

This is the English translation of the Monetary Policy - Interim Report 2011, originally published in Greek (in November 2011).

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Following the contraction it has experienced during the current crisis, the Greek real estate market remains subdued, without visible signs of recovery. This is related both to household expectations of a further decline in house prices and, more importantly, to the increased uncertainty of households regarding employment, their future incomes, as well as the overall economic outlook against the backdrop of Greece's fiscal and structural problems. The weak demand in the Greek real estate market is also associated with banks' more cautious and selective approach to mortgage applicants.¹ On the supply side, in the past three years the Greek real estate market has been marked by excess supply and a considerable stock of unsold properties. The decline in private construction activity and real estate investment during the current crisis has been almost commensurate to the fall in property sales, which can be seen as a reason why the excess stock of property accumulated by the end of 2008 has remained broadly unchanged.²

Despite excess supply and subdued demand in the real estate market over the past three years, house prices have displayed relative persistence. On the basis of data collected from credit institutions, apartment prices fell by 3.7% in 2009, 4.7% in 2010 and 4.6% in the first nine months of 2011 (-5.3%, -4.4% and -4.1% in the first, second and third quarter, respectively). This fall in prices since the start of the crisis has been stronger for

¹ Indeed, the outstanding amount of bank loans to households for house purchase *fell* at an annual rate of 0.3% in December 2010 and 2.1% in September 2011, while it had *increased* at an annual rate of 3.7% in December 2009 and 11.2% in December 2008.

² The decline in private construction activity has continued at a strong pace during the current crisis (-26.5% in 2009, -23.7% in 2010 and -39.4% in the first seven months of 2011 – see Chart III.5), while similar rates of decline have been recorded in residential investment (according to the recently revised annual data of ELSTAT, 2009: -23.5%, 2010: -18.0%, first half of 2011: -21.0%). Based on ELSTAT data collected from notaries nationwide, the number of notarial acts for real estate transactions fell from 158.0 thousand in 2008 to 136.0 thousand in 2009, while data from the Hellenic National Cadastre show that the number of properties sold fell by 14.0% in 2009, 13.0% in 2010 and 26.7% in the second quarter of 2011.



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“old” apartments (over 5 years old, -4.8%, -5.0% and -5.2% in 2009, 2010 and the first nine months of 2011, respectively) than for “new” apartments (up to 5 years old, -2.0%, -4.2% and -3.5% in 2009, 2010 and in the first nine months of 2011, respectively); this reflects the relatively higher persistence of the prices of newly-built apartments, which are normally sold by constructors.

On the basis of the above facts and despite the relative persistence of prices, the Greek residential market most likely does not show signs of a major overvaluation, also given that the house price-to-rent ratio has been on a declining path over the past three years. However, the downward pressures on prices are likely to continue in the next months, while a recovery in the real estate market seems to hinge on the improvement of business and household confidence, the supply of bank credit, as well as the prospects of a recovery in the Greek economy in general.

Turning to the commercial property market (offices, stores, industrial buildings, warehouses, etc.), its main features in the past few years have been subdued demand from businesses and a shift towards less costly premises, cautiousness in developing new investment projects, strong supply of mostly old properties, falling prices and tight credit conditions. These traits have been accompanied by an increasing number of vacant retail stores and offices, a decline in rents and the renegotiation of lease contracts, mostly for secondary or regional markets.

Chart III.5 Private Construction Activity: Volume (in cubic metres)
(January 2007 - June 2011)

Annual percentage change

