

2nd Conference on the Real Estate Market: “The real estate market in the current financial crisis”

The evolution and outlook of the Greek real estate market and initiatives of the Bank of Greece

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Venue of the Conference: Bank of Greece, Headquarters
Thursday, 2 December 2011



Outline

- ✓ **Bank of Greece initiatives**
- ✓ **Specific features of the Greek housing market**
- ✓ **Residential property prices**
- ✓ **Number of transactions in the Greek real estate market**
- ✓ **Private building activity and residential investment**
- ✓ **Business expectations in construction**
- ✓ **Financing of the real estate market and financial stress**
- ✓ **Real property taxation and “objective” values**
- ✓ **Real estate developments and prospects in Greece: final conclusions**



Initiatives in the Bank of Greece : History and next steps

- **Organizational changes in the Bank of Greece: creation of the Real Estate Market Analysis Section within the Economic Research Department**
- **Governor's Act 2610/31.10.2008 launching the collection of residential property data through MFIs**
- **First results published and 1st Conference on the Real Estate Market**
- **First Press Release on residential property prices and transactions**
- **New indices of house prices were released (with more detailed breakdown by geographical area and age)**
- **Additional short-term indicators and surveys (through real estate agencies and the Hellenic Cadastre)**
- **2nd Conference on the Real Estate Market**
- **NEXT STEP: New Governor's Act is due to be published regarding the collection of Commercial Real Estate Market Data**

Aug 2008

Oct 2008

Apr 2009

Dec 2009

2010-Q3

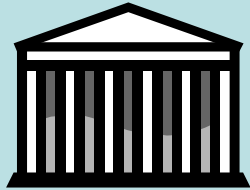
2009-2011

Dec 2011

2012-Q1



Initiatives in the Bank of Greece



Initiatives in
Bank of Greece

- ✓ **Data collection from credit institutions**
- ✓ **Quarterly Residential Property Price Indices (Press Releases)**
- ✓ **Short-term Indicators for the Greek real state market (revised every two weeks)**
- ✓ **Quarterly survey among the real estate agencies**
- ✓ **Data on transactions in the real estate market from various sources**
- ✓ **Regular monitoring and reporting of short-term developments and prospects in the housing market in the publications of the BoG**



Specific features of the Greek housing market

- ❑ The construction industry in Greece is fragmented (particularly in the residential market, 10-15,000 firms)
- ❑ High rate of home ownership (80%) and low mobility of land market
- ❑ Significant impact of fiscal measures in the housing market
- ❑ High transaction costs and low trading volume over the stock
- ❑ Difficulties in monitoring the real transaction prices
- ❑ Non-homogeneous product (residential property)
- ❑ The supply responds slowly and with a significant lag in demand signals (lack of land, construction time, issuing building permit and financing, etc.)



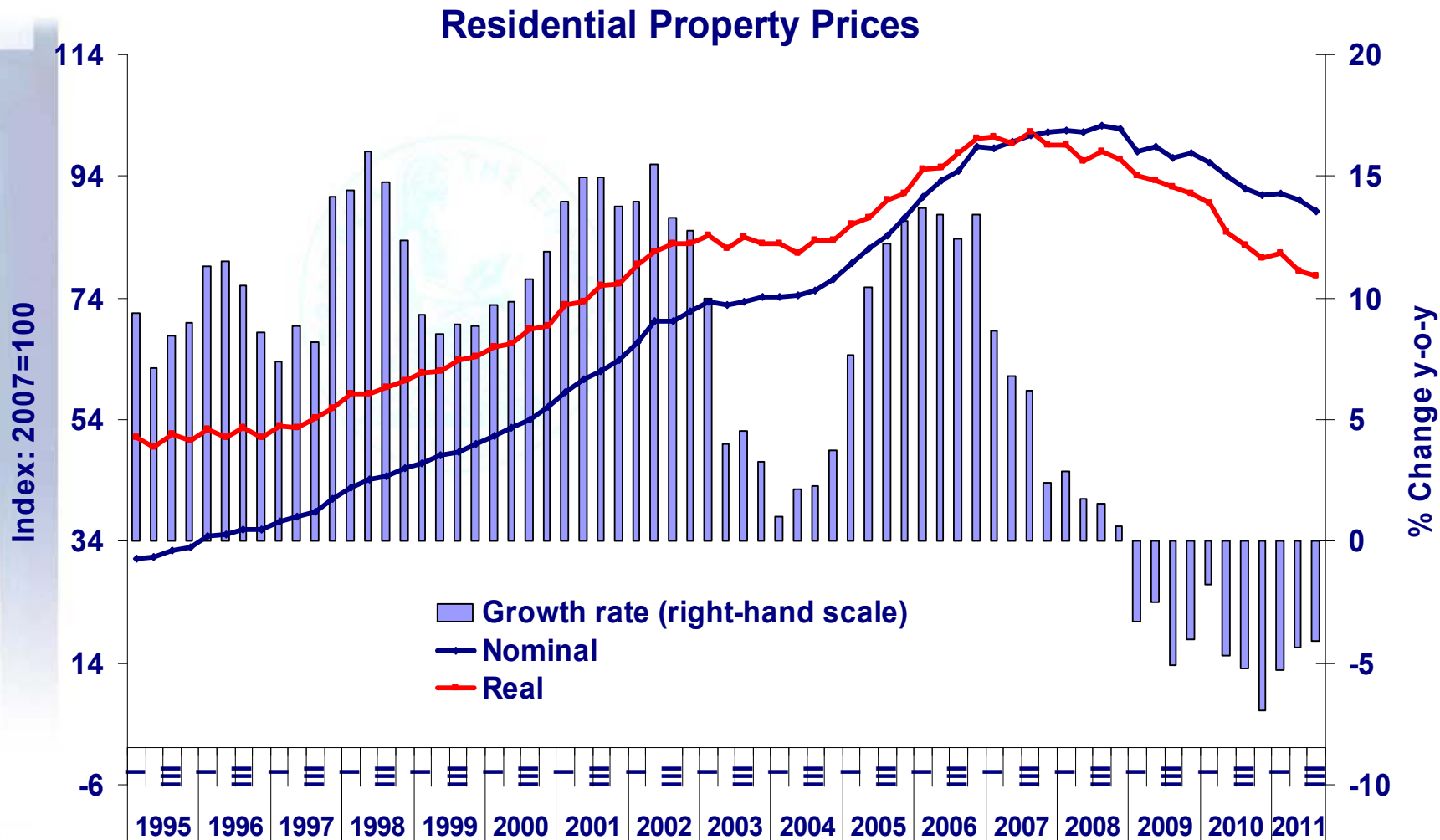
Available short-term indicators

Creation of a database with the available short-term indicators

- ❖ Price indices on residential property and rents
- ❖ Indices of residential property transactions
- ❖ Construction cost Indices for new residential buildings
- ❖ Construction activity
- ❖ Business expectations in construction
- ❖ Investment in construction and capital inflows
- ❖ Financing of the real estate market (outstanding amount of housing loans, interest rates)
- ❖ Indicators of financial stress



Residential Property Prices in Greece



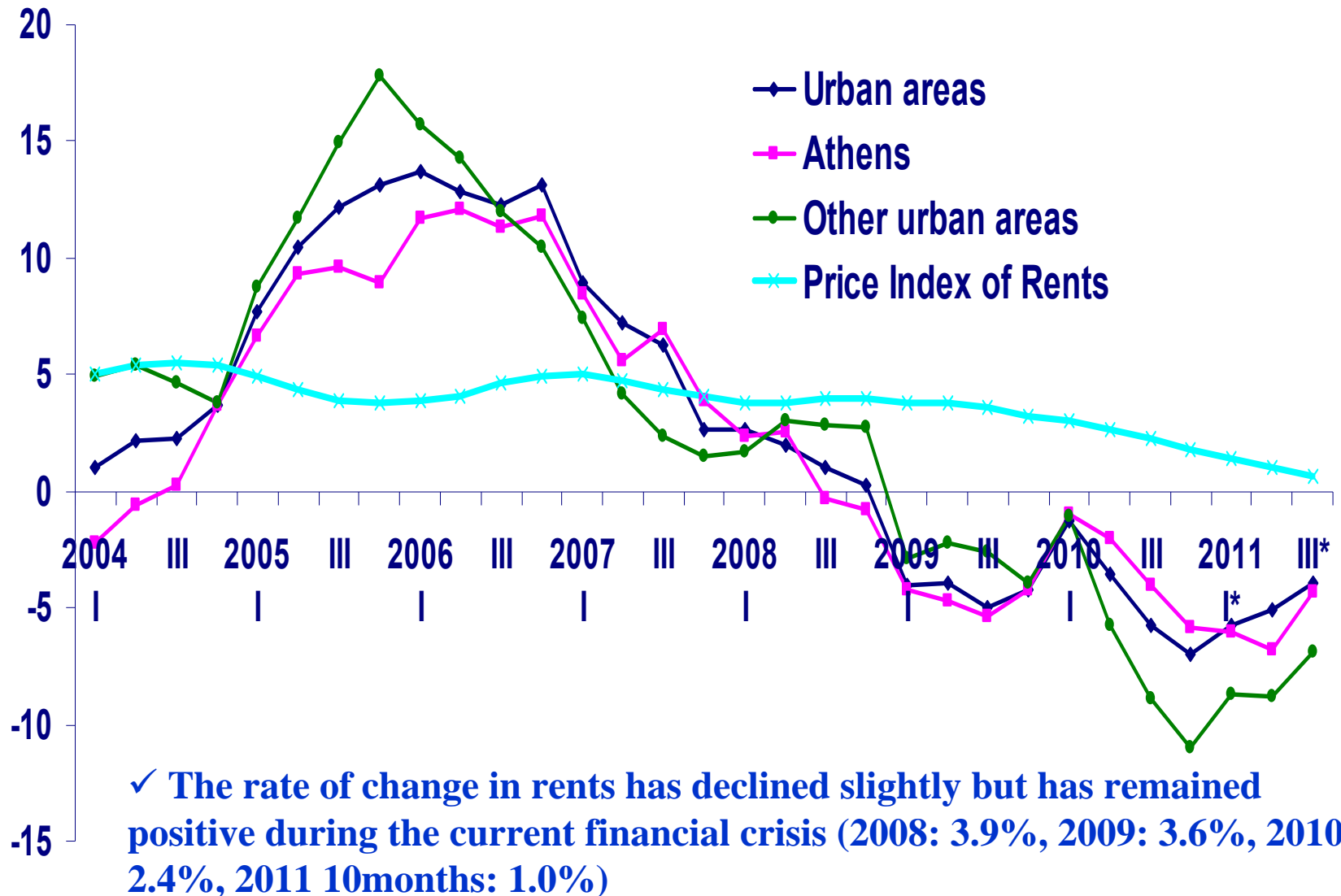
✓ Cumulated adjustment of -21,5% in real terms and -12,9% in nominal terms since the current financial crisis (2009 - 2011 Q3)

Source: BoG



Indices of Prices of Dwellings and Rents

(Average annual percentage change)



✓ The rate of change in rents has declined slightly but has remained positive during the current financial crisis (2008: 3.9%, 2009: 3.6%, 2010: 2.4%, 2011 10months: 1.0%)



Residential Property Price Indices: recent developments

- ✓ Relative strong persistence of apartment prices (2008: 1.7%, 2009: -3.7%, 2010: -4.7%, 9months 2011: -4.6%)
- ✓ Stronger decline in the prices of "old" apartments during the crisis and relatively stronger persistence of newly-built apartments typically available for sale by construction firms

Annual percentage changes	2008	2009	2010	2011 (9M)
New (up to 5 years old)	2,3	-2,0	-4,2	-3,5
Old (5 years old and above)	1,3	-4,8	-5,0	-5,2

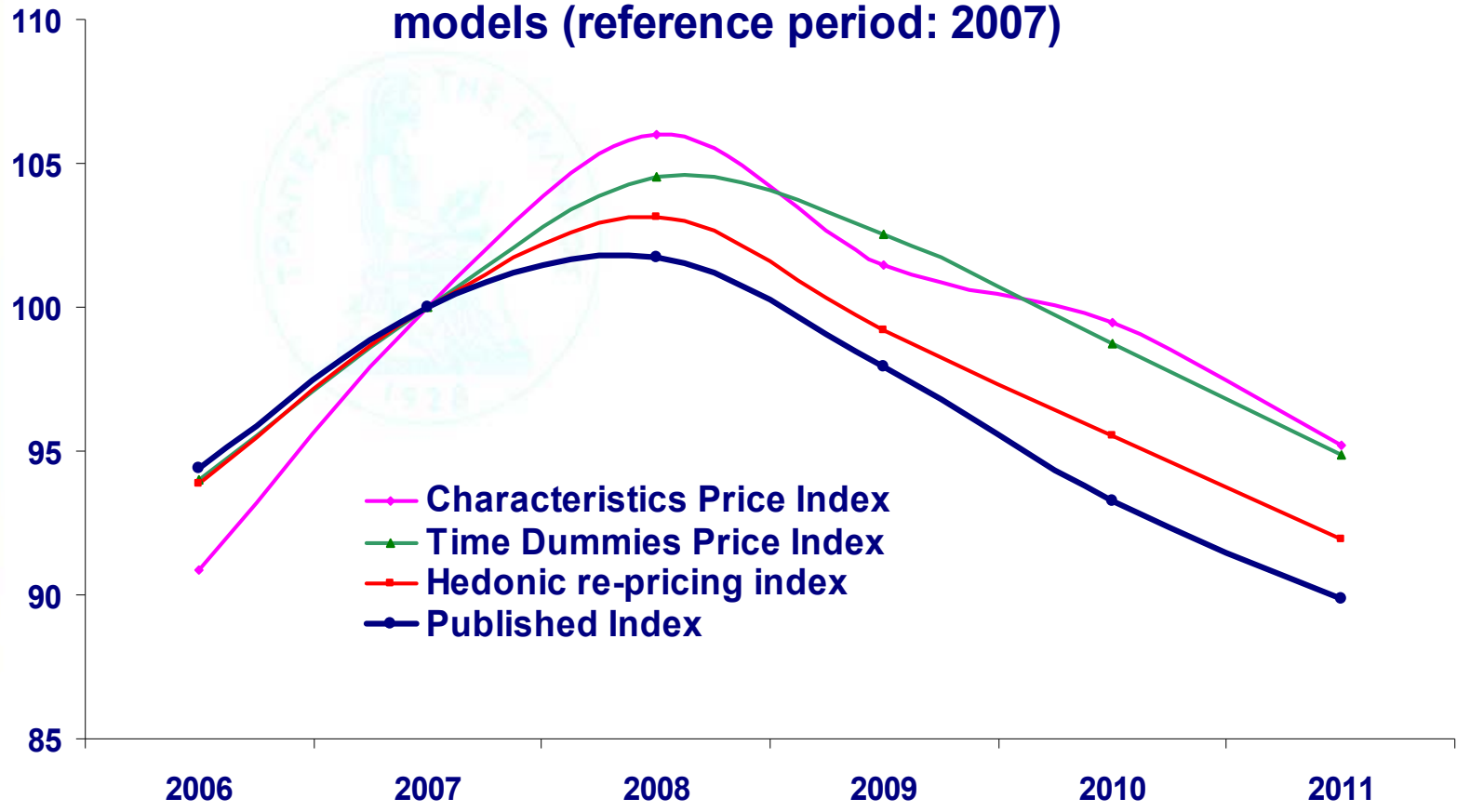
Athens	0,9	-4,6	-3,2	-5,8
Thessaloniki	1,5	-6,0	-7,4	-6,3
Other cities	1,8	-2,7	-5,3	-3,6
Other areas	3,3	-1,9	-5,8	-2,4

- ✓ Stronger decline in house prices according to real estate agencies



Residential Property Price Indices: Various hedonic models

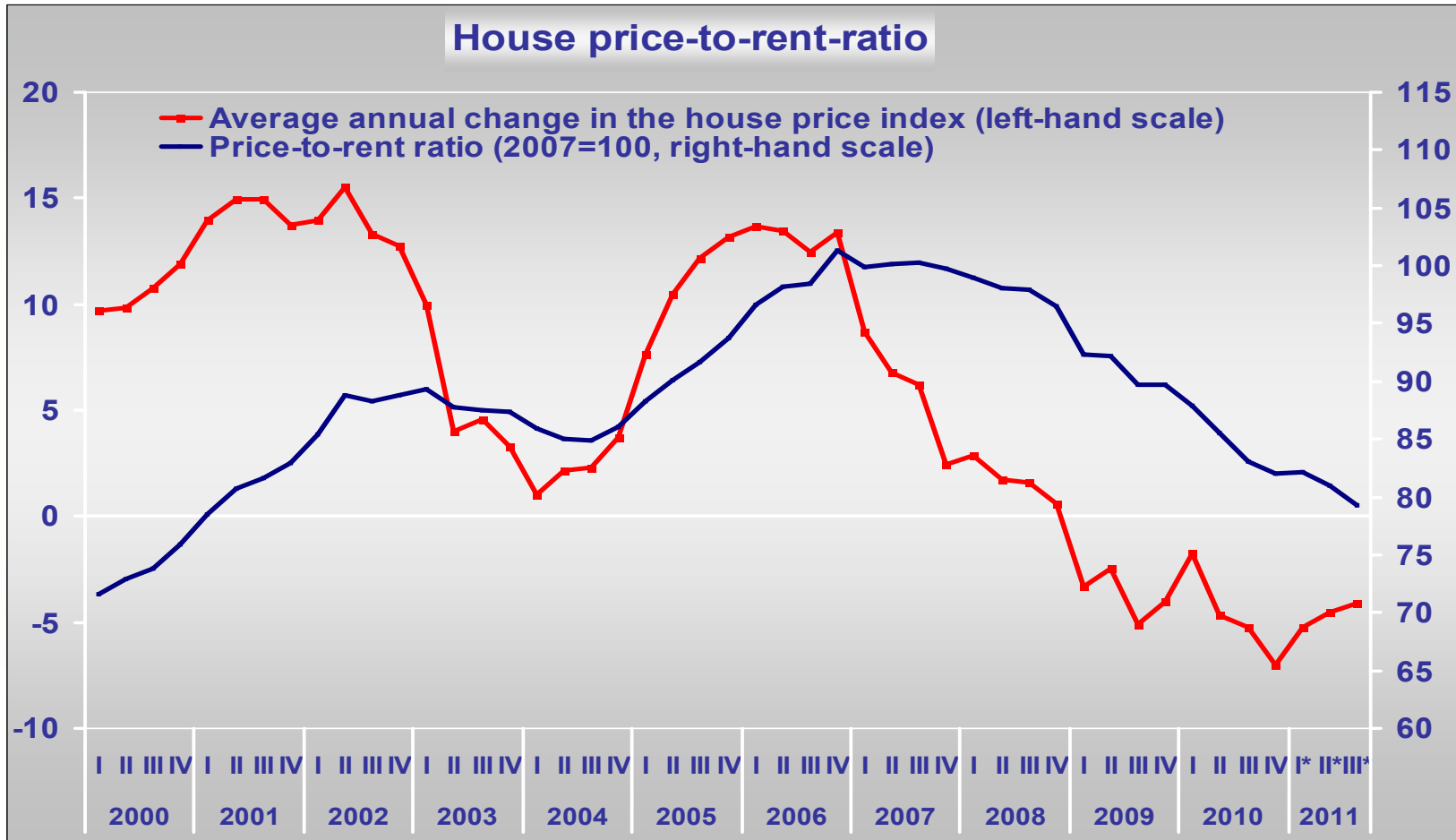
Residential Property Price Indices: various hedonic models (reference period: 2007)



✓ Various hedonic models follow a similar pattern to that observed for the already published index, especially during the current financial crisis.



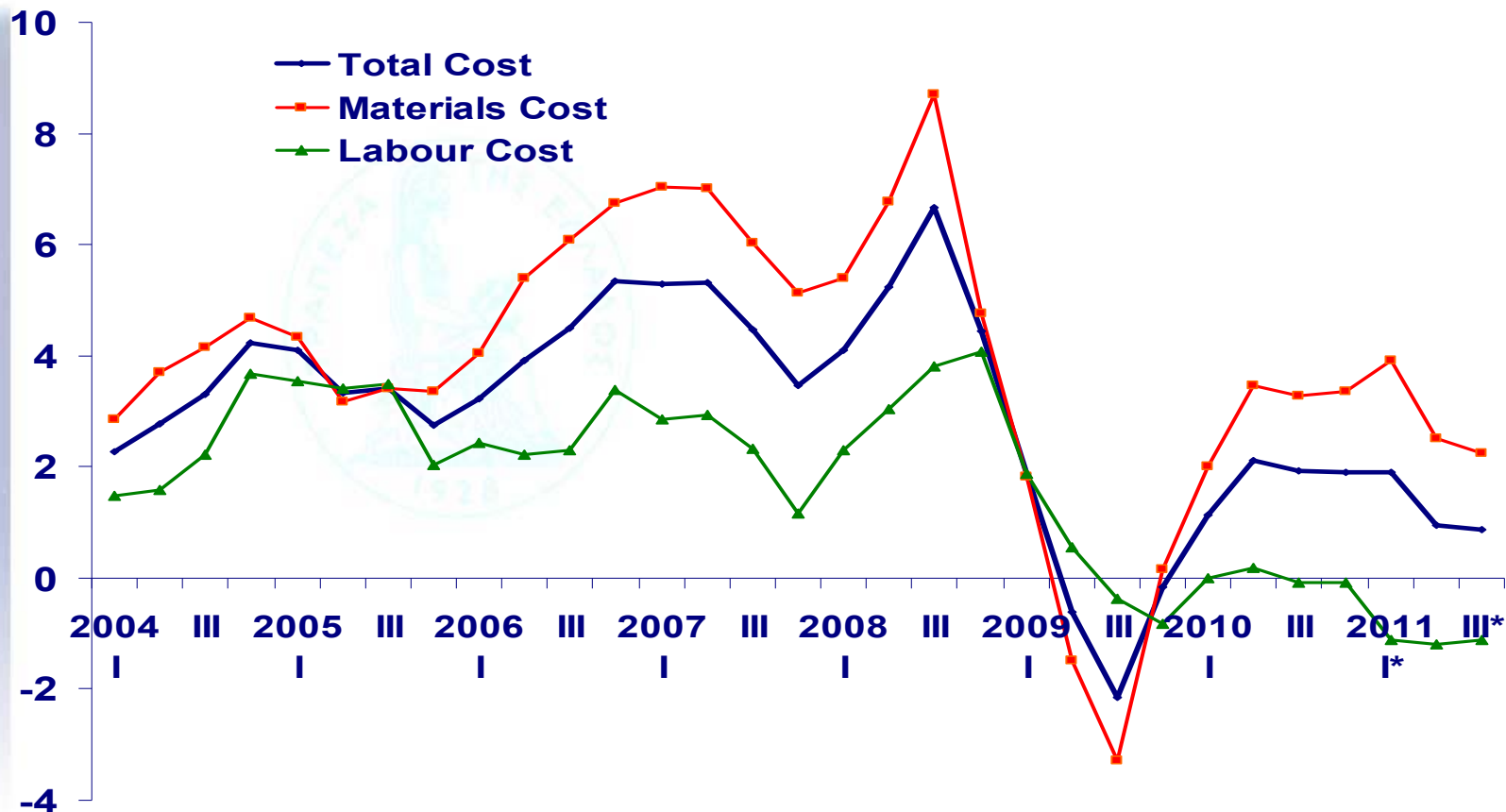
House price-to-rent ratio (overvaluation)



✓ The house price-to-rent ratio has been declining continuously, reaching levels seen in 2001, indicating that in some extent a correction of overvaluation of house prices has already taken place.



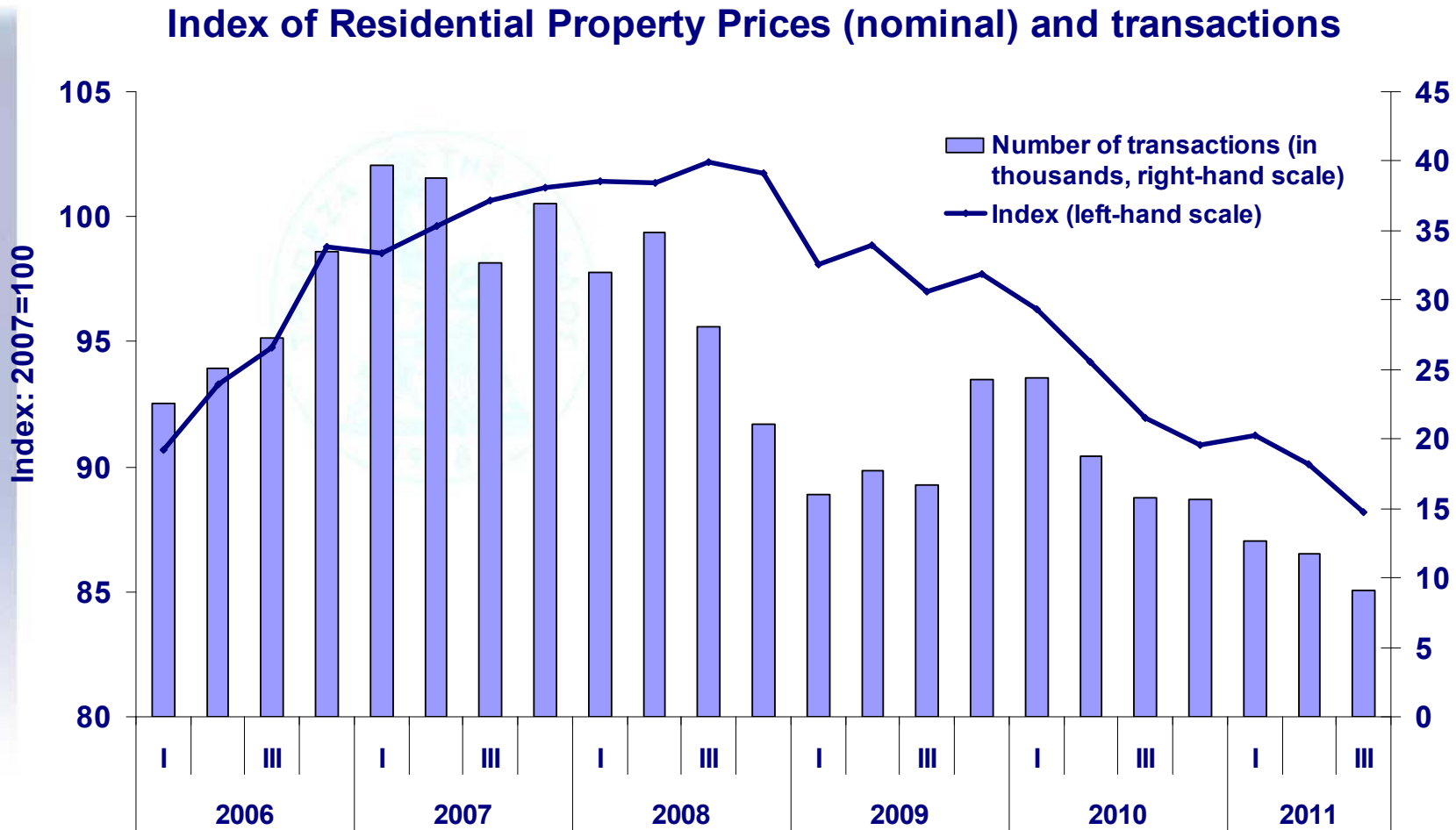
Construction Cost Indices of (new) residential buildings (average annual percentage change)



- ✓ Despite the recession, construction costs and particularly construction materials remained high in 2010 (Total cost: 1.8%, Materials: 3.0%) and in the first 9 months of 2011 (Total cost: 1.2%, Materials: 2.9%).
- ✓ The high cost of replacement of old residential buildings with new impedes a further decline in prices.



Index of Residential Property Prices and number of transactions-appraisals



✓ The current crisis in the real estate market reflected also in a strong decline in the number of transactions-appraisals.



Residential property transactions: recent developments

✓ On the supply side, existence of a substantial stock of new houses, which stabilized in 2010 and 2011 (150,000-180,000 housing units)

✓ Significant drop in the number of transactions:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 (9M)</u>
Bank appraisals (residential)	-21.7%	-35.7%	-0.2%	-43.0%
Number of notarial acts on real estate	-5.8%	-13.9%	.....	.....
Number of real estate transfers	.....	-14.0%	-13.0%	-25.5%
Contracts in the presence of a lawyer*	-10.0%	-18.0%	-16.3%	-31.2%
Transfers in Athens Land Registry	.....	.....	-15.5%	-26.2%

✓ Much stronger reductions in the volume (in square meters) and mainly the value of transactions

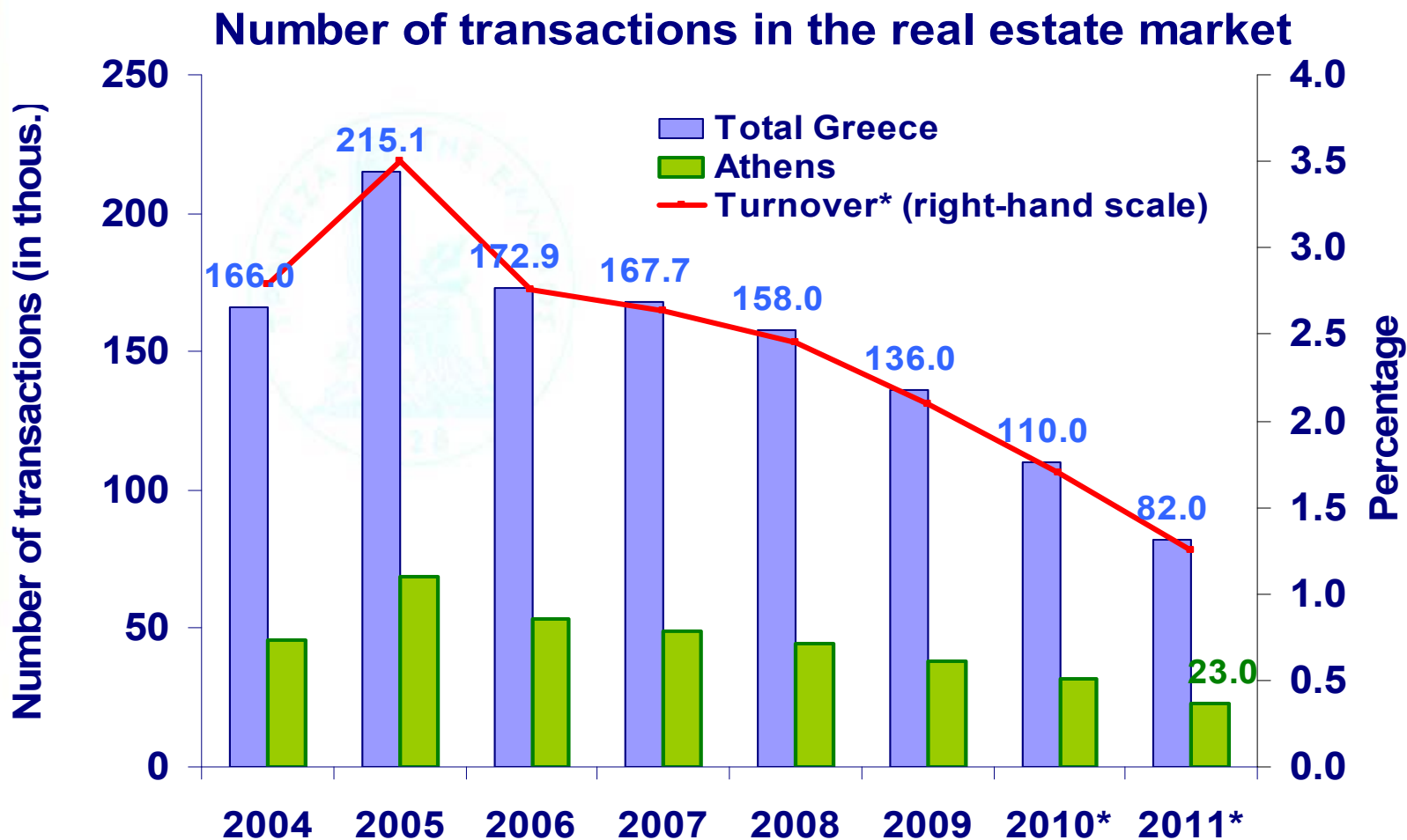
✓ Buyers' preference shifted towards smaller and more affordable properties

✓ Greater fall in the number of transactions in Athens

✓ Increase in the number of cash transactions



Number of transactions in the real estate market

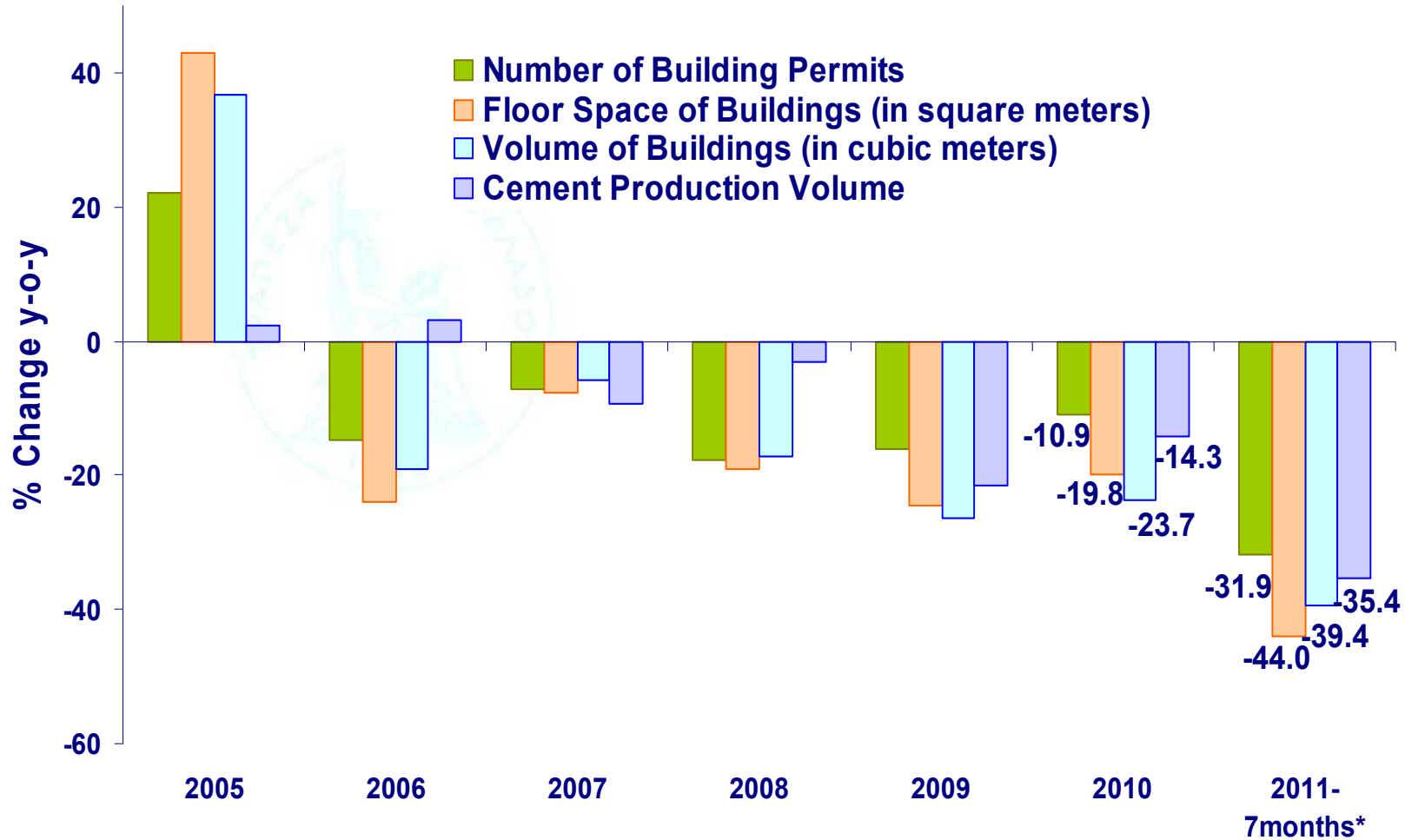


*Turnover: Ratio of transactions to stock of housing units (%)



Private building activity

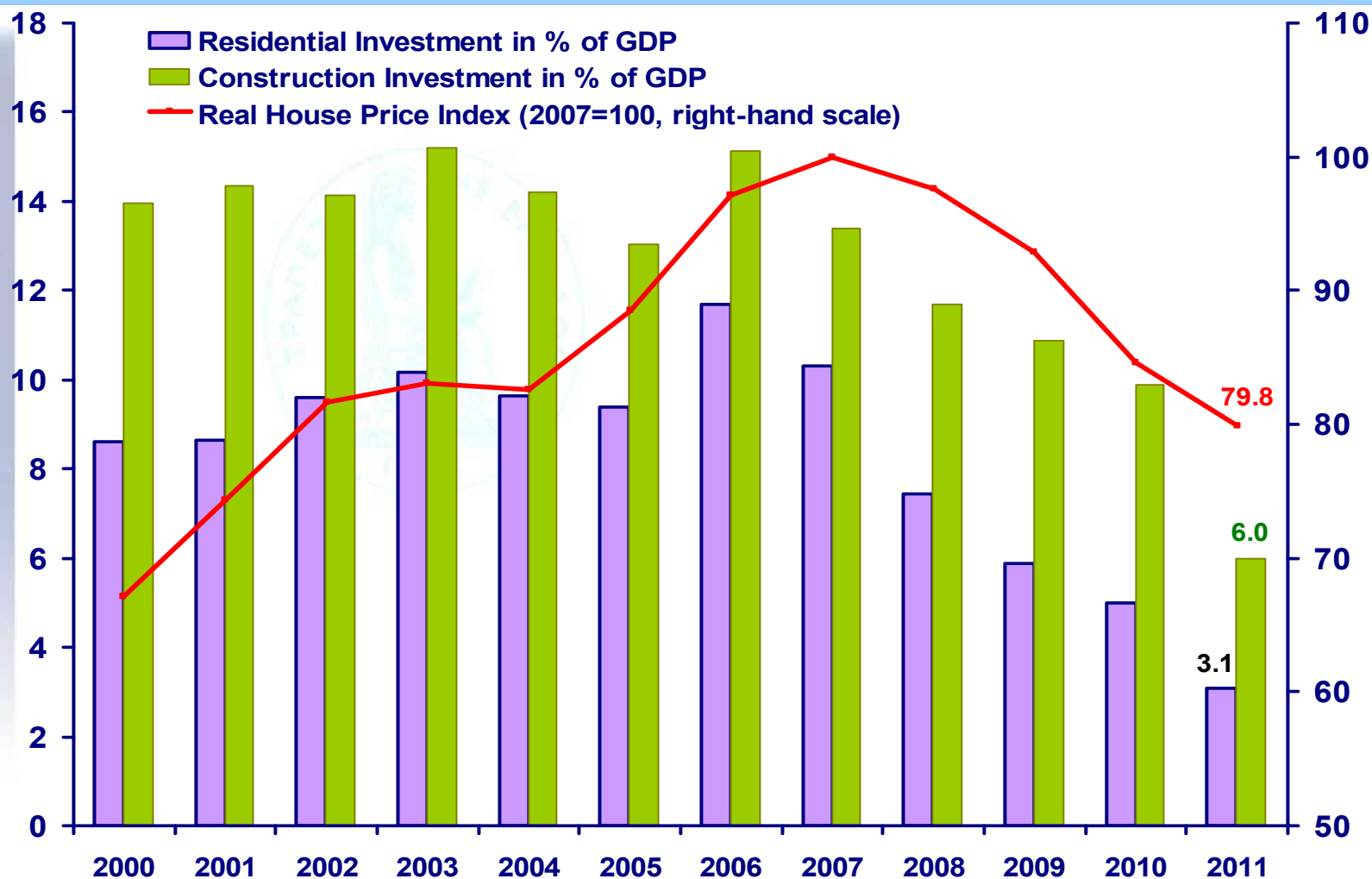
(average annual percentage change)



✓ Large decrease in building activity during the current crisis and even sharper reduction in the first 7 months of 2011



Residential investment and real house prices



✓ Strong decline in residential investment (peaking at 11,7% of GDP in 2006, it declined rapidly to 5,0% in 2010 and 3,1% in 2011 H1).

Sources: House Price Index (BoG, Real house prices deflated with HICP), Residential and Construction Investment, HICP and GDP (ELSTAT)



Business expectations in Construction

- ✓ Significant and sustained decline in all indices of business expectations in construction during the period of the current crisis
- ✓ An equivalent reduction of business expectations in public works (2010:-1.0%, 2011 10-months: -40.8%) and an even more significant reduction in residential construction (2010: -32.4%, 2011 10-months: -45.1%)
- ✓ The months of assured production in residential property construction fell to 3.1 in October 2011, from 8.3 in 2010 and 11.0 in 2009

<u>Total Construction</u>	<u>2009</u>	<u>2010</u>	<u>2011-Oct.</u>
General Index of Business Expectations	-31.4	-27.4	-30.8
Activity relative to previous quarter	-16.1	-39.0	-36.1
Planned future activity	-42.8	-63.2	-85.0
Prospects of employment, 3-4 months ahead	-32.1	-46.4	-37.5

- ✓ Particularly important the role of business expectations in the recovery of the real estate market
- ✓ Expectations of further decline in prices in the next quarter (according to survey among the real estate agencies)





Real Estate Agents and Consultants Survey



Assessment of the current situation in the housing market (1/2)

A1: What is your assesment of the current situation compared to 3 months ago	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much worse	7%	-	-	-	-	6%	-	-
Worse	34%	21%	67%	8%	24%	29%	73%	-
Unchanged	59%	59%	33%	92%	76%	66%	20%	-
Better	-	21%	-	-	-	-	7%	-
Much Better	-	-	-	-	-	-	-	-

A2: In your view, what is the balance between Supply & Demand	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much higher Supply	86%	97%	90%	75%	74%	89%	93%	-
Higher Supply	7%	0%	7%	25%	19%	6%	7%	-
Balanced	-	3%	-	-	3%	-	-	-
Low Demand	7%	-	-	-	3%	3%	-	-
Much LowerDemand	-	-	3%	-	-	3%	-	-

A3: What is your assesment of the current house price level	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Very under-priced	-	-	-	-	3%	11%	-	-
Under-priced	21%	-	-	-	3%	-	7%	-
Rational	17%	21%	7%	17%	18%	49%	60%	-
Over-priced	59%	72%	90%	79%	74%	31%	20%	-
Much over-priced	3%	7%	3%	4%	3%	9%	13%	-

- ✓ Deterioration of the housing market conditions
- ✓ Over-supply of houses
- ✓ Continuing rationalisation of the house prices



Assessment of the current situation in the housing market (2/2)

A4: What is your assesment of the current volume of house transactions compared to 3 months ago	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much Lower	17%	14%	23%	12%	15%	8%	40%	-
Lower	21%	17%	40%	17%	41%	34%	40%	-
Unchanged	41%	48%	33%	67%	38%	57%	13%	-
Higher	21%	21%	-	4%	6%	-	7%	-
Much Higher	-	-	3%	-	-	-	-	-

A5: What is your assesment of the current house prices compared to 3 months ago	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much Lower	21%	-	-	25%	3%	-	7%	-
Lower	55%	90%	53%	21%	73%	71%	80%	-
Unchanged	24%	7%	43%	54%	21%	26%	13%	-
Higher	-	3%	3%	-	3%	3%	-	-
Much Higher	-	-	-	-	-	-	-	-

- ✓ Strong reduction in house purchase transactions (also confirmed by the data of the Hellenic Cadastre)
- ✓ Prices showed a continuous decrease during 2011



Expectations in the housing market

B1: What are your expectations about the housing market situation in the next quarter	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much worse	17%	14%	37%	-	6%	3%	7%	-
Worse	55%	34%	23%	21%	18%	18%	80%	-
Unchanged	24%	48%	30%	46%	44%	68%	7%	-
Better	3%	3%	10%	33%	32%	12%	7%	-
Much Better	-	-	-	-	-	-	-	-

B2: What are your expectations about the volume of house transactions in the next quarter	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much Lower	14%	14%	20%	-	6%	3%	7%	-
Lower	59%	34%	40%	21%	18%	32%	80%	-
Unchanged	24%	45%	27%	29%	47%	62%	7%	-
Higher	3%	7%	13%	50%	29%	3%	7%	-
Much Higher	-	-	-	-	-	-	-	-

B3: What are your expectations about the house prices in the next quarter	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Much Lower	-	-	-	-	3%	3%	7%	-
Lower	66%	83%	83%	79%	68%	54%	87%	-
Unchanged	34%	17%	17%	21%	29%	43%	-	-
Higher	-	-	-	-	-	-	7%	-
Much Higher	-	-	-	-	-	-	-	-

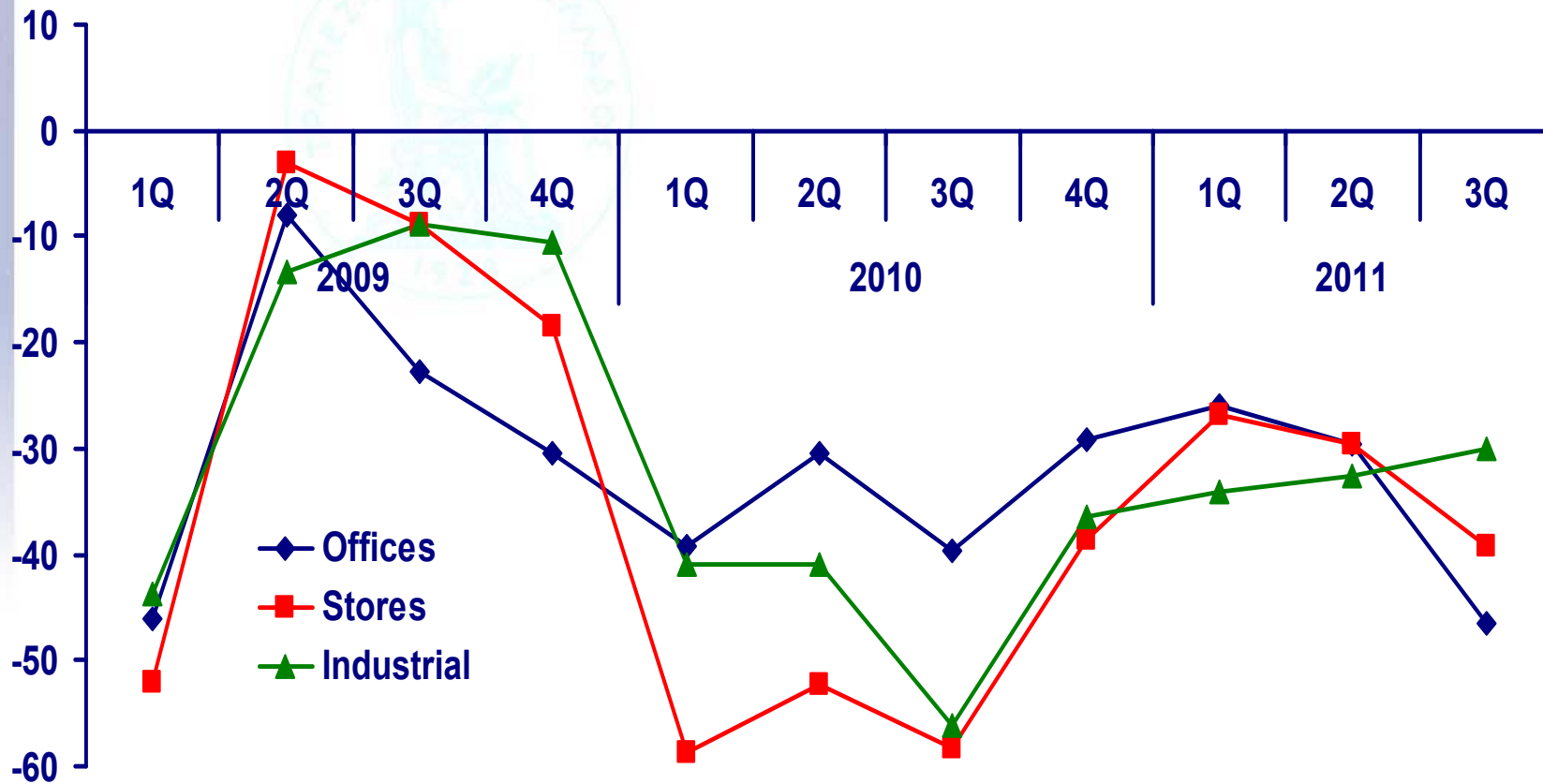
- ✓ Worsening expectations in the housing market
- ✓ Lower number of transactions
- ✓ Further weakening of house prices



Assessment of the current situation in the commercial real estate market

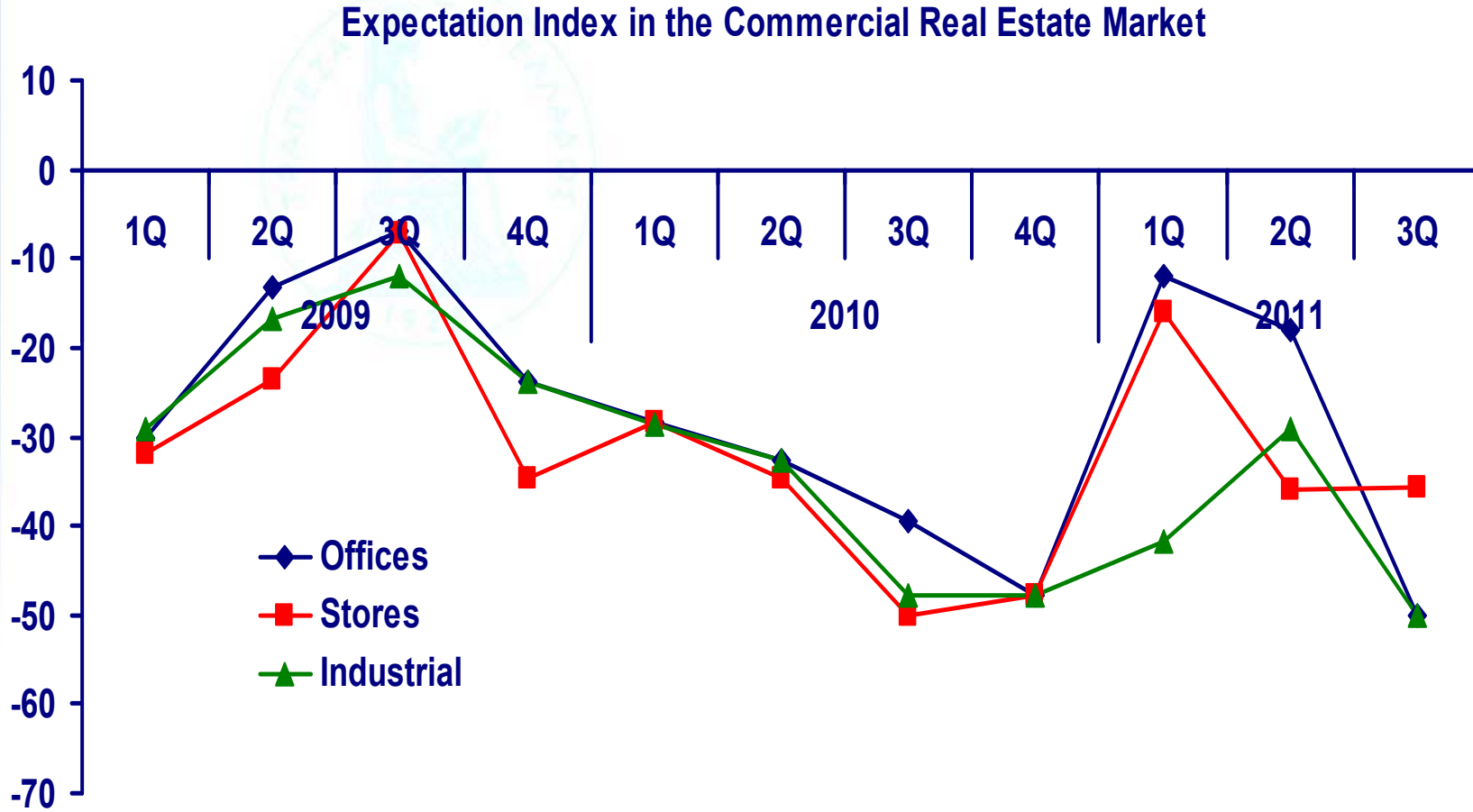
C1: What is your assessment of the current situation in the commercial real estate market compared to 3 months ago

Economic Sentiment Index in the Commercial Real Estate Market

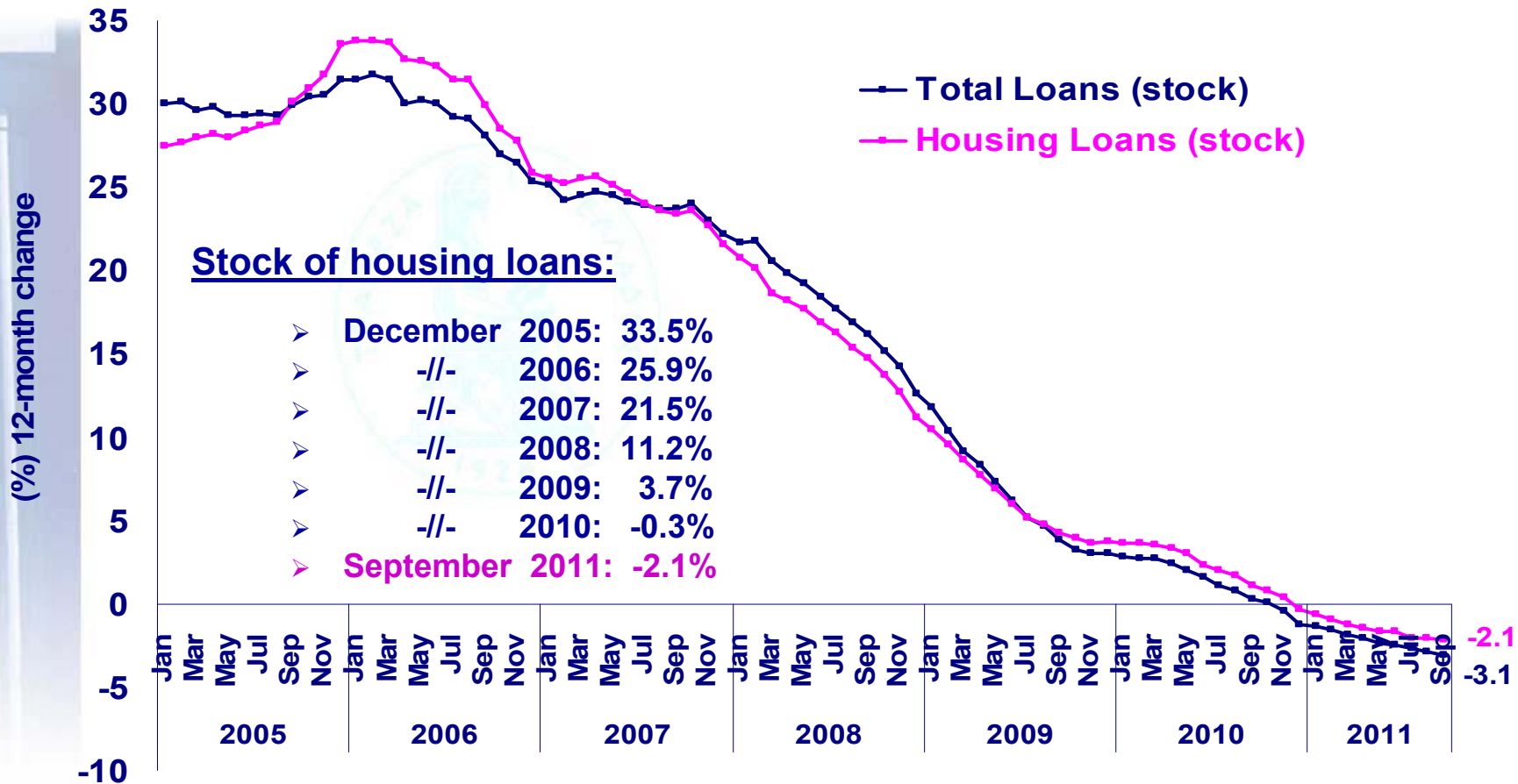


Expectations in the commercial real estate market

C9: What are your expectations about the commercial real estate market situation in the next quarter



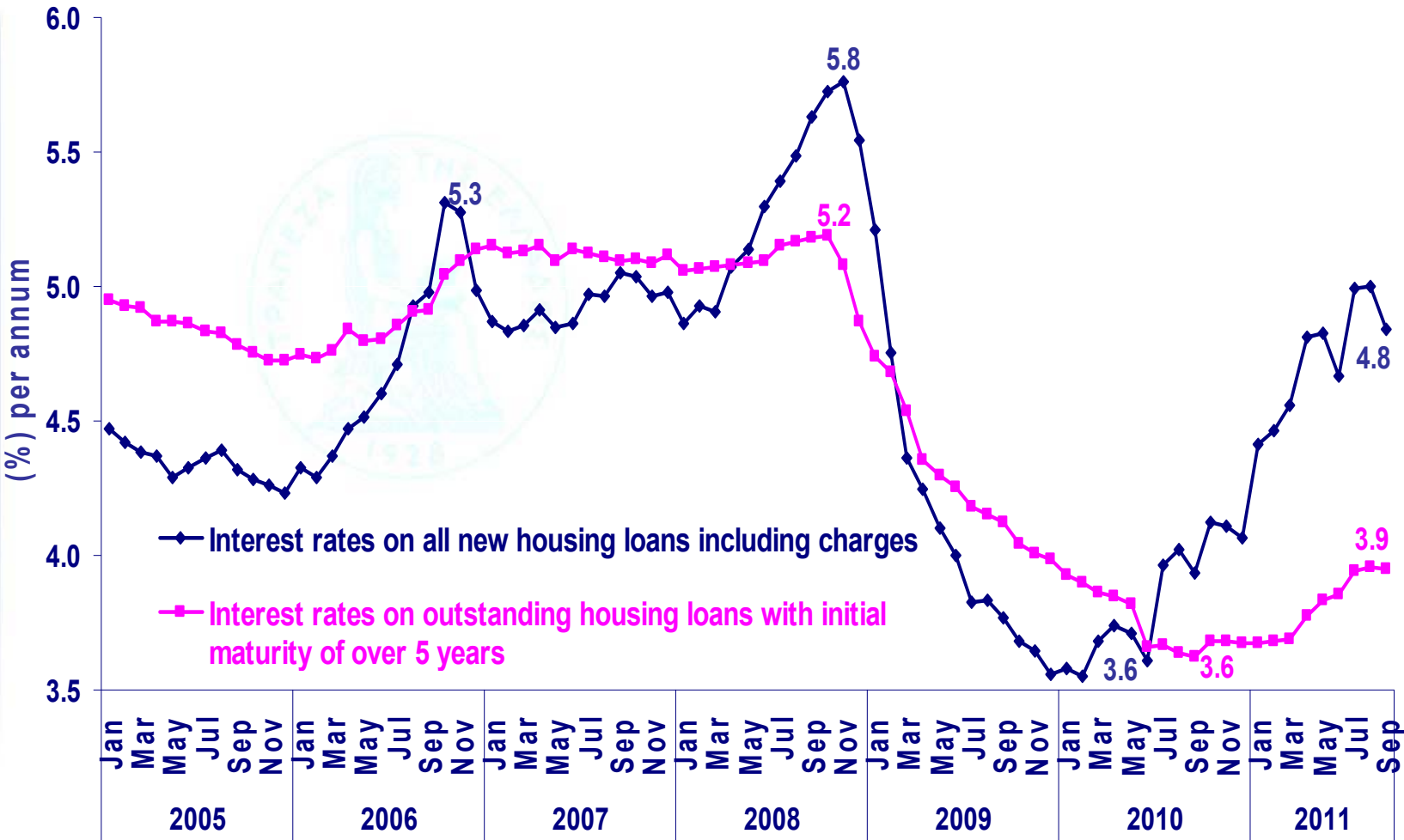
Domestic MFIs credit to households



- ✓ Continuous deceleration of the rate of change in outstanding loans to households and a significant tightening in the financing of residential property market.
- ✓ Cautious attitude of households to house purchase and selective attitude of banks to finance new mortgages



Housing loans interest rates

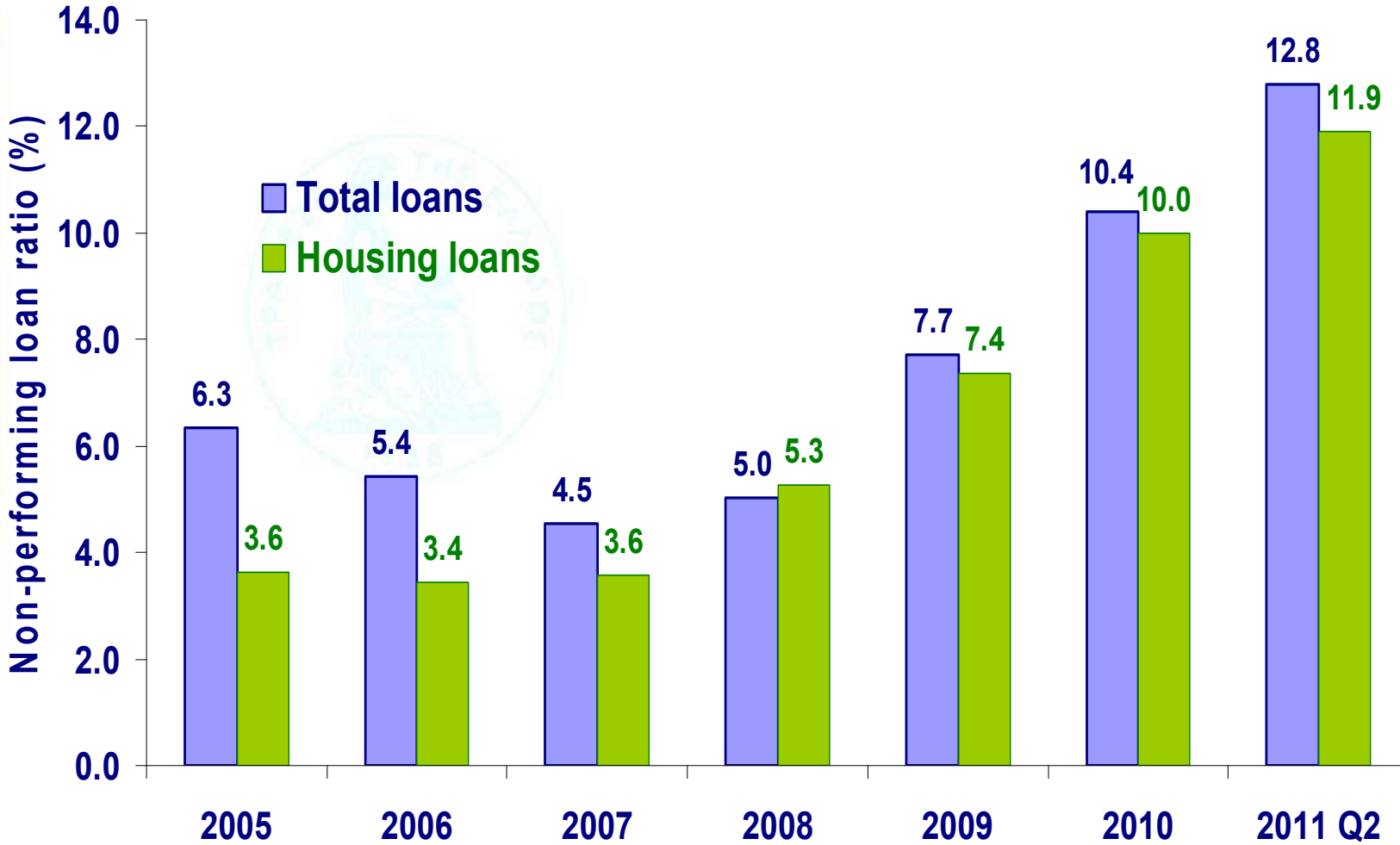


✓ Continuous decline in mortgage rates from November 2008 to mid-2010. Recovery since March 2010 for the rates of new mortgages.

Source: BoG - Including charges other than interest (handling fees, mortgage registration fees, etc.).



Indicators of financial stress: Non-Performing loan ratio



✓ Continuous increase in households financial stress during the current crisis

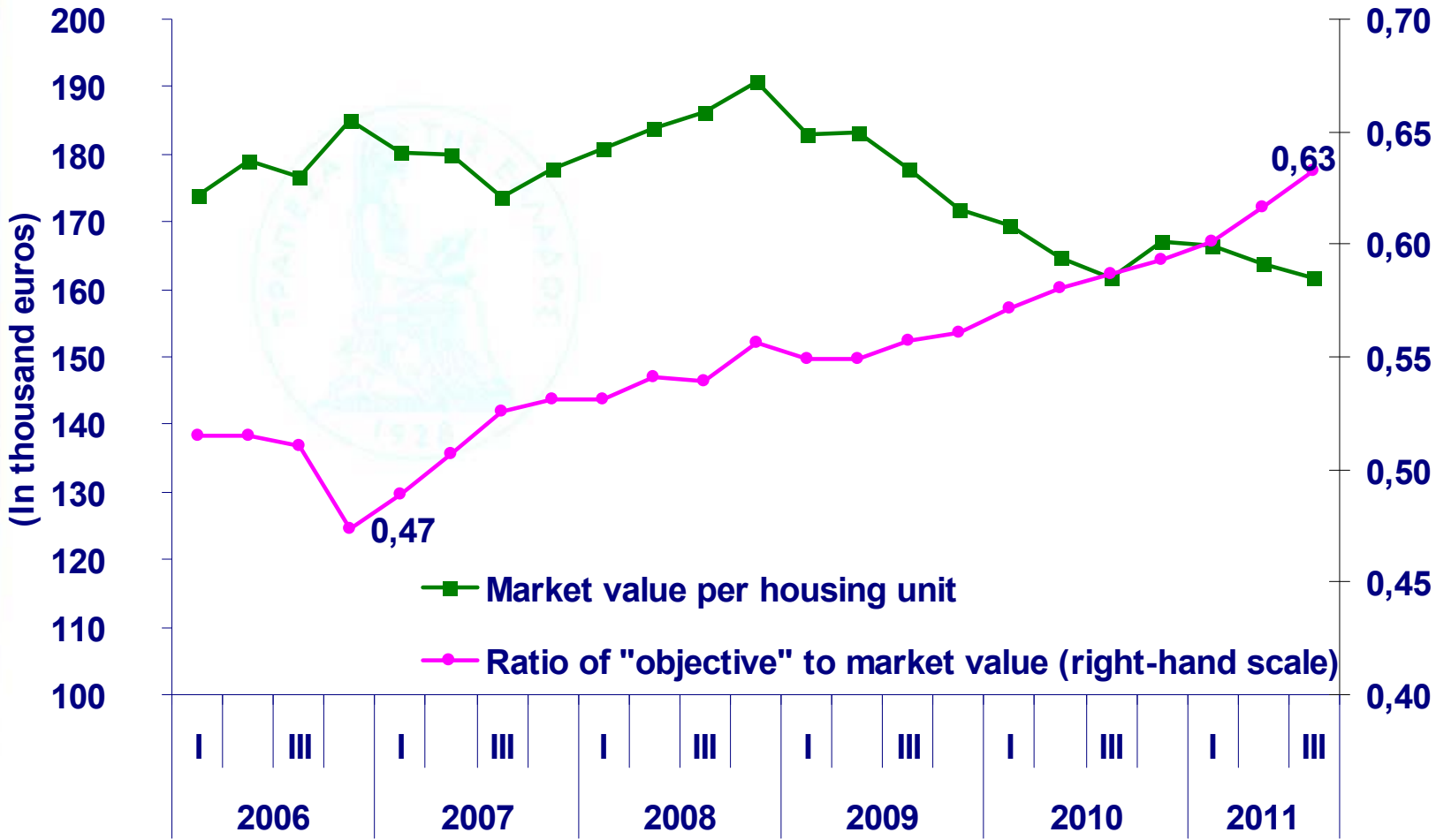


Real property taxation: recent reforms

- ❖ Increased tax burden and higher in taxation on real estate property
- ❖ 3.7 billion additional public revenues in 2012 through the taxation on real estate property, according to the new government budget
- ❖ The “objective” values in residential property are lower than the market values (ratio of about 0.63, but increasing)
- ❖ Higher ratio (“objective” to market value) in commercial real estate (0.66 in June 2011). However for approximately 10% of the commercial property units of REITs, the administrative value is higher than the market value (REITs Analysis: Eurobank Properties, Trastor, MIG Real Estate)
- ❖ The expected increase in administrative values as from 2012 will put additional burden on property owners and make the recovery of the market more difficult.
- ❖ The increase in administrative values should be combined with abolition of other taxes or reduction in tax rates (taxes on transactions, etc)



Administrative to Market Value of Residential Properties

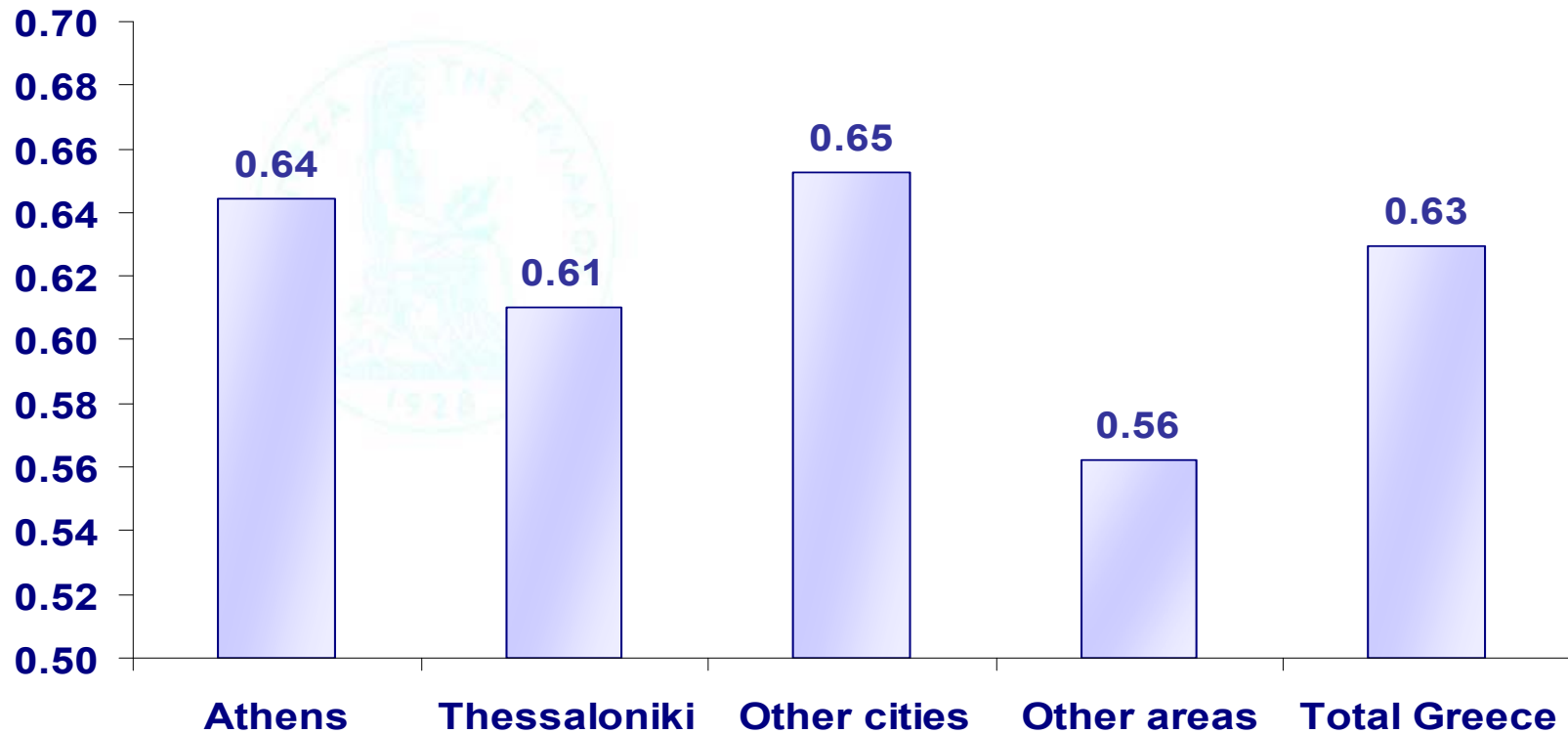


✓ Continuous increase in the ratio of “objective” to market value since 2006



Administrative to Market Value of Residential Properties

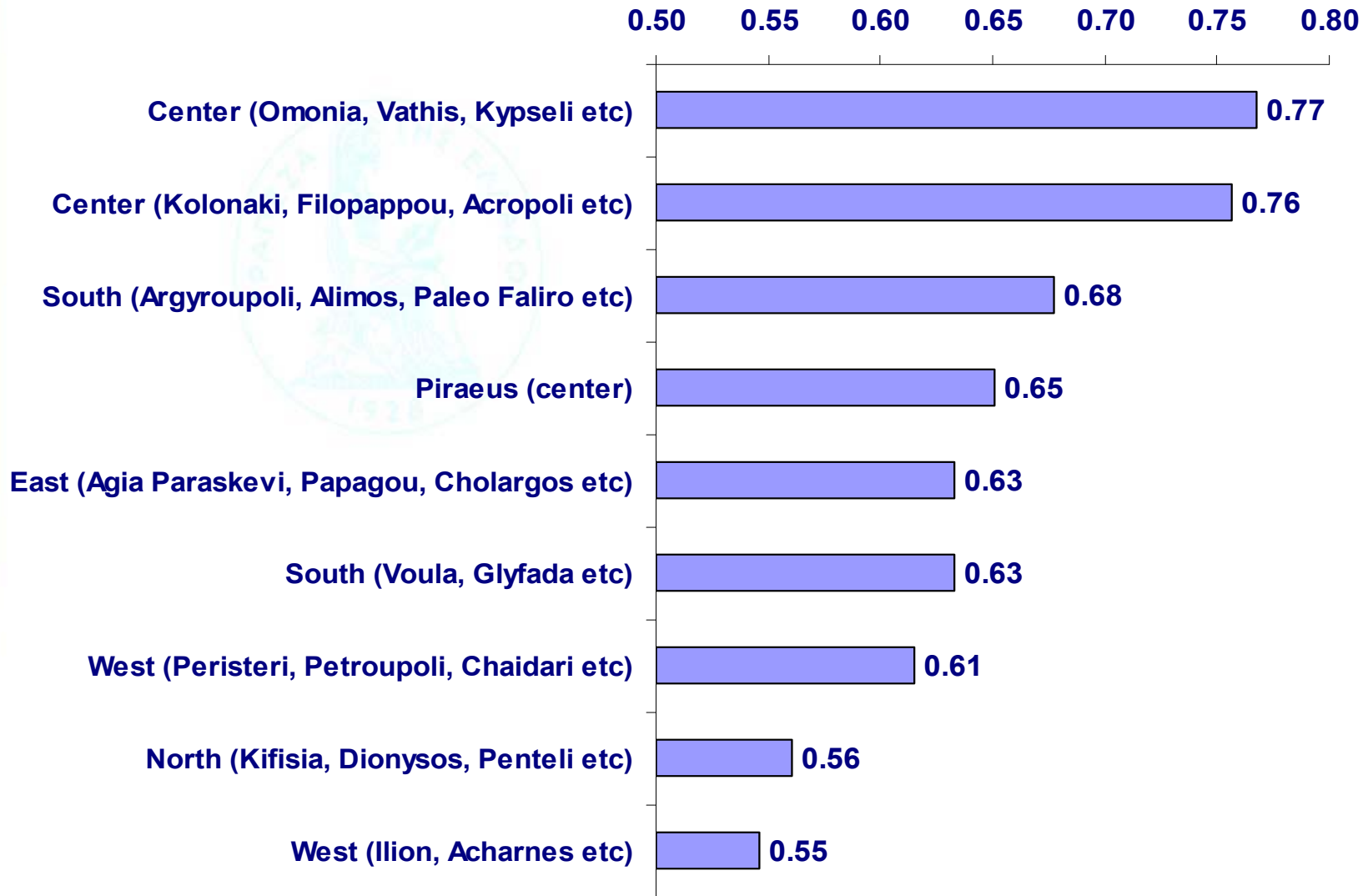
Ratio of Administrative to Market Value of Residential Properties (2011)



✓ The “objective” values in residential property are lower (about 2/3) than the market values



Ratio of Administrative to Market Value of Residential Properties in Athens: 2011



Conclusions: Recent developments and prospects in the housing market

(1/2)

- ❑ Relative reluctance on the demand side and tightness on the financing side
- ❑ On the supply side, the existence of a substantial property stock (available for sale)
- ❑ Relative strong persistence of house prices with a slight downward tendency in the next few months
- ❑ The overvaluation in house prices has been corrected gradually and its adjustment is probably not finished yet.
- ❑ Buyers' preference shifted towards smaller (average area from about 97m² in 2006 to 91m² in 2011), existing (older) and more affordable apartments
- ❑ Cautiousness in developing new investment projects and general shift to more affordable commercial properties



Conclusions: Recent developments and prospects in the housing market

(2/2)

- ❑ Overall increase of empty commercial premises, rent decline, elimination of goodwill factor, renegotiation of lease contracts
- ❑ Negative short-term expectations (economic, employment, taxation, etc.) with a significant effect on the real estate market
- ❑ Expectations of a further small adjustment in prices in the housing market, with being rather low the risk of an abrupt change
- ❑ Increased tax burden and higher taxation on real estate property
- ❑ The recovery of the property market is linked directly to improving the expectations of households and businesses, reducing the prevailing uncertainty, financing the market by the banking system, but also the overall prospects for dealing with the problems of the Greek economy (fiscal, structural, etc.).



Bank of Greece: Real Estate Market Analysis Section

Thank you!

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