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Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Gerard Gannon

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¹ See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013

Statement of Gerard Gannon to the Joint Committee of Inquiry into the Banking Crisis

10th June 2015

Important Notice

This Statement has been prepared by me in response to a letter from the Joint Committee of Inquiry into the Banking Crisis (the "Joint Committee") dated 8th May 2015. The Joint Committee has sought specific information about my business activities during the period 2001 to 2008. I have endeavoured to answer each question to the best of my ability based on the information that I have been able to obtain for this period. Given the passage of time, the level of information available in relation to the period from 2001 to 2008 can vary.

The format of this Statement follows the sequence set out in the letter from the Joint Committee.

Part 1: Overview of Relationship between your company and the banks

Prior to my loans transferring into NAMA, I had relationships with 4 banks namely, Anglo Irish Bank, AIB, Irish Nationwide Building Society and Bank of Ireland. As approximately 66% of my borrowings were with Anglo Irish Bank ("Anglo"), they can be described as my principal financial institution.

The relationship between myself and Anglo could be described as being cordial and businesslike. I originally dealt with Hill Samuel in the 1980's, prior to it being acquired by Anglo. They assisted me in acquiring relatively small plots of land with a view to getting planning permission for residential houses. Interest was typically rolled up on these loans and the bank got repaid as I sold off sites to house builders. When applying for these loans, they were very thorough and requested detailed information on the proposed site, the plans for the site and the estimated sales proceeds. The applications were processed through various relationship managers that were assigned to me.

Over time, I developed a strong track record within Anglo for borrowing funds to acquire land at the pre-planning phase, taking it through the planning process and subsequently selling bundles of sites and repaying my loan and interest to the bank. This gave Anglo confidence to lend larger amounts to acquire larger sites to take through the planning process. Amongst some of the sites financed by Anglo and Hill Samuel in the earlier years using this model include Scholarstown Road (500 units), Brackenstown Road (700 units), Clarehall (900 units) and Glen Ellan and Applewood (3000 units).

The business case supporting the loan application outlined the size of the site, an estimate of the number of units that could be built on the site, the price that could be obtained for a developed site at that time (or when I began building houses in my own right, the selling prices for those houses at that time), the professional fees associated with getting the site through planning, the cost of providing services to the sites, the financing costs together with developers profit. This appraisal

indicated the maximum price that I could pay for the site in order to make my target return. This plan was used to support the loan applications.

During the course of the loan we would typically have a quarterly review meeting with the relationship manager within the bank to provide an update on the particular site and the status of the planning process. They were very knowledgeable of the process and would usually be aware of the planning status in advance of our meetings. In addition to quarterly meetings, there would be a number of site visits by a Director/Associate Director of the Bank and relationship manager which greatly helped them understand the commercial drivers underlying the loan application.

Over time, my business evolved from residential development into ownership of the commercial elements associated with the development and subsequently acquiring prime investment assets both in Ireland and the UK. This provided me with a consistent level of rental income which provided a balance against the development income which fluctuated. Since the onset of the financial crisis, this rental supported the business as both house and site sales dried up. My business model was funded by debt which was made available from Anglo and other banks in the Irish market. I focussed on acquiring large sites, mostly in the greater Dublin area, and taking them through the planning process. As long as there was a properly functioning banking market, the funding model worked efficiently. However, the banking crisis which resulted in the volume of house sales declining significantly, the selling prices falling by over 50% and bank credit being withdrawn meant that the funding model for my business no longer worked.

The transfer of my loans to NAMA stabilised the situation and gave us time to adapt the business to current market conditions. In recent years we have spent the time revising and updating the planning on the sites that we have and putting in the services and infrastructure required. We recommenced house building in 2013 starting with 6 townhouses and slowly increased our activity as houses started to sell in late '13 and 14 and have accelerated our building program in the current year. We are one of the few developers with large serviced sites in zoned areas with planning permissions granted who can build houses to satisfy current demand. The fact that we have sold in excess of 140 Family homes over the past eighteen months and have commenced building or will commence building in the short term is an indication of the quality of the new homes brought to the market and the sites acquired as they are located in the areas where residential building is required for First Time Buyers and services are available.

In addition to Anglo, I banked with AIB, Irish Nationwide Building Society and, to a lesser extent, Bank of Ireland. Each bank funded individual sites / investments and there was little or no interaction between the banks to my knowledge. I expanded my banking relationships beyond Anglo with a view to introducing an element of competition and reducing the cost of finance.

Part 2: Your company – It's performance and modus operandi

1. Profile of business

I established myself in the construction industry in the late 1970's as a small single dwelling residential builder in the Dublin and Wicklow areas. Over the decade to 1986 I grew my operations by acquiring various sites throughout South County Dublin and Wicklow, developing these sites and building houses for sale directly to the public. From 1987, I concentrated solely on developing sites for sale to house builders which commenced with the development of a 500 unit residential site a Scholarstown Road, Rathfarnham. At this time I began retaining the commercial areas of the built developments within my investment portfolio.

Since Rathfarnham in 1987, I have developed a number of significant residential neighbourhoods which involved the submission and granting of some of the largest planning applications in the history of the State. These developments include a 700 unit site in Brackenstown Road, Swords, a 900 house development at Clarehall in Dublin 13, the 3,000 unit Glen Ellan and Applewood developments in Swords, the Malahide Marina Residential Development and Marina facility.

Subsequently I moved into building/developing and selling houses under the "Gannon Homes" brand, including the 115 unit Casino scheme in Malahide and the 530 unit scheme at Robswall, Malahide and the 375 Apartments & Commercial Scheme at Riversdale & Rockfield in Dundrum

In 2003 I began acquiring prime investment properties in Ireland and the UK in order to diversify away from the development business and to provide a steady stream of rental income.

During my career, I have developed lands that house over 10,000 residential dwellings and over one million sq. ft. of commercial space. My skills involve identifying land with long term potential, working with interested parties (local authorities, communities, sports clubs businesses etc) to develop a plan to create sustainable living spaces, taking the land through the planning process, putting in place the necessary services (sewerage, surface water etc,) along with the provision of sites for Primary and Secondary schools and construction of two train stations to facilitate the build out of the lands.

I adopt a proactive approach to enhancing value in each development. Some of the difficult issues encountered and subsequently resolved include:

- The excavation and preservation of national archaeological monuments such as burial sites, old forts and towns at Swords, Grange Road and Balbriggan;
- Land reclamation and dredging in Malahide Marina Village;
- Negotiating difficult and complex land swaps with farmers, local authorities and businesses at various locations in north and south Dublin;

- Working within the very strict requirements of all three major planning authorities in the Dublin area through the various development plans and numerous planning permissions granted over the years.

Currently I am involved in a number of the largest schemes in the greater Dublin area:

- Oldtown & Mooretown lands in Swords. Initial phase of this 2,500 unit scheme was launched in 2014 under the name, Miller's Glen;
- Grange Road, Clongriffin. Continued development of this residential quarter and town centre. When completed there will be over 3,500 residences located here;
- Clonskeagh. Redevelopment of the old Smurfit factory in Clonskeagh. On completion, there will be in excess of 100 top quality apartments here;
- Belcamp. Unique site on the north side of Dublin, just 10 minutes from Dublin airport. Potential to develop high quality residential scheme and town centre here with in excess of 3,000 units.

In 2008 I had the following assets:

Residential Land:

Built Units	c. 840
Sites	c. 5,700

Commercial:

Built	c. 1,250,000 sq. ft.
To be developed	c. 1,000,000 sq.ft.

Car Parking Spaces	c. 9,200
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Land without planning permission	c. 380 acres
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2. Board/Company Structure

My business is very much an entrepreneurial led enterprise where I have an involvement in almost all aspects of the business. The core group has employed on average less than 20 individuals during this period. Key services in relation to the development activities are outsourced to a range of trusted suppliers in the areas of legal, financial, architects, quantity surveyors, engineers and building contractors. By pursuing this strategy I was able to create a very large building development business without having to carry a large overhead.

The bulk of my business was carried out as a sole trader. The main corporate entity is Gannon Homes Ltd which is involved in developing/building and selling residential houses.

In addition I had a very limited number of joint ventures with other parties in relation to the development of specific sites.

As well as myself, there were two other executive directors of Gannon Homes, Aidan Kenny and Michael Anglim during that period.

Aidan is responsible for overseeing the financial and operational management of the business. He has worked with me for almost 30 years and continues to play an important role in the day to day management of the business.

Michael worked with me for over 25 years and was responsible for the day to day management of taking sites through the planning process.

3. Analysis of debt outstanding at 30th September 2008

As outlined above, my business was carried out as a sole trader, corporate identity and a small number of joint ventures. Accordingly we did not prepare consolidated accounts for my group. The only audited financial information on my borrowings are contained within the accounts for Gannon Homes Limited and Gannon Homes U.K. Ltd as at the 31st of December 2008.

4. Profile of debt by geographic area at 30th September 2008

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Ireland	€214,060
U.K.	£22,336

5. Detail collateral by type and value at 30th September 2008

The collateral supporting the loans comprised development lands, investment properties, shares and working capital.

Most development land and investment properties were held directly by myself. As no balance sheet was prepared for me, there was never any need to formally consider the carrying value of these assets.

Typically Gannon Homes Ltd entered into Building contracts on lands owned by me and managed the construction and sale of residential units, the value of the assets were valued in the accounts at Cost.

6. Detail of the valuation methods and firms used

It was not our policy to engage Third party valuers to value my property assets either at time of acquisition or during the development phase.

I understand that the Bank may have engaged Valuers periodically on each of the development sites.

7. Details of cost apportionment of different house types (2001-2008)

As outlined above I operated the business as a sole trader, corporate trader and joint ventures and management information systems that we utilised did not produce the information in the granular detail as set out in the request from the Joint committee

8. Detail level of due diligence carried out by the banks (2001 – 2008)

The due diligence carried out by the banks depended on the type of asset being acquired.

For development land, the banks typically sought the following:

- Commercial appraisal for the site (internally prepared)
- Architects drawings for the site
- Local Area Plan
- Planning application
- Details of services in area / plans to deliver services
- Title documentation

In addition to reviewing the documentation outlined above, the banks would undertake site visits to get an understanding about the lands to be developed and the surrounding areas. The site visits would take place in advance of the site being acquired as well as during the development process.

For investment properties, the banks solicitors reviewed the title for each property prior to the drawdown of the loans and carried out other ad hoc diligence on the investment properties.

9. Detail of collateral required by the banks

The banks typically sought the following security:

- First legal charge over the property being required;
- For properties acquired by a corporate entity (e.g. Gannon Homes) a personal guarantee from me;
- Assignment of life cover on me.

10. Detail of equity and interest roll up provided

Typically for development lands, the interest was rolled up and the repayment of interest and capital was made out of the proceeds received from the sale of sites or residential units. In addition to the site purchaser cost, I was provided with working capital lines to facilitate the cost of taking the site through the development process and put in place the necessary

services and access roads. Interest was rolled up on the working capital facilities and the interest and capital repaid out of the sale proceeds as outlined above.

Loans on investment properties were typically structured on an amortising basis with interest and capital being repaid on a monthly basis for periods of up to 20 years. These repayments were usually covered by the rents received from these properties.

11. Details of corporate hospitality provided by banks (2001 -2008)

Gerard Gannon

Trip to Ryder Cup with AIB (2008)

Trip to Venice with Anglo Irish Bank

One trip to The Curragh race meeting with Anglo-Irish.

Aidan Kenny

Trip to Paris with Anglo Irish Bank

Michael Anglim

None

In addition to these trips, Anglo Irish Bank and A.I.B. hosted an annual Christmas lunch which the three directors of Gannon Homes attended.

12. Details of contributions made to public representatives and politicians (2001 -2008)

Full financial details for this period is not available, however, we can confirm that we did make a number of financial contributions (mainly in the hundreds of Euro) to the three main political parties/politicians over this period usually for constituency and party golf outings and I took a table at Race meetings over a number of years.

13. Details on Lobbying on property related matters

As a general rule, we did not engage in lobbying on property related matters and at no stage did we engage third party lobbyists to lobby on our behalf.

However, in the normal course of business, a property investor must interact with the local authorities when preparing plans for specific sites. It is necessary to understand what the local authorities wish to achieve for a given site and then design a scheme which fits those needs.

A successful developer will put in place the necessary services to facilitate an active community. I would interact with the local authorities and local communities in order to identify what services are required and where these should be located. Amongst the facilities that I have built and handed over to the appropriate parties include:

- Swords Educate Together National School
- Gaelscoil Bhrian Boroimhe in Northwest Swords
- Clongriffin Dart Station
- Gannon Park in Malahide
- Portmarnock Football Club
- Club house and playing fields for Trinity Gaels GAA Club
- Provision of a 90 acre site in Malahide for use as a park
- Lar Foley House – Built and handed over free of charge a Home for Physical and Mentally impaired Children in Baldoyle.

I am proud of the developments that I have been involved with. They are thriving living communities with all the essential services and amenities required to deliver a reasonable quality of life. These schemes have come about through close interaction with the communities and local authorities during the development process.

14. Views on NAMA

My loans were first transferred to NAMA in 2010. Since then I have worked closely with NAMA in order to stabilise my business in the first instance and then implement an orderly disposal program for my investments properties and start building houses on greenfield sites. NAMA have been very supportive in progressing the development of new residential units and without NAMA support we would not be in a position provide Family Homes to First Time Buyers in Dublin City and Council and we hope to continue to provide these housing units over the coming years.

Like many other parties, I was apprehensive when NAMA was established and I feared the unknown. In some respects it offered relief as the banks had ceased to function and we were finding it difficult to carry on our normal day to day activities.

The transfer of my loans into NAMA was a difficult process. They were a newly established organisation who were taking on a mammoth task in managing the largest non-performing loan portfolio in the world. Myself and my team were unaccustomed to providing such a high volume of information and to have every decision scrutinised in minute detail.

The market conditions were dreadful at that time. Banks were not lending for house purchases and any transactions that did take place happened at prices that were over 50% lower than pre the financial crisis. This made business planning extremely difficult.

Relations with NAMA were challenging at the outset as we both were learning about each other. However we both persevered and ultimately developed a solid working relationship and agreed a business plan to work towards. NAMA is very thorough in all aspects of their dealing with us. This results in items taking longer to progress as we follow the extensive procedures and controls that NAMA have put in place.

As part of implementing the business plan, we are undertaking an orderly disposal of my investment assets and have a detailed program to build residential units across a number of sites in Dublin.

In 2013 after numerous consultations with NAMA, who provided the finance, it was agreed to build a small number of houses in Clongiffin (6 Terraced houses) and test the market. After selling out the first phase, we continued on and built and sold 19 houses in Clongriffin. In early 2014, we commenced building in Swords and launched the Millers Glen site. It was necessary for us to develop a complete phase of houses before customers had the confidence to take the decision to buy the houses. They all fear the prospect of living in unfinished ghost estates. We also had to price the houses very keenly to get them to buy. Having built and sold out the first phase, we are now in a position to launch the second phase.

In summary, I believe without the establishment of NAMA, we would not be in a position to develop and build much needed family homes for first time buyers in Dublin City and in North and South County Dublin.

Gerard Gannon

10th June 2015