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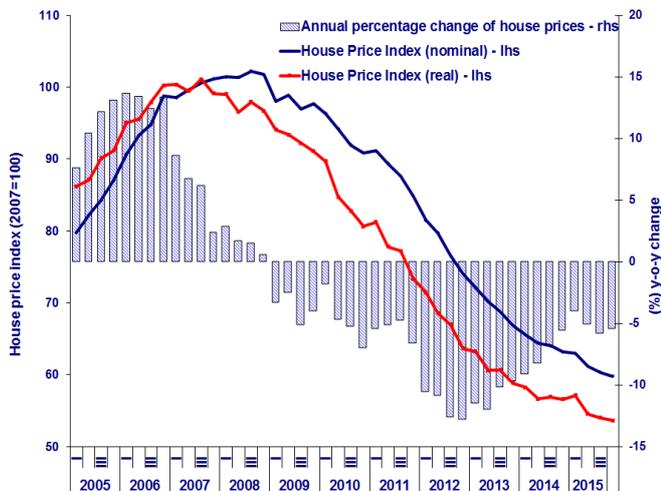
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This is the English translation of the Governor's Annual Report 2015, originally published in Greek (in February 2016, Chapter V, Section 3).

3. DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

During 2015, **pressures on market values, prices and rents of both residential** (see Chart V.12) **and commercial properties continued**, albeit less intensely than in previous years. The recovery of the market has been held back by various factors such as the weak economic environment, the introduction of capital controls and the lack of liquidity, the high unemployment rate, the heavy tax burden and the unstable tax regime (readjustment of the “objective values”, etc.). The tentative signs of stabilisation in the real estate market, observed from mid-2014 up to the first quarter of 2015, as a result of improving economic climate and expectations, failed to translate into a recovery.

Chart V.12 House price index



Source: Bank of Greece.

In the **housing market**, the drop in prices continued throughout 2015, although at a more moderate pace, while the number of transactions was very low. In particular, data collected from credit institutions show that nominal apartment prices fell by an annual average of 5.1% in 2015, compared with contractions of 7.5% in 2014 and 10.9% in 2013. The cumulative decline in prices between 2008 and 2015 was more pronounced in the two major urban centres than in other cities and other regions, as well as for older and

larger properties in relatively more expensive areas in Greece. More specifically, from the beginning of the current crisis in 2008 until the end of 2015, the cumulative decline in apartment prices averaged 41.2% in nominal terms. A breakdown of data by age and geographical area suggests that this decrease was larger for “old” apartments (over 5 years: -42.2%) than for “new” ones (up to 5 years: -39.6%), as well as for the areas of Thessaloniki and Athens (-45.4% and -43.4%, respectively), relative to other cities (-39.2%) and other regions (-36.9%).

In the **commercial property market**, the keen interest shown by investors during 2014 dampened in 2015, against the backdrop of economic uncertainty. On the basis of available data collected from Greek Real Estate Investment Companies (REICs) and credit institutions, the nominal prime office prices remained almost unchanged in the first half of 2015, while the respective prices for retail property fell by 4.4% nationwide. Yet, cumulatively from the first half of 2010 through the first half of 2015, nominal prime office prices dropped by 30.6% nationwide. The respective cumulative decline in prime retail property prices was 30.4%. Meanwhile, pressures to renegotiate and reduce rents continued across almost all segments of the property market, with the possible exception of prime investment property (office and retail spaces).

Tourism property, which has attracted considerable investor interest, particularly during 2014, continued in 2015 to be regarded by market participants as the single sector with a promising prospect for fast recovery, as the buoyant tourism industry holds potential for high capital gains and yields despite the negative economic climate. A major drag on new investment in tourism property, apart from economic uncertainty and red-tape, technical and legal issues, is the limited stock of properties with investment characteristics, particularly in high-end tourism locations. The need to fill this gap can eventually be expected to lead to new development of this type of property.

The downward trends in both residential and commercial property prices are expected to persist in 2016. The prospect of stabilisation and recovery in the real estate market hinges on a number of factors, including: the dissipation of uncertainty and a strengthening of the recovery outlook for



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the Greek economy; improvements in business and household expectations; an easing of bank financing constraints; a reduction in red tape; and, last but not least, stable planning and tax regimes.

The recent downward adjustment of “objective values”, used in the valuation of real estate for tax purposes (see Appendix to Chapter VI),¹ as well as their future replacement by a new system based on market values, can be expected to foster a recovery in the real estate market. Lastly, the promotion and speeding-up of processes for public real estate development would substantially help reverse the negative investor climate, restore confidence and boost expectations in the Greek real estate market (see Box VI.1).

¹ By Decision 1009/18.1.2016 of the Ministry of Finance.