



**BANK OF GREECE**  
EUROSYSTEM

*This is the English translation of the Governor's Annual Report 2014  
(February 2015, Chapter V, Box 4, pp. 94-97)*

## **Box V.4**

### **COMMERCIAL PROPERTY INDICES: A NEW INITIATIVE FROM THE BANK OF GREECE**

The monitoring and analysis of developments and prospects in the Greek real estate market have been, in recent years, a focus of attention at the Bank of Greece. As numerous analyses and findings so far suggest, the real estate market has an important bearing on financial stability and economic growth, which has become more evident than ever during the current crisis. The severe lack of information among property market professionals has also led to a pressing need for the systematic collection of data and the enhancement of transparency within the real estate market in Greece.

#### **1. The new initiative from the Bank of Greece**

Since 2013, as a follow up to the efforts that initiated in 2009 in the field of the housing market, the Bank of Greece has focused on the collection of reliable primary data for monitoring and analysing the commercial property market (office, retail, warehouse, industrial etc.).<sup>1</sup> The aim of this new initiative is to estimate and gradually release price and rent indices for commercial property in Greece, in order to enhance transparency and create a basis of reference for property market professionals (investors, portfolio managers, real estate agents, etc.) as well as for national and international bodies (ministries, the European Central Bank-ECB, the Bank for International Settlements-BIS, credit rating agencies, etc.).<sup>2</sup>

---

<sup>1</sup> For details, visit the Bank of Greece website page dedicated to the real estate market: [www.bankofgreece.gr/Pages/en/Statistics/realestate/default.aspx](http://www.bankofgreece.gr/Pages/en/Statistics/realestate/default.aspx).

<sup>2</sup> In recent years, a priority has also been given by the ECB to the collection and release of commercial property prices and values, at both aggregate (euro area) and country level. See ECB (2014), Monthly Bulletin, February 2014, Box 7: "Experimental indicators of commercial property prices", pp. 54-58.

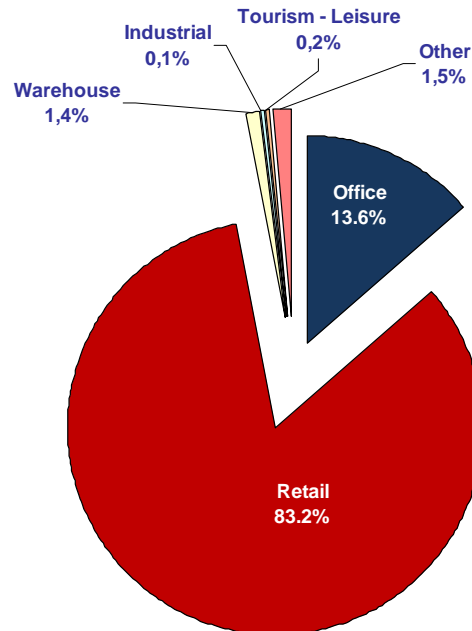


**BANK OF GREECE**  
EUROSYSTEM

For the construction of the commercial property indices, reliable primary data were collected from Real Estate Investment Companies (REICs) and credit institutions operating in Greece, as well as from other sources, including private real estate consultants, portfolio managers, real estate developers, real estate brokers and the Body of Chartered Valuers (SOE).<sup>3</sup>

Chart A presents a breakdown of available commercial property data per main use that were used for the construction of the respective price and rent indices. Up to the first half of 2014, 83% of the available data concerned retail and 14% office. Indices were not compiled for the remaining commercial property categories because of the respective small sample sizes.

**Chart A Sample distribution per main use**



Source: Bank of Greece

<sup>3</sup> Talks are currently in progress for the signing of Memoranda of Cooperation and the exchange of commercial property data with bodies from the public sector (including the General Secretariat for Public Revenue-GSPR, the Public Properties Company-PPCo and the National Cadastre and Mapping Agency).



**BANK OF GREECE**  
EUROSYSTEM

## **2. Compilation methodology of commercial property indices**

Working in collaboration with the data providers (credit institutions, Real Estate Investment Companies-REICs, etc.), the Bank of Greece was able, where necessary, to correct, complete and adjust the 61,000 commercial property data entries collected from the first half of 2006 up to the first half of 2014, thereby creating a single (unified) database. In order to estimate the indices and to determine the changes in property prices and rent levels, the available data were analysed on the basis of “fixed baskets”. More specifically, for each main use of commercial property (i.e. office and retail), effective rent,<sup>4</sup> market value (valuation based) per square meter and yield were calculated. Adjustments were made, as appropriate, for special features (e.g. listed property), and statistical techniques were used to assign values to all variables that, for technical reasons, had previously remained blank. The price and rent indices were estimated based on the analysis of the evolution of values through time.

The available sample of commercial property was divided into the following geographical areas: greater Athens area, Thessaloniki and rest of Greece.<sup>5</sup> To obtain the aggregate indices for the country as a whole, the results for each of the regions were weighted as follows: office was weighted on the basis of GDP distribution and retail was weighted based on the total property value distribution among the geographical areas of reference.

## **3. Commercial property indices: results**

To dissipate any possible confusion about the findings and indices presented below, it should be pointed out that both the indices per geographical area (Athens, Thessaloniki, rest of Greece) and the aggregate indices for Greece reflect respective average value developments for prime and upper secondary (in terms of location and

---

<sup>4</sup> The effective rent per square metre of property was calculated taking into account the income from leases, costs, possible rent free periods, vacancies, etc.

<sup>5</sup> For the construction of the price and rent indices, the greater Athens area was divided into seven sub-markets (central business district, Athens periphery, northern sector, southern sector, western sector, Mesogeia area and rest of Attica). The changes in average price and rent of the corresponding fixed baskets were then calculated for each of these sub-markets. For Thessaloniki and the rest of Greece, the calculations were made per property in each fixed basket without distinguishing between sub-markets. The prices per property were weighted on the basis of size (in square metres) and average market and rental price, respectively, so as to give greater weight to larger properties and to properties in prime locations.



**BANK OF GREECE**  
EUROSYSTEM

quality) investment commercial property. These indices therefore concern the upper class of the Greek real estate market, which has so far shown the greatest resilience to downward pressure from the ongoing crisis.

The indices may present a certain lag in the recorded actual rental changes during the period of the crisis, explained by the “inertia” of active leases in terms of adjustment (time needed for lease renegotiation, legal procedures, existence of a legal framework on rent control, etc.)<sup>6</sup>, as well as in the recorded prices, given that the latter are valuation-based.<sup>7</sup> Notwithstanding these limitations, the new commercial property indices still have the advantage of (a) providing property market professionals with a new point of reference and (b) when coupled with other information and techniques (e.g. rent capitalisation with the application of proper yields), helping to draw broader conclusions about the course and prospects of the Greek commercial property market.

### **3.1 Office price and rent indices**

According to provisional data, the cumulative decrease (in nominal terms) in the prices of prime investment office in the country as a whole averaged 31.6% in the first half of 2014, compared to the first half of 2010. The respective decrease in each of the three areas (Athens, Thessaloniki, rest of Greece) was roughly the same. Recently, however, this trend has shown signs of easing, with the year-on-year decrease in the first half of 2014 slowing to 6.9%.

The cumulative drop in office rents, for the country as a whole, averaged 26.9% in the first half of 2014, compared with the first half of 2010, while the respective rate for the greater Athens area was 29.6%. Office rents continued to trend strongly downward in the first half of 2014 compared with the first half of 2013 (-10.7%), due

---

<sup>6</sup> The trend of rent indices has been found to cumulatively follow the general market trend, albeit with a certain lag. However, the sharp correction over the past several half-year periods denotes a rapid shift in negotiating power from landlord to tenant, even in traditional prime markets.

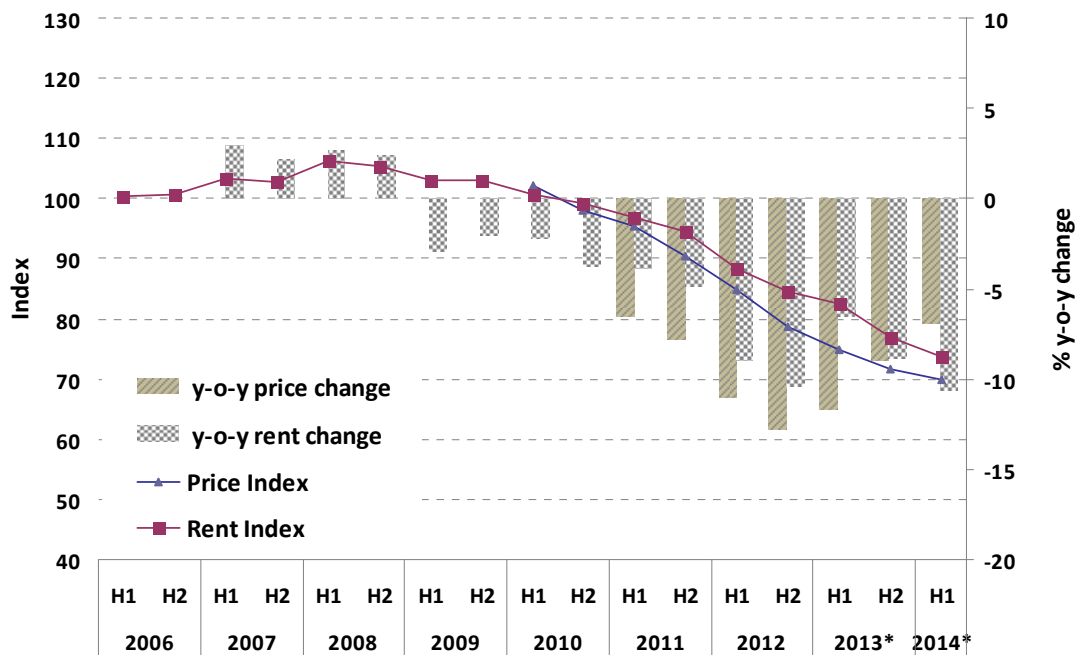
<sup>7</sup> The valuations (based on which the commercial property prices are estimated) appear to be more resilient, as they incorporate expectations of a rebound in the market in the medium term, together with anticipations of a pick-up in rental prices and a recovery of property prices. In addition, although property market professionals report a certain stabilisation of prices since early 2013, a small time lag should be allowed for before this trend is actually reflected in the indicator – assuming that it is not halted by other factors.



**BANK OF GREECE**  
EUROSYSTEM

to increasing lease renegotiations and a growing supply of office space (see Chart B). This trend is expected to continue in the short term, as there is still a considerable gap in rent levels between old and new lease contracts.

**Chart B Office Indices**



Source: Bank of Greece

### 3.2 Retail price and rent indices

According to provisional data for the country as a whole, the cumulative drop in prime retail prices (in nominal terms) averaged 28.8% in the first half of 2014, in relation to the first half of 2010. The respective rate for the greater Athens area was 30.5%. Year-on-year, in the country as a whole, the decrease in the first half of 2014 is estimated at 9.1%.

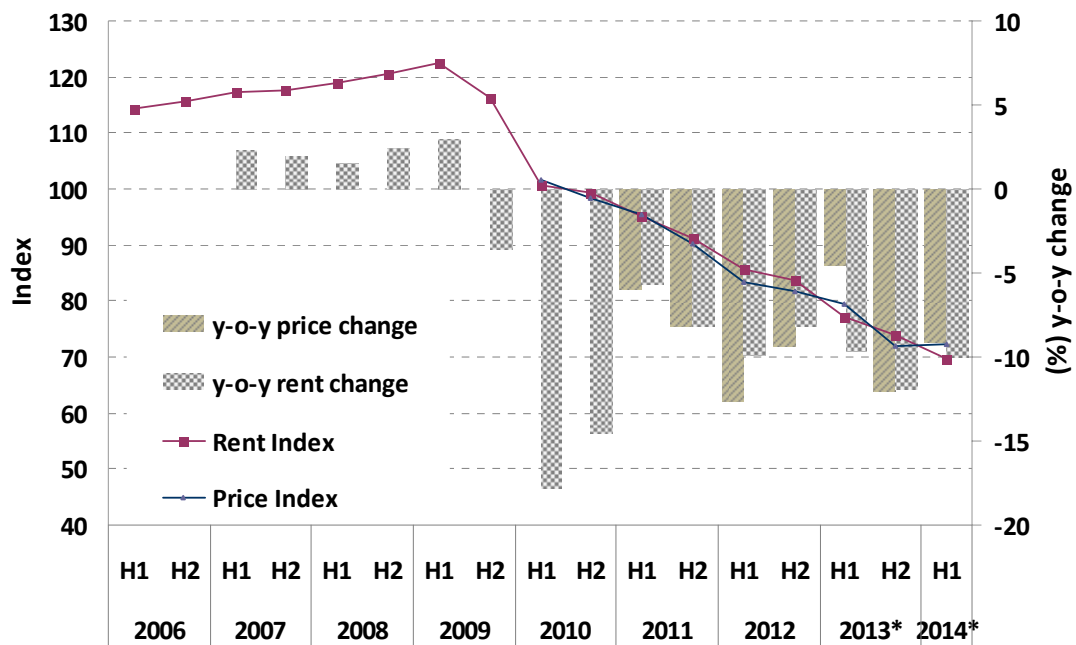
The cumulative decrease in prime retail property rents over the period 2010-2014 averaged 31.0% in the country as a whole and 31.6% in the greater Athens area (see



**BANK OF GREECE**  
EUROSYSTEM

Chart C). Retail property rents in other Greek cities appear to have been slightly more resilient to the crisis than in Athens which can be attributed to the fact that retail property in the sample is mainly situated in prime locations with restricted supply. Relative, however, to the first half of 2013, the decrease in retail rents in the rest of Greece (i.e. excluding Athens and Thessaloniki) averaged roughly 13%, compared with 9.5% for the country as a whole.

**Chart C Retail Indices**



Source: Bank of Greece