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1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

- The Greek real estate market has entered in recession since the end of 2008 and continues to shrink, as medium-term expectations remain negative.¹ The substantial increase in the tax burden on real estate in the past few years and, above all, the unstable economic environment of the country, as well as restricted bank financing, have had a significant impact on the Greek real estate market, intensifying the crisis and hampering its recovery even more.
- Throughout the current crisis, the real estate market has been characterised by excessive supply, very low demand and a substantial stock of properties for sale (estimated at around 180,000).
- The decline in residential prices continued stronger in the first nine months of 2012. In more detail, on the basis of data collected from credit institutions, apartment prices fell by 9.3% , 10.2% and 11.7% in the first, second and third quarters of 2012, respectively (revised data), from 3.7% in 2009, 4.7% in 2010 and 5.4% in 2011. A greater decline in house prices in the past few years is recorded based on information collected from real estate agencies. Indeed, 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 2.9% in 2009, 6.7% in 2010, 7.5% in 2011, 10.3% in the first quarter of 2012 and 11.5% in the second quarter of 2012.
- From the onset of the crisis until end-2011, this fall in prices has been stronger for “old” apartments (over 5 years old: -4.8%, -5.0% and -5.7% in 2009, 2010 and 2011, respectively) than for “new” apartments (up to 5 years old: -2.0%, -4.2% and -4.9% in 2009, 2010 and 2011, respectively). This reflects the relatively stronger resilience of the prices of newly-built apartments that are normally sold by the constructors, which however seems to decline on the basis of more recent data for the first, second and third quarters of 2012 (see Table III.7).²

¹ Recession in the commercial real estate market began about two years before recession in housing properties, where the price index has been falling since the last quarter of 2008. In addition, the improvement – mainly in the summer months of 2012 – in the business expectations index in constructions compiled by IOBE stems from the rise in expectations in the construction of public works, following the government's announcements about the re-launching of major infrastructure works. This improvement was also driven by renewed expectations in housing construction, which however are not confirmed by other data (real estate agencies survey etc.).

² By the end of 2011, apartment prices, mainly for newly-built ones, was characterised by relative resilience, which is estimated to have been driven by the high percentage of private ownership, the large number of very small family businesses involved in residential construction, the high profitability of such businesses before the current crisis and their low dependence on bank borrowing, the low frequency of



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- The geographical breakdown shows that nominal apartment prices during the crisis (from the third quarter of 2008 to the third quarter of 2012) fell more in Thessaloniki (28.2%) than in Athens (23.9%) and, mainly, other major cities (22.0%). Moreover, the greatest declines in asking prices were observed both in the relatively expensive areas and in areas with large properties.
- During the crisis, households' purchasing interests shifted towards smaller, older and, mainly, more affordable properties in medium-cost areas. Moreover, the percentage of cash transactions and the share of cash in total financing for real estate purchase have increased.
- Downward pressures on prices are likely to continue in the coming quarters, but the risk of abrupt change will be reduced. It is estimated however that, with the continuing decline in prices in the past few years, the Greek real estate market most probably does not show any signs of significant overpricing.³
- Private construction activity continues to show high rates of decline (-26.5% in 2009, -23.7% in 2010 and -37.7% in 2011, with an average annual rate of 23.0% in the first eight months of 2012), similar to those of investment in residential properties (-20.7%, -21.6%, -18.0% and -30.5% in 2009, 2010, 2011 and the first half of 2012, respectively).
- The number of persons employed in the construction sector declined dramatically in the past three years. On the basis of the Labour Force Survey conducted by ELSTAT, the total number of persons employed in constructions fell from 399.3 thousand in the second quarter of 2008 to 213.5 thousand in the second quarter of 2012 (declining by 6.6% in 2009, 12.7% in 2010, 22.5% in 2011 and 18.3% in the first half of 2012).
- In the commercial real estate market (offices, retail stores, industrial buildings, warehouses, etc.), the decline continued in the first two quarters of 2012, with significant pressures to renegotiate and reduce rents, especially for uptown commercial properties, warehouses and non-competitive office buildings.⁴ Throughout the crisis, there has been:

- reduced demand for properties for commercial use, with businesses shifting towards cheaper premises;
- excessive supply and increased number of vacant commercial stores and offices; and

property resale, high transaction costs (transfer tax, notarial and legal fees etc.), the increased costs of construction that hamper the replacement of the available stock of residences, the increased confidence of Greek households in real estates etc.

³ It should also be noted that a significant decline was observed in the past five years in the house price-to-rent ratio (71.4 in the third quarter of 2012; 2007=100), which is usually examined in conjunction with other factors (e.g. interest rates, yields of alternative investment, phase of the economic cycle etc.) to examine whether the current property value is overestimated

⁴ Real Estate Investment Sociétés Anonymes are also involved in the commercial real estate market, whose real estate portfolio declined substantially in the first half of 2012 (by 8.2% for Athex-listed companies), leading most of them to negative operating results (losses).



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— a downward trend in prices.

Transfers in this market have been substantially reduced, while properties offered for sale or lease have increased. Moreover, restricted financing, coupled with the overall uncertainty about the economic environment, fuel the relative reluctance to develop new investment plans.

- The fall in rent prices and the renegotiation of lease contracts for commercial properties have contributed to the decrease in rent paid by the State for the accommodation of its departments. According to Ministry of Finance estimates, a total of €155.8 million was spent in 2011 for 2,639 lease contracts, while this expenditure came to €169.7 million in 2010 and €178.1 million in 2009 (declining by 8.2% in 2011 and 4.7% in 2010).⁵ It is estimated however that there is still enough room for the State to reduce expenditure for rents by relocating some of its departments from leased properties to properties owned by the State that remain unutilized.⁶
- The prospects for recovery in the real estate market depend, *inter alia*, on improving business' and households' expectations, improving bank financing conditions and containing uncertainty, boosting the recovery prospects of the Greek economy and reducing tax burdens on real estates.

1.2.A FACTORS AFFECTING DEMAND AND SUPPLY IN THE REAL ESTATE MARKET

Reduced **demand in the Greek real estate market** mainly reflects uncertainty about the general prospects of the Greek economy and addressing its fiscal and structural problems. It is also associated with households' expectations for further easing of residential property prices and primarily with increased uncertainty about employment and future incomes. It is estimated that the more cautious and selective stance of banks in granting new loans has also contributed to the decline in demand.⁷

⁵ This decline was also driven by the legislative intervention (article 21 of Law 4002/2011), stipulating that the rent paid by the Greek State and public-sector bodies for the lease of properties to accommodate their departments is reduced by 20% (on the basis of rent levels in July 2010). A further reduction of this expenditure is provided for 2012 and the following years, since a provision of Law 4081/2012 reduced again the rent paid by the State for the lease of properties. This reduction amounts to 10% for properties with a monthly rent of less than €1,000, 15% for properties with a monthly rent of €1,000-€2,000, 20% for properties with monthly rent of €2,000-€3,000 and 25% for properties with monthly rent of over €3,000.

⁶ For instance, the 45,000 m² property at 196-198 Thivon Avenue (Keranis), which was purchased in 1998 by the State and, while substantial amounts were paid for its reconstruction, has not been utilised to date.

⁷ Indeed, the outstanding balance of housing loans declined at an annual rate of 3.7% in September 2012, against a decrease of 2.9% in December 2011 and 0.3% in December 2010, having *grown* by 3.7% in December 2009 and 11.2% in December 2008.



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The additional tax burden on real estate during the current crisis has intensified the downturn in the real estate market and has significantly deteriorated relative demand.⁸ Apart from this burden, frequent references to additional tax measures (e.g. introduction of real estate tax levy on building plots outside town planning, and on land and rural plots that are not cultivated, etc.) prolong uncertainty about the real estate tax regime and make the future recovery of demand for residential and commercial property even more difficult.⁹ As regards commercial property in particular, the volatility of the taxation framework makes it difficult to develop long-term financial investment appraisal models for real estate development. At the same time, excessive taxation leads to contraction of current and expected business performance, often at unsustainable levels. 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 would increase the very low frequency of transactions in the domestic real estate market.

Moreover, the bureaucracy prevailing on the Greek real estate market (building permits issuance, etc.), the large number of statutory procedures and charges (lawyer fees, notarial fees, engineer's certification, Energy Efficiency Certificate, etc.), combined with the ambiguity of urban planning regulations and its multiple breaches, the lack of a clear and unambiguous framework for spatial planning and land uses are among the many factors discouraging demand and often hindering the conclusion of investment agreements with potential foreign investors.¹⁰ The relevant indices regarding the ease of doing business in the Greek construction industry are

⁸ The most important tax burdens during the current crisis 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 on newly-built property purchases and land exchange. These measures have significantly burdened mainly the possession of real estate, while in the past the taxation burden fell almost exclusively on transactions and revenue from real estate.

⁹ However, the recent decision to postpone the adjustment of objective values at the level of market prices is estimated to have temporarily reduced this uncertainty. The eventual increase in objective real estate property values (which determine real estate property value for taxation purposes) would 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. 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 costs 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.

¹⁰ In regards to the frequent breaches of urban planning laws observed in the Greek real estate market, it should be noted that data from the competent ministry raise the number of these breaches to around 5 million. Under the recent law 4014/2011 on the settlement of various building violations, 415,000 claims for settlement had been submitted and €625 million had been collected from the relevant fines until early last September.



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low, transaction costs are particularly high, while construction cost indices, especially for building materials, maintain positive rates of change even in the current period of severe recession, hindering the pickup of demand and the recovery of the real estate market.

Strengthening demand requires a set of interventions in terms of bureaucracy, real estate transaction costs and the existing complex regulatory framework. The key parameter is to establish and safeguard a constant real estate taxation system. The level of taxes should be adjusted to the owners' tax-paying ability, while broadening the tax base and reducing current tax rates, especially on small and medium properties, would eventually be the most fiscal-efficient approach.

The complexity of the system can be eased by introducing a single flat tax on real estate, which may vary depending on the use of the property. It would be appropriate to distinguish between properties that could generate income and might be taxed at higher rates and those that form an integral part of production activities and the provision of services (industrial properties, warehouses, hotels, etc.).

Finally, as regards the issue of simplifying the acts for the purchase and sale of real estate, it is estimated that both the reduction of compulsory charges, which act as disincentives without adding to state revenue, and the cutting of taxes on transfers and parental donations will boost the very low frequency of transactions in the domestic real estate market. It would also be appropriate to replace objective values with the commercial value of real estate property, especially under the current conjuncture, so as to reduce tax evasion from purchases and sales of real estate on the one hand and monitor the significant changes in value observed in the real estate market on the other.

On the supply side, the Greek real estate market continues to show excessive supply, combined with a large stock of unsold property. The decline in private construction activity and investment in the real estate market during the current crisis has been almost proportional to the reduction in the number of real estate transactions; it is therefore estimated that the excess stock of property that existed at the end of 2008 remained roughly unchanged or increased only slightly.¹¹

It is noted that the stock of unsold houses is attributed to the prohibition (until the end of 2012) of auctioning households' main residences (with an objective value of up to €200,000.00) and

¹¹ Indeed, the number of new building permits decreased by 16.1% in 2009, 10.9% in 2010 and 28.4% in 2011, while the total number of residential properties that were the subject of notarial acts declined by 13.9% in 2009 and 13.3% in 2010, based on available data. In particular, according to ELSTAT data collected by notaries throughout the country, the number of notarial acts for the purchase and sale of real estate fell from 158 thousand in 2008 to 136 thousand in 2009 and 117.9 thousand in 2010. A similar decline was recorded in the number of real estate transactions on the basis of the contracts registered by the National Cadastre (by 16.3%, 9.8% and 28.1% in 2009, 2010 and 2011 respectively).



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the reluctance of commercial banks to auction off properties that secure bad loans at this stage of severe recession, despite the significant increase in non-performing loans. Real estate market experts estimate that this prohibition should probably be extended because, in the event that a large number of public properties are put up for sale in the current conjuncture of marked recession and reduced investor interest (due to the uncertainty and limited liquidity of the market), this would intensify the crisis in the real estate market and make its recovery even more difficult.

It is also noted that the surface area and volume of private construction activity and particularly the value of the properties transferred during the current financial crisis decreased at higher rates than the number of new permits and real estate purchases and sales. This is explained by the results of the real estate agencies survey on the shift of households' buying interest towards older, smaller and mostly lower value residencies.¹² This, to some extent, explains the fact that the number of larger properties (over 200 m²) put up for sale is relatively higher, since they have also been burdened most by the recent tax changes.

1.2.B DEVELOPMENTS IN THE EFFORT TO UTILISE PUBLIC PROPERTY

Despite frequent announcements and the recent intensification of the effort made for the utilisation of public property, the long-standing problems of the Greek administration undermine any remarkable outcome in terms of increasing public revenue. Considering the inhibitors to the implementation of the overall public property utilisation programme, the administration of the Hellenic Public Asset Development Fund (HRADF), which has taken up the privatisation programme since August 2011, had initially estimated that around €3.2 billion could be collected in 2012. In the 2nd Economic Adjustment Programme (February 2012), the target for overall revenue from privatisations and public property utilisation was adjusted from €50 billion to €19 billion by the end of 2015.¹³ However, according to the Medium-Term Fiscal Strategy Framework 2013-2016 (November 2012), it is estimated that around €9.5 billion shall be collected in 2013-2016, while the target for 2013 is €2.586 billion. The overall target for

¹² Similar conclusions are drawn on the basis of residential property transactions conducted through the banking system in the last three years (data collected from credit institutions). In the period 2009-2011 the average annual reduction in the number of these transactions was 26.3%, against a corresponding decrease of 28.6% of their total value.

¹³ Approximately 50% of the expected revenue shall derive from the development of real estate, 30% from infrastructure concessions and less than 20% from the sale of corporate shares. However, in the first two years of the programme, the highest share of revenue is expected to come from the utilisation of corporate portfolios. In this direction, a Legislative Act was signed by recent decision of the Cabinet for the abolition of the minimum participation of the Greek State in several state enterprises (ELPE, DEH, OPAP, ODIE, EYDAP, EYATH, ELTA, the Port Authorities of Piraeus, Thessaloniki, Alexandroupoli, Volos, Elefsina, Igoumenitsa, Heraklio, Kavala, Corfu, Lavrio, Patras and Rafina).



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collecting €50 billion is now estimated to be achieved after 2020. The privatisations completed in 2011 have yielded total revenue of €1.6 billion.¹⁴

Many of the problems that stand in the way of the effort to develop public property largely remain, as delays were recorded in the issuance of the necessary administrative decisions until recently.¹⁵ These problems include the deficient recording of public property, the lack of a complete and accurate cadastre, pending matters relating to the redetermination of land uses and the delineation of seashores and beaches, the large number of required building, environmental and land use permits, continuous violations 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). It is also a fact that the deep recession of the Greek real estate market in recent years does not facilitate any attempt to make use of public property, due to limited interest on the part of investors.¹⁶

It has now become imperative to intensify the necessary actions and accelerate the resolution of legal and technical issues relating to urban planning and permits issuance for the development of public property.¹⁷ Resolving these problems will certainly create significant surplus values

¹⁴ Specifically 10% of OTE was sold (generating proceeds of €392 million), licences for game machines were sold to OPAP (€555 million) and its current licence was extended (€475 million), as were mobile telephony licences (€380 million).

¹⁵ However, on 11 September 2012, at the first Board meeting of the HRADF held since 15 May 2012, significant decisions were made about State property. Specifically, the Board selected the companies that will participate in Phase B of the tender for the sale of up to 70% of “Hellenikon SA” shares (4 companies) and the utilisation of land in Kassiopi, Corfu (1 association) and Afantos, Rhodes (6 companies); it also approved the final version of the contract under which the final bids from potential investors for the International Broadcasting Centre (IBC) have been submitted and the final version of the Memorandum of Understanding between the HRADF and the National Bank of Greece on the uniform use of the “Mikro Kavouri” peninsula in Vouliagmeni. On 19 September, the Board approved the Documents of Phase B of the tender process for the development of land in Kassiopi (Corfu) and decided that the participants will be called to submit binding bids within 60 days. On 28 September HRADF announced the completion of the international tender for the 90-year concession of exploitation of the International Broadcasting Centre. The highest bidder was Lamda DOMI SA and the direct financial consideration has been agreed to €81 million (the Greek government may receive up to an additional €32.4 million, depending on the improvement of the macroeconomic conditions in Greece over the next 50 years). During the last two months, important decisions have also been made on the privatisation of public corporations (OPAP, DEPA, etc.).

¹⁶ Similar problems in the effort to implement the privatisations and real estate development programme are identified by HRADF. In particular, the main inhibitors to this effort are the required substantial preparation of assets in order to resolve various legal and technical problems, the coordination of the authorities involved in order to develop a strategy and implement policies, the required multiple inspection procedures (by the European Commission and the European Court of Auditors), the lack of active market for land rights, limited interest on the part of investors, problems in financing etc. See also the *Annual Report for 2011*, Section V.2 and *Monetary Policy Interim Report 2010*, Special Feature 3.

¹⁷ Additional actions and legislative arrangements are required for the utilisation of assets in the sector of infrastructures, energy, transports (airports, ports, motorways) and public utility companies – e.g. the establishment of new regulatory authorities for the transfer of monopolies from the public to the private



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for public property and, above all, contribute to attracting foreign investors to the Greek real estate market, with additional growth benefits for local communities and economies. The utilisation strategy should be developed and completed by identifying the properties available for development, resolving any legal, urban planning and other problems, integrating these properties into the overall state planning and, finally, implementing fair procedures for their exploitation, by means of objective and transparent evaluation criteria for the tenders submitted.

In the current conjuncture of marked recession in the real estate market, the institutions of concession and long-term lease contracts are estimated to be very effective tools for the rapid development of public property and will activate direct foreign and other private investment, thereby supporting economic recovery and improving market sentiment and public revenues.¹⁸

It is noted, however, that after many years of delays, the process of utilising significant state-owned land and properties has begun (see the aforementioned relevant decisions of the Board of Directors of the Hellenic Public Asset Development Fund in its meetings of 11, 19 and 28 September 2012). The acceleration of initiated individual development procedures and their successful completion are of outmost importance, as the latter is expected to become the benchmark for the utilisation of all public properties. The appropriate message is thus sent out to potential investors and markets that the Greek State convincingly proceeds with privatisations and the utilisation of its property.

sector. Indeed, the monitoring of privatisation processes can be ensured by the government through the operation of Independent Regulatory Authorities, which will guarantee public interests.

¹⁸ Such concession and long-term lease contracts have been used in the past for the development of significant state properties such as the Flisvos marina, Zea marina, and the Athens International Airport, while Hellenikon airport is on a similar path.