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Q+A: Corrado Passera, the veteran Italian banker planning to digitalise the country's real estate

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The CEO of challenger bank Illimity talks to React News about its new online platform, and his plans for a real estate fund



A veteran of Italian finance sees his next big opportunity in the digitalisation of property sales, and is planning the launch of a new real estate fund in the next year.

Corrado Passera is a household name in Italy, having served as CEO of Poste Italiane (the Italian postal service) and of the country's largest bank Intesa Sanpaolo, as well as minister of economic development. In 2018, at 63, he launched a bank start-up, now called Illimity, which focused on distressed credits, digitalisation and everything SME.

Historically the relative value of SMEs is particularly high in Italy, where they generate 66.9% of the overall value in the national “non-financial business economy”, according to OECD data. This compares to the EU average of 56.4%, and a 78.1% share of employment compared to the EU average of

66.6%.

Real estate connected with SMEs remains a huge and often unexplored business opportunity, Passera said in a conversation with *React News*. Managing distressed credit, Illimity has become an expert on the underlying real estate assets, and has been using its own digital platform to resell them and create value.

The next step has been to turn this expertise from the judicial system to the broader “open market” of real estate. Earlier this month, Illimity launched Quimmo, a platform created to simplify the purchase and sale of real estate and cover the entire value chain.

What's Illimity's focus on real estate investments?

Real estate is very important for us. Illimity is a new paradigm bank. We focus on one main area: SMEs. We serve the SME world in three ways. First, development credit: loans to companies that have ambitious projects to grow, in performing situations. Then, we have turnaround loans or restructuring loans for companies that had some problems. We help them in restructuring and relaunching the company and getting back to performing status. And then we have the distressed credit division.

Real estate can be crucial in any of these three segments. Obviously, the main source of real estate is the distressed credit division, where we manage both unlikely to pay (UTP) loans and non-performing loans.

We created probably the only end-to-end distressed credit operation in Italy. We are investors, we finance other investors, we service real estate and credit portfolios, and we remarket real estate assets.

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Where is the role of the platform in this cycle?

In order to complete this end-to-end model, two years ago we bought the leading platform for online auctions on real estate assets, IT-Auction. And we integrated it into our servicing business because remarketing real estate is part of the servicing process. Last year, we sold or we put on the market more than 2,000 properties.

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Given the success of this activity, we decided to further invest in the platform to move out from the judicial real estate market, and expand to the open market of developers, builders, funds, banks and insurance companies.

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What does moving from the distressed market to such a broader market entail?

We made our platform even more friendly, even more complete. Now, anybody can use it to sell or to buy. On the other hand, it's a brokerage platform. So you have the seller and you have potential buyers.

We have around 5,000 properties on the Quimmo platform, which people can buy. The real estate brokerage market in Italy is not yet a world where digitalisation has changed the rules of the game. It's still a very traditional

world. You have a number of window platforms that are very active and effective, but are simply window platforms, with pictures or videos of the assets, and that's it.

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The rest of the process – preparation of the site, notary services, evaluation, assessment of the value, data gathering, financing – is still very fragmented with a number of separate service providers. A seller and buyer do not have a one-stop shop where they can perform all the activities that are part of the selling or purchasing process.

Our business today is to sell real estate units on behalf of the courts or on behalf of funds, notably distress funds. And we are very good at working both with sellers and buyers throughout the whole process. We believe that these services can be interesting for millions of people.

What kind of assets will be for sale on Quimmo?

There are already a lot of corporate assets. We have both commercial and residential units. There are no limits. We want to put on the table any kind of real estate, for all potential buyers.

Prospective buyers on the Quimmo platform can browse everything from multimillion-euro judicial assets to small residential projects

Will the platform be competitive in terms of price compared to traditional brokerage firms?

It will be very transparent, and it will depend on the kind of services you buy. For the simple brokerage service we will be competitive with the best players. But we also provide a full spectrum of complementary services, also through a variety of partnerships. There is such a need for a better and more complete set of services – a one-stop-shop kind of experience – that we don't see the need to push the price factor too much.

So the main strength, aside from the digital network, is the expertise behind it?

You can do everything on the platform, but mostly you can rely on a network of almost 200 people throughout the country that are not agents, nor the franchisees. They are our professionals, working for us, that have the duty to escort you through all processes.

Who are your most direct competitors?

As of today, the market is still very traditional. There are a few small operations that are mainly digital, but most deals are still done through traditional real estate agents. For sure, most of the advertising, is done also through platforms. But the deals, the brokerage, are in the traditional real estate agent settings.

Italian commercial real estate investment has been particularly active in the first quarter of 2022. Where do you see opportunities for investors in Italy at the moment?

Very large ones, for many reasons. Today, given the uncertainty created also by the war, real estate is again seen as a safe investment.

The Covid-19 crisis created a new interest and a new need for reconsidering your home and upgrading it. We expect quite a growth both in terms of number of transactions and in total volume of transactions.

And in terms of Illimity's plans, are you raising funds specifically focused on the real estate market?

Yes. We have an SGR, an asset management company, Illimity SGR, and one of the next two funds will be a real estate fund. We now have a UTP (unlikely to pay) fund, which is a contribution fund where investors get a percentage of the fund by putting their credit into it. We will do the same thing with real estate.

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The assets will become property of the fund, which will make a return by managing and progressively divesting. It will be specifically for institutions, for

large portfolios and large assets. The idea is to launch it before the end of the year.

What do you see in terms of distressed opportunities in the Italian market at the moment?

Today our portfolio is 50/50 distressed and non-distressed. According to the business plan projections, at the end of the plan, the distressed share will be around one-third of our total portfolio.

We expect a significant wave of new distressed assets on the market. The main reason is that all of the emergency measures that were taken to manage the Covid-19 crisis – the main intervention being moratoriums – have now been lifted. We expect that a large part of the €30-35bn of moratoriums will in due time become distressed. And some of them will certainly be put on the market.

At the same time, Italian banks accumulated a large amount of so-called Stage 2 positions in this period, which were around €280bn at the end of December 2021. In time, we expect some of them will become non-performing assets, and a portion of them will be put on the market.

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From the beginning of this year, the amount of deals that have been offered is quite significant. The Ukrainian war certainly is accelerating the problems of a number of companies. As a consequence, it will also be an accelerator in the creation of NPLs for the banks.

Last year Illimity formed a JV with Apollo to invest in single-name distressed credit exposures secured by real estate assets in Italy. How’s that going? And is there any expectations to similar ventures with other international investors?

There is no exclusivity, but we are working very closely with Apollo and with very high satisfaction on both sides. Obviously, we cannot exclude, and we are not required to prevent other players from joining Illimity. But we are really putting all our efforts today into this joint venture, which has been designed in the right way and at the right time.