

This is the English translation of the Monetary Policy 2012 - 2013, originally published in Greek (in May 2013, Chapter III, Section 1.2 and Box III.3).

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

The Greek real estate market continues to be characterised by excess supply and falling purchase and rental values¹. The most severe strains were felt in the commercial property segment, reflecting the slump in business activity and with tenants increasingly pressing for downward adjustments of rents.

Weak demand for residential properties can be attributed to the dramatic increase in unemployment and shrinking households' disposable income and net wealth; negative business and household expectations about future income and employment developments; higher property taxes; and tighter bank financing conditions.

In 2012 and the first quarter of 2013, the drop in prices in the residential market continued at a faster pace than in the first years of the current crisis. Data collected from credit institutions suggest that apartment prices fell at an average annual rate of 11.7% in 2012 and by 11.5% year-on-year in the first quarter of 2013, bringing the cumulative decline since the onset of the crisis to 29.4% for the country as a whole, with even stronger falls recorded for the two major urban centres, Athens (-29.6%) and Thessaloniki (-32.7%)².

One factor that weighs on the real estate sector's recovery and growth prospects in the medium term is the current tax regime. The transaction costs incurred by property buyers are among the highest in OECD countries, despite a recent reduction in notary

¹ Recent tentative signs of stabilisation or improvement in the market are indicated by available data from the quarterly survey conducted by the Real Estate Market Analysis Section of the Bank of Greece among real estate agencies and consultants, as well as by a recent recovery of certain expectations indices released by IOBE (business expectations in construction, months of secured production in construction etc.).

² Information collected from real estate agencies suggests an even larger decline in residential prices.



and legal fees. As the mandatory involvement of lawyers in real estate contracts will be fully abolished as from 2014, this burden should be alleviated; still, the tax component remains the main factor explaining high transaction costs. On the other hand, the taxes on real property ownership were, at least before the imposition of the special levy on real estate paid through electricity bills, on an annual basis and as a percentage of GDP, at lower levels than in OECD countries.

The recovery of the Greek real estate market will crucially hinge on the introduction of a new tax framework which would: lower transaction costs, expand the tax base in an equitable manner taking into account the tax-paying capacity of property owners, streamline the existing system by consolidating the numerous taxes into a single progressive tax on real estate and remain unchanged for 5-10 years ahead.

It is expected that the successful implementation of the government's privatisation programme and plans to put public property to more efficient use will provide impetus to the recovery of the real estate market. Moreover, the recent Law 4141/2013 reformed the legal framework of Real Estate Investment Companies (REICs), expanding their investment scope (to also include residential property, tourist property, land with building permit, property under construction) and enabled them to participate in concession contracts through joint venture schemes. REICs are thus expected to exploit the opportunities offered by this reform to invest in public property development projects, thereby contributing to the overall recovery of the commercial property market.

Box III.3 THE PRESENCE OF REAL ESTATE INVESTMENT COMPANIES IN THE GREEK MARKET: DEVELOPMENTS AND PROSPECTS

In the current adverse economic environment, the Real Estate Investment Companies (REICs) and their portfolios have exhibited considerable resilience compared with the commercial property market as a whole. This can be attributed to their focus on high-quality properties (in terms of location, state of maintenance, construction quality, etc.) and high-quality tenants/lessees; their professional fund management and portfolio diversification across locations and property types, as well as their more favourable tax treatment.

Some key figures³

The portfolios of the five REICs⁴ which are active in the Greek market comprise 370 properties of a total asset value of EUR 1.4 billion (as at end 2012), while the aggregate net asset value of these companies amounts to EUR 1.75 billion. The properties predominantly consist of retail space (49.6%) and offices (44.9%), which are typically leased to commercial banks, and to a much lesser extent warehouses (2.7%), shopping centres (0.8%) and other properties (2.0%). As regards the geographical breakdown, 65.3% (in value terms) of REICs' investment activity in properties is accounted for by the Attica region, 28.4% by other big cities in Greece, and the remaining 6.3% by eastern European countries (Romania, Serbia, Ukraine).

The average yield of retail property assets included in the portfolios is estimated at 8.6% for retail spaces and at 8.8% for office spaces. Over the past five years, the shares of the three listed REICs, taken together, outperformed the general index of the Athens Exchange⁵. Between 2009 and 2011, Greek REICs offered an average dividend

³ These figures are calculations based on data collected by the Real Estate Market Analysis Section of the Bank of Greece under Act No. 9/10 January 2012 of the Executive Board of the Bank of Greece.

⁴ These are the companies Trastor, Eurobank Properties, MIG Real Estate, Intercontinental and NBG Pangaea, the first three of which are listed in the Athens Exchange.

⁵ Between end-June 2008 and mid-April 2013, while the general Athex index recorded losses of 71.8%, the share prices of the three listed REICs posted losses of 46.6%, on average, performing better than both

yield of 9.3%, well above other REICs in the EU (5.1% over the period 2007-2011, according to the European Public Real Estate Association).

The new institutional framework and prospects for the development of the REIC sector

The initial institutional framework of REICs (under Law 2778/1999), alongside the prevailing macroeconomic uncertainty and the deep recession of the last years, have prevented the growth of the REIC market in Greece. The new Law 4141/2013 introduced major improvements and providing additional incentives, which are expected to boost REIC activity and attract investment, potentially leading to the emergence of new investor schemes. Meanwhile, the consolidation currently underway in the banking sector is expected to reshape the REIC sector and enhance its efficiency.

The most important reforms in the legal framework governing the operation of REICs, as stipulated in Law 4141/2013 “Investment tools for growth, financing and other provisions”, are aimed at broadening the range of investment options and the scope of activities for REICs, as well as ensuring greater flexibility. As regards the expansion of investment options, REICs have been given the possibility to invest also in residential property, tourist property (up to 25% of their total investments), property under construction and land with building permit. Moreover, they are allowed to participate in joint ventures or other business arrangements for the development of prime properties (exceeding EUR 10 million) and they may invest in rights arising from financial leases, building rights, as well as long-term concessions of real estate projects. Among other key reforms, the new law lowered, from EUR 29.35 million to EUR 25 million, the initial share capital required for setting up a REIC and raised the maximum allowed leverage ratio to 75% of assets (from 50%) and the minimum dividend distribution ratio to 50% of net profits (up from 35%), bringing them more in line with international standards.

the general index and the real estate sub-index (the latter fell by 59.5% between the start of the series on 1 December 2009 and 15 April 2013).



It is evident that the new legal framework for REICs, coupled with the newly granted possibility to participate in joint ventures, special purpose vehicles, long-term concession schemes as well as public property sale and leaseback programmes, could help to improve the industry's growth prospects and enhance its role in the effort to put public real estate into more effective use. Via REICs, real estate becomes a liquid instrument and an investment tool that is accessible not only to institutional funds but also to individual investors, enabling them to invest in strictly supervised listed companies and high-value property, without the normally associated management problems.