



GREECE MACRO MONITOR

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Focus notes: Greece

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Real Estate market: Prices and Activity continue to decline

- The recession has affected the real estate market and the construction sector harder than the rest of the economy.
- Residential prices and volume have decreased further in Q3 2011.
- Housing rents stabilise, while commercial rents have fallen significantly.
- Investments in residential construction have fallen to historical lows in 2011.
- Employment is declining fast.
- Construction costs remain high, especially the materials cost.
- Mortgage rates are increasing and credit availability is constrained.
- Business expectations are at historical lows territory.

During the last two years the Greek economy is in the middle of an unprecedented crisis. Unlike in other economies (e.g. USA and Ireland), real estate market developments were not among the causes of the crisis. Nonetheless the real estate market and the construction sector were hit particularly hard. Residential prices have fallen in tandem with volume. Residential rents acceleration has slowed down and rents for commercial spaces have fallen significantly. The decline in construction activity and employment are larger than in overall economic activity. Construction costs remain high despite a reduction in labour costs, due to increases in material costs. Credit conditions are weak and supply and demand side developments point to a further deterioration. The outlook remains negative, as reflected in business expectations, as long as the macroeconomic environment remains unfavorable.

Prices

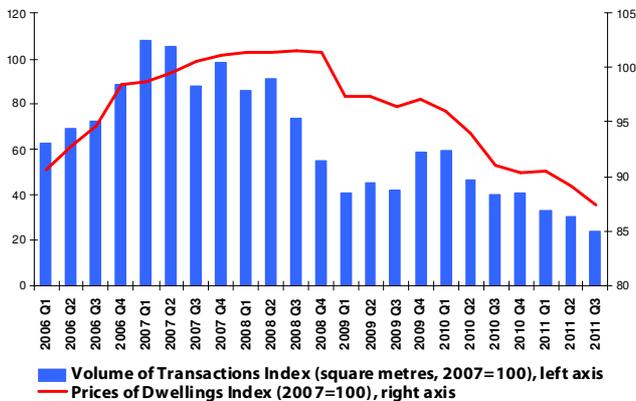
Nominal prices of dwellings in urban areas peaked in the 3rd quarter of 2008¹. According to the latest available data for Q3 2011, prices have fallen by 14% (Figure 1) since their peak and are back to end-2005 levels.

There are significant differences in the evolution of prices by geographical area: in Athens prices peaked in Q2 2008 and have fallen by 14.1%, in Thessaloniki prices peaked in Q4 2008 and have fallen by 21.5% and in other cities prices peaked in Q3 2008 and have fallen by 13.5%.

The BoG also collects data from MFIs for apartment's prices by age. The data indicate a stronger decline, -15.8%, in the prices of old apartments (over 5 years old), since their peak in Q3 2008, relative to new apartments (up to 5 years old), -10.4%.

¹ Bank of Greece data based on data collected by the credit institutions

Figure 1.
Prices & Volume



Source: Bank of Greece

Notes: Index of nominal dwellings prices in urban areas. Index of residential property transactions with MFI intermediation.

Rents

Rents during the current crisis have continued to increase, albeit at a slower pace. According to the Hellenic Statistical Authority (EL.STAT.) data for the National Consumer Price Index, the rate of change was 4.3% in 2008, 4.1% in 2009, 2.3% in 2010 and 1.0% in the first ten months of 2011 yoy. These data do not reflect developments in commercial real estate rents, where press reports and market experts place the decline between -25% and -50%.

Volume

There is also a strong decline in the indices² of residential property transactions. The number of transactions fell from 39.7 thousand in Q1 2007 to almost 9 thousand in Q3 2011. Year on year the number of transactions fell -21.7% in 2008, -35.7% in 2009, -0.2% in 2010 and -43% in the first 9 months of 2011. There was also a similar decline in the volume of transactions in square meters (Figure 1) and in the value of transactions. According to evidence from real estate agents and constructors there was a shift towards smaller and more affordable residential properties during the crisis.

The BoG estimates the stock of new houses available for sale, to 150 – 180 thousand housing units. There is evidence that this number has stabilized in 2010 and 2011.

Building Permits

EL.STAT. data for building permits issuance³ point to a large decrease in private building activity. Building permits are continuously decreasing since 2006 in number, floor space (in square meters) and volume (in cubic meters). In the first seven

² Bank of Greece data based on data collected by the credit institutions

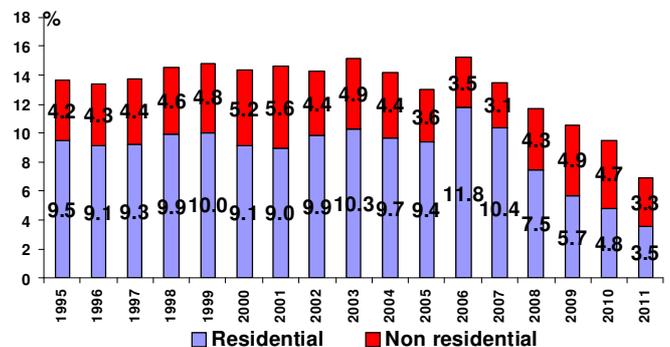
months of 2011 the decrease (compared to the first seven months of 2010) has become even steeper: -31.9% in the number of permits (-10.9% for 2010), -44.0% in square meters (-19.8% for 2010) and -39.4% in cubic meters (-23.7% for 2010).

Construction Investment

Investments in construction (Gross Fixed Capital Formation, Residential & Non Residential) are in a free fall, registering a -37.2% cumulative decrease (in 2005 prices) over the period 2007-2010, according to the latest EL.STAT. data. This reflects the huge decrease in residential investment, amounting to -59% cumulatively over the same period. On the contrary, non-residential investment has increased cumulatively by 36.5% over this period. For the first half of 2011 investments in construction have fallen by -18.8% (yoy, in 2000 prices), with residential investment falling by -21% and non-residential investment by -16.3%.

Investments in construction have fallen during the crisis much faster than total GDP. Their share in GDP has declined (Figure 2). As a percentage of GDP, residential investment peaked in 2006 at 11.8% and has fallen to 3.5% in the first half of 2011, the lowest level in the past 15 years. On the other hand non residential investment has registered a smaller decline.

Figure 2.
Gross Fixed Capital Formation in Construction
(% of GDP)



Source: European Commission, EL.STAT.

Notes: The 2011 figures are for the first half of the year.

Note that the decline in residential investment in Greece is the second largest in the EU for the 2007 – 2011 time period. For the period leading to the current crisis, 2003-2007, residential investment in Greece was one of the highest (as a percentage of GDP) in the EU.

³ Building permits give us just an indication for current building activity. The issuance of a building permit does not mean that building starts immediately. Months (sometimes even years) can pass before actual building starts.

Employment

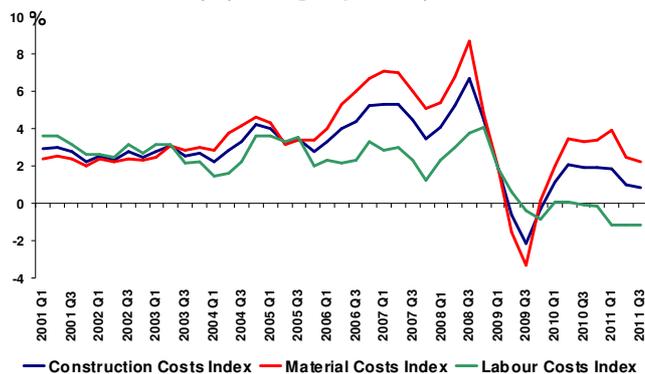
Employment in the construction sector, as expected, is also declining fast, registering a cumulative change of -33.5% from 2007 Q2 to 2011 Q2. In the second quarter of 2011 it fell by -20.5% yoy, reaching 260.2 thousand persons according to EL.STAT. data⁴. As a percentage of total employment it stands at 6.3% (2011 Q2) compared to 8.9% (2007 Q3) at its peak. In the EU, employment in the construction sector stands at 7.4% of total employment (2011 Q2).

Construction Costs

Despite the recession, construction costs remain high (Figure 3). Total costs declined only in 2009 (-0.3%), in 2010 they increased again by 1.8% and again in the first nine months of 2011 by 1.2% yoy. This is due mainly to material costs remaining high (2009: -0.7%, 2010: 3.0%, 9M 2011: 2.9%). Labour costs increased in 2009 (0.3%), remained stable in 2010 (0.0%) and decreased in the first nine months of 2011 (-1.2% yoy).

Figure 3.

Price Indices for New Residential Buildings Construction (% yoy change, quarterly data)



Source: EL.STAT.

Credit

Rates for new housing loans at a floating rate are rising since January 2010, when they reached a historical low of 3.05%. There was a continuous decline from November 2008 to end-2009. According to the latest BoG data, they reached 4.65% in October 2011.

Outstanding housing loans in Greece started to decrease since mid-2010 (2010: -0.09% yoy). The latest BoG data, for October 2011, point to an increase in the pace of deleveraging (-1.5% yoy in October 2011). This trend reflects on the one hand household's reluctance to purchase a house and on the other hand the

stricter lending criteria applied by banks and their liquidity constraints. Outstanding housing loans in Greece have reached € 78.5 bn in October 2011 (2000: €11.2 bn), or 36.0% of GDP (2000: 8.2% of GDP). Greece has caught up with the Euro zone average⁵.

Non performing housing loans are also increasing: 11.9% in 2011 Q2, from 10.0% in 2010 and 7.4% in 2009. The percentage of housing NPLs remains lower than total NPLs (12.8% in 2011 Q2).

Confidence Indicators

Business expectations in construction are at a historical low point. Constructors are pessimistic about the future as are consumers. The decline in business expectations in residential construction⁶ is severe: -45.1% in the first ten months of 2011 (2010: -32.4%, 2009: -28.4% and 2008: -14.0%). The months of assured production in residential construction⁷ fell to 3.1 in October 2011 (2010: 8.3, 2009: 11.0 and 2008: 11.7). According to the business expectations survey, constructors expect a further decline in the prices they charge in the next quarter.

⁴ Note that, employment data for Greece may underestimate the absolute number of persons employed to the construction sector due to undeclared work. This is due to tax and social security contributions evasion and the employment of illegal immigrants.

⁵ Outstanding housing loans in the Euro zone have reached €3.8 tr in October 2011 from €1.9 tr in end-2000, 40% and 28.5% of GDP respectively.

⁶ The construction confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on order book and employment expectations. Balances are seasonally adjusted. Source: EU.

⁷ Source: IOBE.

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