

CHAPTER 22

TOWARDS A GEOGRAPHY OF NAMA

SINÉAD KELLY

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Introduction

A striking feature of the official documentation of the National Assets Management Agency (NAMA) and subsequent commentary is its lack of attention to geographic or spatial considerations. Indeed, this tendency of ‘aspatial’ analysis has also been a key feature of banking and financial operations, where property assets, which exist in physical space and have a specific geographic location, are presented in numerical form (often aggregated) on loan books, on balance sheets and indeed as part of complex asset bundles, such as CDOs (collateralised debt obligations). Such an understanding and presentation of data serves very much to conceal the geography of those assets.

During the boom, financial institutions massively expanded their total lending and, as we know, what characterises the Irish banking system (and crisis), is that much of the lending went into property, which has a very particular geography. And, given the general tendency of property developers and investors to engage in developments in increasingly riskier locations the longer the boom goes on, and the considerable property price inflation that occurred in every region in Ireland, it was the overlooking of geographical considerations that facilitated further inflation of the asset bubble.

That push to boost lending and increase the profitability of banks seemed to pay little attention to broader indicators in the Irish economy but also failed to pay due cognisance to locational considerations. In an industry in which the three rubric for success have long been recognised as “location, location and location”, such overlooking of spatial considerations is nothing short of amazing.

The very viability of NAMA as a financial project is highly dependent on the geography of those property assets which underpin the loans which NAMA is purchasing. While certain well-located assets may indeed provide for a secure yield in the medium term, others, such as large sites lacking any urban zoning status located at the edge of small Irish towns and villages for which enormous prices were paid per hectare, are unlikely even in the very long term to prove to possess much value above that of farmland.

Approaching the ‘details’ of NAMA and applying sectoral and geographical scenarios

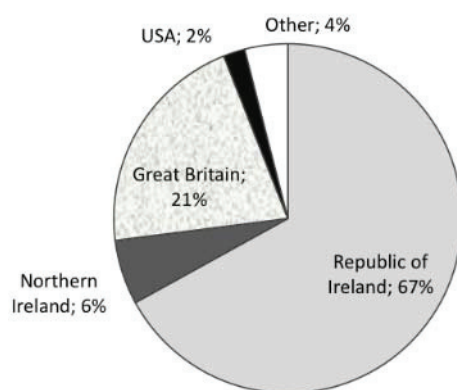
From the draft NAMA business plan released in October 2009, one can ascertain the broad composition of the loans. Of the total amount of €77bn of loans being transferred to NAMA from banks’ asset sheets:

- €27.8bn (36%) relates to ‘land’
- €21.8bn (28%) relates to ‘development loans’
- €27.7bn (36%) relates to ‘associated loans’

Beyond that broad breakdown, there is little information on when the loans were granted, on the type of property to which the loans relate (residential, office, retail, industrial, etc.) and on the geography of the assets.

To date, the total extent of our knowledge of the ‘geography’ of those loans is provided only by a very broad break-down between international locations (see Figure 1). But in a sector in which a matter of 40 or 50 metres distance between sites might mean the difference between success and failure in the case of urban redevelopment projects, particularly in office development markets, such crude delimitation is almost entirely unhelpful. Unfortunately, we know too little about the location of NAMA-related property for an accurate assessment to be made as to their likely real value.

Figure 1. The Geographical Breakdown of NAMA’s Portfolio



Source: Draft NAMA Business Plan (2009)

Some €33.13bn of those loans relate to properties located in the Republic of Ireland. However, an appraisal of the real value of the underlying assets requires, in the case of loans against land, a review of the *geographical location*, *zoning characteristics* and *planning status*. For development loans, an evaluation needs to be undertaken of the *sectoral status* (residential, industrial, office, retail and other commercial) of schemes within a *local context* in which the current level of provision of such

property is taken into account, together with considerations of *existing vacancy rates*, the projected *scale* and *stage* of development (completions, currently on-site or due to be undertaken), and the prevailing and projected *scales of demand* for such space.

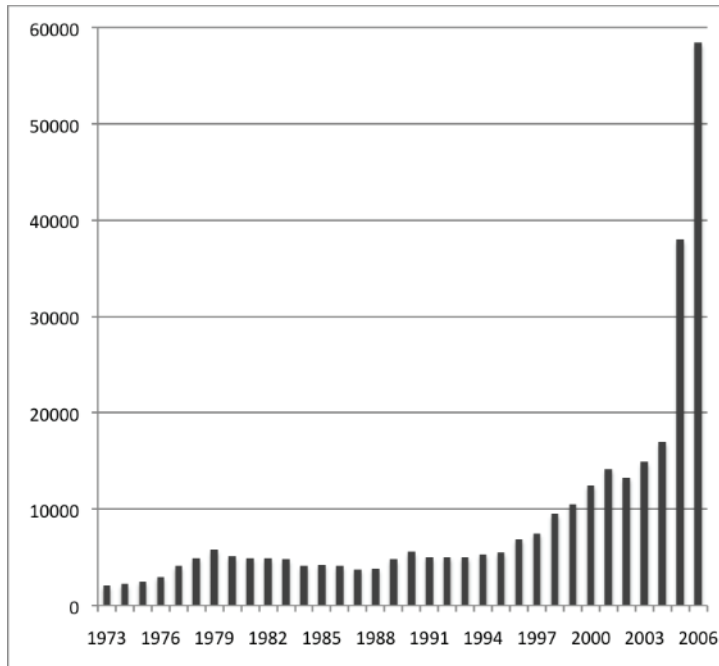
As laid out in the draft NAMA business plan (NAMA, 2009), NAMA will pay €54bn for loans with a book value of €77bn, representing a 30 percent “haircut” on the original loans’ value. While NAMA will pay 15 percent above the estimated current market value for the assets, it does so on the basis that the total reduction in average property prices in the boom-slump cycle is 47 percent (the peak having occurred in early 2007 and the trough estimated to have occurred in September 2009) and that the 15 percent premium can be recouped over the lifetime of NAMA through a rising property market.

While we do not have specific information on the geographical location of the assets that are to be transferred to NAMA, we can examine some recent trends in the property market and compare them to the assumptions underpinning NAMA.

The Agricultural Land-Price Spiral

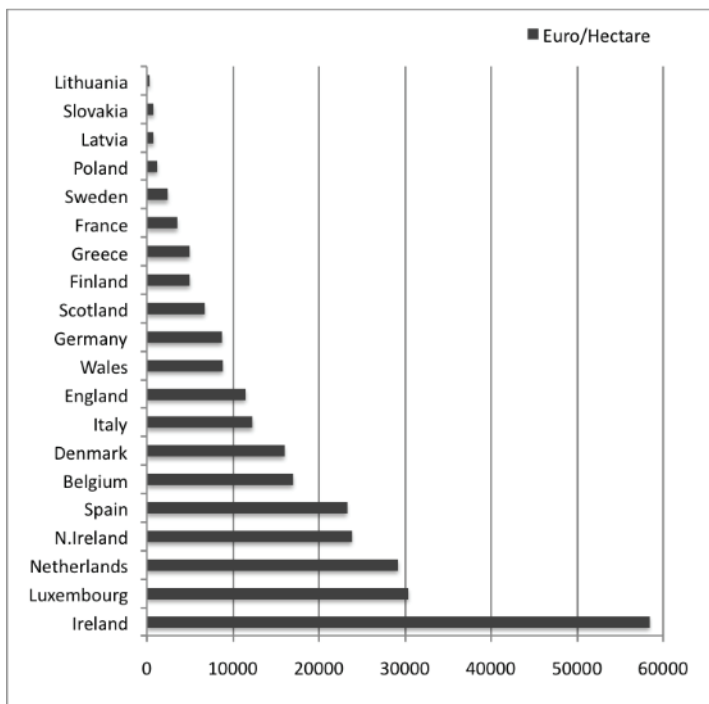
What became clear during the boom years was that a very sharp increase in land prices was occurring, not just in and near urban areas but also in rural areas – agricultural land. According to Savills-HOK’s *Irish Agricultural Land Research* report in May 2007, Irish land values jumped from just under €10,000 per hectare (€3,850 per acre) in 1998 to over €58,400 per hectare (€23,600 per acre) in 2006, by far the highest price per hectare in Europe (see Figures 2 and 3). This jump in part reflected the tendency for farmers to sell small plots of land for development purposes (one-off housing) and an increasing trend of wealthy individuals buying small farms for lifestyle purposes, particularly within commuting distance of Dublin. In many cases, the proceeds from land sales was re-invested in farmland, where farmers with land at the edge of towns sold them off during the boom times and bought farms elsewhere pushing up land prices even further and becoming even more out-of-kilter with the day-to-day economics of farming. With the onset of the property crash, agricultural land prices have and will continue to fall back sharply, with those greenfield sites at the edge of towns bought with redevelopment in mind, open to devaluations in the region of 90-95 percent.

Figure 2. Irish Land Values 1973-2006 (€ per hectare)



Source: Savills HOK (2007) CSO, Eurostat, Farmers Journal

Figure 3. European Land Values by Country 2005/6 (€ per hectare)



Source: Savills HOK (2007) CSO, Eurostat, Farmers Journal

Record Site Prices

If we examine some of the record prices paid for redevelopment sites in urban areas at the height of the boom, and compare them to revaluations on other similar sites during the slump, it should give us some indication as to the real extent of price falls.

In late 2005, a number of significant site sales in the prestigious area of Ballsbridge in Dublin 4 attracted considerable attention. During this period, the developer Sean Dunne bought two sites, the former Jury's Hotel and the former Berkeley Court Hotel. The sites comprised seven acres and were purchased for *ca.* €379M, averaging a then unprecedented €54.1M per acre (MacDonald and Sheridan, 2008; Brawn, 2009). Another developer, Ray Grehan of Glenkerrin Homes bought a nearby 2.05 acre site, the former UCD Veterinary College, for *ca.* €171.5M, an incredible €83.7M per acre. In 2006, a small site of just over a third of an acre went for almost €40M (€95M per acre). These were purchases that were made close to the height of the boom for potential redevelopment sites which had no planning permission. Even if the subsequently proposed mixed-use developments had been given planning permission and had they been completed at the height of the property boom, the margins for profitability were already stretched. So what scale of price devaluations could we expect in the property crash for these sites?

Take the example of a nearby 0.5 acre site on Herbert Road, Ballsbridge; this former Cablelink office-building was offered for sale in autumn 2007, just after the peak of the property boom, for €30M. Two years later, the asking price stood at €9.5M representing a 68 percent decrease, and that was the asking price – by no means an accurate indicator of how low market prices could fall.

As has been well-documented on the *Ireland After Nama* blog (see Kitchin, 2009; Moore, 2009), the case of the Irish Glass Bottle site in Ringsend in Dublin 4 is instructive. This 24.9 acre site, purchased in early 2007 for *ca.* €413M (€16.6M per acre) by a consortium involving companies of Bernard McNamara and Derek Quinlan and the Dublin Docklands Development Authority (DDDA), was revalued in October 2009 at €60M. This represents a whopping 85 percent price devaluation, which is significantly above the “haircut” of 30 percent or the 47 percent average property price fall upon which NAMA's calculations are based. In the case of the Irish Glass Bottle site, we are talking about a large centrally-located brownfield site with special planning status for mixed use (residential and enterprise) functions under the DDDA's Master Plan, with reasonably good prospects of redevelopment in the medium-to-longer term. Yet, in spite of the existence of an overarching planning framework, this site has retained only 15 percent of its market-peak value. This begs the question that if such well-located sites are experiencing such colossal price falls, then what are the prospects for

greenfield sites at the edge of cities or at the edge of towns throughout Ireland.

Investigating Development Loans – The changing geography of Dublin’s office stock

Many of the *Development Loans* and *Associated Loans* set out in the NAMA business plan (NAMA, 2009) relate to loans for commercial property in Ireland. It is to an examination of recent trends and indicators for the different commercial property sectors that this discussion now turns. Taking the Dublin office market as an example, research from the Centre for Urban and Regional Studies (CURS), TCD and Savills-HOK (MacLaran & O’Connell, 2007) has traced the changing volume and geography of office space in Dublin since 1995. Over the past 15 years, the volume of modern office stock expanded enormously. However, the geography of office development has also changed significantly, where proportionately, there has been a fall in the dominance of the prime office locations of Dublin 2 and 4, while suburban office locations have grown substantially (see Table 1). While in 1995, suburban office developments accounted for 14.6 percent of the total stock, by 2008, that figure had leapt to over 35 percent.

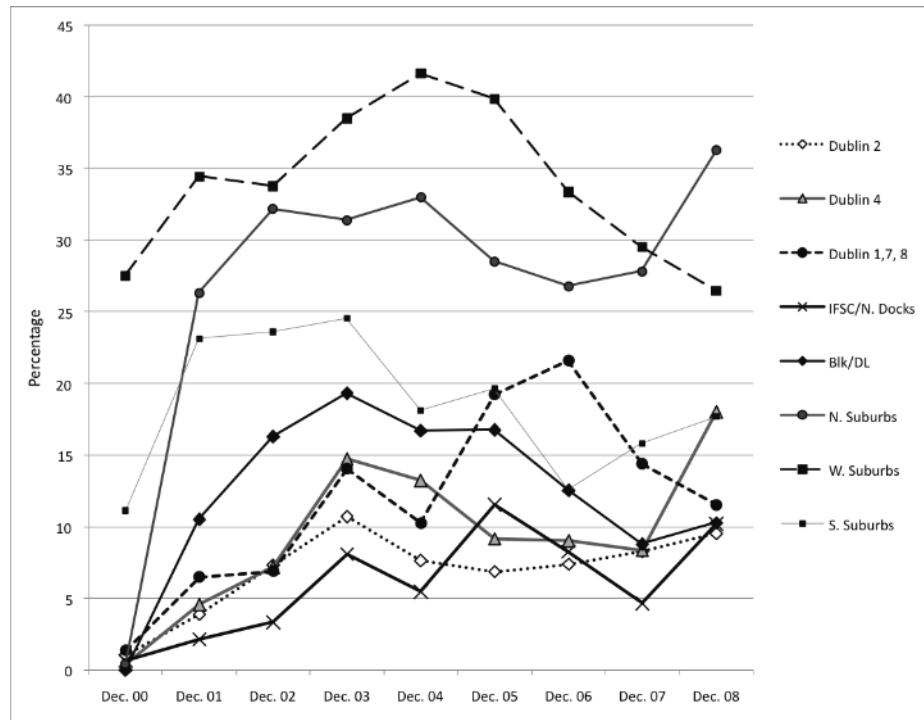
Table 1. The Changing Geography of the Modern Office Stock in Dublin, 1995-2008

	<i>1995</i>	<i>2008</i>
Dublin 2	54.5 %	32.0 %
Dublin 4	14.1 %	12.4 %
Dublin 1, 7, 8	16.8 %	14.9 %
IFSC / North Docks	n.a.	5.6 %
Blackrock / Dun Laoghaire	4.4 %	3.3 %
North Suburbs	0.7 %	6.4 %
West Suburbs	1.9 %	10.1 %
Other South Suburbs	7.6 %	15.4 %

Source: CURS/SavillsHOK Office Database

Rates of vacancy in the modern office stock vary considerably geographically and are particularly high in certain suburbs, having been especially high in west Dublin (see Figure 4). The research indicates that since 2007, there have been high levels of activity in office construction in suburban areas, office space that has yet to reach the market. It is likely that some loans associated with office space in suburban areas will be transferred to NAMA, areas that even during the boom were experiencing relatively high vacancy levels.

Figure 4. Vacancy Rates in Dublin's office stock, December 2000 to December 2008



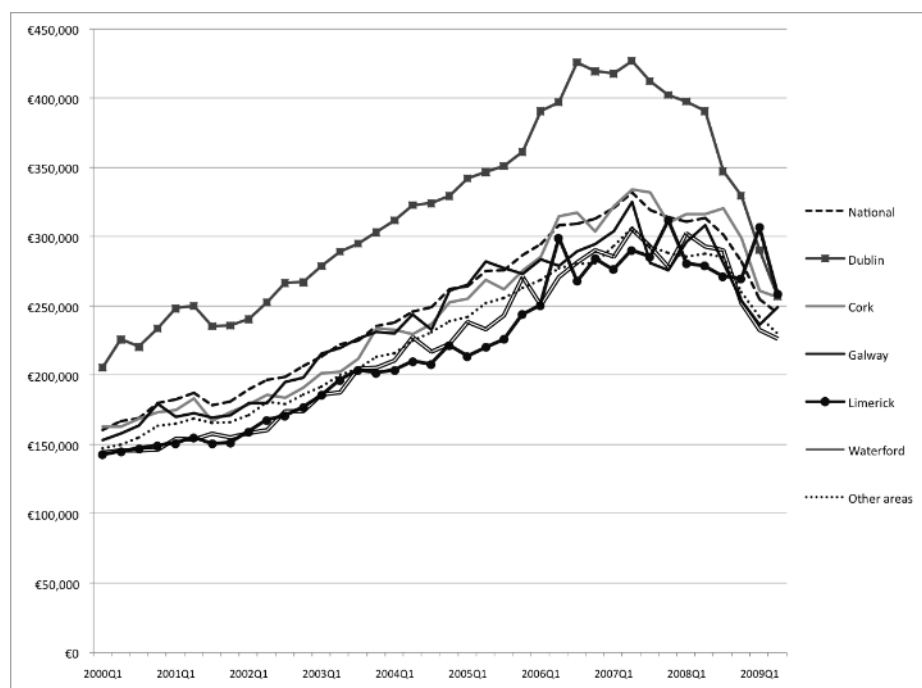
Source: CURS/SavillsHOK Office Database

Moreover, with the then Minister for Justice Dermot Ahern proposing in later 2009 to ban the use of upward-only rent reviews for all new leases in commercial property, this would likely have a downward effect on the capital values that new office buildings would achieve. While, this proposed ban could be seen as a positive step for some business sectors (new tenants especially), it may have serious implications for NAMA (and simultaneously for Irish society) as NAMA's business model is tied to a rising property market. More specifically, many of NAMA's underpinning calculations drew heavily on trends and expectations in commercial property sectors, which at that time were based on a system of upward-only rent reviews.

Residential Loans

It is likely that a good deal of the Development and Associated Loans relate to residential developments at various stages of construction. And, while it is clear that substantial reductions have occurred in house prices generally, it is difficult to gauge the likely level of devaluation on residential loans that will transfer to NAMA. Where loans transferred to NAMA are found to involve housing developments that are at a stage of completion, we can draw on new house prices as an indicator.

Figure 5. New house prices – National, Dublin and Regional, 2000-2009Q2



Source: DoEHLG, Housing Statistics Bulletins, various years

Based on the DoEHLG's Housing Statistics Bulletins, Figure 5 indicates that new house prices nationally fell by 26 percent from the peak of the boom (2007Q2) to July 2009. For Cork and Galway, the figure was 23 percent, for Limerick, 11 percent, with Waterford and other areas experiencing 26 percent and 25 percent price drops respectively. Notably, the fall was sharpest in Dublin where new house prices fell by 40 percent and there is little to indicate that the downward trend halted in September 2009, the date that the draft NAMA business plan (NAMA, 2009) has taken to represent the price-floor of the market. Unsurprisingly, sales activity was much reduced.

Notably, the type of 'assets' that will be transferred to NAMA will likely include some of those unfinished housing estates and apartment complexes that have become a very visible feature of the Irish landscape – in city suburbs, in inner-city neighbourhoods and at the edge of towns and villages countrywide. In these cases, the ratio of market value to loan value will have fallen dramatically, with the management and disposal of these 'assets' likely to prove difficult and expensive.

The property crash beyond NAMA

While this discussion has sought to develop further a geography of NAMA's portfolio, raising some serious questions about the calculations and underpinning assumptions of NAMA in the process, it must also be

remembered that there are other major elements of the property crash that will not be addressed by NAMA. The NAMA portfolio involves loans relating to *ca.*1,600 borrowers, with just 100 borrowers accounting for 50 percent of the portfolio. Land, Development and Associated Loans of less than €5M are excluded from NAMA (except those with EBS and Irish Nationwide). The number of these loans is unknown but their geography is likely to be predominantly rural in nature or rather, at the fringe of towns and villages throughout Ireland. Then, of course, there is that far more immediate concern for tens-of-thousands of households of mortgage repayment difficulties, negative equity and the threat of housing foreclosures in the not-too-distant future. In NAMA and the Special Purpose Vehicle (SPV), these households will find little comfort.

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