



EUROPEAN REAL ESTATE LOAN SALES MARKET

Q1 2016

A C&W Corporate Finance Publication

KEY HIGHLIGHTS

€3.7bn of closed sales as activity spreads to southern Europe with Spanish and Italian vendors testing investor appetite

- C&W Corporate Finance recorded €3.7bn of closed European real estate loan (RE loan) and real estate owned (REO) sales in Q1 2016, a slightly subdued start to the year following a record 2015.
- Despite sales volumes being down 91% on those recorded in Q4 2015, activity has been continuing in the background with many vendors reassessing their positions and portfolios before preparing their next moves.
- The average size of transactions was just €207m with no “mega-deals” being recorded in the first quarter, allowing a wider range of investors to participate in the market.
- Spain has taken the lead, accounting for 50% of the closed volume so far in 2016 whilst Italy continued its strong end to 2015 with over €1.1bn of sales in Q1 2016.
- European asset management agencies (AMA) accounted for just 14% of closed sales since the start of the year, although NAMA and Propertize are currently in the market with “mega-deals”.
- The UK has seen a significant dip in activity levels following a record year boosted by UKAR’s sale of its €17.8bn Granite Portfolio and several UK lenders completing their deleveraging.
- Despite the relatively quiet start to 2016, a significant increase in sales activity is expected over the next six months supported by c. €28.6bn of live sales.
- With a further €38.2bn of planned sales, C&W Corporate Finance estimates that the 2016 closed transaction volume will be in the region of €70-80bn.

CLOSED TRANSACTIONS Q1 2016

VOLUMES

Busy end to 2015 takes its toll on start of 2016 as vendors use Q1 to assess their portfolios

With many key lenders and asset management agencies (AMA) successfully completing sales before the 2015 year end in an attempt to meet annual targets, activity in Q1 2016 was almost guaranteed to look subdued. With just €3.7bn of RE loan and REO transactions closing, the first quarter of 2016 has been the quietest since Q2 2013.

As proven in 2015, a relatively slow start to the year is not a new phenomenon. Despite sales volumes being down 91% on those recorded in Q4 2015, activity has been continuing in the background with many vendors reassessing their positions and portfolios before preparing their next moves. With several large live and planned transactions expected to close in Q2 and Q3, sales volumes are likely to balloon later in the year.

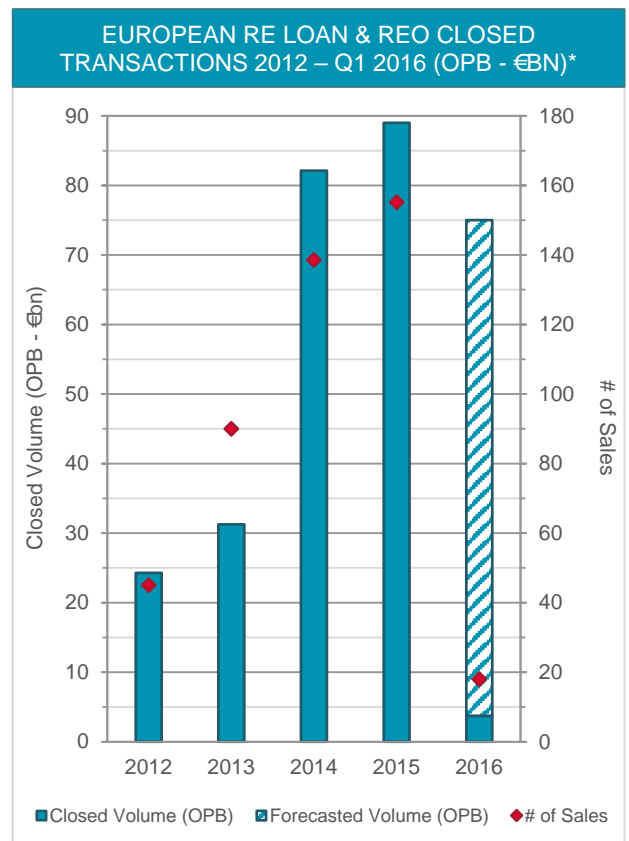
KEY TRANSACTIONS

Calm before the storm as smaller sales take precedence

The year has so far witnessed 18 transactions, all of which have had relatively small face values as highlighted by the average size equating to €207m compared to €574m in 2015. With no “mega-deals” (sales with a face value over €1bn) being recorded, the largest sale to date came from Bankia, which disposed of its €645m CRE loan portfolio dubbed Project Babieca to Deutsche Bank.

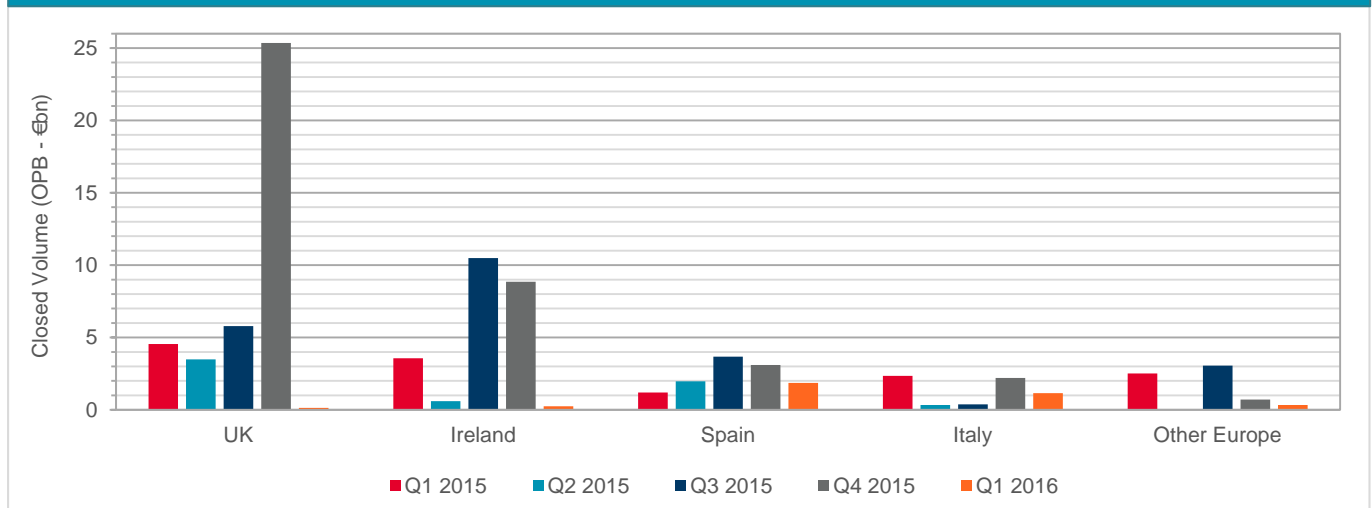
Remaining in Spain, Banco Sabadell also got involved in the action by selling its €550m Project Empire to Blackstone. Having launched the sale late last year, the portfolio of residential REOs was ultimately reduced in size, potentially due to the success of marketing individual assets through its online Solvia platform, a tactic almost all Spanish vendors have now adopted.

c. €3.7bn of closed transactions during Q1 2016



Source: C&W Corporate Finance

QUARTERLY EUROPEAN RE LOAN & REO CLOSED TRANSACTIONS 2015 – Q1 2016 (OPB - €BN)



Source: C&W Corporate Finance

*Please note that the 2015 closed transactions volume has increased since the Q4 2015 report as C&W Corporate Finance has learnt of further transactions completed in 2015

GEOGRAPHY

Focus shifting southwards towards Iberia

As anticipated in C&W Corporate Finance’s *European Real Estate Loan Sales Market Report Q4 2015*, Spain has taken the lead accounting for 50% of the closed volume so far in 2016. Despite sales decreasing c. 40% since Q4 2015, Spain has been evidently more active than the rest of Europe with 8 transactions completing involving 4 different vendors. Two servicing platforms have also changed hands in the first quarter, indicating that investors still believe there are lucrative opportunities to be won.

Italian banks to follow lead of international lenders

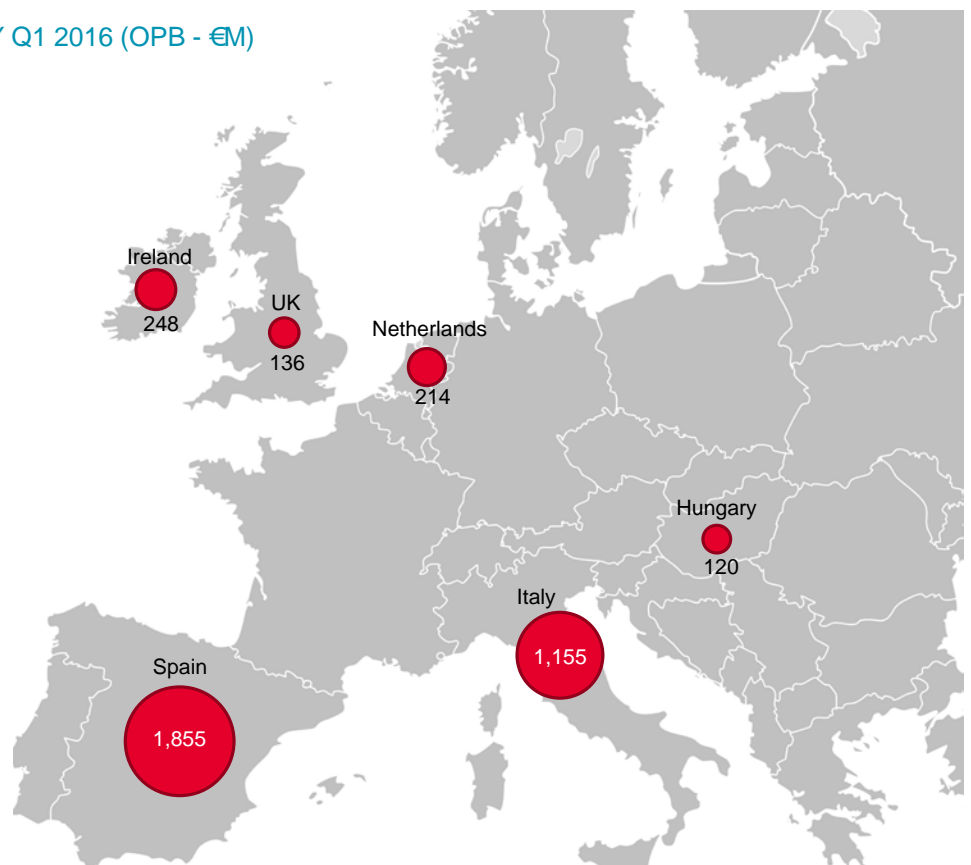
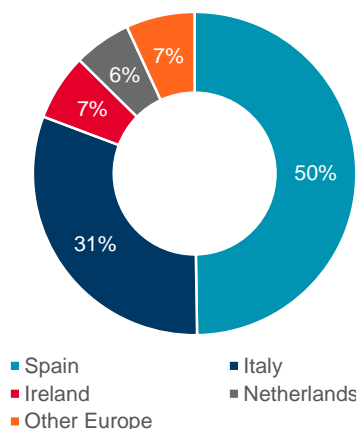
Italy continued its strong end to 2015 with over €1.1bn of sales in Q1 2016, equating to 31% of the European total. In its bid to divest all of its European exposure, GE Capital related to 84% of Italian sales. There has been a notable surge in the level of Italian unsecured loan portfolios being sold in the last six months, a possible early sign that more real estate loan sales can be expected in the near future. This is certainly a pattern witnessed by European countries ahead of Italy on the curve, whereby lenders first concentrate on their larger, more heavily discounted consumer and corporate loans before dealing with their secured portfolios.

Unsurprisingly, the UK has seen a significant dip in activity levels following a record year boosted by UKAR’s sale of its €17.8bn Granite Portfolio and several UK lenders completing their deleveraging. Similarly, NAMA has now successfully managed to work-out the majority of its portfolio and as such, sales volumes in Ireland have also started to decrease.

“The loan sales market in Ireland and Spain has been successful due to the early adoption of asset management agencies and realistic provisions for their NPLs. Although Italy has taken some small steps towards dealing with a mountain of distressed debt, further reforms to foreclosure law and appropriate levels of provisioning are required in order to converge investor and vendor pricing and to evolve Italy into a key market.”

**Federico Montero
Head of Loan Sales
EMEA Corporate Finance**

CLOSED SALES BY GEOGRAPHY Q1 2016 (OPB - €M)



KEY VENDORS

GE Capital continues retreat from Europe

Having not recorded any “mega-deals” to date in 2016, the list of key vendors has no obvious frontrunner and is likely to change significantly over the coming months. As mentioned, with a clear strategy to remove its presence from the European market, GE Capital tops the list in Q1 2016 having completed 4 transactions with a combined face value of c. €1.1bn.

Several Spanish entities have also been active in the first quarter, which undoubtedly sets the tone for the remainder of the year. Although SAREB will have to overcome new regulations relating to the calculation of its portfolio’s carrying value and the subsequent effect on loan sales, it has already been demonstrated that there is a whole host of Spanish lenders lining up to sell portfolios. As vendor and buyer pricing expectations continue to converge, Spain will likely witness high levels of activity this year.

AMA to become more active in Q2 and Q3

European AMA accounted for just 14% of closed sales by volumes since the start of the year, compared to 38% of the 2015 total. However, with the likes of NAMA and Propertize currently in the market with “mega-deals” and UKAR preparing a colossal portfolio of mortgages, AMA will indeed dominate headlines throughout 2016.

KEY BUYERS

AnaCap, Deutsche Bank and Blackstone share the spoils

As a result of AnaCap purchasing three of the four portfolios involving GE Capital in Q1, the UK entity corresponds to c. 20% of the total volume to date. Despite previously being involved in a string of unsecured loan portfolio sales over the past few years, the private equity firm is becoming an increasingly familiar name in both Italy and Spain.

Just behind, Deutsche Bank and Blackstone closed one deal apiece in Spain to account for 17% and 15% respectively. The variation in investor names in the Q1 2016 closed sales list shows how competition is still increasing for the smaller sized portfolios.

Investors raring to go

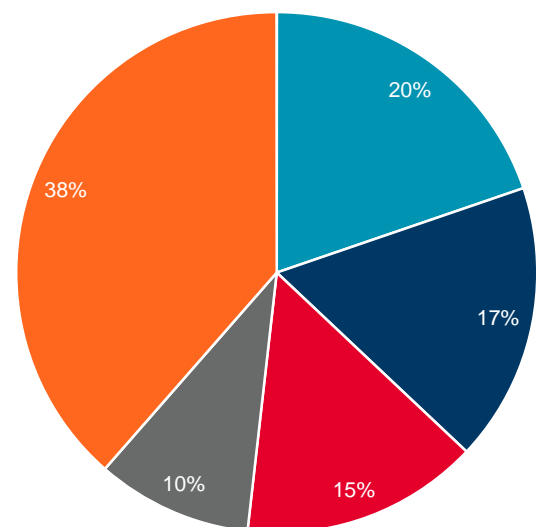
Given the lack of larger transactions for investors to focus on in the first quarter, the majority of established loan sale acquirers have yet to complete a sale so far in 2016. As mentioned, the average size of sales so far is just €207m which is too small for many of the larger investors’ investment strategies. However, with several large transactions currently in the market or in the preparation stages, investors will be eager to start deploying capital. As with the list of vendors, the buyers’ table is subject to change over the upcoming months.

TOP 5 VENDORS Q1 2016

	VENDOR	CLOSED SALES (OPB - €M)	#
1	GE Capital	1,096*	4*
2	Banco Sabadell	980	3
3	Bankia	645	1
4	Credit Agricole	360*	1*
5	RBS	339*	2*

* Note: Includes transactions with other vendors Source: C&W Corporate Finance

BUYERS OF CLOSED SALES Q1 2016



- AnaCap
- Deutsche Bank
- Blackstone
- FBS
- Remaining Buyers

Source: C&W Corporate Finance

LIVE & PLANNED TRANSACTIONS

LIVE TRANSACTIONS

Closed volumes to pick up over next six months

Despite the relatively quiet start to 2016, C&W Corporate Finance anticipates a significant increase in sales activity over the next six months supported by c. €28.6bn of portfolios currently being marketed. This is an increase of 65% on levels being tracked at the end of Q4 2015, an unsurprising statistic as vendors throughout Europe cement their deleveraging plans for the year ahead.

As expected, activity in Spain warming up

With c. €9.3bn of live transactions accounting for almost one third of the European total, Spain is still very much on the radar of investors. Despite the announcement early in 2016 that Bankia would be pulling its Project Big Bang sale due to bids not reaching the bank's carrying value for the portfolio, activity has continued undeterred. Banco Popular soon after launched its sale of a very similar €4.0bn REO portfolio, which if successful will boost Spanish sales volumes considerably.

NAMA looks for sparkling finish in 2016

European AMA have been busy behind the scenes over the first quarter as highlighted by the c. €6.3bn and €6.1bn of current sales in the Netherlands and Ireland respectively. The Dutch AMA, Propertize, has shortlisted several consortiums of bidders for phase two of its c. €5.5bn Project Swan process with final bids due towards the end of May, Meanwhile in Ireland, NAMA is well under way with its Projects Emerald and Ruby as it looks to complete its deleveraging plan by the end of the year.

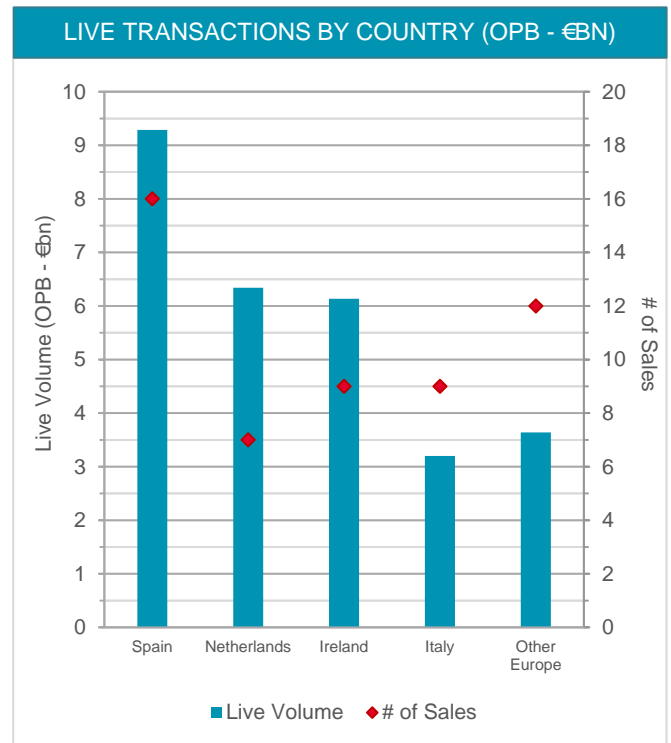
PLANNED TRANSACTIONS

Pipeline of €38.2bn of planned disposals

Given the launches of the two aforementioned AMA deals, there has been a 38% decrease in the pipeline of planned sales since the end of 2015. Furthermore, after an initial market sounding, the Co-Operative Group has decided to retain its c. €9.0bn Optimum Portfolio of residential mortgages following substantial improvements to the portfolio's LTV and underlying asset performance.

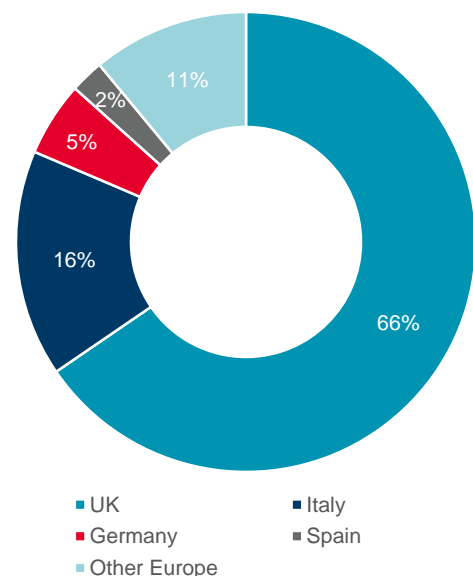
Nonetheless, there are still several large sales which could drastically inflate this year's sale volumes. Firstly, UKAR is currently mulling the sale of c. €21.8bn of Bradford & Bingley mortgages following the success of its Granite Portfolio towards the end of last year. In southern Europe, the Bank of Italy is looking to mandate a sell-side advisor for a €8.5bn portfolio of loans transferred from four regional banks, although the proportion of real estate related exposure is still uncertain.

Currently tracking
€66.8bn
of live and planned sales



Source: C&W Corporate Finance

PLANNED TRANSACTIONS BY COUNTRY



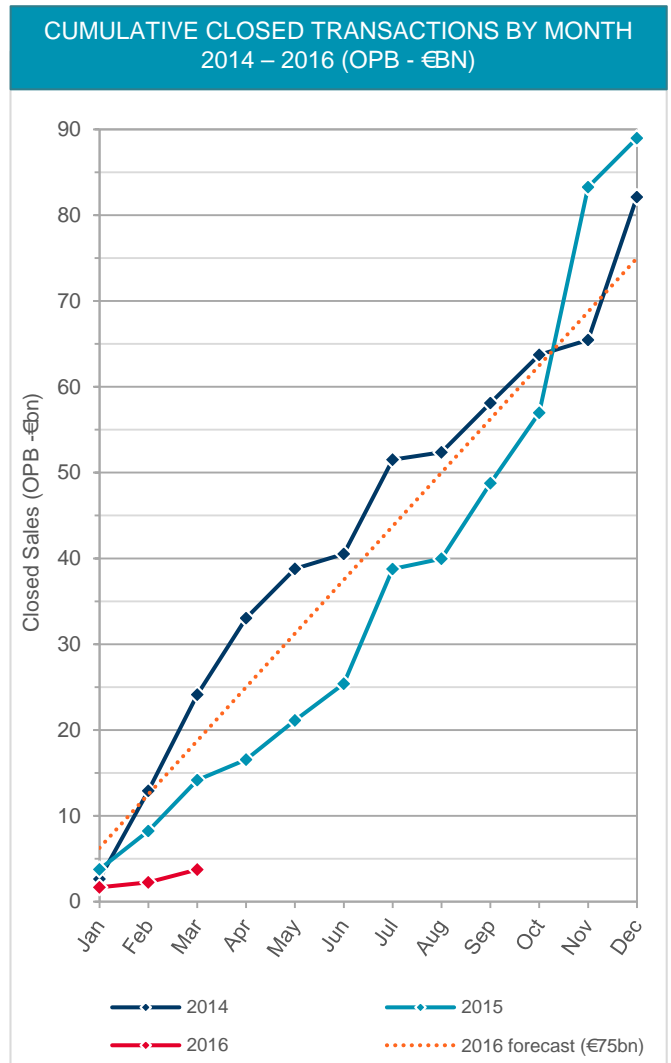
Source: C&W Corporate Finance

2016 OUTLOOK

Activity behind forecast but will catch-up in Q2 and Q3

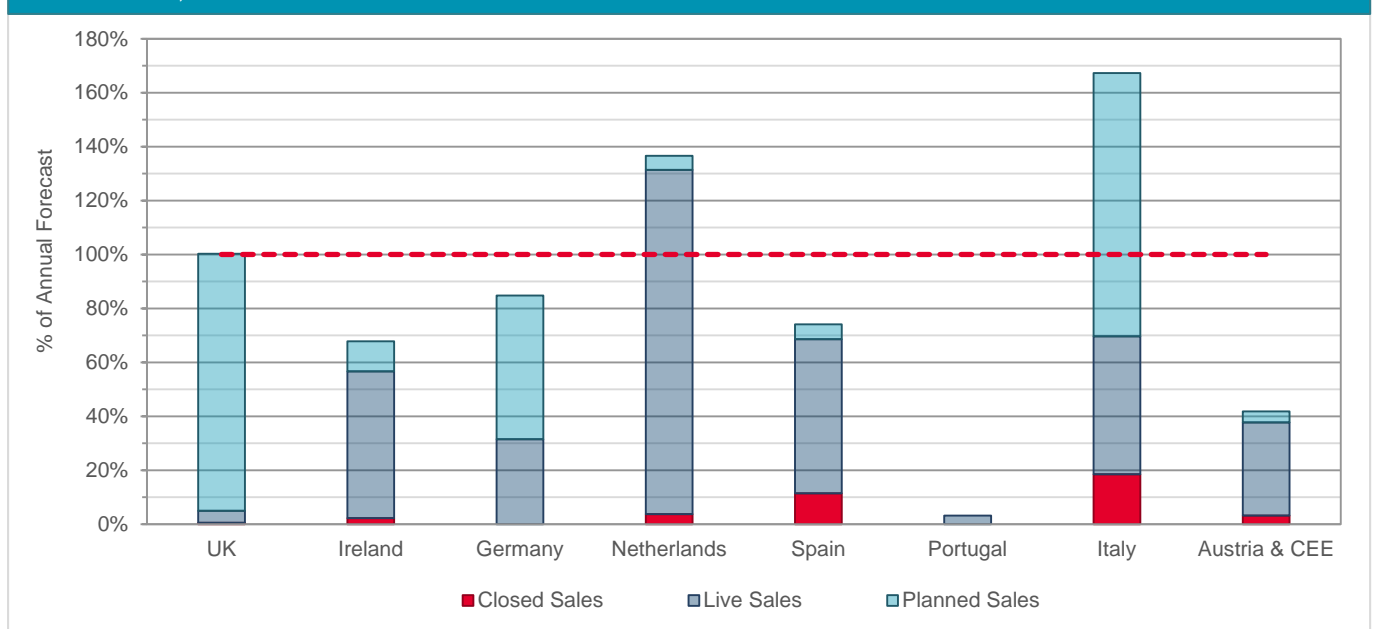
Despite high levels of ongoing activity, the annual volume of closed sales is behind schedule if it is to reach its forecast of €70-80bn as predicted by C&W Corporate Finance. Key considerations by country are:

- **UK** – No significant activity in 2016, but a UKAR deal like the Granite Portfolio could completely change this statistic.
- **Ireland** – Quiet start, although NAMA’s Projects Emerald and Ruby could account for one third of its annual forecast.
- **Spain** – Increasing number of vendors and will be a key market this year, especially as investor and seller pricing expectations continue to converge.
- **Portugal** – Will benefit from Spanish interest, especially if local banks start to work-out non-core exposure.
- **Germany** – No sales to date and volume may struggle to reach its annual forecast.
- **Netherlands** – If successful, Propertize’s Project Swan will take the Netherland’s volume past its annual forecast.
- **Italy** – Uncertainty over Government’s NPL guarantee scheme and rescue fund, Atlante, but several domestic lenders starting to test appetite with smaller real estate loan portfolios.
- **Austria & CEE** – Continued activity in the unsecured loan market is now spreading into the secured market with several smaller sales completed to date. Private equity firms are also showing interest in banking units.



Source: C&W Corporate Finance

CLOSED, LIVE & PLANNED TRANSACTIONS BY COUNTRY V C&W CORPORATE FINANCE 2016 FORECAST



Source: C&W Corporate Finance

CLOSED RE LOAN & REO TRANSACTIONS Q1 2016

Almost €3.7bn of closed transactions in Q1 2016

DATE	VENDOR	PROJECT	TYPE	COUNTRY	BUYER	FACE VALUE (€M)
Jan-16	Banco Sabadell	Project Empire	REOs	Spain	Blackstone	550
Jan-16	Propertize	New Babylon Scheme	REOs	Netherlands	Icon Real Estate	87
Jan-16	Bankia	Project Babieca	CRE Loans	Spain	Deutsche Bank	645
Jan-16	Credito Valtellinese	Cerere Portfolio - Secured Loans	CRE Loans	Italy	Credito Fondiario	126
Jan-16	Kennedy Wilson	Project Avon Fire Control Centres	REOs	UK	UK infrastructure fund	136
Jan-16	MKB Bank	CRE Loan Portfolio	CRE Loans	Hungary	Unknown	120
Feb-16	Banco Sabadell	Neinor Homes Portfolio	REOs	Spain	Unknown	400
Feb-16	Banco Sabadell	Ciudad Gran Turia	REOs	Spain	Fondo de Garantia de Deposito	30
Feb-16	Banco Popular	Banco de Andalucia HQ	REOs	Spain	Drago Capital	25
Feb-16	SAREB	Barcelona & Tarragona CRE loans	CRE Loans	Spain	Banco Sabadell	131
Mar-16	GE Capital / Credit Agricole	Project Elipso – Secured Loans	CRE Loans	Italy	FBS	360
Mar-16	NAMA	One Spencer Dock	REOs	Ireland	Hines	242
Mar-16	NAMA	Shopping Centre, Cashel	REOs	Ireland	Davy Real Estate	6
Mar-16	GE Capital	Project Vesta - Secured Loans	CRE Loans	Italy	AnaCap	330
Mar-16	GE Capital / RBS	Project Eris - Secured Loans	CRE Loans	Italy	AnaCap	279
Mar-16	GE Capital	Dutch Residential & CRE Loan portfolio	Resi & CRE Loans	Netherlands	AnaCap	127
Mar-16	SAREB	Industrial, Hotel & Office CRE Loans	CRE Loans	Spain	Unknown	74
Mar-16	RBS	Project Maya - Secured	CRE Loans	Italy	Link Financial	60

Source: C&W Corporate Finance

LIVE RE LOAN & REO TRANSACTIONS

Currently tracking €28.6bn of live transactions

VENDOR	PROJECT	TYPE	COUNTRY	FACE VALUE (€M)
NAMA	Project Lee	CRE Loans	Ireland	350
CaixaBank	Project Eurostars	REOs	Spain	103
NAMA	Project Slaney	REOs	Ireland	100
ING Group	Eurocommerce Loans	CRE Loans	Netherlands	100
BBVA	Project Otelo	REOs	Spain	Unknown
BBVA	Project Zafiro	REOs	Spain	150
Santander	Project Formentera	CRE Loans	Spain	170
ING Group	Project Isabella	CRE Loans	Spain	Unknown
ING Group	Project Julieta	CRE Loans	Spain	371
Ibercaja Banco	Project Kite	REOs	Spain	800
Goldman Sachs / NAMA / Hines	Spencer Dock Block R	REOs	Ireland	90
BBVA	Project Liceo	CRE Loans	Spain	70
NAMA	Liffey Portfolio	REOs	Ireland	58
FMS	Project Samba	CRE Loans	Germany	230
SAREB	High value asset NPLs	CRE Loans	Spain	800
Propertize	Project Triple+	CRE Loans	Netherlands	140
CGD	Project Andorra	CRE Loans	Portugal	Unknown
Kildare Partners	Triple Portfolio	REOs	Germany	150
FGH Bank	Project Rembrandt	CRE Loans	Netherlands	Unknown
Blackstone	Project Webb	REOs	UK	292
Banco Mare Nostrum	Project Stream	CRE Loans & REOs	Spain	300
EAA	Project Botticelli	CRE Loans	Italy	350
Intesa Sanpaolo	Project Rosemary	CRE Loans	Romania	287
RBS	Project Detroit	CRE Loans	UK	816
GE Capital	Project Zagato	Resi Loans	Spain	600
Rabobank	De Rotterdam Towers	REOs	Netherlands	350
DekaBank	Project Panorama	CRE Loans	Spain	24
Banco Popular	EUR 4bn REOs	REOs	Spain	4,000
Grupo Cooperativo Cajamar	Project Baracoa	CRE Loans	Spain	800
Cassa di Risparmio di Rimini	EUR 200m NPLs	CRE Loans	Italy	200
Unknown	Project Light	CRE Loans	Portugal	56
Aegon	Project Otto	Resi Loans	Hungary	360
UniCredit/BMPS/Unipol	Una Hotels Debt	CRE Loans	Italy	500
Cassa Centropadana	NPL Portfolio	CRE Loans	Italy	170
Generali	Dutch Property Portfolio	Mixed	Netherlands	Unknown
NAMA	Gresham Hotel	REOs	Ireland	80
Unknown	EUR 300m NPLs	CRE Loans	Hungary	300
Raiffeisenbank	Confidential	Resi Loans	Poland	237
Rabobank	Confidential	CRE Loans	Netherlands	250
Commerzbank	Project Gobi	CRE Loans	Germany	800
HETA	Project Friuli	CRE Loans	Italy	657
Deutsche Bank	Project Granada	CRE Loans	Spain	300
NAMA	Project Emerald	CRE Loans	Ireland	2,500
NAMA	Project Ruby	CRE Loans	Ireland	2,200
NAMA	Project Abbey	CRE Loans	Ireland	750
Propertize	Project Swan	CRE Loans	Netherlands	5,500
HETA	Project Zanon	REOs	Italy	23
BPER	Project Please – Secured Loans	CRE Loans	Italy	300
Bankia	Project Wind II	Resi Loans	Spain	800
Banca Popolare di Bari	EUR 800m NPLs	CRE Loans	Italy	800
Erste Group	EUR 110m NPLs	CRE Loans	Romania	110
BMPS	Project Fiona	CRE Loans	Italy	200

Source: C&W Corporate Finance

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