Iberian Property

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NPLS & REOS IN IBERIA: A TWO-WAY OPPORTUNITY MARKET

The NPL and REO market in Iberia is currently one of the most promising within the European context which, approached in a comprehensive manner, as we defend at Prime Yield, enables various investor profiles and investment tickets.

This is a market with two very interesting types of opportunity for investors, with different stages of development, returns and bidding competitiveness. While Spain is a more mature market, where transactions of this type of portfolios are expected to keep rising, Portugal has emerged on the European map more slowly, but the country is gaining momentum steadily. And with interest growing among global investors both for this type of assets and Southern European geographies, 2018 brought about €96 billion in NPL sales to Iberia (including deals formalised in 2018 and to be concluded in the 1st semester). This year we should witness acceleration in both sales and the volume of portfolios traded. In this field Spain is a more mature market than Portugal, currently generating more moderate yields for investors and, on the other hand, where competition for the best assets is also stronger. Due to this stage of development, most operations in Spain this year will occur in the secondary market, with great momentum in securitization transactions. In turn, Portugal is in a phase where there is still much to be done in the *"principal"* market, and banks are currently more open to placing this type of portfolios on the market. Furthermore, in this Iberian perspective, it is foreseeable that the growing number of specialised players will begin to shift their attention from Spain to Portugal, looking for higher returns and less *"polished"* portfolios. A great deal is expected to happen this year in NPL and REO sales in Iberia, which is sure to stand as a market with opportunities for everyone.

A market in different stages of maturity

These ratios also reflect the different stages of maturity of the NPL market in Iberia, where Spain is well ahead of Portugal in banks' bad debt clearance. The provisioning requirements demanded by credit institutions for exposure to the property sector, along with the creation of Sareb, were the true catalysts to change the attitude towards transferring NPL portfolios and drive investment in the sector. At the height of the crisis, Spanish banks had accumulated an NPL volume of around 300 billion euros, which was the perfect scenario for the so-called vulture funds which, in a short period of time, made a strong entry into the country, where a good portion even chose to establish their own management platforms (i.e. *"servicers"*).

In the last five years, a great deal has happened in the Spanish NPL market, which has been fuelled above all by secured portfolios – in other words, with asset-backed loans that, in most cases, involve real estate. Until 2017, and apart from rare exceptions, the average gross value of the portfolios traded varied between 400 and 800 million euros. However, over the last year, we have started to witness transactions involving increasingly larger portfolios, reflecting banks' efforts to accelerate their balance sheet clearances, and driving the average value of the portfolios traded to between 1 billion and 1.5 billion euros.

Until now, the frontline of investors that specialise in this segment have been the most active buyers in Spain, with names like Blackstone, Cerberus and Lone Star dominating the volume of portfolios purchased over the last couple of years. However, and as the most attractive portfolios for major investors are divested, middle market investors begin to make their mark, which include well-known names like Bain Capital Credit, Axactor and Arrow Global, among many others. Reflecting this market's smaller size, these have been the most prevalent buyers of this type of assets in Portugal.

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