NPL&REO in Greece: A promising market finally taking off

SPRING 2020 UPDATE

After a 2017 that made the market visible and a 2018 that brought a potential growth, the Greek Non-Performing Loan (NPL) market finally took off in 2019, gaining international scale and a real boost in traded volumes to more than €30 billion. Economy recovery is gaining momentum, the Banks continue to be under a lot of pressure to deleverage and international investors are increasingly interested in the Greek NPL market, thus opening very good prospects for another buoyant year.

Economy

Despite the global economic slowdown, the Greek Economy continued to recover in 2019, with economic sentiment and expectations indicators significantly improving and pointing out to the continuation of the growth momentum. According to the already available data by the Hellenic Statistical Authority (ELSTAT), the Greek Economy gained momentum over the first nine months of 2019, with a year-on-year (y-o-y) growth of Gross Domestic Product (GDP) that doubled from 1.4% in Q1 to 2.8% in Q2, and again increased 2.3% in Q3. In 2019, growth was driven primarily by exports, mainly of services, on the back of a significant rise in tourism and shipping receipts, but also of goods. Unemployment rate continued to be down over 2019, reaching 16.5% in November. Still far from the 8.0%-level seen in 2008, but strongly recovering from the 27%-level that had in mostly 2013 and 2014. The recovery of Economy is expected to continue into the Q4 of 2019 and European Commission is forecasting a 2.2% annual growth, upward revising the initial 1.8% prediction. Latest European Commission forecasts point even to a further acceleration in economic growth for 2020, with GDP expanding 2.4%, although 2021 will bring a more modest growth of 2.0%

Property Market

The acceleration in Economic growth, thus opening better prospects for domestic buyers, and the increase of acquisitions by international buyers – attracted by the Golden Visa program but also by the positive prospects for returns from investing in a home acquisition for the highly popular short-term rental sector – has led residential prices in Greece to strongly reinforce their growth in 2019. According to the Central Greek Bank, housing prices (the national price index refers to apartments, both new and old) rise 9.1% on Q3 2019 vis-à-vis the same period of 2018, exhibiting another acceleration from the 7.7% y-o-y increase of Q2 and the 5.3% increase felt in Q1. This follows the positive trend of 2018, the year that marked the return to price growth after 9 consecutive years of falling prices. In fact, it is necessary to go back to Q4 2008 to see a positive growth in prices. Between 2012 and 2013 these falls have even ranged between -9.6% and -12.8%. Since then, the decrease has been slowly softening, but only in 2018 prices have definitely inverted the long downward path. In 2018, growth was already accelerating but stayed below the 2019 levels, with y-o-y variation rates between 0.5% in Q1 and 3.0% Q4 2018.

Athens continues to outperform the national average, with residential prices going up 11.9% on Q3 y-o-y, following a 11.2% rise on Q2 and a 7.5% in Q1 2019. As for Thessaloniki, prices are also rising sharply, exhibiting an 8.5% y-o-y increase on Q3 2018, after the 7.7% and 6.6% recorded on, respectively, Q2 and Q1.

GREECE GDP GROWTH 2020 (FORECAST)
(SOURCE: EUROPEAN COMMISSION)

2.4%

GROWTH OF HOUSING PRICES TOTAL
(Q3 2019 YOY)
(SOURCE: BANK OF GREECE)

9.1%

GROWTH OF HOUSING PRICES ATHENS
(Q3 2019)
(SOURCE: BANK OF GREECE)

11.9%

GROWTH OF HOUSING PRICES
THESSALONIKI (Q3 2019)
(SOURCE: BANK OF GREECE)

8.5%

NPL Stock and Ratio

Greece has once again given consistent steps in reducing its Non-Performing Loans (NPL) stock, ending Q3 2019 with a volume of bad debt of €71.3 billion, according to Central Bank of Greece latest data. This means that along 2019, the National Financial System has shrunk the NPL stock in about €10.6 billion, equivalent to a 13% decrease vis-à-vis the €81.8 billion accounted as of Q4 2018. The peak of NPL in the country was recorded in Q1 2016, when the volume of defaulted credit hit €107.2 billion. This volume almost halved total credit granted by the National Financial System, thus translating into a 48.9% NPL ratio.

Country's efforts on dealing with this problem have come a long way since then, with the volume falling about €35.9 billion, or 34%, but Greece continues to have one of the highest NPL pile in Europe, comprising 11.5% of the €617.8 billion accounted in total European Union (data by the European Banking Authority's Quarterly Risk Dashboard). Furthermore, Greece is now the only European country (with the exception of Cyprus) displaying a two-digit NPL ratio. In fact, this indicator in Greece still stands at a very high level, reaching 42.1% as of Q3 2019. This stands 3.3 percentage points below the 45.5% ratio recorded by the end of 2018 and another 7.0 percentage points below the 49.1% peak seen between 2016 and 2017. And when compared to the European average of 2.9%, Greece's high NPL ratio comes out as even more significant.

Business loans continue to comprise the highest NPL stock, totaling €39.5 billion (Q3 2019), equivalent to 55% of NPL accountable in the National Financial System. Residential loans also have a robust stock, of €24.4 billion, 34% of all NPL, and Consumer loans concentrate the other 10%, or €7.3 billion. Business loans continue to be the only segment with an NPL ratio below the total one, hitting 40.4% as of Q3 2019, back from the 44.7% in later 2018. Residential loans show an NPL ratio of 43.0%, also below the 44.5% recorded in the end of 2018. As for consumer loans, NPL still represents half of the total credit granted, hitting 49.7%, but further shortening from the 53% mark in 2018.

Potential NPL Deals

2019 seems to have been the take-off year for the NPL trading market in Greece, with the country gaining a key role in Europe as it is an increasingly target destination for investors seeking for large portfolios and returns that can no longer be achieved in more mature markets. On the supply side, Greek Banks continue to be under a lot of pressure in tackling the defaulted credit problem, having now to accelerate efforts to meet the European ambitious targets. As regards the banks' operational targets for NPL reduction, the overall aim is to bring the NPL ratio below 20% by end-2021. The implementation of the Hercules plan, which is based on an Asset Protection Scheme (APS), is expected to contribute to a faster decrease of the NPL ratio, but it must also be complemented by other measures, according to the Bank of Greece December communication. In fact, this plan is expected to reduce NPL pile stock in about €30 billion.

As for the volume traded in 2019, it should have reached about €32.5 to 35 billion, already including part of the €15-16 billion deal pipeline identified in the three last months of the year and not yet known if they were completed. This also means that 2020 first quarter should be very buoyant in terms of announced operations, since a good part of that pipeline should have transited to 2020. The NPL trade in 2019 confirms the potential growth trend already felt in 2018, when the €13 to €14 billion investment represented four times the €3.5 billion transacted in 2017, the year the Greek market became more visible to investors. This means that again in 2019, NPL trades increase by almost three times vis-à-vis 2018, thus giving a truly international scale to the Greek market. The very competitive bidding for NPL portfolios, the still large NPL stock, the high volume of NPL property-secured and the economic recovery should bring another strong year for NPL investment in 2020, thus expecting to at least equal volumes achieved in 2019.

NPL STOCK (Q3 2019)
(SOURCE: BANK OF GREECE)

€71.3bn

NPL RATIO TOTAL (Q3 2019)
(SOURCE: BANK OF GREECE)

42.1%

NPL RATIO RESIDENTIAL (Q3 2019)
(SOURCE: BANK OF GREECE)

43.0%

NPL RATIO BUSINESS (Q3 2019)
(SOURCE: BANK OF GREECE)

40.4%

NPL TRANSACTIONS 2019
(ESTIMATED)

€32.5-35bn

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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