

GREEK PROPERTY MARKET

June 15, 2020

[Office, Retail and Residential Market]

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Periodical Note

Impact of COVID-19

- The current report assesses **the evolution of Real Estate prices in the Greek Market from 2018 to 2020** as well as the impact of the Covid-19 pandemic on this market. It is divided into two parts: the expectations in the Greek Real Estate after the extreme policies of “social distancing” in order to flatten the curve and the historical data before the outbreak of the pandemic.
- **Overview: The Real Estate in Greece is strongly correlated with the levels of tourism in the country and is a strongly extrovert sector**; in 2019, 1.5 billion euros were invested for net acquisitions of real estate property by overseas investors. For 2020, both factors have negative projections according to the Foundation for Economic & Industrial Research [IOBE]. Also, the Bank of Greece predicts that the prices in this market are not expected to grow in 2020 and in some cases, they may even fall.
- **Office Market:** There has been a short supply in this market due to the underinvestment caused by the 10-year economic crisis. According to Proprius, **there is only 8.59% vacancy rate for Class A & B offices and the prime rent is at €22 per square meter on average**. The first results show that the prices for acquisition or leasing are stable, but they will be influenced by the fiscal and monetary stimulus the real economy will be given.
- **Retail Market:** After a dynamic beginning in 2020 with some important expansions in the Retail sector stemming from the growth in retail sales in the past few years, **the outbreak of the pandemic has halted this momentum. The effect of Covid-19 will be felt in the retail for the remaining months of 2020 according to analysts**. The social distancing policies and the turn of many firms to online sales will pressure the prices, both for acquisition and renting, leading to a decrease at least in the short-term. Also, many renegotiations in existing leases are expected to take place. Only grocery stores are expected to expand in the remaining 2020.
- **Apartments:** According to a survey conducted by a leading online real estate platform, at the end of April 2020, the positive aura which surrounded the Greek Real Estate market before the Covid-19 pandemic remained as 86.28% of those interested in investing were still in search of apartments to acquire or rent. It is important to highlight that 30% of the sample answered that the Covid-19 pandemic creates opportunities in the market, and they are willing to exploit them. **The course of this market will be greatly influenced by results of the real economy**. According to IOBE, Greece may face a recession from 5%, base scenario, to 9% and the ECB estimates the euro area will face a GDP contraction of 8.7%.
- **Net Capital Inflows:** Since 2017, **around 3 billion euros have been injected into the Greek economy from foreign net acquisitions of real estate property**. According to the IMF, the advanced economies are expected to face a recession of 6.1%; as a result, a decrease in the amount of Net Capital Inflows is currently projected. Moreover, the lock-down policies and travel plans have already affected this index.
- **NPLs:** Residuals Loans in December 2019 were around 42.4% of the Gross Non-Performing Loans in the Greek Banking System. This index is expected to increase as percentage as well as total figure as the economic slow-down will affect many important sectors of the Greek economy such as tourism and food and catering services. Also, **it is projected a noteworthy decrease in the auctions of collateral real estate properties in the remaining of 2020**.
- **Expectations:** **The pandemic will have a negative impact on the Greek Real Estate, but whether this impact will shrink or slow down the growth of the market remains to be seen. There is still a lot of uncertainty around the magnitude of the Covid-19 impact in this sector of the economy. A moderate optimism can be derived though from the results of the first quarter of 2020 in most of the aforementioned submarkets and from the fact that Greece avoided the healthcare crisis of other countries.**

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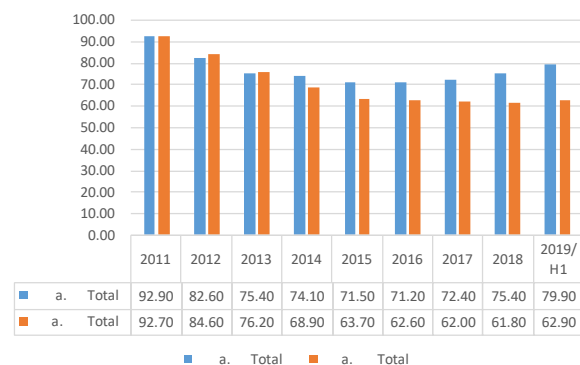
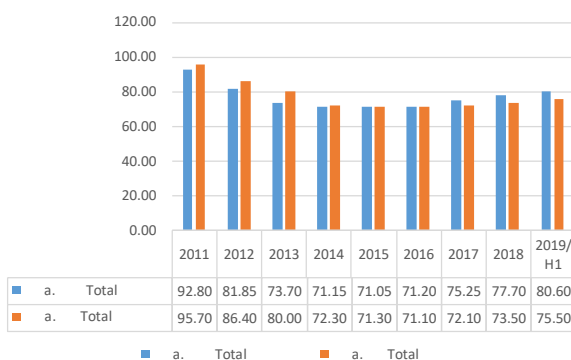
2019 Major Highlights

- In this part we summarize the available historical data and events of the aforementioned submarkets from the beginning of 2018 to the first half or the entire period of 2019, data extracted from the Bank of Greece, and the available data from the last quarter of 2019. This statistical summary is quite important in order to review the Greek Real Estate before the outbreak of Covid-19.
- **Office Market:** Both the office price and rent indices increased by 7.11% and 4.72% respectively from the beginning of 2018 to the first half of 2019 in the Greek Market. The Office Market in Athens was of paramount importance in this period, its price index increasing by 13.78% while the rent price increased by 3.99%.
- **Retail Market:** Likewise, retail price and rent indices increased by 10.36% and 1.46% respectively in the same time period in the Greek Market. Once more, the Retail Price Market in Athens increased significantly by 14.94%. The biggest increase in the Retail Rent Index took place in areas outside the 2 big Greek cities, where the index gained 1.96%, while in Thessaloniki it fell by 1.68%.
- **Net Capital Inflows:** In the first half of 2019, the Net Capital Inflows, in the Greek Real Estate, rose by 94.6%, the second biggest increase from 2007. The most noteworthy increase occurred in 2018 with a 172.1% rise.
- **Apartments:** The price index of apartments rose by 1.7% in 2018 and by 7.7% in the first half of 2019. The apartments in Athens rose by 11.1% while in Thessaloniki by 7% in this period. This increase was seen in the new, up to 5 years old, as well as in older than 5 years old apartments.
- **Legal Framework & NPLs Handling:** Besides some improvements in the office and retail market, any important reforms in the legal framework can be cited as a key factor in housing real estates. In the summer of 2019, the new Greek Prime Minister Kyriakos Mitsotakis pledged to suspend for 3 years the VAT payments on new building permits and unsold properties built after the beginning of 2006. Also, the PM pledged to reduce the single property tax (ENFIA) for individuals. In 2020, the existing law for settling NPLs backed by first home mortgages will be amended.
- **The last quarter:** In the Q4 2019, activity in both Office and Retail increased and enhanced the gaining momentum of the market. In the Retail the leasing activity increased fueled by some important expansions occurred in shopping malls and streets in Athens and Thessaloniki. The capital's values and prime rents in the Office Market continued to grow and getting closer to their 10-years maximums. In the Apartment submarket the capital's values kept increasing at 6.5% annually, lower than the 7.4% growth in last quarter (q-o-q basis). The rent prices increased, impressively, 9% year to year apart from the center of Athens, which fell by 6.2%.
- **Conclusion:** There is a lot of uncertainty for the evolution of the Greek Real Estate due to the unavailability of data for the results of Covid-19 in this market as well as the economy. The historic data showed an improving market up until the first quarter of 2020, but the impact of the pandemic raises a lot of uncertainty. The main challenges the property market will face are expected to be felt in the Retail and Apartment markets, but the offered stimulus by the Greek Government may soften the negative impact of Covid-19.

Office & Retail Market, Greece

(Period 2018 - 2018)

As of June 2020



Source: Bank of Greece

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Long-term Trend Summary (as of June 2020)	
Office Prices	↑
Office Rents	↑
Retail Prices	↑
Retail Rents	↓
Net Capital Inflows from Abroad	↑
Greek House Price Index	↓
Government Expenditure	↓

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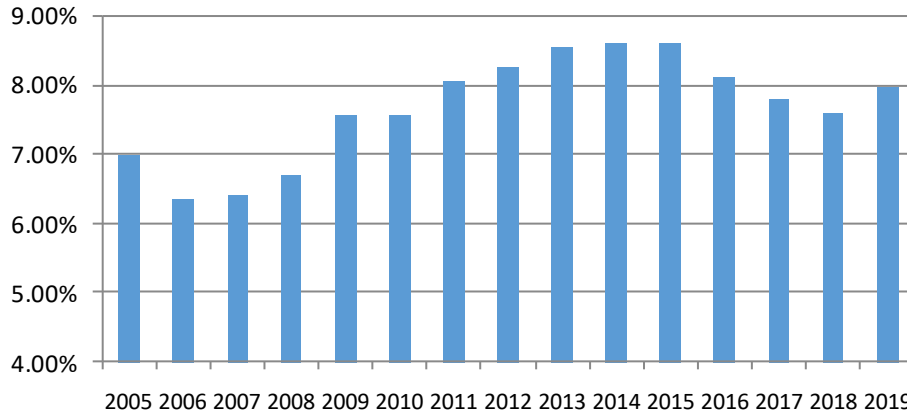
This report has been prepared in collaboration with "Get Involved", an independent civil non-profit organization founded in September 2017 by students of Finance, Economics and Law.

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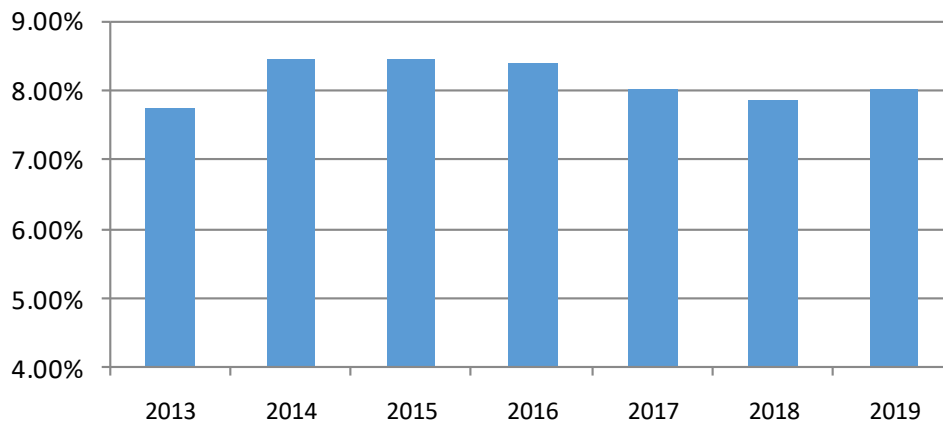
GREEK PROPERTY MARKET - TABLES & GRAPHS

Prime Office Yields - Athens & Suburbs (Period 2005 – 2019)



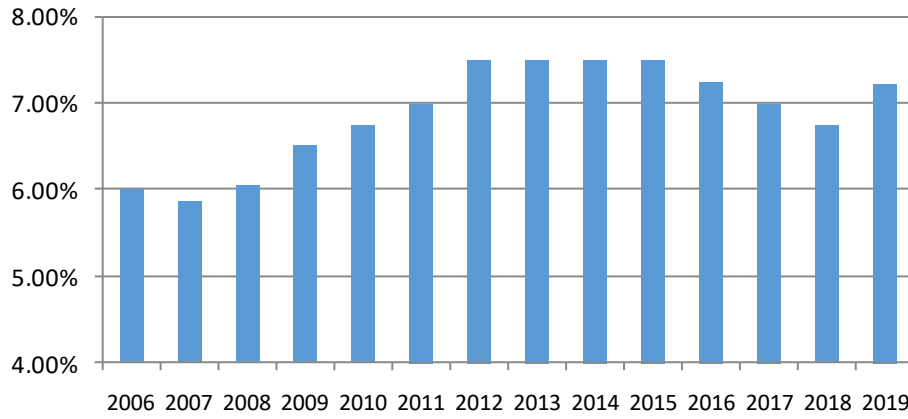
Source: Market surveys, research reports of international real estate agencies.

Prime Office Yields - Thessaloniki (Period 2013 – 2019)



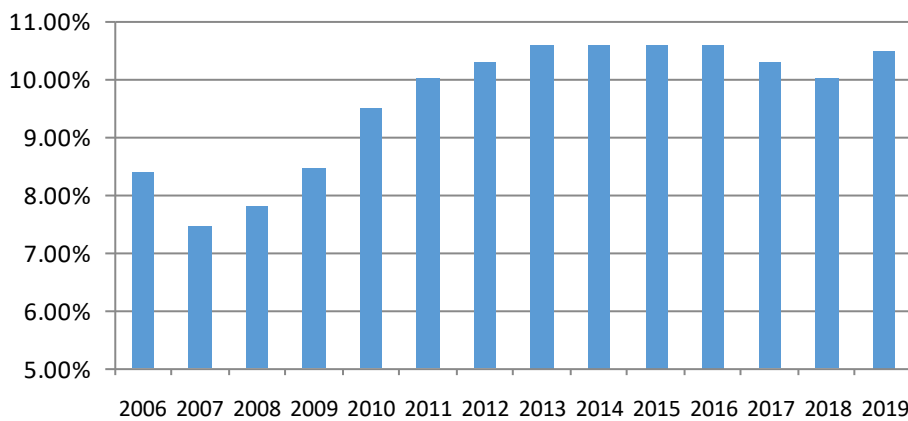
Source: Market surveys, research reports of international real estate agencies.

Prime Retail Yields - Athens & Suburbs (Period 2006 – 2019)



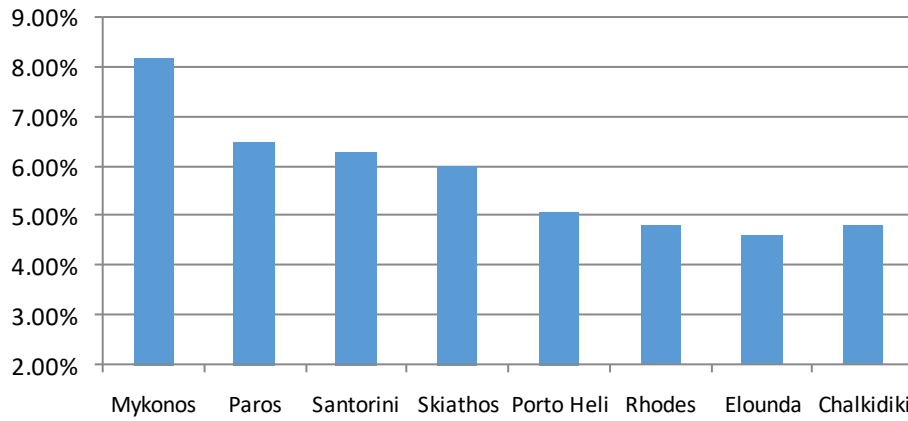
Source: Market surveys, research reports of international real estate agencies.

Prime Logistics Yields - Attica (Period 2006 – 2019)



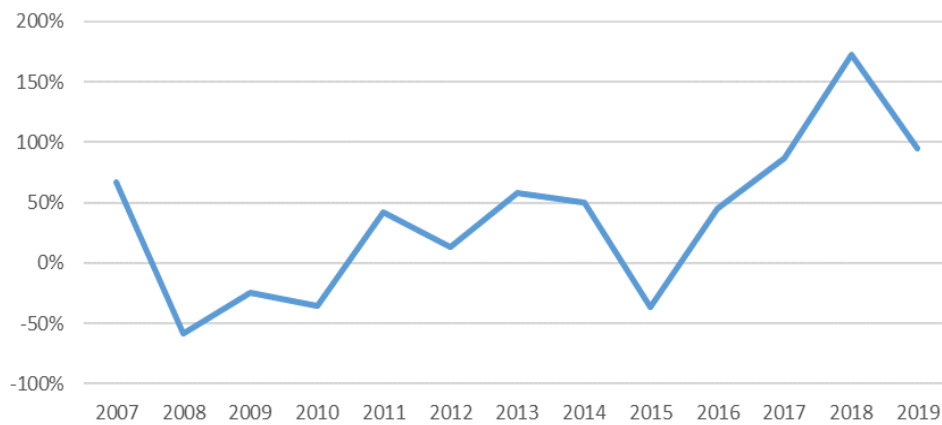
Source: Market surveys, research reports of international real estate agencies.

High End Holiday Homes Rental Yields (Estimates of Period 2018 – 2019)



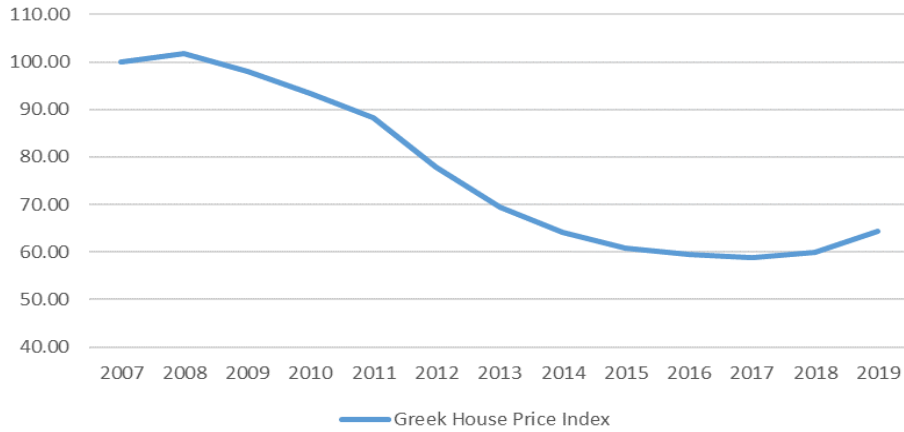
Source: Market surveys, research reports of international real estate agencies.

Net capital inflows from abroad for property purchasing in Greece (Annual Change, %)



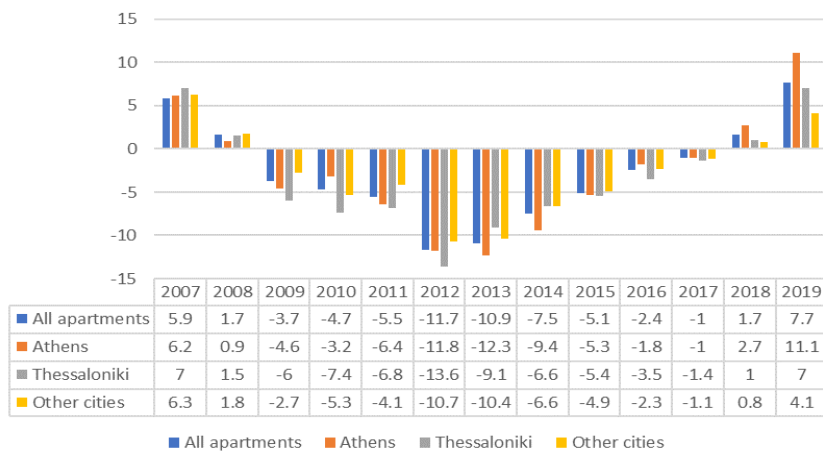
Source: Bank of Greece.

Greek House Price Index (Period 2007 - 2019)



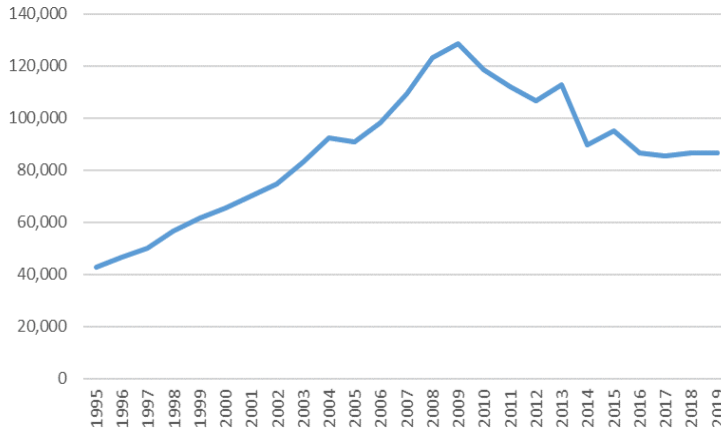
Source: Bank of Greece.

Apartments Market (Annual Change, %) (Period 2007 – 2019)



Source: Bank of Greece.

Government Expenditure (€ million) (Period 1995 – 2019)

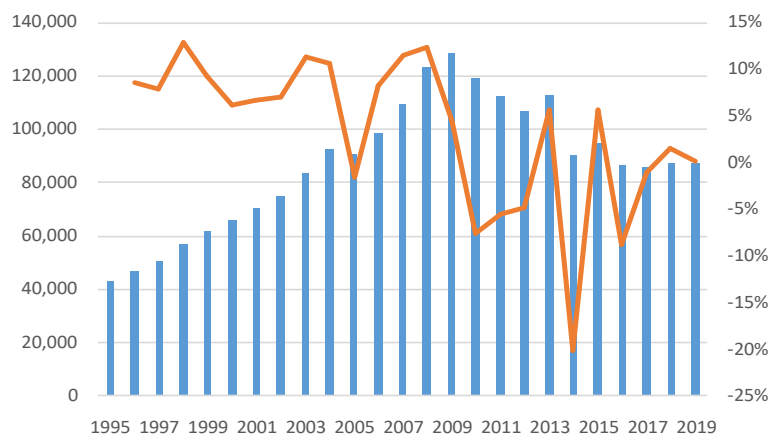


Government Expenditure is used as an indicator of the broader Greek property market dynamics because of the high correlation between the following factors:

- Government spending on public works and construction;
- Private activity of businesses in construction;
- Private activity of individuals in construction.

Source: Hellenic Statistical Authority (ELSTAT).

Government Expenditure (€ million) and annual % change (Period 1995 – 2019)



Source: Hellenic Statistical Authority (ELSTAT).

Total Greek Banks (Commercial & Co-operatives) | Evolution of Total Loans and Non-Performing Loans (Gross) (Solo Basis, € thousand, Period 2009 - 2019)

(€ thousand)	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019
Gross Loans	271,167,151	272,404,699	242,771,298	217,473,817	230,002,877	224,763,089	221,593,580	215,984,811	200,115,537	180,232,660	168,708,366
Consumer Loans	34,804,213	32,430,003	27,150,403	24,994,702	25,536,843	24,499,506	24,115,408	23,124,064	19,984,347	16,529,444	14,502,964
Residential Loans	74,503,431	76,638,301	67,806,445	65,322,126	67,831,735	69,830,872	68,360,463	66,175,685	63,404,052	60,913,982	55,833,270
Residential/Gross	27%	28%	28%	30%	29%	31%	31%	31%	32%	34%	33%
Business Loans	161,859,507	163,336,395	147,814,450	127,156,989	136,634,299	130,432,712	129,117,709	126,685,062	116,727,138	102,789,234	98,372,132
Business/Gross	60%	60%	61%	58%	59%	58%	58%	59%	58%	57%	58%
Non-Performing Gross Loans	25,633,558	38,411,987	52,312,707	67,989,728	90,866,845	97,683,820	106,506,368	104,826,836	94,432,952	81,801,150	68,510,004
Consumer Loans	5,430,183	8,648,278	10,357,401	12,708,281	14,248,373	14,172,067	15,194,780	14,431,829	11,558,432	8,761,929	7,052,848
Residential Loans	6,761,598	10,914,100	14,369,401	17,997,345	23,349,942	24,851,466	28,033,130	27,481,354	27,576,114	27,121,402	23,684,323
Business Loans	13,441,777	18,849,609	27,585,905	37,284,102	53,268,530	58,660,288	63,278,458	62,913,654	55,298,406	45,917,818	37,772,833
% Non-Performing Loans Ratio (NPL Ratio)	9.5	14.1	21.5	31.3	39.5	43.5	48.1	48.5	47.2	45.4	40.6
Consumer Loans	15.6	26.7	38.1	50.8	55.8	57.8	63.0	62.4	57.8	53.0	48.6
Residential Loans	9.1	14.2	21.2	27.6	34.4	35.6	41.0	41.5	43.5	44.5	42.4
Business Loans	8.3	11.5	18.7	29.3	39.0	45.0	49.0	49.7	47.4	44.7	38.4

Certain conclusions can be drawn for the Real Estate Market based on the data on NPLs in the Greek Banking System. Residential Non Performing Loans, despite the fact that total NPLs show a tendency to fall, are on the rise. Also, the structure of the Greek Banks' lending, despite the crisis has not changed significantly over the last 9 years.

Residential loans compose around 33% of the lending Portfolio of the Greek Banking System. This could be translated as that the markets believe that the current Real Estate prices are undervalued otherwise they would have included more of those loans to the already conducted sales.

Key Explanations

Office Market

The index includes all the properties used for commercial and business purposes (office, warehouses, industrial, etc.). The base year is 2010, due to the fact that this year is considered to be the balance year in between the pre-crisis and the core crisis period. The year 2011 was a turning point for the Greek economy, due to the implementation of the first memorandum between Greece and its creditors.

Retail Market

Regarding the retail market there are two indexes which describe the fluctuation of acquiring and renting prices. The year 2010 is set as the base year for the reasons mentioned above. The latter market includes all else types of businesses that are excluded from the office market.

Apartments

The index includes all residential properties in the major urban areas of Greece. This includes Athens, Thessaloniki, the capitals of all Greek municipalities and all the other cities with higher population than these capitals. The base year is 2007. It was selected as the base year, since it is estimated to express a typical situation, without any peculiarities that could affect the compiled indices.

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