



*This is the English translation of the Monetary Policy 2014 - 2015, originally published in Greek (in June 2015, Chapter IV, Section 1.2).*

## **1.2 DEVELOPMENTS AND PROSPECTS IN THE REAL ESTATE MARKET**

Pressures on the market values, prices and rents of both residential and commercial properties continued in the course of 2014 at slightly lower rates. The market was mainly characterised by particularly limited demand and excess supply, both linked to high unemployment, tax hikes on real estate, and liquidity shortage. Since the last months of 2013 and almost throughout 2014 the first signs of stabilisation in the real estate market were recorded, while an increasing interest particularly in income property was observed.

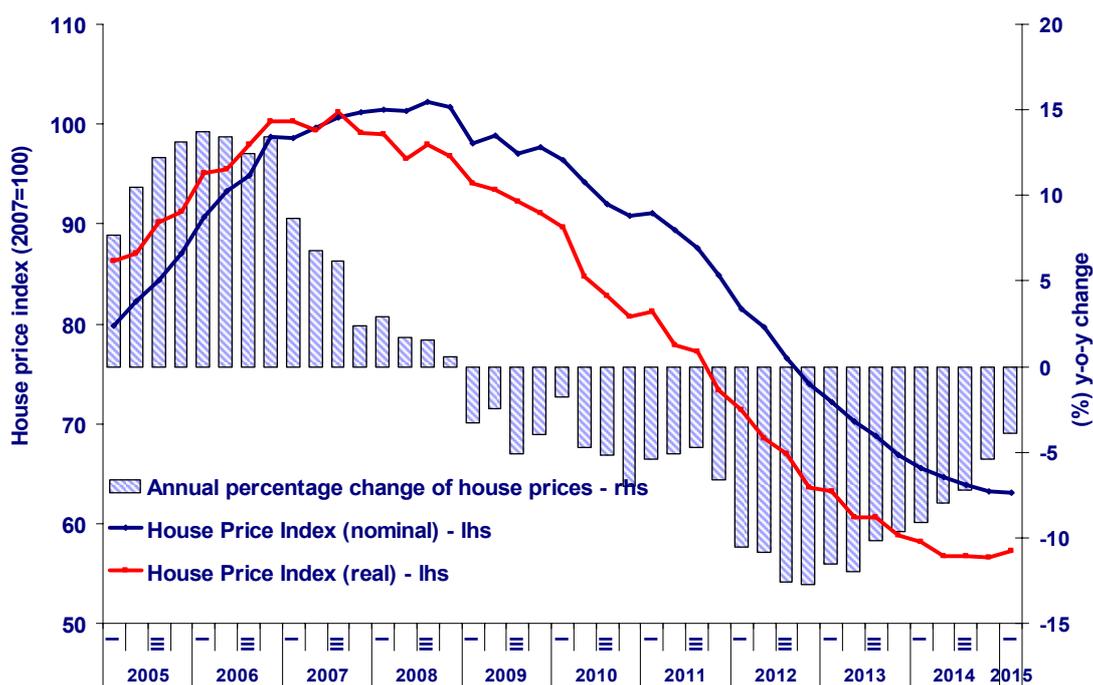
In the **housing market**, the drop in prices has continued at a weaker pace in 2014 and the first quarter of 2015. Based on data collected from credit institutions, it is estimated that apartment prices (in nominal terms) in the first quarter of 2015 were on average 3.9% lower compared to the same quarter of 2014. In 2014 as a whole, apartment prices declined at an average annual rate of 7.5%, compared with a decrease of 10.9% in 2013. Cumulatively, between 2008 and the first quarter of 2015 apartment prices fell on average by 38.0% according to data collected from credit institutions, whereas data collected from real estate agencies are suggesting an even higher fall.<sup>10</sup> The fall in prices was stronger in the two major urban centres (Athens: -40.4% and Thessaloniki: -42.2%) compared with other cities (-36.0%) and other areas (-33.4%), as well as for larger properties in relatively higher-value areas in Greece.

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<sup>10</sup> See the results of the quarterly survey of real estate agencies and property advisors, available on the Bank of Greece's website (in Greek only): <http://www.bankofgreece.gr/Pages/el/Statistics/realestate/publications.aspx>.

The shift of households' purchasing interest towards older, smaller and more affordable properties in medium-value areas, recorded since the onset of the current crisis, continued in 2014 as well. The results of the quarterly survey of real estate agencies and property advisors conducted by the Bank of Greece demonstrate that on average in 2014 only 23% of transactions were financed by banks, while the average loan-to-value ratio came roughly to 38%.<sup>11</sup>

**Chart IV.7 House price index**



Source: Bank of Greece

Downward trends in house prices are likely to continue in the following quarters, albeit at relatively moderated paces given that the high rates of decline recorded in 2012 and 2013 have kept easing in all subsequent quarters. The housing market is expected to recover with

<sup>11</sup> In early 2009, 82% of transactions were financed by banks, whereas the average loan-to-value ratio stood at 70%. The average market offer period increased significantly during the crisis (from about five months in early 2009 to roughly 8 months in 2014), while the average difference between initially asked and final purchase prices also increased (from 12.6% to 18.2%, respectively).

a relative delay, largely depending on an increase in households' disposable income, a rise in employment and an improvement in bank financing conditions.

The **commercial real estate** market recorded a dramatic decline over the past few years, with significant pressures for lease renegotiation and reviews, especially in the sectors of secondary retail and lower grade retail, warehouses and non-prime office. Tax hikes on real estate in recent years, as well as continued uncertainty surrounding the tax regime in the short to medium term keep having an adverse impact on the real estate market and further discourage demand.<sup>12</sup>

The market values of investment commercial property fell in 2014 at an annual rate of 3.3% for office and 1.0% for retail. This significant decline in the annual rate of decrease in the above two sectors compared with 2013 (-9.9% and -8.8%, respectively) is indicative of the market stabilisation trend recorded in 2014.

Since the fourth quarter of 2014, the relatively improved investment climate and the stronger investment interest for income properties, recorded in the first three quarters of 2014, have been halted due to the current economic conditions and the deteriorated economic sentiment. Conditional on restored stability, tourist property-hotels units as well as leased prime office and retail are expected to be the most dynamic commercial property markets. At the same time, the increasing investment interest in prime large warehouses recorded in 2014 is expected to be renewed. It should be noted, however, that to a large extent the current stock of commercial property fails to meet the desirable investment features, while the finalisation of transactions is often hindered by legal issues and weaknesses attributable to the existing institutional framework, red tape and multiple ownership status, as well as by the unrealistically high prices asked by individual owners (as a result of the very high initial acquisition prices of their properties). Red tape, along

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<sup>12</sup> In certain cases (e.g. large scale properties in high-value areas, depreciated areas of central Athens, etc.) the difference between “objective” and market values may be leading to a somewhat excessive taxation on real estate property.

with ambiguous urban planning regulations and multiple violations thereof, the lack of a stable and clear framework on regional planning and land use, as well as the lack of a complete and accurate cadastre, are some additional factors that discourage demand. Such factors often prevent the finalization of investment agreements and hinder the development of public real estate assets.

The prospects of a further stabilisation and recovery in the real estate market depend, among other things, on reducing uncertainty and strengthening the Greek economy's recovery prospects, on improving business and household expectations as well as bank financing conditions, and on the establishment of a stable tax regime.