Property Market Annual Report 2018

Greece

Cerved

Property Services

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Economy

- The Greek economy is growing.
- Tourism is a main driver of the economy and of its residential and retail property market too.
- There is a deficit of high end offices but this has fuelled a retrofitting wave which not only reintroduces good lo-cations but also contributes to the reinvigoration of various areas.
- At the same time, older offices are still converted into hotels in the centres of Athens and Thessaloniki.
- The retail property segment is growing with falling vacancy rates and expanding high street retail areas.
- At the same time, shopping patterns change due to the technological changes taking place.
- The logistics sector is growing, with large scale infrastructure projects creating the conditions for it to become a main driver of the economy. The creation of organized industrial parks and logistics hubs across Greece will ena-ble high speed, combined transports.

ECONOMY

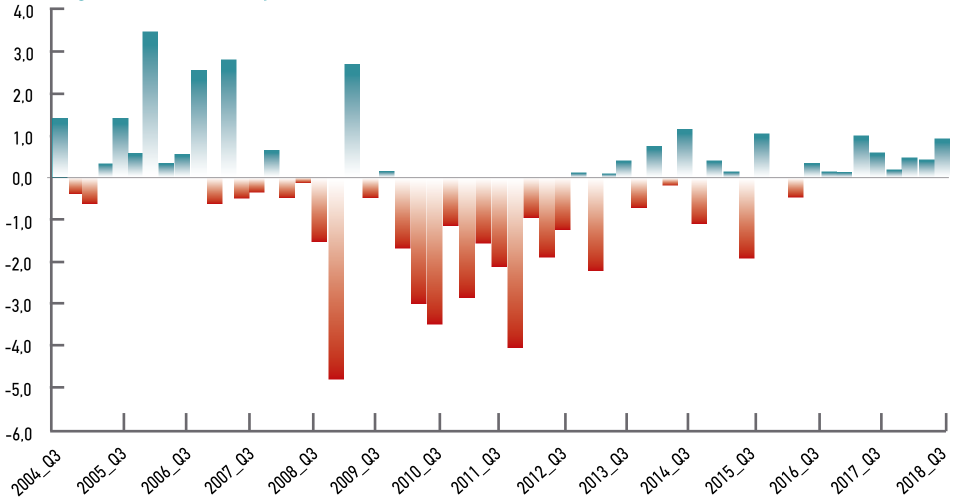
GDP

The performance of Greek GDP has been steadily positive in 2018, recording the 9th quarter of QoQ growth in 2018Q3.

At the same time, the transition from a -1% average year on year change in 2016 to an 1,4% in 2017 and a 2,1% average increase in the first three quarters of 2018 can only be considered a positive sign as to the short-term growth prospects of the economy.

Nevertheless, it remains low given the need to increase the country's GDP as a counterbalance to its enormous government debt.

Figure 1 - Quarterly GDP Growth (%)



Source: Hellenic Statistical Authority

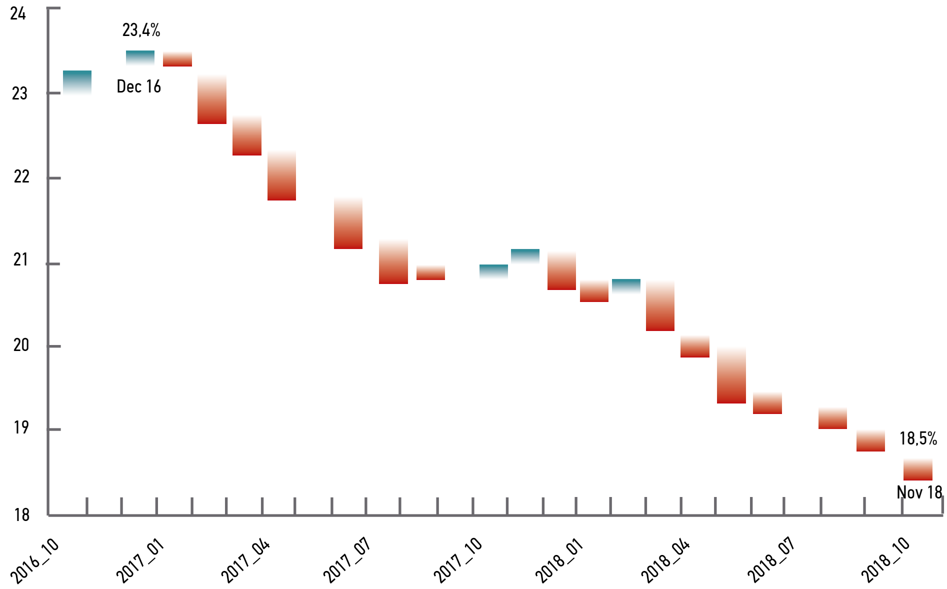
UNEMPLOYMENT

Despite short periods of reversal, unemployment remained on a consistently downward path. Over the past 24 months, increases were recorded only five times and only once was and increase followed by a second one.

While the average unemployment for 2016 was 23,5%, the respective figure for 2017 was 21,5%, and for the first eleven months of 2018 the respective average was 19,4%.

Despite being quite high and indicative of the difficulties faced by the Greek economy, its consistent drop and its speed is a soothing factor given the still relatively limited number of job creating investments taking place.

Figure 2 - Unemployment Rate (%)

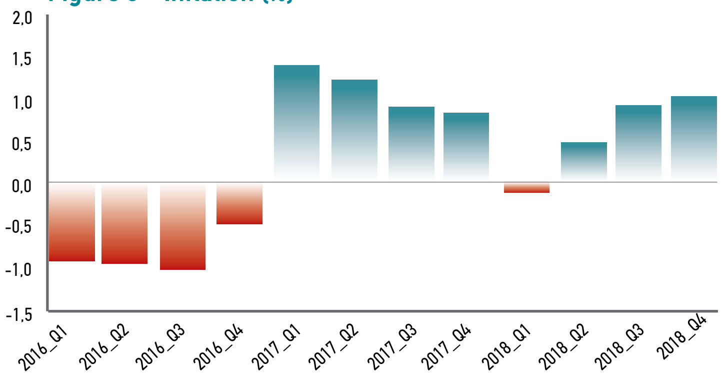


Source: Hellenic Statistical Authority

INFLATION

Although recording negative figures in the beginning of the year, inflation returned to a positive territory in the second quarter and remained positive until the end of the year, recording a 0,6% average for 2018. Nevertheless, the low figures being recorded also point out the fact that the recovery of the Greek economy has not been spotless so far.

Figure 3 - Inflation (%)



Source: Hellenic Statistical Authority

BOND SPREADS

Greek 10-year bond spreads de-escalated from the intimidating figures of the past five years, and since December of 2017 they fell and remained below 4,5%. During 2018, the relevant figures recorded were between 3,8% and 4,4%, which while far better than those of the past, cannot be considered low in comparison to those of other European countries. Without doubt, the stabilisation at those levels is indicative of the elevated risks still associated with the Greek economy. On average, the average Greek 10-year bond spread was 4,2%.

TRADE BALANCE

Despite short term variability, Greek exports have been increasing since the first half of 2016, and this trend continued until November 2018. On the other hand, imports also started increasing in the second half of 2016 and have had a counterbalancing effect on the trade balance of the country ever since. Unfortunately, the effect of imports has been greater leading to increases of the average deficit, both in 2017 and the first eleven months of 2018, for which there is available data.

CONSUMPTION

Overall consumption statistics were indicative of a positive note on the Greek economy. Starting in 2016, on a monthly basis, the positive changes in consumption increased from 5 in 2016 to 8 in 2017, to retreat to 6 in the first 10 months of 2018, while a positive trend continued being recorded on average during the year, despite short term variability.

Fuel consumption has been on a positive trend since the first half of 2016, strengthening the argument that the economy is in recovery mode. A similar picture is evident when focusing on food sector consumption statistics, but similarly to fuel consumption, it is a figure also affected by the positive impact of increases in tourism.

Focusing on department store consumption, there was no crystal clear trend, implying a phase of transformation and intense competition, with increases not being recorded across the market but only in certain segments. To some extent, this is explained by the widespread use of discount offers by retailers, with increased volumes sold not necessarily corresponding to increased revenues. At the same time, non-store retail consumption has been on a strong positive trend since the beginning of 2016 and this trend continued during the first ten months of 2018, on average. Among others, this was indicative of the growth observed in online retail activity in Greece.

TOURISM

Tourism, one of the main contributors of the Greek economy, has had another good year. According to figures published by INSETE, airport arrivals were in record territory with a 13% increase in arrivals from abroad or 20,3 million passengers recorded in the first eleven months of the year. Athens and Thessaloniki recorded increases of 19% and 11% respectively. At the same time, tourist arrivals via road network were slightly lower by 2%, but in absolute figures, arrivals were at 11,9 million, which is by no means a negligible figure.

Tourism receipts, according to figures published by the Bank of Greece, did not exhibit a proportionate increase. Tourism receipts increased by only 4% during the first eleven months of the year, backing the argument that the mix of tourists has changed over the years in addition to an increase in shorter term visits, such as city break tourism, leading to lower incremental increases in receipts when compared to tourist arrivals.

GREEK BANKS AND NPES

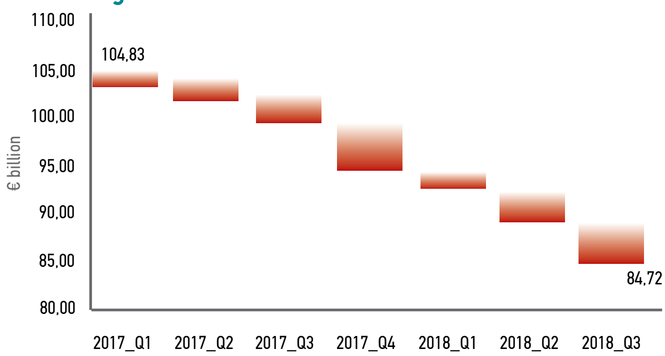
After three recapitalisations and considerable cost cuts, Greek banks found themselves in a far better condition by the end of 2018 than in the past years. With selective sales of their subsidiaries in the Balkans, they have focused their efforts on the Greek market and the foreign subsidiaries each one has chosen to keep and grow. The focus on core banking activities continued during the year.

In terms of liquidity, conditions have improved considerably, with the dependence of Greek banks on ECBs Emergency Liquidity Assistance (ELA) falling from €46,5 billion in the beginning of 2017 to €22,0 billion in the beginning of 2018 and finally to €4,0 billion by the end of the year.

During the year, although capital controls were still in place, they were gradually eased providing further positive signals regarding of the economy and of the banking system of the country. Still, conditions remained demanding due to the NPL load remaining pressing throughout the year.

Overall, according to figures published by the Bank of Greece, by the end of 2017 NPEs of commercial and cooperative banks in Greece had decreased to € 94,4 billion, a 10% decrease in comparison to December 2016, while by the end of the third quarter of 2018 they had dropped to €84,7 billion, another 10,3% decrease in the first 9 months of the year.

Figure 4 - NPEs of Greek Banks

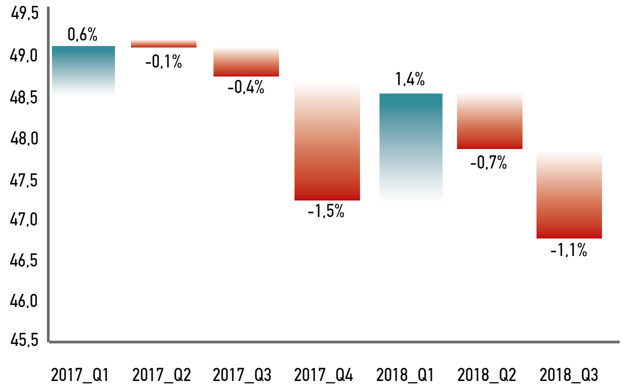


Source: Bank of Greece

Nevertheless, the NPE ratio of Greek commercial and cooperative banks which stood at 48,5% by the end of 2016, dropped to 47,2% by the end of 2017 and reached 46,7% by the end of the third quarter of 2018, implying that more steps are still required for the Greek banking system to improve its health.

So far, the effort to decrease the NPL burden has necessitated write-downs and write-offs, loan modifications and restructurings as well as non-performing loan portfolio sales of both secured and unsecured loans.

Figure 5 - NPE Ratio of Greek Banks (%)



Source: Bank of Greece

As part of their effort to manage their non-performing exposures, Greek commercial banks performed a number of portfolio sales which some of which included not only loans backed by asset collaterals but also repossessed properties. Two major deals of such portfolios were completed during 2018:

- The €1.950 million "Amoeba" collateral backed commercial loan portfolio sold to Bain Capital Credit by Piraeus Bank

and

- The €800 million "Jupiter" collateral backed commercial loan and REO portfolio sold to Lana Securitisation Sarl by Alpha Bank. The former is funded by Apollo Global Management LLC and the International Finance Corporation (IFC)

Furthermore, since in many cases, non-performing exposures to some borrowers were not the exclusive to one bank only, the four systemic banks also entered into a servicing deal with doBank for an €1,8 billion portfolio of non-performing loans of this category.

In certain cases, investors focused on the loans of specific companies. Pillarstone agreed with the four systemic banks to assume the servicing of over €150 million loans of Notos Com Holdings combined with an equity infusion of €25 million which will be performed jointly with the four creditor banks.

Finally, in order to speed up the process of lowering NPL ratios and have an alternative to other measures, negotiations took place during the second half of the year for the creation of a "bad bank" which will offer a solution to those banks which will be interested to massively offload non-performing loans.

MAJOR PROJECTS AND CONCESSIONS

AIRPORTS

Eleftherios Venizelos Airport

The concession for Eleftherios Venizelos Airport in Attica was extended by 20 years, while the Greek Government plans to put another 30% held by HDRAF for sale in 2019.

The 14 airports managed by Fraport

Fraport officially assumed the management of the 14 airports included in the concession agreement with the Greek Gevernment in March 2018. During 2017, the 14 airports managed by Fraport recorded a 10,3% increase in passenger numbers in comparison with those of 2016.

Upgrade works which had started in 2017 in the 14 airports continued in 2018. Renovation and upgrade works of main infrastructures continued during 2018, as did the expansion and upgrade of dedicated retail use spaces with the relevant investment for the period 2017-2021 expected to be in the range of €50-55 million.

During 2018 construction works for the new terminal of Macedonia Airport in Thessaloniki begun and the overall project will include the renovation of the existing terminal, the renovation and extension of the runway and other works. As for the remaining 13 airports, the completion of upgrade works in the airports of Kavala, Zakynthos and Chania were expected by the end of 2018 with the completion of upgrade works of the rest expected by the end of 2021.

The 23 remaining Airports

For the remaining 23 airports the management of which has yet been assigned to investors, clustering and selective investments were considered as the preferable short term course of action, in order to improve their infrastructures and increase their worth. A prime example, expected to become the recipient of considerable investment is the airport of Kalamata which, due to its location, can cater to a large number of cities of the Peloponnese and tourist destinations.

PORTS

Piraeus

During 2018, Piraeus Port ranked second in Europe in terms of freight transport figures, from seventh in 2017. As part of the concession agreement with the Greek State, COSCO has agreed to invest €293,7 million in port infrastructures. Besides those, there are further plans to develop additional infrastructures such as a logistics hub, car park buildings and a passenger terminal for cruise ships.

Thessaloniki

As for the port of Thessaloniki, 2018 was marked by the acquisition of 67% of its capital by the South Europe Gateway Thessaloniki (SEGT) joint venture. According to the investment plan of the acquirer, there will be a modernisation of port infrastructures with a focus on freight transport equipment and a re-organisation of it business structure in order to reposition the port in the market, attract freight volumes and develop complementary activities, while optimising the utilisation its rail network connections. SEGT is obliged to perform €180 million investments in the coming seven years, as part of the concession agreement with the Greek State.

Other Ports

As part of the ten smaller ports being prepared for future concession agreements, Alexandroupolis Port is tilting towards becoming a natural gas transport hub. Its planned connection with the IGB gas pipeline is expected to be used among others for import of LNG from the US, while it also has space to support logistics activities.

Elsewhere, the ports of Volos and Astakos are gradually attracting agricultural logistics activities with the former also attracting dry cargo activities, while other ports such as those of Kavala, Corfu, Igoumenitsa and Lavrio, are orientated towards cruise related activities.

RAIL TRANSPORT & INFRASTRUCTURE

The acquisition of TRAINOSE by Ferrovie dello Stato Italiane is contributing towards starting a new chapter in terms of rail infrastructure and rail transport services. A €500 million investment plan will lead to the provision of high quality rail transport services for both passengers and freight, creating a viable competition to road and airport transport. To this direction also helps the sale of “ΕΕΣΣΤΥ”, the state company focusing on maintenance of locomotives, to TRAINOSE which while approved by the Greek Court of Auditors during 2018, was expecting the opinion of Greek competition authorities by year-end, regarding whether it should remain an independent company or not.

The electrification project of the rail line connecting Athens with Thessaloniki completed in December. Travel time on the upgraded line has fallen on an announced 4 hour and 30 minute journey, while the completion of further infrastructure upgrades by the end of 2019 will further lower the time to 3 hours and 20 minutes.

At the same time considerable focus was recorded on the prospects of combined transport, through the connection of the rail network with all major ports of mainland Greece, such those of Piraeus, Patra, Igoumenitsa, Astakos, Volos, Ikonio, Thessaloniki, Kavala, and Alexandroupolis.

Thriassion

As for the part of the relevant concession, the management of a 58,8 hectare area was awarded to ETVA-VIPE and Goldair, which will be followed by an investment which is expected to reach €160 million. The plan and construction of the relevant infrastructure was assigned to Mytilinaios Group of companies and, after the approval of European competition authorities, the project is expected to begin with construction works expected to last six years. 235.000sqm of buildings are expected to be constructed in the coming 10 years.

At the same time, the invitation process for the future concession of a 145 hectare area owned by OSE, i.e. a freight terminal and the adjoining yard, is expected for 2019.

Gkonos military camp

The 67 hectare area in Diavata area of Thessaloniki is intended to be converted into a logistics hub which will serve as a central point in north and central Greece transports but also as a main logistics hub in the Balkans. Currently in the non-binding offer submission phase, the expectation is that by the end of 2019 the concession will have been completed and an investor will have been chosen.

As a project it is expected to serve complementary to the logistics hub of Thriassion in Attica and that in Alexandroupolis.

Alexandroupolis

An area of than 50 hectares is planned to be part of a €150m project for the creation of a logistics hub which will operate in tandem with the port of Alexandroupolis. Attracting great interest as a LNG transportation hub, it is also expected to offer direct access to the rail network connecting Alexandroupolis Port with the main western Black Sea ports of Bulgaria and Romania. The future brings a freight transport alternative to the Straits of Bosphorus.

URBAN TRANSPORT

In Athens, the extension of metro line 3 continued in 2018 with additional stations planned to be added to the currently active network in 2019. Further, works continued towards the extension of the light rail network to Piraeus expected to be delivered for use in 2019. Gradual delivery of 25 new Alstom Citadis X05 trains is expected to begin during the year.

As for the planned line 4 of Athens Metro, the three joint ventures chosen to participate in the bidding process for the €1,5 billion first phase of the project were expected to submit their offers before mid-December and the selection process is expected to reach its conclusion by Spring 2019. The first phase of the project is expected to add 14 new stations to the existing network.

In Thessaloniki, the construction works of the main metro line progressed during 2018, with 95% of construction works having been completed by the end of the year in 13 stations. 2019 is expected to mark the completion of electromechanical works, the arrival of the first trains and the beginning of the infrastructure test phase. By the end of 2020, the metro network of the city is expected to have been completed and delivered for use, with the planned expansion towards the west of the city as well as towards Macedonia Airport expected to follow.

REGENERATION PROJECTS

Hellenicon

With the Greek Council of State having given its approval in the first quarter of 2018, judging the project as non-conflicting to the constitution or any laws, the €7 billion project is expected to transform the old Hellenicon Airport into a high-end destination. The 620 hectare area is expected to include a casino, hotels and residences for high net-worth individuals. According to expectations, 2019 might be a fruitful year which will mark the signing of the agreement between Global Investment Group and the Greek Government, which will enable investors to proceed to the initiation of construction works.

Two major issues remained open at the end of 2018, the solution of which is a prerequisite, were the permit to operate a casino within the project area as well as the approval of the city-planning studies of the project.

The public space management committee of the project, a mechanism enabling the coordination with the adjoining municipalities, convened in the beginning of 2019, marking another step forward.

Athens Centre Regeneration

The effort to rehabilitate the centre of Athens continued in 2018 with various functional and aesthetic upgrades taking place, aiming at reigniting business and visitor interest for the centre of the city. By providing support to a multitude of uses in order to remain or return to the centre through an attractive urban landscape the city aimed not losing out on the increased tourist visits, as the city is gradually becomes a city break destination. In addition the efforts of the Municipality, an additional organization was created in 2018 to act as a connecting link between the government, Municipality of Athens and Perfecture of Attica, enabling a better coordination of the actions required for the regeneration of the various areas of the city.

On the other hand, not very far from the centre of the city, the Academy Gardens project was eventually cancelled, after numerous obstacles and delays it faced over the past years.

Piraeus Regeneration

During the year the area witnessed progress in various projects which included the repaving of various streets and upgrades of its urban infrastructures with a balanced focus on both pedestrians and vehicles.

Besides the centre of the city where commercial streets were being upgraded through the year, a contract was signed for the financing of the regeneration effort of Agios Dionyssios area which will include a redistribution of traffic flows and a reorientation towards pedestrians and cyclists.

Within this context, the Piraeus Port Plaza redevelopment project of Dimand Development progressed during the year. It gradually transforms the old Papastratos industrial premises into a complex housing a multitude of uses including offices, hospitality uses and residences, acting as a proof of the gradual change of character of a previously industrial area into a upgraded urban landscape, attractive to both businesses and visitors. The planned construction of metro access and the upgrade of the passenger section of Piraeus Port will push towards an extensive transform the area.

Finally, the municipality also moved forward with the regeneration project of Mikrolimano area. The aim is to keep pedestrian flows away from car flows, while expanding the regeneration towards SEF Stadium and creating a natural “link” with the gradual upgrade of the seafront of Attica which currently taking place through a number of widely impacting projects.

REAL ESTATE TAXATION

During 2018, there was a first update of "zone values", a fundamental metric of real estate taxation, having an impact on the objective value tax map and a great number of property taxes. Due to the fact that the effect would impact transactions taking place from the beginning of 2019, this contributed to increased property transaction volumes, as recorded in cadastral offices until the end of the year. Overall, the expected impact will be on at least 17 taxes, ranging from municipal taxes imposed on properties to off-shore company taxation.

Furthermore, in an effort to record property owners and assets producing revenues from short term stays, a new registry was activated in August, which is expected to contribute to the creation of a better regulatory framework for this market in Greece. It is also expected to assist in addressing an issue of non-disclosed incomes and in their taxation.

REICS AND OTHER INVESTMENT FUNDS

2018 was marked by increased activity of real estate investment companies (REICs) while at the same time the increased tax burden on these companies and turmoil in the markets partially held back their efforts to pursue growth. At the same time, a number of investment funds introduced competition for assets, adding further pressure.

The effect of changes on the REIC tax applied in 2016 has had a negative impact on its profits. With cash and equivalents held by REICs being taxed at the same rate as their investments in properties, there were are disincentives to retaining high levels of idle cash for long. At the same time, the realisation of their investment plans made increasing debt levels a choice.

Overall, 2018 was a quite active year for the Greek REIC market.

Pangaea REIC

Two new investors, Castlelake and Coller Capital, indirectly acquired part of the share capital of NBG Pangaea REIC through their acquisition of shares in Invel Capital, holder of 65,49% of Pangaea. This move was without doubt a vote of confidence in its strategy and its prospects.

During the first half of year, the company initiated the process to issue a €400 million debenture loan in order to fund its investment plan. Despite having a Debt to Assets ratio of 28% in May which probably allowed the company to further increase its leverage, the debenture issue was paused due to un-inviting conditions in the financial markets. Eventually in December, the company announced a secured debenture loan of €120 million.

By year-end, the expressed intention of NBG to sell its holdings in Pangaea capital remained an issue to be addressed in the beginning of 2019. As required by REIC law, Pangaea needed a higher free float ratio than its current.

Grivalia REIC

During the year, Grivalia was quite active. Besides the property acquisitions it completed, the company arranged two secured lines of credit in the form of debenture loans of €75 million each, increasing its debt to assets ratio to 17% from 13% in the beginning of the year.

At the same time, its cash fell from €62million in year-end 2016 to €54 million in year-end 2017 and reached 37 million by the end of the third quarter of 2018, while its financial expenses increased to €4,4 million in 2018Q3 in comparison with €3,1 million in the respective period of 2017, without measuring the effect of the new lines of credit announced during the year.

Finally, in 2018Q4, Grivalia REIC and Cerved decided to merge with the conversion of Grivalia shares into Cerved shares, a move expected to contribute to capital adequacy ratios of the latter. As Greek banks focus on their core banking activities it is expected the gradual sale of the portfolio currently held by Grivalia will follow.

Also during the year, Grivalia Hospitality, a company owned by M&G Investments (50%), Grivalia Properties REIC (25%) and ERB Eurolife (25%), was incorporated in Luxemburg. As part of its effort to realize its investment plan, the company completed a €60 million share capital increase, proportionately paid by its three shareholders.

Trastor REIC

In similar fashion with other participants of the REIC market, the company proceeded with a €24 million debenture loan in an effort to realize its investment plan and take advantage of investment opportunities in the Greek real estate market.

Briq REIC

Also issued a €10 million debenture loan in July 2018 in order to finance its investment plan.

Ble Kedros REIC (Coco-Mat)

The Coco-Mat owned company mainly focusing on hospitality and retail properties issued a €4,2 million loan in October in order to finance its investment plan.

Orilina Properties REIC

The November 2014 incorporated Orilina Properties, obtained a REIC license in November 2018 which is followed by a two year period to decide its listing in the stock market, a requirement in order to retain the REIC status. Its main focus is income producing office and retail properties.

Noval

The Viochalco owned company, focusing on the real estate holdings of the parent group, is planned to obtain REIC status in order to further promote the capabilities of the parent group in the commercial real estate development and management business.

Fourlis

Fourlis Holding applied for a REIC license in November. The soon to be Trade Estates REIC, is expected to focus on retail and logistics properties catering to e-commerce activities.

Pasal Development

Having found itself in difficulty, Pasal submitted a reorganization plan in order to settle its debt with two of its main creditors. During the year, the company was focused its effort on the repositioning of its main holding, Athens Heart Mall, which it has been trying to make more attractive to prospective buyers. According to published news, the company has been in talks with Hines for some time in relation with this asset.

Kloukinas Lappas

Despite its initial intentions, the company temporarily stopped the process to create and list a REIC in Athens Stock Exchange, due to not satisfying one of the listing requirements.

FOREIGN INVESTMENT FUNDS

The year was also marked by the introduction of new investors in the Greek real estate landscape, adding competition for prime but distressed situation assets with good prospects to produce income. In the first quarter of the year, Dromeus Capital outbid other candidates in two office property auctions. Not bound by limitations and eventually unattractive taxation of REIC status, such funds contributed to nudging and property yields lower.

On the other hand other investors, each for their own reasons, aimed at liquidating their holdings in the Greek market. Among them, Grupo Dolphin and Helens Re.

OFFICES

DEMAND & SUPPLY

During 2018, demand from users remained focused on higher specification spaces in areas easily accessible using public transport or in 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 technological evolution of hardware used in modern offices, the use of wireless networks and a trend towards physical footprint minimization and mobility are redefining the required specifications of office spaces in Greece as well.

Older offices can be retrofitted and become competitive once again. Combined with the large stock of older assets, distressed or not, retrofitting continued being a popular trend 2018. Offices in central and in general attractive locations were highly sought after since, once brought to a condition that satisfies aesthetic, energy performance, required layout and other important standards set by tenants, those offices become desirable to users and can achieve much higher post-retrofit yields, plugging the supply gap that continued in the quality office space segment during 2018.

At the same time, in central locations, the trend to convert older office spaces into boutique hotels remained popular in 2018 and was another factor lowering the availability of offices, especially in the business centres of Athens and Thessaloniki.

Given that NPL property collateral pools contained a major source of candidates worth acquiring, investors were particularly active in their search of distressed assets with good prospects, seeking to close profitable deals. Even with a relatively short-term approach, after turning those assets around and reclassifying them, the prospect of taking advantage of their full potential would materialise as a capital appreciation.

The lack of quality offices in good locations was evident by the interest that good distressed assets attracted but also by the fact that the construction of semi-finished office projects, paused for years in some cases, restarted during the year.

This positive trend was amplified by the recorded preference of tenants to be based in high quality spaces. A number of relocations and renovations took place during the year, among which some notable cases stood out.

Athens

- Amgen leased office spaces at 59-61 Agiou Konstantinou Street in Maroussi
- FMC moved to its new in Athens, at 348 Syngrou Avenue
- n November AXA inaugurated its refurbished offices at 48 Michalakopoulou Street
- Kleopas Alliot moved to its new offices at 350 Syngrou Avenue, in Kallithea
- GlobalWebIndex leased offices in Athens, at 56 Ermou Street
- Marsh moved to its new office premises at 8-10 Sorrou Street
- NP Insurance moved to its new, owned offices at 81-83 Kifissias Avenue, in Maroussi
- Shire moved to its new offices at 38 Vassileos Konstantinou Avenue, in Athens
- Willis Tower Watson moved to its new address at 32 Kifissias Avenue, in Maroussi
- CNP ZOIS moved to new offices at 162-166 Syngrou Avenue, Kallithea
- Taxibeat announced its intent to bring its Athens activities, currently in three locations, under one roof. It has agreed with Noval to lease 2.500sqm in the latter's, office building at 115 Kifissias Avenue in Ampelokipi, Athens which is currently under development.

Thessaloniki

- Interamerican opened new offices on 5 Ionos Dragoumi
- SigmaSoft move to new premises on 173-175 Ethnikis Antistaseos, Kalamaria

Investors were particularly active during the year with a number of acquisitions. Among the transactions completed during the year by some notable cases completed by Greek REICs stand out.

Pangaea REIC

- Acquired an approximately 6.900sqm office and retail property at the intersection of Syngrou Avenue and Lagoumitzi Street, in Neos Kosmos, Athens

Grivalia REIC

- Acquired a 4.630sqm office building at the intersection of Omirou Street and Stadiou Street
- Acquired a 4.457sqm commercial building at 5 Grigoriou Lampraki Street in Glyfada, with 2.025sqm are dedicated to retail and offices uses
- Acquired "Value Τουριστική" SA, owner of a 14.427sqm office building at the intersection of the Ilia Iliou Street and

Minoos Street in Neos Kosmos, Athens
- Acquired the remaining 50% of "Piraeus Port Plaza 1", a 14.170 sqm previously industrial building converted into offices, of with 9.700 sqm over ground
- Acquired 49% of "Piraeus Port Plaza 2", an 26.755sqm previously industrial building converted into offices by Dimand SA, in Agios Dionyssios, Piraeus

Trastor REIC

- Acquired a 372sqm, 3rd floor office space at the intersection of Filellinon Street and Othonos Street, in Athens. The company also owns the 4th and 5th floors of the building
- Acquired a 1.600sqm office and retail building at 194 Kifissias Avenue in Chalandri, with 901sqm above ground
- Acquired a 5.070sqm office building at 515 Messogion Avenue in Aghia Paraskevi
- Acquired a 917sqm office space at 4 Theofanous Street in Athens

Intercontinental International REIC

- Acquired a 3.589sqm office building leased to a multinational company, located at 18 Zekakou Street and Karamanli Street, in Maroussi
- Acquired an 838sqm building at 3 Charitos Street and 6 Sefssipou Street in Kolonaki, with office and retail uses

Briq REIC

- Acquired a 1.788 office building with 1.403 over ground, at 18 Filellinon Street in Chalandri.
- Acquired a 767sqm office space at 1 Alamanas Street in Maroussi
- Acquired a 1.629sqm building at 4 Gennadiou Street and Ypsilandou Street in Kolonaki, Athens

Besides REICs, other investors were active during the year. The most active, Dromeus Capital, completed three transactions during the year.

- Acquired a 8.334sqm office complex at 66 Kifissias Avenue in Maroussi
- Acquired 921sqm of office spaces at 4 Theofanous Street in Ampelokipi, Athens
- Acquired a 1.400sqm building at 16 Kifissias Avenue, operating as a medical centre

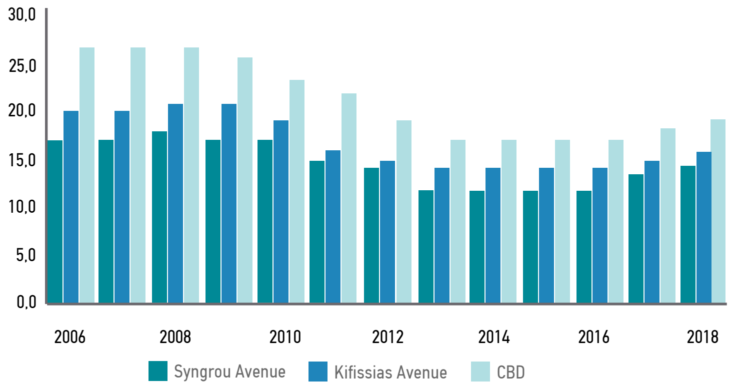
As for the office construction pipeline, new projects were few. During the year, there was a focus on completing projects that had been paused due to the crisis, acquiring and retrofitting distressed assets but also for conversions into uses that were in demand. Three projects stood out.

- The completion by Dimand of a €48 million office building at Katsoni Street and Doiranis Street in Kalithea
- The Piraeus Port Plaza buidings by Dimand, the gradual completion of which progressed during the year
- The Orbit building by Noval on 115 Kifissias Avenue, the construction of which restarted during 2018

RENTS

Office rents increased slightly during the year. In Athens, for prime offices in Syntagma and Vassilissis Sofias Avenue, rents were in the range between €17 and €21/sqm/month. Kifissias Avenue prime rents hovered in the range between €14 and €17/sqm/month, while rents for prime offices at Syngrou Avenue remained lower, between €12 and €15/sqm/month. It should be noted that there were few transactions for spaces located in office buildings which were in high demand, where higher rents were recorded.

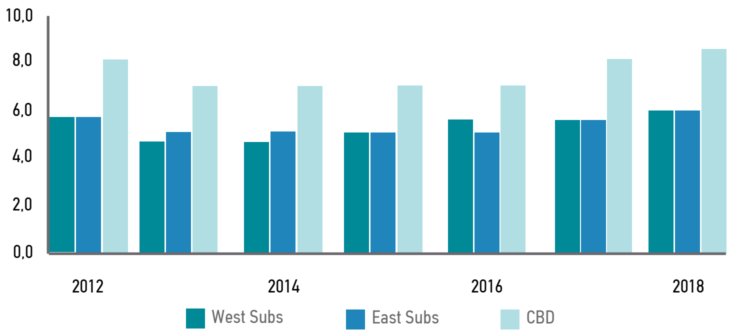
Figure 6 - Prime Office Rents - Athens & Subs



Source: CPS R&A Division

In Thessaloniki, rents for prime offices in the centre of the city were in the range between €8 and €10/sqm/month, while its east and west suburbs, prime rents were in the range between €5 and €7/sqm/month.

Figure 7 - Prime Office Rents - Thessaloniki & Subs

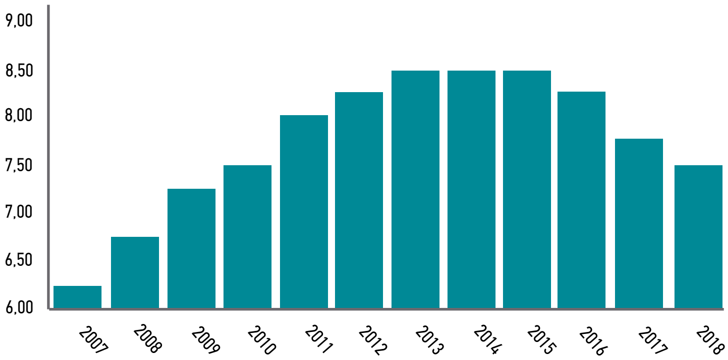


Source: CPS R&A Division

YIELDS

Overall, for prime offices yields were in the range between 7,25% and 7,75%. In specific cases, even lower yields were considered acceptable. There were investors who were willing to complete transactions at lower levels in expectation of a recovery in rents and values in the coming years.

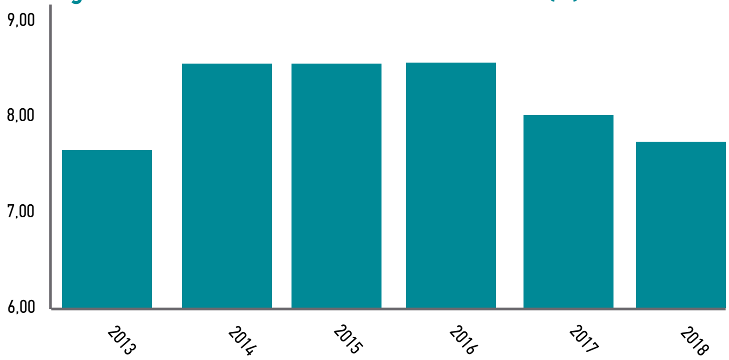
Figure 8 - Prime Office Yields - Athens & Subs (%)



Source: CPS R&A Division

In Thessaloniki, yields for prime offices were in the range between 7,5% and 8,0%.

Figure 9 - Prime Office Yields - Thessaloniki (%)



Source: CPS R&A Division

OUTLOOK

Focusing on offices, the combination of increased demand, which will continue as the economy recovers, with the lack of modern specification spaces is expected to continue fueling the retrofitting trend which is currently recorded.

It is a fact though that, as the stock of existing available buildings diminishes and half-finished projects are completed and reach the market, absorption rates and improving credit conditions will make new developments once again a viable alternative, especially with the prospect of diminishing yields.

A positive medium term trend in rents is expected to be dependent on the prospects of the economy and the longevity of the economic recovery which will gradually require the signing of new leases which will set the benchmark higher.

RETAIL

DEMAND & SUPPLY

Following a good year, 2018 was characterized by an uptick in retail activity in prime areas and further stabilization in many secondary retail areas across Greece.

In part due to the combination of public works aiming to upgrade the urban landscape in the centres of cities across Greece and in part due to increased tourist numbers in many of them, vacant retail properties in prime areas were far less common sight than last year, with retailers gradually becoming interested in broader areas than in the past. The aforementioned was influenced by increased footfall in many retail destinations, main streets and malls alike, which to some extent added to the allure of such destinations in the eyes of retailers.

Athens

In the centre of Athens, Ermou Street experienced another year of heavy consumer traffic. From Syntagma Square to Aeolou Street, there was no vacancy of readily available retail units during the year, while there were two changes of retailer. Tsouderos replaced J. Bournazos at Ermou Street and Nikis Street, while Guess replaced Replay at Kapnikareas Square. Furthermore, in tune with the gradually rising profile of the street, a number of renovations took place during the year, most notably those of the Bershka flagship store and of the BSB store. Overall, in that section of the street there was only one building that remained empty during the year, but it should be noted that it was not readily available for use.

In the section of Ermou Street, from Aeolou Street to Athinas Street, which has a comparatively lower profile, there were also no empty readily available units. Nevertheless, there still empty buildings in need of heavy repair works in order to become ready for tenants.

Similarly, new arrivals of tenants marked the neighbouring streets such as the OGGI store on Mitropoleos Street and various smaller retailers, bars and restaurants on Mitropoleos, Aeolou, Athinaidos, Kolokotroni and Athinas Street.

On the other hand, despite the high performance of the main retail corridor of the area, there were still spots that were indicative of the mixed perceptions as to the retail capacity of the area. Besides the very few, not readily available buildings which remained empty on Ermou Street, the picture was a bit different on adjacent locations. Although gradually diminishing, there was a non-negligible number of buildings which could house retail uses but were available throughout the year. While few of them were readily available, the fact that many were large enough to enable a large scale of operations but remained empty was indicative of a still defensive posture of retailers and investors towards locations not offering the highest visibility.

Furthermore, in addition to the high mark in seasonal tourism, the entire area reaped benefits due to the fact that the city gradually becomes a city break destination. The buoyant tourism figures of 2018 and previous years, once again contributed to the existence cases where hospitality uses replaced retail and office uses. Another new arrival verified the relevant trend in 2018; Elia Ermou Athens Hotel on 15-17 Ermou Street opened its doors in December.

The notable rent and value differentials observed between Ermou and nearby streets, but also the number of older buildings remaining empty have attracted considerable investor interest in the area. Pangaea REIC acquired a number of buildings in the area which have the potential to house both large retailers and hotels, among which was the old Hitiroglou building at the intersection of Mitropoleos Street and Kapnikareas Street.

Overall though, despite notable exceptions, the area street continued attracting mainly hospitality, food and beverage related uses, with the main drive being to take advantage of the increased pedestrian traffic recorded in recent years. Repairs and renovations were a frequent sight during 2018 and have continued in the beginning of 2019.

Despite the reignited interest in the area and widespread repaving of pedestrian routes performed by the municipality in order to upgrade the centre of the city, old empty buildings were still not a rare sight at year-end. The longevity, strength and distribution of the recovery in the retail property segment of the area remains to be seen, especially given the repositioning of secondary retail clusters and the fact that retailers have starting adopting hybrid approaches such as "request it on the web site – try in the store" which change the dynamics regarding the required space on a main retail shop.

With metro stations having become the access points of preference for visitors in the area, retailers take note and weigh it in their choices of locations. Besides Ermou Street, renewed interest was recorded for locations on Stadiou Street, between Klafthmonos Square (Panepistimio Station) and Syntagma Square (Syntagma Station), with new arrivals including Imanoglou Jewelry and others.

It should be noted that a trend of retail gentrification continued during the year with a gradually increasing interest for areas which had ended up being avoided during the past years. This verified by the choice of large retailers to open stores in areas which had clearly fallen behind due to the crisis, such as the part of Stadiou Street from Kafthmonos Square to Omonia Square.

Examples of retailers choosing the area included Ianos with a new shop focused on music. Other main streets of the area attracted retailer interest. Flying Tiger opened a new store at Panepistimiou Avenue and 28th October Street, near Omonia Square, as did Galerie de Beauté. Both moved into a building owned by NBG Pangaea REIC.

On the other hand, interest remained relatively stable for currently prime locations in Kolonaki, with bars cafeterias, confectioneries and bakeries having replaced many fashion retailers, especially in smaller units, creating new clusters. This has partially changed the character of the area. There was a redistribution of retailers in the area, with the centre of interest being Filikis Etairias Square and Kanari Street. In contrast, there was retailer interest for locations not far from those which definitely was not as strong.

2018 was characterized by an uptick in retail activity in prime areas and further stabilization in many secondary retail areas across Greece.

Empty retail locations remained even on Filikis Etairias Square on Patriarchou Ioakim, Anagnostopoulou, Skoufa, Milioni, Solonos Street and elsewhere.

Of course, this was not necessarily due to diminished interest by prospective tenants. To some extent, it was the consequence of bid-ask spreads since the perception of the former regarding rents in many cases differed considerably from those of owners having properties in the area. To this contributed the fact that as transportation in the centre of the city is tilting towards the use of the underground rail network, the fact that Kolonaki retail market is at an elevated area in comparison to other competing locations such as Voukourestiou Street or Ermou Street, making access slightly difficult. This has partially limited the attraction of the area, especially when combined with the lack of high-end retailers in the area which used to attract consumers in the past.

Elsewhere in Athens, where the effect of increased tourist flows is has not been so direct, the picture was slightly different during the year although gradually more positive. In main retail destinations of the southern suburbs of Athens, the retail property landscape was marked by increased interest of retailers with a gradual expansion of areas where high consumer footfall figures were recorded. Still the redistribution of retailers which has taken place in various areas, due to the financial crisis and owners not accepting lower rents, has created new clusters which retained strength in 2018 and was not expected to change in the immediate future.

Nevertheless, empty stores were gradually leased while others were renovated. To some extent, the situation was aided by the use of percentage rents offering a lower entry point to retailers and a different framework allowing shorter durations for commercial leases, introduced with law 4242/2014.

Similarly with the south, the northern suburbs such as Kifissia have recorded increased interest and healthy levels leasing activity during 2018. Despite the existence of large malls not far from local main street retail markets, which have had a considerable effect so far, main streets in the northern suburbs have changed their retailer mix and after a geographic redistribution of retailers within them, have stabilised. During last year, there was a gradual relative increase in leasing activity, a good sign under the "new normal" circumstances, but still far from levels of the past. Still, there were indications of opportunistic behaviour from both the side of few owners and prospective users in few cases.

Elsewhere in Attica, there are various suburbs where retail activity grew in 2018 and this had a marked positive effect on the local retail property markets, despite gradually changing shopping patterns.

Thessaloniki

In Thessaloniki, for another year, main street retail interest was concentrated on Tsimiski Street and Mitropoleos Street, with vertical connecting streets also drawing attention although still limited in comparison to the main retail streets of the city. A bit further from the seafront of the city, Egnatias Street also attracted gradually increasing interest during the year. This was due to the rising awareness of the positive effects that the Thessaloniki metro rail network will have on consumer and visitor mobility, consequentially giving a positive push on the retail market of the city.

Numerous leases were recorded throughout the year with the following being among the notable transactions.

- Claire's opened a new store at 21 Agias Sofias Street
- Sloggi opened its first Sloggi branded store, located in Mediterranean Cosmos Mall

- INGLOT opened a new store at 66 Tsimiski Avenue
- Protergia opened a new store at Mitropoleos Street
- A new PUMA Store opened its doors at 36 Mitropoleos Street
- Nak opened a new store at the intersection of Tsimiski and Aristotelous Streets
- Anel opened a new store at Tsimiski Avenue, moving from its previous location At the intersection of Tsimiski Avenue and Karolou Dil Street
- Piraeus Bank opened a new "e-branch" at 80 Tsimiski Avenue
- A new IQOS store opened its doors at Tsimiski Avenue, near Aristotelous Square
- A new Pull & Bear store opened at Tsimiski Avenue

The combination of increased interest and opportunistic tendencies exhibited both some owners and prospective tenants, contributed to markedly increased rents being considered normal in some cases.

LARGE RETAILERS

Big retailers were quite active during the year, with the following being some of the notable cases.

- Jysk increased its store count from 13 stores near the end of 2017 to 22 by the end of 2018 and is planning to increase the figure to 40 stores according to its 5-year strategic plan
- Leroy Merlin opened its fifth store in April 2018, with another two expected to open their doors in 2019
- SPAR reentered the Greek market in 2018 and brought 17 stores under its name, despite its initial plans for 80 by the end of the year. It is planning to cover the distance in 2019
- Zara also increased its store count but at a slower pace than others, already having presence in the majority of large cities throughout Greece. Its store count changed from 43 stores by mid-May 2018 and 47 by mid-February 2019

In terms of notable acquisitions of retail properties during the year, some notable transactions performed by local REICs stood out.

Pangaea REIC

- Acquired a 1.608sqm listed property at 66-68 Mitropoleos Street and Kapnikareas Street
- Acquired a 736sqm retail and residential property at 66 Andrianou Street and Aeolou Street in Athens
- Acquired a 2.525sqm property at 66 Ermou Street in Athens
- Acquired a 1.086sqm listed retail property at Kanari Street and Solonos Street in Kolonaki, Athens
- Acquired an approximately 6.900sqm office and retail property at Syngrou Avenue and Lagoumitzi Street in Neos Kosmos, Athens
- Acquired an approximately 2.000sqm commercial property at Evridamantos Street and Lagoumitzi Street in Neos Kosmos, Athens

Grivalia

- Acquired a 4.457sqm commercial building on 5 Grigoriou Lampraki Street in Glyfada, of which 2.025sqm are dedicated to retail and offices uses

Trastor

- Acquired a 90sqm fully leased retail unit at 6 Panagitsas Street in Kifissia
- Acquired a 1.600sqm office and retail building at 194 Kifissias Avenue in Chalandri, with 901sqm over ground
- Acquired a 700sqm retail property at Skalidi Street in Chania, Crete

Finally, investors were particularly interested in distressed situations having a strong real estate component, with two characteristic cases playing out during the year:

- The agreement through through which Pillarstone (KKR) will assume the servicing of over €150 million debt and will jointly invest on Notos Com Holdings with the four Greek systemic creditor banks, as part of an agreement through which Pillastone will support the restructuring of Notos
- Folli Follie, a retail goods company with presence across Greece and internationally, came across serious financial trouble. With its debtholders pressing for a restructuring, its retail presence and especially its equity stake in Attica Department Stores drew investor interest from both its existing shareholders but also foreign retailers.

RENTS

Athens

Overall, retail property rents In Athens remained relatively stable during the year, with increases being recorded in prime areas. In the centre of the city and primarily in the area of Ermou and Kolonaki, by the end of 2018 prime rents were between €120 and €165/sqm/month, but it should be that for smaller retail units which attracted a great number of alternative tenants, there were cases where higher rents were recorded. Also, as most of the units in prime locations were leased in the previous years, their rents are not directly comparable to rent levels at which a property would be leased at 2018 year-end.

Figure 10 - Prime Retail Rents - Athens & Subs

Source: CPS R&A Division

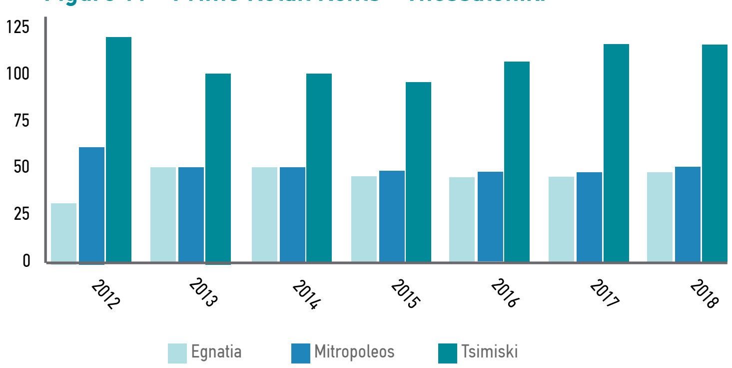
In other high interest areas such as prime locations of Kifissia and Glyfada, rents were between €80 and €110/sqm/month.

Overall, it should be noted until the end of 2018 that there continued to be increased interest to lock in the current low rents at which good locations could still be leased, although this was always in conjunction with the desirability of each location. Additionally, since the majority of prime locations had already leased at lower rents during previous years, new leases were often for properties that remained empty and not part of the top end. Finally, new leases of smaller retail units at higher rents were not necessarily representative of a local retail property market in its entirety.

Thessaloniki

In Thessaloniki, by the end of 2018 prime rents at Tsimiski Avenue were in the range between €75 and €120/sqm/month while for prime locations at Mitropoleos Street they ranged between €30 and €50/sqm/month. Finally, for locations at Egnatias Avenue they were between €25 and €45, recording small increases in comparison with last year.

Figure 11 - Prime Retail Rents - Thessaloniki



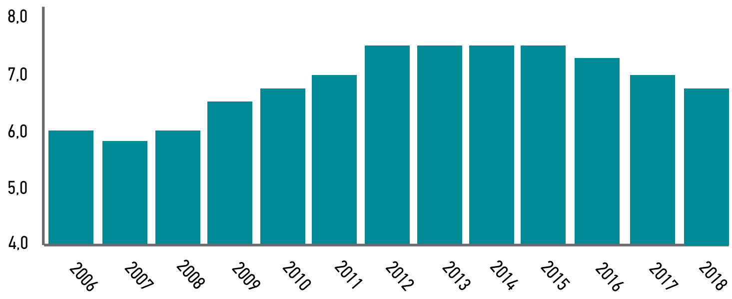
Source: CPS R&A Division

YIELDS

Athens

During 2018, prime retail yields in Athens dropped and were in the range between 6,50% and 7,25%, while for few highly attractive cases and special transactions, yields even lower than 6,50% were recorded during the year.

Figure 12 - Prime Retail Yields - Athens & Subs (%)



Source: CPS R&A Division

This was to some extent due to the fact that similarly with the office market, some investors were genuinely confident regarding the prospects of market, thus acquiring prime properties at genuinely low yields given the current level of rents.

Having the expectation that the market will record rent increases in the mid-term which in turn will support the upside potential of their acquisitions, some investors went ahead of the market bidding higher than what the market can currently offer; the aim not necessarily being to earn rents from the properties but capital appreciation in the coming years. It will not necessarily be proven wrong, despite the inherent risk.

OUTLOOK

The retail property market in Greece is expected to continue recovering during 2019, although the digital transformation currently taking place and the interplay between main street shopping and malls will keep affecting shopping patterns. The improvement of retail market conditions are expected to provoke further rent and value increases, with the next phases of a recovery feeding the expectation that, lower profile retailers will be replaced by others who will be able to pay higher rents.

Over the medium term, as new store formats and ways of in-store ordering such as touchscreen ordering, QR codes, and retail stores without cashiers will have an impact on the speed at which retail activity takes place consequently increasing the capacity of retail locations to serve larger numbers of visitors. Especially in Greece where there is a considerable focus on food and beverage retail, a change in shopping pattern might have a serious effect on the retail property segment, with fast food restaurants and convenience stores being the first candidates to experience this change. Of course, it might take some time until those changes reach Greece.

LOGISTICS

DEMAND & SUPPLY

The logistics sector in Greece remained on a growth path in 2018, with the economy in recovery mode and the country's port and rail infrastructure attracting increased investments. As it gradually becomes a primary contributor to the country's GDP, measures are taken in order to standardize the framework in which industrial and logistics businesses operate.

The enactment of a modern legal and regulatory framework which takes gradually takes place, enables the creation of a better context in which to locate and operate industrial and logistics activities.

One of the topics of interest for investors is the solution of issues related to unofficial industrial concentrations across the country, which in essence is related to themes such as waste management, location specifications and permitted uses among others.

The first area which will benefit from an undated framework is the unofficial industrial concentration of Oenophyta. Through the creation of Oenophyta Rehabilitation Business Park, the €250million project will enable the construction of the required infrastructure and assign additional 50 hectares to logistics uses. The next area which is expected to benefit from the new framework is the industrial concentration in Kalochori, Thessaloniki.

As the areas where industrial and logistics activities are situated, in Oenophyta, Thriassion, Thessaloniki and elsewhere, are gradually are gradually upgraded, combined with infrastructure investments which are planned or have started to take place in Greek ports, and the upgraded rail and road network, a better connectivity will become a reality and combined transports will become easier. More specifically, a gradually improving context of operation provides additional assurance to investors who would like to choose Greece to locate factories or logistics hubs, with laws such as 4512/2018 and 3982/2011 contributing to the creation of the necessary conditions.

While to a large extent, still a mainly owner-occupier market, overall activity in the industrial and logistics property segment was at healthy levels during 2018, with increased demand for both land plots for development and warehouse buildings, from both users and investors.

Users were interested for modern specification space which in many cases was not readily available, in consequence leading them to the build-to-suit option offered by many developers in this segment.

Besides land plots, older properties of lower specifications were among candidates for redevelopment as demand for them in their current condition was limited. This was a point of interest, especially given that many of them were in locations considered advantageous, and their acquisition price could justify the redevelopment cost.

During 2018, a number of users moved to new facilities, either owner-occupied or leased.

- Praktiker Hellas started using its new 14.000sqm logistics centre in Aspropyrgos
- Olympos expanded its existing storage and logistics space in Makrichori, Larissa
- Isomat expanded its industrial logistics facilities in St. Athanassios, Thessaloniki
- Würth Hellas S.A. moved its logistics facilities to a 3.000sqm space in Avlonas
- Lidl inaugurated its upgraded logistics facilities in Trikala, one of its four logistics centres in Greece.
- AB Vasillopoulos completed its new supermarket in Grevena
- Kri-Kri completed the expansion of its cooling chambers in its logistics facilities in Serres
- PharOS, a pharmaceutical company, moved to its new premises at Lesvou Street in Metamorphossi

At the same time, Greek REICs were also active in this segment during the year.

- NBG Pangaea REIC acquired three warehouses in Aspropyrgos, the first ones to be included in its portfolio.
- Also, Fourlis Holding applied for a REIC license in November and is expected to exhibit an active focus on logistics properties.
- Briq acquired a 2.000sqm warehouse building at 123 Kifissou Avenue, in Aghios Ioannis Rentis

Finally, urban logistics locations also attracted interest, especially from users trying to optimize their last-mile logistics activities. Despite the lack of readily available spaces in many areas, the adequate stock of older buildings made conversion a viable route for some users.

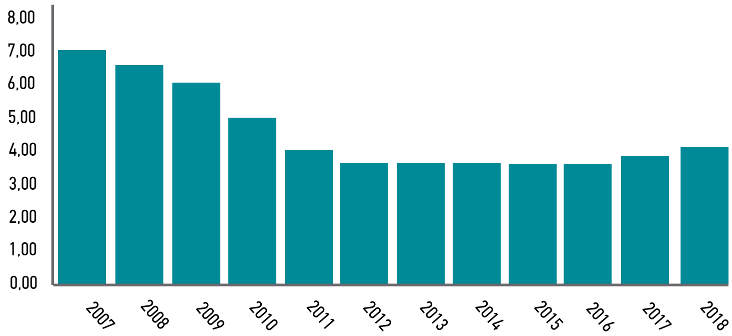
RENTS

Attica

At the end of 2018, rents for prime logistics spaces in Attica increased and were in the range between €3,25 and €4,00/

sqm/month, while in specific cases even slightly higher figures were recorded.

Figure 13 - Prime Logistics Rents - Attica

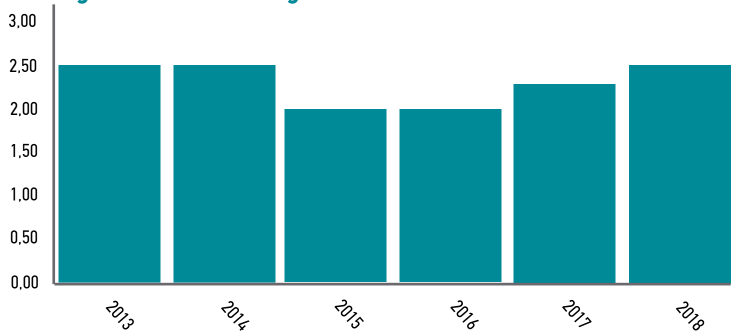


Source: CPS R&A Division

Thessaloniki

Similarly in Thessaloniki increases were also recorded with rents ranging between €1,75/sqm/month and €2,50/sqm/month.

Figure 14 - Prime Logistics Rents - Thessaloniki



Source: CPS R&A Division

YIELDS

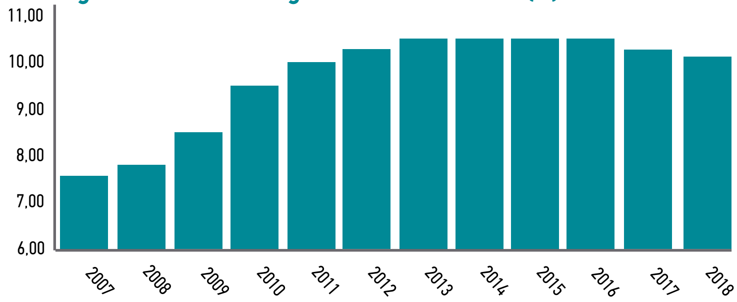
Attica

Yields for prime logistics spaces in Attica dropped further in 2018, hovering between 9,75% and 10,25%. Again there were few cases where lower yields were recorded. For non-prime logistics assets yields in the range of 11,00% to 12,00% were considered normal. Of course, given varying desirability of various locations and issues regarding suitability, there was an effect on yields, in some cases creating a “gray zone” between prime and secondary property yields.

Thessaloniki

In Thessaloniki, yields for prime logistics spaces also dropped and were in the range between 10,50% and 11,25% by the end of the year, recording a decrease in comparison with 2017, while for secondary assets yields were between 11,25% and 12,50%.

Figure 15 - Prime Logistics Yields - Attica (%)



Source: CPS R&A Division

OUTLOOK

The outlook of the industrial and logistics property segment is positive but dependent on the large scale projects which are currently realized or in the planning phase.

Users will continue seeking high quality assets and those are the assets they will pay for, while lower quality ones will remain good as candidates for redevelopment.

The creation of new logistics hubs will to some extent redistribute demand and supply across the country, but given the rising role of Greece as a transport hub for goods and commodities between Europe and the rest of the world, increases in one area will not necessarily be losses for another.

RESIDENTIAL

DEMAND & SUPPLY

After another year that was marked as a high point in tourism, the tendency to convert apartments into short-term rental residencies continued from strength to strength in 2018.

In areas which have attracted great interest, the effect of Airbnb has been profound so far, providing an alternative source of revenue for many owners, which in many cases is much higher than that from a long-term lease. This has consequently fed high hopes in a large share of owners in the affected areas. Many have withdrawn their properties from the long-term lease market and now offer them as short-term rentals. In some areas the effect was so prevalent during 2018 that availability of smaller apartments for long-term leases was genuinely limited. At the same time, asking rents in those areas for a large share of properties that remained available for a long-term lease were fast approaching mid-2006 to mid-2008 levels, while for apartments smaller than 50sqm, asking rents often reached and in some cases even exceeded those figures by the end of the year.

At this point, it should be highlighted that in areas where apartments double as short term rentals, often those units are offered furnished for long term-leases, while at the same time this category of apartments is often refurbished in the last five years as a means of becoming more competitive in the short term rental market. Thus, the rent differentials recorded are justified to some extent.

Increased revenues from short-term rentals have attracted a great number of investors in the residential property segment. For them, the slump of the Greek property market has been the ideal entry point in order to acquire properties of all types, for prices which in many cases were lower than 40% from the levels recorded in the peak of the market.

Investor interest in the residential segment has been amplified by the Greek golden visa programme which, at €250.000 is considered a quite affordable entry ticket, giving non-EU citizens and their families access to European countries.

The areas which ranked high in terms of demand from investors looking for residential assets that could be converted into short-term rentals, were those near destinations of tourist interest. Those areas included Plaka, Thsissio, Koukaki, but also Mets, Neos Kosmos, Ampelokipi and Pangrati due to spill-over effects.

At the same time, residences in Kolonaki and other adjacent areas attracted much attention especially those cases which besides their proximity metro stations or tourist attractions, can double as law firm, medical or other professional practice offices.

Other high interest areas, including Psyri also attracted interest, but their character as less residential in comparison, meant that interest for such units could mainly materialize through conversions of older office or light industrial buildings.

Other areas of the city attracting interest were in the south suburbs i.e. Glyfada, Voula and Vouliagmeni, while in general, locations near the seafront and having proximity to the Hellenicon regeneration project were also high in the shopping list.

Foreign investors, in some cases chose to acquire multiple properties at the current, still quite low prices, creating focused demand for properties in certain areas. With the aim often being to refurbish and resell later at much higher prices, while having a short term rental income in the mean-time, buyers often completed such transactions during 2018.

Increased investor interest in certain areas has already started to have a positive effect on prices as refurbished apartments re-enter the market as income producing properties. The consequence has been a spill-over effect in the form of demand from both users and investors for other areas which in comparison remain considerably cheap.

On the other hand, as some owners and investors have become excited with short-term rental income, the influx of properties in that market has affected supply considerably, leading to lower revenues for some owners. Since more competitive properties than theirs enter the market for the same rent, there are cases where a lower short term renal rent is the solution in order to retain high occupancy.

Furthermore, the dependence on tourism has made those properties, a bit more sensitive to short term fluctuations while at the same time, the lack of time on the owners' part, to manage their properties has created a business opportunity for dedicated companies acting as managers and this this imposes a cost.

Finally, the fact that this market has been active and profitable for some time and that property numbers having reached a critical mass, has been a major driver which motivated the government to prepare the required infrastructure in order to have a better oversight and of course to tax short term rentals.

As a consequence, the aforementioned factors in combination with the considerably positive effect on long term lease rent levels during 2018, led some owners to be relatively indifferent as to the source of their residential property revenue, either from short-term stays or a long-term lease.

With the residential property market in the centre of the city being affected by the short term rental trend and the golden visa programme, local buyers gradually become increasingly interested in other areas, such as the northern suburbs of the city. Although traditionally more expensive than locations of the centre, remain relatively more affordable due to the short rental effect in the centre of the city. This contributed to a quite healthy transaction volume during 2018. Such areas included Kifissia, Psychiko but also other areas with more attainable residential properties having seen a serious drop in prices over the past decade.

Investor interest in the residential segment has been amplified by the Greek golden visa programme which is considered a quite affordable entry ticket, giving non-EU citizens access to European countries.

Thessaloniki

Also affected by the short term rental trend recorded in Athens and in almost all tourist destinations in Greece, Thessaloniki experienced increased interest for residential properties intended to be used as short terms rental assets. A direct consequence of increased tourism figures and the changing seasonal patterns due to also becoming a city break destination is the considerably increased attention drawn to the centre of the city.

The lack of an adequate stock of available houses to cater for the short term rental segment, besides creating an imbalance in the residential market of the centre of the city, it has also contributed to another trend which continued from 2017. During 2018, there was intense interest for the conversion of old buildings into boutique hotels. Many of them listed and some of empty for decades, such buildings were often bought at deeply depressed prices. After being renovated and converted into boutique hotels, they have breathed new life to secondary streets and neighbourhoods of the centre creating new clusters.

A number of such hotels opened their doors in 2018, creating offerings for a wide spectrum of clients. Among them were characteristic cases such as

- Antigon Urban Chic Hotel at 15 Antigonidon Street
- Bahar Boutique Hotel at 10 Edessis & Katouni Street
- The Mood Hotel at 31 Katouni Street

During the year investors were actively seeking buildings in central locations, especially examples with distinctive design features. A positive fact was that by the end of the year, there was still an adequate number of such buildings in the centre of the city providing investors with alternative candidates to acquire.

At the same time, in the local residential market, locations overlooking the seafront of the city traditionally attracted greater interest from prospective buyers, a non-neglible share of who were foreign. Although such properties had not been battered by the crisis similarly to other areas and due to position they were quick to start recovering, it has been in other parts of the city where the search for properties could still offer deep discounts by the end of the year. Buyers were often interested for areas relatively far from the centre of the city such as those in the west suburbs such as Evosmos, where given low prices allowed many users to become owners during 2018, while other areas such as Perea also attracted interest, both as residences and as investment assets. It should be noted though that the increased volume of transactions non-central locations during 2018, did not have a considerable impact on prices in those areas, contrary to what happened in the centre of the city.

Finally, in Chalkidiki, a main summer destination for Balkan tourists, increases numbers of residential property transactions were also recorded during the year, although the effect on prices has been relatively limited in most cases due to a large stock of properties remaining unsold by the end of the year.

Vacation Destinations

Enjoying the benefits of increased tourism, seaside destinations of the mainland as well as island destinations saw considerable increases in demand during the year. Short-term rental platforms have given to both visitors and prospective buyers valuable insights regarding the local residential property stock. In consequence, they have been a factor which contributing to increased activity in the leisure residential segment of various local property markets.

While the most highly regarded tourist destinations continued on a positive momentum during 2018, which supported the buoyancy of the local property markets, other destinations also captured the attention of buyers. Destinations in the Peloponnese, Cyclades, Dodecanese, Crete and the Ionian islands, all attracted both mainstream and niche property seekers, offering them a diverse set choices in terms of landscape, character and cost of acquisition.

In the high-end leisure residential segment, bespoke residencies in destinations still offering post card views without the clutter and peak of the season congestion remained a must-have.

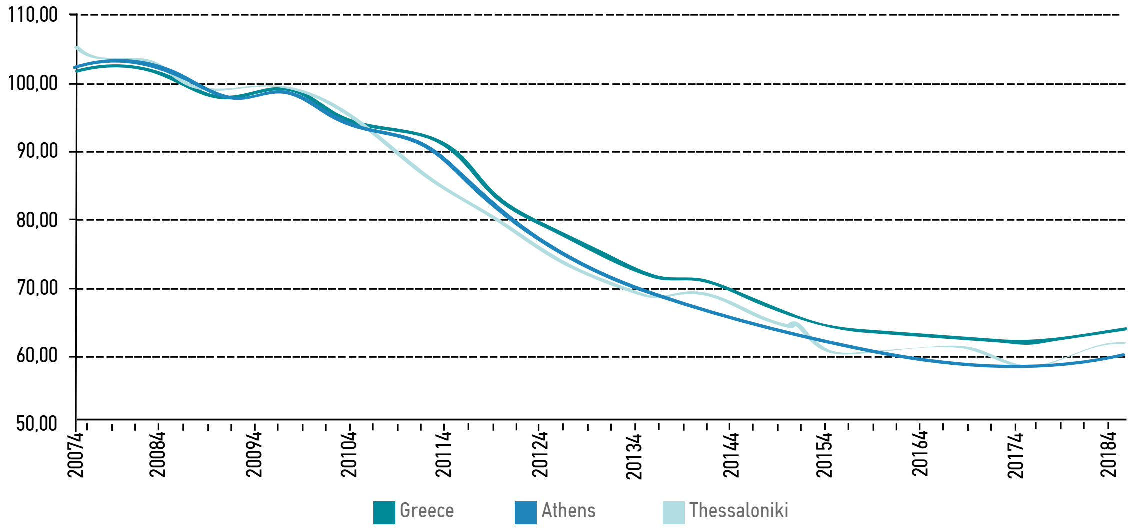
PRICES

Residential property prices, as recorded by the Residential Property Price Index of CPS, increased during 2018.

More specifically, an increase of 3,1% was recorded in 2018. In Athens, residential property prices increased by 1,9%, while in Thessaloniki the respective increase was more than double that figure, although it should be noted that there some variability is inherent in the data of the area, increasing the probability for short term reversals.

Areas attracting higher interest ranked higher in terms of increases while most others were stable or recorded small decreases. In urban centres, larger properties still exhibited a relative lag in their positive response to the economic recovery as did areas in mainland Greece where local economies are still hurdled by limited sources of income and indebted businesses and households.

Figure 16 - CPS Residential Price Index



Source: CPS R&A Division

OUTLOOK

The outlook for the residential segment is positive. If no deep downward reversal is recorded in the near future, it might be safe to say that overall, the Greek residential property market reached its bottom in the third quarter of 2017 and from that point forward it started growing again.

The residential property segment will gradually benefit from a lower unemployment rate, improving credit conditions and the better management of personal debt exposures through a better legal and regulatory framework regarding personal default.

As the recovery of the economy and the residential property market in Greece is dependent on tourism, shocks affecting hospitality revenues might have an effect on both the economy and residential properties in the coming years. The effect of external events such as a slowdown of the European economy and of a hard Brexit on Greek tourism and the short term rental market might not be negligible if they come to be.

Additionally, infrastructures at peak use in main tourist destinations highlight that there might be a cap which, when exceeded, might start slowing down demand for those destinations.

Overall, it should be noted that a trend will continue. Many buyers, especially local, actively search the market for cases of clear mispricing. In essence, they search for properties with good characteristics, which have been out of favour for long due to the financial crisis. Such properties existed and remained genuinely cheap during 2018 and this will continue in 2019 as well. A main fact that supports the argument is that during the year, the widespread trend of residential repairs recorded in 2018 was not only in residential areas affected by short term rentals and the golden visa programme.

Of course, while the fact that the economy and the job market have not yet recovered, with unemployment being over 18.5% during 2018, highlights the argument that there might be imbalances in some areas which are sustainable due to the short term rental wave but also that low prices recorded have not been a coincidence. At the same time, it highlights the argument supporting the strong potential of the market to absorb considerable price increases as conditions in the economy further improve.

CONCLUSIONS

Overall, the Greek economy and its property market are experiencing a comeback. Vacancies, rents, yields and values improve, part due to the improving fundamentals and part due to positive expectations regarding the prospects of the market.

On the other hand, a the slowdown of European economies might delay the recovery of the Greek economy and its property market, as will other external shocks. Nevertheless, as the Greek economy is turning around, its assets remain very competitively priced, especially in comparison to other markets of Europe which potentially find themselves at the peak of their cycle and this is something worth taking into account.

As infrastructures in Greece gradually become better through current and future investment and as the structural reforms of the economy continue, the country will have the potential to create the required conditions for a lasting recovery. The latter will contribute to attracting and keeping long term investors, whose presence the country needs.

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