Comptroller and Auditor General
Special Report

National Asset Management Agency: Progress on achievement of objectives as at end 2021

Report no. 116 April 2023

Report of the Comptroller and Auditor General

National Asset Management Agency

Progress on achievement of objectives as at end 2021

In compliance with Section 226 of the National Asset Management Agency Act 2009, I have assessed the extent to which the National Asset Management Agency (NAMA) has made progress toward achieving its overall objectives. This is the fourth in a series of progress reports.

This report was prepared on the basis of work undertaken by staff of my Office, drawing on information, documentation and explanations obtained from NAMA. The Department of Finance and NAMA were asked to review and comment on the draft report. Where appropriate, the comments received were incorporated in the final version of the report.

The purpose of this report is to assess NAMA's progress in achieving its objectives. The sole focus of this report is on the performance of public bodies, and not on staff members of those bodies or any third parties. For the avoidance of doubt, this report does not make any criticism or comment or present any view, whether express or implied, with respect to staff members of public bodies or third parties, and should not be understood as doing so.

I hereby submit my report for presentation to the Houses of the Oireachtas in accordance with Section 226 of the Act.

Seamus McCarthy

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Comptroller and Auditor General

28 April 2023

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Summary

Summary

The National Asset Management Agency (NAMA) was established in December 2009 as a key part of the State's response to the 2008 banking crisis. The purposes and functions of NAMA are specified in the National Asset Management Agency Act 2009. The core idea was for NAMA to acquire property-related loans from the commercial banks, to hold and manage the loans and related collateral — mainly property — and ultimately to dispose of all these assets in a manner that protected the State's interests. NAMA would then cease to exist.

Section 226 of the NAMA Act requires the Comptroller and Auditor General every three years to assess the extent to which NAMA has made progress toward achieving its overall objectives. This is the fourth progress report and it considers NAMA progress in relation to achievement of its objectives up to the end of 2021.

Loans and related NAMA debt

NAMA paid a total of €31.8 billion to acquire property related loans from five financial institutions. The acquisition was funded by the issuance of guaranteed senior debt (€30.2 billion) and subordinated debt (€1.6 billion).

Mainly as a result of loan/asset sales, the value of NAMA's debtor's loan balances had reduced from €28 billion at the end of 2010 to around €715 million by the end of 2021. The residual loans were secured mainly by assets located in Ireland.

NAMA set targets for debt redemption. It met its initial target of redeeming €7.5 billion of its debt by end 2013, and significantly exceeded the target of redeeming €15.5 billion by end 2016. All senior debt was repaid by the end of October 2017 and the subordinated debt of €1.6 billion was fully redeemed in March 2020.

Cost recovery

Apart from a net loss incurred in 2010, its first year of operation, NAMA has generated a net profit each year. A strategic objective set by the NAMA Board was the recovery of all costs without recourse to further borrowing. NAMA met this objective. At the end of 2021, NAMA reported total retained earnings of €1.8 billion. This was after the transfer of a total of €3 billion to the Exchequer in 2020 and 2021. As at June 2022, NAMA projects a life-time surplus of €4.5 billion.

Rate of return

NAMA has a statutory objective to obtain the best achievable financial return for the State.

The internal rate of return (IRR) is a standard performance metric for property related investments. NAMA has not set a target IRR for its operations.

When NAMA was acquiring the loans, it projected the cash flows expected to occur over the lives of the loans and discounted the cash flows at an average rate of 5% to yield the loan acquisition values. If the cash flows had turned out exactly as projected at the time, NAMA would have generated an IRR on its investment of 5%.

At the end of 2021, the projected IRR on NAMA's overall operations was calculated to be around 6.7%.

Debtor management and loan sale

In 2010/2011, NAMA acquired from the participating banks debtor loans with a par value totalling €74.4 billion at a cost of €31.8 billion, representing a discount of 57%. It then re-organised the loans from the various banks into debtor connections, for management purposes.

In the course of the audit of the financial statements for 2021, it was noted that NAMA had finalised a sale of loans related to two companies, with a par value of €10.46 million for consideration of €265,000 i.e. a 97.5% discount on the par value. The loans had been acquired by NAMA at a discount of 49%, and the sale of the loans resulted in NAMA incurring a loss of just under €6 million. The loans had not been openly marketed prior to the sale, as normally required under NAMA's loan sale policy.

The collateral for the loans comprised 14 occupied residential units, 28 unfinished residential units, and seven plots of land totalling 20.9 hectares with varied planning status, all of which were in provincial locations in Ireland.

Up to October 2018, the debtors managed the property assets. Following the commencement of enforcement proceedings which the debtors strongly resisted, NAMA appointed a receiver over the assets. NAMA stated that the receiver resigned with effect from May 2020, after a potential sale of 18 unfinished houses and 3.2 hectares to a local authority fell through and he could not find a sales agent to market the properties.

Separately, NAMA commissioned an independent desktop valuation of the remaining assets. The valuation report attributed a total market value of €1.3 million to those assets, but stated that 'these values are unlikely to ever be achieved or the lands disposed of while the threats and intimidation continue'.[1] The valuers stated that they would not recommend that the receiver attempt to sell these assets, as they were not considered marketable. The valuers also noted that a cash investor would be unlikely to purchase these assets and to take on potential litigation and intimidation/threats, for such a low return.

Subsequently, the debtors made an offer that, via a loan sale, would involve settlement of the obligations of the two companies with NAMA for €265,000, in return for which NAMA would release the security over all the collateral properties. The sale of the loans was to a newly-incorporated company that NAMA understood to be promoted and funded by a family relative of the debtors, who was not a NAMA debtor.

NAMA Board approval was sought and obtained in respect of the proposed sales terms. The paper to the Board set out the rationale for recommending the loan sale, stating that the proposed loan sale was superior to alternative options available.

Commercial property

In 2014, NAMA adopted a secondary objective of the facilitation of the development of office accommodation in Dublin.

When the Dublin Docklands strategic development zone (SDZ) planning scheme was approved in 2014, NAMA had an interest in 75% of the land remaining to be developed in the zone. The NAMA Board approved a strategic business plan for the sites. The business plan did not include formal targets in respect of the stated objectives.

At the end of 2021, 84% of the site area that NAMA had an interest in had developments that were classified as completed and/or sold. By the end of 2022, only one site in which NAMA had an interest — accounting for 3% of the overall target area — was undeveloped. A provisional agreement to sell the remaining site has been reached.

1 No specific instances of alleged threats and intimidation were described in the report.

In 2017, the Poolbeg West SDZ planning scheme was approved. The SDZ comprises a number of industrial sites, including two large adjacent sites secured to NAMA. In June 2021, a development consortium acquired an 80% shareholding in the company that owns the sites for €200 million. NAMA retains a minority 20% shareholding in the company.

Commercial housing

In 2014, the NAMA Board adopted the facilitation of the delivery of housing, subject to commercial viability as a secondary objective. In November 2015, the NAMA Board formally adopted a residential delivery plan which set out its intention to "…..provide funding, co-ordinate and manage the delivery of 20,000 housing units by end 2020". The plan recognised that achieving the delivery target would be a challenge.

NAMA did not achieve the residential output target. As at the end of 2021, it had delivered 11,049 units on sites in which it has an interest. This represents delivery of 55% of the target, a year later than originally projected.

NAMA considers that, in monitoring the achievement of its residential target of 20,000 units, it is appropriate to also take account of 9,971 units constructed on sites sold by NAMA debtors/receivers. However, this is not a 'like for like' comparison, because such units were not included when the original target was set.

Where sites have been sold, NAMA has no control over when they are developed and does not provide loans for construction. NAMA has estimated that sites sold by NAMA debtors/receivers had the potential for delivery of 86,000 residential units. NAMA's projection that a total of 12,221 residential units would be delivered on those sites by the end of 2022 would represent only around 14% of their estimated overall capacity.

Social housing

NAMA acquired an interest in a number of residential property developments when it acquired its loans from the participating institutions. These developments included residential units in many locations and in a range of stages of completion. While some of the developments were located in areas where there was little demand for social housing, others were considered to have the potential to meet such demand. Ultimately, the responsibility for determining suitability rests with the local authorities and approved housing bodies.

Up to the end of 2021, NAMA had identified a total of 7,283 residential properties as potentially being suitable for social housing. Just 37% of the properties offered were taken up by local authorities and approved housing bodies.

NAMA set a target of delivering 2,000 social housing units by the end of 2015, and this target was met. NAMA did not set a further delivery target. By the end of 2021, NAMA had provided a total of 2,621 units for social housing with a further 66 units at contract stage and 117 units still under construction. Just over half (51%) of all social housing delivered by NAMA is through its subsidiary company, National Asset Residential Property Services DAC (NARPS). It is intended that the Land Development Agency will assume responsibility for NARPS as part of the wind down of NAMA.

National Asset Management Agency

Progress on achievement of objectives as at end 2021

1 Introduction

1.1 The National Asset Management Agency (NAMA) was established in December 2009 as a key part of the State's response to the banking crisis that unfolded in 2008.

1.2 NAMA was given extensive powers to achieve specified statutory purposes. It is also required to comply with written directions of the Minister for Finance (the Minister) concerning the achievement of the purposes of the NAMA Act 2009.

1.3 NAMA is a statutory body, with its own Board and Chief Executive Officer appointed by the Minister. In accordance with section 18 of the NAMA Act, one of the functions of the Board is to set NAMA's strategic objectives and targets. The key objectives and targets set in legislation and/or by the NAMA Board are summarised in Figure 1.1 (over).

Focus and scope of this report

1.4 Section 226 of the NAMA Act requires the Comptroller and Auditor General every three years to assess the extent to which NAMA has made progress toward achieving its overall objectives. This (fourth) review assesses NAMA's progress in relation to achievement of its objectives up to the end of 2021.[1]

1.5 This report examines and reports on

- the organisational development of NAMA since inception (chapter 2)
- NAMA's financial performance (chapter 3)
- the arrangements put in place by NAMA to manage debtors and the disposal by NAMA of underlying collateral (asset sales) and loans (chapter 4)
- NAMA's achievements in relation to its secondary objectives relating to strategic development zone projects (chapter 5) and residential delivery (chapters 6 and 7).

Developments in 2022

1.6 During 2022 NAMA transferred €500 million cash to the Exchequer bringing the total cash transfers by NAMA to €3.5 billion by the end of 2022.

1 Three Section 226 reports have already been published: special report number 81, *NAMA Progress Report 2010 – 2012*; special report number 102, *NAMA Second Progress Report*; and special report number 111, *NAMA Progress on achievement of objectives as at end 2018*. All the reports are available at www.audit.gov.ie.

Figure 1.1 Key NAMA objectives and targets[a]

2009 National Asset Management Agency Act 2009 specified the following statutory purposes

- acquire impaired assets from the credit institutions participating in the NAMA scheme
- deal expeditiously with the assets
- protect, or otherwise enhance their value in the interests of the State and
- insofar as possible and consistent with those purposes, obtain the best achievable financial return for the State.

2010 Initial strategic plan stated that a guiding principle of the Board is to

- pursue all debts owed to the greatest extent feasible and
- set targets for the redemption of bonds from 2013 on with full repayment by the end of 2019.

2012 Revised strategic plan defined NAMA's primary commercial objectives as being to

- redeem all NAMA debt by 2020, but even in an adverse situation, at minimum, redeem the senior bonds issued as consideration for loans
- recover all costs over the projected ten-year life of NAMA without recourse to further borrowing, meeting all of its future commitments out of its own resources, over the shortest possible time span
- optimise the realised value of the assets acquired.

In addition, the plan stated that, where consistent with the objective of recovering all costs, NAMA's objective is to contribute to

- a sustainable level of activity in the Irish property market
- the social and economic development of the State.

2014 Following an external review of NAMA's strategic options, the Board decided to pursue a programme of accelerated disposal and early redemption of senior debt.

The Board also set the aim of generating a surplus by the time its work has been completed.

The Board adopted two additional, secondary objectives

- facilitation of the delivery of Grade A office accommodation in the Dublin Docklands Strategic Development Zone (SDZ), and
- facilitation of the delivery of residential units.

2020 The Board's primary objective was updated in March 2020 to reflect the fact that NAMA had completed the repayment of all its debt and equity obligations.

The Board's primary commercial objective is "to generate the largest surplus that can feasibly be achieved, subject to prevailing market conditions, by the time NAMA completes its work".

In order to meet the above objective, NAMA intends to intensively manage and invest in the assets so as to optimise income.

Secondary objectives are to

- facilitate the delivery of Grade A office accommodation in Dublin Docklands SDZ
- facilitate the completion of 20,000 new residential units, subject to commercial viability
- seek to make a positive social and economic contribution across its remaining activities.

Source: NAMA Act, NAMA annual reports, and NAMA strategic plans

Note: a NAMA's strategic objectives and targets are reviewed and amended if deemed appropriate on an ongoing annual basis by the Board.

Planned NAMA wind down

1.7 Section 227 of the NAMA Act requires the Department of Finance (the Department) also to assess NAMA's progress periodically and to decide whether continuation of NAMA is necessary. The Minister recommended in his Section 227 review (2014 – 2018), published in July 2019, that NAMA be permitted to continue to work out its residual loans for a limited period beyond 2021.[1]

1.8 The Minister instructed that a detailed plan for the ultimate dissolution of NAMA be submitted to him before the end of 2021. A detailed plan for the period 2022 – 2025 was submitted to the Minister on 19 November 2021.

The key priorities from the plan are to

- generate the largest possible surplus that can feasibly be achieved subject to prevailing market conditions, by the time NAMA completes its work
- continue to manage secured residential sites intensively and invest in them so as to optimise their disposal value
- seek to make a positive social and economic contribution across all its remaining activities
- conclude work no later than December 2025.

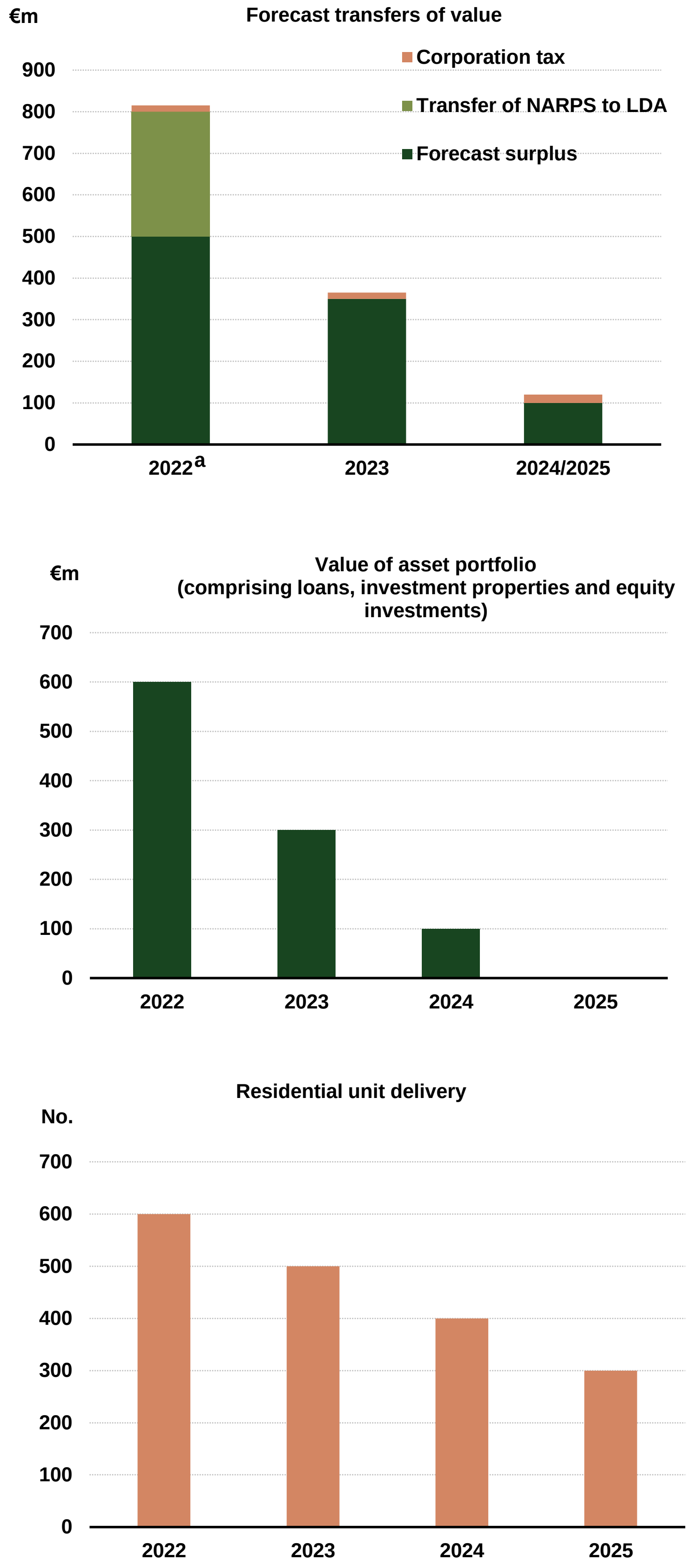
1.9 NAMA's plan to achieve its key priorities over the period 2021 – 2025 includes the following actions

- consolidate NAMA's organisational structure
- dissolve the group structure, including NAMA and its subsidiaries, before end-2025
- decommission systems as appropriate over the period 2022 – 2025
- manage and mitigate risks for its remaining lifetime
- maintain effective communication channels with all stakeholders, and communicate effectively with the public, public representatives and media
- maintain high standards of corporate governance and comply with the *Code of Practice for the Governance of State Bodies.*

1.10 Within the plan, NAMA has set annual milestones/targets for key elements of its operations — surplus payments, asset portfolio and residential delivery (see Figure 1.2). Progress in delivering on the plan will be reported to the Minister annually in NAMA's Section 53 strategy statement.

1 *NAMA Section 227 Review (2014 – 2018)* is available at www.gov.ie.

Figure 1.2 Key strategic projections 2022 – 2025



Source: NAMA Strategic Plan 2022 – 2025

Note: a Includes €300 million for the transfer of National Asset Residential Property Services DAC (NARPS) to the Land Development Agency that was proposed to take place in 2022. However due to a legislative amendment requirement this transfer did not occur in 2022.

2 Organisational development

2.1 NAMA has established a complex group company structure for its operations. The group of companies is co-ordinated by a holding company, National Asset Management Agency Investment DAC (NAMAI). At the end of 2021, NAMA had a total of twelve subsidiary companies through which it was conducting its business. Figures 2.1 and 2.2 set out the corporate structure at that date and the stated function of each entity.

Changes in corporate structure

National Asset Management Agency Investment DAC

2.2 At the outset, NAMA invested €49 million in NAMAI, receiving 49 million A ordinary shares. Private investors invested €51 million, receiving 51 million B ordinary shares. Under the terms of a shareholders' agreement between NAMA and the private investors, NAMA could exercise a veto over decisions taken by NAMAI. As a result of this veto, the private investors' ability to control the financial and operating policies of the entity was restricted and NAMA had effective control of the company. By virtue of this control, NAMA consolidated NAMAI and its subsidiaries and the 51% external investment in NAMAI was reported as a non-controlling interest in the financial statements.

2.3 On 26 May 2020, NAMA exercised an option to purchase the private investors' 51% shareholding in NAMAI for €56.1 million. From this date, NAMA held a 100% shareholding in NAMAI.

National Asset Management Group Services DAC

2.4 On 5 April 2019, Pembroke Beach DAC (PB) and Pembroke West Homes DAC (PWH) were established to hold land in Poolbeg West SDZ. PB and PWH were initially 100% wholly owned subsidiaries of National Asset Management Group Services (NAMGS).

2.5 On 19 July 2019, Pembroke Ventures DAC (PV) was acquired by NAMGS to act as a holding company for PB and PWH. Prior to the acquisition, the company was dormant and was renamed on 18 July 2019. In July 2019, NAMA invited interested parties, through an open market process, to subscribe for an 80% shareholding in PV. The successful bidder was announced in December 2020 and the transaction completed on 4 June 2021.[1] PV ceased to be a NAMA Group entity as at that date.

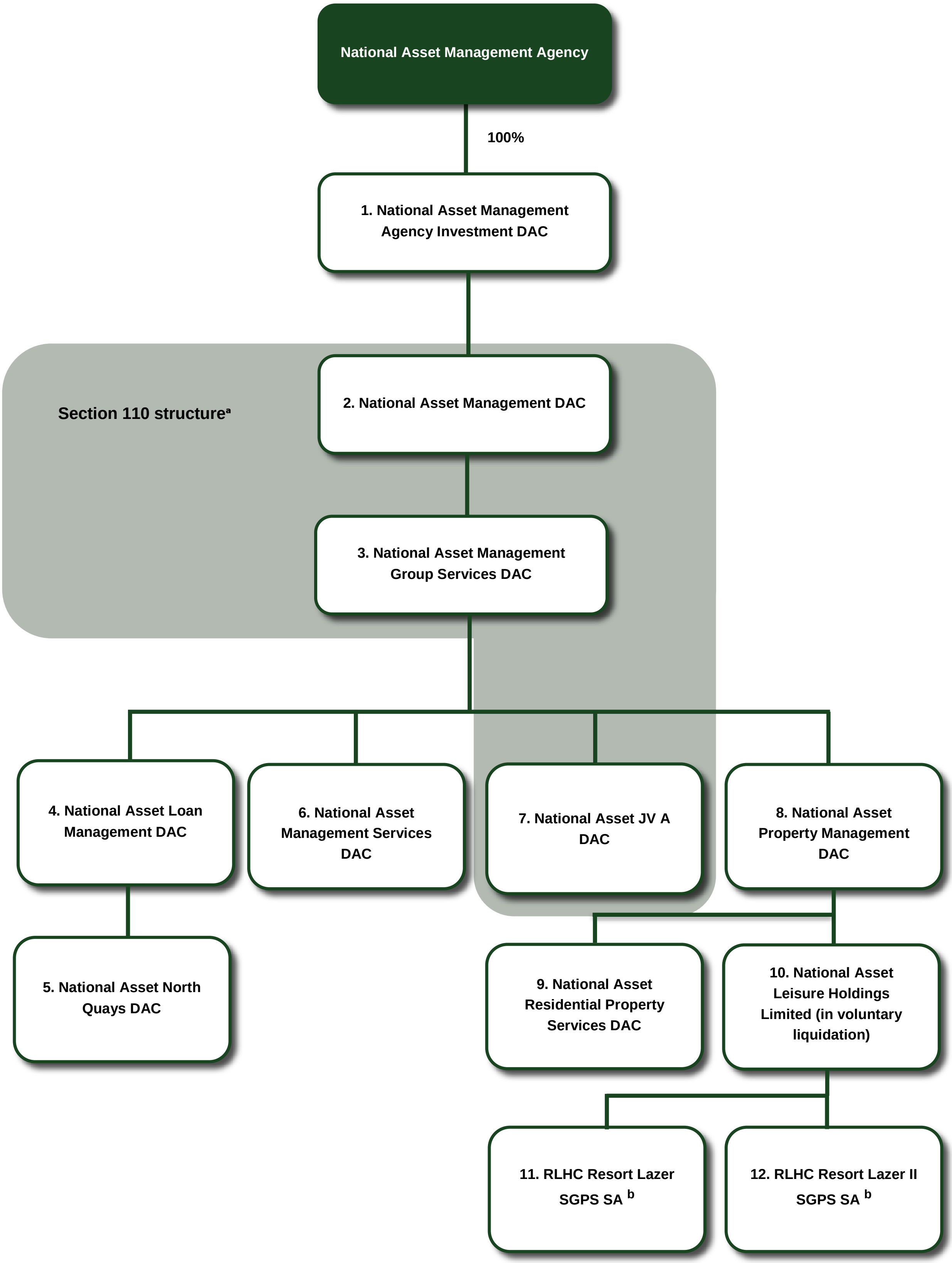
2.6 PV facilitated the joint venture structure put in place to develop the Poolbeg West SDZ (refer to chapter 5 for further detail).

National Asset Sarasota Limited Liability Company

2.7 National Asset Sarasota Limited was established in August 2013 in Florida, USA to acquire certain property assets located in the US following insolvency processes, in settlement of debt owed to NAMA. Following the sale of its one remaining asset the company was dissolved in October 2021.

1 The successful bidder is a consortium comprising of Ronan Group Real Estate (RGRE) and Oaktree/Lioncor.

Figure 2.1 NAMA group structure as at end December 2021



Source: NAMA

Notes: a Section 110 of the Taxes Consolidation Act 1997 entitles qualifying companies to special tax treatment. In order to qualify, it must be a company whose business is to hold and manage qualifying assets, such as shares and collateralised loans, and which, apart from activities ancillary to that business, carries on no other activities.

b Liquidated in November 2022.

Figure 2.2 Functions of NAMA group entities as at 31 December 2021

Entity	Function
1. National Asset Management Agency Investment DAC	Acts as a holding company and lender to a project in which NAMA has an economic interest.
2. National Asset Management DAC	Creates debt securities and subordinated debt that are transferred to the participating banks in return for the loans. The government guaranteed debt securities issued by NAM were listed on the Irish Stock Exchange until their redemption in full in 2017. Acts as holding company for other NAMA entities.
3. National Asset Management Group Services DAC	Asset management and securitisations and acts as holding company for subsidiaries.
4. National Asset Loan Management DAC	Acquired and manages the loan assets from the participating institutions.
5. National Asset North Quays DAC	NANQ held land acquired by NAMA in 72-80 North Wall Quay. It received income from the land in the form of a licence fee, a fixed percentage of rent and a percentage of sales proceeds of any completed development to be built on the land. The development is now complete.
6. National Asset Management Services DAC[a]	Holding company for NAMA's shareholding in a general partnership associated with the National Asset JV A investment during 2013.
7. National Asset JV A DAC	Established in July 2013 to facilitate the acquisition of a 20% interest in a partnership, incidental to a joint venture arrangement entered into by NAMA with a consortium. Acts as a holding company for equity investments.
8. National Asset Property Management DAC	Holds property acquired after enforcement of security as well as NAMA's interests in four subsidiaries.
9. National Asset Residential Property Services DAC	Established in 2012 to acquire residential properties and to lease and ultimately sell these properties to approved housing bodies for social housing purposes.
10. National Asset Leisure Holdings Limited (in voluntary liquidation)	Established in January 2014 in order to acquire 100% of the share capital in two Portuguese entities — RLHC Resort Lazer SGPS SA and RLHC Resort Lazer II SGPS SA.
11. RLHC Resort Lazer SGPS SA[b]	Established to facilitate the legal restructure of a number of entities with Portuguese property assets.
12. RLHC Resort Lazer II SGPS SA[b]	Established to facilitate the legal restructure of a number of entities with Portuguese property assets.

Source: NAMA

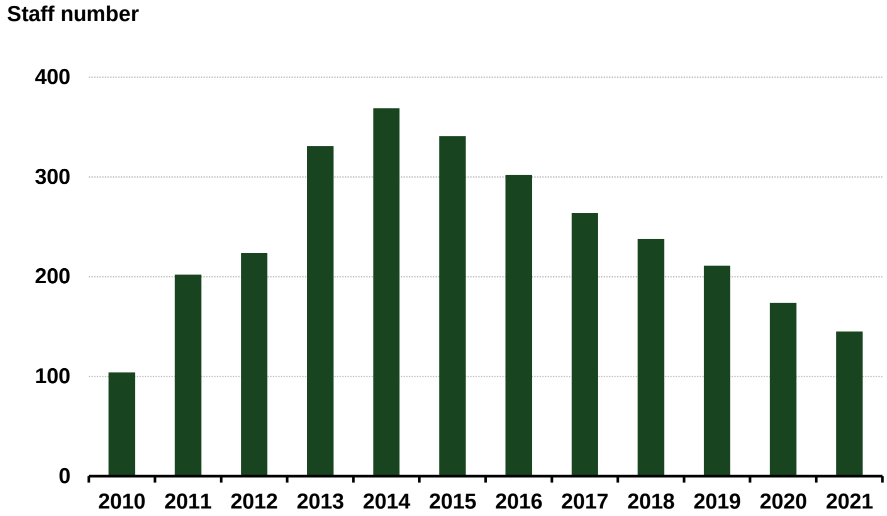
Notes: a In the process of voluntary strike off.

b RLHC Resort Lazer SGPS SA and RLHC Resort Lazer II SGPS SA were liquidated in November 2022.

NAMA staffing

2.8 NAMA's staff numbers peaked in 2014, when it employed 369 staff (Figure 2.3). Since then, staff numbers have decreased significantly. At the end of 2021, NAMA had 145 staff deployed across five divisions. Half of the staff were involved in asset management and residential delivery activities (Figure 2.4). Most other staff were engaged in financial and legal support services. As wind down activity progresses between 2022 and 2025, NAMA staff numbers will reduce via scheduled redundancies.

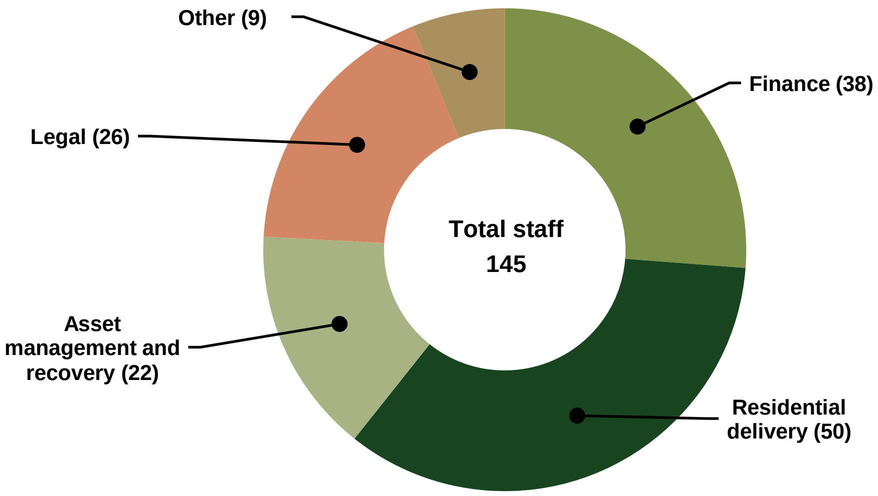
Figure 2.3 NAMA staff numbers, 2010 – 2021[a]



Source: NAMA and NAMA financial statements 2010 – 2021

Note: a Staff assigned to NAMA are employed by the National Treasury Management Agency.

Figure 2.4 Deployment of NAMA staff at 31 December 2021



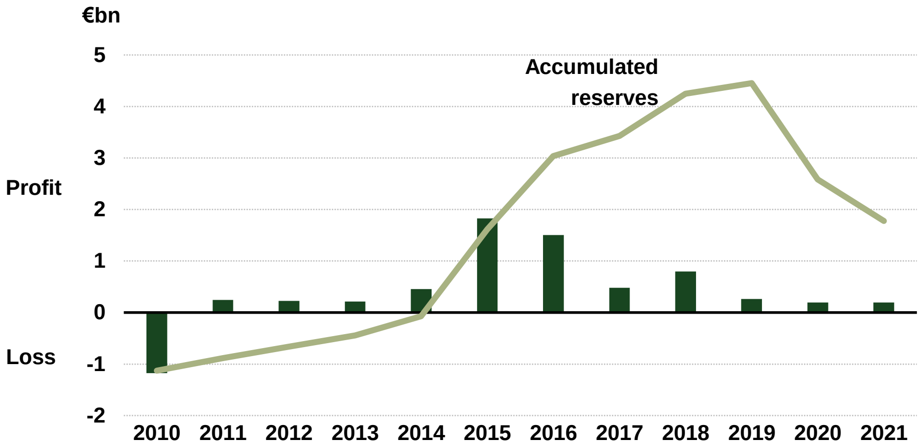
Source: NAMA

3 Financial performance

3.1 NAMA paid a total of €31.8 billion to acquire property related loans from five financial institutions (the 'participating institutions'). The acquisition price included €5.6 billion that was approved by the EU as permissible State aid for the distressed banks. The acquisition was funded by NAMA by the issuance of guaranteed senior debt (€30.2 billion) and subordinated debt (€1.6 billion).

3.2 Apart from a net loss incurred in 2010, its first year of operation, NAMA has generated a net profit each year (Figure 3.1). The size of the profit has varied considerably.[1] At the end of 2021, NAMA reported total retained earnings of €1.8 billion. This was after the transfer of a total of €3 billion to the Exchequer in 2020 and 2021.

Figure 3.1 Movement in NAMA revenue reserves, 2010 – 2021



Source: NAMA financial statements 2010 – 2021

3.3 Early in its operations, NAMA set targets in relation to two aspects of its financial performance; targets for the reduction of its borrowing level; and target financial returns. In 2020, the NAMA Board reset its primary commercial objective: to generate the largest possible surplus that can feasibly be achieved, subject to prevailing market conditions, by the time the agency completes its work.

Repayment of NAMA borrowing

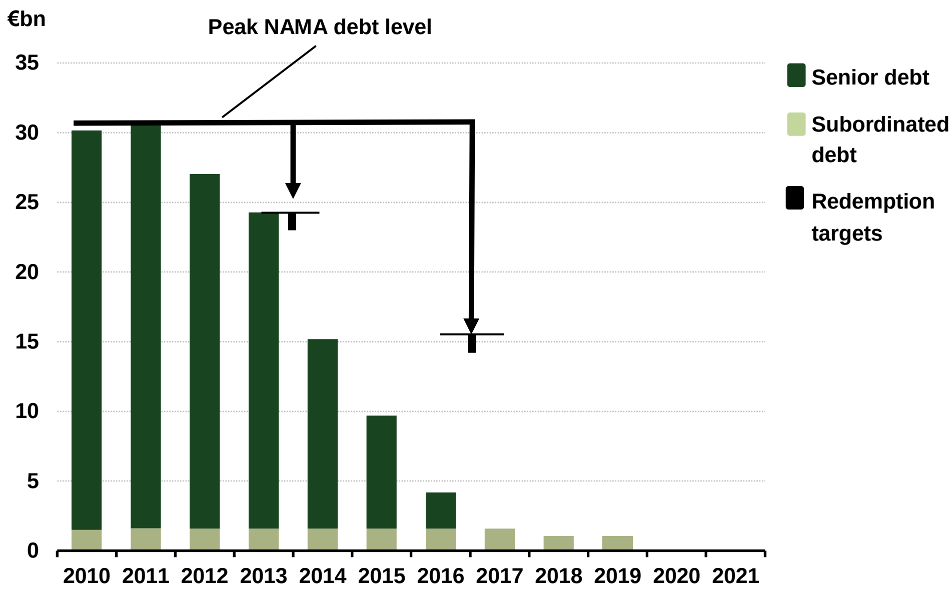
3.4 A key target adopted by NAMA in 2012 was to repay all its senior debt by 2020. It also set intermediate targets for debt redemption. NAMA's debt reduction was facilitated by disposals of debtor loans and recoveries from the income and sale of underlying collateral property and other assets.

3.5 NAMA met the initial target of redeeming €7.5 billion of its debt by end 2013, and significantly exceeded the target of redeeming €15.5 billion of debt by end 2016. All the senior debt had been repaid by the end of October 2017 (Figure 3.2).

3.6 The subordinated debt of €1.6 billion was fully redeemed in March 2020, which marked the full and final repayment of the total €31.8 billion debt.

1 NAMA's income and expenditure over its lifetime are summarised in Appendix A.

Figure 3.2 NAMA's debt level at year end, 2010 – 2021



Source: NAMA financial statements 2010 – 2021 and NAMA Board papers

Financial return

3.7 NAMA has a statutory objective to obtain the best achievable financial return for the State. The Agency's performance in this regard should be considered under two key metrics

- NAMA's entity return on investment
- internal rate of return.

NAMA's entity return on investment

3.8 NAMA defined its target **entity return on investment** (EROI) as being "…calculated based on the comparison of NAMA's projected terminal surplus position (€4.5 billion) with NAMA's initial investment, as adjusted to exclude the €5.6 billion in State aid which NAMA was required to pay to the participating institutions as part as the loan acquisition price".[1] In 2014, NAMA set an EROI target of 20%. This target has not been revised. At the end of 2021, NAMA projected that the EROI would be 39%.

3.9 The key shortcoming of EROI as a performance measure is that it does not take account of the time value of money.[2]

1 NAMA's 2021 annual report (page 36).

2 The 'time value of money' is the concept that an amount of money received today is considered to have a higher value than an equivalent amount expected to be received at some point in the future.

Internal rate of return

3.10 The **internal rate of return (IRR)** is a standard performance metric for property related investments. It is defined as the discount rate which, when applied to the cash flows of a project or investment, produces a net present value of zero. NAMA has not set a target IRR for its operations.

3.11 When NAMA was acquiring the target loans in 2010, it projected the cash flows expected to occur over the lives of the loans, and discounted the cash flows at an average rate of around 5% to yield the acquisition value of the loans. If the cash flows had turned out exactly as projected at that time, NAMA would have generated an IRR on its investment of 5%.

3.12 There was a significant decline in Irish property values after NAMA acquired the target loans. This affected the expected loan cash flows. Mainly as a result of this decline in market values, at the end of 2012, the projected IRR on the NAMA investment was around 3.8%.[1] Given the subsequent strong recovery in the property market and NAMA's investment performance, the projected IRR at the end of 2018 was around 6.6%.

3.13 At the end of 2021, the projected IRR on NAMA's overall operations was calculated to be around 6.7%.[2]

Projected NAMA final surplus

3.14 Ultimately, any net surplus generated by NAMA is payable to the Exchequer. At the end of 2021, NAMA projected that it will have a final surplus of €4.3 billion. In June 2022 NAMA increased the projected life time surplus by €0.2 billion to €4.5 billion.

3.15 Based on the expectation of a surplus of that order, and on foot of consultation with the Minister for Finance in that regard, a total of €3 billion of retained earnings was transferred to the Exchequer in 2020 and 2021. A further 0.5 billion was transferred to the Exchequer during 2022.

3.16 The final lifetime surplus of €4.5 billion projected by NAMA includes €0.3 billion in respect of the estimated value of NARPS that is planned for transfer to the Land Development Agency.

3.17 When projecting and reporting on its contribution to the Exchequer, NAMA includes corporation tax payments. Payments by NAMA in respect of corporation tax amounted to €416 million up to the end of 2021.

1 Special report number 81, *National Asset Management Agency Progress Report 2010 – 2012* is available at Special report 81.

2 The projected IRR calculated by the examination team as at end 2021 is based on the €31.8 billion paid by NAMA, the actual and projected cash flows on all NAMA investments (including equity investments and planned future investments) and property assets as reported to the Board as part of the 2022 budget.

4 Debtor management

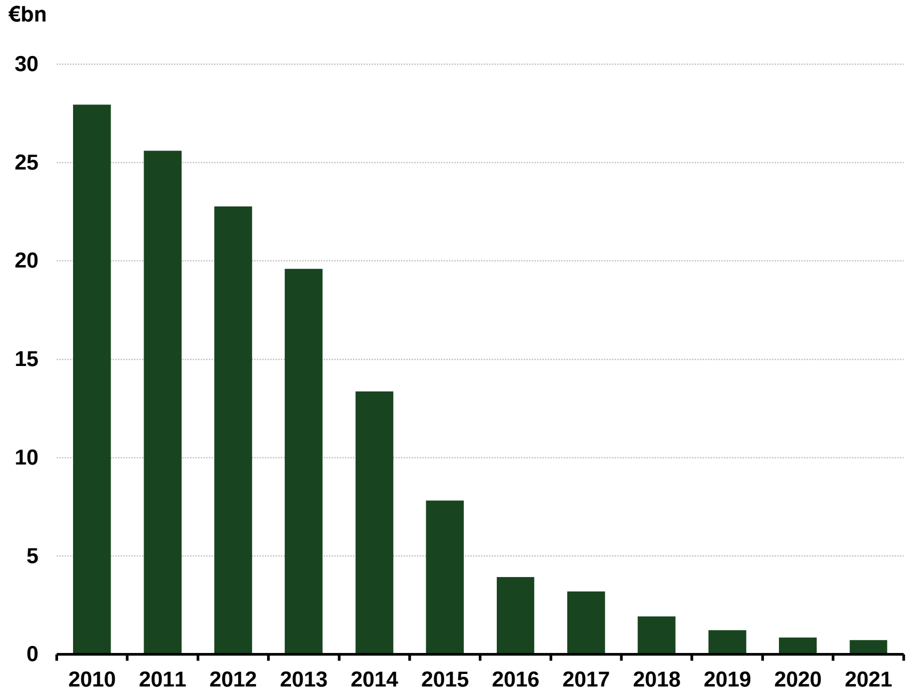
4.1 NAMA manages the debtor loans it holds under debtor connections. A debtor connection is a bundle of loans/assets that have been grouped together on the basis that they are connected or linked to a debtor or group of debtors through ownership, control, financial interdependence or strategic considerations.

4.2 Over 750 debtor connections were being managed in 2010. The number of debtor connections fell progressively thereafter, with debtors exiting engagement with NAMA as a result of loan and asset sales, and, in some cases, loan repayments. A total of 151 debtor connections were still being managed by NAMA at the end of 2021.

4.3 Debtor loans were acquired at a total cost of €31.8 billion, representing a discount of 57% on the €74.4 billion par value of the loans at acquisition. NAMA subsequently advanced loans totalling a further €5.6 billion to its debtors. The loan balances were also subject to interest charged by NAMA, repayments by the borrowers, and loan and asset sales.

4.4 Mainly as a result of loan/asset sales, the carrying value of the NAMA debtors' loan balances had reduced from €28 billion at the end of 2010 to around €715 million by the end of 2021 (see Figure 4.1).[1]

Figure 4.1 Loan balance outstanding at the year-end, 2010 – 2021



Source: NAMA

Note: 2013 loans and receivables balance excludes new loans issued for National Asset Resolution Limited.

1 Not all of the target loans had been acquired by the end of 2010, and the loans that were acquired, were subject to an impairment process.

Debtor receipts

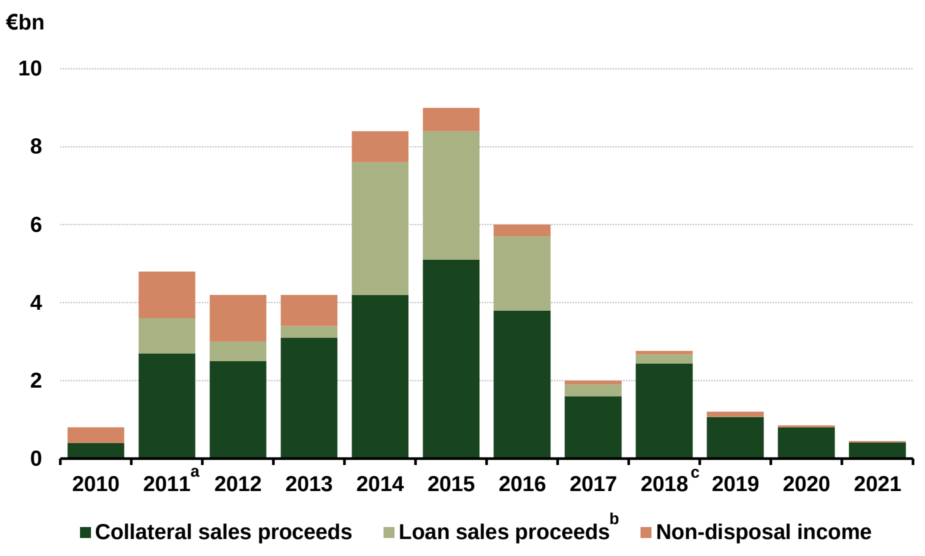
4.5 NAMA's receipts from debtors fall into two main categories

- disposal receipts arising from the sale of property collateral and the sale of loans
- non-disposal income, which is primarily rental income from assets held as collateral.

4.6 By end 2021, NAMA had received €45 billion from its debtors (see Figure 4.2). The total received in relation to loan and asset sales was €39 billion and the balance related to non-disposal income. As income generating assets were sold, the level of non-disposal income declined.

4.7 Over half of all debtor receipts were generated in the period 2014 to 2016, when NAMA accelerated the level of loan sales. NAMA completed its last expected major loan sale, with a par value of €300 million, in 2018.

Figure 4.2 Receipts from debtors, 2010 – 2021



Source: NAMA and NAMA financial statements 2010 – 2021

Notes:
a Figures for 2011 include principal cash repayments.
b Figures include deferred consideration on loan sales proceeds.
c Following the application of IFRS 9 in 2018-2021, the split of proceeds from asset sales, loan sales and non-disposal income is not disclosed in the NAMA annual financial statements. NAMA provided the figures separately.

2021 loan sale under exceptional circumstances

4.8 Section 10 of the NAMA Act 2009 requires NAMA, in so far as is possible, expeditiously and consistently, to obtain the best achievable financial return for the State. In the course of the audit of the financial statements for 2021, it was noted that NAMA had finalised a sale of loans with a par value of €10.46 million for €265,000 i.e. 2.5% of the par value. The loans had not been openly marketed prior to the sale, as normally required under NAMA's loan sale policy.

4.9 NAMA paid €4.37 million to acquire six loans related to two companies on 25 October 2010. The par debt at the time of transfer of the loans to NAMA was €8.58 million, and the acquisition price represented a 49% mark down. Subsequently, the loans were managed by NAMA as part of a bigger portfolio linked to a debtor connection. While NAMA held the loans, par loan interest of around €1.9 million accrued and was unpaid, increasing the par value of the loans.

4.10 By the time the loans were sold, the NAMA loan balance stood at €6.23 million. However, recognising that there were difficulties in the case, NAMA had heavily impaired the loans. The carrying value of the loans was €163,782 at end 2019, €255,828 at end 2020 and €255,626 at end June 2021.

4.11 The loans were secured by assets in provincial locations in Ireland. The collateral comprised 14 occupied residential units, 28 unfinished residential units, and seven plots of land totalling 20.9 hectares with various zonings for planning purposes.

4.12 Up to October 2018, the debtors managed the property assets. Following the commencement of enforcement proceedings, NAMA appointed a receiver over specific secured assets of the two companies. The debtors strongly resisted the enforcement proceedings, alleging that NAMA had previously forced the sale by a court-appointed receiver, at below market value, of a large apartment complex that was collateral for another connection loan. They argued that had that property been sold by the receiver at market value, the proceeds would have cleared all of the companies' loans.

4.13 In March 2019, the receiver recommended that NAMA accept an offer of €265,500 from a local authority for a bundle of the assets (lot 1) comprising 18 unfinished houses in a housing development and 3.2 hectares of land. An independent valuer stated in a letter to the receiver that the offer was representative of what would be achievable for the assets in the market at that time. The valuer recommended that the offer be accepted as it was an unconditional sale with the local authority taking on the (unquantified) cost to complete the housing development.

4.14 In August 2019, an independent desktop valuation attributed a total market value of €1.3 million to the remaining lots of assets.[1] However, the independent valuation report stated that "these values are unlikely to ever be achieved or the lands disposed of while the threats and intimidation continue". No specific instances of alleged threats and intimidation were described in the report. The valuers stated that they would not recommend that the receiver attempt to sell these assets, as they were not considered marketable. The valuers also noted that a cash investor would be unlikely to purchase these assets and to take on potential litigation and intimidation/threats, for such a low return.

1 The valuer did not inspect the individual properties as no access could be provided. The valuation report included assumptions inter alia, that all buildings complied with statutory and local authority requirements; that all rent reviews were assessed by reference to full market rents; and that tenants were meeting their obligations under their leases.

4.15 NAMA stated that from the outset, the receiver had difficulty establishing the exact nature of the tenancies in relation to the occupied properties and securing the rental income because the tenants viewed the debtors as their landlords. NAMA stated that the receiver resigned with effect from May 2020 because he had been unable to conclude the sale of lot 1 to the local authority, and no sales agent would take on the role to market the properties. Subsequently, the receiver remitted €28,942 to NAMA, which was applied to two of the loans. NAMA stated that these receipts were unutilised funds that it had previously provided to the receiver.

4.16 A 'without prejudice' meeting between NAMA and the debtors was held in June 2020. At the meeting, the debtors made an offer to settle the obligations of the two companies with NAMA for €265,000, in return for which NAMA would release the security over all the collateral properties. A relative of the debtors, who had never been a NAMA debtor, agreed to fund the transaction. NAMA records state that subsequently, the debtors' solicitor informed NAMA that their preference now was for their relative to purchase the loans through a newly incorporated company.

4.17 At its meeting on 19 November 2020, the NAMA Board considered a credit request paper from the Chief Executive and the Head of Asset Management and Recovery, in respect of the proposed loan sale. While the appropriate delegated authority for this scale of sale was normally the CEO and Head of Asset Management and Recovery, the decision was elevated to Board level because the sale was not openly marketed, and the proposed purchaser was a newly incorporated company that NAMA understood to be promoted and funded by a family relative of the debtor's. This relative was never a NAMA debtor.

4.18 The paper presented to the Board set out NAMA's rationale for recommending the loan sale to the Credit Committee and Board and can be summarised as follows.

- Expediency – NAMA would receive a lump sum payment of €265,000 by 31 March 2021.
- Superior to alternatives – the proposed loan sale matched the gross figure agreed with the local authority in respect of lot 1 of the assets and it exceeded the current projected net proceeds of €206,000 (after VAT and disposal costs).
- Value of other secured assets – the receiver was unable to monetise the other assets prior to his resignation. This position was supported by advice from a valuer that suggested the assets were not marketable due to alleged debtor intimidation of sales agents and potential litigation involving the assets.
- Cost of litigation – the debtor threatened to commence litigation to frustrate the sale of the assets. There was no certainty on how long litigation would take to resolve and the costs might be significant.
- Status of corporates – both companies had significant negative net worth positions and both were previously struck off.
- Connection close out – the properties were the final secured assets within the debtor connection. The management of the connection had been very challenging and had required significant staff resources. The approval of the proposed loan sale would be a key step in facilitating the close out of the connection.

4.19 The Board approved the proposed sale on 19 November 2020. The sale was completed in September 2021 on the terms agreed. A 'section 172 declaration' was received from the company purchasing the loans.[1]

1 Section 172 of the NAMA Act prohibits a person who is a debtor, or who is connected in a prescribed manner to a debtor, who is in default in relation to a NAMA asset from acquiring from NAMA any asset in relation to which the default has occurred. Notwithstanding the limitations of application of section 172, NAMA requires those purchasing loans to make a declaration confirming that the purchaser was not connected (as defined in the legislation) to the debtor whose loans it was purchasing.

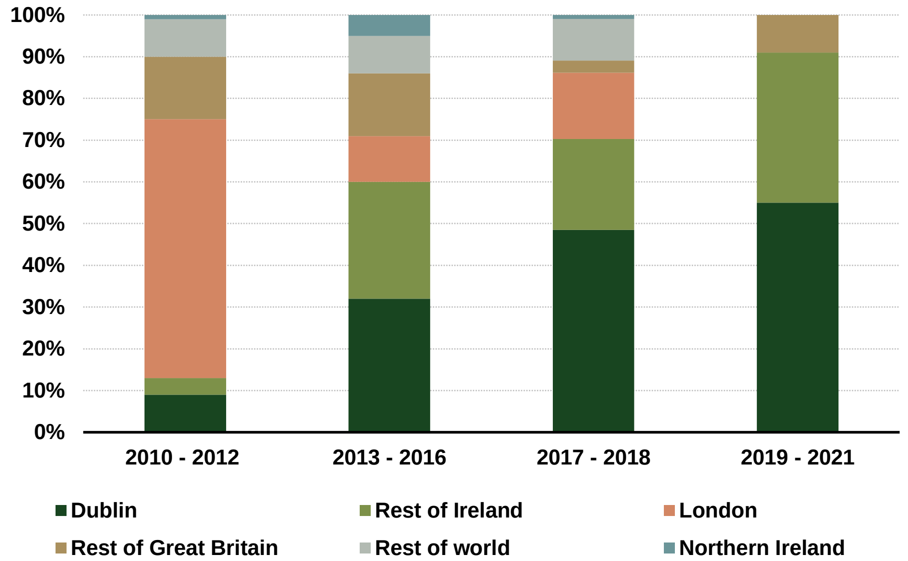
4.20 NAMA has confirmed that it does not have a set process for dealing with incidents of alleged intimidation of its staff or agents, or of receiver's staff or debtor appointed sales agents, on the basis that it is something that has arisen very rarely, and that where it has arisen, the circumstances have been very specific.

Residual assets

4.21 NAMA acquired security over approximately 10,700 properties as underlying collateral for NAMA loans. Over half (by acquisition value) of the secured properties were located in Ireland (54%) and over one third in the UK (37%). The remaining secured properties were mainly located in Europe.

4.22 Disposals of property in which NAMA held an interest were concentrated in different property markets at different times, reflecting NAMA's strategic assessment of what represented the optimum market opportunities at the time (see Figure 4.3). Initial disposals related mainly to secured property assets located in the UK, particularly in London.

Figure 4.3 Disposal of property assets by main geographical location

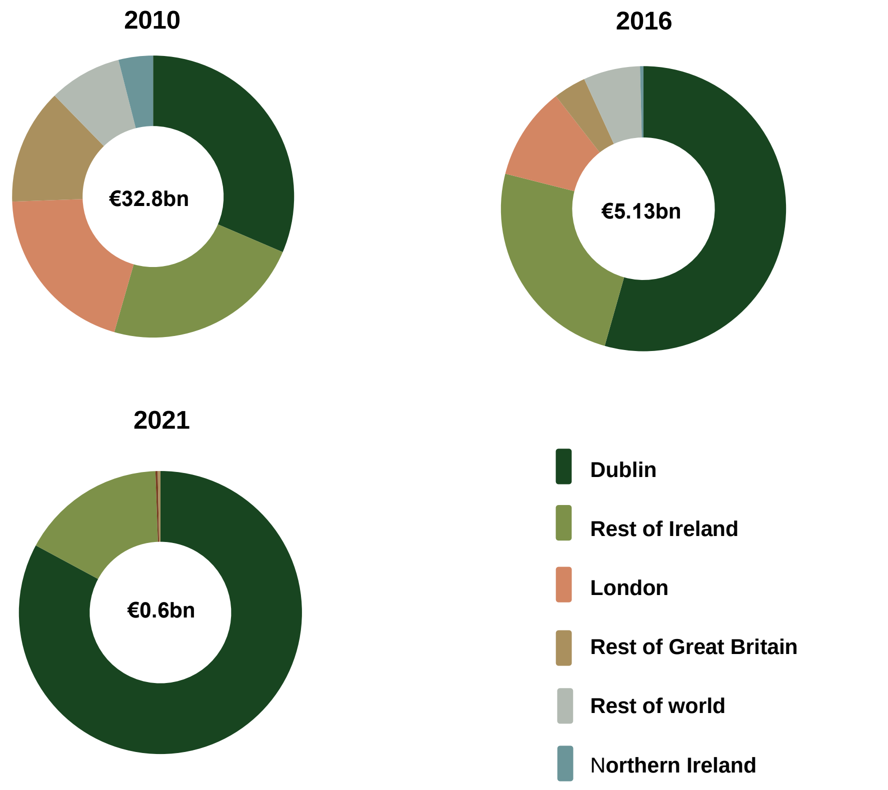


Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

4.23 By end 2016, NAMA had disposed of its interests in loans or property representing over 84% of the loan acquisition value. By the end of 2021, the majority of the residual collateral interest held by NAMA was located in Ireland (see Figure 4.4).

4.24 Some of the residual assets have the potential to contribute to new housing and office supply in Ireland and also to increase the amount that NAMA can recover. However, NAMA considers that the residual portfolio also contains a number of low value assets, many of which it considers will require intensive management in order to realise their value and/or is subject to litigation.

Figure 4.4 Collateral held by NAMA by acquisition value and location 2010, 2016 and 2021



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.

5 Commercial property

5.1 The 2009 Act provided that while pursuing its primary objective of the stabilisation of the financial system, NAMA would also contribute to the social and economic development of the State.

Commercial supports

5.2 NAMA implemented two commercial support initiatives in 2011 and 2012.[1]

- In December 2011, NAMA introduced a rent abatement initiative to support the short-term viability of small and medium businesses. Under this initiative, rents due were reduced in respect of commercial tenants of NAMA debtors where tenants could demonstrate that the rents payable under their current leases were in excess of market levels and, as a result, the viability of their businesses was threatened. Up to the end of 2016, NAMA had approved rent abatements to the value of €13.3 million relating to contracted rent of €36.9 million i.e. an abatement of 36%. As loans and properties were sold, the value of the rent receivable fell. The abatement of rent continued amounting to €0.3 million on contracted rent of €1.1 million in 2017 – 2018 (27% abatement); and €0.5 million on contracted rent of €1.4 million in 2019 – 2021 (36% abatement).
- In 2012, NAMA announced that it would provide finance up to a maximum term of four years to purchasers of commercial properties held by its debtors and receivers in both Ireland and the United Kingdom (UK). The initiative was a response to a lack of liquidity in debt markets in Ireland and the UK. NAMA envisaged that up to €2 billion would be made available between 2012 and 2016. In practice, the take-up was limited. From 2012 to 2016, NAMA provided finance to eight purchasers of commercial property to the value of €384 million — 20% of the funding envisaged. All vendor finance had been repaid as required by the end of 2018, and NAMA did not provide any debt financing to third parties for the acquisition of commercial properties during the period 2019 – 2021.

Dublin Docklands strategic development zone

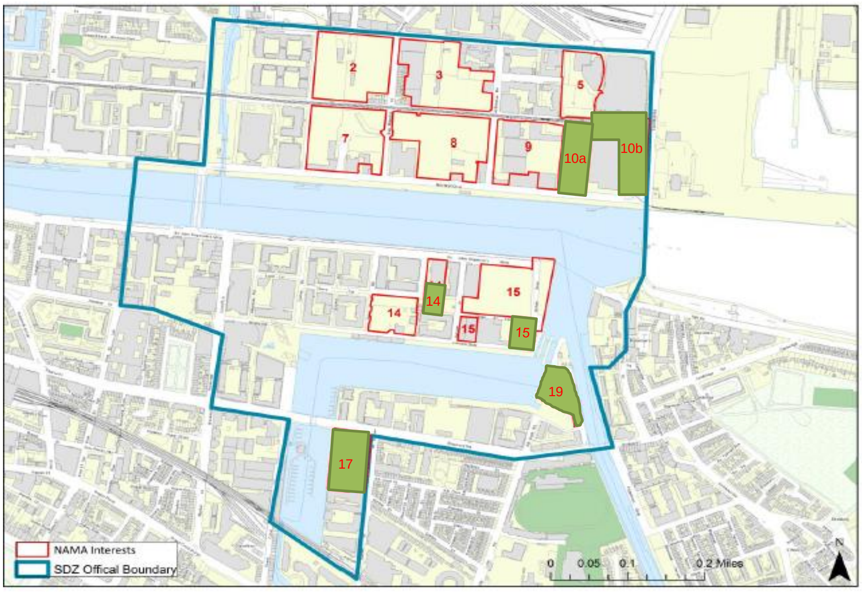
5.3 In 2012, the then Minister for Housing, Planning and Local Government announced the designation of some 66 hectares in the North Lotts and Grand Canal Dock areas as a Strategic Development Zone (SDZ) to facilitate the development of the area on the basis that it is of social and economic importance to the State.[2] The SDZ planning scheme was approved by An Bord Pleanála in May 2014.

5.4 At the time the scheme was approved, there was around 22 hectares of undeveloped land in the designated SDZ area. NAMA had an interest in three quarters of that land (16.74 hectares). Most of this was under the control of NAMA-appointed receivers. Figure 5.1 indicates the blocks in which NAMA held an interest in 2014, and the blocks in which NAMA still held an interest at 31 December 2021.

1 Special report 102 *National Asset Management Agency - Second Progress Report* provides more details and is available at [Special report 102.]

2 Renamed the Department of Housing, Local Government and Heritage from 30 September 2020.

Figure 5.1 Map of the Docklands strategic development zone, indicating blocks in which NAMA had an interest



Block 2 — Spencer Dock

Block 3 — Mayor St/Castleforbes St

Block 5 — Mayor St/Sherriff St

Block 7 — Spencer Dock

Block 8 — North Wall Quay 'Project Wave'

Block 9 — North Wall Quay (formerly known as the Tile Style and Crosbie's Yard Sites)

Block 10 — Wintertide and Point Village

Block 14 — 5-6 Hanover Quay and 76 Sir John Rogerson's Quay and Benson Building

Block 15 — 8 Hanover Quay, 10-12 Hanover Quay and Capital Dock

Block 17 — Bolands Mill

Block 19 — Waterways Ireland

Blocks in which NAMA held an interest at 31 December 2021

Source: NAMA Business Plan, December 2014 and NAMA Annual Report 2021. Adapted by the Office of the Comptroller and Auditor General.

5.5 The NAMA Board approved a strategic business plan for all its SDZ related interests in September 2014. The overall objectives expressed in the strategy were that it would

- contribute to meeting the existing and future demand for new office accommodation in Dublin's central business district
- add and exploit maximum commercial value to NAMA controlled sites through debtors/joint ventures obtaining planning permission and pursuing viable development strategies or disposal of sites
- contribute to meeting the demand for residential accommodation in Dublin city centre, subject to the commercial viability of individual projects or of the SDZ as a whole.

5.6 The 2014 business plan did not include formal targets in respect of the stated objectives. However, based on its initial assessment of the sites within the SDZ, NAMA estimated that, based on current industry norms and planning provisions, they could potentially accommodate around 315,000 square metres of commercial space, and 1,848 residential units. NAMA projected gross development costs for the sites of €1.9 billion. It was not envisaged that NAMA would incur all of this cost, and it was projected NAMA would obtain an indicative return of €365 million. While it was envisaged that construction of the sites could potentially commence in 2016, no time scale was set for the completion of each site development.

5.7 The business plan outlined a number of available delivery options. The NAMA Board subsequently approved an individual strategy for each of the sites comprehended in the 2014 business plan, across 14 developments (see Figure 5.2).

Figure 5.2 Delivery strategies included in SDZ development plan 2014, including the number of SDZ block delivered to 31 December 2021

Delivery option	Description	No. of SDZ blocks
Site sale	Sale of the site by the NAMA appointed receiver, with or without planning permission.	4
Forward sale/forward funding	NAMA funds the receiver to procure planning and the sale of the building occurs in advance of commencing construction.	2
Joint venture	Agreement between NAMA and third party entities. An agreed business plan is put in place with an investment manager responsible for the day to day decisions with certain key matters requiring the approval of shareholders.	7
Receiver development	NAMA funds the receiver to procure and put in place design teams and procure planning in advance of constructing and selling the completed building.	—
Long lease	NAMA, as freeholder, grants a lease/licence to build to a selected third party. NAMA retains the freehold interest and receives lease rental income.	1

Source: NAMA Business plan, September 2014

5.8 NAMA was already involved as a minority partner in joint ventures for four of the sites in the SDZ. NAMA invested as a passive partner to facilitate the merging of NAMA sites with neighbouring sites of other investors to create bigger and more regularly shaped sites that offered prospects for more coherent construction and significantly better returns. In one case, the joint venture included provision for development of sites at Hanover Quay (block 14), within the SDZ and at City Quay, outside the SDZ.

Delivery of development

5.9 As at December 2021, 84% of the site area that NAMA had an interest in was classified as completed and/or sold (see Figure 5.3).

5.10 The Sir John Rogerson's Quay site (block 14), Bolands Mills (block 17) and the Exo Building (block 10) were completed and/or sold in 2022. By the end of 2022, only one site — accounting for just over 3% of the target area — had not completed development or been sold.

5.11 NAMA holds the leasehold over a portion of the remaining site (block 19), with another State body, Waterways Ireland, holding the freehold over the entire site.[1] A provisional agreement to sell the remaining site has been reached with Waterways Ireland, and is awaiting appropriate approval from its sponsoring Department and the North South Ministerial Council.

5.12 NAMA noted that Covid-19 restrictions has impacted demand for certain classes of collateral assets as well as progress in relation to NAMA's delivery programmes. In the property market generally, there was limited demand for office space and for prospective tenants to enter into new lease agreements.

1 Waterways Ireland is one of the North South bodies provided for under the British/Irish Agreement Act 1999. It manages the navigable canals on the island of Ireland.

Figure 5.3 Progress in site delivery as at December 2021 and November 2022

SDZ block	Development/site	NAMA site size (ha)	NAMA Board approved strategy	Status Dec 2021	Status Nov 2022
2&7	Spencer Dock	2.22	Site sale (Sept 2016)	Sold, in construction	Sold, in construction
3	Mayor St/Castleforbes Rd	2.36	Site sale (Oct 2018)	Sold, in construction	Sold, in construction
5	Mayor Street/Sherriff Street	0.94	Site sale (Oct 2016)	Sold, development completed	Sold, development completed
8	Dublin Landings (North Wall Quay)	2.15	Long lease/sale of buildings (May 2018 – June 2021)	Sold, development completed	Sold, development completed
9	North Wall Quay	1.84	Site sale (Oct 2018)	Sold, in construction	Sold, in construction
10	Wintertide/Point Village (North Wall Quay) (10a)	0.89	Joint venture	Completed and letting underway	Completed and letting underway
10	The Exo Building (10b)	1.1	Forward sale/forward funding	In construction	Sold, development completed
14	76 Sir John Rogerson's Quay and Benson Building	0.49	Joint venture	Complete; awaiting building regulation sign off	Completed and sold
14	5 Hanover Quay	0.82	Joint venture	Completed and sold	Completed and sold
15	Capital Dock	1.9	Joint venture	Completed and sold	Completed and sold
15	6-8 Hanover Quay	0.2	Joint venture	Completed and sold	Completed and sold
15	10-12 Hanover Quay	0.25	Joint venture	Completed and letting underway	Completed and letting underway
17	Bolands Mills	1.01	Forward sale/forward funding	In construction	Sold, development completed
19	Waterways Ireland	0.57	Joint venture	Pre-construction	Pre-construction

Source: NAMA

5.13 Most investors seek to have their assets substantially let prior to disposal in order to maximise the return.

5.14 Covid-19 restrictions resulted in a loss of seven months construction activity. All construction sites were closed with the exception of the social housing element of Block 8 — Dublin Landings.

5.15 NAMA has retained minority shareholding interests of 40% in both Wintertide/Point Village and 10-12 Hanover Quay. The underlying assets are completed commercial office buildings which are currently undergoing letting campaigns. There is no income being generated from them currently. Wintertide/Point Village completed in September 2020 and 10-12 Hanover Quay completed in November 2021. NAMA's plan is to hold the interests until lease terms have been agreed with tenants, and then to seek to sell the shareholdings.

5.16 NAMA now anticipates delivery of 393,000 square metres of commercial space and 2,183 residential units when all sites in which it originally held an interest are fully developed. Based on its latest cash flow projections, NAMA has forecast that when all the Dublin Docklands SDZ projects are completed, it will have received returns totalling €859 million and incurred total costs of €182 million – net €677 million.

5.17 Up to end 2021, NAMA reports it had incurred total costs of €166 million in relation to its involvement in the SDZ and has received returns totalling €793 million from the projects – net €627 million.

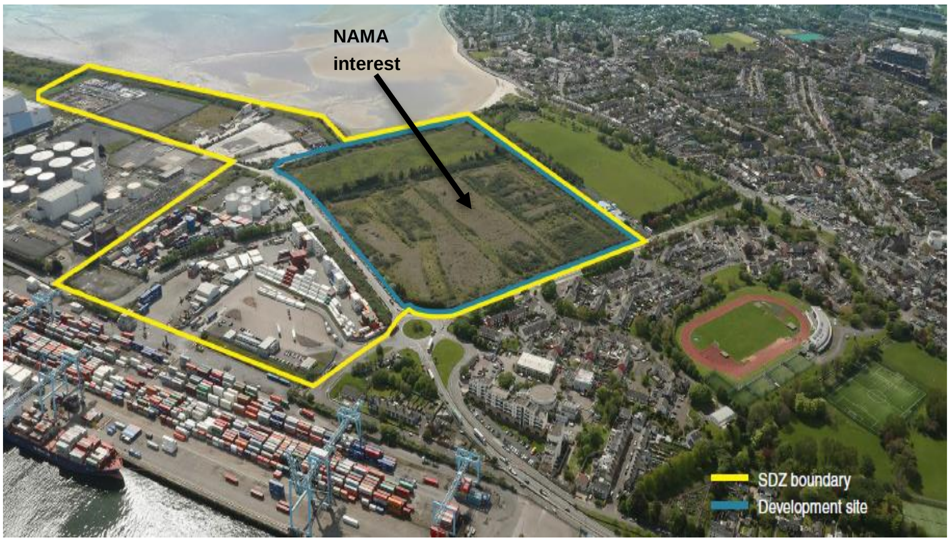
Poolbeg West strategic development zone

5.18 The Poolbeg West SDZ planning scheme was approved by Dublin City Council in October 2017 and the planning scheme was formally approved by An Bord Pleanála in April 2019 (see Figure 5.4). This SDZ comprises a number of industrial or formerly industrial (brownfield) sites, including two large adjacent sites secured to NAMA with a combined area of 15.05 hectares. The sites have the potential to provide up to 3,800 residential units and approximately 93,000 square metres of commercial space, as well as educational facilities, public open spaces, civic spaces and other community amenities.[1]

5.19 In June 2021, a consortium consisting of Ronan Group Real Estate, Oaktree Capital Management LP and Lioncor Developments Ltd acquired from NAMA an 80% shareholding in Pembroke Ventures DAC for €200 million. NAMA retains a minority 20% shareholding in the company. A timeline of events is set out in Figure 5.5.

5.20 A business plan for the development has been prepared by the consortium. The business plan outlined a forecast net IRR of 20% over the lifetime of the project assuming that planning is achieved and key infrastructural requirements are delivered. At the time (June 2021) the expected total principal cost of the project was around €1.8 billion and the planned completion date was projected at July 2029. NAMA stated that a review of projected costs is underway by the consortium.

Figure 5.4 Poolbeg West strategic development zone



Source: NAMA End of year review, December 2021

1 The potential residential output is greater than NAMA's original estimate of 3,500.

Figure 5.5 Timeline of events for Pembroke Ventures DAC site

April 2019	• Planning scheme for Poolbeg West SDZ formally adopted by An Bord Pleanála[a]
June 2019	• Receiver of site lodged first planning application for phase 1 infrastructure
July 2019	• NAMA launched an open market process — Project Pembroke — offering 80% shareholding in the 37.2 acre development site within the SDZ
Jan 2020	• A ten year planning permission for phase 1 infrastructure was granted by Dublin City Council (DCC)
May 2020	• Evaluation of bids
June 2021	• Consortium appointed and shareholding acquired
July 2021	• Planning application submitted to DCC for the first phase of 600 residential units
Oct 2022	• Site work commenced

Source: NAMA

Note: a In April 2019, the planning scheme for the Poolbeg West SDZ was formally adopted by An Bord Pleanála. The planning scheme provides for 25% of social and affordable housing in the development.

6 Commercial housing delivery

6.1 NAMA's statutory functions do not explicitly require it to engage in the development or delivery of residential units. However, the Board adopted the facilitation of the delivery of housing, subject to commercial viability, as a secondary objective. It has sought to deliver residential units for both the commercial housing market (see below) and the social housing sector (see Chapter 7).

Residential delivery target 2016 – 2020

6.2 In October 2015, the Minister for Finance stated that, as provided for under the NAMA Act, he had asked the NAMA Board to review the residential development sites under its control to estimate how many residential units it could deliver on a commercial basis.[1]

6.3 The Minister announced that NAMA was aiming to deliver 20,000 residential units before the end of 2020 and would deliver these units by working with developers. He also noted that achieving this would require NAMA to provide development funding, and that this would not compromise NAMA's ability to meet its debt repayment commitments.

6.4 In November 2015, the NAMA Board formally adopted a residential delivery plan which set out its intention to "… provide funding, co-ordinate and manage the delivery of 20,000 housing units by end-2020".[2]

6.5 In parallel with this programme, the plan envisaged that NAMA would "engage in asset management activity aimed at enhancing the planning status of [other] sites so as to ensure that they are capable of meeting residential supply needs after 2020". It was estimated that these sites could deliver over 30,000 units.

6.6 The residential delivery plan recognised that achieving the target of 20,000 residential units by the end of 2020 would be a formidable challenge, and that sites accounting for one third of the target units were (in November 2015) not yet commercially viable for development. NAMA expected that it would rely heavily on sites controlled by a small number of debtors, with whom it needed to agree "commercially sensible arrangements", and would need to work with external partners in joint venture arrangements to deliver the residential units.

6.7 NAMA also recognised in the plan that it needed to have flexibility around remuneration of its own staff in order to "… retain and recruit the necessary expertise required to plan, fund and manage a programme of this scale".

1 Minister for Finance's Budget Statement 2016.

2 NAMA Board minutes of meeting, 23 November 2015.

6.8 The residential delivery plan ruled out the potential alternative approach of selling the sites identified for the residential delivery programme on two counts.

- First, it was expected that the sale of the sites would not generate the maximum achievable return for NAMA (as required under Section 10 of the NAMA Act).
- Second, it recognised the risk that the sale of sites in which NAMA had an interest would not result in any major increase in supply of residential units if the new site owners did not develop them at an early stage. The plan noted that, as of November 2015, residential development sites disposed of by NAMA since the start of 2014 had resulted in the delivery of only about 1,000 of a potential 11,000 residential units — around 9% of site capacity.

6.9 In December 2015, during NAMA's appearance before the Oireachtas Joint Committee on Finance, NAMA's Chief Executive Officer outlined how falling residential sale prices over a number of years together with relatively constant construction costs meant that residential development, by and large, became commercially unviable for a time because the expected proceeds from sale of the units would not cover expected development and construction costs.

6.10 He noted that NAMA had conducted a review and concluded that residential sales prices had begun to increase again and that this meant that residential development was now commercially viable at a number of sites controlled by NAMA. In relation to the target of 20,000 residential units, the Chief Executive Officer advised the Committee that

- NAMA was confident that sites capable of delivering 13,200 residential units were commercially viable to develop at current prices
- NAMA would undertake intensive asset management work on other NAMA-controlled sites, including seeking enhanced planning permission and support for the provision of strategic infrastructure, to ensure that the residual 6,800 units (of the 20,000 residential unit target) would also be delivered.[1]

6.11 In the 2015 and 2016 annual report, NAMA set out its approach to selling loans that includes *inter alia*, NAMA reviewing the assets of debtors before loan sales to establish if properties could be used for residential development.[2] The reports refer to two loan sales where NAMA had removed 16 debtor connections from the sales as it identified related properties that could be used to deliver 931 residential units, on a commercial basis, funded by NAMA. NAMA stated in the 2015 report that these sites would "… contribute to the achievement of NAMA's stated commercial objective of funding the construction of 20,000 new homes in Ireland by 2020".

1 The Chief Executive Officer noted NAMA's intention to work with local authorities, Irish Water and with Transport Infrastructure Ireland to address any infrastructural issues which were impeding the development of sites.

2 NAMA's 2015 annual report (page 15) and NAMA's 2016 Annual Report (page 31).

NAMA's delivery mechanisms

6.12 NAMA has used three delivery mechanisms to progress residential developments, as set out in Figure 6.1. From quarter 4, 2015 to end 2021, a total of 11,049 residential units were delivered. The majority of residential units were delivered under arrangements involving direct funding from NAMA.

Figure 6.1 Delivery mechanisms for directly funded residential development

Investment venture (IV)	▪ NAMA enters into partnership agreements with Irish and/or international investment firms to facilitate the build−out of residential units. ▪ NAMA invests as a minority shareholder (no more that 49% shareholding) in a particular IV. ▪ The IV purchases a site, which can include sites over which NAMA holds security. ▪ The development funding is not financed for the most part by NAMA.	143 units
Licence	▪ NAMA debtor/receiver licences a site to a developer. ▪ The licensee pays a deposit for the site and is responsible for obtaining development finance. ▪ Sales proceeds from residential units are split between the licensee and the NAMA-appointed receiver. ▪ NAMA funding is, in the main, not required.	1,236 units
Direct funding by NAMA	▪ NAMA works with co-operative and competent debtors/receivers and provides funding to secure new or improved planning permission and to develop and construct residential units. ▪ NAMA monitors the level of construction progress monthly, and releases funding based on certified progress. ▪ The return to NAMA is in the form of enhanced value of NAMA's underlying security and involves the capture of all development profits via the delivery of residential units.	9,670 units

Source: NAMA

Maximising the return to the State

6.13 When considering the delivery mechanism of direct funding, NAMA developed a commercial viability test for residential developments. The objective of the test was to ensure that residential development schemes that it funded would result in the optimum return for NAMA and taxpayers in line with Section 10 of the NAMA Act.

6.14 The test requires the debtor/receiver to provide projections of sales revenue and of development costs (including current site value). NAMA then applies a set percentage for notional interest rate costs, development management fees, house price inflation and construction cost inflation. The outcome is the net cash position for the proposed development.

6.15 The decision to proceed (or not) with a proposed residential investment is made within NAMA's Board-approved delegated authority framework. Accordingly, if proposals are projected to result in a positive net cash position, they may be approved by the relevant delegated authority. Proposals that fail the commercial viability test may be progressed as an exception to policy if approved by the Chief Executive Officer and by the head of residential delivery.

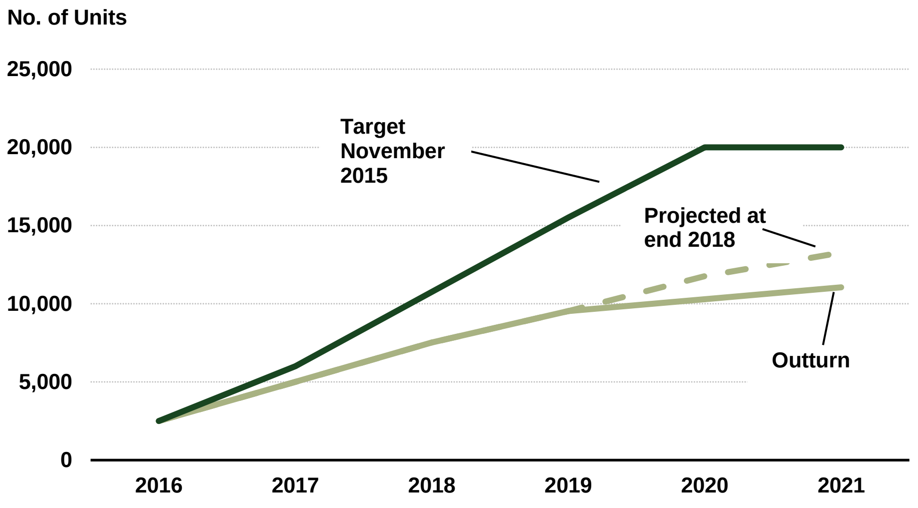
6.16 NAMA carried out this test on 26 projects in the period 2019 to 2021. All of these proposals had positive projected net cash positions and thus passed the commercial viability test. In two of the 26 projects (both of which had positive projected net cash positions and passed the commercial viability test), the valuation report for the land fell outside the required six-month timeframe and approval was sought from the delegated authority as an exception to the policy. The projected number of residential units to be delivered through the 26 projects is 2,513 units.

Residential delivery outturn 2016 - 2021

6.17 Between the final quarter of 2015 and the end of 2021, 11,049 residential units had been delivered by NAMA (Figure 6.2). This was 55% of the original target set in November 2015.

6.18 In NAMA's Strategic Plan 2022 – 2025, which leads to the agency's wind down, NAMA has set a target of delivering 1,800 additional residential units in Dublin and surrounding areas over the four-year period. At the start of 2022, NAMA forecasted 600 of the 1,800 units would be delivered in 2022.

Figure 6.2 NAMA's residential unit output — projected to end 2020 and delivered to end 2021



Source: NAMA. Analysis by the Office of the Comptroller and Auditor General.
Note: 2016 includes 385 units delivered in Q4 2015.

Delivery of residential units on sites sold

6.19 NAMA notes that from 2011 to the end of 2021, its debtors and receivers had sold residential zoned sites with the potential to deliver an estimated 86,000 residential units. NAMA has stated that for many of these sites, it had provided funding for asset management purposes (e.g. achieving planning, resolving title or boundary issues) to progress the sites towards being ready for development but that development of some sites may be currently inhibited by constraints relating to commercial viability, infrastructure or suitable planning permissions.

6.20 Where it has sold sites, NAMA has no control over when they are developed and does not provide loans for construction. Nevertheless, NAMA considers residential units completed on these sites as being 'indirect' NAMA deliveries and monitors progress in that regard through public sources.

6.21 NAMA reports that at the end of 2021, an estimated 9,971 residential units had been constructed on such sites, and expects a further 2,250 units to be delivered from this source in 2022 i.e. a total of 12,221 units.[1] This represents 14% of the estimated overall capacity of the residential development sites it has sold.

NAMA's views on residential unit delivery 2014 - 2021

NAMA has stated that between 2014 and end-2021, it funded or facilitated the delivery of 23,166 new homes. Of these, 13,195 were directly funded by NAMA and 9,971 were delivered indirectly on sites for which NAMA had funded planning permission, enabling works, legal costs or holding costs but which were subsequently sold, or where the associated loans were subsequently sold or refinanced. On this basis, NAMA considers that it exceeded its challenging strategic objective by facilitating the delivery of over 23,000 new homes, far exceeding the 20,000 target that it had set.

NAMA has pointed out that section 10 of the NAMA Act requires it to obtain the best achievable financial return for the State, deal expeditiously with its acquired assets and protect or otherwise enhance the value of those assets. In cases where sites are commercially viable to develop, the best financial return for NAMA may be achieved by funding site development. However, in other cases, the best financial return is achieved through a disposal of the site. In many of these particular cases, NAMA provided funding for asset management purposes (e.g. achieving planning, resolving title or boundary issues) to progress the sites towards being ready for development.

1 NAMA monitors progress on these sites through public sources.

Conclusions

6.22 In compliance with Section 10 of the NAMA Act, NAMA's primary objective is to obtain the best achievable financial return for the State. Targets in relation to delivery of residential housing units were secondary to that objective.

6.23 NAMA set itself a challenging target to deliver 20,000 residential units over the five-year period 2016 to 2020, on sites in which it had a financial interest. NAMA's November 2015 residential delivery plan envisaged that the development would be funded wholly or partly by NAMA, in co-operation with debtors or receivers, and potentially with third-party involvement. This approach was adopted on the basis that it would yield a higher return for NAMA, and that it would result in speedier delivery of residential units for the housing market.

6.24 NAMA did not achieve the residential output target that it adopted in 2015. As at the end of 2021, it had delivered 11,049 units on sites in which it has an interest. This represents delivery of 55% of the target, a year later than originally projected.

6.25 NAMA considers that, in monitoring the achievement of its residential delivery target of 20,000 units, it is appropriate to also take account of 9,971 units constructed on sites sold by NAMA debtors/receivers. However, this is not a 'like for like' comparison, because such units were not included when the original target was set.

6.26 Where sites have been sold, NAMA has no control over when they are developed and does not provide loans for construction. NAMA has estimated that sites sold by NAMA debtors/receivers between 2011 and the end of 2020 had the potential for delivery of 86,000 residential units. NAMA's projection that a total of 12,221 residential units would be delivered on such sites by the end of 2022 would represent only around 14% of their estimated overall capacity.

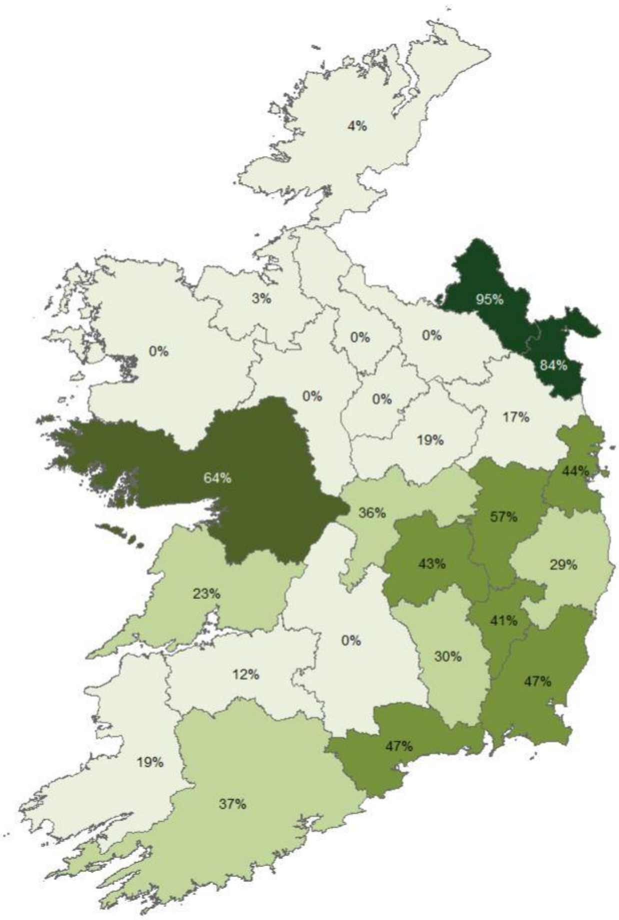
7 Social housing

7.1 NAMA acquired an interest in a number of residential property developments when it acquired its loans from the participating institutions. These developments included residential units in diverse locations and in a range of stages of completion. While some of the developments were located in areas where there was little demand for social housing, others were considered to have potential to meet such demand.

7.2 NAMA worked with the Department of Housing, Local Government and Heritage[1] in relation to the delivery of social housing. In some cases, NAMA extended new lending to debtors or receivers to allow them to carry out additional work required to ensure that properties offered for social housing complied with the relevant building regulations.

7.3 Up to the end of 2021, NAMA had identified a total of 7,283 residential properties as potentially being suitable for social housing. Just under two fifths (37%) of the properties offered were taken up by local authorities and approved housing bodies. The largest percentage uptake was in Monaghan and Louth, while a number of counties had no uptake (see Figure 7.1). Ultimately, the responsibility for determining suitability rests with the local authorities and approved housing bodies.

Figure 7.1 Units accepted as a percentage of those offered by NAMA to local authorities and approved housing bodies from 2012 to December 2021



Source: NAMA

1 Previously Department of Housing, Planning and Local Government.

7.4 NAMA set a target of delivering 2,000 social housing units by the end of 2015, and this target was met. NAMA did not set a further delivery target.

7.5 By the end of 2021, NAMA had provided a total of 2,621 social housing units to local authorities and approved housing bodies (AHBs). A further 66 units were at contract stage, and 117 units are still under consideration.

7.6 2,455 units offered by NAMA were deemed unsuitable or were not required to meet social housing needs at the time. A further 2,024 of the units were subsequently sold or let on the open market by the NAMA debtor/receiver during the period of engagement with the local authority/AHB.

7.7 NAMA noted that in addition to the properties delivered under its social housing programme, debtors/receivers had sold two sites with planning permission for residential properties to local authorities or to AHBs during the period 2019–2021.

National Asset Residential Property Services DAC (NARPS)

7.8 In 2012, NAMA established a subsidiary company called National Asset Residential Property Services DAC (NARPS) to acquire units from some of its debtors and receivers, so as to make them available to AHBs by way of long term lease.

7.9 Up to the end of 2021, NAMA had delivered 1,366 social housing units through the NARPS leasing mechanism. This represented 51% of all the social housing delivered by NAMA to end 2021.

7.10 The activities of NARPS were funded by borrowings within the NAMA group. NARPS owed NALM a total of €201 million at the end of 2021.

7.11 The NARPS annual rental income in 2021 amounted to €13.8 million and involved 14 lessees. The key features of the delivery model are

- leases to the AHBs are for terms of 20 years
- rental payments to NARPS are agreed between NAMA and the Department for Housing, Planning and Local Government at a discount to market rent to reflect the length of the lease term
- the AHBs have an option to buy the residential properties from NARPS after 13 years for the open market price less 10%.

7.12 It is intended that the Land Development Agency will assume responsibility for NARPS, as part of the wind down of NAMA. The two agencies, the Department of Finance and the Department of Housing, Local Government and Heritage jointly agreed in principle the process for the transfer to occur. It was identified that an amendment to the Land Development Agency Act 2021 will be required in order to enable the transfer to proceed.

Appendix

Appendix A NAMA's income and expenditure

Figure A.1 NAMA's income and expenditure to end 2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Income recognised													
Interest and fee income	525	1,283	1,387	1,335	955	614	398	250	36	—	9	—	6,792
Net gains on debtor loans measured at FVTPL	—	—	—	—	—	—	—	—	605	230	149	181	1,165
Net gains on investment properties	—	—	—	—	—	—	—	—	—	74	5	22	101
Net profit on debtor assets and surplus income	—	549	188	505	285	1,587	1,110	335	313	45	121	6	5,044
Gains on derivative financial instruments	—	24	—	—	—	—	—	—	—	—	—	—	24
Foreign exchange gains	22	62	—	—	—	—	9	—	—	—	—	—	93
Impairment credit	—	—	—	—	—	86	282	13	—	—	—	—	381
Tax credit	—	235	—	—	—	—	—	—	—	—	—	—	235
Other income	—	—	—	—	36	48	35	22	40	28	—	54	263
	547	**2,153**	**1,575**	**1,840**	**1,276**	**2,335**	**1,834**	**620**	**994**	**377**	**284**	**263**	**14,098**
Expense incurred													
Interest and similar expense	(179)	(512)	(493)	(375)	(313)	(221)	(82)	(3)	(6)	(13)	(7)	(1)	(2,205)
Losses on derivative financial instruments	(17)	—	(38)	(55)	(159)	(134)	(4)	(1)	(7)	(1)	—	—	(416)
Foreign exchange losses	—	—	(99)	(89)	(22)	(14)	—	(6)	(2)	(1)	—	—	(233)
Administration expenses	(46)	(128)	(119)	(121)	(135)	(112)	(80)	(67)	(75)	(67)	(63)	(51)	(1,064)
Impairment charge	(1,485)	(1,267)	(518)	(914)	(137)	—	—	—	—	—	—	—	(4,321)
Tax expense	—	—	(76)	(70)	(52)	(28)	(165)	(62)	(109)	(30)	(19)	(16)	(627)
Dividend paid	—	(5)	(4)	(2)	—	—	—	—	—	—	—	—	(11)
Other expenses	—	—	—	(3)	—	—	—	—	—	—	(3)	—	(6)
	(1,727)	**(1,912)**	**(1,347)**	**(1,629)**	**(818)**	**(509)**	**(331)**	**(139)**	**(199)**	**(112)**	**(92)**	**(68)**	**(8,883)**
Profit/(loss) in the period	**(1,180)**	**241**	**228**	**211**	**458**	**1,826**	**1,503**	**481**	**795**	**265**	**192**	**195**	**5,215**

Source: NAMA financial statements 2010 – 2021

Note: a The 2013 figures are shown net of interest expense and interest income from NARL.

Figure A.2 NAMA's administrative expenses 2010 – 2021

Cost	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Costs reimbursable to NTMA	15	28	37	41	54	54	48	37	39	39	32	30	454
Primary servicer fees	13	57	56	55	50	39	15	9	8	7	7	6	322
Master servicer fees	2	3	4	3	3	1	2	2	2	2	2	1	27
Portfolio management fees	5	16	7	6	4	5	3	2	3	2	3	2	58
Legal fees	3	9	5	3	8	6	3	7	9	6	8	2	69
Finance, communication and technology costs	6	2	3	3	4	2	4	5	6	5	5	5	50
Rent and occupancy costs	—	1	1	1	3	3	3	3	6	4	4	4	33
Other [a]	2	12	6	9	9	2	2	2	2	2	2	1	51
Total	**46**	**128**	**119**	**121**	**135**	**112**	**80**	**67**	**75**	**67**	**63**	**51**	**1,064**

Source: NAMA financial statements 2010 – 2021

Note: a Other costs include audit, Board and Committee fees as well as due diligence and portfolio transition costs.