NPL&REO in Greece 2021

SPRING UPDATE

After finally taking the spotlight in Europe in 2019, with more than €30 bn transacted in NPLs, Greece was also hit by the pandemic in 2020 and deals more than halved to around €14bn. However, the attractive opportunities of a less mature market and the boost from the Hercules program open up excellent prospects for 2021, with a pipeline of another €28 billion already identified.

Economy

Reflecting the surge of the pandemic and the implementation of containment measures, the Greek Economy was hit hardly, with GDP expected to have declined 10% in 2020. This is one of the sharpest falls in economic activity in Europe, only surpassed by Spain's GDP falls of 11%. But on Greece's case, this decline takes a more dramatic impact, as the country's economy was starting to pick up since 2017. Before, from 2014 to 2016, when GDP growth oscillated between negative and very residual positive variation rates, following six years of severe recession, when GPD recorded y-o-y variation rates exceeding the -10%-mark.

As for the next two years, forecasts point to a 3.5% GDP growth in 2021 and another 5.0% in 2022, but this remains subject to large uncertainty. The developments regarding the global health crisis and the vaccination rollout will be crucial for the recovery of the tourism sector and the speed of recovery in the private sector after the expiry of government support measures. On the upside, the forecast does not incorporate the impact of the Recovery and Resilience Plan, which could provide significant boost to domestic demand once implemented.

Property Market

The residential market has proven to be resilient, sustaining price levels during the pandemic shock. Housing prices in Greece (national price index refers to apartments both new and old) stabilized, showing residual, yet positive, quarterly variations of 0.5% both in Q2 and Q3 2020.

However, this interrupts the cycle of intensifying growth felt throughout 2018 and 2019, which resulted in an 8.3% peak year-on-year increase over Q3 2019. In late 2019, the year-on-year rate of change of prices already showed some signs of decelerating, which was confirmed throughout 2020, especially due to the quarterly stabilization felt already during the pandemic. Thus, if a year ago, prices in Greece were up 8.3% year-on-year, in Q3 2020, the increase, while remaining on positive ground, now stands at 3.2%.

Both Athens and Thessaloniki show a similar trend, with housing prices maintaining a stable record during the pandemic but showing a clear decrease in annual terms. In the case of Athens, prices rose by 0.7% quarter-on-quarter in Q3 2020 and by 5.6% year-on-year. This last rise, while remarkable in times of a pandemic environment, compares with the growth pace of 11.5% recorded a year earlier. In the case of Thessaloniki, prices rose by 0.1% q-o-q in Q3 and 4.3% year-on-year, also significantly less than the 7.8% they were rising a year earlier. While prices remain positive, the international capital targeting Greece has fallen considerably in 2020. International buyers invested €592 million in the first nine months of 2020, reflecting a 43% fall vis-à-vis the same period of 2019.

GREECE GDP GROWTH 2021 (FORECAST)
(SOURCE: ELSTAT/DG ECFIN)

3.5%

GROWTH OF HOUSING PRICES GREECE
(Q3 2020 YOY)
(SOURCE: BANK OF GREECE)

3.2%

GROWTH OF HOUSING PRICES ATHENS
(Q3 2020 YOY)
(SOURCE: BANK OF GREECE)

4.3%

INTERNATIONAL DIRECT INVESTMENT
IN REAL ESTATE (Q3 2020/YTD)
(SOURCE: BANK OF GREECE)

€592bn

NPL Stock and Ratio

Greece further advanced in tackling NPL over 2020. Even in a pandemic environment, the country has managed to shrink the stock of NPL every quarter, accounting for €60.2 billion as of Q3 2020. This stands about 2% below the previous quarter, reflecting a reduction of over €1.1 billion. In annual terms, the NPL stock is now 19% shorter than in Q3 2019, translating an absolute fall of €14.3 billion vis-à-vis Q3 2019. Despite this strong evolution, Greece continues to have one of the most robust stocks of NPL in Europe, aggregating 12% of total European stock.

The Greek NPL is almost equally divided between the Household segment comprising 51% of the stock and the Non-Financial Corporations segment (NFCs), comprising 46% of the stock. Both segments recorded circa 2% decreases facing Q2 2020 NPL volumes. In what regards Household, it is to note that circa 72% of the NPL concerns mortgages, thus being collateralized by residential properties. This NPL amounts to €22.1 billion, a 2.2% q-o-q fall. As for the NFCs NPL, Small & Medium Enterprises (SMEs), they account for 73% of the stock, totaling €20.3 billion, in a q-o-q 1.5% reduction. Also, to note is that 53%, or €14.6 billion, of the corporate NPL is collateralized by commercial real estate. In this specific case, the amount in stock reduced some 2.7% when compared to Q 2 2010.

Greece continues to hold a high NPL ratio, with this indicator reaching 28.8% as of Q3 2020 and continuing to lead in European terms, where the average stands at 2.8%. Nevertheless, the current Greek NPL ratio now stands 8.6 percentage points below the 37.4% ratio recorded a year ago. Just as in other European countries, both the stock and ratio of NPL in Greece could end up increasing this year, due to the end of the moratoria regimes. There are €22.2 billions in loans subject to this regime (as of Q3 2020), amounting for almost 11% of all loans in the Greek financial system.

NPL RATIO (Q3 2020)
(SOURCE: EBA)

28.8%

NPL STOCK (Q3 2020)
(SOURCE: EBA)

€60.2bn

Potential NPL Deals

After low levels of activity in previous years, 2019 was finally the take-off year for NPL trading in Greece, with the country gaining a key role in the European investment roadmap and achieving more than €30 billion traded. Unsurprisingly, the pandemic suspended activity in the market mostly of the year, but in the final part of 2020, sales picked up. In fact, in an overall less buoyant European market, Greece continued to stand out, trading €13.7 billion in NPL, a volume marked by the transaction of some very large portfolios such as Cairo (Eurobank), which involves a Gross Book Value of €7.5 billion. This was the first portfolio integrated into the Hercules state guarantee securitization scheme, a tool that was also used in the transaction of another large portfolio, namely the €1.9 billion Phoenix (Piraeus). Furthermore, this program is set to boost activity in 2021, enabling the trade of large portfolios. Alpha Bank's Galaxy portfolio, worth €10.6 billion in NPL, is one of the deals in the 2021 pipeline under the Hercules scheme. Project Frontier (National Bank of Greece), with a Gross Book Value of €7.0 billion, is another portfolio expected to be traded under this scheme in 2021, as well as the €5,0 billion Piraeus's project Vega, confirming that all four systemic Greek banks are now using (or considering using) the Hercules schene. These three projects alone total some €22.6 billion, aggregating over 80% of total NPL deal pipeline projected for 2021. This pipeline, which considers ongoing, planned or identified NPL portfolios in the market, accounts for €28.0 billion, signaling another buoyant year for the Greek trading market and the consolidation of a key role in the European market. Also, to add to this pipeline are at least three other portfolios identified but with no Gross Book Value disclosed to date.

Lastly, also to consider is the potential new wave of NPL that could come into the Greek market, after the end of the moratorium regime. In a similar exercise to the one made for Portuguese and Spanish markets, projecting a scenario in which 15% of the current credit under moratoria (as of Q3 2020) could come into the market as NPL, this could mean another €3.3 billion adding to the current €60.2 billion NPL stock.

LOANS SUBJECT TO THE MORATORIA
(Q3 2020) (SOURCE: EBA)

€20.2bn

NPL SALES 2020
(ESTIMATED)

€13.7bn

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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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