



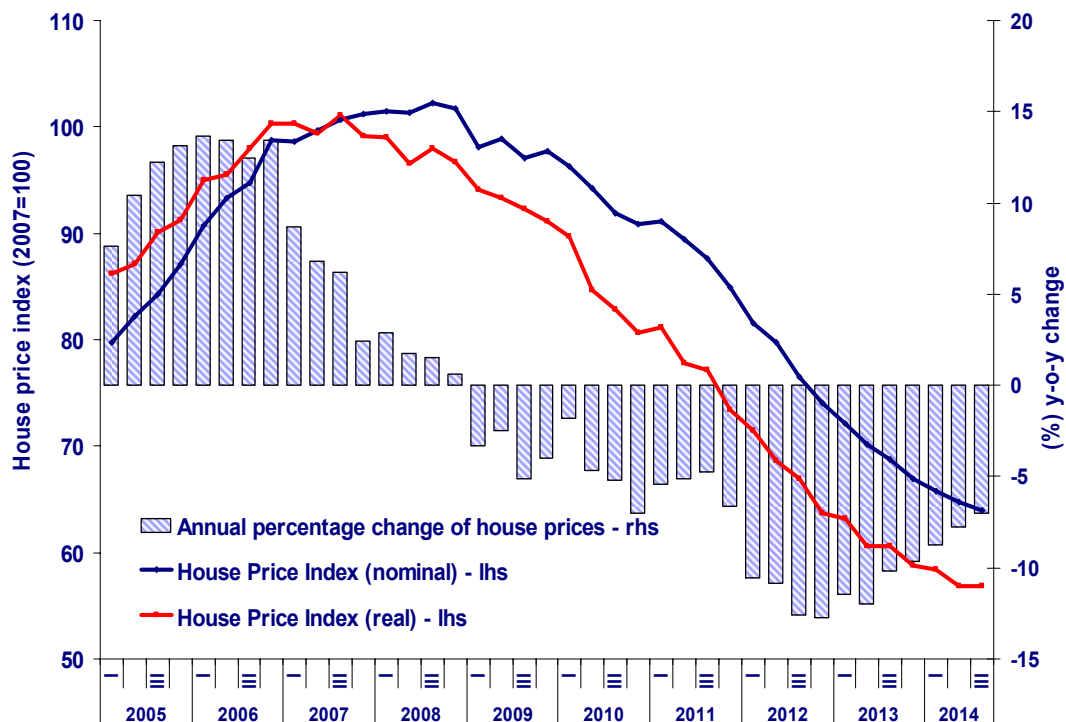
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This is the English translation of the Monetary Policy - Interim Report 2014, originally published in Greek (in December 2014).

1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

2014 witnessed persisting pressures on market values, prices and rents of both residential and commercial properties, albeit at a slightly lower rate (see Chart IV.8). The main characteristics of the Greek real estate market in 2014 are limited demand and excess supply, which can be attributed to a contraction in households' disposable income and high unemployment, increased tax burden on property as well as liquidity shortage due to banks' tight credit standards.

Chart IV.8 House price index



Source: Bank of Greece



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Data collected from credit institutions show an average annual rate of decline of 7.8% in **apartment prices** over the first nine months of 2014, against -10.9% in 2013. On a cumulative basis apartment prices dropped by 37.1% between 2008 (average level) and the third quarter of 2014, while the decline was stronger in the two major urban centres, as well as for older and larger properties in the relatively higher-value areas of the country.¹ The downward trend of residential property prices is likely to persist in the following quarters, but at a relatively weaker pace. The housing market is expected to recover with a relative time lag, largely depending on an increase in households' disposable income, a rise in employment, and an improvement in bank financing conditions.

In the **commercial real estate market**, both investment climate and expectations have been improving since the beginning of this year, with investor interest mainly focusing on income property. The most dynamic sectors, in terms of investment interest, appear to be the tourist property-hotel units as well as prime office and retail, while an increasing shift of the overall interest towards prime large warehouses is also apparent. Nevertheless, pressures to renegotiate and reduce rents, especially for secondary retail properties, warehouses and non-prime office buildings, persist. In 2014, prime commercial property prices show signs of stabilisation, which are expected to strengthen from 2015 onwards, while the prices of non-prime commercial property are projected to drop further in the coming quarters.

The tax burden on real estate property over the past few years, aiming at a more equitable distribution of the brunt of fiscal adjustment, exacerbated the recession in the real estate market and considerably discouraged demand. Furthermore, the implementation of a capital gains tax on real estate transfers (under Law 4172/2013) in early 2014 held back demand in the Greek real estate market, due to considerable

¹ The results of the quarterly survey of real estate agencies and property advisors, which is conducted by the Bank of Greece, point to an even greater decline in residential property prices during the current crisis.



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uncertainty regarding the modalities of the tax on real estate. This, however, was gradually addressed with the latest amending provisions (Law 4254/2014). The new framework of real estate taxation, with the significantly lowered Property Transfer Tax to 3%, has shifted the tax burden from property transfer towards ownership.