

GREEK PROPERTY MARKET

[Office, Retail and Residential Market]

May 17, 2019

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Periodical Note

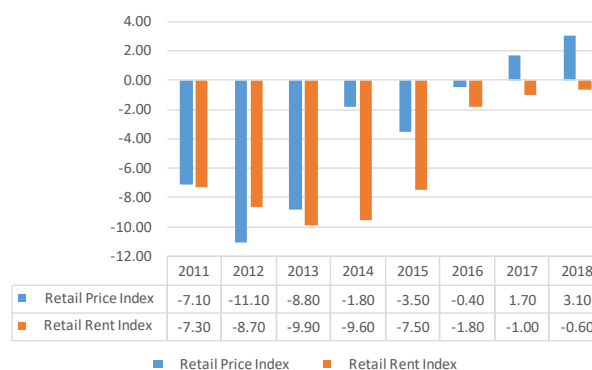
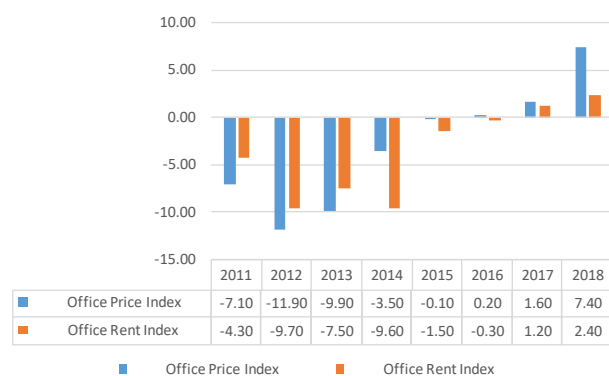
Major Highlights

- The current report assesses the **evolution of real estate prices in the Greek Market from 2007 to 2018**. It focuses on the progress of office and retail market indices. The key factors regarding the volatility of property prices are among others the following: Fiscal Environment and Political Uncertainty, Average Available Income, and Legislation concerning Real Estate.
- **Office Market:** The office price and rent indices, in 2011, were both negative, minus 7.1% and minus 4.3% respectively. In 2016, the price indexes started to stabilize. From 2017 to date, both rates showed a significant increase.
- **Retail Market:** From 2014 to 2016, the reduction pace of the retail price was much lower compared to the rent index. During the last two years, an increase in the retail price index, in contrast to the retail rent index which continues to drop, has been observed.
- **Net Capital Inflows:** In 2016, net capital inflows from abroad for the acquisition of property in Greece increased by 45.3% and kept rising in 2017 by 86.5% as well as in 2018 by 172.3%.
- **Apartments:** The price index of apartments was negative for 9 continuous years, from 2009 to 2017. After the first implementation of the first memorandum, back in 2010, there were significant drops in the Price Index in Athens, Thessaloniki and all the other cities according to the Bank of Greece [BoG]. Since 2015, there has been a gradual improvement in the prices required to acquire an apartment and during 2018 the index was positive.
- **Legal Framework & NPLs Handling:** Besides some improvements in the office and retail market, a major reform in the legal framework can be cited as a key factor in the course of housing real estates. In 2017, apart from the legal act of Extrajudicial Settlement between businesses in debt and MFIs, a Law concerning the Extrajudicial Settlement between banks and private debtors was implemented for the first time.
- Currently, a **positive aura surrounds the Greek real estate prices and the increase in the minimum wage in conjunction with the stability in the tax environment help, at least, maintain this optimism.**
- Going forward, the economy and the property market will keep on gaining momentum steadily in the examined sectors. The positive momentum will be established with the contribution of the Greek banking system, which after dealing successfully with the containment of NPLs should focus on investing in the Greek economy. **It is of some concern that the plans for new constructions have remained negative for over a decade. Although the existing properties and owners have reaped the benefits of the implemented changes, the healthy turn will be complete when the new construction market will show signs of gaining momentum.**

Office & Retail Market, Greece

(Period 2011 - 2018)

As of May 2019



Source: Bank of Greece

Please see important disclosure and disclaimer statements at the end of this report.

Long-term Trend Summary (as of May 2019)	
Office Prices	↑
Office Rents	↑
Retail Prices	↑
Retail Rents	↓
Net Capital Inflows from Abroad	↑
Greek House Price Index	↓
Government Expenditure	↓

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Valuation & Research Specialists (VRS) are the sole creators and distributors of this report. 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. The founding team: Vasilis Angelopoulos, Anthony Efstathiadis Research Contributors: Eva Chiou, Nikolas Drinis, Karolos Koenka

Historic Trends & Latest Developments in the Greek Property Market

Taking into consideration the economic, political and regulative sectors, the current report assesses the evolution of real estate prices in the Greek Market from 2007 to 2018. The examined timeline is divided into three main periods; The pre-crisis period, when real estate prices reflected the continuous economic growth up to 2007, the recession period from 2008-2014 and the last period from 2015 up to today (data as of Q4 2018), the period when Greece began showing the first signs of financial stabilization. The report focuses on the progress of office and retail market indices. The key factors regarding the volatility of property prices are among others the following: Fiscal Environment and Political Uncertainty, Average Available Income, and Legislation concerning Real Estate. They are all analyzed in the following paragraphs.

Office Market

As depicted in the diagram, the office price and rent indices, in 2011, were both negative, minus 7.1% and minus 4.3% respectively. The same downward path continued up to 2015. When we compare the two indexes, in this time period, it can be inferred that the mistrust towards the Greek economy led to a greater drop in the purchase and rental prices. During the same span of time, the fall in the rental prices, which was significantly lower than that of the purchase prices, created a hedging opportunity for investors. In 2016, the price indexes started to stabilize. From 2017 to date, both rates showed a significant increase (purchase price index: from 1.6 to 7.4, and rental price index: from 1.2 to 2.4).

Retail Market

According to the diagram, 2011 was the year when the first significant drop in both retail indices occurred. Both retail indices continued to fall until 2013. From 2014 to 2016, the reduction pace of the retail price was much lower compared to the rent index. During the last two years, an increase in the retail price index, in contrast to the retail rent index which continues to drop, has been observed. The course of the retail market can be attributed to the outbreak of the 2010 economic crisis, which led to the shrinkage of this market. At the same time, it can be observed that the main drop occurred between 2011 and 2016 and that the retail price index has been steadily recovering from 2017 up to date.

Net Capital Inflows

In 2016, net capital inflows from abroad for the acquisition of property in Greece increased by 45.3% and kept rising in 2017 by 86.5% as well as in 2018 by 172.3%.

Determinant Factors of Greek Property Market from a Historic Perspective

The main factors that contributed to the fluctuations in both retail and office prices over the past years and which can be verified from the official statistical and financial evidence are:

Fiscal Environment and Political Uncertainty: This factor strongly affects the period from 2010 to 2015. After the elections of 2009, when the Papandreou Government negotiated a memorandum

with its creditors, the ECB, the EC and the IMF in 2010, there was a rapid decline in the country's government spending. The new formed reality affected greatly the Greek Property Market, since the businesses became more cautious in their short and midterm financial and investment planning. To emphasize this fact, it should be taken into consideration that the Greek Actual Fiscal Multiplier according to the IMF [World Economic Outlook 2012, IMF, p. 43] was estimated at 5.5 in 2010. At the same time span, 2010-2012, there was also a political turmoil, which resulted in the resignation of the Papandreou Government and the formation and fall of a National Unity Government, which was followed by two general elections. As a result of the political instability, the Greek economic activity declined.

Taxation: This factor strongly affects the whole examined period.

The Personal Income Tax Rate is a tax collected from individuals and is imposed on different sources of income like labor, pensions, interest and dividends. The Personal Income Tax Rate in Greece stands at 45 percent (2019).

The Corporate Tax Rate in Greece stands at 29 percent. It reached an all-time high of 49 percent in 1985 and a record low of 20 percent in 2011. Revenues from the Corporate Tax Rate are an important source of income for the Greek Government. The Personal Income Tax and Corporate Tax Rates in 2010 accounted for 20.21% of the country's GDP, while in 2016 the percentage rose to 26.70%, according to the World Bank Data.

As it is well known, during the Greek economic crisis, the income of both Individuals and companies significantly decreased. This fact, combined with the rates of taxation, resulted in the private sector investments in Property being brought to a halt. In the period 2011-2015 there was a constant reduction in the Office & Retail Market. A turning point for the Greek real estate market was the year 2016, when Greece's credibility started to improve significantly after a renewed agreement between Greece and its creditors and the implementation of the Third Bailout Program.

Currently, a positive aura surrounds the real estate prices and the increase in the minimum wage in conjunction with the stability in the tax environment help, at least, maintain this optimism.

Increase of NPLs: The banking sector in Greece, just like in the rest of the world, is going through a crisis of private and household debt. The Greek business sector, on which this section of the report focuses, since the beginning of the crisis has had its ability to honor its loans decreased significantly. The conditions described above and the fact that the ratio business loans / gross loans have been around 60% during the last decade explain the reasons of the Greek economy shrinkage in that period. In addition, the percentage of non-performing business Loans in 2018 rose by more than 600% compared to the one of 2009 as many of the performing business loans were paid back and were not replaced due to the problems of liquidity faced by the banking sector, which forced the banks to renegotiate with their debtors in unfavorable terms. Many of the businesses in debt had real estate collateral. Along with a new Legal frame set by the Government to ease the way for Extrajudicial Settlement between businesses in debt and banks, many of those assets have been sold since 2016. This gave a needed boost to the Real Estate market and specifically to the office and retail market. This is depicted in the reduction of business NPLs which is expected to continue in 2019 and the enhancement of the non-performing loans portfolios of Greek banks. The now increasing prices in real estate are making banks more willing to use their debtors' mortgages since they expect higher profit margins.

Legislation concerning Real Estate: One of the most important obstacles to the effort made to reconstruct the business debts derives from the Greek Legislation. Law 4469/2017 introduces a new process of extrajudicial debt settlements, which is flexible so as to be adapted according to

the debtor's business activities. The existing framework (articles 99 seq. of the Greek Bankruptcy Law and Law 4307/2014) could, in some cases, be misused by de facto bankrupt companies or it may not be applied, as it is not binding for credit institutions. The latest legal actions raise investors' expectations, since many assets of businesses can now be used to regulate their debt towards the banks. This legislation, which was first applied in May 2017 (03/05/2017) boosted real estate activity because assets which are owned by companies in debt can be available on the market, without the need for Foreclosure procedures or other procedures which were time consuming and costly.

Investors' Expectations: A factor which is of vital importance for every economy is what investors think of it. It is common knowledge that both good and bad news have a multiplying effect which market prices tend to follow. This effect is expressed by both the almost doubled Foreign Direct investment in real estate in 2017 and in 2018 and in the vivid turn of domestic businesses investments in construction. These signals of a positive turn, at least for short or mid-term investments in real estate, are due to expectations of increased planned activity in new constructions. The negative prices of the index show that the capital invested in real estate targets mostly existing properties. This improves the opportunities of owners in Office and Retail, as well as in General Real Estate, to make a significant profit out of their assets, at the same time boosting the economy. The same positive rate seems to be continuing in 2019.

Apartments

The Price Index of apartments can be separated in three time-periods: the years 2007-2008 (base period) just before the global financial crisis affected Greece, the years from 2009 up to 2015, where the major fiscal, political and structural changes occurred in Greece and the last period which extends from 2016 until currently, where the private sector slowly reestablishes its credibility in the Greek property market.

The price index of apartments was negative for 9 continuous years, from 2009 to 2017. After the first implementation of the first memorandum, back in 2010, there were significant drops in the Price Index in Athens, Thessaloniki and all the other cities according to the Bank of Greece [BoG]. Since 2015, there has been a gradual improvement in the prices required to acquire an apartment and during 2018 the Price Index was positive.

The Greek Economy suffered heavily from the global financial crisis of 2008. The Greek consumers had great faith in real estate investments and especially home ownership. Despite the decrease in average income, this faith of the Greeks in Real Estate, as a low risk form of saving and as an investment with high returns, is one of the highest rankings among the E.U. members of home ownership (73.3%). In 2011, to make matters worse, an increase in taxation for home owners was implemented, which led to major price drops in the housing real estate market. That tax raise, the so-called ENFIA, resulted in the 2.5% of the Greek GDP being obtained from taxation on property (2011-2018), whereas at the same period taxation on property generated only 0.5% of the German GDP.

In 2016, the Greek Government, acknowledging the problem caused by the high taxation on property, lowered the costs of transactions in real estate and focused on the "Golden Visa" plan to boost the prices and create a positive momentum for the market. The "Golden Visa" program, which aims to attract foreign investments to the country, provides significant assistance to the real estate sector. The program allows citizens of other countries to acquire real estate and, under certain conditions, obtain a residence permit in Greece. In the meantime, in major cities and popular tourist destinations, platforms such as Airbnb, boosted rent and acquisition prices.

The real estate market changed due to a significant increase in the cost of apartments in Athens – an increase of 2.1%. In Thessaloniki, the increase was not so big, only 0.8% and in other popular Greek regions the increase was by 0.7%. These raises can be attributed to the noteworthy increase in demand for rental properties mostly for short-term accommodation directed to tourists and businessmen. Investments in residential real estate increased by 12.3% in the first three quarters of last year but remained low in terms of their contribution to GDP.

Legal Framework & NPLs Handling

Besides the improvements in Office and Retail Market, a major reform in the legal framework can be cited as a key factor in the course of housing real estates. In 2017, apart from the legal act of Extrajudicial Settlement between businesses in debt and MFIs, a Law concerning the Extrajudicial Settlement between banks and private debtors was implemented for the first time. The framework ended a long-time dispute between Greece and its creditors, as in the past, the main residence of a Greek citizen could not be confiscated by the bank for unpaid debts. Many people who did not systematically honor their debts were forced to pay, while others who could prove that they had lost their income due to the crisis were given protection under the “Katseli Law”, which has been in place since 2011, and did not lose their property.

The latter framework allowed MFIs to confiscate houses guaranteed in mortgages and sell the houses in their fair market value from 2017 up to date, contributing to the positive course of the transactions in the apartment real estate market. This settlement is expected to generate positive flows for the Greek Real Estate Market. The four big Banks of Greece with the current legal framework can settle and sell or package sell and negotiate through their SPVs Consumer Loans, which in most cases are mortgage backed.

Popular Areas

The key to the Housing Real Estate Investments are the estate’s location and purpose. The plans in the future activity concerning new constructions tend to be in constant decline. So, if an investor is planning to place money in the Greek Real Estate Market, he will more likely invest it in a highly rentable existing property either in an Urban Area or a Tourist Destination. In addition to the areas examined directly by the BoG data, the Research Data of The Hellenic Property Federation (POMIDA) are taken into consideration as well. This evidence combined with the “Golden Visa” Program indicates that the most popular properties are located in central Athens, the coastal suburbs of Faliro and in the east, in central Thessaloniki, in Mykonos, in Santorini and in Crete.

All the mentioned factors played an important role in the Greek Property Market and can be summarized by analyzing the returns on both the Apartment and the Office & Retail Markets. From 2008 to 2012, there was a sharp decline in the year to year returns of the property market. The most remarkable changes in the Gross Total Return Index were from 2007 to 2008 with a drop of 56.2% and from 2010 to 2011 with a drop of 45.73%. These drops can be translated as the normalization of the Real Estate Market and the fear of investors and of citizens to get trapped in this market. This trend started reversing after 2012 with some considerable increases in the Gross Total Return Index. Since 2012, there has been only one decline in the year to year return of the aforementioned index from 2017 to 2018. This positive momentum is of paramount importance since it is an indication that the Greek Property Market is steadily regaining its credibility and due to the increasing returns is attracting more investors from both Greece and abroad to invest even more capital in the market.

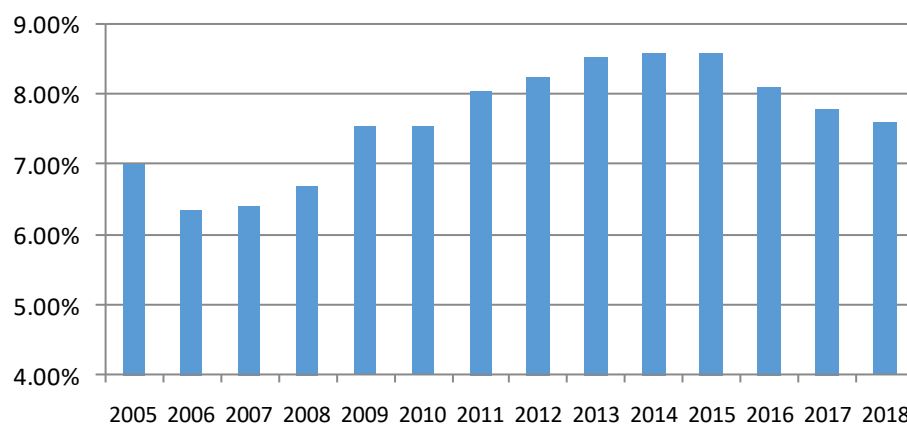
According to a research published in 2018 from the Foundation for Economic & Industrial Research, it is easy to conclude that the Greek Real Estate Market was greatly affected by the recession, the drop of income, the increased taxation and the growing uncertainty. There was also a sharp decline in the 25 to 45 age group, namely 475,000 fewer citizens, in Greece. This demographic change is crucial due to the fact that this age group is normally more active in the Greek Property Market. Also, Greece has the most expensive mortgage compared to the other Eurozone members. Also the Greek properties are the most heavily taxed in the European Union, which greatly affects the prices in this market.

Conclusions

After reviewing the Greek Property Market from economic, political and regulatory perspectives, some observations and projections can be drawn. From the implementation of the first memorandum up to now, there have been many structural changes, decrease in market value and great uncertainty. All these changes resulted in a significant drop in the total Real Estate value. In the past few years, there has been a gradual improvement of the Real Estate Market, but this increase cannot be considered steady enough to put at ease the investors. This market is affected by the overall economic and fiscal situation. The slow but steady recovery which is the result of great changes in the legislation, the negotiations with creditors, and the effort made to prove the credibility of the country to investors globally can be jeopardized if any of the hard-won practices is abandoned. As the projection has shown, the economy and the property market will keep on gaining momentum steadily in the examined sectors. The positive momentum will be established with the contribution of the Greek banking system, which after dealing successfully with the containment of NPLs should focus on investing in the Greek economy. It is of some concern that the plans for new constructions have remained negative for over a decade. Although the existing properties and owners have reaped the benefits of the implemented changes, the healthy turn will be complete when the new construction market will show signs of gaining momentum. After the announcement from the Greek PM on May 8th of a package, which combines benefits and tax cuts in terms of VAT, the Head of Bank of Greece released a public statement. He stated that “ if the 3.5 percent target -for primary surplus- is not met, that will lead to the imposition of new [restrictive] measures such as expenditure cuts and cuts in the Public Investment Program, which will have a negative impact on the growth rate of the economy”. A possible budget cut in public works in construction could affect the recovering course of Greek Property Market.

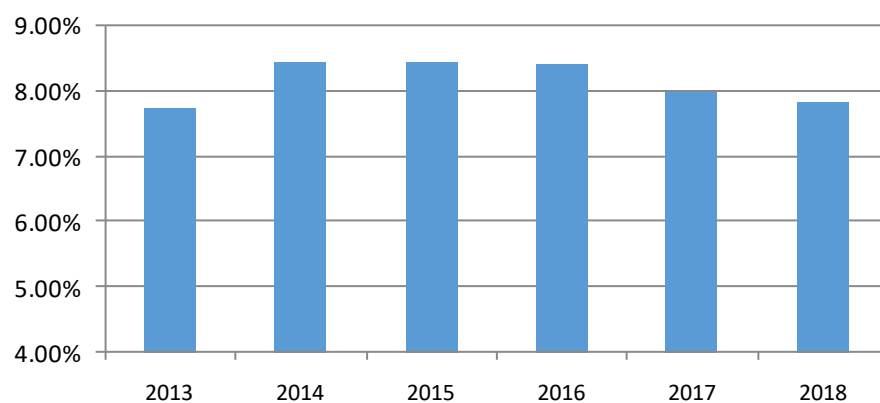
GREEK PROPERTY MARKET - TABLES & GRAPHS

Prime Office Yields - Athens & Suburbs (Period 2005 – 2018)



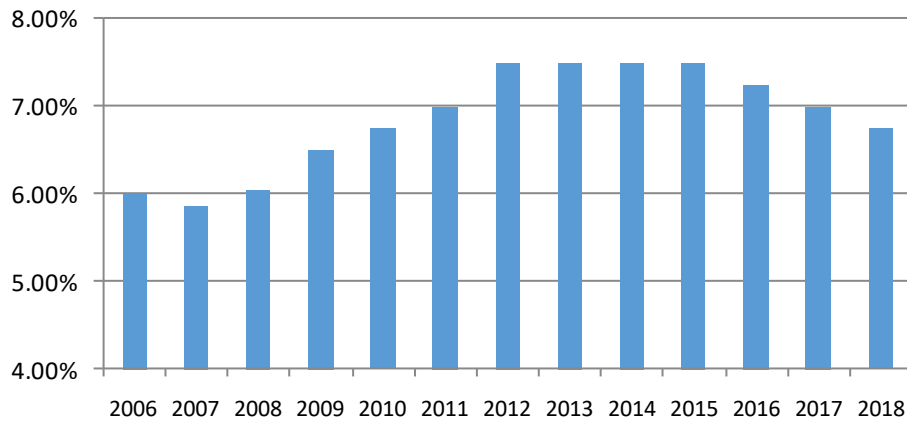
Source: Market surveys, research reports of international real estate agencies.

Prime Office Yields - Thessaloniki (Period 2013 – 2018)



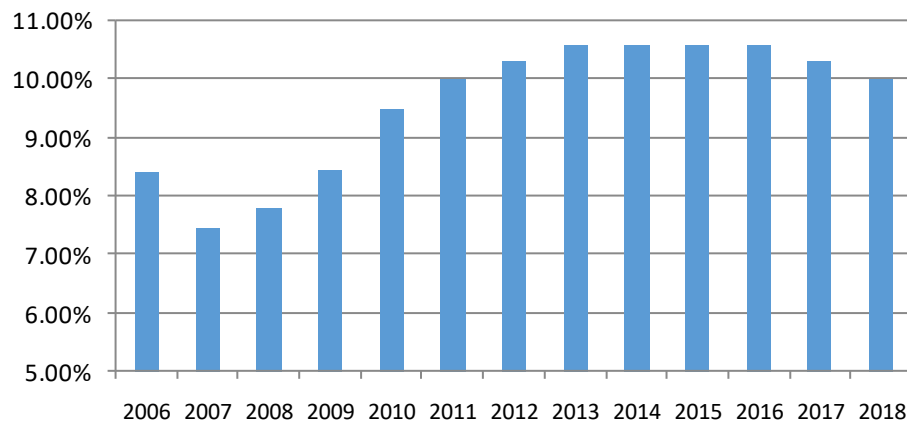
Source: Market surveys, research reports of international real estate agencies.

Prime Retail Yields - Athens & Suburbs (Period 2006 – 2018)



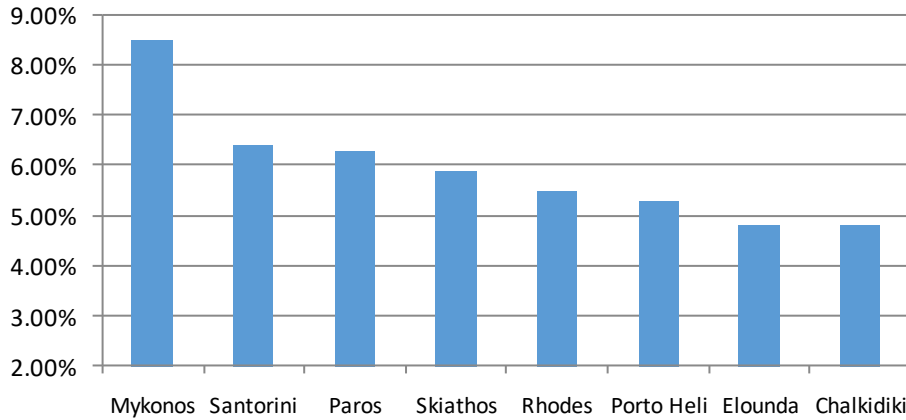
Source: Market surveys, research reports of international real estate agencies.

Prime Logistics Yields - Attica (Period 2006 – 2018)



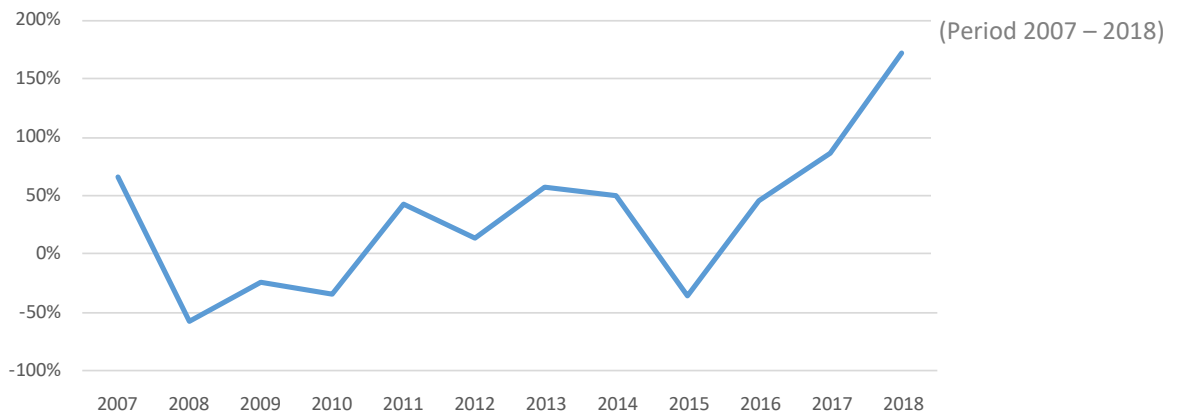
Source: Market surveys, research reports of international real estate agencies.

High End Holiday Homes Rental Yields (Estimates of Period 2017 – 2018)



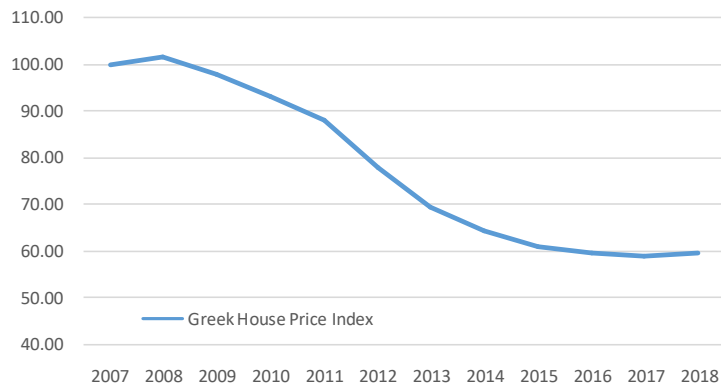
Source: Market surveys, research reports of international real estate agencies.

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



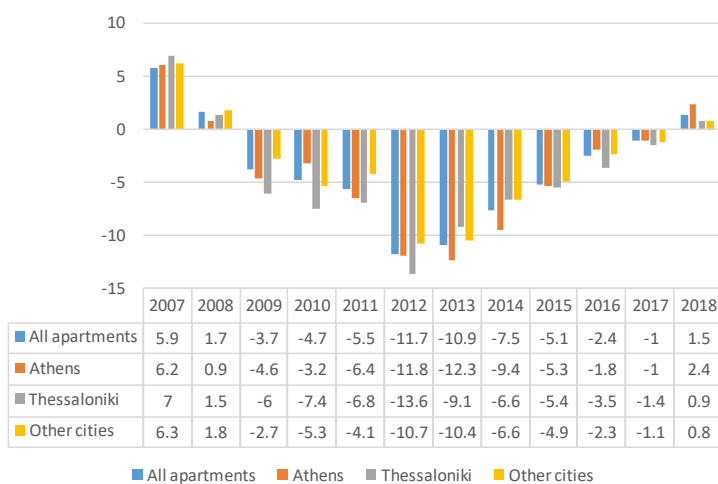
Source: Bank of Greece.

Greek House Price Index (Period 2007 - 2018)



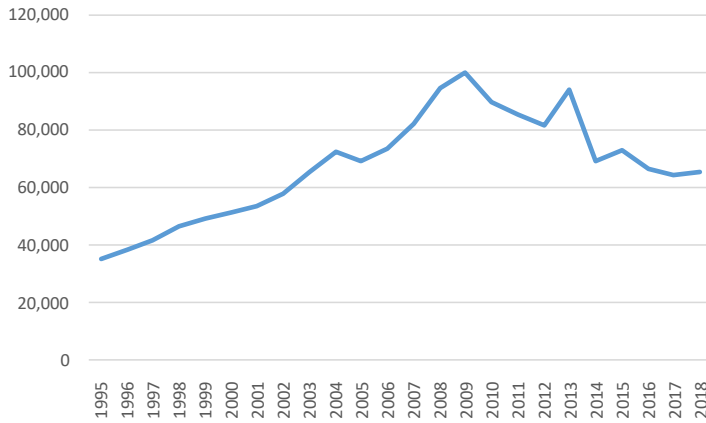
Source: Bank of Greece.

Apartments Market (Annual Change, %) (Period 2007 – 2018)



Source: Bank of Greece.

Government Expenditure (€ million) (Period 1995 – 2018)

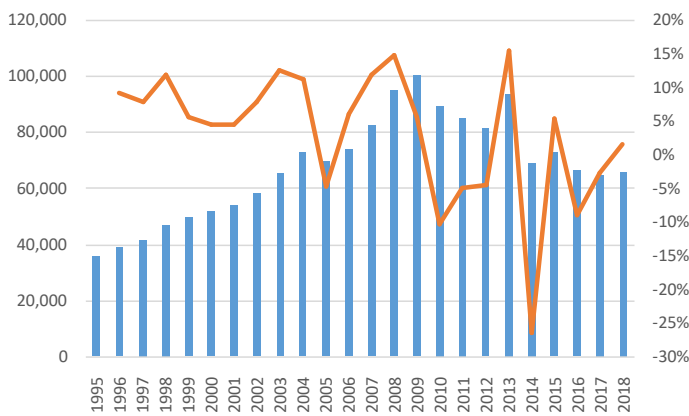


Government Expenditure is used as an indicator of the broader Greek property market dynamics because of the high correlation between the following factors:

- 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 – 2018)



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 - 2018)

(€ thousand)	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018
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
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
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
Residential/Gross	27%	28%	28%	30%	29%	31%	31%	31%	32%	34%
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
Business/Gross	60%	60%	61%	58%	59%	58%	58%	59%	58%	57%
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
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
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
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
% 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
Consumer Loans	15.6	26.7	38.1	50.8	55.8	57.8	63.0	62.4	57.8	53.0
Residential Loans	9.1	14.2	21.2	27.6	34.4	35.6	41.0	41.5	43.5	44.5
Business Loans	8.3	11.5	18.7	29.3	39.0	45.0	49.0	49.7	47.4	44.7

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 30% 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 municipals 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.

NOTES

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Covered	Bloomberg	Date	Disclosure
Property Market, Greece	----	May 17, 2019	--

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6. VRS produces research reports for this company on demand basis.
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