BANK OF GREECE
EUROSYSTEM

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1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

2013 as a whole witnessed persisting pressures on commercial values, prices and rents of both residential and commercial properties. The main characteristics of the real estate market were weak demand and excess supply, which can be attributed to high unemployment rates and a further contraction in households' disposable income, real estate tax hikes, as well as liquidity shortage against the backdrop of banks' tightened credit standards. However, some first signs of stabilisation in the real estate market have been observed since late 2013, while an increased interest is currently visible, particularly in income properties, as a result of improving economic climate and expectations.

In the **housing market**, the drop in prices continued at a strong pace throughout 2013, although this pace had eased gradually since early 2013. More specifically, data collected from credit institutions show an average annual rate of decline of 10.3% in apartment prices in 2013, against -11.7% in 2012, while between the last quarter of 2012, when the highest rate of decline in prices was recorded (-12.8%, year-on-year), and the first quarter of 2014 (-7.5% – latest available data), a clear and gradual moderation in the decline of prices was observed. Yet, on a cumulative basis between 2008 (average level) and the first quarter of 2014, prices in apartments fell by 34.4% according to data collected from credit institutions, whereas data collected from real estate agencies point to an even sharper decline. The fall in prices was stronger in the two major urban centres (Athens: -37.67% and Thessaloniki: -37.8%), compared with other cities (-31.1%) and other areas (-29.6%), as well as larger properties in relatively higher-value areas in Greece.

The shift of households' purchasing interest towards smaller, older and more affordable properties in medium-value areas, which has been observed since the onset of the current crisis, continued into 2013 and the first months of 2014. According to data from the quarterly survey of real estate agencies and property advisors conducted by the Bank of Greece, a mere 17% of transactions was financed by banks, while the average loan-to-value ratio came to roughly 35%.[1]

[1] In early 2009, 82% of transactions were financed by banks, whereas the average loan-to-value ratio stood at 70%. The time required to market more than doubled during the crisis (from about five months in early 2009 to almost a year in 2013), while the average difference between initially asked and final purchase prices rose significantly (from 12.6% to 20.7%). See the results of the quarterly survey of real estate agencies and property advisors, available at the Bank of Greece's website:
http://www.bankofgreece.gr/Pages/el/Statistics/realestate/publications.aspx.

The downward trend of house prices is likely to persist in the following quarters, but at a relatively weaker pace, as the high rates of decline in prices which were observed in 2012 have been moderating in the quarters ahead. The housing market is expected to recover with a relative time lag, largely depending on a steady increase in households' disposable income, a rise in employment, as well as an improvement in bank financing conditions.

The **commercial real estate market** recorded a dramatic decline over the past few years, with significant pressures to renegotiate and reduce rents, especially for secondary retail properties, warehouses and non-prime office buildings. Both rent and market prices contracted further in 2013, at an average annual rate of 16.3% and 16.9%, respectively (according to data from the survey of real estate agencies), while prime office and retail yields ranged between 8.5% and 9.0%. Taxes levied on real estate property over the past few years, which were often based on administrative, not actual market values, made the recession in the real estate market more pronounced and considerably discouraged demand.[2] Recent legislation on real estate taxation has limited the uncertainty of the tax regime on real estate property, while the significantly lowered Property Transfers Tax (down to 3%) is expected to help boost the particularly low frequency of transactions in the Greek real estate market. However, the implementation of a Capital Gains Tax on transfers of real estate (Law 4172/2013) since early 2014 has led to stagnation in the Greek real estate market, due to considerable uncertainty regarding the modalities of the capital gains tax on real estate. The latest amending provisions (Law 4254/2014) helped eliminate uncertainty and address such issues, but the delayed issuance of the relevant regulatory decisions and acts which are envisaged under the new law resulted in the continuation of stagnancy at least during the first quarter of 2014.

Despite a sharp decline in the market, a number of major transactions on prime properties were completed in the course of 2013, which are estimated to account for over a €1 billion investment in the Greek commercial real estate market. Greek Real Estate Investment Companies (REICs) have also been active, as the new institutional framework on REICs (Law 4141/2013) introduced significant improvements, provided new incentives and allowed for greater flexibility in the composition of their portfolios. The recent significant participation of foreign funds in the share capital of Ethniki Pangaea and of Eurobank Properties ensures additional sizeable liquidity in the sector, which is expected to translate into new investment in the course of 2014.

From the beginning of this year onwards, a considerable improvement in investment climate and expectations has been observed, with investment interest mainly focusing on income properties. In terms of investment interest, the most dynamic sectors appear to be that of tourist properties-hotel units, as well as that of prime office buildings and retail properties, while an increasing shift of investment interest towards prime large warehouses is recorded.[3] Nevertheless, it should be noted that, despite the observed interest, the current stock of commercial properties fails to meet the

[2] In fact, the distortion caused by the existence of real estate administrative values, which in certain cases (e.g. large properties in "expensive" areas, depreciated central Athens neighbourhoods, etc.) significantly exceed property market values, leads to an artificially excessive taxation of real estate property.
[3] In recent months, investors' interest stems mainly from foreign funds, especially US and European funds, while an increasing interest is observed from Middle East countries and China.

desirable investment criteria to a great extent, while the finalisation of transactions is often hindered by legal issues and weaknesses in the existing institutional framework (land use, urban planning regulations, etc.), by red tape and multiple ownership, as well as by the unrealistic prices asked by individual owners (as a result of the very high initial acquisition prices of their properties). Red tape in the Greek real estate market, along with ambiguous urban planning regulations and multiple violations thereof, the lack of a stable and clear framework on regional planning and land use, as well as of a complete and accurate cadastre, are some additional factors that discourage demand, often prevent the conclusion of investment agreements and hinder the development of public properties.

Prime commercial property prices are expected to stabilise in 2014, while prospects for high-end tourist properties are even more favourable, as a result of a projected substantial growth in tourism. Turning to non-prime commercial properties, prices are expected to drop further in the following quarters, while the real estate market as a whole is projected to start recovering gradually in 2015, provided that the present trend is not reversed by exogenous factors (political factors, international conjuncture, etc.). Over the medium term, a gradual development of a new stock of prime commercial properties is expected, as current supply fails to meet the standards of emerging demand. In any event, to the extent that uncertainty is easing further and the recovery prospects of the Greek economy are improving, while at the same time individual legal issues associated with the Greek state are effectively addressed and the economic climate ameliorates, it is estimated that – given the emerging investment interest – the sharp downward trend that was observed during the current crisis is likely to be reversed and some signs of stabilisation and gradual recovery in the Greek economy may become visible.

As regards **public real estate development**, the implementation of the relevant programme in 2013 continued at a slow pace and revenues remained low. The most prominent among property privatisations in progress concerns the recent agreement on the exploitation and development of the land in Astir Vouliagmenis, which is expected to bring high added value in the years ahead. In March 2014 the so far most important agreement was concluded, namely the development of the former Hellinikon International Airport property, covering a total area of 6,240 hectares, at a final bid of €915 million – settled over a ten-year period – for the acquisition of 100% of shares in Hellinikon S.A., while the level of the total investment is estimated at about €6 billion. The swift completion of individual procedures for the development of public real estate assets already in progress (regional airports and ports, securitisation of a package of public properties, etc.) is particularly important, as relevant agreements are expected to attract further foreign funds and stimulate investment in the domestic real estate market, as well as to support job creation in the Greek economy.