



BANK OF GREECE

EUROSYSTEM

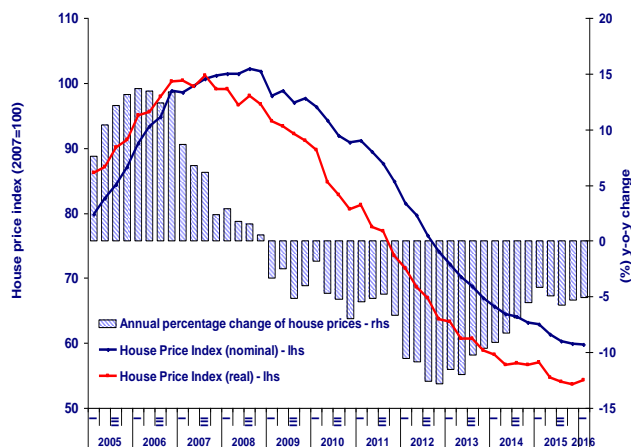
This is the English translation of the Monetary Policy Report 2015 - 2016, originally published in Greek (in June 2016, Chapter IV, Section 2).

2. DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Pressures on market values and rents of both residential and commercial properties continued in the course of 2015 (see Chart IV.12). For the fifth consecutive year, the market was characterized by low demand, against a background of high rates of unemployment, heavy taxes on real property and a shortage of liquidity.

In the **housing market**, prices continued to fall in 2015 and in the first quarter of 2016, albeit at a weaker pace. On the basis of data collected from credit institutions, it is estimated that nominal apartment prices were on average 5.0% lower in the first quarter of 2016 relative to the respective quarter of 2015. For 2015 as a whole, apartment prices decreased at an average annual rate of 5.0%, compared with a decline of 7.5% in 2014. Cumulatively, nominal apartment prices have dropped by 41.3% from 2008 (average level) to the first quarter of 2016, while a breakdown by age shows that the decline was more significant for older apartments.

Chart IV.12 House price index



Source : Bank of Greece

A geographical breakdown reveals that prices dropped more in the two major urban centres (Athens: -43.5% and Thessaloniki: -45.2%) compared with other cities (-39.4%) and other areas (-36.8%). The downward trend in house prices is expected to continue over the next quarters, though at a more moderate pace.

The **commercial real estate** market has shrunk considerably over the past years, while pressures to renegotiate and downward rent reviews persisted, especially for secondary retail, warehouse and non-prime office. In recent years, taxes on real property, which in many cases were based on administrative and not actual values, as well as ongoing uncertainty regarding the tax framework over the medium and short term, kept on discouraging demand.

Market values of investment property declined in 2015 at an average annual rate of 0.2% for office and 3.5% for retail (provisional data). The very low rate of decline in prime office prices, compared with the respective rate for retail, is attributable to the fact that the existing stock of commercial property does not meet investment criteria and therefore the demand for property with specific investment characteristics is higher than supply.

Once the market returns to stability, tourist property and hotels, leased office spaces and prime office are expected to become the focus of demand for commercial property. At the same time, investor interest in large prime warehouse, which rose in 2014 but lost momentum in 2015, is expected to be renewed.

The most recent changes of the constantly changing tax framework were enacted by Law 4389/2016, which introduced modifications of the Unified Tax on Real Property (ENFIA), additional taxation of Real Estate Investment Companies (REICs) and of freehold (operation linked) property of enterprises (see Chapter V), all of which weigh on the already unfavourable market conditions. Additionally, demand is hampered by red tape, unclear urban planning regulations and their numerous violations and the lack of a stable and clear

framework for land-planning and use of land, as well as of a comprehensive and precise cadaster. The same factors often hinder the completion of investment agreements and make it difficult to develop public real property. Moreover, the completion of such agreements is often faced with legal problems and difficulties deriving from the existing institutional framework and the fragmentation of ownership.

The prospect of stabilisation and recovery of the real estate market hinges, inter alia, upon a strengthening of the recovery outlook of the Greek economy, improved business and household confidence, an easing of bank financing conditions, a reduction of red tape, the completion of the national cadaster and the consolidation of a stable tax framework.