Ireland’s National Asset Management Agency (NAMA) has been a fixture of real estate news since its creation in 2009. Established to address problems in the banking sector caused by excessive property lending, the agency is now shifting gears from loan acquisition to asset management. On October 4th, John Mulcahy, Head of Asset Management at NAMA, flew to London to have a conversation with ULI. Mr Mulcahy was formerly Chairman of Jones Lang LaSalle in Ireland, and had been brought in by the Irish government to help establish their loan methodology. Subsequently, he was asked to help run the new agency, being ultimately responsible for the portfolio. The sold-out breakfast event was hosted by Lazard & Co. and sponsored by Eastdil Secured. Patrick Long of Lazard and James McCaffrey of Eastdil served as facilitators and interrogators. While the session was off the record, below are a few of the topics discussed.

The discussion kicked off with an overview of the Irish property market by Phil Tily, Managing Director for the UK and Ireland at IPD. He relayed that the fundamentals in Ireland have been improving, such as downward trending bond yields. From the mid-1990s up to the recession, Ireland had experienced a period of extended growth, withholding a disconnect between values and underlying indicators in 2005-07. Inflated property prices and cheap, easily available debt resulted in the recession. Ireland emerged from the recession in 2011 and investment returns have been positive for the last three quarters. There are pockets of recovery around the country, a high level of income return, and good signs in the industrial and office sectors. NAMA’s loans are backed by assets primarily in Ireland and UK, with 8% spread across Europe and the United States. The agency has been focusing first in markets that are liquid and where it can add value, like London and the US. The total loan portfolio stands at €74 billion, for which taxpayers paid €32 billion. From inception to now, Mr Mulcahy reported inward cash of €9 billion and this strong position has enabled NAMA to start paying down their senior debt and loans while maintaining roughly €4 billion cash on the balance sheet.

When it came to questions regarding how the investment community should engage with NAMA, Mr Mulcahy stressed that NAMA’s public role requires a very open relationship. The agency is happy to organise conference calls or to find time to meet if investors are in Dublin, but assets must be sold on an auction basis. While NAMA will respond if an investor puts in a bid, at best it will only speed up the pace - NAMA must be able to show that every transaction passed a market test (unless there is some sort of litigation). He said NAMA maintains a database of everyone who contacts them, so potential investors can remain aware of assets going to market. They also publish a significant amount of information in their annual report and appear multiple times a year in front of the Irish Committee of Public Accounts.

Mr Mulcahy also discussed challenges NAMA faces, like staffing. NAMA has largely finished its recruitment initiative with its 200 strong staff fairly equally split between those with banking and real estate background. This has provided confidence in and resources for making decisions, but attracting the best people to ensure the best deals are made requires competitive salaries, which can be unpopular with the public. Furthermore, NAMA must account for the fact that its employees are on fixed-purpose contracts and will eventually lose their jobs. He gave examples of talented employees who have already been recruited away for more profitable and steady career options elsewhere.

Other challenges include the 29% of the portfolio comprise of land and development—land in rural Ireland is “not hot” at the moment. NAMA has advanced some unfinished developments, such as estates for social housing provision. Luckily, of the Irish property, over 90% is located in or near counties with large urban centres, 61% in Dublin alone. The long-term prospects for much of this property are positive, particularly if the medium-term outlook for the Irish economy fulfils current growth rate expectations.

On personal guarantees, there is a feeling among the public that developers must be punished for plunging the country into a financial crisis with their speculative investments. NAMA is working with borrowers to resolve personal guarantees over time on a case-by-case basis and uses litigation when necessary. Mr Mulcahy commented on a range of other issues, but stressed that NAMA is open for business and happy for any capital coming into Ireland, even if it is not for his agency.
Crossrail is the largest engineering project in Europe with major construction currently taking place below and above ground in central London. Its goal is to connect rail networks on both sides of London through the city's centre, bridging Maidenhead and Heathrow in the west to Shenfield and Abbey Wood in the east.

On September 18th, Colin Smith, Crossrail’s Head of Over-site Development, spoke to ULI UK from the Crossrail Visitor Centre at Tottenham Court Road - Crossrail's most complex and advanced worksite in London. He discussed the project's history and construction progress, including many details of developments, especially those above ground. He noted that millions of Londoners rely on a rail transport system which is increasing under pressure, and that Crossrail is poised to make commuting easier for regular rail passengers by improving facilities, accessibility, and travel times. When Crossrail is complete, London's rail capacity will increase by 10%, providing connectivity for areas of expected population growth. Travel times across the board will fall; for example, the journey from Heathrow Airport to Liverpool Street will take just 32 minutes, compared to the current travel time of 55 minutes.

Colin spoke about the challenges of building infrastructure on this scale in central London. Construction challenges include navigating the city’s existing infrastructure, and minimising disruption to communities near to worksites. As Crossrail spans 19 boroughs it comes into contact with numerous landowners, residents, contractors, suppliers, and interested parties, resulting in a great number of stakeholders for consultation.

Various challenges have resulted in each station being designed and built differently, all involving a huge amount of design integration work. Crossrail stations will be spacious and modern and some, like Canary Wharf, will have a futuristic feel. Mr Smith said that Crossrail decided not to have a specific architectural statement so as to better reflect the diversity of London's architecture, adding that Crossrail will provide a lasting legacy with a good quality design.

Construction of the new stations required the acquisition of major central sites, the cost of which has totalled £800 million through use of compulsory powers. Certain major landowners, including Grosvenor Estates, Great Portland Estates, Derwent London and Aviva wished to retain an interest in these sites and this process has resulted in a number of Collaboration Agreements with existing landowners for the delivery of the over-site developments. In short, the landlords received the right to influence the over-site development design and in some cases this led to significant changes and improvements in station design as the two elements have to be totally integrated with the station foundations supporting the over site developments. The Collaboration Agreements provided major landowners with the right to buy back the over-site development opportunities after completion of the station's development. In exchange Crossrail obtained access to the design and planning skills, experience and resources of the top private sector firms. Colin Smith has been instrumental in mediating between the design teams of Crossrail and the landlord to ensure that the design of the station fits the over-site development and vice versa. Apparently, constructive tension between developer and station designer has led to some good designs.

Whilst Crossrail has a Parliamentary Act which grants some planning powers, over-site developments are not covered by this and are still subject to the normal planning approval process. This has required regular collaboration with local planning authorities. For example, many stations were in areas with height restrictions. In obtaining planning permission for the over-site development above Farringdon station, Crossrail and development partner Cardinal Lysander were asked to cut back Cardinal House to improve views of the dome of St Paul's Cathedral. Cardinal Street is also to become fully pedestrianized. Improved public spaces will accompany other stations, such as at Tottenham Court Road station where it is intended that St. Giles will become a new square with improved pedestrian facilities and better connections to Covent Garden and Soho. Additionally, a new entrance to the Bond Street station will open in Hanover Square, which Westminster City Council will be redesigning to make favourable to pedestrians.

At Canary Wharf the station building will be topped by four floors of much needed retail space and is likely to result in a profitable investment after it opens in 2015. There will also be a landscaped park, restaurant, and community facility on the top floor.

In the future, Colin Smith's role will involve getting sites ready for sale and selling them back to collaborators. Colin noted the variability in values across the Crossrail sites, but informed that Crossrail expects to derive £540 million from the sale of sites. Crossrail’s effect on property values has been researched, and based on data from infrastructure projects around the world, it is suggested that the impact on property values will extend 500m for offices and 1000m for houses. This, however, could extend even wider where there is significant change in the locale's accessibility. It is expected that Crossrail will positively affect house and commercial values in London and areas along the route, and that it will encourage major occupiers to seek closer locations. On the whole, economists project Crossrail will bring the region £42 billion in benefits.
ULI engages policy world at its first party conference in Birmingham

ULI UK recently piloted a new form of public policy engagement – political party conferences. Through their Midlands committee, ULI organised six fringe events during the Conservative Party Conference in Birmingham. The conference took place from October 7th to 10th and includes numerous events from non-profits and companies seeking to raise awareness of the issues in their field. ULI ran three sets of events, each comprised of a breakfast panel and dinner discussion, on the topics of transport, housing, and the knowledge economy. While ULI is a non-lobbying organisation, greater engagement with political conferences is hoped to raise ULI’s profile within the policy community. The success of this experiment should also pave the way for engaging with more party conferences next year. Video of the discussions can be found on ULI UK’s website, under the Midlands page.

The Knowledge Economy

The connection between higher education, city government, and the businesses community is fundamental to the future economy. According to participants at ULI’s knowledge economy sessions, Birmingham is particularly well suited to capitalize on improved relations between the three. The panel was moderated by Bill Kistler, ULI Trustee and Managing Partner at Kistler & Co., and consisted of Dr. David Hardman MBE, CEO of the Birmingham Science Park; Prof David Eastwood, Vice Chancellor, University of Birmingham; and Wouter Schuitemaker, Investment Director at Business Birmingham.

According to Prof Eastwood, in 2010-11 UK universities contributed £3.3 bn to the economy through services to businesses, including the commercialisation of new knowledge, the delivery of professional training, and consultancy. While not recession proof, this was a 7% increase on the previous year. (The total impact of the University of Birmingham on the city is estimated to be £800 million and the total impact of all universities on the UK is estimated at £65 bn.) As Wouter Schuitemaker noted, universities often act as ambassadors for FDI. Around the world, business clusters tend to focus around universities, such as computer science around Stanford or aerospace around the 34 Washington state colleges with programmes. He highlighted an aim of Birmingham to build on its clusters by delineating six economic zones around the city, based on existing strengths and not aspirations, and bringing in investors from targeted sectors.

David Hardman highlighted recent data from the US that showed that employee skills was the most significant determinant of high growth businesses over a 30 year period, and that university graduates correlate with this most closely. According to Hardman, the three parts of the knowledge economy need to work together, especially on promoting ideas, skills, and funding (and not just funding for university research, but also for early stage businesses). Eastwood stressed the responsibility of universities to R&D and the commercialization of that knowledge, being aware that universities receive a lot of their resources from public funding. One way the University of Birmingham and others are giving back to the private sector is through Easy IP, an initiative to give away intellectual property.

Transport

As highlighted in both sessions on transport, connectivity and infrastructure are key drivers of competitiveness and attractiveness for cities. The breakfast panel was moderated by Mark Reeves, Partner at RUF Public Affairs, and consisted of Tom Magrath, Policy and Strategy Director at Centro; Duncan Field, Partner at Wragge & Co.; Paul Kehoe, CEO at Birmingham Airport; and Marc Barrow, Chief Executive at Newcastle-under-Lyme Borough Council.

Tom Magrath highlighted the recent accomplishments in Birmingham’s transport network. By 2015, Birmingham will have a £600 million redeveloped transport hub at New Street Station, a £65 million runway extension at Birmingham Airport, and a £127 million extension of the tram system through Birmingham city centre. Moreover, HS2 is expected to be on the statute books by 2015. Among its benefits, these developments will encourage people to switch from cars, improving the traffic congestion in the city which costs the region’s businesses £2.3 billion a year.

Paul Kehoe pointed out that Birmingham has a great transport heritage: whether canals, road or rail, it’s been at the centre of all three. He said to be a top 25 city, as a number of Birmingham city officials like Sir Albert Bore has aspired, requires connectivity to markets. While Birmingham Airport’s runway extension should have taken place 20 years ago, accomplishing it today could have tremendous benefits for the region.

Duncan Field argued that governments have largely failed to grapple with the concept of integrated transport. Governments have tended to develop transport policy in silos – separate for rail, airport, roads, etc. with little coordination between them. In the absence of national leadership, the Tory localism policy has given local authorities the opportunity to do something for themselves. Mark Barrow agreed that any break in grey clouds was likely to be driven by the local level.

According to Barrow, the region is in a good position because within the life cycle of a city, Birmingham is entering a renaissance period. But as Field also attested, Birmingham’s future is tied to the future of England’s regional cities. Those cities and regions must work out how they can work together as an economic community apart from London.
Midlands: Housing—Exploding the myths

Over the past two years in England, average housing starts across all tenures have numbered 109,000, while projected need is twice that. This has put housing on the minds of many politicians and pressure on the industry. ULI’s two events on housing were in conjunction with Inside Housing magazine and moderated by its editor, Stuart Macdonald. The breakfast panellists included Nick Jopling, Executive Director at Grainger and Chair of ULI’s Residential Council; Richard Parker, Partner and Head of the Housing Team at PwC; Nick Ebbs, CEO of Blueprint and Director at Igloo; John Frankiewicz, CEO of Willmott Dixon Capital Works; and Chris White, Director in CBRE’s Regeneration Consultancy.

Nick Ebbs asserted that the housing market is in meltdown. Of an estimated need for 9,000 homes in Birmingham, only 1,500 were built last year. There is a whole generation of people not getting decent homes within their means. As Kate Barker said in her report, supply is a major issue, including supply of land. On land supply, panellists addressed the need to be more relaxed about the greenbelt while highlighting the capacity for infill development within cities like Birmingham. Ebbs also said that existing housing stock needs to be used better. For example, there many students in Birmingham living in housing designed for families. Ebbs pointed out that the Tory government in the 1960s looked to the public sector to resolve their housing crisis. Local authorities today have potential with their control of so much land and planning regulations.

Richard Parker, who worked on housing revenue accounts under the previous government, highlighted the potential funding opportunity of allowing local authorities to borrow against their asset base. In today’s terms, this is equal to about £25 billion (£16,000 per unit). While an opportunity to create housing supply without drastic action, one hold up to this chancellor’s deficit reduction plan.

Sir Adrian Montague’s recent report on ways to increase home-building and get institutional money into the private rented sector was a feature of the discussion. While there is demand for rental homes and interest from institutions, panellists concurred there is a disconnect. Institutions want finished, leased buildings that they can get a yield off, but the cost of buying such properties is lower than the cost of building them. Montague determined that the problem wasn’t a matter of poorly priced rents or high management costs, but of the cost of supply and the effects of Section 106 regulations. John Frankiewicz concurred that the cost of land is a major issue; construction costs are at the lowest level they have been at in many years. Montague suggested that local authorities should wave part of the S106 requirements, for example, if a developer commits to private rental for 10-20 years. This proposal wouldn’t alter S106 for build to sale, but it has still caused issue with people who feel private building could take place at social building’s expense. Jopling asserted that Montague’s review was a significant piece of work for the industry.

Chris White explained how CBRE has tried to sell large private rental schemes and institutional investors have shown interest but pull back before signing. He said that the private rental sector must be seen as an asset class equal to commercial development or student accommodation. He also brought up the issue of delivery organisations; major house builders are not set up to deliver private rented accommodation; their models are based on private sale. He said he sees a stronger private rental sector in the UK as an inevitability. Just as there were few suppliers of student accommodation in the 1990s and today there are many, he believes the private rental sector will eventually see its desired growth.

Young Leaders talk distressed debt

How do you define a distressed loan? This question stirred up inquiring debate amongst the panel members at the ULI YL’s sold-out event “Loan Maturities, Insolvencies...Are we restructuring our way out of the debt crisis?” Graciously hosted and moderated by Ernst & Young’s Dean Hodcroft, Head of Real Estate for EMEA, the evening’s panel consisted of a distinct group of real estate professionals from various sectors of the business including:

- Dan Smith, former Head of UK Restructuring at Eurohypo and now Head of Origination at Laxfield Capital Partners;
- Martyn McCarthy, CEO of Valad Europe;
- Douglas Kirkman, Managing Director at Blackstone Real Estate Debt & Advisory; and
- Rishi Bhuchar, Partner in Ernst & Young’s Real Estate Corporate Finance division.

The attendees, many of whom were ULI YLs, benefited from the evening’s discussion which circled around distressed assets on the balance sheet of banks/financial institutions and the general willingness (or often unwillingness) to sell off assets at a discount; pricing differentials/return expectations between primary, secondary and tertiary markets; and reworking complex CMBS structures.

When the panel was asked the million dollar question of when will the lending markets return to ‘normal’, the collective response was... well... let’s just say we likely have a few more years to go. The sentiment being that, while the world has become technologically and socially advanced, we still haven’t figured out how to assess risk and lend accordingly.

The discussion ended with some invaluable career advice from the panel – make sure you’re in the deal mix (any kind of deals) as opposed to becoming stagnant, gain exposure to the UK (particularly London) which is considered one of the deepest and most liquid markets in Europe, and search for companies that are growing and expanding.
Vanessa Hale of Strutt & Parker recently won the Chair’s Award from ULI’s Women’s Leadership Initiative. WLI’s mission is to promote the advancement of female leaders in real estate, an industry in which female voices are lacking among company leadership. The Chair’s Award recognizes up to three outstanding ULI members who have made significant contributions to WLI and its mission. It includes complimentary registration to the 2012 Fall Meeting in Denver, Colorado this October and a capped reimbursement of travel, lodging, and related expenses.

“The mission of the WLI is to raise the visibility and number of women leaders in ULI and in the real estate industry,” said WLI Steering Committee Chair Kathleen Carey, who chose the three recipients. “Each of this year’s Chair’s Award winners has dedicated her time and energy in an outstanding way to move the WLI mission forward. WLI is extremely appreciative of their efforts and wants to recognize and reward their important contributions to advancing the theme of women in leadership.”

Vanessa was selected in recognition of her early efforts to move WLI to an international platform, which the initiative is just starting to explore. WLI’s inaugural event in the UK will be taking place this winter.

Vanessa Hale is a senior analyst at Strutt & Parker, where she is assisting in establishing the company’s first research team to support all of its property sectors. Vanessa previously worked as a senior research analyst for CBRE in Chicago. She is co-chair of the membership division of the UK’s Young Leaders Group and is in the process of establishing a chapter of WLI in the UK. Vanessa was a member of the Young Leaders in Chicago, where she also headed up membership efforts. She earned a bachelor’s degree from the University of Illinois at Urbana-Champaign and a master’s degree from Roosevelt University in Chicago. Vanessa has a managing residential broker’s license in the State of Illinois and is also a U.S. Green Building Council LEED accredited professional.

ULI joins the Property Industry Alliance

ULI has joined the Property Industry Alliance - an association of leading property bodies in the UK working together to achieve a more coordinated and effective approach on policy, research and best practice issues. PIA consists of eight leading industry bodies: Association of British Insurers, Association of Real Estate Funds, British Council for Offices, British Council of Shopping Centres, British Property Federation, Investment Property Forum, Royal Institution of Chartered Surveyors, and now the Urban Land Institute.

Among its efforts, PIA publishes an annual Property Data Report, highlighting the property industry’s contribution to the economy. “This document sets out some key facts about commercial property, a sector that makes up a major part of the UK economy in its own right, as well as providing a platform for virtually all the country’s other major industries.” Current and past editions of the Property Data Report, as well as PIA Updates on UK Commercial Property Debt Risk will be published online in ULI Europe’s Knowledge Bank.

Eccleston Place , London research published

ULI has recently published an advisory service panel report on Eccleston Place by Victoria Station in London. ULI advisory service panels provide strategic advice to sponsors on land use and real estate development issues. Established in 1947, this programme has completed over 600 panels in 47 states, 12 countries, and 4 continents. The report, sponsored by Grosvenor, is available on ULI Europe’s website.