BANK OF GREECE
EUROSYSTEM

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2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Over the 2010-2013 period, intensifying pressures on market values, prices and rents of both residential and commercial properties were the main characteristic of the real estate market, as a considerable decline in demand resulted in excess supply. The reduced demand can be attributed mainly to a surge in unemployment, a fall in households' disposable income, real estate tax hikes and an unstable – at least until recently – tax regime, coupled with liquidity shortage against the backdrop of banks' tightened credit standards. Furthermore, expectations of a further decline in house prices have had, and are still having, an adverse impact on the Greek real estate market.

In the **housing market**, the drop in prices continued at a strong pace from 2011 onwards.[1] According to data collected from credit institutions, apartment prices dropped cumulatively by 33.4% between 2008 (average level) and the last quarter of 2013. Data collected from real estate agencies point to an even greater decline. The falls in prices were stronger in the two major urban centres (Athens: -35.8% and Thessaloniki: -37.1%), compared with other cities (-30.9%) and other areas (-29.4%), as well as larger properties in relatively higher-cost areas in Greece.

During the crisis, households' demand shifted towards smaller, older and more affordable properties in medium-cost areas. Moreover, the percentage of cash transactions and the required down-payment in cash for real estate purchases have increased. According to data from the quarterly survey of real estate agencies and property advisors conducted by the Bank of Greece, a mere 17% of transactions were financed by banks (compared with 82% in early 2009), while the average loan-to-value ratio came to roughly 35% (compared with 70% in early 2009). In addition, the required average time to market more than doubled during the crisis (from about 5 months in early 2009 to almost one year in 2013), while the average difference between initially asked and final purchase prices rose significantly (from 12.6% to 20.7% respectively).[2]

The **commercial real estate market** has also recorded a dramatic decline in the past few years, with significant pressures to renegotiate and reduce rents, especially for secondary retail, warehouses and non-prime office buildings. Both rent and market prices have

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[1] By end-2011, prices for, mainly newly-built, apartments that are normally sold by the constructors were relatively resilient; this is thought to be due to the high percentage of owner-occupancy, the large number of very small (family) businesses involved in residential construction which, before the current crisis, had gained substantial profits that enabled them to steer away from bank loans, the high cost of transactions (property transfers tax, notarial costs and lawyer fees, etc.), the increasing cost of constructions that complicates the replacement of the existing stock of houses, the traditionally high confidence of Greek households in real estate, etc.

[2] The results of the quarterly survey of real estate agencies and property advisors are available at the Bank of Greece's website: http://www.bankofgreece.gr/Pages/el/Statistics/realestate/publications.aspx.

contracted further in 2013, at an average annual rate of -16.3% and -16.9%, respectively (according to data from the survey of real estate agencies). The retail market, subject to the strongest pressures since the onset of the current crisis, has shown weak signs of stabilisation. Positive expectations have been recorded in the sector of tourist properties and holiday residencies, while there are certain indications of foreign investment inflows as a result of the participation of foreign funds in the share capital of Greek Real Estate Investment Companies (REICs).

Throughout the current crisis, the slump in business activity has been accompanied by reduced demand for commercial properties, with companies shifting towards cheaper premises. As a result, the market is characterised by excessive supply, an increased number of vacant retail stores and offices, a dramatic fall in transactions, and a downward trend in prices. Moreover, restricted financing, coupled with the overall uncertainty about the economic environment, sustain the relative reluctance of investors. However, individual agreements on the sale of high-end properties were concluded in the course of 2013, which are estimated to account for a €1 billion investment in the Greek commercial real estate market. REICs have also been active in light of the new institutional framework on REICs (Law 4141/2013), which introduced significant improvements and provided new incentives. These incentives are expected to further boost the institution of REICs, trigger investors' interest and might also lead to the emergence of new schemes.

After delays of several years, notable efforts are now being made for the development of major **real estate properties (land and buildings) owned by the Greek state**, although the relevant public property development programme is still moving forward at a slow pace and has failed to collect significant revenues. The most important agreements concluded so far include the exploitation of the International Broadcasting Centre (IBC) asset in the municipality of Amaroussion, the land in Kassiopi (Corfu), the sale of five Greek real estate pubic properties situated abroad (London, Brussels, Tashkent, Belgrade and Nicosia), while the agreement on the development of the property in the Paliouri area in Chalkidiki has progressed to the final phase. But the most significant of all state property development projects under way concerns the recent agreement for the exploitation and development of the land in Astir Vouliagmenis, which is estimated to bring high added value.

The swift completion of individual procedures for the development of public real estate assets already in progress (property in the former Hellinikon International airport, regional airports and ports, etc.) is of great importance, as these agreements are expected to attract further funds and convey the proper positive message to international investors and markets.

Strengthening demand and investment interest in the Greek real estate market is, however, conditional on a series of interventions to slash red tape and reduce the complexity of the existing institutional framework on urban planning. Red tape in the Greek real estate market, a multitude of legally prescribed procedures and charges (mandatory presence of a lawyer, although this requirement was partly abolished recently, notarial costs, engineer certificate, energy certificate and, more recently, Unified Property Tax certificate, etc.), along with ambiguous urban planning regulations and multiple violations thereof, the lack of a stable and clear framework on regional planning and land use, as well as of a complete and accurate cadastre, are still some of the factors that discourage demand and often prevent the conclusion of investment agreements with interested foreign investors. A lot of these problems, coupled with insufficient recording of the Greek state's property, hinder the development of public real estate assets.

The recovery prospects in the real estate market depend, inter alia, on further improving business and household expectations, easing bank financing conditions, reducing uncertainty and boosting the recovery prospects of the Greek economy. Taxes levied on real property amidst the current crisis have accentuated the recession in the real estate market and considerably discouraged demand. In fact, the distortion caused by the existence of "administrative" values, which in certain cases (e.g. large properties in "expensive" areas, degraded areas of central Athens, etc.) significantly exceed property market values, leads to **an artificially excessive taxation of real estate property** and a further – non-rational – contraction of values.

Recent legislation on real estate taxation has restricted the uncertainty of the tax regime on real property, while the significant reduction in the property transfers tax (to 3%) is expected to help boost the very low frequency of transactions in the domestic real estate market.[3] Furthermore, it is thought that the regulation for a partial extension of the suspension of primary residences auctions in 2014, coupled with the substantial reconnection of the banking system with households failing to meet their debt obligations (with significantly smaller and more affordable loan instalments) will contribute to the stabilisation of the market.

The downward trends in house prices should continue in the following quarters, albeit at relatively slower rates, given that the high rates of decline recorded in 2012 and the first half of 2013 seemed to moderate in the third and fourth quarters of 2013.

[3] The most significant changes in real property taxation enacted since early 2014 concern: (a) the introduction of a Unified Property Tax (ENFIA – now imposed on all types of real estate properties, including land plots and agricultural real estate properties) and an additional tax to be levied on owners of real estate property valued at more than €300,000, in replacement of the special property tax paid through electricity bills (previously known as EETHDE) and the Real Property Tax (FAP), (b) the implementation of a capital gains tax levied on property-selling owners (equal to 15% of the difference between the acquisition price and the selling price, progressively depreciated depending on the holding period of the property), (c) from now on, a special taxation on property income at a rate of 11% (with no tax-free amount) for revenues up to €12,000 and 33% for revenues over €12,000 and (d) the property transfers tax, which was significantly reduced (to 3% from 8% for properties valued up to €20,000 and to 10% for higher-value properties). In addition, the requirement to disclose the origin of the funds used to buy or construct real estate property has been reintroduced. It is worth pointing out the significant hurdles in the implementation of the capital gains tax, which have resulted in the postponement of a considerable number of transfers in the first two months of 2014.