

NPL&REO in Spain 2021

SPRING UPDATE

Due to high levels of uncertainty by the unfolding of the pandemic situation and its economic implications, the rhythm of NPL sales within the Spanish banks slowed down in 2020, hitting a five-year low and sitting at about €6,9 billion. However, the current outlook is for an exponential growth in the NPL stock in the coming months, which may accelerate the market activity in 2021. For now, at least another €7,0 billion are already in the pipeline.

Economy

Being one of Europe's most hit countries during the first wave of the pandemic, the containment measures introduced aiming to control the infection rates had a huge impact in Spain's economy, with GDP decreasing by 11% in 2020. This is expected to be the sharpest decrease in Europe, only approximated by the 10% fall in Greece's GDP. Also, the fall anticipated for Spanish GDP in 2020 is also the highest one in decades.

Even though the near-term outlook is clouded by the rise in infection rates in the first weeks of 2021 and the more restrictive measures put in place, the GDP is forecasted to grow by 5.6% in 2021 and by 5.3% in 2022, boosted by the combined recovery in tourism and domestic demand. Policy measures to protect jobs and provide liquidity for firms taken in the first stage of the pandemic are expected to remain in place until mid-2021; but there is still the downside risk of a surge in corporate insolvencies, materialising as policy support measures are wound down. On the upside, the forecast does not incorporate the impact of the Government's frontloaded Recovery and Resilience Plan.

GDP GROWTH FORECAST 2021
(SOURCE: INE/DG ECFIN)

5.6%

HOUSING SALES (Q3 2020/YTD)
(SOURCE: MINISTERIO DE TRANSPORTES,
MOVILIDAD Y AGEND URBANA)

305,939

Property Market

As expected, the pandemic had a negative impact in Spain's property market in 2020. Yet, the sector proved to be in much better shape than in other past crisis and despite a slowdown in activity it continued to show its resilience and to attract capital. As for commercial real estate investment, it is to be expected a growth of 15% to 20% in transaction volumes in 2021 from the €9.5 billion recorded last year. In residential, the trend should also be of some recovery in demand, after the cool down in sales and prices over last year.

The total value granted through mortgages for new housing acquisition totalled €33.7 billion until the end of Q3, a figure that is very much in line with the €33.8 billion reported for the same period in 2019. As for sales housing sales, latest data available account for 305,939 dwellings sold over the first three quarters of 2020, -21% than the 386,488 units sold over the same period of 2019. However, there was a bounce up in demand in Q3, with sales growing 34% q-o-q, to 102,197 units (vs 76,545 in Q2).

Average prices in the free market also went upward in Q3 (1% q-o-q), from 1,610 €/sqm in Q2 to 1,620€/sqm. However, this value is still 1% below the 1,638€/sqm from Q3 2019, as well as in comparison with the 1,640€/sqm recorded in Q1. In urban land, however, the downward in prices continued along 2020 as consequence of less buoyant demand thanks to the uncertain from the pandemic, standing at 137,5€/sqm by the end of Q3 - with corrections of -2% q-o-q and -15% in annual terms.

GROWTH OF HOUSING PRICES
(Q3 2020/YOY)

(SOURCE: MINISTERIO DE TRANSPORTES,
MOVILIDAD Y AGEND URBANA)

4.7%

NEW MORTGAGES GRANTED
(Q3 2020/YTD)
(SOURCE: MINISTERIO DE TRANSPORTES,
MOVILIDAD Y AGEND URBANA)

€33.7 bn

NPL Stock and Ratio

By the end of Q3, the nonperforming loans (NPL) volume among the Spanish banking systems amounted to €76.6 billion, €6.6 billion less than one year before, which corresponds to an 8% decline year-on-year. Despite some interruption in Q2 (the NPL stock grew 2% quarter-on-quarter), the downward movement within the bank's bad debt stockpile was resumed in Q3. However Spain continues to hold the third highest NPL stockpile in EU (15% of total stock), only below France and Italy.

The largest share (54%) from Spain's NPL stock correspond to the Households (HH) sector, amounting for €41.4 billion as of Q3 2020, reducing by 5% from the previous quarter. About 62% of this value corresponds to the €25.8 billion of NPL's from Mortgages, which decreased by 6% since the €27.5 billion recorded in end of June. Non-Financial Corporations (NFC's) concentrated 45% from the aggregated NPL recorded in the end of Q3: €34.9 billion, showing a 1% quarterly increase compared to the €34.6 billion recorded in Q2. About 62% of the corporate NPL is allocated to the Small and Medium Enterprises (SME) sector, totalling €21.7 billion and declining by 1% from Q2 (€21.9 billion). Also, to note is the amount of NPL in NFCs segment that is collateralized by Commercial Real Estate, totalling €11.9 billion in an increase of 2% over the quarter.

Over the last 12 months, Spain's NPL ratio reduced by 0.4 percentage points from 3.4% in the end of Q3 2019 to the current 3.0%, with this figure showing stabilization from Q2 2020; and standing just slightly above EU's average (2.8%) now. Nevertheless, it is still difficult to assess the real impact of the pandemic over the deleveraging efforts, as by the end of Q3 there was still €83.8 billion in loans subject to the moratoria regimes created during the pandemic, corresponding to 3% of total loans in the financial system.

Potential NPL Deals

Despite the increase of the activity observed in the end of the year, 2020 was far from being one of the most dynamic years for NPL sales in Spain with sales totalling about €6.9 billion, well below the €21-22 billion sales reported for 2019. The main reason is well known: the unexpected Covid-19 factor, which not only negatively affected the market conditions as has also conducted to a further pricing gap between sellers and potential buyers, causing even more delays in the completion of deals than the expected during the first lockdown.

But the new year seems to start with more dynamics, already reporting completed deals of over €700 million and with a very strong pipeline. Comprising both already ongoing deals and identified portfolios for sale into the market, this pipeline totals about €7.1 billion. Also, there are at least five other portfolios mainly concerning REO (Real Estate Owned) in the market (or soon to come into to the market) for which the Gross Book Value is yet to be known, but that can also boost sales dynamics over the year. A reinforcement in the portfolios coming into the market may also come from the fusion between two of the major Spanish banks – CaixaBank and Bankia. So, considering the identified pipeline at this stage, in the worst-case scenario if no new deals are launched in between, the sales volume of 2021 would be in line with last year's.

Another variable to consider is the end of the moratorium regime, with banks being even more pressured to continue to clean up the bad debt from their balance sheets while improving provisions. The outlook is that one of major consequences from the pandemic for the Spanish financial system should be a significant increase within the NPL stock and ratio, in a phenomenon that should become more clearer from the second half of the year when the moratorium is over. It is not possible at the time to assess the volume of the credit under moratoria that could come into the NPL market, but in a scenario projection where 15% of the current moratoria credit could end up being non-performing, this would mean that the present NPL Spanish stock would then total some €90 billion, adding new €13 billion in fresh portfolios.

NPL RATIO TOTAL (Q3 2020)
(SOURCE: EBA)

3.0%

NPL STOCK (Q3 2020)
(SOURCE: EBA)

€76.9_{bn}

LOANS SUBJECT
TO THE MORATORIA

€83.8_{bn}

NPL SALES 2020
(ESTIMATED)

€6.9_{bn}

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