NPL&REO in Brazil 2021

SPRING UPDATE

Brazil is consolidating as one of the most attractive NPL markets for investors in search of high returns and "jumbo" portfolios. After a year in which transactions practically came to a halt, with approximately €1.5bn traded, 2021 should be a very dynamic year, marked by the arrival of new portfolios to the market at a time when the NPL volume is expected to increase significantly. Transaction volumes should reach a new high of €8 billion in 2021.

Economy

According to forecasts from the Central Bank of Brazil, the country's economic activity should have fallen by 4.05% in 2020. If this decline in GDP is confirmed, the Brazilian economy will have interrupted three successive years of growth, in addition of this fall being the sharpest since 1996.

Similarly to what happened worldwide, the fall in GDP was influenced by the pandemic, which interrupted business dynamics and negatively affected employment, cooling down economic activity. Several measures were put in place to avoid an even greater impact on the economy, including emergency aid, which released about €45 billion to support informal workers. Programs to contain unemployment and to support credit were also implemented, as well as financial aid to the regional states. It should also be noted that the Selic rate is at 2% per year, a historic low, but expectations point to a rise this year. As for 2021, the various institutions forecast a positive GDP performance, between 2% and 4%, with Banco Central do Brasil disclosing a 3.4% GDP growth estimate, according to the Focus report.

Property Market

In spite of the pandemic, sales on the residential market recorded an 8,4% growth in the first nine months of 2020, reaching 128,840 units sold. After the drop in sales in Q2 to some 35,000 houses (-21% y-o-y and -14% q-o-q), Q3 brought a significant pickup to market activity, totaling 54,307 units sold. However, the pace of new launches remained below 2020, with the 85,755 units coming into the market in the first nine months of 2020 dropping 28% year-on-year.

Giving that the gap between the pace of new house sales and launches is now sharper than before, the final housing stock further declined, falling 13%. As of Q3 2020, the final housing stock for sale in Brazil stood at 151,051. The difference between demand and supply behaviors also mean that the time expected to sell the current total stock is now shorter, backing from 13 months in Q3 2019 to 10 months in Q3 2020.

As for housing prices, 2020 is forecasted to record a 3.7% increase (according to FIPEZAP index), with the average sales prices for residential property in Brazil standing at €1,151/sqm. This represents an improvement both from 2018, when prices ended the year with a decrease of 0.21%, and from 2019, which record no changes in prices. In São Paulo and Rio de Janeiro, average sales prices in the residential segment ended the year with accumulated increases of 3.79% and 1.60%, respectively. The two cities continue to lead prices in Brazil, posting an average sales price of €1,451/sqm in Rio de Janeiro and of €1,435/sqm in São Paulo (2020).

BRAZIL GDP GROWTH 2021 (FORECAST) (SOURCE: FOCUS REPORT BANCO CENTRAL DO BRASIL)

3.4%

HOUSING SALES (Q3 2020/YTD) (SOURCE: CBIC)

128,840

GROWTH OF HOUSING PRICES (2020 YOY) (SOURCE: FIPEZAP)

3.7%

HOUSING SALES PRICE (2020) (SOURCE: FIPEZAP)

€1,151/sqm

NPL Stock and Ratio

As of Q3 2020, there were €15.5 billion of defaulted credit within the total credit granted by the National Financial System (Brazilian Central Bank data), which amounted to €600 billion. However, there is a much higher credit volume in Brazil, including also the one granted by the Non-Financial Sector. That said, 2020 ended with 61.4 million Brazilian consumers in default, with the non-performing credits of these consumers totaling €36.4 billion. Another 5.8 million companies in Brazil were also recording defaulted credit repayments, with the amount as of December 2020 totaling another €16.3 billion (data from Serasa Experian). So, even if there is no official figure of the total national NPL stock, it is safe to say that the volume of defaulted credit in Brazil could now stand in an amount estimated somewhere around €90.0 billion.

As for the ratio of NPL, the year ended with a 2.12% figure in the National Financial System, hitting 1.2% in the corporate segment and 2.85% in the household segment. These ratios stand well below the 2.92% recorded one year before in general terms, the 2.14% in the corporate segment and the 3.49% for households. This means that the ratio of NPL continued its downward trend even during the pandemic, which can be an artificial outcome, mostly reflecting the financial relief programs implemented to mitigate the economic impact of COVID-19.

Between April and June 2020, €200 billion in credit (National Financial System) was subject to renegotiation operations, reflecting the use of the pandemic relief schemes, which provided for the postponement of loan repayments to families and companies. This kind of "moratoria", also a resource used in Europe, was especially significant among the middle class (families with monthly income of up to five minimum wages account for 30% of the renegotiated credit). In corporate credit, 35% of the renegotiated portfolio is in micro and small companies.

Potential NPL Deals

If before the pandemic the NPL Brazilian market was consolidating itself as one of the most promising ones in the international roadmap for investors searching for high yields and jumbo portfolios, 2021 should be a year for the confirmation of this status. After a 2020 that was practically at a standstill due to the Covid-19 worldwide spread, 2021 is expected to be very buoyant for the trade of bad debt portfolios in the country, with a very strong increase in the supply of this type of portfolios coming into the market.

On the one hand, expectations are that credit defaults will increase significantly this year, following the end of the credit relief program implemented in the country in 2020 as a containment measure for the economic repercussions of the pandemic. There's a high amount of credit that was subject to renegotiation, which included the delay in repayments. Despite having given relief to families and companies, this scheme, which expired at the end of 2020, should also have delayed the levels of default and now there are to be expected increasing levels of NPL in the National Financial system.

That said, COVID-19 has frozen NPL coming into market in 2020 and trading volumes should have amounted to nearly €1.5 billion, roughly a fifth of the usual market activity, forecasted to have hit €6.5 billion in 2019. Transactions in the market in 2020 include the sale of a €400 million NPL portfolio by Banco do Brasil to BTG Pactual; and the sale of a €123 million portfolio of Bradesco, whose buyers at auction include Return Capital, Recovery and Ativos.

In 2021, the trading activity may return to its usual levels and even exceed them, hitting a new high of €8.0 billion, considering the increase expected in NPL and the fact that Banks will have greater pressure to place their NPL portfolios on the market, at the same time that other non-financial institutions, namely in the retail and even services areas, also have stronger appetite in bringing default portfolios to the market. In the pipeline there is already a BNDES' NPL portfolio with an accountable value of €24.6 million, which will be auctioned soon.

NPL RATIO (DEC. 2020)
(SOURCE: BANCO CENTRAL DO BRASIL)

2.1%

NPL STOCK (2020)
(ESTIMATES PRIME YIELD)

€90.0bn

LOANS RENEGOTIATED (APR-JUN 2020)
(SOURCE: BANCO CENTRAL DO BRASIL)

€200bn

NPL SALES 2020
(ESTIMATED)

€1.5bn

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 (NP EN ISO 9001).

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