Commercial Property Price Indices for Greece

Vasiliki Vlachostergiou, Theodore Mitrakos, Calliope Akantziliotou
Real Estate Analysis Section
Bank of Greece

November 2015
1.1 Bank of Greece - Synopsis of activities

- Housing market data collection from credit institutions (on a monthly basis)
- Quarterly Residential Property Price Indices (Press Releases)
- Short-term Indicators for the Greek real estate market (revised every two weeks)
- Quarterly survey among the real estate agencies
- Transaction data from various sources
- Regular monitoring and reporting in the publications of the BoG
- Research
Cumulative adjustment of 40.5% in nominal terms since the onset of the current financial crisis (2008 Q3 - 2015 Q2)

Source: BoG, data collected from credit institutions
2. Commercial property market in Greece

2009-2013
✓ Property market deeply affected by long lasting debt crisis
✓ Adverse commercial property market conditions reflect historically low levels of confidence in all aspects of economy
✓ Occupiers shifting towards cheaper premises
✓ Increasing vacancy rates, decreasing demand
✓ Construction activity extremely limited

2014
✓ Commercial property still under pressure
✓ Rents at very low levels
✓ Stabilization trends in values and yields
✓ Very limited transaction volume
✓ Significant number of new lease contracts in retail and food
✓ A few major deals in the warehouse sector
✓ Increasing investors’ interest with a wait-and-see approach

2015
✓ Political environment put on hold further developments and prospects
✓ ?
3. Bank of Greece initiative towards a CPPI

- Governor’s Act 9/10.01.2013 launching the collection of commercial property data from REICs
- Governor’s Act 23/26.07.2013 launching the collection of commercial property data through credit institutions
- Collection of historical commercial property data from the recently repealed Greek Body of Chartered Surveyors
- Collaboration with private sector companies for the collection of transaction data and professional views on yields, trends, prices etc.
- Enhancement of real estate agencies quarterly survey to include transactions data
- Exploitation of collateral valuations performed under Asset Quality Report exercise
- Discussions with RICS for the potential collaboration in a quarterly survey on property market sentiment
4. Data collection

- **Valuation data**
  - Market Value
    - Main use
    - Main use area
    - Ancillary spaces area
    - Construction year
    - Refurbishment year
    - Location
    - Property classification
    - Commerciality quality rating, etc.

- **Rental data**
  - **Current Rent**
    - Main use
    - Main use area
    - Ancillary spaces area
    - Construction year
    - Refurbishment year
    - Location
    - Lease start / end
    - Special terms - incentives
  - Property classification
  - Commerciality quality rating, etc.

- **Transaction data**
  - **Transaction price**
    - Main use
    - Main use area
    - Ancillary spaces area
    - Construction year
    - Refurbishment year
    - Location
    - Property classification
    - Commerciality quality rating, etc.

**Credit Institutions**

**REICs**

**Property consultants-agencies**

**Commercial Property Database**

- Historical semiannual data 2006-2012
- Semiannual data 2013 onwards
- 61,000 observations

- **2006-2012** semiannual data
- **2013 onwards** semiannual data

**61,000 observations**
5. Challenges

✓ Properties owned or occupied by credit institutions
  ▪ Sample bias
  ▪ Rental values
    ▪ Relocation inflexibility
    ▪ Leases “inertia”
    ▪ Difficulty in reviewing rents in case of no agreement by both parties, legal framework
  ▪ Current circumstances
    ▪ Greek financial system restructuring (mergers, acquisitions, winding down etc.)
    ▪ Shrinkage of the branches network - Difficulty in monitoring properties that are abandoned
    ▪ Difficulty in regaining accurate historical data

✓ REICs portfolios
  ▪ Limited sample, low geographical distribution
  ▪ Mainly comprising of properties leased by credit institutions
  ▪ Main source of valuation and yield data
6.1 Methodology outline

**DATA**
- **Sample**: Upper class commercial properties in prime and secondary locations
- **Retail rents**: 37,411 observations (16,357 within greater Athens area)
- **Office rents**: 5,891 observations (3,846 within greater Athens area)
- **Retail values**: 11,206 observations (1,440 within greater Athens area)
- **Office values**: 6,416 observations (4,597 within greater Athens area)
- Small and heterogeneous sample of warehouses, industrial or other commercial properties

**PROCESSING**
- Calculation of mean value per sq.m. of main use and mean rent per sq.m./month for each property in the dataset
- Correction of rents for incentives and special terms
- Identification of fixed baskets per geographical area (and submarket within Athens)
- Application of statistical methods to improve quality and quantity of data within fixed baskets (interpolations, extrapolations, imputations)
- Filtering for outliers using both statistical and empirical processes

**Data cleaning, filtering and analysis**
6.2 Methodology outline

**Methodology depending on data quantity and quality**

- Construction of 3 “fixed lease baskets” and 3 “fixed valuations baskets”, one for each geographical sector (Athens, Thessaloniki, Rest of Greece)
- Fixed baskets “enhancement” through alternative sources - in special cases (e.g. limited sample)
- Analysis based on mean values (market and rental) per square meter
- Evaluation of alternative weighting schemes
- Alternative results evaluation
- Feedback
- Finalization of methodology
- Verification of process and output

**OUTPUT**

- Indices:
  - Price Indices (valuation based)
  - Rent Indices
  - Capital Value Indices (as mean yearly Rent /mean y-o-y yield)
6.3 Methodology outline

Athens  Thessaloniki  Other cities

Office Sector  Retail Sector

Price Index Office (Valuation based)  Price Index Retail (Valuation based)
Rents Index Office  Rents Index Retail
Capital Value Index Office  Capital Value Index Retail

GREECE
7. Commercial property indices

**Office Indices**

- **Prime office prices cumulative adjustment (2010H1-2014H2):** 30.4%
- **Office rent cumulative adjustment (2010H1-2014H2):** 29.3%

**Retail Indices**

- **Prime retail prices cumulative adjustment (2010H1-2014H2):** 28.3%
- **Retail rent cumulative adjustment (2010H1-2014H2):** 33.9%

*Source: BoG, data collected from REICs and credit institutions*
8. Commercial Property Indices by region *

* Provisional data
9. Commercial Property Price and Capital Value Indices *

**Capital Value Index vs Price Index - Athens - Office**

- D 2011H1 = 20.5 bp
- D 2014H1 = 19.3 bp

**Capital Value Index vs Price Index – Athens - Retail**

- D 2011H1 = 30.6 bp
- D 2014H1 = 26.7 bp

* Provisional data
10. Pending Issues

✓ Further actions

- Expand sources (e.g. new lease contracts database - Ministry of Finance) and enhance database
- Produce submarket indices for Athens
- Improve timeliness (currently app. t+4m)
- Develop a hybrid method for exploiting transaction data along with valuation data
- Apply and test hedonic modelling
- Expand research and published information
11. Market prospects

- Stabilization trends until 2014H2
- Immediate need for reforms
  - stable taxation regime
  - bureaucracy
  - regional planning and land uses framework
  - complicated and time consuming procedures
- Privatizations
- Public property development

--------------

- Professionalism and transparency

--------------

- Political and financial stability!
Thank you!

For any further information please do not hesitate to contact us:

Economic Research Department
Real Estate Market Analysis Section
Tel: + 30 210 320 2376, 3837, 2372, 2436
Fax: + 30 210 320 2660
Email: sec.realestate@bankofgreece.gr
URL address: