BANK OF GREECE
EUROSYSTEM

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1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Pressures on commercial values, prices and rents of **residential and commercial property** continued in the first nine months of 2013. The real estate market is still characterised by excessive supply and a substantial decline in demand, which is mainly attributable to the dramatic rise in unemployment and the decrease in household disposable income, the increase in property taxes and the instability of the tax framework, as well as liquidity shortages, given the tighter credit standards (see Chapter V).

The drop in prices in the **residential market** continued at a fast pace in the first nine months of 2013. On the basis of data collected from credit institutions, apartment prices in nominal terms fell at an average annual rate of 11.6%, 11.8% and 9.2% in the first, second and third quarter of 2013, respectively, against 11.7% for 2012 as a whole. Since the onset of the current crisis, the cumulative decline in apartment prices reached 32.0% (or 37.6% in real terms), while data from major real estate agencies demonstrate an even larger decline. The fall in house prices was stronger in the two major urban centres of the country (Athens: -32.7% and Thessaloniki: -38.0%), as well as for larger properties in the relatively more expensive locations of the country.

The average property offer period for sale is estimated to have reached almost one year in the third quarter of 2013 (against 5 months in early 2009), while the discount on the initial price averaged 21.5% (against 12.6% in early 2009).

In the third quarter of 2013, barely 16.0% of transactions was based on bank lending (against 82.1% in early 2009), with the average loan-to-value ratio reaching around 28% of the total value of the respective property (against 70% in early 2009).[1]

As regards **commercial property**, both rent and purchase values shrank further in the first nine months of 2013 (average annual change: -18.6% and -18.2%, respectively). Weak stabilising signs are recorded in the retail market, which has experienced the strongest strains since the onset of this crisis.

As regards the **development of public property**, the pace of implementation of this programme remains slow and cash revenue is poor. The most significant agreements completed until now include the privatisation of the International Broadcasting Centre (IBC) asset in the Municipality of Amaroussion; the plot of Kassiopi in Corfu; the sale of five Greek real estate public properties situated abroad (in London, Brussels, Tashkent, Belgrade and Nicosia); the agreement on the privatisation of the property in Paliouri area of Chalkidiki, is subject to finalisation. However, the most important privatisation schemes agreed upon are the recent agreement on the privatisation of the Astir Palace Vouliagmeni asset, as well as the sale and lease back agreement for 28 public buildings which is expected to bring to the Hellenic Republic Asset Development Fund (HRADF) the amount of €261 million until end-2013. Upcoming tendering processes include the property in Afantou area of Rhodes and, mainly, the property of the former Hellinikon international airport.

Positive expectations are recorded for tourism and leisure real estate. Some evidence of mobilisation of foreign investment funds stems from their participation in the share capital of Greek Real Estate Investment Companies (REICs). This development is also attributable to the new institutional framework (Law 4141/2013), which introduced significant improvements and provided additional incentives. These incentives are expected to boost the REICs institution and attract investor interest, while they may lead to the creation of new schemes. Moreover, recent signs of a

[1] See the results of the real estate agencies survey in the Bank of Greece website: http://www.bankofgreece.gr/ Pages/el/Statistics/realestate/publications.aspx.

possible stabilisation or improvement in market conditions are indicated by available data from the quarterly survey conducted by the Real Estate Market Analysis Section of the Bank of Greece among real estate agencies and consultants, as well as indices released by IOBE (business expectations in construction and months of secured production in construction).

However, certain important factors remain that inhibit the medium-term recovery of the Greek real estate market activity, defer direct investment on real estate, and keep demand at particularly low levels. Still open issues, such as the finalisation of the single property tax, the reduction in the transfer tax, the adjustment of objective values to real market levels, the lifting of rent control on commercial properties, as well as continued uncertainty as to taking vague additional measures to cover any fiscal gap, combined with investor expectations of a further decline in prices and financing restrictions, inhibit decisions to undertake substantial new investment.