

CBRE RESEARCH
MAY 2021

EUROPEAN SECURED LOAN TRANSACTIONS

CBRE

FOREWORD

Following an unprecedented year in 2020, CBRE is pleased to release its annual 2021 secured loan transaction market update. We will be covering our thoughts on the 2020 NPL landscape and what the future holds for 2021 and beyond.

After a relatively stable 2019 with secured NPL sale volumes of €72bn, 2020 will be remembered as a year of unprecedented change. The year saw only €40.4bn of secured loan sales, distant from the record-breaking volumes observed in 2017 (€116bn) and 2018 (€162bn). The Covid-19 pandemic led to a sharp downturn in most economies across Europe in the toughest test for banks since the financial crisis. Governments across the world fought to contain the spread as central banks slashed interest rates, boosted QE and announced widespread funding packages in support. Despite the pandemic halting trading activity in early months, Italy and Greece remained the most active markets accounting for 66% of all transactions at c. €27bn combined. The UK & Ireland each transacted a large performing portfolio in 2020 whilst Spain, Portugal and Eastern Europe were particularly below trend.

The real estate market experienced considerable distress within the Retail, Hospitality and Leisure sectors as stores closed and tourism halted. Amid a host of retailer insolvencies, many tenants requested Covid related rent relief to ensure business continuity. Landlords were left with little choice but to share the pain as cashflows came under pressure and collateral values declined.

For the majority of 2020, investors inherently struggled to underwrite potential non-performing loan (NPL) transactions as the volatile market environment blurred the prospects of loan enforcement. With risk priced accordingly, banks were reluctant to sell distressed exposures to avoid bearing the cost of a significant discount to gross book value (GBV). CBRE recognised an apparent bid/ask gap as both sides remained firm on loan pricing. Lenders therefore relied upon payment holidays, covenant waivers and restructuring exposures with borrowers, optimistic for a return to normality. However, as government support winds down, we anticipate specific cases where lenders will grow impatient with borrowers and will seek to dispose of single-name loans or small portfolios in the first wave of NPLs to the market.

CBRE will continue to monitor key themes in 2021 and we hope this report is found useful by the participants of the NPL markets during these uncertain times.



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MARKET IN 2021: FIVE FACTORS TO WATCH

Expected main themes

1



SPIKE IN TRANSACTION VOLUMES

After most of the market was suspended at the end of Q1 2020, non-performing loan sales spiked initially in June with the market gradually picking up towards the end year. As the considerable and widespread government support winds down, CBRE expects a high volume of NPLs will come to market as the true impact of Covid-19 materializes. We expect to see a rise in transaction volumes towards Q4 2021 to early 2022.

2



SINGLE-NAME DIVESTMENTS

Throughout 2020, lenders have granted a large number of payment deferrals and covenant waivers, particularly to Retail, Hospitality and Leisure borrowers who were hardest hit by the pandemic. However, CBRE expects that lenders will grow progressively impatient with borrowers over the course of 2021, and we will likely see specific cases where banks will seek to dispose of individual loans.

3



DISCOUNT TO GBV PRICING EXPECTATIONS (BID/ASK GAP)

Banks remain reluctant to bear the cost of a significant discount to GBV for their NPL portfolios as investors underwrite opportunities at higher required returns to price the risk of uncertainty. This has uncovered a bid/ask gap which CBRE expects to narrow throughout 2021 as both sides of the table are pressured to recoup/deploy capital.

4



ECONOMY, WHAT NEXT AFTER WIND DOWN OF STATE SUPPORT?

Stronger growth awaits in 2021. As the lockdowns end and broad-scale vaccination becomes available, the eurozone economy is poised for stronger GDP growth combined with a low interest rate environment benefitting the real estate sector. Despite the positive outlook, this presents a significant challenge for banks as the true impact of the pandemic materialises and begins to weigh heavily on their loan books.

5



DISTRESS IN RETAIL, HOSPITALITY & LEISURE PROPERTIES

It's almost impossible to ignore the unprecedented stress endured by the Retail, Hospitality and Leisure sectors throughout 2020. With central banks planning the gradual phasing out of support, tourism subdued, and the sector poised for a tentative reopening, there remain challenging times ahead in 2021. CBRE expects to see an uptick in Retail and Hotel loan sales as LTV covenants come under pressure from lower capital values and sponsors grow reluctant to inject fresh equity to cure defaults.

INTRODUCTION

In this year's debt report, we focus on the impact of the Covid-19 pandemic on Europe's loan sale market including a look at the historical trend and providing our outlook on the 2021 market and beyond.

KEY HIGHLIGHTS

- Overall, banks under the ECB's direct supervision had non-performing loans amounting to over €550 billion on their books in mid-2020, representing nearly 3% of their total loan amount. This has steadily decreased from a 2016 peak of around €1.12 trillion, according to the latest data from the European Banking Authority (EBA).
- The economic crisis caused by the coronavirus pandemic is likely to trigger a sharp increase in non-performing loans - under a severe but plausible scenario these could reach levels as high as €1.4 trillion by the end of 2022.
- Loan sales of €13.3bn were signed in Q4 2020, bringing the total sold in 2020 to €40.4bn across 41 deals.
- 96% of sell-side institutions report that they are at least "Moderately Likely" to bring a portfolio to market in the next 12 months – 68% are either "Certain" or "Very likely" to do so, according to a 2020 survey by Ashurst.
- From discussions with investors, CBRE sees investor appetite focused on secured portfolios as opposed to unsecured NPLs, with commercial real estate remaining the most sought-after asset class given inherent distressed opportunities.
- The European Commission aims to develop revised guidance on the selling of NPLs by the third quarter of 2021 in cooperation with the EBA and in discussion with other relevant stakeholders. This will likely include recommendations on what constitutes a 'best execution' sales process and a development plan towards a pan-European secondary market.
- Despite a handful of deals closing at the end of December, Spanish non-performing loan sales were significantly below trend in 2020 with "only" €4.4bn of deals closing. This was less than half the €11.6bn volume CBRE recorded 2019 and massively down on 2017's peak, €52.5bn.
- Italy continued its role as the largest market in 2020, selling €15.9bn of loans, almost 36% of the total sold in Europe. In 2020 the GACS* guarantee was requested for only a small number of secured transactions. A distant second, Greek banks closed €11.1bn. However, looking to the first half of 2021, the Greek market has already experienced a significant uptick in Q1 with a mixture of portfolio sales and securitisations totalling c. €15.7bn with more in the pipeline.
- In Ireland, only one sale closed in 2020 which was a performing portfolio sale by Permanent TSB to PIMCO for a total gross book value of €1.4bn. In comparison, 2019 totalled €9bn, and 2018 totalled €12.6bn.

* Introduced in February 2016, the Italian GACS scheme provides a state guarantee on the repayment of senior notes in rated NPL securitisations.

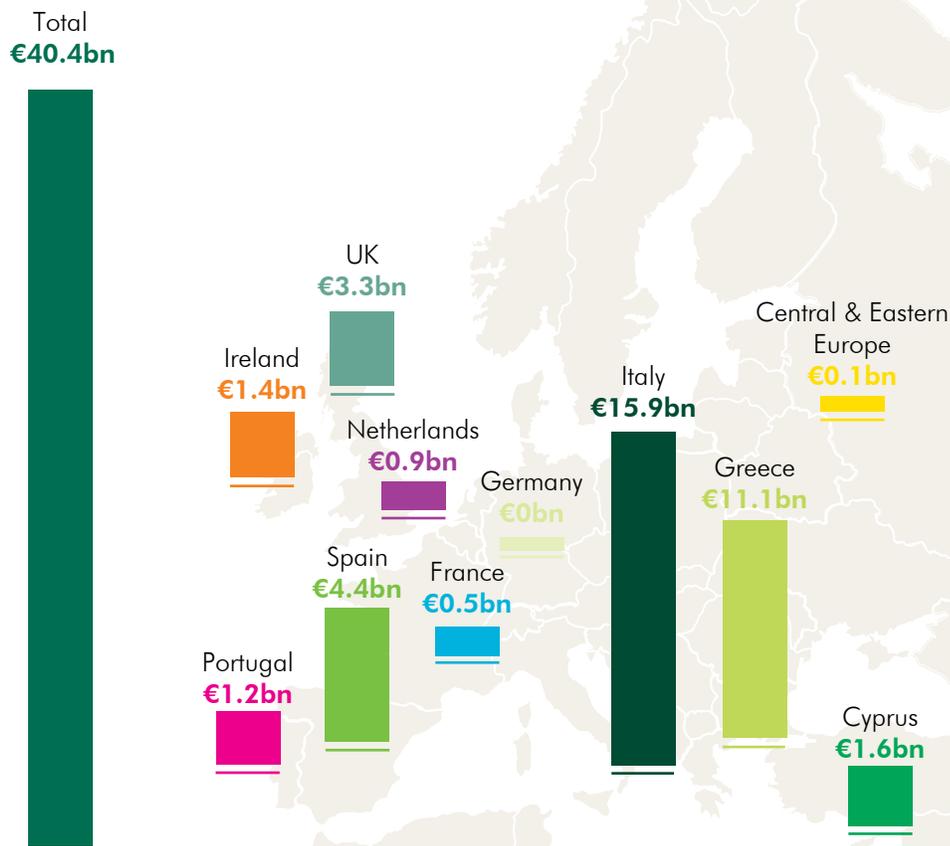
LOAN SALE ACTIVITY 2020 MARKET REVIEW AND BEYOND

Despite an optimistic start, 2020 led to a sharp downturn in most economies across Europe in the toughest test for banks since the financial crisis. Loan transaction volumes plummeted at the end of Q1 with central banks injecting massive amounts of liquidity to bolster their economies.

The onset of Covid-19 brought an extensive monetary and fiscal response to support businesses and households during the prolonged lockdown measures throughout 2020. Government backed loans, repayment holidays, employee retention schemes among other initiatives directly enabled SME, Retail and Hospitality businesses to survive the year. Banks sharply increased their lending during the initial months of the pandemic in line with state support commitments whilst provisioning their existing loan books that were beginning to experience signs of distress.

The number of loan portfolios taken to market in 2020 were considerably lower than expectations with government support pushing the true impact of the pandemic further out into 2022/23. Driven by a reluctance to bear the cost of a significant discount, banks have avoided taking non-performing exposures to market in anticipation of the loosening Covid-19 restrictions. With support destined to be phased out and the consequences of Covid-19 yet to materialise, we are perhaps due a significant surge in NPLs over the coming year.

FIGURE 1:
2020 EUROPEAN LOAN SALE ACTIVITY (COMPLETED TRANSACTIONS)



Source: CBRE Capital Advisors.
Note: *Figures rounded to the nearest €100m.

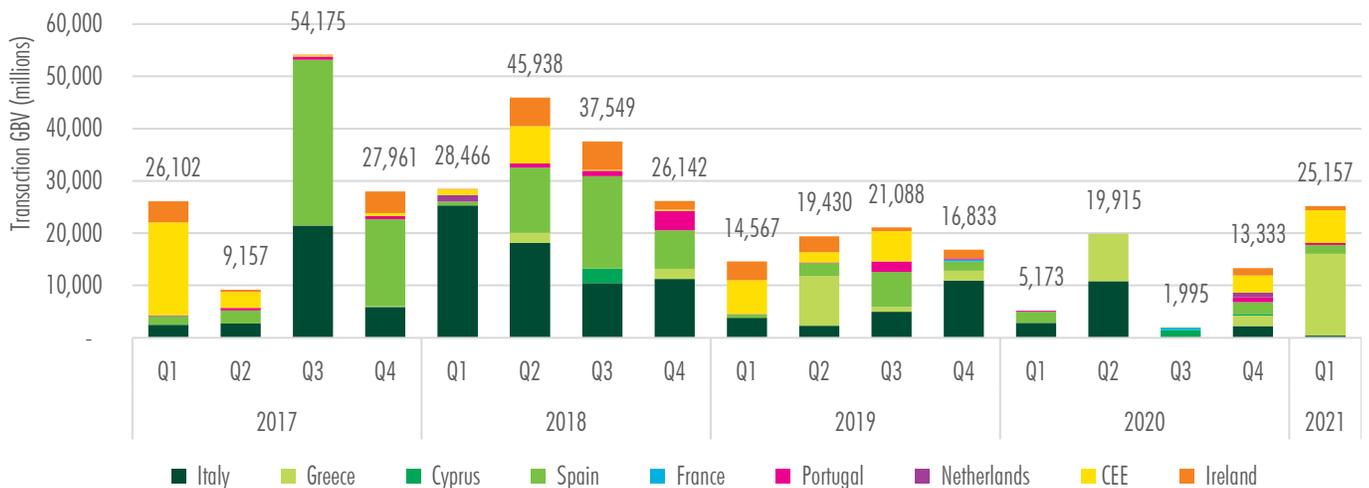
Following a relatively stable year in 2019 with 88 secured loan transactions totaling €72bn, 2020 presented a paradigm shift in market dynamics not seen since the financial crisis in 2008. For the year 2020 we have recorded “only” 41 secured loan sale transactions, a reduction of just over 50% compared to 2019, and c. 44% down on overall transaction volume at €40.4bn. Italy remained the largest market for secured NPLs in 2020 accounting for c. 40% of overall GBV transacted followed by Greece accounting for c.27%. Combined, both markets accounted for just over 66% of all transactions by GBV in EUR.

The tentative reopening of many EU economies in Q2 facilitated the most volume of loans transacted in 2020 at €19.9bn. With new Covid variants emerging across Europe, heightened uncertainty delivered the quietest period of the year in Q3 with only c. €2bn of transactions completing. As optimism grew on the relative success and ramp up of vaccine distribution, we saw an uptick in transactions towards the end of 2020 in Q4, totalling €13.3bn.

Overall, most portfolios sold in 2020 were secured by mixed assets including single-family homes and land. Closely followed were portfolios with commercial real estate as sole collateral. This follows the trend that mixed portfolios consisting of CRE, land and Resi assets are becoming more common in the market compared to previous years.

As we begin 2021 with a much higher degree of optimism, it’s hard to ignore the significant volume of transactions observed in the first quarter. With €25.1bn transacted, it’s clear that the market is eager to make up for lost opportunity. Greece has been particularly active in Q1, accounting for c. 62% of Q1 transactions predominantly as a result of a substantial uptick in securitisations via the HAPS scheme. The HAPS scheme, similar to the Italian GACS, provides a state guarantee that protects senior noteholders against non-payment of interest or principles due.

FIGURE 2:
TRANSACTIONS CLOSED, A HISTORICAL VIEW

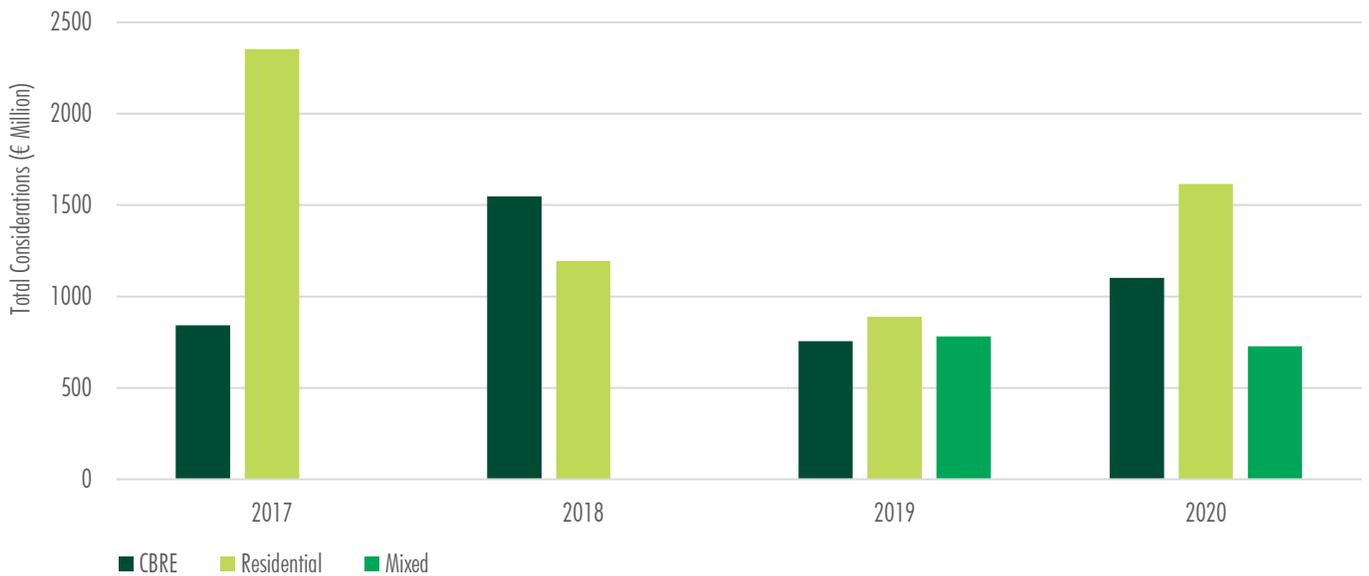


Source: CBRE Capital Advisors, 2021.

Loan provisioning for the likelihood of NPLs across European banks varied during 2020 with UK and Spanish banks appearing to take greater provisions. Rules on provisioning have become stricter since the global financial crisis (GFC), for example within IFRS 9 which saw a shift from the incurred loss to the updated expected credit loss (ECL) approach. The characterisation as to what is deemed as a default carries significant capital charges for banks if LTV and covenant waivers are granted too loosely. Although the true impact of the pandemic is yet to materialise, banks are more incentivised in this cycle to deal with distressed positions sooner rather than later.

With government support schemes cushioning the impact of the pandemic and banks unwilling to bear the cost of a large discount to GBV, NPL volumes have remained significantly below expectations in 2020. NPL investors have expressed that underwriting has become more challenging in a Covid environment and are requiring 15-20%+ IRR to compensate for additional risk with little opportunities to deploy capital.

FIGURE 3:
AVERAGE TRANSACTION SIZE BY UNPAID PRINCIPAL BALANCE



Source: CBRE Capital Advisors, 2021.

The average transaction size has decreased over previous years, reflecting the substantial deleveraging effort seen across Europe as vendors became more selective in constructing portfolios to optimise pricing. However, in 2020 we have seen a reversal where less but larger portfolios came to market. With activity almost completely ceasing in early 2020, vendors were eager to offload large exposures quickly amid growing market uncertainty. Notably we saw an uptick in average residential transaction size which comprised a mixture of granular performing Buy-To-Let mortgages or non-performing exposures secured by primary residences.

Larger portfolio sales allow the banks to deleverage quickly and make meaningful reductions to their non-performing exposure (NPE) ratios but often must sacrifice optimal pricing and competition from smaller investors. On the other hand, single-name transactions allow more intimate due diligence from the investor perspective with the ability to better analyse the underlying collateral compared to a granular portfolio. Single-name opportunities comprise a single loan to a single borrower or few loans to few borrowers, either structure is secured by a small number of assets. Such transactions allow investors to price their risk with more precision which often produces highly competitive bidding processes and an overall preferential outcome for the vendor.



BUYER / SELLER DEMAND

As per the latest available data being tracked by CBRE, investors with a focus on distressed European loan sales have substantial dry powder available but face pressure from limited partners to deploy in an uncertain market.

We estimate that there is considerable dry powder available to be deployed by investors, well above €100bn. As market activity and new transactions halted in early 2020, there were limited opportunities to deploy substantial amounts of capital. We are also aware of pressure on investors from LPs to start deploying capital into the market which may force them to loosen returns expectations and acquire portfolios at sub-optimal discounts to GBV.

FIGURE 4:
TOP 10 EUROPEAN LOAN MARKET PARTICIPANTS IN 2020

| TOP BUYERS | TRANSACTIONS CLOSED (€ MILLION)* | TYPE |
|----------------|----------------------------------|---------------------------|
| Securitisation | 12,750 | NPL |
| AMCO | 10,318 | NPL |
| NatWest | 3,300 | Performing |
| PIMCO | 2,860 | Performing/Non-Performing |
| Bain Capital | 1,930 | NPL |
| CPPIB | 1,700 | NPL |
| Illimity Bank | 1,600 | NPL |
| CarVal | 870 | Performing |
| Loan Star | 600 | NPL |
| Tilden Park | 550 | NPL |

| TOP SELLERS | TRANSACTIONS CLOSED (€ MILLION)* | TYPE |
|---------------------------------|----------------------------------|------------|
| Banca Monte dei Paschi di Siena | 7,500 | NPL |
| EuroBank | 7,500 | NPL |
| Metro Bank | 3,300 | Performing |
| Banca Popolare | 3,000 | NPL |
| Piraeus Bank | 2,000 | NPL |
| National Bank of Greece | 1,930 | NPL |
| Banco Santander | 1,830 | NPL |
| Bank of Cyprus | 1,460 | NPL |
| Permanent TSB | 1,400 | Performing |
| Sabadell | 1,240 | NPL |

* Figures Rounded to Nearest €10m



THE SECONDARY MARKET ENABLING NPL REDUCTION

THE SECONDARY MARKET – AN OVERVIEW

The secondary market enables the re-sale of loans that were originally purchased by an NPL investor directly from a bank. Secondary trades commonly include “tails” of NPL portfolios - an event where residual loans have reached their deemed investment hold period, the servicer has extracted maximum value from most of the portfolio and the funds target return has been realised. Alternatively, investors can acquire secondary NPLs at a deep discount and utilise specialised loan servicing platforms to extract value through a focused workout strategy.

In the recent December 2020 report by the European commission (EC), secondary markets are similarly defined as the bank's sale of NPLs directly to investors. In this context, banks can utilise a deep and liquid secondary market to easily transact non-performing loans alongside third-party investors and credit servicers. The EC deems the development of a single Pan-European secondary market as an underutilised opportunity to allow banks to deleverage their balance sheets and free up capital for new lending.

Recent advances in the secondary market include the introduction of state guarantee structures which are particularly prevalent in Italy (GACS) and Greece (Hercules). State guarantee schemes enable banks to transfer NPL portfolios to securitisation vehicles (SPV), where proceeds are generated through the issuance of notes in difference tranches. Notes can then be purchased on the secondary market, with senior noteholders benefitting from a state guarantee. Although, despite the relative success of state schemes, the secondary market still faces headwinds surrounding poor data quality of the underlying assets and different regulatory regimes across jurisdictions.

Market fragmentation has been deemed prevalent across member states. The European Commission highlights the comparability of NPLs across Europe through the standardisation of data, state asset management companies and insolvency/debt recovery frameworks as potential catalysts for the development of an efficient European secondary market.

SECONDARY MARKET ACTIVITY IN 2020

The secondary NPL market had a meaningful contribution to overall NPL transaction volumes in 2020 (23%) albeit secondary trades almost exclusively comprised of unsecured and mixed portfolios.

CBRE has seen many banks take full advantage of state guarantees particularly in Italy and Greece with their respective GACS and Hercules schemes. 2020 saw banks transfer large portfolios in the € billions to securitisation vehicles and crystallising significant reductions in their NPL ratios.

Despite the recent activity, the secondary market remains underdeveloped compared to the overall market for NPLs. Secondary trades relative to the overall volume of NPL transactions have remained low over the past five years with the first secondary market NPL securitisation only occurring in 2016.

A notable theme in 2020 involved secured NPL Investors acquiring mixed (secured and unsecured) portfolios and immediately disposing unsecured exposures due to their requirement for specialised servicers. This was likely due to a lack of NPL stock coming to market in 2020 and the on-going pressure to deploy capital.

SECONDARY MARKET OUTLOOK



CBRE estimates the secondary market will contribute around 30% to total NPL transactions in 2021. A growing pool of legacy stock is likely to come to market as investors recycle and reallocate capital.

In the current market CBRE anticipates a growing number of legacy portfolios acquired by investors during the “previous wave”^{*} will be re-sold on the secondary market. In many cases, expected investment timelines and target returns may not have been achieved due to current moratoriums prolonging judicial processes and other collection activities. Subsequently investors will be reassessing their positions and sell on portfolios that are underperforming expectations, especially if purchased at a high price.

Notably, banks have considered the sale of secondary portfolios in Ireland, notably the potential sale of Projects Toucan and Robin according to public reports. Deutsche Bank also sold an Italian portfolio of secondary NPLs called Project Sunrise. The portfolio was initially acquired from Intesa SanPaolo over five years ago and comprised a mix of corporate and SME’s loans secured by real estate with a gross book value of circa €980m.

Whilst major European Banks seek to reduce their NPL exposures post Covid, CBRE also expects investors will consider a direct secondary sale to recycle capital from underperforming portfolios in anticipation of the eventual growth of NPL opportunities.

From a securitised perspective, most NPL securitisations not secured by state guarantees naturally consist of secondary portfolios. As an effective alternative strategy to direct sales, CBRE expects NPL investors and servicers will adopt greater consideration for securitising NPL portfolios into their divestment strategy. Perhaps to a higher degree over coming years, we anticipate a growing pool of investors will fully utilise securitisation vehicles to exit unwanted portfolios or to raise cash for new opportunities.

Recently we have seen tangible and increasing appetite for NPL securitised instruments, particularly in Italy and Greece which are currently the most active markets. The largest proponents in the Italian GACS scheme over recent years include Hoist, Intesa, CRC, Bayview and Guber. Conversely, NPL securitisations have largely been originated by Eurobank, albeit at significant volumes.

From Ireland we expect an uptick in residential securitisations to come out of Ireland where Lone Star has been a prevalent sponsor of such transactions. In terms of direct secondary sales, we may see more NPL and performing stock entering the market albeit on an intermittent basis.

^{*} The record NPLs volumes transacted in 2017 (€116bn) and 2018 (€162bn) respectively

OUTLOOK FOR 2021

CBRE expects a growing activity for the NPL markets in 2021 with much higher transaction volumes than in 2020. CBRE expects a total transaction volume of c. €50-60bn by unpaid principal balance (UPB) with the largest activity to continue in Greece and Italy. Transaction expectations will be subject to the withdrawal timeline of Government support and moratoriums across Europe.

CBRE expects to see many transactions delayed in 2020 return to market towards the end of 2021. The withdrawal of government support will inevitably reveal the true impact of the Covid-19 pandemic, particularly for loans to SME's and exposures secured by Retail, Hospitality and Leisure assets. The expiration of waivers to loan covenants and debt service are likely to cause distressed exposures to enter the market in greater volume from the latter part of 2021. CBRE also expects an uptick in activity from the secondary market as large NPL investors dispose of legacy portfolio tails to deploy resources into upcoming transactions. Unsecured exposures are also likely to transact in high volumes.

Greece entered another deep recession in 2020 which led to further increases in its already substantial public debt. According to the Centre For European Reform (CEF), NPE ratios within the Greek banks were c. 40% prior to Covid-19 and a further €9bn of loans are estimated to default as a result of the crisis. We expect the Hercules (HAPS) program will remain a key vehicle to accelerate bank deleveraging in Greece and will continue to drive a high volume of NPL securitisations. Italy will also continue to drive large transactions through its similar GACS scheme which will be an equally important divestment strategy for legacy and newly distressed exposures.

CBRE expects to see more Real Estate Owned (REO) transactions from the subdued volumes seen in 2020. Despite rising mortgage delinquencies, foreclosures have reduced largely due to the protections offered by moratoriums across European jurisdictions.

We envisage covenant defaults within CMBS loans secured by Retail shopping centers, Hospitality and Leisure assets will likely trigger distressed loan or asset disposals.

Europe has faced significant economic challenges as a result of the pandemic that will have lasting effects on its economy over coming years. As a consequence of rising NPL ratios, the European Commission has proposed the following action plan:

- A Further development of secondary markets for distressed assets to allow banks to move NPLs from their balance sheets and strengthen protection for debtors.
- B EU corporate insolvency and debt recovery legislation to help converge various insolvency frameworks across the EU.
- C Support the establishment and cooperation of national asset management companies.
- D Implementation of public support measures where needed to ensure funding of the real economy under EU Bank Recovery and Resolution Directive and State aid and frameworks

Finally, CBRE has observed the significant impact of Covid-19 on the world economy and the knock-on effects on commercial real estate in particular. We highlight the impact of government restrictions and inherent stress on the Retail, Hospitality and Leisure sectors as well as global tourism and trade. Despite our expectation of a more active 2021, we see the sharpest increase in NPLs occurring during 2022/23 once government support is withdrawn and the impact of Covid-19 has materialised.

COUNTRY BY COUNTRY REVIEW

ITALY

VOLUME OUTLOOK



POSITIVE

| TRANSACTIONS CLOSED (€ MILLION) | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| YEAR | 2017 | 2018 | 2019 | 2020 |
| CRE | 32,340 | 66,170 | 6,180 | 11,720 |
| Residential | 230 | 150 | 4,040 | 690 |
| Mixed | n/a | n/a | 11,820 | 3,470 |
| TOTAL | 32,560 | 65,130 | 22,040 | 15,880 |

| 2020 TOP BUYERS | |
|-----------------|---------------------------|
| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
| AMCO | 3,250 |
| Securitisation | 1,600 |
| Illimity Bank | 300 |

| 2020 TOP SELLERS | |
|---------------------------------------|---------------------------|
| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
| Banca Monte dei Paschi di Siena (MPS) | 7,500 |
| Banca Popolare | 3,100 |
| Banco BPM | 940 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- Loan transactions in Italy recorded the highest volume of secured loan sales in Europe in 2020, totalling €15.9bn. Compared with 2019 (€22bn), sales volume fell moderately although spread over a significantly lower number transactions.
- The top three sellers represented c. 70% of the total closed sales volume in 2020. The largest transaction was MPS transfer of €7.5bn mixed NPL and UTP portfolio to state owned AMCO allowing BMPS to reduce gross NPE ratio from 12.4% to 4.3%.
- UTP sales totaled €1.6bn in 2020 comprising four transactions: Two portfolios totalling c. €0.9bn as part of project Django sold by Banco BPM, one €0.6bn portfolio from UniCredit to Illimity Bank and a c. € 0.1bn sale by Banca Popolare to an undisclosed buyer.

2021 OUTLOOK

- Italy is likely to be one of the largest markets for secured loan sales in 2021, albeit volumes will be subject to how aggressively regulatory and moratoria relief are withdrawn.
- CBRE expects Hotel, Leisure and a mixture of secured/unsecured SME loan to be among the first to enter the market and are aware of some larger portfolios in very early stages for 2021.

COUNTRY BY COUNTRY REVIEW

GREECE / CYPRUS

VOLUME OUTLOOK



POSITIVE

| TRANSACTIONS CLOSED (€ MILLION) | | | | |
|---------------------------------|--------------|--------------|---------------|---------------|
| YEAR | 2017 | 2018 | 2019 | 2020 |
| CRE | 1,010 | 6,650 | 10,300 | 1,460 |
| Residential | 230 | 0 | 2,000 | 2,000 |
| Mixed | 0 | 0 | 0 | 9,440 |
| TOTAL | 1,240 | 6,650 | 12,300 | 12,900 |

| 2020 TOP BUYERS | |
|-----------------|---------------------------|
| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
| Securitisation | 9,500 |
| Bain Capital | 1,930 |
| PIMCO | 1,460 |

| 2020 TOP SELLERS | |
|-------------------------|---------------------------|
| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
| Eurobank | 7,500 |
| Piraeus Bank | 2,000 |
| National Bank of Greece | 1,930 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- Greece and Cyprus saw few but larger transactions in 2020 totalling €12.9bn over five transactions.
- The largest vendor in 2020 in Greece was Eurobank which completed the sale of €7.5bn portfolio Project Cairo. This was followed by Piraeus Bank which successfully completed a €2bn securitisations (Project Phoenix).
- Bank of Cyprus sold one portfolio to PIMCO which represented the largest secured loan transaction in Cyprus for 2020.

2021 OUTLOOK

- Greek banks will continue to have significant NPL exposures in 2021 as the true impact of Covid-19 will be to materialise into the latter parts of the year.
- The Greek governments Project Hercules, similar to Italy's GACS scheme, will be a key vehicle for banks in 2021. CBRE has seen €9.5bn of securitisations in 2020 and expects this activity to continue as banks deleverage further in 2021.
- CBRE is currently tracking Project Frontier, a €6bn portfolio submitted for securitisation under the HAPS scheme.
- We also expect a large performing portfolio of restructured loan to come out of Cyprus in 2021 according to early reports.

COUNTRY BY COUNTRY REVIEW

SPAIN

VOLUME OUTLOOK



POSITIVE

TRANSACTIONS CLOSED (€ MILLION)

| YEAR | 2017 | 2018 | 2019 | 2020 |
|--------------|---------------|---------------|---------------|--------------|
| CRE | 18,700 | 36,200 | 1,790 | 700 |
| Residential | 33,830 | 1,990 | 8,940 | 2,300 |
| Mixed | n/a | n/a | 840 | 1,400 |
| TOTAL | 52,530 | 38,190 | 11,570 | 4,400 |

2020 TOP BUYERS

| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
|----------------|---------------------------|
| CPPIB | 1,700 |
| Lone Star | 600 |
| Tilden Park | 550 |

2020 TOP SELLERS

| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
|-----------------|---------------------------|
| Banco Santander | 1,700 |
| Banco Sabadell | 1,700 |
| Caixabank | 750 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- Spain experienced a significant slow down in transaction volumes in 2020 with secured loan sales totalling €4.4bn. This is due to the almost complete market shutdown experienced in Q2 in combination with severe uncertainty delaying new transactions.
- Seven transactions were recorded for a total volume of €3.05bn in NPLs, €1.1bn on mixed sales and €0.25bn in performing loans.
- The latest portfolio sales in 2020 were largely split between NPLs and mixed portfolios with Banco Santander transacting a large sale with project Atlas for €1.7bn.

2021 OUTLOOK

- The halt in market activity in 2020 caused many Spanish banks to delay major transactions which are now expected to resurface during 2021.
- Similar to Italy, CBRE expects an uptick in NPL/REO sales volumes in 2021 with Bankia and Banco Santander likely to bring loan portfolios to market in 2021. Albeit we expect most transactions will surface in line with the withdrawal of regulatory and state support. For 2021 we expect secured and unsecured SME portfolios will be the among first to enter the market in continuation of NPL/REO deals transacted in 2020.
- Securitisations will also be an important vehicle for bank deleveraging in 2021 and will likely be a main channel of divestment for banks as well as the secondary market.

COUNTRY BY COUNTRY REVIEW

PORTUGAL

VOLUME OUTLOOK



POSITIVE

| TRANSACTIONS CLOSED (€ MILLION) | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|
| YEAR | 2017 | 2018 | 2019 | 2020 |
| CRE | 1,080 | 4,100 | 440 | 660 |
| Residential | 570 | 1,220 | 1,140 | 0 |
| Mixed | n/a | n/a | 700 | 500 |
| TOTAL | 1,650 | 5,320 | 2,280 | 1,160 |

| 2020 TOP BUYERS | |
|------------------------|---------------------------|
| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
| Davidson Kempner | 460 |
| Arrow Global | 400 |
| AGG Capital Management | 100 |

| 2020 TOP SELLERS | |
|------------------|---------------------------|
| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
| Millennium BCP | 720 |
| Caixabank | 200 |
| Banco Santander | 130 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- The volume of secured sales in Portugal for 2020 was €1.1bn, only half the volume recorded in 2019 (€2.3bn) and far from the record year in 2018 (€5.3bn).
- Similar to the Spanish market, Portugal's NPL market was largely halted until H2 2020 with the majority to sale transacting in December.
- Despite the Covid-19 pandemic, Portuguese NPLs continued to decline to €14.2bn, down from €21.3bn in June 2019 according to the European Banking Authority's risk dashboard.

2021 OUTLOOK

- Similarly to other NPL markets, we expect an uptick in NPLs once moratoriums are withdrawn. Portugal will likely see loans/portfolios backed by city centre hotels and SMEs (bars, clubs etc.) come to market first.
- Novo Bank, Millennium BCP and Montepio bank are likely to be the largest vendors in 2021 having only disposed of small portfolios in the last year.

COUNTRY BY COUNTRY REVIEW

UK

VOLUME OUTLOOK



**NEGATIVE FOR RESIDENTIAL AND
POSITIVE FOR COMMERCIAL PORTFOLIOS**

TRANSACTIONS CLOSED (£ MILLION)

| YEAR | 2017 | 2018 | 2019 | 2020 |
|--------------|---------------|--------------|--------------|--------------|
| CRE | 1,790 | 200 | 280 | 0 |
| Residential | 16,150 | 7,110 | 9,450 | 3,300 |
| TOTAL | 17,940 | 7,310 | 9,730 | 3,300 |

2020 TOP BUYERS

| PURCHASER NAME | NOMINAL VALUE (£ MILLION) |
|----------------|---------------------------|
| NatWest | 3,300 |

2020 TOP SELLERS

| VENDOR NAME | NOMINAL VALUE (£ MILLION) |
|-------------|---------------------------|
| MetroBank | 3,300 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- The UK saw only one secured loan transaction in 2020 with the sale of a £3.3bn performing residential mortgage portfolio by MetroBank to NatWest.
- As we pass the first quarter of 2021, CBRE has seen a number of performing loan transactions come to market. Notably the revival of the £5bn project Jupiter by UKAR sold to Davidson Kempner and Citi as well as upcoming portfolios from NatWest.

2021 OUTLOOK

- Despite 2020 activity being focused on residential portfolios, CBRE expects Hotel and Retail single names/portfolios to represent the majority of transactions in 2021.
- With UK Retail, Hospitality and Leisure under severe stress in 2020, the wind down of government support schemes will trigger a number of distressed loan sales secured by asset management intensive assets.

COUNTRY BY COUNTRY REVIEW

IRELAND

VOLUME OUTLOOK



POSITIVE

| TRANSACTIONS CLOSED (€ MILLION) | | | | |
|---------------------------------|--------------|---------------|--------------|--------------|
| YEAR | 2017 | 2018 | 2019 | 2020 |
| CRE | 6,330 | 3,200 | 3,350 | 0 |
| Residential | 2,970 | 9,400 | 5,400 | 1,400 |
| Mixed | n/a | n/a | 700 | 0 |
| TOTAL | 8,680 | 12,600 | 9,500 | 1,400 |

| 2020 TOP BUYERS | |
|-----------------|---------------------------|
| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
| PIMCO | 1,400 |

| 2020 TOP SELLERS | |
|------------------|---------------------------|
| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
| Permanent TSB | 1,400 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- Ireland saw a significant decline in transaction volumes in 2020 with only one transaction in 2020. The substantial liquidity injection by the BoE combined with severe market uncertainty and bid/ask spread has delayed new transactions in the market.
- We understand that a number of investors are actively seeking opportunities in Ireland with a substantial increase in provisions by Irish banks in 2020.

2021 OUTLOOK

- CBRE is currently tracking several non-performing residential loan portfolios in Ireland, expecting to complete in 2021 with a combined GBV of circa €2.1bn.
- Ireland is poised for a spike in loan transactions following NatWest's decision to wind down Ulster Bank and exit the Irish market.
- Future loan sales will continue to be residential or mixed portfolios of residential and commercial loan portfolios. Ireland also faces an uptick in distressed SME loans post pandemic where we already seen portfolios from NatWest via Ulster Bank transacted in Q1.

COUNTRY BY COUNTRY REVIEW

GERMANY / FRANCE / NETHERLANDS

VOLUME OUTLOOK



STABLE

| TRANSACTIONS CLOSED (€ MILLION) | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|
| YEAR | 2017 | 2018 | 2019 | 2020 |
| CRE | 1,600 | 1,500 | 1,350 | 900 |
| Residential | 0 | 0 | 510 | 0 |
| Mixed | n/a | n/a | 350 | 500 |
| TOTAL | 1,600 | 1,500 | 2,210 | 1,400 |

| 2020 TOP BUYERS | |
|-----------------|---------------------------|
| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
| CarVal | 900 |
| Iqera | 500 |

| 2020 TOP SELLERS | |
|------------------|---------------------------|
| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
| Syntus Achmea | 900 |
| Société Générale | 500 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- Only two loan transactions occurred in France and the Netherlands in 2020 with a total volume of €1.4bn.
- The Netherlands saw a performing mixed CRE portfolio of 0.9bn which was acquired by Carval's RNHB platform. The RNHB platform has a history of acquiring performing loan books (predominately from Rabobank) and has also been very actively originating new loans.
- In the French market, Société Générale disposed of a 0.5bn mixed NPL portfolio to Iqera. The Netherlands saw a mixed CRE portfolio of 0.9bn which was acquired by CarVal.

2021 OUTLOOK

- In recent years Germany, France and the Netherlands have held some of the lowest NPL ratios compared to many other member states in Europe.
- Despite no significant transactions in 2020, we expect a marginal uptick in activity in 2021 as a consequence of the pandemic. We expect small portfolios or single name transactions will account for most activity as banks look to sell down specific non-performing exposures.

COUNTRY BY COUNTRY REVIEW

CENTRAL & EASTERN EUROPE

VOLUME OUTLOOK



POSITIVE

TRANSACTIONS CLOSED (€ MILLION)

| YEAR | 2017 | 2018 | 2019 | 2020 |
|--------------|--------------|--------------|--------------|-----------|
| CRE | 1,000 | 1,330 | 1,180 | 35 |
| Residential | 230 | 0 | 0 | 0 |
| TOTAL | 1,230 | 1,328 | 1,180 | 35 |

2020 TOP BUYERS

| PURCHASER NAME | NOMINAL VALUE (€ MILLION) |
|-----------------|---------------------------|
| Allrise Capital | 35 |

2020 TOP SELLERS

| VENDOR NAME | NOMINAL VALUE (€ MILLION) |
|-------------|---------------------------|
| IMEX Bank | 35 |

Source: CBRE Capital Advisors, 2021

2020 REVIEW

- The CEE NPL market has been largely inactive during 2020 with one REO transaction of €35m in Ukraine.
- Poland, Hungary and Bulgaria held the largest NPL stock in Q1 2020 at €10.8bn with transactions likely put on hold as a consequence of the pandemic.

2021 OUTLOOK

- Following very little activity in 2020, transactions that were delayed due to Covid-19 uncertainty are expected to return to market in 2021.

CBRE LOAN PORTFOLIO ADVISORY SERVICES

DELIVERING ADVANTAGE

Our Loan Advisory team advises on the sale, acquisition, valuation and workout of performing, sub-performing and non-performing loans. The team has executed successful loan sale and buy side processes in multiple jurisdictions including the UK, Germany, Central and Eastern Europe, Italy, Netherlands, Ireland and Spain.

Compared with many of our competitors, we do not have to outsource real estate assignments to external valuers and hence we offer a complete in-house end-to-end solution thereby offering better synergies.

Our global platform ensures we have access to US, UK and international clients at the high level. Our clients will significantly benefit from CBRE's vast experience in the loan sale sector, successfully advising the world's most prominent institutions in raising capital to meet their financial requirements.

Additionally, CBRE has advised a large number of investors acquiring NPL portfolios in different jurisdictions on the buy side, not only in the underwriting of the collaterals, but also in the underwriting of loans, borrowers and business plans and advising in the whole acquisition process as a PMO advisor.

CBRE will use the analysis and stratifications created from our due diligence, combined with our understanding of investor appetite, to ensure the size and portfolio composition is most appropriate to the current investor market dynamics. Examples of the benefits and risks of each approach is shown below:

SINGLE PORTFOLIO SALE



A SINGLE TRANSACTION

- Very focused target investor list with excellent reputation
- Fast execution
- Risk of market saturation
- Provides a unique opportunity for buyers to gain significant scale
- No diversification of execution risk

MULTIPLE LOAN SALES



BROADENS THE INVESTOR BASE

- Maximise pricing as portfolio composition is optimised
- Transaction completion time is increased
- Mitigate saturation risk by spreading the absorption profile over time
- Execution risk is increased

SINGLE PORTFOLIO SALE IN MULTIPLE TRANCHES



DRIVE INDIVIDUAL TRANCHE PRICING

- Provides maximum optionality for buyers
- Provides relatively fast speed of execution
- Diversify completion risk associated with multiple purchasers
- Raises the saturation threshold by widening the buyer base

€78BN

CBRE was involved in more than €78bn of loan sale transactions across Europe over the past 20 years.

SELECTED TRACK RECORD PORTFOLIO SALES

PROJECT BRICK

Confidential

€100m

Advisor on the disposal of a residential REO portfolio in Portugal

2019

PROJECT JULIA



€750m

Advisor to FMS on the disposal of a mixed NPL / PL loan portfolio across Europe

2019

PROJECT FALCON



£175m

Advisor to Lone Star on the disposal of a performing UK CRE (retail) portfolio

2019

PROJECT MUNDAKA



€120m

Advisor to Sareb on the disposal of a residential REO portfolio with squatters in Spain

2019

PROJECT ORIGEN



€300m

Advisor to Blackstone on a multiple tranche REO process of land and WIPs in Spain

2018

PROJECT TAMBO



€330m

Advisor on the disposal of a residential NPL portfolio in Spain

2018

PROJECT SERLBY



€50m

Advisor to Bank of Ireland on the disposal of a CRE PL / NPL portfolio in the UK

2017

PROJECT STACK



€300m

Advisor to ABN AMRO on the disposal of a SME / CRE NPL portfolio in the Netherlands

2017

PROJECT TANDEM



€70m

Advisor to BBVA on the disposal of an NPL single name transaction in Spain

2016

PROJECT HIERONYMUS



€585m

Advisor to FMS-WM on the disposal of a mixed NPL / PL loan portfolio in the Netherlands

2016

PROJECT AECUS



€60m

Advisor Sareb on the disposal of a CRE NPL single-name portfolio in Spain

2015

PROJECT CLEAR



€2bn

Advisor to Ulster Bank on a corporate debt portfolio of development sites in Dublin

2015

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