NPL&REO in Spain: A steady target in Europe

SPRING 2020 UPDATE

As one of the most mature Non-Performing Loan (NPL) markets in Europe, Spain expects the sales volume of this type of portfolios to stabilize along 2020, following the trend and the activity levels recorded in 2019. Now that the boom in sales of bank's larger portfolios seems to have stayed behind, deals in secondary markets and securitizations are gaining momentum.

Economy

After a 2% expansion in GDP in 2019, Spain's Government forecasts a sharper slowdown in Economy for the next couple of years, cutting its initial economic growth projection for 2020 from 1.8% to 1.6%. Expectations for 2021 point out to a further slowdown in Gross Domestic Product (GDP) growth to 1.5%, before recovering to 1.6% in 2022 and 1.7% in 2023.

Spain's economy – the Eurozone's fourth largest – has consistently outperformed much of Europe over last few years, and even the lower economic growth projection still points to a growth well above the projected 1.1% growth for the currency bloc.

As for job creation, the upward trend is expected to follow in line with the GDP growth pace; with forecasts for the unemployment rate in 2020 standing at 13.6% and 12.3% in 2023.

Property Market

A total 501,085 dwellings were sold in Spain along 2019, showing an annual decrease of 3.3% compared to 2018 (517,984 houses sold) and putting an end to five years of consecutive growth in the sector. These figures were released by Spanish Statistical Office (INE), which explains this downward trend mainly by a decline in the number of transactions involving second-hand houses.

There were 408,241 transactions involving previously owned abodes in 2019, which was 4.2% down from 2018. On the other hand, the 92,844 newly built houses and apartments which were sold in 2019 presented a 1.2% growth from the previous year, recording three consecutive year of risings. Even so, 2019 had the most moderate growth in that period. These figures mean that 8 in each 10 sales and purchases operations regard second-hand dwellings and that only 18.5% of the buyers invest in new houses.

Regarding sales values, the latest data released by INE show that the Housing Price Index (HPI) decreased by six tenths to 4.7% in the third quarter of 2019. By housing type, the annual rates of both new and second-hand housing decreased by six tenths compared to the previous quarter, at 6.6% and 4.4%, respectively. Looking into the different regions of the country, the annual rate of most Autonomous Communities decreased in the third quarter of 2019 compared to the previous quarter.

As for the commercial real estate investment, transaction volumes continued to beat records along 2019, surpassing the €12 billion barrier, confirming Spain's position as one of the most attractive and active markets in Europe.

GDP GROWTH FORECAST 2020
(SOURCE: BANCO DE ESPAÑA)

1.6%

GROWTH OF HOUSING PRICES
(Q3 2019/ YOY) (SOURCE: INE)

4.7%

HOUSING SALES (2019)
(SOURCE: INE)

501,085

COMMERCIAL REAL ESTATE
INVESTMENT 2019
(SOURCE: PRIME YIELD)

€12bn

NPL Stock and Ratio

By Q3 2019, the Non-Performing Loan (NPL) stock hold in the books of the Spanish financial sector amounted to €61.5 billion, showing a reduction of 68.8% over the last six and half years. This means that banks have already cleaned up more than €135.7 billion from its NPL stockpile since December 2013, when it amounted €197.3 billion and the correspondent NPL ratio reached an historic peak of 13.6%.

About 51.6%, equivalent to €31.7 billion, from the NPL stock hold by the Spanish banks as of Q3 2019 corresponded to credit granted to Non-Financial Corporations (NFC), with Households «owning» the other 48.4% share (€29.1 billion). The lion's share of the NPL allocated to households, about €18.4 billion, corresponds to credit granted for house purchase, while consumer credit holds another €4.8 billion of NPL and the «others» group another €5.9 billion.

The gradual improvement in economy and employment, together with refinancing granted by the banks and the sales of NPL portfolios to investors, have contributed to these results, driving NPL ratio among the country's financial sector to fall to 3.4% by the end of Q3 2019, recording its lowest since Q2 2015, according to the latest data released by Spain's Central Bank. Confirming the significant achievements over the last few years, this figure is 10.2 percentage points lower than the Q4 2013 historic peak, putting Spain closer of the European Union average (2.9% in Q3 2019).

It is to stress, however, that these figures exclude the NPL and REO in the hands of SAREB, commonly known as Spain's bad bank, established in 2012 with an NPA portfolio worth €50.8 billion (of which €39.4 billion correspond to NPL). Until the end of 1st semester of 2019, the institution had already reduced the stock under management by 33.8%, or €17.1 billion, but still holds €20.8 billion in NPL and another €12.8 billion in REO.

Potential NPL Deals

Notwithstanding the significant headway made in recent years, Spain's Non-Performing Loans (NPL) sales activity seem to have already reached its peak along the 2017-2018 period, when several «Jumbo» sales skyrocketed the annual investment volumes in this asset class up to almost €60 billion. Confirming that this sector is moving into a new and more mature stage of development, 2019 confirmed the expected slowdown in the transaction volumes recorded the two years before, closing with annual sales of about €21-€22 billion.

This is far from meaning that there is shortage of product for investment in NPL or that NPL clearance effort in Spain is close to being concluded; but rather that the Spanish banks are entering in the final stage of cleaning their balance sheets. And for 2019-2020 the big news in relation to the last few years is that now these portfolios aren't comprising only mortgages, but also consumer loans without collateral (thus, being unsecured portfolios) granted to companies and households.

After the sales rush observed in the end of 2019, in this beginning of the year several portfolios continue to be in the market and are expected to be sold along the first semester. And, in these days there is more value "unsecured" than "secured" among the latest portfolios sold and to be put for sale.

So, there is still much to do along 2020, especially in the secondary NPL market, involving assets with no collateral, as investors seem to be turning to riskier sectors, driven by the ongoing search for yield. Forecasts indicate that the sales volume should stabilize around the €20 billion mark along this year. Even so, there are up to €45-€50 billion in NPL portfolios that could be transacted, including the ones already available for trade and the ones still to come into the market.

NPL RATIO TOTAL (Q3 2019)
(SOURCE: BANCO DE ESPAÑA)

3.4%

NPL STOCK (Q3 2019)
(SOURCE: BANCO DE ESPAÑA)

€61.5bn

NPL STOCK REDUCTION
(Q3 2013-Q3 2019)
(SOURCE: BANCO DE ESPAÑA)

€135.7bn

NPL TRANSACTION VOLUMES 2019
(ESTIMATED)

€21-22bn

About Prime Yield part of Gloval NPL&REO Services

Established in 2005 and since 2018 a part of Gloval, a leading property services group that provides integrated valuation, engineering and consulting services, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Europe and Latin America. The company has an NPL&REO specialized business area, supported by Prime AVM&Analytics, an advanced technological solution that allows NPL's investors and sellers to have property valuations in a fast, simple and reliable way both for single assets and entire portfolios. Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality and Environmental Management (NP EN ISO 9001 and NP EN ISO 14001).

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