

Chairman's introduction:

Paddy Kelly is 66 years of age. His lifetime of work and achievement is in the property sector and in entrepreneurship. The events of the past 2 years has strengthened Paddy's resolve to be part of the solution and not be part of the problem. He is here this morning to tell us why and how he proposes to do that.

MacGill Summer School 2010

Paddy Kelly – **Doing Business in the Global Village**

My name is Paddy Kelly and I'm a property developer and entrepreneur

I would like to thank Joe Mulholland for inviting me here.

1. Why I am here today

I am here because I feel strongly that I want to share in the national debate. And in part, to talk about the property industry. It is my strong desire to be part of the solution

Who are we, us property developers? We are a group of people whose life's work is the development of the built environment You see on the presentation behind me some of my own contributions to the built environment.

What are we like, us property developers?. We are as diverse as any other group

The property people have not generally been part of the current debate about the state of the Irish economy. I can't, nor would I want to speak for all developers. Today I will tell you my own story and share my own perceptions.

I will do this under 2 headings:

1. How did we get ourselves into this situation

2. The Way Forward within the context of the Global Village

1. How, did we get ourselves into this situation?

No Vision! No Roadmap!

Where did we lose the plot?

Was it ineffective regulation?

Was it losing control of our cost base?

I think it was bigger than that.

We had no vision for the Republic

This forum seeks to address the issue of **REFORMING THE REPUBLIC**. I believe it's a centrally important issue.

The property industry's role

The Property industry was seen as the main engine of the economic boom.

The entire economic correction and its consequences have been overly attributed to the property sector. In my own case, I have seen the business I've built up over 50 years, a life-time's work, go through a dramatic re-adjustment.

The dramatic crash in the economy has effected huge numbers of people in Ireland. These changes of circumstances have created a lot of hardship for many people. **Many if not most of these people were innocent bystanders. I passionately believe that those people should not be burdened with a debt not of their making.** People who were victims of change that has come about as a consequence of the massive **credit and asset price bubble burst.**

The Credit Bubble

The Credit Bubble is at the heart of the matter. The recent bursting of the massive €300bn Credit Bubble fuelled the economic and the property madness. Let us remember that the government will have received in the region of 60 to 75bn in revenues from this source. The legacy of this leaves us all with an albatross around our necks and that of the future generations. I accept that we, in the property sector, had a major part in contributing to the economic exuberance that allowed our property development engine become much over-heated, fuelled by limitless Credit!

THE BUILT ENVIRONMENT

My world is in part the development of the BUILT ENVIRONMENT. Personally I have always appreciated the best examples of the built

environment. I have learnt about such down through the years from my travel and work overseas and tried to bring home the best ideas and examples of what I have seen.

Over the past 50 years I have developed a diverse range of property projects ; homes, corporate offices, hotels. In the services sector I have supported businesses in the retail...pubs...education and health areas. I have been involved in businesses in Ireland, in England, in Europe and in America. Behind me on the screen you see examples of projects we have developed over the years

PARTNERSHIP MODEL

I have always advocated the partnership model as a good way to create large-scale business. The projects you see here on my presentation are about scale. And also about partnership.

CORPORATE PROPERTIES

I think it's fair to say in some part we have created buildings that are now regarded as part of the landscape that is new Dublin.

These buildings-

Sandyford Office Park – Microsoft, Oracle, AIB

Belfield Office Park, Ericsson and Compaq

Gallery Quay,

ESRI Building,

O2 Offices

Riverside 2 Offices & Apartments

Maldron Hotel,

IFSC Clarion Hotel & Apartments, National College of Ireland

Burlington Plaza, Burlington Road,

Smithfield Market

Countless times I have been congratulated on the quality and the need for these buildings.

From 1987 onward we focused on the needs of the American companies coming to Ireland. The IDA went out very successfully to the USA and found these international clients. We housed them.

Crucially, let's remember, at completion the government would have received in combined taxes circa 40% of the cost/value of these buildings. (Ref CIF)

HOTEL PROPERTIES

In my developments I have sought always to combine scale and partnership. The Hotel Sector is a good example. We started in the hotel business in 1996 with 35 suites, when we purchased an apartment/hotel project which was started by a group of Aer Lingus pilots. This operation grew into the PREM GROUP with Jim Murphy leading it.

This was followed by a second project in Cork, Morrisson Island which grew into Choice Hotels, Frankie Whelehan lead this.

By December of 2007 the group had a total of 7,000 bedrooms in Ireland, in the UK, in Europe and in the U.S.

The hotel model was a partnership model with a shared vision. This model was new to the Irish Hotel Industry

Glancing back

Glancing back over the years I would like to share some of my experiences and perceptions. One area of frustration for me is THE PLANNING SYSTEM

The planning process is a mess with a shocking slowness in process, a lack of vision and internal fiefdoms that astound me - Our proposals for the Bray Town Centre development have taken 5 years to get through the planning process. How can anyone be expected to sustain this? Our UCD/Smurfit project has taken 6 years through the Planning process from 2004 to 2010. This is a purpose-designed building for high-tech industry. Government policy is that promotion of high-tech industry is a national priority, I am at a loss to understand why we had to labour over 6 years to achieve planning for what is stated government policy. Meantime the cost metre is running the whole time! Why should this shocking waste of resources be allowed to happen? By contrast, I recall in the 1980's when we developed Belfield Office Park, where we have as tenants Ericsson, Compaq and others. In fact the number of people housed in this campus exceed 2.5 thousand people.

However in the interests of fairness I have to tell you that we had a collaborative and supportive relationship with the IDA and the Planning Authorities, and with Pat Rabbitte who was Junior Minister for Labour at the time in Belfield Office Park. In Tallaght when we housed UPS we had the full support of the Planning Authority under the leadership of John Fitzgerald, as County Manager of Tallaght County Council. This progressive and supportive approach is unfortunately the exception rather than the rule.

The planning process is exacerbated further by that further layer of bureaucracy that is called Bord Pleanala. Third party objections are in the most part an expensive charade.

Land zoning I believe is irrational and without any master plan. This of course leads to **Land banking**. If we did not have to tolerate this absolutely inept planning system and the consequent land banking we would have an orderly supply of serviced land and buildings into the market. Serviced land should be a national resource. There is such an urgent need to establish a balance between strategic central planning and market planning.

If there had been no premium on land, and serviced land was a resource, this would have resulted in keeping costs under control. Circa 500,000 houses were built in Ireland over the past 10 years and there was circa €50k excess cost per house wasted on land and the bureaucracy surrounding it; because of this inflated value of land due to non-existent planning strategy, the unnecessary cost to the mortgage holders over the 10 years since 2000 amounts to circa €25bn (i.e. $500,000 \times €50,000 = €25,000,000,000$) And Why? Because of costly inefficient bureaucracy and inordinate delays around planning.

THE KENNY REPORT

I would have liked to have seen the Kenny Report introduced. The recommendations of the Kenny Report accompanied by a strategic effective planning system within the context of Real Vision would have changed the course of development in our country. The Kenny Report, as some of you will recall, was the very controversial proposal in the early '70's which proposed that the additional value created by zoning should in a major way be owned by the community.

Property development should be first and foremost vision-led...It should start with a shared agreed Vision, followed by a Strategic

Plan. All of the great cities started with a Vision, a Masterplan - Washington, Paris. Strategic plans for cities should resonate with the National Plan

GOVERNMENT POLICY

I have always endeavoured to operate in tandem with government policy. But frankly at times I could not find the roadmap to government policy. I am sad to say I do not think there was any cohesive strategy, and of course as is now apparent there was zero regulation.

It seems to me that in general...

- Our national focus was on the micro and not on the macro
- Those vested with the responsibility for regulation did not take regulate
- As I have said planning lacked strategy and Government did not offer leadership in the critical realm of STATE CRAFT
- The government, the regulator, the banks, the planning authorities, the property developers, the construction sector and much of the general public were all emeshed in the short-terms gains which appeared to benefit many, but were eventually far outweighed by long-term collateral damage
- Politicians, and I mean all politicians! with rare exception used the over-heating of the property sector as part of their carrot to win popularity and to keep their coffers full.

Populism has its price!

2. The Way Forward within the context of the Global Village

Are we big enough to sort out our problems?

We certainly are if you think about it in the context of the Global Irish

- We are a people not bound within a nation.
- Us Irish people are actually 70 million in number, globally.
- 6 million of us live on this island. 4.4 million in the Republic.

Let's remind ourselves this is the size of a second-tier city; the scale of Manchester, Toronto, Atlanta

- We are a region within the EU.
- We have to adopt our policies to reflect this reality

GOVERNMENT – Government expenditure must come into balance. At present government expenditure is 15% of GNP which is 20bl. This has to be reduced to 10% which 13bl.

HEALTH – Expenditure on health should be 10% of GNP. Current expenditure of 16bl. This needs to drop to 13bl. This needs a new emphasis on preventive medicine and the introduction of primary health centres throughout the country.

EMPLOYMENT – Of course we have to have a safety net for people who do not have jobs, for whatever reason. In Belgium there is a programme where the state partly subsidises wages of people transferring from unemployment to employment. There is a policy

of keeping people at work. The net result of this policy is higher productivity, better quality of life across the board. Productivity across the board needs to be rewarded, but in a way that is balanced. ******Let us remunerate at levels that make sense from the bottom to the top of the corporate ladder ******

CAPITAL EXPENDITURE – I believe this should run at about 5% of GNP. We need to continue to invest in infrastructural efficiency. When I bring overseas colleagues here they marvel at the new road network. Our public transport system needs new and continuous investment.

THE BANKING SECTOR

NAMA:

******* Accept NAMA as the property bank. Broaden its brief so it aligns itself to resonate with the new vision for Ireland. This would require capital of about 5bl, which would be sufficient to capitalise NAMA to fund the 40bl required to buy the loans. The NAMA business plan should incorporate a strategy to float its business on the stock exchange within 5 years. The business plan should also incorporate a driven collaborative approach with the property sector. This would create the culture of win/win for all *******

AIB and Bank of Ireland:

AIB and Bank of Ireland must accept and implement government policy. Their existence is dependant upon the continued support of the Irish taxpayer. if there is any doubt about this they must be fully nationalised forthwith.

Anglo + Irish Nationwide:

Merge those businesses into Bank of Ireland and AIB

Irish Permanent + EBS:

Irish Permanent takes over the EBS

Foreign Banks:

Licence them so they operate within national policy. ACC has done huge damage to our economy by their ruthless behaviour.

Top salaries of 250k should be more than enough to attract the right people

Now more than ever in our history it is urgent that we have consensus on the way forward.

I believe that it would serve us well if someone of the calibre of Peter Sutherland or Michael Somers was to take the Irish case to Europe. Put the case to them that the irresponsible lending by the inter-bank system to the Irish bank system needs to be dealt with. Park the bank debts, deal with them at later date. Let the bondholders take a hit now. Take care of the depositors now. Do not cripple the country, let recovery happen.

Doing Business Globally is the key

I have always done business overseas. I passionately believe that our future depends on thinking globally. This will nurture our country in so many ways into the future.

-I learn and am inspired by the Irish global companies and Irish global people, companies such as CRH, The Kerry Group, Kinsgpan, Tullow Oil...people such as Chuck Feeney Their global awareness and their confidence to seek out global markets and their ability to place hubs of industry around the globe staffed in many cases at key levels by Irish people; their ability by looking at world trends to evaluate what stage of the cycle economies are at, and to use this as the rationale for their decision-making.

- I am inspired by our sports people, in particular by our golfers

- Look at the success... of Riverdance....of U2

I am very positive about the future potential for Ireland within the context of what I call Greater Ireland. Greater Ireland is the 70 million people around the globe who declare themselves Irish.

I applaud our government's Farmleigh initiative of last September; the inviting of representatives of the Global Irish family to come together to plan how best to network

Indeed in my own re-invention as a consultant to the property sector, the hospitality sector and most recently the preventive

medicine sector, my aim is to ignite however and wherever that flame that makes us the great connectors that we are

The potential that exists within our 70 billion Greater Ireland is immense. The best example of how this connectivity has been developed is the Jewish support for Israel.

Let's galvanise the global Irish support

I see an opportunity to network businesses within the global dimension of GREATER IRELAND and do this with a real strategy.

Let me share a proposal to in part make this happen

A BANK FOR GREATER IRELAND

This could be the most visible expression of Irish People's Power for Business

This would be a funding and management resource to create and develop business overseas

I see first-hand what it is like to compete for business on the world-stage. It takes resources to be taken seriously. The clout that the Chinese have in Africa is a good example of their national policy.

Our group is at present endeavouring to win a contract for a large-scale homes project in Nairobi. 1,000 homes for ex-pats in Kenya. Our competition is the Chinese! How strong our hand would be if we had our own national resource supporting us to the win this project.

Imagine! If each of the 70 million overseas Irish people could subscribe 100 dollars each, we would have a working fund of 7 billion.

In summary:

I believe in, and I aim to live my life in the spirit of

T E A M

Together each achieves more!

May I leave you with Mark Twain's words **"I am an old man and have known a great many troubles, but most of them have never happened"**

I am honoured to be here today, to be part of the debate....Thank you for hearing my voice!

Patrick (Paddy) Kelly

MacGill Summer School Friday July 23rd, 2010