buyers in the market, those investments that do come to the market will be snapped up and we could possibly see the same sudden rise in values here next year as happened in the UK this year.

I expect that there will be a flow of deals. However, I do not see a high number of investment deals coming from the Nama stable in 2010.

Nama will want to hold onto the rental revenue to offset interest costs on non-income producing loans; see a recovery in the market linked to a recovery in the economy before selling or forcing sales; and those Nama clients who have to sell their investment portfolios to offset development borrowings will be given time to do so. After all, Nama has funds at a cost of 1.5 per cent and is thus not in a hurry.

Nama will initially be focusing on selling properties overseas where it does not have the responsibility of a market maker.

The lubricating oil of the property industry is credit. One of the big unknowns for 2010 is the issue of bank credit for property transactions.

There was a total credit famine this year, for bridging finance, for mortgage loans and for development.

The big question is, will the banks lend on property so soon after their near-death experience? Will credit flow again in 2010? Hopefully it will, because that is the only way a normal market can rise from the ashes.

Now to look at the Nama man. For those of us not directly in the business of selling one-off second-hand houses and perhaps commercial lettings, Nama will be the only show in town.

Many of us will be Nama men. Some of us will (hopefully!) have direct contracts, others will be working for developers who are having their puppet strings pulled by Nama and more of us will be trying to manage assets where the market is dominated by the decisions of Nama. None of us will make a fortune but hopefully we will survive.

Obviously, this market dominance by Nama is an unhealthy situation but it has been brought about by the scale of the loans and number of developers going into Nama.

Nama will or should be trying to withdraw from such market dominance and restore a normal market for its own sake and for the sake of our industry.

Nama is a temporary fix for our banks and not the long term nationalisation of the property industry.

Hopefully, it will achieve this disengagement quickly. But it won’t happen in 2010 and probably not in 2011 because Nama will have its own problems to resolve.

So 2010 will be another year of survival but hopefully it will not be as difficult as 2009.

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