

## IV MACROECONOMIC DEVELOPMENTS AND PROSPECTS IN GREECE

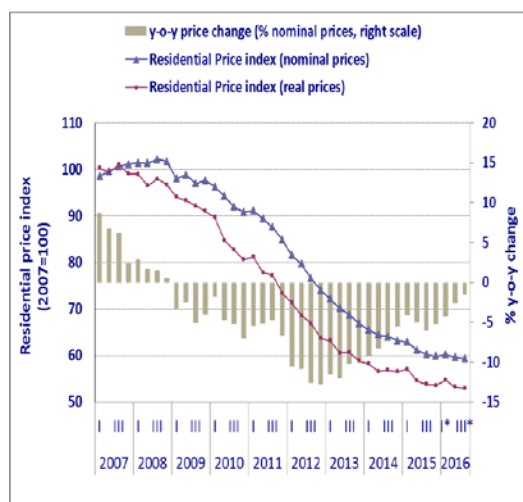
### 2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET

Since the onset of the current crisis, the market values and rents of residential and commercial properties have steadily deteriorated, as have relative levels of demand. Pressures on market values and rents for residential and commercial properties continued into the first nine months of 2016, albeit weaker than in the past few years.

In the **housing market**, prices continued to decline in 2016, but at a more moderate pace. In particular, on the basis of data from credit institutions, nominal apartment prices in the third quarter of 2016 are estimated to have declined, on average, by 1.5% year-on-year, compared with an annual rate of decline of 6.0% in the third quarter of 2015 (for 2015 as a whole, apartment prices fell on average by 5.1% relative to 2014 – see Chart IV.15). Cumulatively from 2008 (average level) to the third quarter of 2016, nominal apartment prices dropped by 41.7%, with the strongest declines continuing to be recorded in the two major urban centres (Athens: -43.8% and Thessaloniki: -45.6%), as well as for older and larger apartments in the relatively more expensive areas of the country.

With regard to **the commercial real estate market**, the stabilisation trend of nominal prime office prices seen in 2015 (-0.1%) continued in the first half of 2016, with a marginal increase of 0.2% relative to the second half of 2015 (see Chart IV.16). Nevertheless, small declines were still recorded in the greater Athens area (-0.5%). Nominal prime retail prices, which in 2015 had continued to drop sharply by about 3.5% countrywide, tended to stabilise, declining by 0.8% between the second half of 2015 and the first half of 2016 (see Chart IV.17). Lastly, office and retail rents also showed signs of stabilising in the first half of 2016, with rates of change of 0.7% and -0.3%, respectively, from the second half of 2015.

Chart IV.15 Residential property price index (2007=100, annual percentage change)

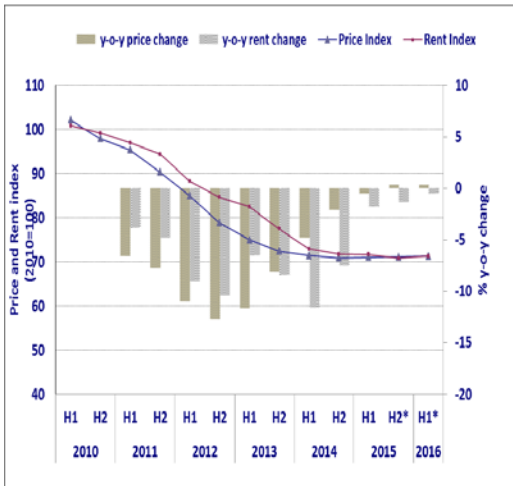


Source: Bank of Greece.

Regarding the expectations for the Greek real estate market, the slightly downward, but in some cases stabilising, trends in prices are expected to continue over the next quarters. Although the rate of decline in prices will ultimately also be affected by the new framework for the management of non-performing loans, the Greek real estate market has a number of characteristics that could conditionally reverse any negative expectations. The current combination of high returns, in particular on commercial property, and low prices across all real estate sectors, together with the dynamism of the tourism sector and infrastructure development, could make real estate an attractive investment option. However, bureaucratic rigidities and procedures, continued uncertainty in the economy and an increasingly heavy tax burden on real property (income and capital taxes, taxes on direct or indirect investment) are a deterrent to investors, with direct implications for the domestic real estate market and the economy as a whole. Apart from a stabilisation of the economic climate, the recovery of the Greek real estate market therefore hinges upon the

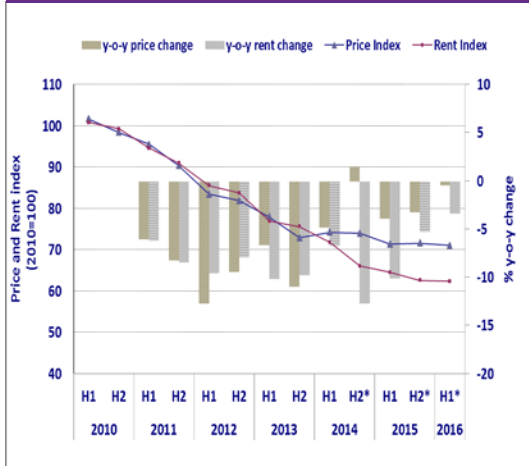
implementation of structural reforms– primarily in the area of taxation – in order to promote and make more attractive the investment opportunities that Greece has to offer.

**Chart IV.16 Office index**  
(2010=100, annual percentage change)



Source: Bank of Greece.

**Chart IV.17 Retail index**  
(2010=100, annual percentage change)



Source: Bank of Greece.