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*This is the English translation of the Governor's Annual Report 2014
(February 2015, Chapter V, Section 3, pp. 92-94)*

3 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

2014 witnessed persisting – though less intense – pressures on market values, prices and rents of both residential and commercial properties. The factors behind the slow recovery of the market are, inter alia, high unemployment rates, tax hikes on real estate, financing constraints, lower residential construction investment, and problems arising from the continuously changing tax framework (implementation of the capital gains tax, reassessment of real estate administrative values, etc.). Moreover, some first signs of stabilisation in the real estate market observed since late 2013, as a result of improving economic climate and expectations, were withheld due to increased uncertainty towards the end of 2014 due to political developments.

In the **housing market**, the drop in prices and transactions continued throughout 2014, although at more moderate rates. Specifically, data collected from credit institutions show an average annual rate of decline of 7.5% in apartment prices in 2014, against 10.9% in 2013 and 11.7% in 2012 (see Chart V.7). The fall in the prices during the 2008-2014 period was, on aggregate, stronger in the two major urban centres, compared with other large cities and other regions, as well as older and larger properties in relatively higher-value areas in Greece. The shift of households' purchasing interest towards older, smaller and more affordable properties in medium-value areas, which has been observed since the onset of the current crisis, appeared even stronger throughout 2014.¹ Despite the fact that the stock of unsold housing properties remains high, the real estate agency survey

¹ Yet, on a cumulative basis between 2008 (average level) and the last quarter of 2014, apartment prices fell by 38.1% on the basis of data collected from credit institutions (Athens: -40.4%, Thessaloniki: -42.4%), while data collected from real estate agencies register an even stronger decline. See the results of the quarterly survey of real estate agencies and property advisors, available on Bank of Greece's website (in Greek only): <http://www.bankofgreece.gr/Pages/en/Statistics/realestate/default.aspx>.

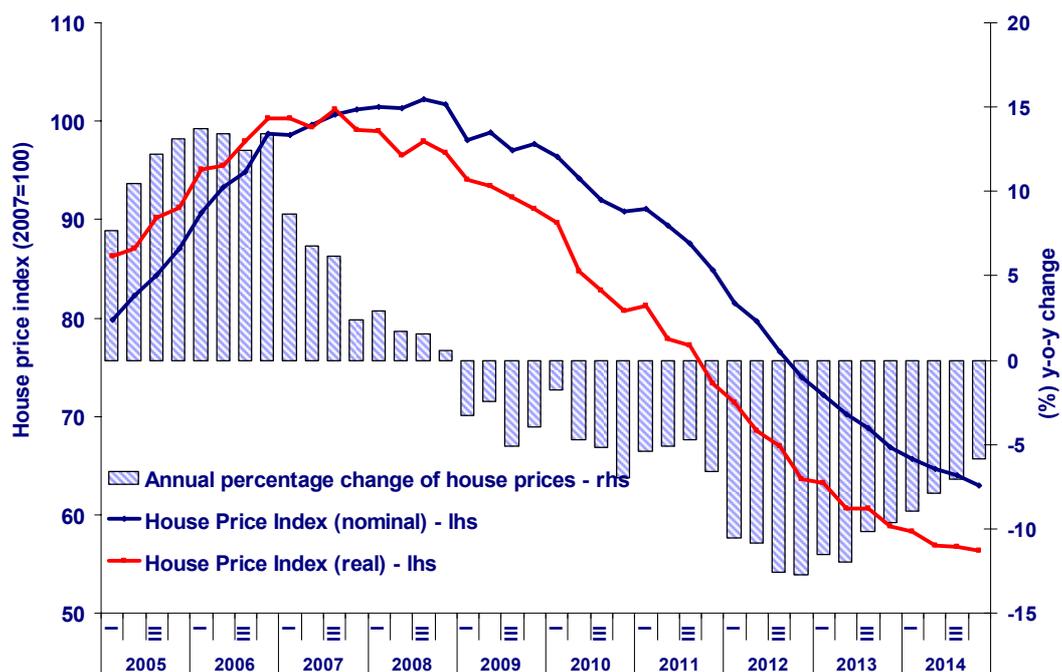


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conducted in 2014 recorded increased interest for small- and medium-value properties, which are considered a safe alternative to households' savings, and have now developed into an investment option. This is also attributable to the substantial decline in Property Transfers Tax (to 3% since 2014), which is expected to help boost the particularly low frequency of property transactions in the Greek market in the future.

The downward trend of house prices is likely to persist in the following quarters, but at relatively more moderate rates. Furthermore, it is estimated that recent arrangements concerning non performing loans should help stabilise the housing market.

Chart V.7 House price Index



Source: Bank of Greece

The **commercial property market** is characterised by excess supply, a significant drop in transactions and a downward trend in prices. Significant pressures to renegotiate and reduce rents were recorded, especially for secondary retail



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properties, warehouses and non-prime office buildings. The strong drop in rental values led to a relocation trend towards smaller prime properties, while some mobility is also evident in retail in prime areas, as rents stand now at very low levels.

Both rental and market values of commercial properties shrunk further in 2014 (see Box V.4). The average annual decline in the prices of prime office buildings and retail properties in the first half of 2014 was 6.9% and 9.1%, respectively. The respective rental values recorded a decline in the order of 10.7% and 9.5% against the first half of 2013. Yields on commercial properties stabilised in relative terms.

From the beginning of 2014 to the third quarter of the year, an improvement in investment climate and expectations was observed, with investment interest mainly focusing on income properties. However, as a result of financing constraints, and rising uncertainty in the economic environment in the past few months, investors remain rather cautious. Some signs of stabilisation were observed in the retail market, which has received the strongest pressures since the onset of the current crisis, while investment interest also focuses on prime office and large warehouses. Particularly positive expectations were recorded in tourist property-hotel units and holiday residences. Prime commercial property is expected to recover sooner, in contrast with non-prime commercial property prices, which are estimated to drop further.

The pick-up in demand and investment interest in the Greek real estate market was interrupted in the past few months, as the country entered the elections period. A further stabilisation and recovery in the market is now fully dependent on general political and economic stability, and also requires taking action to slash red tape and reduce complexity of procedures, as well as to introduce a well defined urban planning system and stable taxation framework.