NPL&REO in Portugal: The time is now!

SPRING 2020 UPDATE

Despite the significant reduction achieved over the last four years, Portugal still owns one of the highest bad credit ratios in Europe, and the reduction of the Non-Performing Loan (NPL) assets will continue to be a key priority for the Portuguese banks over the next 12 months. Following the path of 2019, the investors' appetite for the Portuguese market should remain high along 2020.

Economy

As in the past three years, the Economic outlook for the Portuguese economy in 2020 remains positive, and once again is expected to outperform the Euro Area average. After an expansion of 2.0% in 2019, its Gross Domestic Product (GDP) is forecasted to continue expanding over the next three years, although at a slower pace: 1.7% in 2020 and 1.6% for 2021 and 2022, according to the latest projections from Portugal's Central Bank (BdP). Moreover, the labour markets also remain strong and unemployment continued to fall from the 7.0% recorded in 2018 to 6.3% in 2019 and is expected to decrease to 5.9% in 2020 and 5.6% over 2021 and 2022.
Overall, prospects for the country's economy in the medium term are positive, however, with uncertainty running high across the Old Continent, some challenges may rise, heading the European economy towards a protracted period of more subdued growth and muted inflation – Portugal included.

Property Market

Fuelled by a strong demand, either foreign and domestic, the Portuguese property market has flourished in recent years, both in residential and commercial sectors. Focusing on commercial real estate, after the annual investment volumes have surpassed the €3 billion for two years in a row, in 2018 and 2019, hitting new record highs, the expectations for 2020 are quite optimistic, forecasting at least €2.5 billion invested until the end of the year. A figure that, if confirmed, will stand again as one of the highest in the Portuguese market on record.

Looking into the residential market, sales activity continued its upward trend along 2019; with optimism being a dominant sentiment for 2020. The most recent available data show that 132,246 dwellings were sold in Portugal until the end of September, hitting a sales volume of €18.65 billion. Even though the results for Q4 aren't available at the time of this analysis, we forecast the end of the year results should kept aligned with the previous year, meaning that about a total 178,000 houses may have been sold in Portugal in 2019, for a sales volume close to €24 billion.

As a consequence of a most buoyant domestic demand for house purchase, the mortgage market is also on the rise. Just until November, the new house loans grated had already surpassed the €9.5 billion, and the forecast is that the total volume granted for the year total had hit at least €10.3 billion, meaning an annual 5% growth compared to 2018.

Along 2019, the house prices continued to perform on the rise, showing a 10.3% annual growth by the end of Q3 when compared with the same period of 2018. This upward trend is expected to follow along the current year, however at a slightly more moderate pace.

GDP GROWTH FORECASTS 2020 (SOURCE: BANK OF PORTUGAL)

1.7%

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

10.3%

HOUSING SALES (JAN-SEP 2019) (SOURCE: INE)

132,246

NEW HOUSING CREDIT GRANTED (JAN-NOV 2019) (SOURCE: BANK OF PORTUGAL)

€17.9bn

NPL Stock and Ratio

Supported by a combination of sales, write-offs and recoveries, the Non-Performing Loan (NPL) ratio within Portugal's banking system continued its downward trend along 2019. By the end of Q3, the country's NPL ratio stood at 7.7%, less 1.7 percentage points (pp) than the 9.4% recorded earlier in the year.

Despite having lowered its exposure to bad debt by more than €4.1 billion in the first nine months of 2019 – and by more than €9.4 billion over the previous 12 months (Q3 2018) - the Portuguese banks still have a lot to clean up from their balance sheets, as their NPL stockpile still amounted to €21.8 billion by the end of September (data from Banco de Portugal). Since its peak in June 2016, Portugal's NPL stock has shrank by 57.4%, reducing €29.3 billion.

In the segment of Non-Financial Corporations (NFC), the NPL stock reduced by €1.1 billion (7%) over Q3, while in the Household segment the reduction was of €596 million (9.4%). In fact, the high NPL ratio is a problem that affects companies more than families: among private individuals, the bad loan ratio was 4% at the end of September, while it reached 15.7% in the corporate segment.

According to the country's Central Bank, this significant decrease in the NPL stock over the last quarters is due not only to the non-performing stock reduction but also, and mainly, to the growth on the performing loans.

Even though all the significant achievement over the years, having reduced 10.2 percentage points since its 17.9% peak in June 2016, Portugal's NPL ratio continues to be Europe's third highest, standing just before countries like Greece and Cyprus.

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

7.7%

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

21.7bn

Potential NPL Deals

Portugal's NPL and REO sales market is going through a good moment. The reduction of NPL and non-essential assets will continue to be a key priority for Portuguese banks along the year, feeding the investor's interest – which is expected to remain high, within a more professionalised context with greater maturity and improvement in the banks' NPL ratios.

After recording annual sales average volumes around the €2-3 billion during 2016-2017, in 2018 the NPL and REO sales activity skyrocketed in Portugal, hitting a new record high of €7.5 - €8 billion. This activity level continued along 2019, thanks mainly to the fact that most of the largest banks were trading big portfolios.

Forecasts for 2020 is that more granular and smaller portfolios (with less housing assets) are to be put for sale. Is safe to expect another very buoyant year for 2020, though, with some decrease in the final sales volume mainly because of the smaller size of the portfolios which should come to the market.

The overall expectation is that 2020 will once again be a good year for NPL investment in Portugal: there is good opportunity for the sector's main players to reinforce their presence in the country, which will help improve the bank's bad credit ratios. However, there are currently increasingly less opportunistic investments, which shows that the sector is entering a period of greater maturity, allowing sellers to minimize their losses and buyers to maintain their returns.

In our view, the NPL stock will continue to fall in 2020. However, and looking forward the next couple of years, forecasts suggest a gradual slowdown in the pace of improvement compared to 2018 and 2019, which were years of quite significant progress, mainly because the potential for large deals on the Portuguese market is now more limited, with most lenders selling off small to medium sized portfolios to foreign funds.

NPL STOCK REDUCTION
(Q2 2016-Q3 2019)
(SOURCE: BANCO DE PORTUGAL)

€29.3bn

NPL TRANSACTION VOLUMES 2019
(ESTIMATED)

€7.5-8bn

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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