

THE REAL ESTATE MARKET TRENDS IN 2006-2008 AND PROSPECTS FOR 2009

The real estate market constitutes a special market which considerably affects financial and therefore macroeconomic stability. Changes in real estate prices, rents and interest rates on housing loans have an impact on total demand and inflation. Thus, the real estate market plays a significant role in the transmission of monetary policy and economic developments. At the same time, real estate constitutes the main means of banks' hedging against credit risks from housing loans and a large part of business loans. This is why it is very important to systematically register and analyse developments in the real estate market, together with their potential impact on other important variables, such as households' consumption and saving, the value of their wealth, the structure of their portfolios etc. With a view to collecting data necessary for monitoring developments in the real estate market, the Bank of Greece issued Governor's Act 2610/31 October 2008 re: "Reporting by credit institutions of data on residential property which is financed or used as collateral for loans granted by credit institutions". According to this Act, all credit institutions operating in Greece shall report to the Bank of Greece, on a monthly basis, detailed data on the value and quality characteristics of all residential property which has been purchased through loans or is used as collateral for loans granted by credit institutions.¹ By end-March 2009, the data base (estimates) of the Real Estate Market Analysis Section of the Bank of Greece included data on 375,000 residential property items, the values of which had been estimated in the January 2006-February 2009 period. Of the total items, 72.1% (275,000) concerns apartments, 18.3% houses, 4.5% building plots and 4.5% maisonettes. The material gathered is already being used to construct individual residential property price indices (see table for data regarding the area of Athens).

Residential property prices

The continuous deceleration of the upward trend of residential property prices in Greece between 2006 and 2008 constitutes the main characteristic of the housing market. However, residential prices maintained slightly positive rates of change (in nominal terms) also in 2008. According to available data from the Bank of Greece, residential property prices in urban areas (total) rose by 2.6% in 2008 (provisional data), compared with 4.6% in 2007, 12.2% in 2006 and 10.9% in 2005. In greater detail, the annual rate of increase in residential property prices in Athens came to 2.7% in 2008,² against 5.2% in 2007 and 11.3% in 2006 (based on data reported by banks). In other urban areas, price increases decelerated further to 2.6% in 2008, from 3.8% in 2007 and 13% in 2006 (based on data gathered by the branches of the Bank of Greece mainly from real estate agencies – see table).

1 Data reported to the Bank of Greece on the basis of Bank of Greece Governor's Act 2610/31 October 2008 refer separately to each assessment of residential property and include the code number and the type of this property (apartment, house, etc.), its exact geographic position (address, floor, etc.), how old it is (in which year it was built or the building permit was issued), description and floor area of the main house and auxiliary rooms (e.g. storeroom, parking, etc.) and the respective commercial values of these areas, their quality features (quality of construction, surrounding area, position, etc.), building costs and objective value, together with all the particulars of the loan for which the property constitutes the sole collateral (category of loan, amount that has been approved and paid, value of the mortgage, etc.).

2 However, according to *other* evidence (January 2009 estimates by representatives of large real estate agencies throughout the country in discussions with different services of the Bank of Greece), it is estimated that since the summer of 2008 residential property prices have dropped (in nominal terms) by about 7%. If the increase registered in the first half of 2008 is also taken into account, the average annual level of residential property prices (in nominal terms) fell slightly in 2008.

House price index

Period	Urban areas-total			Athens			Other urban areas		
	Index	Percentage changes		Index	Percentage changes		Index	Percentage changes	
	1997=100	Over previous quarter	Year-on-year	1997=100	Over previous quarter	Year-on-year	1993 IV=100	Over previous quarter	Year-on-year
1997	100.0	9.7	9.7	100.0	12.5	12.5	134.7	7.1	7.1
1998	114.4	14.4	14.4	115.5	15.5	15.5	152.6	13.3	13.3
1999	124.5	8.9	8.9	129.6	12.2	12.2	161.5	5.8	5.8
2000	137.7	10.6	10.6	149.1	15.1	15.1	171.3	6.1	6.1
2001	157.5	14.4	14.4	175.4	17.6	17.6	190.2	11.0	11.0
2002	179.3	13.9	13.9	203.8	16.2	16.2	211.7	11.3	11.3
2003	189.0	5.4	5.4	211.9	4.0	4.0	226.8	7.1	7.1
2004	193.4	2.3	2.3	212.4	0.3	0.3	237.4	4.7	4.7
2005	214.5	10.9	10.9	230.8	8.6	8.6	269.3	13.4	13.4
2006	240.6	12.2	12.2	256.8	11.3	11.3	304.2	13.0	13.0
2007	251.6	4.6	4.6	270.1	5.2	5.2	315.8	3.8	3.8
2008	258.2	2.6	2.6	277.3	2.7	2.7	323.9	2.6	2.6
1997	I	96.2	...	95.1	...	...	130.9	3.0	6.1
	II	98.2	2.1	97.8	2.9	...	132.6	1.3	6.2
	III	100.2	2.0	100.8	3.1	...	134.0	1.1	4.8
	IV	105.4	5.1	105.7	4.8	...	141.3	5.5	11.2
1998	I	110.1	4.5	109.3	3.4	14.9	149.4	5.7	14.1
	II	113.9	3.5	115.4	5.6	18.0	151.6	1.5	14.4
	III	115.0	0.9	116.5	1.0	15.6	153.0	0.9	14.2
	IV	118.4	2.9	120.9	3.7	14.4	156.3	2.1	10.6
1999	I	120.4	1.7	123.8	2.5	13.3	157.9	1.0	5.7
	II	123.6	2.7	128.1	3.4	11.0	161.0	2.0	6.2
	III	125.3	1.3	130.5	1.9	12.0	162.3	0.8	6.1
	IV	128.8	2.9	136.0	4.2	12.5	164.7	1.5	5.4
2000	I	132.1	2.5	141.6	4.1	14.3	166.1	0.8	5.2
	II	135.7	2.8	146.5	3.5	14.4	169.6	2.1	5.3
	III	138.8	2.2	150.4	2.7	15.3	172.6	1.8	6.4
	IV	144.2	3.9	158.0	5.0	16.2	177.1	2.6	7.5
2001	I	150.5	4.4	165.7	4.9	17.0	184.0	3.9	10.8
	II	156.1	3.7	174.2	5.1	18.9	188.0	2.2	10.8
	III	159.5	2.2	178.7	2.6	18.8	191.3	1.8	10.9
	IV	164.0	2.8	183.0	2.4	15.8	197.5	3.2	11.5
2002	I	171.5	4.6	193.6	5.8	16.8	204.0	3.3	10.8
	II	180.3	5.1	208.0	7.4	19.4	208.9	2.4	11.2
	III	180.7	0.2	205.4	-1.3	14.9	213.3	2.1	11.5
	IV	184.9	2.3	208.2	1.4	13.8	220.5	3.4	11.6
2003	I	188.6	2.0	214.6	3.1	10.8	222.5	0.9	9.1
	II	187.5	-0.6	210.6	-1.8	1.3	224.4	0.8	7.4
	III	189.0	0.8	210.6	0.0	2.6	228.1	1.7	7.0
	IV	190.9	1.0	211.5	0.4	1.6	232.1	1.7	5.3
2004	I	190.6	-0.2	209.7	-0.9	-2.3	233.6	0.6	5.0
	II	191.6	0.5	209.4	-0.2	-0.6	236.5	1.2	5.4
	III	193.3	0.9	211.1	0.8	0.2	238.8	1.0	4.7
	IV	198.0	2.4	219.4	3.9	3.7	240.9	0.9	3.8
2005	I	205.2	3.6	223.7	2.0	6.6	254.1	5.5	8.8
	II	211.6	3.1	228.9	2.3	9.3	264.1	3.9	11.7
	III	216.9	2.5	231.5	1.1	9.7	274.5	4.0	15.0
	IV	224.1	3.3	239.0	3.2	8.9	283.8	3.4	17.8
2006	I	233.3	4.1	249.9	4.6	11.7	294.1	3.6	15.7
	II	238.7	2.3	255.0	2.1	11.4	301.7	2.6	14.2
	III	240.9	0.9	254.9	0.0	10.1	307.4	1.9	12.0
	IV	249.2	3.4	267.2	4.8	11.8	313.7	2.0	10.5
2007	I	251.3	0.8	269.5	0.9	7.9	315.8	0.7	7.4
	II	249.5	-0.7	266.9	-1.0	4.7	314.3	-0.5	4.2
	III	252.1	1.0	272.1	1.9	6.7	314.5	0.1	2.3
	IV	253.5	0.6	271.9	-0.1	1.7	318.4	1.2	1.5
2008	I	255.6	0.9	274.2	0.8	1.7	321.1	0.8	1.7
	II	258.3	1.0	277.6	1.3	4.0	323.7	0.8	3.0
	III	258.1	-0.1	277.2	-0.2	1.9	323.6	0.0	2.9
	IV	260.9	1.1	280.3	1.1	3.1	327.1	1.1	2.7
2009*	I	...	...	270.4	-3.5	-1.4	...	...	...

Sources: For the other urban areas: Bank of Greece (data collected by the Bank's branches, mainly from real estate agencies). For Athens: calculations based on data from "Danos and Associates" (1993-97), "Property Ltd" (1997-2005) and Bank of Greece (data collected by credit institutions, 2006-2009). For the total of urban areas: weighted index based on the housing stock in Athens and other urban areas.

* Estimates.

After the de-escalation of the upward trend in residential property prices observed up to 2008, the annual rate of change becomes negative in the first months of 2009. On the basis of data gathered by banks, residential property prices in Athens are estimated to have *decreased* by 1.4% (annualised, in nominal terms) in the first quarter of 2009.³ The future course of residential property prices will depend on factors affecting both supply (e.g. construction costs, city planning and tax regulations) and demand (e.g. change in population, especially number of households, costs of borrowing and level of interest rates, relationship between rent and value of property). However, the risk of an abrupt correction in the Greek housing market is limited, at least to the degree the evolution of prices is affected by the evolution of, and prospects for, rents and long-term interest rates.

Demand and supply in the real estate market

The deceleration of the rate of increase in real estate prices in the past two years is estimated to be attributable to the relative decrease in demand and to increased supply. In greater detail, the announcement, at end-2006, that objective prices would be raised in March 2007 led to a temporary increase in demand in the last quarter of 2006 and the first two months of 2007, which was at least partly offset by the easing of demand in the next months of 2007. More recently, lower demand can be partly explained by the cautionary stance of households in view of the current economic conditions and the uncertainty regarding the consequences of the financial crisis, especially in terms of employment and future incomes. Besides, households seem to expect that residential property prices will decline in the future and this could make them postpone all relevant decisions. On the other side, the more careful and selective stance of banks as regards granting new housing loans, is estimated to have contributed to the slower increase in demand. It should be noted, however, that, while all factors mentioned above have contributed to a decrease in demand for real estate purchase in general, they have also switched buyers towards older and smaller real estate items.

Lower demand is also apparent in the continuous deceleration of the rate of increase in housing loans, especially after the recent financial crisis. In greater detail, the annual rate of increase in the outstanding balance of bank loans to households for home purchase dropped to 11.5% at end-2008, from 21.9% and 25.8% at end-2007 and end-2006 respectively. However, it remains high, despite the increases in interest rates up to October 2008⁴ and the clear tightening of credit standards. The net flow of new mortgage loans in the last quarter of 2008 was 60% lower than in the last quarter of 2007, whereas in the first nine months of 2008 it was only 19.5% lower than in the respective period of 2007.⁵ The net flow of new housing loans came to €318 million in the first two months of 2009, while the annual rate of change in the outstanding balance of housing loans decelerated further to 10.6% in January and 9.6% in February 2009 (see also Chapter IX.2).

³ Real estate prices in the euro area increased on average by 6.6% per annum between 2000 and 2005. In 2006 and 2007 the high rates of increase eased to 6.4% and 4.3% respectively. In certain countries (Spain, Italy, France, Belgium) the average annual rate of increase had reached two-digit figures in 2000-2007, while prices decreased slightly only in Germany. Available data for 2008 show varying price developments in the euro area countries, despite the general decelerating trend, the speed of which is considerably linked with the size of price increases during the previous years: the average nominal increase is about 1-1.5%, but in Ireland the decrease was substantial, a development that was also recorded in Spain (only in the second half of the year). See ECB, *Housing Finance in the Euro Area*, Occasional Paper Series No. 101, March 2009; ECB, "Recent Housing Market Developments in the Euro Area", *Monthly Bulletin*, February 2009 (Box 4); and OECD, *Economic Outlook – Interim Report*, 31 March 2009, Table 1.2, p. 23.

⁴ Interest rates on mortgage loans started decreasing in November 2008.

⁵ Data gathered by the Bank of Greece (on the basis of estimates made by engineers who work with commercial banks) on the value of residential property which is purchased through loans or is used as collateral for loans show that the number of these estimates dropped in 2008 to about 98,000, against 125,000 in 2007. The number of such estimates keeps on decreasing after the first quarter of 2007; in the third quarter of 2008 it was 24,000 and in the fourth quarter of 2008 it dropped to 18,000 (from 28,000 and 31,000 in the respective 2007 quarters).

Turning to supply, there exists a considerable stock of new residential property, which seems to be gradually absorbed, despite the relative caution from the demand side. This excess supply stems mostly from the extraordinarily high private construction activity in 2006 (on the basis of permits issued in 2005, when the tax regime was more favourable, as VAT was imposed on new buildings as from the beginning of 2006). It is worth noting that the volume of private construction activity on the basis of *permits* issued rose by 35.2% in 2005. The largest part of these permits was issued towards the end of 2005, but the actual construction is estimated to cover the time period from 2006 up to now. Thus, the supply of new residential property has been maintained at high levels since the beginning of 2006, although the volume of private building activity, on the basis of permits, dropped by 19.5% in 2006, 5.0% in 2007 and 17.1% in 2008.⁶

The large stock of unsold residential property, combined with weak demand in the real estate market in the past two years, has made constructors reluctant to take new investment activities. Constructors, having a large number of unsold property at their disposal, do not issue new building permits, hoping that this will help them maintain the current level of prices. This reserved policy, namely a limited expansion of operations on the part of construction firms, is not expected to change considerably in the months to come. To this respect, it is worth noting that the side of supply does not seem to be especially strained, as constructors have accumulated considerable profits in the past ten years, due to the rapid increase in residential property prices.

Besides, the total cost of construction, as derived from the NSSG indices regarding the construction of new dwellings, demonstrated an average annual increase of 5.0% in 2008, against 4.4% in 2007. This was mainly driven by the 6.3% rise in the building material index in both 2008 and 2007. The labour cost index registered a smaller increase (3.6% in 2008 against 2.4% in 2007). It is estimated that the higher construction cost hinders constructors from undertaking new investment activities, as it raises the replacement cost of the existing stock of unsold real estate.

Business expectations in the field of residential construction, and investment in residential property

The business expectations index in construction (which concerns all types of construction) rose at an average annual rate of 3% in 2008, against 1.5% in 2007 and 44.6% in 2006. The index started decelerating in the second quarter of 2008, a development that continued also in the first quarter of 2009 (annual rate of decrease: 31.8%). Especially for firms constructing houses, according to an IOBE survey, the estimated number of secured months of production decreased between December 2008 and March 2009, but it is not lower than the 2008 average.

However, total residential investment dropped significantly in 2008 (by 29.1%) according to NSSG national accounts data, after a 6.8% decline in 2007. As explained in the main text, the decrease in residential construction activity is expected to be significant also in 2009, although there exist some signs for a less negative outlook as regards transactions for house purchase.⁷

6 The decrease in building activity is more evident in the Attica prefecture, as the exceptionally high increase of 49.8% in the volume of private building construction (on the basis of permits issued) in 2005 was followed by a considerable reduction: by 20.2% in 2006, 13.3% in 2007 and 24.1% in 2008.

7 Reserved optimism over the recovery of the real estate market is derived from the answers given by large real estate agencies in February 2009 in a relevant questionnaire compiled by the Real Estate Market Analysis Section of the Bank of Greece, which aimed at registering the recent trends and expectations in the residential and business property market. In the question "what is the outlook for the residential property market in the next quarter", 67% replied that it would remain unchanged, 17% that it would be slightly better and 16% that it would be slightly worse. In the question "what is your estimate for transactions on residential property in the next quarter", 50% replied that they would remain virtually unchanged, 33% that they would increase slightly and 17% that they would decrease slightly. A survey carried out by the Economic University of Athens allows for similar optimism: according to it the relevant expectations index for house purchase reached 42.1 points for the first half of 2009, against 40.8 points in the second half of 2008 (it rose by 3.2%).

Impact on GDP and inflation

The impact of the evolution of the housing market on households' private consumption, especially on the prices of residential property and therefore the market value of households' assets (i.e. households' wealth) is estimated to be limited.⁸ This is why it is expected that the impact of the recent developments on the rate of change in GDP will be marginal. As regards inflation, insofar as housing prices affect rents (something that is not clearly confirmed in Greece), the housing market could affect the evolution of the consumer price index. It should be noted, however, that in the past five years the average annual rate of increase in rents was considerably higher than the respective rate of increase in the general level of prices. More recently, while the annual rate of CPI increase dropped from 3.9% in December 2007 to 1.6% in February 2009, the respective rate of increase in rents remained almost unchanged (from 4.0% in December 2007 it decelerated to 3.7% in February 2009).

⁸ According to a recent survey, the impact of the market value of houses, which constitute a key component of households' wealth, on private consumption is estimated to be relatively limited in the euro area as a whole. See ECB "Housing wealth and private consumption in the euro area", *Monthly Bulletin*, January 2009, pp. 59-71.