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This is the English translation of the Annual Report for 2011, originally published in Greek (in April 2012).

2 THE REAL ESTATE MARKET

2.1 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

- The Greek real estate market, having shrunk substantially during the current crisis, remains at the same low level, without any signs of recovery as medium-term expectations are still negative. It continues to be characterised by excessive supply, coupled with a considerable stock of unsold properties and very low demand.¹
- Despite excessive supply in the real estate market, apartment prices and mainly the newly built ones have displayed relative resilience.² On the basis of data collected from credit institutions, apartment prices fell by 3.7% in 2009, 4.7% in 2010 and 5.1% in 2011 (-5.4%, -4.9%, -4.3% and -5.9% in the first, second, third and fourth quarters of 2011, respectively; see Table V.7).
- A greater decline in house prices in the past few years is recorded based on information collected from real estate agencies.³ For instance, in accordance with data collected by Bank of Greece branches mainly from real estate agencies, house prices in urban areas of the country (except Athens) fell by 6.7% in 2010 and 7.5% in 2011.
- Throughout the crisis, this fall in prices has been stronger for “old” apartments (over 5 years old: -4.8%, -5.0% and -5.6% in 2009, 2010 and 2011, respectively) than for “new” apartments (up to 5 years old: -2.0%, -4.2% and -4.4% in 2009, 2010 and 2011, respectively), which reflects the relatively stronger resilience of the prices of newly-built apartments that are normally sold by the constructors.

¹ Reduced demand in the Greek real estate market reflects household expectations for further decline in house prices and, mainly, increased uncertainty about employment and future incomes. It is also associated with the overall prospect of addressing the fiscal and structural problems of the Greek economy. It is estimated that the more cautious and selective attitude of banks when granting new loans has also contributed to the decline in demand.

² It is estimated that the relative resilience of house prices in the current crisis was supported by the high percentage of self-occupancy (over 80%), the large number of very small (family) businesses involved in house construction (about 12,000-14,000) which, before the current crisis, had gained substantial profits that enabled them to steer away from bank loans, as well as the low frequency of real estate resale. Price resilience is also associated with increased construction costs that complicates the replacement of the existing stock of houses, the high cost of transactions (transfer tax, notarial and lawyer’s fees etc.), the traditionally high trust of households in real estate, as well as the social perceptions of Greek households, which do not see a residential property as an investment asset but, on the contrary, they transfer it from one generation to the next (parental donation or bequest from parents to children).

³ Note that, based on international experience and, especially, the comparison of various property price indicators for the UK, indicators based on credit institutions’ appraisals in real estate value show a relative time lag in recording the actual decline in prices during the crisis, compared with indicators based on data derived from actual transactions or houses offered for sale (asking prices, etc.). Such a time lag in recording real changes in property prices may, to a certain extent, also apply to the Bank of Greece indicators, which are based on data collected from credit institutions. In the medium term, however, these indicators would fully record the actual reduction in prices.



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- It is highly likely that the Greek residential market has not shown signs of a major overvaluation,⁴ while downward trends in prices will probably continue in the coming months, with a limited risk of abrupt changes in prices.⁵
- During the crisis, households' purchasing interests shifted towards smaller, older and, mainly, more affordable properties. Moreover, the percentage of cash transactions and the share of cash in total financing for real estate purchase have increased.
- Private construction activity continues to show high rates of decline (-26.5% in 2009, -23.7% in 2010 and -37.7% in 2011; see Chart V.5), similar to those of investment in residential properties (-23.5%, -18.0% and -23.6% in 2009, 2010 and 2011, respectively).
- In the commercial real estate market (offices, retail stores, industrial buildings, warehouses, etc.), there has been reduced demand in the past few years, combined with a shift towards more economically-priced business premises, increased supply and falling prices, tight credit and relative cautiousness in developing new investment projects, increased number of unoccupied retail stores and offices, significant fall in rental prices and renegotiation of lease contracts.⁶

Prospects for recovery in the real estate market depend, inter alia, on the improvement of business and household expectations, better bank financing terms, as well as better prospects for the recovery of the Greek economy and, consequently, reduced uncertainty.

2.2 POTENTIAL EFFECTS OF THE PUBLIC PROPERTY UTILISATION ON THE REAL ESTATE MARKET

The effort to utilise public property is faced with the long-standing problems of the Greek administration. Despite repeated reminders of the hidden potentials of public property that could contribute to economic growth and boost public revenues, any efforts to develop it are characterised by relative irresolution.⁷ This is directly associated both with the recession in the Greek real estate market in recent years and the significant problems that stand in the way of the

⁴ Moreover, a significant decline was observed in the past five years in the house price-to-rent ratio, which is usually estimated in conjunction with other factors (e.g. interest rates, yields of alternative investment, phase of the economic cycle) in order to examine whether the current property value is overestimated.

⁵ The reduced risk of abrupt change in house prices is, inter alia, attributed to the prohibition of auctioning houses that are households' main residence (with an objective value of up to €200,000.00) and the reluctance of commercial banks to auction off properties that secure bad loans at this stage of severe recession.

⁶ The decline in rent prices and the renegotiation of lease contracts of commercial real estate have contributed to the decrease in rent paid by the State for the accommodation of its departments. In 2011, according to estimates of the Ministry of Finance recently submitted to Parliament by the competent deputy minister, a total of €155.8 million was spent for 2,639 lease contracts, while this expenditure came to €169.7 million in 2010 and €178.1 million in 2009. On the basis of these data, this expenditure declined by 8.2% in 2011 and 4.7% in 2010, while a further reduction is foreseen for 2012, as private owners have already been notified of the intention of public organisations to reduce rents by 20%.

⁷ It is pointed out, however, that after more than ten years of discussions, inaction and debate, the public area of 6,200 thousand m² at the old airport of Athens (Hellenikon) is on the international market and forms a topic of discussion among investors and sponsors with the aim to express interest in investing therein. The successful outcome of the process initiated by Hellenic Public Asset Development Fund (HRADF) for the utilisation of Hellenikon is of great importance, as it should be a point of reference for developing other public properties. Relevant provisions are also included in Law 4062, passed on 27 March 2012.



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effort to develop public property, including the deficient recording of public property, the fragmented system of management bodies, the lack of a complete and accurate cadastre, pending matters relating to the redetermination of land uses and the delineation of seashores and beaches, continuous violation of land use and long-standing litigations relating to a substantial part of public property, as well as multiple commitments and restrictions (e.g. protection of the environment or local architectural identity, archaeological restrictions, legislation on bequests).⁸ Similar problems are also identified by the Hellenic Public Asset Development Fund (HRADF) in its effort to implement the public property utilisation programme. The main inhibitors to this effort include:

- Substantial preparation is needed for assets, especially land rights, for which there is no active market for the time being.
- Many legal and technical problems need to be resolved, most of which require special legislative arrangements or even the establishment and operation of new institutions (e.g. new independent authorities).
- Broad coordination is required for strategy- and policy-setting in order to maximize the results, given the large size of the anticipated direct investment, which can substantially influence the entire economy.
- Every tender must be inspected a priori by the European Commission for matters of competition, procurement and state aid, while the execution of every contract must be preceded by inspection by the Court of Audit.
- For every asset to be utilised, it is necessary to have interested investors and the potential to finance the transaction and the utilisation programme. In the current conditions of uncertainty for the prospects of the Greek economy and the euro area, it is not easy to find investors, despite the fact that there seems to be substantial strategic interest.

The need of the government to immediately resolve legal and technical issues relating to urban planning and permits for the development of public property is also underlined in the new Memorandum of Economic and Financial Policies.⁹ Resolving these problems will certainly create significant surplus values for public property and, above all, will contribute to attracting foreign investors to the Greek real estate market. In any event, however, it is estimated that the dynamic and rational utilisation and development of public property can ensure – constantly and on a long-term basis – revenues for the Greek State, as well as additional development benefits for local communities and economies. However, real estate market experts estimate that if a large number of public properties are put up for sale in the current conjuncture of marked recession and reduced investor interest (because of the uncertainty and limited liquidity of the market), the recovery of the market will become even more difficult and the Greek State will not obtain commensurate revenues and benefits. On the contrary, it is estimated that the institutions of concession and long-term lease contracts are very effective tools for the

⁸ See Monetary Policy – Interim Report 2010, Special Feature 3.

⁹ In the context of this Memorandum, the Hellenic Public Asset Development Fund (HRADF) will register about 3,000 properties by end-June 2012, in order to develop them. Considering the inhibitors to the implementation of the overall public property utilisation programme, HRADF estimates that about €2.8 billion can be received in 2012 and €3 billion in 2013. However, the overall target of the programme remains at €50 million, while €19 million must be received by 2015. About 50% of the expected revenues will stem from the utilisation of real estate, 30% from concessions of infrastructure and less than 20% from the sale of corporate shares.



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development of public property and will activate direct foreign and other private investment, thereby supporting economic recovery and improving market sentiment and public revenues.

2.3 POTENTIAL EFFECTS OF THE RECENT TAX MEASURES

The significant increase in the tax burden on real estate in the past three years (in the context of the effort to boost public revenues) is estimated to have intensified recession in the real estate market.¹⁰ Apart from this burden, repeated announcements and postponements of additional measures prolong uncertainty about the tax regime on real estate (increase in objective values, the imposition of VAT on commercial property of individuals etc.) and make the future recovery of the market even more difficult. For instance, objective values (that determine the value of real estate properties for taxation purposes) have not increased, although this measure has been announced many times in the past. In any event, objective values are expected to be adjusted to market prices by June 2012 (new Memorandum of Economic and Financial Policies).

The increase in objective real estate property values is expected to lead to significant adjustments to taxable real estate property values (especially in areas where the difference between objective and market value is high), which will lead to increases in many taxes, thereby accentuating the heightened uncertainty and recession in the Greek real estate market.¹¹ Any such adjustment must, in any event, be coupled with rational real estate taxation, towards both reducing taxes on transfers¹² and abolishing various charges, as well as establishing or maintaining a very small number of uniform taxes that would replace the multitude of existing ones (e.g. a single tax on transactions and a single tax on real estate ownership). It should finally be noted that objective real estate property values should not be adapted to market price levels “horizontally”, i.e. by equally changing all current objective values, since the change in the commercial property prices since early 2007 (the more recent adjustment of objective values) is substantially different among the various geographical areas.¹³

¹⁰ The most important recent tax burdens include the special levy on real estate paid through electricity bills, the significant reduction in the tax-free limits for real estate tax levy and the increase in VAT in the newly-built property purchases and land granting.

¹¹ Indeed, objective values are used to calculate the level of various taxes, charges, contributions and fines relating to real estate, such as taxes on transfers, acquisitive prescription, exchange, distribution, inheritance, parental donations and gifts, the recently imposed special levy on real estate for residential or commercial use, the real estate tax, the real estate charge (TAP) imposed by local authorities etc. The objective value is also associated with the cost of property transfer contracts (notarial fees, lawyer’s fees, registration fees etc.) and the charges and contributions paid on building permits, while it is also used to determine presumed revenues from real estate and presumed minimum income derived from self-owned or leased houses.

¹² It should be noted that taxes on property transfers and parental donations in Greece are very high compared with the other EU countries, while it is estimated that their reduction will increase the very low frequency of transactions in the real estate market.

¹³ For instance, on the basis of data collected from credit institutions, apartment prices in the degraded areas of the centre of Athens (Patissia, Metaxourgio, Victoria Square etc.) and Piraeus (Drapetsona, Nikea, Keratsini, Perama etc.) declined four times more than the prices in better areas of the centre of Athens (Filopappou, Plaka, Kolonaki etc.).

**Chart V.5 Private Construction Activity: Volume (in cubic metres)
(January 2007 - December 2011)**

Annual percentage change

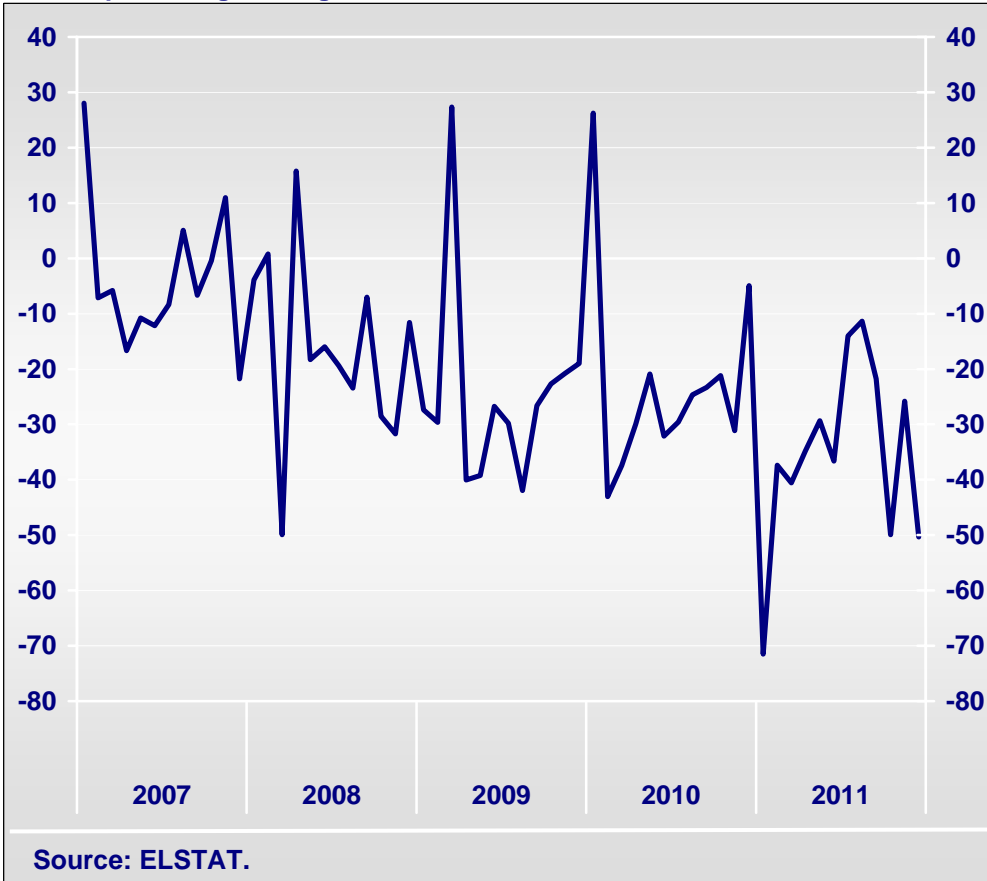


Table V.7 Indices of prices and residential property transactions

Indicators	Average annual percentage changes						
	2005	2006	2007	2008	2009	2010	2011
1. Indices of prices of dwellings (BoG) and rents (ELSTAT)							
1.1	Indices of apartments prices by age and geographical area (New series)						
a.	All apartments (Greece)						
a1.	By age						
a.	New (up to 5 years old)						
b.	Old (5 years old and above)						
a2.	By geographical area: Total						
a.	Athens						
b.	Thessaloniki						
c.	Other cities						
d.	Other areas						
a2.1.	By geographical area: New (up to 5 years old)						
a.	Athens						
b.	Thessaloniki						
c.	Other cities						
d.	Other areas						
a2.2.	By geographical area: Old (5 years old and above)						
a.	Athens						
b.	Thessaloniki						
c.	Other cities						
d.	Other areas						
1.2	Indices of prices of dwellings (Historical Series)						
a.	Urban areas						
a1.	Athens						
a2.	Other urban areas ¹						
1.3	Price index of rents						
1.4	Price-to-rent ratio (2007=100) ²						
2. Indices of residential property transactions							
2.1	Indices of residential property transactions with MFI intermediation (BoG) ³						
a.	Number of transactions						
b.	Volume of transactions (in square metres)						
c.	Value of transactions						
2.2	Indices of contracts of real estate transactions with representation of lawyer: Athens (DSA)						
a.	Number of contracts						
b.	Value of contracts						
2.3	Indices of deed of real estate transactions ⁴ (ELSTAT)						
a.	Greece, total						
b.	Athens						
2.4	Number of real estate transactions ⁴ (Hellenic National Cadastre)						
a.	Greece, total						
b.	Athens						
2.5	Number of real estate transfers ⁴ (Hellenic National Cadastre)						
a.	Greece, total						
b.	Athens						
2.6	Number of residential property transfers recorded at the land registry of Athens						

Sources: BoG: Bank of Greece, ELSTAT: Hellenic Statistical Authority, DSA: Athens Bar Association, Ktimatologio SA: Hellenic Cadastre, Land Registry of Athens

1 Data collected by the branches of BoG, mainly from real estate agencies.

2 In absolute terms.

3 The indices of residential property transactions are based on appraisal reports by banks' engineers regarding the value and qualitative characteristics of the residential property loan agreements. It cannot be excluded that part of such appraisals are not connected with transactions in residential property, but concern a renegotiation of existing loans, re mortgage to back non-housing loans, debt transfers from one bank to another, etc.

4 Including all real estate categories of residential and commercial properties (dwellings, general stores, offices, building plots, rural plots, etc.).