NPL&REO in Spain: a steady target in Europe

PREPARED BY **PRIME YIELD** *part of* **GLOVAL**

Spain has come a long way in the workout of Non-Performing Loans (NPL), but continues to have one of the highest stocks in Europe, at €74,8 bn. It continues to be of Europe's most important investment destinations for this type of asset and, although being a mature market, it still has many opportunities for investors.

Economy

In 2017, Euro Zone grew at is fastest rate in a decade, with a gross domestic product (GDP) expansion of 2.4%, according to the Eurostat, with Spain stood out, growing above this average (3.0%). As for 2018, figures by the national statistics office INE, point to slight slowdown in GDP growth, the 3rd quarter sitting at 2.4% (y-o-y), from the 2.5% and 2.8% recorded, respectively, in 2nd and 1st quarters.

In its Autumn 2018 Economic Forecast, the European Commission anticipates a 2.6% GDP growth for Spain in 2018, that is expected to undergo a further deceleration in two coming years to 2.2% (2019) and 2.0% (2020).

GDP GROWTH — Q3 18 (YoY)
(SOURCE: INE)

2.4%

Property Market

Overall, the Spanish property market maintained its strong momentum in 2018. And, besides the direct domestic demand, foreign investors and the socimis (listed real estate investment societies, also known as the Spanish REITs) are also playing a key role in supporting the good shape of the Spanish residential market.

Easy financing conditions and favorable macroeconomic developments continue to boost recovery in the residential sector, with the 481,220 units sold in 2018 (January to November figures) representing a 9.3% y-o-y growth, according to Spain's National Statistics Bureau (INE).

In what concerns housing prices, the average value rose by 7.2% on Q3 y-o-y, equaling the figure recorded in the end of 2017. This means that, after a slight slowdown in the beginning of 2018, the pace of growth of housing prices has been accelerating, going from 6.2% in 1st quarter to 6.8% in 2nd quarter. From the supply side, the number of houses continue to increase – to 95,000 in the 12 months to August 2018, over 25% up on the August 2017 -, however, current levels are still far from below those reached before the crisis hit, a decade ago.

Heterogeneity is a key aspect of the current expansionary cycle observed in the Spanish real estate market, as there is a very sharp pick-up in prices in certain areas such as the major cities and the islands, while a very moderate one is being observed in other areas of the country. Other important feature is the fact that the rise in the value of housing has been accompanied by notable growth in property rentals, which act as support to house values. This has occurred against the background of the surge in demand associated with greater weight of tenancy status at the expense of lower-occupancy. Currently, the residential average gross yields in Spain are 4.1%.

GROWTH OF HOUSING PRICES — Q3 18 YoY (SOURCE: INE)

7.2%

HOUSING SALES — JAN-NOV 18
(SOURCE: INE)

481,220

RESIDENTIAL GROSS YIELDS (RENTALS) — Q2 18 (SOURCE: BANK OF SPAIN)

4.1%

NPL Stock and Ratio

On aggregate, Spanish banks continued to reduce their NPL over the last 12 months, a period that recorded a decrease of €27.4 billion, to stand at €74.8 billion in June 2018 (Bank of Spain November Financial Stability report). Since their peak in December 2013, NPL have been reduced by more than €114 billion (60.2%).

Putting in evidence the market's momentum, the NPL ratio has been steadily decreasing in Spain, falling by 30% over the last two years, going from 6.0% recorded in June 2016 to the 4.2% of June 2018. In a year- on-year basis, this ratio fell by 22% over last year, after reaching 5.4% in the end of the first semester 2017, as shown by the latest data from the European Banking Authority (EBA). This data also show the NPL ratio for consolidated business of Spanish banks dropped from 5.7% in December 2016 to 4.5% a year later, close to the EU average.

NPL STOCK-AS OF JUNE 2018
(SOURCE: BANK OF SPAIN)

€74,8bn

DECREASE OF NPL STOCK
SINCE THE PEAK, IN 2013-JUNE 2018
(SOURCE: BANK OF SPAIN)

€114bn

NPL RATIO-AS OF Q2 18
(SOURCE: EBA)

4.2%

NPL POTENTIAL TRANSACTIONS
(f 2018)

€90bn

Potential NPL Deals

Compared to other Southern European competitors, the Spanish NPL market is at a more mature stage and portfolios now mainly consist of loans backed by residential development. Banks are actively working in restructuring loans, foreclosing loan collateral and selling off a portion of their NPL. Most banks have developed tools to manage their bad loans and some of them have contributed to place Spain as one of the Europe's most active loan sale market. As a result, this market has been very active for the past five years, during which there was no other country in continental Europe that could offer the opportunities and returns available in Spain. The sale of NPL (and REO) portfolios has speed up in 2017, with deals closed amounting close to €52 bn (a figure five times higher than the circa €10 bn recorded in 2016). And, the pace has clearly accelerated even more in 2018, which is expected to reach €90 bn traded, considering about €60 bn of completed deals and a €30 bn pipeline of ongoing transactions.

Even though the average amount per portfolio has been €400 to €800 million until recently, except for a couple of situations; now, as an evidence of this sales rush, this average volume has gone up to €1,0 to €1,5 billion. Most active buyers are opportunistic investment funds, specially US private groups with players as Lone Star Funds, TPG, Apollo, Blackstone, Bain Capital and Cerberus Capital Management having a central role as the main purchasers of these assets, while banking institutions such as Santander, BBVA, Caixabank or Sabadell stand out as the main sellers.

About Prime Yield

Established in 2005 and since 2018 a part of Gloval, a leading Spanish 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 a 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 or 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).

About Gloval

Gloval is a leading firm in valuation, engineering and real estate consulting services. The company integrates Ibertasa, Valtecnic and VTH – three preexisting brands with a solid market share, more than 70 years of accumulated experience and responsible for more than 5 million valuations –, has a team of more than 1,000 professionals, presence across Spain and also provides international coverage.

Gloval is trusted by all the key players of the real estate industry and integrates four business units, which allow the company to support its clients across the sector's value chain: valuation, consulting, engineering and data analytics.

Under the ownership of private equity firms Charme Capital Partners and Miura Private Equity and the company's management team, Gloval is currently carrying out a diversification strategy focused on increasing its portfolio of services, meeting the needs of new industries and expand geographically.

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