

# **GREEK REAL ESTATE MARKET: IS IT TIME TO INVEST?**

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## **COUNTRY RISK STRATEGY REPORT**

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## 1. Greek Current Economy Overview

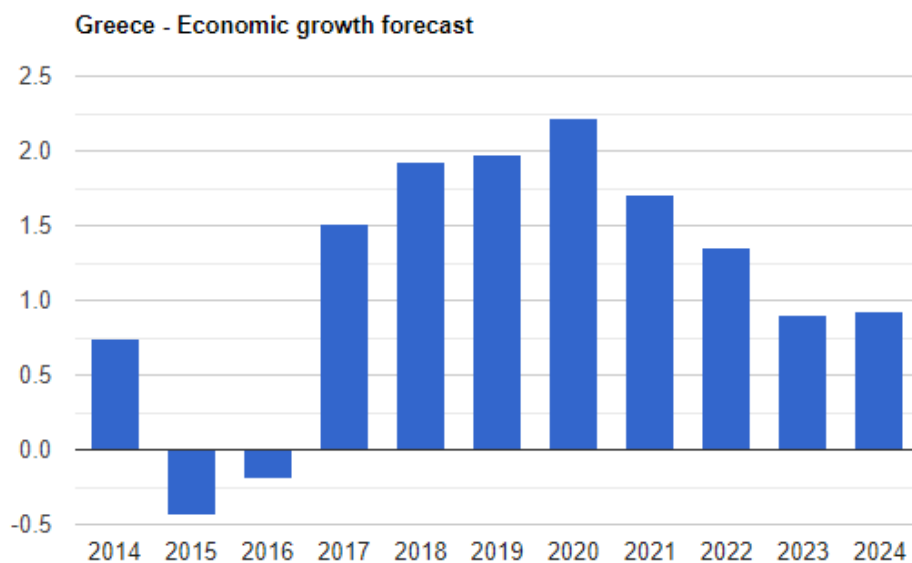
After the 2008 financial crisis, the Greek economy has been through a deep recession with eight consecutive years of negative Gross Domestic Product (GDP) growth until 2016 and was pressured by bailout program and austerity measures like tight fiscal policies aiming to redress the economy. Greece's macroeconomic progress have been significant over the last 3 years across several reforms to improve public finances management, ease market regulations and attract foreign investments. The renewed confidence for the Greek economy has been led, since 2017, by signs of economic recovery like increasing GDP and decreasing current account deficit and is well illustrated by investors' strong appetite for five and ten-years Government bonds issued earlier in 2019.

### a. Positive growth forecasts for 2019 and 2020

According to the International Monetary Fund (IMF), 2019 Greece's real GDP growth is set to reach 2.4% and 2.2% in 2020. This increase is mainly driven by exports especially in the service sector. Meanwhile, private consumption is recovering and rising investments in non-residential constructions and equipment purchases are also driving further growth.

The ease of doing business in Greece is improving, it is currently ranked 72 out of 190 countries according to the World Bank 2019 assessment. The country needs to continue reducing regulatory burdens and improving its administrative processes in order to attract more investments, encourage businesses to develop in Greece and ensure a sustainable reduction of unemployment and GDP growth in the long run.

Exhibit 1.



Source: *TheGlobalEconomy.com, International Monetary Fund*

## **b. Tourism new record**

According to the Bank of Greece and Greek Tourism Ministry data, Greek tourism inflows and revenues keep growing and is a key contributor to the reduction of the current account deficit.

In first quarter of 2019, the travel revenues increased by 37.0% compared to the previous year, with a total of 760 million euros. The record high has been reached in July 2019 with 3645.33 Million Euro revenues just for this month. The total balance from January to August 2019 is then up to 13.241 billion which is already outperforming the 16 billion revenues for the full year of 2018.

According to INSETE (Greek Tourism Confederation Statistical Analysis) last year, the industry was accounting for 11.7% of the country's GDP with 5 billion euros worth of investment and it was employing 44% of the workforce. So, this new record will have a great influence on 2019 economic performance, but this trend needs to be followed in the coming year to assess its sustainability as it accounts for a significant part of the country's revenues.

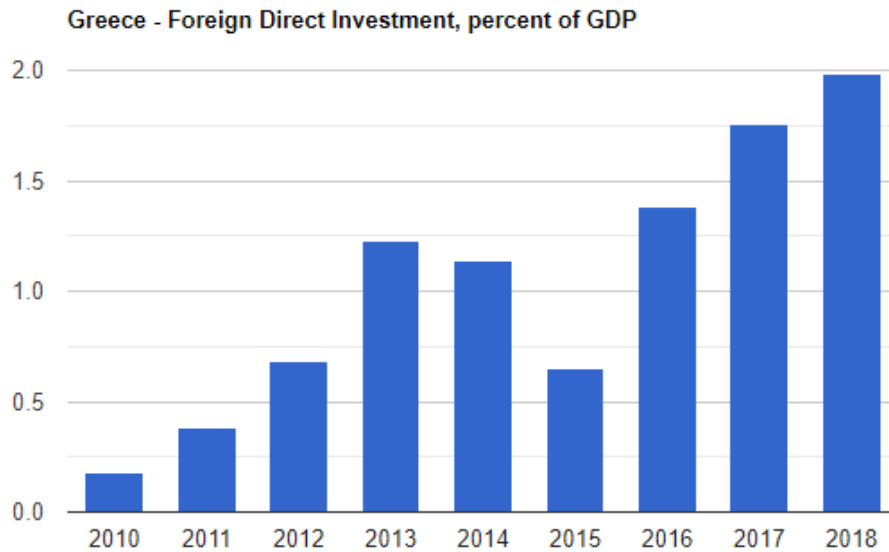
## **c. Increase in Foreign Direct Investments**

According to Bank of Greece data, net Foreign Direct Investment inflows during 2018 reached € 3,364 million and are expected to increase again for the fourth consecutive year in 2019. These investments are primarily coming from large companies of developed countries like Germany, France, Switzerland and U.S.A but also increasingly from China.

The service sector represents 75% of Greek Foreign Direct Investments inflows from 2008 to 2018, from this 75%, 15% are investments in Real Estates and 6% in Hotels and Restaurants.

Since 2013 the Greek government has also launched the "Golden Visa Scheme" which aimed at offering eligibility to a residence permit to investors who bought a property valued at least at €250,000. The majority of the candidates to this program are from China, Russia and European Countries (Germany and France). According to Enterprise Greece, over the last five years, this program has attracted an additional € 1.5 billion foreign investments in the Greek Real Estate sector.

Exhibit 2.



Source: *TheGlobalEconomy.com, The World Bank*

#### **d. Decrease in Capital Control**

Since September 2019, the Bank of Greece has fully lifted the capital controls that were put in place four years ago on international transfers and cash withdrawal both for companies and households. The restoration of free movement of capital is expected to strengthen investors' confidence, attract their investments back in Greece. This measure marks the end of a turbulent financial period and signals a return to 'normality' which might lead to further improvements in the country's credit rating.

## 2. Real Estate Market Overview

The current combination of high returns (on commercial property), low prices within all real estate sectors, together with the growing dynamism of the tourism sector and infrastructure development, could make real estate in Greece an attractive investment option. However, such obstacles as: high level of bureaucracy in the country (according to the CPI Index 2018, Greece score is 45 out of 100), economic uncertainty, heavy taxes on the real property (income and capital taxes, taxes on direct or indirect investment) are real issues for the potential investors.

Characteristics of current real estate market:

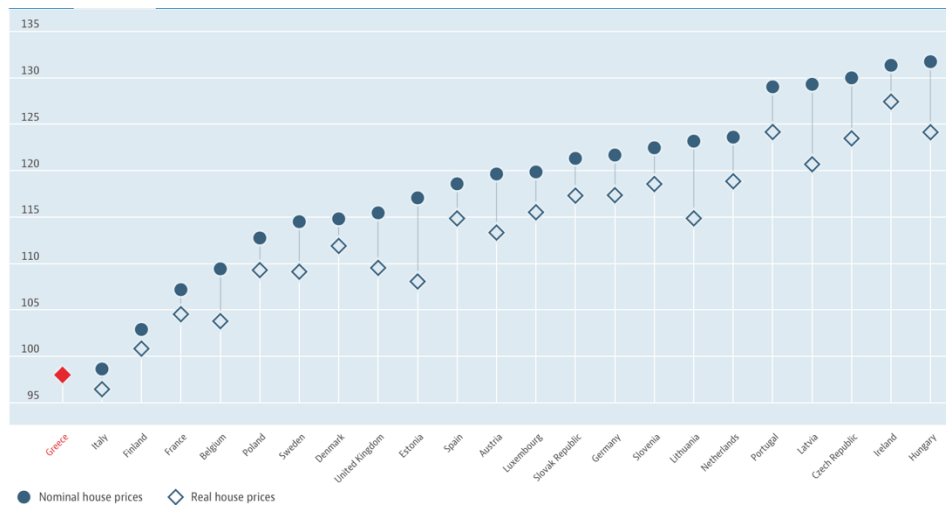
- The construction in Greece is fragmented (23400 firms);
- High rate of home ownership (73% in 2018) and low mobility market;
- Significant impact of the fiscal measures on the housing market;
- High transaction costs and low trading volume over the stock;
- The supply responds slowly and with a significant lag in demand signals (lack of land, construction time, issuing building permit and financing etc).

The market values and rents of residential and commercial properties have declined sharply during the post-crisis period (2007-2016). However, the situation started to stabilize from 2016. The nominal apartment prices declined by 1,5% in 2016 in comparison to 6% in 2015, and the 0,2% drop of the commercial real estate market can be compared with 0,1% decline in 2015.

The main advantage of buying property in Greece is its cost, which is lower than in other EU countries. According to the Bank of Greece, at the end of 2017, real estate in Athens was 44% cheaper in comparison with its peak in 2008. However, the fall in property prices is slowing down. The Exhibit 1 "The housing price index in the EU" represents the nominal house prices and the real house prices in the EU in 2018. The real house prices are calculated as the ratio of nominal price to the consumers' expenditure deflator in each country, both seasonally adjusted. As we can see the nominal house prices in Greece in 2018 (98,1) are practically the same as the real house prices (98), but this difference appears in other countries of the EU. In terms of nominal house prices Greece has the lowest indicator and in terms of real house prices it takes the second place after Italy.

Exhibit 3.

Housing prices in Greece, 2018



Source: OECD; <https://data.oecd.org/price/housing-prices.htm>

In 2018, in the sector of commercial real estate the demand remained focused on the places with the easy access to the public transport or on the locations where finding a parking space is not too difficult. The desire for high visibility or better, the tolerance for a lower visibility location varied depending on the nature of each company’s activities and that of its end customers. The trend of 2018 is to convert older office spaces into boutique hotels, what lowered the availability of offices especially in business centers of Athens and Thessaloniki.

The retail property market in Greece is expected to continue recovering during 2019, leading to the rent and value increase. Go further the lower profile retailers are expected to be replaced by those who will be able to pay higher rents. The most commercial and retail real estate projects are concentrated in: Athens and Thessaloniki.

During the last three years Greece has seen a lot of real estate investment related to the increase of tourism. After almost ten years of decline in the construction sector all over Greece, there is a serious deficit of newly built properties. During the past year some new projects were started, particularly in Athens Riviera. There is a gap in the market between the supply and demand as the clients are looking for modern new apartments and offices in this specific region. At the moment the two main market boosters are the foreigners (who are looking for properties to secure their temporary residence permit via the residency by investment program in Greece, which offers visa-free travel to investors and their families) and the new properties (which are sold to a limited number of Greeks who can afford to buy property without external financing).

### **3. Future indicators and contingencies to be monitored**

Greece's current situation is still largely dependent on far-reaching and structural reforms - to which society has proven to be resilient. However past crisis shown us that structural changes can take a long time to bear fruit, especially in a global economy fraught with uncertainty. Despite a relatively positive economic dynamic and an encouraging real estate market, we believe that time is a key parameter. Therefore, monitoring the trend of the indicators below can provide useful information on the relevance of investing or not.

#### **a. Economic Indicators**

##### Inflationary pressure remains low

One factor that could affect the real estate market is inflation. Indeed, inflation does not affect all assets in the same way; the goods with limited supply tend to have a positive correlation with an inflation pressure. That is typically the case for houses and properties, especially in large cities or in lands with a disparity between supply and demand. Interest rate also widely affect real estate market. In fact, a long-term real estate investor could benefit from a relatively high inflation.

Currently inflation remains very low in Greece and Europe, well below forecasts. The recent effort of the ECB – through a renewed monetary policy of quantitative easing and rate cuts - to pick up inflation at near above 2% will probably not stem this dynamic in the short-term future. With a low economic growth in the eurozone, interest rates would remain low for a long time to come. From the last ECB Survey of Professional Forecasters expectations, inflation have been revised down at 1,3%, 1,5% and 1,6% for 2019, 2020 and 2021. Finally, although affecting the real estate market, inflation should not have a significant influence in the near term in Greece.

##### Employment Growth as a driving force

Unemployment is a critical matter in Greece that crystallizes many of the structural problems mentioned above. In particular for young people, whose unemployment rate peaks at around 35% according to sources. This creates a feeling of social demotion among Greek youth, which is being economically abandoned - a significant part of the resources being allocated to pension system and public workforce.

However, the new Government policy led by Prime Minister Mitsotakis suggests improvements from late 2020, early 2021. It has thus committed itself to strongly liberalize the labour market and the product market, which should lead to a wave of employment.

According to the Foundation of Economic and Industrial Research (IOBE) – Greek research organization – there is as expected a strong relation between unemployment rate and the Office Real Estate Market: a negative variation in unemployment rate explains a positive change (47% of correlation) in office rents. Indeed, rising unemployment increases demand for office spaces and leads to better rates of rent growth.

This return to employment should also be boosted by a burgeoning start-up scene. On the surface, it could look like a strange statement. But the start-up environment in Greece is booming, fueled by tech companies and an ambitious young workforce. Facing the previous difficulties, this youth is turning away from traditional professions and public jobs.

According to Hellenic Federation of Enterprises (SEV), 2100 newly formed start-ups should generate nearly 20000 job positions. This should have a positive effect on the Office Market.

In addition, a support program launched in February 2019 by the Athens Stock Exchange and the European Bank for Reconstruction and Development called the “SME Pre-listing Support” should help SMEs to raise funds through the local capital market. As the Greek economic fabric is mainly composed of SMEs, this gives hope for some spinoffs on the Real Estate Market.

#### [Remaining inequalities of supply and demand](#)

As discussed above, an improvement of unemployment rate and GDP growth will result in a better performing Real Estate Market, especially for Offices. Assuming this would lead to a growing demand, could the supply follow along?

Regarding the last two quarter, a trend seems to be emerging in the real estate market. Retail activity and outlets seems to drive the market and attract large investors, especially in the fashion and F&B (Food and Beverage) sectors. Most of them focus on prime high street retail in the center of Athens, the Kifissias Avenue or in Thessaloniki.

This concentration of demand in restricted prime areas leads to the shortage of prime buildings and low prime yields. Conversely, rents strongly decrease as soon as one moves away from business centers, reflecting an excess of supply in proportion to demand. The following figure summarize the current situation regarding supply and demand.

Exhibit 4.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	Rents are expected to remain stable in high street locations.	▶
Prime Yields:	Downward pressure in yields in certain locations mainly due to lack of product on offer.	▲
Supply:	Limited supply, with few new projects in the immediate development pipeline.	▶
Demand:	Investor demand is anticipated to improve in the medium term.	▼

Source: CUSHMAN & WAKEFIELD, Retail Market Snapshot

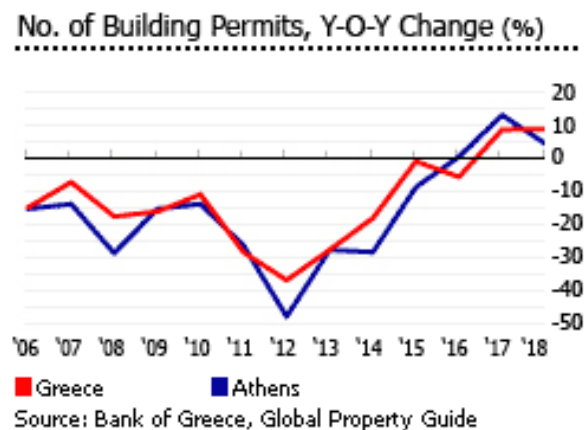
## b. Real Estate related Indicators

### A rising construction activity

While the Greek real estate market is undergoing a modest recovery, this should not make us forget some basic aspects of this sector. We noted above the imbalance between supply and demand in some areas. It seems natural then to examine construction activity and its current health.

After 8 years of decline the construction activity is rising again since 2017. This particular year building permits for residential construction rose by 9% to 13800 units, the highest level since a decade. This recovery extended last year. However, even if the tendency is positive, a simple comparative analysis with the 70,000 to 80,000 permits issued annually from 2004 to 2007 puts things into perspective.

Exhibit 5.



### Mortgage market still carries uncertainty

A real estate investor should therefore carefully monitor the mortgage market, as it can shape the volume of demand. Currently, the mortgage interest rates remain low at 2.92% in the end 2018 for new housing loans. Those rates are short-term, with an initial rate fixation of up to one year, and could be revised afterward. This type of floating interest rate is widespread in Greece in such a way that it is very hard to find fixed rates for mid or long-term loans (above 5 years). Since the onset of the crisis in 2009, 70% of the housing loans have floating rates adjustable at least annually.

If cheaper mortgage rates are usually benefiting to housing market, concerns about a sudden rebound make it way less attractive. This partly explains why this market, which collapsed after the crisis, remains in a very worrying state: new housing loans amounted to €15,4 billion in 2006 against about 500 million last year.

More broadly, the issue of the mortgage market is deeply rooted in the economic crisis since it has played a leading role in damaging the banking system balance sheet. As house-owners were unable to repay, banks have accumulated non-performing loans – holding €108 billions of bad loans (40% of the total).

The mortgage market is thus a relevant indicator for an investor, particularly in a country where its correlation with the banking system is strong. Hopefully, the recent EU agreement on Greek scheme to erase some of the banks' bad debts will provide a more favorable framework for the mortgage and the real estate market in the years to come.

## 4. Recommendation and Conclusion

### Current Return Yield

In Europe, Greece real estate market is considered as market where you can observe growth from both tightening yields and rent improvement. Nowadays, the office sector yields are around 7-7.5 percent and was around 9 percent in 2013. To compare, office yield of the rest of EU countries are often below 4 percent.

### Our view on the investment opportunities in the Greek real estate market

Our view of the economy is based on the information we found. The country economic overview let us assess that Greece's situation is improving and recovering from what was the worst recession that any EU country as faced. Greece lost 25 percent of its GDP and has been through political changes. Economic sentiment is at a 12-year high. Investors are bullish: the gap between Greek ten-year bond yields and those on German bunds has halved since the start of the year. It is easy to imagine that optimism starting a virtuous cycle.

First of all, the growth forecast is positive for 2019 and 2020, the tourism activity record new high, FDI are increasing for the fourth consecutive year and, the capital control is decreased to allow more flexibility in the financial sector. The combination of high returns and low prices correlated to the growing dynamism of infrastructure development such as the Hellinikon real estate project let us think that the economy is recovering; the government is investing and private investors that left the country in 2008 start to resurface. When you have only that information, of course, everybody will say that investing in the real estate market in Greece now will make you earn money. Unfortunately, the "dark" part of the country let us reluctant. We are wondering if the new first minister Kyriakos Mitsotakis can ensure the Greek economy to start growing again.

Greece has to pay back to the IMF and Europe the credit with 3,5 percent of interest rate until 2022. After the interest rate will decrease to 2,2 percent until 2060. So, Greece is already indebted to its lender for another 40 years. Furthermore, Mr. Mitsotakis will have to deal with paralyzed banks that are still shaking from 2008, tight fiscal policy, and an unemployment rate of 17 percent. Besides, even if the VAT and imposition are higher than the Euro country on average, Greece doesn't see the benefit of it as the country revenue collected is one of the worst in Europe. Greek are a "weak payment culture" according to the IMF. More than half of the population does not pay income tax at all. According to the world banks, doing business in Greece is as complicated as in Somalia, registration of properties is a real mess. Moreover, there are too many formalities when asking for a loan to Greek banks that discourage people from asking for a credit.

But, if fixing a nation were simple, Greece would have now caught up with the remainder of the EU, especially when the result from a large number of the required changes will take years, as the finishing of building work at Hellinikon. Mr. Mitsotakis' legislature has figured out how to get Greece's economy to the extent of the runway. What occurs next will decide if it at long last takes off.

To conclude, the real estate market operates efficiently in presence of economic growth, stability, and a stable banking sector ready to offer secure and cheap finance. These factors are not yet strongly in place in the Greek economy. The sector recovery will depend on the decrease of the unemployment rate, the improvement of the business climate, the durability of the growing strength of the banking sector, and the simplification of the tax regime. We believe that the real estate market is likely to accelerate, keeping up with a better performance at any level (economic, social...) and more efficient overall government. Thus, from our point of view its beneficial to invest in Greek real estate now, considering market bullishness and future perspectives.

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