



# GREECE MACRO MONITOR

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Focus notes: Greece

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## Greek Real Estate market: Prices and activity decline escalates, uncertainty increases

- The fall of residential real estate prices escalates (-11.7% in 2012), with rents also falling.
- Residential real estate activity remains weak as uncertainty surrounding the economy, future taxation, the legal values system and the foreclosures framework prevails.
- Investment and employment in residential construction have fallen to the lowest level of the past 12 years.
- Construction costs for new dwellings have decreased only marginally in 2012 as material costs increased and despite a reduction in labour costs.
- Credit availability for house purchase is constrained; NPLs are increasing despite the increase in restructurings.
- Business expectations in the construction sector and consumer confidence have improved but remain extremely low.

### Summary

The decline of the real estate market in Greece continued in the 4th quarter of 2012. In contrast to what happened in other economies (e.g. USA and Ireland), real estate market developments were not among the fundamental causes of the Greek crisis. Nonetheless the real estate market and the construction sector were hit particularly hard and investments and employment in construction are in a free fall. With the Greek economy entering in 2013 its 6th year of recession, the fall in prices and activity has escalated. The magnitude of the economic recession and the huge fall in Greek households' disposable income are outweighing the factors that contributed to price resistance in the real estate market in the first years of the recession. Rents are also falling.

Apart from the recession, the decline in market activity is magnified because of the growing uncertainty regarding the future tax treatment of real estate transactions and ownership, as well as the foreclosures framework and the legal values system. These uncertainties keep market activity low despite the falling prices. High transaction costs might fall after the changes concerning lawyers and real estate brokers in the MoU with the Troika have been implemented.

Construction costs remain high despite a reduction in labour costs, due to high material costs. Credit expansion for housing purchases remains negative and both supply and demand side developments point to a further deterioration. Non performing housing loans are also increasing despite the increase in restructurings. Business expectations in construction reached their lowest point in mid 2011 but have rebounded along with the general economic climate. Consumers continue to appear unwilling to invest in the real estate market.

## 1. Prices: fall is escalating

Nominal apartment prices<sup>1</sup> fell by 13.2% yoy in Q4 2012 (Q3: -12.6%, Q2: -10.8%, Q1: -10.2%). Prices declined by 11.7% on average in 2012, significantly more than in the previous three years of falling prices (2011: -5.5%, 2010: -4.7%, 2009: -3.7%). Prices have fallen by 27.9% from their peak in Q3 2008 (Figure 1) and are back to end-2003 levels. This escalation in the fall of residential prices is not a surprise. Apart from problems with appraisal based indices<sup>2</sup> lagging behind actual market values, the magnitude of the economic recession and the huge fall in Greek households' disposable income are outweighing all the factors that contributed to price resistance in the real estate market in the first years of the recession. These factors include the high ownership rate, the dominance in the market of small family construction enterprises with low financial leverage and high profitability in previous boom years and most importantly the fact that Greek households historically considered real estate a safe investment (protection from inflation) and were long term investors. Our market research (see: Malliaropoulos D., *Characteristics and growth prospects of the Greek Residential Real Estate Market*, Chapter 3, volume in Greek) in the boom years showed that Greek households buying houses did not have the intention to sell them even if prices were to further increase, unlike in many other countries (see: [Eurobank Research, Economy & Markets, July 2012, in Greek](#)).

There are some differences in the evolution of prices by geographical area: in Athens prices peaked in Q2 2008 and have fallen by 28.4%; in Thessaloniki prices peaked in Q4 2008 and have fallen by 34.7%; in other cities prices peaked in Q3 2008 and have fallen by 26.0%; in other areas prices peaked in Q2 2008 and have fallen by 28.1%.

BoG also collects data from MFIs for apartments' prices by age. New apartment prices (up to 5 years old) fell by 11.0% yoy in Q4 2012 while old apartment prices (over 5 years old) fell by 14.6% yoy. This was a reversal of the trend of the first three quarters of 2012. In 2012 as a whole the fall was almost equal for both categories: -11.8% for new apartments and -11.6% for old apartments. The data also indicate that the cumulative decline in the prices of old apartments since their peak in Q3 2008 is larger (-30.0%) compared to new apartments' (-24.6%).

### 1.1 Rents also decline

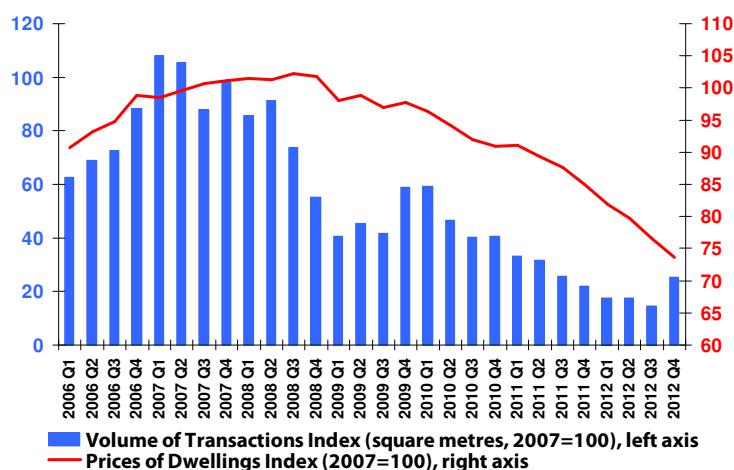
In 2012 rents growth rate turned negative at -2.1%. In January 2013 rents declined by -4.2% yoy. Rents were increasing until the

<sup>1</sup> Bank of Greece data based on data collected by all credit institutions in Greece.

<sup>2</sup> Appraisal based real estate indices tend to lag behind market changes in the value of real estate property. Further, appraisal-based indices are smoothed compared with actual changes in market values. See: [BIS Paper 21 "Real Estate Indicators and Financial Stability" April 2005](#).

end of 2011. According to the Hellenic Statistical Authority (EL.STAT.) data for the National Consumer Price Index, the average rate of change was 3.9% in 2008, 3.6% in 2009, 2.5% in 2010 and 0.8% in 2011. These data do not reflect developments in commercial real estate rents, where according to press reports and market experts, there has been a steep decline.

**Figure 1.**  
**Prices & Volume**  
(Q1 2006 – Q4 2012)



Notes: Index of nominal apartment prices. Index of residential property transactions with MFI intermediation.

Source: Bank of Greece

## 2. Market activity is weak: uncertainty the main problem

In 2012 the number of transactions fell to 28,200, from 42,800 in 2011 (a -34.2% change), according to the indices of residential property transactions of the BoG.<sup>3</sup> In Q4 2012 transactions recorded an increase by 15.4% yoy to 9,500 (in their quarterly peak in Q4 2007 transactions were 36,900). The increase in Q4 2012 came after nine consecutive quarters of decline. However, it was not the result of a pick-up in activity but of the decision by major Greek banks to reevaluate real estate properties used as collateral for housing and non-housing loans. On a year-on-year basis, the number of transactions fell by -21.7% in 2008, -35.7% in 2009, -0.2% in 2010 and -42.5% in 2011. There was also a similar decline in the volume of transactions in square meters (see Figure 1), by -14.5% in Q4 2012 and -33.6% in 2012 as a whole, as well as in the value of transactions, (Q4 2012: -2.5%, 2012: -41.4%).

<sup>3</sup> The indices, available from the BoG, are based on appraisal reports by banks' evaluators regarding the value and qualitative characteristics of the residential properties underlying loan agreements. It cannot be excluded that part of such appraisals are not connected with transactions in residential property, but concern a renegotiation of existing loans, registration of a mortgage to back non-housing loans, debt transfers from one bank to another, etc.

According to evidence from real estate agents and constructors, there has been a shift towards smaller and more affordable residential properties during the crisis. The BoG estimates the stock of new houses available for sale to be around 180 thousand housing units.

### 2.1 Taxation

The huge decline in market activity is related, not only to the recession, but also to the growing uncertainty regarding the future tax treatment of real estate transactions and ownership. Traditionally, ownership of real estate property<sup>4</sup> in Greece was not heavily taxed. Under the pressure to increase public revenues, the government has imposed in 2011 a special levy on real estate for 2011-2012, collected through the electricity invoices. This was on top of the regular Real Estate Ownership Tax. The latter has not been collected in full for 2010-2012 due to bureaucratic problems and the government plans to collect it in 2013. According to Ministry of Finance announcements, there will be a major restructuring in the real estate taxation framework in 2013, unifying all relevant ownership taxes. While this is a welcome step towards the simplification and modernization of the entire tax collection system, the delay in its finalization has increased uncertainty. Note that in the case of further delays in the discussions for the new tax, the existing special levy will apply in 2013 too. The ministry aims in securing annually around €3.2bn (according to press reports) from real estate taxation. Adding to the uncertainty, there were plans circulating in the press for a tax in the profits made from future real estate transactions and there is still no clear plan what will happen with the revision of legal values of real estate<sup>5</sup>.

### 2.2 Foreclosures

Another important aspect of the real estate market in the current crisis is the foreclosure process as applied to residential mortgage loans. With Non Performing housing Loans reaching 20.2% of total housing loans in Q3 2012, foreclosures should normally increase also. But the number of foreclosures has declined to 26,000 in 2012 from 44,000 in 2011. The reason is that foreclosures for debts up to €200,000 concerning the main residence of the borrower<sup>6</sup> have been frozen since mid-2009 until at least the end of 2013. Banks at the same time continue to restructure loans at

increasing rates, trying to avoid new capital losses. If and when this protection ends, the pressures on prices could potentially be significant. This is also a reason for the current market inactivity. Potential buyers hope that the market will be flooded by real estate property from foreclosures. The uncertainty concerning the foreclosures framework will have to be lifted one way or another.

### 2.3 Transaction costs

The Greek real estate market is characterized by high transaction costs. Greece in 2009, according to OECD data, had the 3<sup>rd</sup> highest transaction costs among the OECD countries. The MoU with the Troika has brought some changes concerning lawyers and real estate brokers that might help reduce these costs. The mandatory involvement of a lawyer in real estate transactions, including gratuitous legal transactions, such as donations, was repelled with an immediate effect for the seller and with an effect from 31/12/2013 for the buyer. Lawyers presence was obligatory until now to such transactions. The main problem is that their fee, as well of those of -the also obligatory - notary, are calculated automatically based on the legal value of the property<sup>5</sup>. There is also a provision in the MoU for dropping the probationary period for real estate brokers.

### 2.4 Privatizations

Privatizations of state owned real estate assets, planned under the MoU with the Troika, will also affect the market. The Hellenic Republic Asset Development Fund (HRADF) identified a pool of 3,150 properties with an estimated market value of €10bn that can be sold in the next 2-3 years and is proceeding with clearing up regulatory provisions. Beyond that, the government has identified some 10,000 additional real estate assets, with an estimated value of €8bn, which could form the basis for later privatizations. These real estates assets could help boost investments in real estate development but will further pressurize prices.

## 3. Construction Investment and Employment in a free fall

Investments in construction (Gross Fixed Capital Formation, Residential & Non Residential) are in a free fall, registering a -62.7% cumulative decrease (in 2005 prices) over the period 2007-2012, according to the latest EU Commission estimates. This reflects the huge decrease in residential investment, amounting to -71.2% cumulatively over the same period. Non-residential investment has decreased cumulatively by 34.5% over this period. In 2012 investment in construction has fallen by -14.8% (2005 prices), with residential investment falling by -15% and non-residential investment by -14.5%. Note that the decline in residential investment in Greece is the second largest in the EU, after Ireland, for the 2007 – 2012 period. For the period leading to

<sup>4</sup> Taxes and levies on real estate property in Greece are numerous and the overall framework is rather complicated. There are three groups of taxes: on ownership, on real estate income and on transactions. There is also a 23% VAT rate for the acquisition of a newly constructed building.

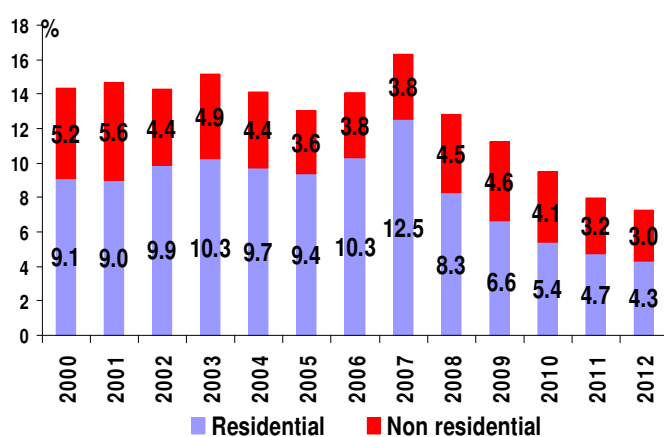
<sup>5</sup> Legal values of real estate are set by the Directory of Capital Taxation in the Ministry of Finance according to location, age and size of a property. They are used to calculate taxes on the transfer of a real estate property. Under the MoU with the troika, the Greek Government has committed to make, by March 2013, fully operational a standard procedure for revision of legal values of real estate to better align them with market prices.

<sup>6</sup> The eligibility criteria also include the legal value of the residence.

the current crisis, 2003-2007, residential investment in Greece was one of the highest (as a percentage of GDP) in the EU.

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 2007 at 12.5% and has fallen to 4.3% in 2012, 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)



Notes: The 2012 figures are EU Commission November 2012 estimates.

Source: European Commission

### 3.1 Building Permits

EL.STAT. data for building permits issuance<sup>7</sup> 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 eleven months of 2012 the decrease (compared to the first eleven months of 2011) has continued: -37.3% in the number of permits, -35.4% in square meters and -33.9% in cubic meters.

### 3.2 Employment

Employment in the construction sector, as expected, is also declining fast, registering a cumulative change of -49.0% from 2007 Q3 to 2012 Q3. In Q3 2012 it fell by -15.3% yoy, reaching 204,800 persons according to EL.STAT. data<sup>8</sup>. As a percentage of total employment it stands at 5.5% (Q3 2012) compared to 8.9%

<sup>7</sup> 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.

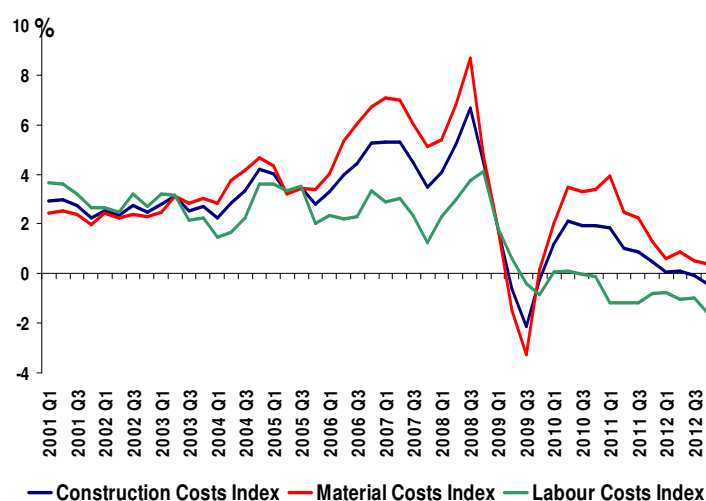
<sup>8</sup> Note that, employment data for Greece may underestimate the absolute number of persons employed in the construction sector due to undeclared work. This is due to tax and social security contributions evasion and the employment of illegal immigrants.

(2007 Q3) at its peak. In the EU, employment in the construction sector stands at 7.0% of total employment (Q3 2012).

## 4. Construction Costs reaming high despite declining labour costs

Despite the recession, construction costs remain high (Figure 3). Total costs declined marginally only in 2009 (-0.3%), in 2010 they increased again by 1.8%, in 2011 by 1.05% and in 2012 they decreased only marginally by -0.08%. This is due mainly to material costs remaining high (2009: -0.7%, 2010: 3.0%, 2011: 2.5%, 2012: 0.6%). Labour costs increased in 2009 (0.3%), remained stable in 2010 (0.0%) and decreased in 2011(-1.1%) and in 2012 (-1.1%). However the developments in the Labour Costs Index for new residential buildings production are inconsistent with developments in wages and ULC in the entire economy. According to ECB data, the total economy ULC declined by -5.9% yoy in Q3 2012 (2011: -6.0%, 2010: -1.2%). Also according to EL.STAT. data, total economy Labour Costs declined by 15.3% in Q3 2012 (2011: -6.0%, 2010: -2.7%).

**Figure 3.**  
**Price Indices for New Residential Buildings Construction**  
(% yoy change, quarterly data)



Source: EL.STAT.

## 5. Credit expansion remains negative and NPLs are increasing

According to the latest BoG data, rates for new housing loans at a floating rate reached 3.04% in Dec. 2012, rising from their historic low in Oct. 2012 of 2.87%. There has been a continuous decline from Oct. 2011 (4.65%).

Housing loans in Greece increased rapidly in the period 2000-2008 thanks to the introduction of the euro and the subsequent decline in interest rates and increasing households' disposable incomes. Outstanding housing loans in Greece started to decrease

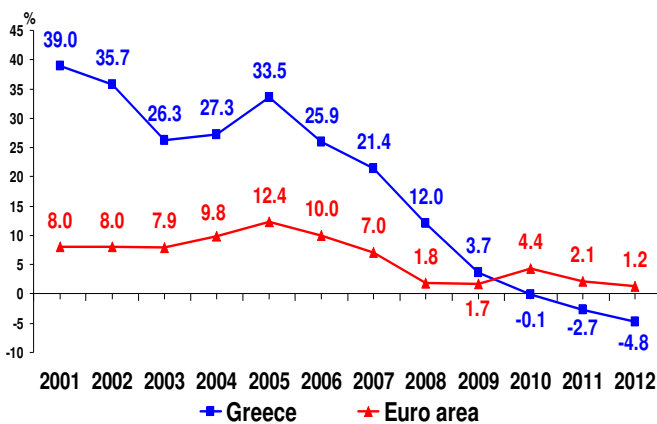
since mid-2010. The latest BoG data, for Dec. 2012, point to an increase in the pace of deleveraging (Dec. 2011: -2.7% yoy, Dec. 2012: -4.8% yoy, see Figure 4). This trend reflects, on the one hand, households' reluctance to purchase a house, and on the other hand, the stricter lending criteria applied by banks and their liquidity constraints. Outstanding housing loans in Greece have reached €74.3bn in Dec 2012 (2000: €11.2bn), or 38.3% of GDP (2000: 8.2% of GDP). Greece has caught up with the Euro zone average. Outstanding housing loans in the Euro zone have reached €3.83tr in Dec. 2012 from €1.9tr in end-2000, 40.3% and 27.6% of GDP respectively.

Non performing housing loans are also increasing: Q3 2012: 20.2%, 2011: 15.0%, 2010: 10.0%, 2009: 7.4%, 2008: 5.3% and 2007: 3.6%. The percentage of housing NPLs remains lower than total NPLs (21.4% in Q2 2012). Banks at the same time continue to restructure loans at increasing rates, trying to avoid new capital losses. According to Hellenic Bank Association data up until the end of June 2012, banks in Greece have restructured 222,384 housing loans, worth €12.38bn.

Figure 4.

## Lending for house purchase, Greece &amp; Euro area

(lending to households, outstanding amounts, end of period, % yoy growth rates)



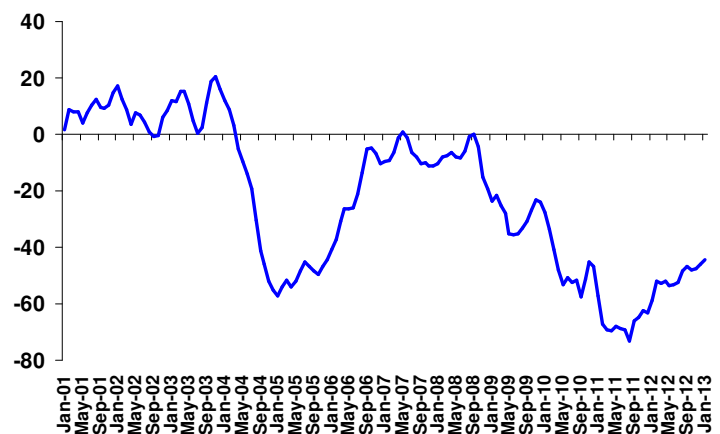
Source: ECB, BoG

## 6. Constructors and consumers remain pessimistic despite the recent improvement

Constructors are pessimistic about the future as are consumers. Business expectations in construction reached their lowest point in mid 2011 (Aug. 2011: -75). They have rebounded since then and in Jan. 2013 were at -47 (Figure 5). The months of ensured production by the current backlog in residential construction increased to 7.2 in Jan. 2013 (2012: 3.2, 2011: 5.1, 2010: 8.3 and 2009: 11). According to the business expectations survey, constructors expect a further decline in the prices they charge in the next quarter.

Consumers also appear unwilling to invest in the real estate market. According to IOBE quarterly data, in January 2013 only 1% of the surveyed households stated that it might buy or build a house in the next 12 months. A further 90% of households stated that it is highly unlikely to make any significant expenses for the improvement or renewal of its residence in the next 12 months.

Figure 5.

Confidence Indicator, Construction of buildings  
(3-month moving average)

Note: The arithmetic average of the balances (seasonally adjusted, in percentage points) of the answers (construction enterprises) to the questions: (1) Evolution of your current overall order books (sufficient or not) (2) Employment expectations over the next 3 months (increase or decrease).

Source: European Commission

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