

# Property Market Annual Report 2017 Greece



**Eurobank**

Property Services

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## Executive Summary

- Increasing demand from users for offices, retail, logistics and residential.
- Rents for prime properties increase and yields are compressed.
- The REIC market matures and investment activity continues being strong across the main property types.
- Despite the need for shrewdness, a positive sentiment gradually settles in and it creates positive expectations as to the prospects of real estate in Greece.

## Economy

Overall, looking at the Greek economy, conditions gradually improved in 2017, although at a slow pace.

- The 10-year bond yield reached 4.44% in December 2017, having dropped by more than 50% from its maximum of the past two years. The 12-month average figure was 5.98%, lower than the 8.36% of 2016. This improvement was a clear indication of a positive change in investor sentiment, especially during the second half of the year.
- Inflation turned positive and remained positive until the end of the year, exhibiting a 0.7% y-o-y increase in December 2017 and a 1.1% average annual increase in comparison to 2016.
- At the same time, retail sales in the 11-month period up to November 2017 increased by an average of 1.7%, in comparison to the respective period of 2016.
- Unemployment reached 20.8% in December 2017, showing consistency in its improvement. Nevertheless, it remains high.
- Finally, GDP grew by 1.4% in comparison to 2016 and reached €187.1bn. Unfortunately though, it was slightly lower than the 1.6% to 1.8% previously expected.

## INFRASTRUCTURE – REGENERATION PROJECTS

A number of projects, from privatisations to long term leases of infrastructure, moved ahead in 2017. They are expected to contribute in tangible way to the recovery of the Greek economy but also to the recovery of the local real estate market.

### AIRPORTS

HRADF (Hellenic Republic Asset Development Fund) issued an invitation to financial consultants, looking forward to a sale of its 30% stake of the share capital in Athens International Airport.

Furthermore, Fraport AG started works in the fourteen airports which it has acquired as part of a long term concession agreement with the Greek Government. These works are expected to upgrade the facilities, allow the provision of higher quality services and support the higher flows of passengers expected due to the rise of Greece as a tourist destination, already recorded in the relevant 2017 figures.

### PORTS

In 2017, the Port of Piraeus continued its rise among the top ports of the Mediterranean, with respect to cargo transport. With the realization of its investment plan and the related rail links, COSCO is contributing to the increase of the freight volumes transported using the Greek rail network.

Additionally, plans to upgrade the facilities of the passenger hub include the creation of hotel facilities in the premises of the port, which do go in tandem with plans of the municipality of Piraeus to regenerate the area neighbouring to the port.

Furthermore, the privatization project of the port of Thessaloniki drew great interest in 2017. The preferred investor, a combination of Deutsche Invest Equity Partners GmbH, Belterra Investments Ltd. και Terminal Link SAS, plans to transform the port into a transport hub through the upgrade of its facilities and the upgrade of its links to the rail and road networks.

Besides main ports, Marinas in Attica and the rest of Greece were in the process of becoming available for investment, through a concession of at least 35 years. This is expected to draw further investment and help in the increase of high quality yacht facilities across Greece. More specifically in 2017, HRADF issued Invitations for the Expression of Interest for the Marinas of Chios and Alimos. The latter, being the largest marina in the Balkans, is expected to draw considerable interest throughout the tender process.

### RAIL FREIGHT TRANSPORT

In 2017, volumes transported using the Greek rail network increased with COSCO being responsible for the majority of the freight volume towards Europe.

Additionally, the sale of 100% of TRAINOSE SA to FSI Group<sup>1</sup> moved forward in September 2017, bringing the Greek rail operator under the umbrella of the third largest railway company in Europe. Additional participants were planning to have a greater presence in the rail transport market with Rail Cargo Logistics Goldair planning to acquire a number of locomotives.

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<sup>1</sup> *Ferrovie dello Stato Italiano Group*

## THESSALONIKI METRO

Notable progress was recorded in relation to the construction of Thessaloniki Metro. Regarding the main project, works started in the last station<sup>2</sup>. Additionally, tunnel works for the extension towards Kalamaria also progressed, and reached the second of the planned rail stations. The completion of the Kalamaria extension will set the ground necessary in order to link the centre of the city with Macedonia Airport of Thessaloniki. The completion of the main part of Thessaloniki Metro is expected for 2020.

## ATHENS METRO

Works related to the extension of the third line of Athens Metro towards Piraeus advanced and planned completion of the project is set to 2019. Additionally, activity was recorded as to the realization of the fourth line of Athens Metro with the call for the expression of interest being answered by four investment schemes.

Furthermore, works related to the extension of the light rail network in Piraeus also exhibited considerable progress.

## REGENERATION PROJECTS

The Hellenicon Airport regeneration project, which is expected to transform the Athenian seafront, continued facing obstacles in 2017. Issues arose with archaeological and forestry authorities, leading to delays and concerns as to the initiation of construction works. By the end of the year, a number of issues remained open, among which is the approval of the Integrated Development Plan (IDP) of the project. Still, it was expected to move forward as it is high in the list of the MoU between Greece and its creditors.

In similar fashion, the Academy Gardens project in Kifissos continued facing delays in 2017. Resolution of open issues gradually seemed more tangible, as negative consequences to the region due to the delay of the project seem to have been recognized. A modification of the building specifications of the project is expected to take place, in order to achieve a better meshing with the surrounding urban environment.

Finally in 2017, a project which was surrounded by considerable interest to move forward was the rehabilitation of the previously light industrial and warehouse area of Agios Dionyssios. Neighboring to the Port of Piraeus and to main rail stations, the area is posed to be transformed into a main attraction of Piraeus, in the coming years. Dimand S.A. has already acquired the Papastratos ex-tabacco facilities and is planning to develop a mixed-use project which will include cultural as well as office, hospitality and commercial uses. It is in progress.

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<sup>2</sup> *Venizelos Station*

## OFFICE MARKET

### DEMAND AND SUPPLY

#### Athens

Pressure on the Greek economy continued in 2017 and demand for office space remained lower than its pre-crisis level. On the other hand, 2017 was marked by demand for office space which was greater than that recorded in 2016. Pressure for rent renegotiations was lower and demand was mainly focused on high specification office spaces which were still being offered at attractive rents.

More specifically, demand was mainly focused on class A offices and on the top end of class B offices, having floor areas between 500 and 1,500sqm. Smaller spaces were also in demand, often by start-up companies. Demand for larger spaces and stand-alone office buildings, in some cases greater than 2,500sqm, also increased. Additionally, demand was also recorded for spaces which had a high potential for upgrades, at a reasonable cost in terms of time and money.

On the contrary, demand for office spaces having characteristics which made them unattractive for upgrades and located at low interest areas remained low and decreasing.



*As an investment, offices attracted considerable interest in 2017. A considerable number of transactions took place, indicating that the perception of the market participants regarding the outlook of office properties was clearly positive.*

Among those were the transactions completed by Greek Real Estate Investment Companies.

#### **Grivalia Properties REIC**

- Acquired a mixed use building having 14,884sqm of office and retail uses, located on 340 Syngrou Avenue.
- Acquired distinct units (horizontal properties) in a mixed use building with 2,790sqm assigned to main uses, having five floors of offices, located on 50 Agiou Konstantinou Street.

#### **Intercontinental International REIC**

- Acquired an office building with a building area of 2,719sqm on 152 Vouliagmenis Avenue.
- Acquired an office building with a building area of 2,575sqm on 115 – 117 Vouliagmenis Avenue.

#### **BriQ Properties REIC**

- Acquired a 1,907sqm mixed use building with five floors of offices, located on 42 Possidonos Avenue.

#### **Trastor REIC**

- Acquired two floors of offices (748sqm in total) in a mixed use building located on 1 Filellinon & Othonos Street.
- Acquired an office building with 1,544sqm assigned to main uses, located on 3 Andrea Papandreou Street, in Agia Paraskevi.

Focusing on supply, availability of prime offices remained very limited in the centre of Athens. Despite the limited supply of prime offices, high quality office spaces remained available in the area by the end of the year. A large share of those does not satisfy modern office space standards and is in need of considerable upgrades in order to compete with prime offices, such as those found on Vassilissis Sofias Avenue. Despite having attractive locations, many of the offices found in the CBD have the drawback of inadequate numbers of parking spaces, which is in part addressed by third party parking stations located in the area.

Due to the high concentration of lower specification offices in the area, in combination to its proximity with main attractions of the city, office uses located near Syntagma Square have proven to compete with hospitality uses, in the recent years.



*Given figures recorded in tourism during the past years including 2017, some owners have chosen to convert offices into hotels in order to take advantage of the extremely positive trend in tourism.*

Examples include Electra Metropolis Hotel on Mitropoleos Street, which opened its doors in 2016. It had remained closed since 2008 and was previously being used by the Ministry of Education as its main offices. In 2017, a similar case moved forward with the signing of a long term lease<sup>3</sup>, which will permit the reconversion of the old King's Palace Hotel located on the intersection of Panepistimiou Avenue and Kriezotou Street from offices to its initial use.

The lack of prime offices is also prevalent in other areas of the centre of Athens. On Vassilissis Sofias Avenue availability of prime offices is limited to three or four cases which tend to attract prestigious tenants due to their high standards and exceptional location. On the other hand, looking at older and relatively lower specification space in office buildings of the area, availability did exist in 2017. Examples included space in buildings such as Athens Tower as well as in other, slightly less prestigious buildings in close proximity.

Looking at the submarket of Syngrou Avenue, the availability of prime office spaces was also limited in 2017, but not necessarily due to increased demand. As in other office submarkets, due to the economic crisis a number of buildings have remained partially empty for a long period time. This has led to a situation where a large share of the offices spaces could neither be considered prime by current standards nor readily available.

On the contrary, conditions concerning supply were a bit different in the submarket of Kifissias Avenue and the northern suburbs of Athens. In this traditionally attractive area for office users, there was still some availability of prime offices during 2017, as a consequence of an adequate high quality stock located there. This is due to the fact that in addition to many developments which took place in the region before the economic crisis, a number of extensive office building upgrades were also completed in the recent years. Supply of prime spaces had diminished by the end of the year.

Overall, looking back at supply and demand during 2017, a conclusion which became apparent was that given the conditions in the economy, prospective tenants were not always willing to pay for spaces which had already been upgraded to the highest standards. On the contrary, since part of their cost would be that of adjusting the selected office space to their exact needs,

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<sup>3</sup> Thirty year lease

they were sometimes willing to lease premises that were in the right location but were of lower standards and in need of upgrades. By itself, this created a potential for the gradual upgrade of a number of properties which have remained underutilized for some years.

Finally, as for new developments, there were few during the year but the speculative aspect of the activity was quite limited.

### **Thessaloniki**

Demand for high specification offices in Thessaloniki increased in 2017, as worries regarding the economy gradually subside. Central locations of the city attracted considerable interest – proportionately to economic vibrancy of the city and its positive prospects. On the other hand, the combination of lower specification office spaces and the aging office building stock, as well as the absence of adequate parking spaces in central locations limited their attractiveness to some extent, at least for certain types of corporate users. Again, even for spaces not considered perfectly suitable of modern offices, the upward trend in tourism has had a positive impact. It has led to increased demand for the conversion of older and lower specification offices into boutique hotels. Completed projects include interesting cases such as Colors Urban Hotel on 13 Tsimiski Street.

Looking at the suburbs of the city, in comparison to that expressed for central locations, interest for office spaces was lagging during the year and this did not change until the beginning of 2018. Supply, either in the east or the west suburbs of the city was adequate and relatively high levels of vacancy were recorded in certain areas, due to a lack of strong demand.

### **RENTS**

Looking at rent levels for office space, 2017 proved to be a year of improvement, at least for prime properties.

### **Athens**

In its CBD, rents exhibited some upward change in comparison to 2016, with prime office spaces in Syntagma and the adjacent locations ranging between €16 and €20/sqm/month, while rents for lower specification or inferior location spaces were in the range between €10 and €15/sqm/month. On Vassilissis Sofias Avenue rents for were higher, with prime office rents ranging between between €15 and €19/sqm/month. For offices of inferior characteristics but still competitive in many respects, rents could be found at considerably lower levels with a many cases ranging between €10 and €15/sqm/month.

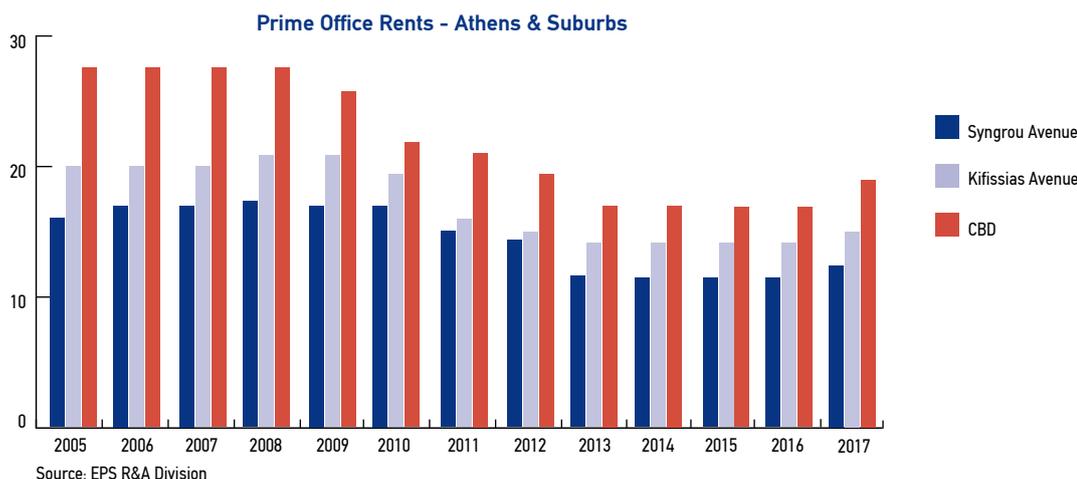


*At this point, it should be noted that, both in Syntagma and on Vasilissis Sofias Avenue, certain top end cases reached €21/sqm/month and asking rents in these areas even exceeded €22/sqm/month in certain cases.*

Only a small number of offices in Syntagma and on Vassilissis Sofias Avenue are considered prime.

The gap often recorded in rents for office properties located in the CBD, between properties considered prime and those which were not considered such, did highlight the value potential of upgrades. This is so due to the notably small distance separating offices which are perceived quite differently.

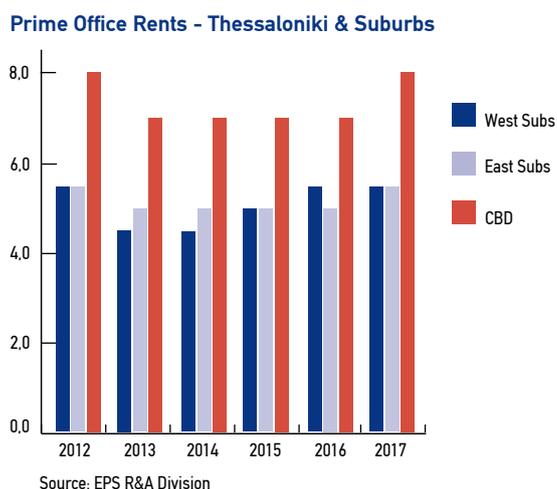
Looking outside the CBD, prime office spaces on Kifissias Avenue achieved rents between €13 and €16/sqm/month, while on Syngrou Avenue, the respective range was between €11 and €14/sqm/month.



### Thessaloniki

Given the age of the building stock in the centre of the city, prime offices in central locations are usually refurbished spaces. Rents for prime offices in the centre of Thessaloniki ranged between €7 and €9/sqm/month, showing an upward trend.

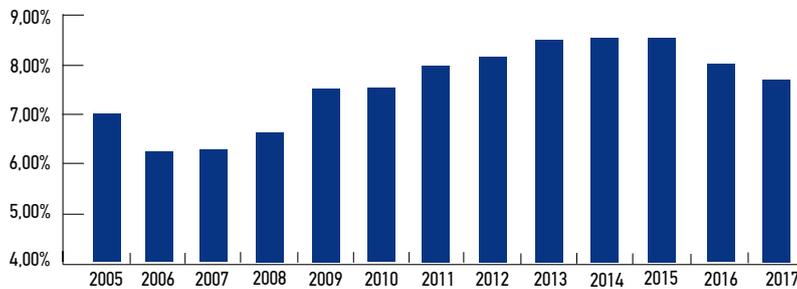
On the contrary, for prime spaces located in its eastern and western suburbs, rents were in the range between €4.5 and €6/sqm/month.



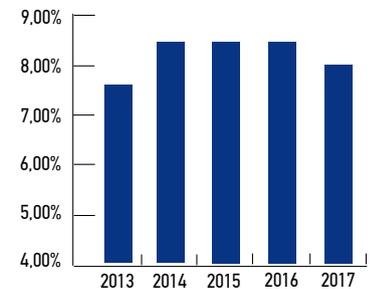
### YIELDS

Since conditions in 2017 were still in favour of buyers, a number of the transactions which took place during the year were either related to distressed loans or for properties in need of upgrades.

In Athens, yields for prime properties in high visibility locations were between 7.50% and 8.00% during the year. It should be noted that increasing interest for high-end properties led towards a compression of yields and to cases where yields even below 7.50% were considered acceptable. This was applicable for a small number of distinct top-end buildings. Similarly, in Thessaloniki, yields for prime offices ranged between 7.75% and 8.25%. Overall, secondary space yields ranged between 8.00% and 9.00%.

**Prime Office Yields - Athens & Suburbs**


Source: EPS R&A Division

**Prime Office Yields - Thessaloniki**


Source: EPS R&A Division

## OUTLOOK

The outlook regarding the office market is positive. Investments are taking place, either under normal market conditions or in a distressed asset setting. Refurbishments and upgrades are also taking place indicating that the perception in the market is positive. Given the aforementioned, the fact that there is still a considerable stock of office spaces which remains underutilized is an indication that the market has a clear potential for profitable transactions.

A negative factor which needs to be taken into account is the prospective contraction of the Greek banking sector due to the technological transformation of the sector that takes place globally. A consequence will be the release of office space to the market. Of course, given the attractive locations of many of the bank premises and the quality of space used by the banking sector in Greece, those properties might be a welcomed addition to supply. It is expected to draw the attention of investors, as many of those buildings can be used both as offices of new financial services companies entering the market and as inner-city retail destinations.

Furthermore, as the REIC market in Greece is growing in size and maturing, another conclusion becomes apparent. Properties managed by established professionals with a proven track record can record higher returns, an argument highlighted by rents and yields achieved in Greece and elsewhere.

Finally, the trend of flexible leases of shorter duration, accompanied by a full set of services, i.e. Workspace-as-a-Service (WaaS), seems to start gaining traction in Greece as well. More specifically, such fully serviced spaces which can accommodate the needs of early stage companies or of teams working in an area for a short amount of time can be found in central Athens as well in its northern suburbs. In Athens, such spaces are mainly offered by Regus (IWG<sup>4</sup>) and can be found in both the CBD of Athens as well as in the suburbs.

<sup>4</sup> International Workplace Group

## RETAIL MARKET

### Athens

#### CBD

Due to the financial troubles Greece has gotten into during the past decade, the availability of credit has been limited and the tax burden on households increased considerably limiting consumer spending. Many retailers came under strain and as a consequence, either went bankrupt or were forced to trim their presence to fewer locations through store closings or relocations.

This led to vacancy rates not seen previously in certain highly attractive areas, a situation in some cases due to defaults on loans and delays of the workout proceedings which followed. The overall uncertainty of the period affected vacancy rates, rents and asset prices.

#### Syntagma

Due to the crisis, not even Ermou Street remained unscathed. For the latter though, mainly due to being an epicentre of consumer spending in Athens, demand for retail spaces never came to a halt during the crisis, despite a period of high vacancy recorded in the previous years. During the crisis, a large number of Greek retailers were replaced by multinationals, which in many cases picked the largest and some of the best locations on the street. This marked a turnaround in vacancy which started before 2016 and by 2017 it had already fallen considerably. During last year, demand was at least as strong as in the previous year and vacancy on the street fell even further. Additionally, it was an issue of smaller retail units or of those not located exactly on the street.

Regarding retail space supply, although there were still empty buildings on the street by the end of the year, such cases were few and concerned buildings which were in need of significant repairs and upgrades in order to be ready for tenants.

Besides Ermou Street, another issue was highlighted in 2017, regarding demand in the wider area. In the past, there was a considerable imbalance among demand for spaces on Ermou Street and that exhibited for spaces on adjacent locations such as those found on Mitropoleos and Athinaidos Streets. Either specialised or lower profile retailers were being attracted to such locations.

During the crisis, a gentrification trend has formed, with bars and restaurants opening their doors in the area and increasing visitor flows turned locations previously known for their fabric merchants into leisure hotspots. This was greatly enhanced by the increased flows of tourists in the area which has also led to the conversion of previously empty buildings into hotels.



*Combined with the rise of Athens as a city break destination, demand for retail spaces continued its positive trend during 2017. This effect was mainly visible in the wider area between Syntagma Square and Monastiraki Square.*

The increased interest in the area was further highlighted by the increasing number of restorations of old buildings, listed or otherwise, which had already been completed or were in progress during 2017. Retailers embraced this trend with new store openings taking place. New retail arrivals included Adidas on Athinaidos Street, and AB Supermarkets on Mitropoleos Street.

Regarding supply in the areas surrounding Ermou Street, it increased and remained considerable by the end of 2017, in part due to increased interest in the area which led some owners to terminate existing leases in expectation of higher profile tenants or in order to initiate restoration works. Despite increased interest in this wider area, there were cases where retail spaces remained empty after the termination of leases, an indication of the more speculative characteristics of both demand and supply in these areas.

### **Kolonaki**

Demand in Kolonaki picked up in 2016 and this trend continued in 2017 as well. In comparison to 2016, leasing activity was slightly diminished mainly due to the fact that locations of interest had been leased already. Retailers and investors continued being active in order to lease space in high visibility locations before the recovery of the economy starts pushing rents and prices at much higher levels, which will limit their potential to make profit.



*With the economy still facing difficulties and consumer spending still recovering, demand in the area is mainly concentrated on safer locations in term of consumer traffic, located close to Filikis Eterias Square, as well as on Kanari and Patriarchou Ioakim*

Skoufa Street was still in recovery mode, with a considerable number of buildings remaining empty until the end of the year. Vacancy rates in secondary streets of the area indicated a redistribution of interest in the area, with the general theme being desirability of high visibility. Certain secondary streets which in the past were high interest locations remained unattractive, while even in primary streets the tenant mix changed. Examples included Tsakalof Street, which by the end of 2017 had mainly attracted bars, cafés and restaurants in the place of retailers.

In terms of supply, availability was close to non-existent in areas of interest. At the same time, there are still empty retail properties in the area, mainly on Skoufa Street and on relatively secondary streets of the area.

### **Suburbs**

Looking at the suburbs of Athens, demand and supply continued showing mixed signs in 2017.

### **South**

In the south, focusing on Glyfada, although most retailers were still attracted to Metaxa Avenue as well as to a part of Lazaraki Street leading to low vacancy in 2017. Kyprou Street as well as Esperidon Square attracted considerable interest, with locations on the former attracting higher profile retailers than in the past, both in terms of fashion retailers as well as cafés, two types of activities traditionally drawn to Glyfada. On the contrary, Zissimopoulou Street, once a main attraction of Glyfada, attracted limited interest in 2017, with a great number of empty locations which were previously leased as cafés and restaurants.

In the high interest areas of Glyfada, supply of readily available retail locations was quite limited by the end of 2017 while, due to the relocation of interest towards Kiprou Street there was an increase of empty locations in the part between Metaxa Avenue and Possidonos Avenue with a number of retail properties remaining vacant for a long period of time. This had not changed by the end of 2017.

### **North**

In the northern suburbs, focusing on Kifissia which is a traditionally attractive retail destination of the north, increases in demand were also recorded during the year, but not as strong as in other

areas of similar magnitude. To some extent, the attractiveness of the area as a retail destination has been curtailed by the fact that after a number of years in operation, there is a number of large scale malls in relatively close range. Having solidified their footing in the market and having won market share from retail areas of the northern suburbs such as Kifissia, they contributed to a slightly muted recovery in demand for retail spaces, which continued being evident in 2017.

As a consequence and in combination to the economic crisis Greece is still in, this led to increased demand still being concentrated to safer locations of the main streets of the area, or more specifically of Kassaveti, Kyriazi, Levidou, Panagitsas and Kolokotroni Streets.

In terms of supply in Kifissia, it was limited during 2017 and high interest locations did not remain empty, even for short periods of time. Additionally, higher vacancy rates were mainly recorded in secondary locations of relatively lower visibility and consumer traffic.

In terms of leasing transactions which took place in 2017, they included the relocation of Kosta Boda to Argyropoulou Street, as well as new arrivals of retailers such as Carpo on 2 Levidou and Kassaveti Street.

### **Thessaloniki**

In Thessaloniki, demand is traditionally concentrated on its main commercial road, Tsimiski Street. In the second half of 2017, demand picked up for both primary and good secondary locations. Certain international retail brands expressed an interest to acquire a presence in the local market. On the other hand, as most prime locations on the street had already been acquired by or leased to major retailers, entry was mainly through the replacement of existing tenants. In addition, more focused retailers were willing to look at locations found on intersecting streets, but in the majority of cases only those which were close to the main retail attraction of the city, i.e. Tsimiski Street. Readily available supply of high profile buildings was relatively limited and there were still available spaces in nearby locations, such as those on Agias Sofias and Venizelou Streets.



*Overall, interest for retail locations in Greece and the perception as to their prospects was positive in 2017. Transactions performed by Greek REICs during the year also highlighted the fact.*

Some of these transactions included the following.

#### **Trastor REIC**

- Acquired two retail stores in Kifissia. One of 213sqm located on 9 Kassaveti Street and another of 102sqm located on 1 Kolokotroni Street.
- Acquired a retail store of 320sqm located on 28 Andrea Papandreou Street in Halandri.
- Completed the acquisition of a 2,323sqm retail use building on 64 Tsimiski Street in Thessaloniki.

#### **BriQ Properties REIC**

- Acquired a retail unit on 283 Kifissias Avenue and 2 Solomou Street in Kifissia, having a total floor area of 168.4sqm.

#### **Grivalia Properties REIC**

- Acquired a mixed use building having 14,884sqm for office and retail uses, located on 340 Syngrou Avenue. Retail spaces were leased to Media Markt.
- Acquired a number of distinct units (horizontal properties) of 1,129sqm assigned to main use, in a retail building located on 49 Kifissias Avenue in Maroussi, also leased to Media Markt among others.

- Acquired a retail unit leased to Sklavenitis Supermarkets, located on 9 Kanari Street in Kolonaki. It has leasable area is 557sqm.
- Acquired a retail unit leased to Sklavenitis Supermarkets, located on Plastira and 240 Iera Odos, Aegaleo. It has leasable area is 772sqm.
- Acquired a retail use building leased to Sklavenitis Supermarkets, located on 85 Vouliagmenis Avenue, having a total floor area of 4,575sqm.
- Acquired a 930sqm retail use building in Nea Erythraea, leased to Marks and Spencer. It is located on 152 Charilaou Trikoupi Street.
- Acquired a listed, 1,530sqm retail use building on 101 Grigoriou Lampraki Street, in Piraeus.

#### **Intercontinental International REIC**

- Acquired a retail unit of 560sqm (including auxiliary use space) on 49 Davaki Street in Kalithea.

#### **NBG Pangaea REIC**

- Acquired four retail buildings leased to Sklavenitis Supermarkets, having a total area of almost 75,000sqm.

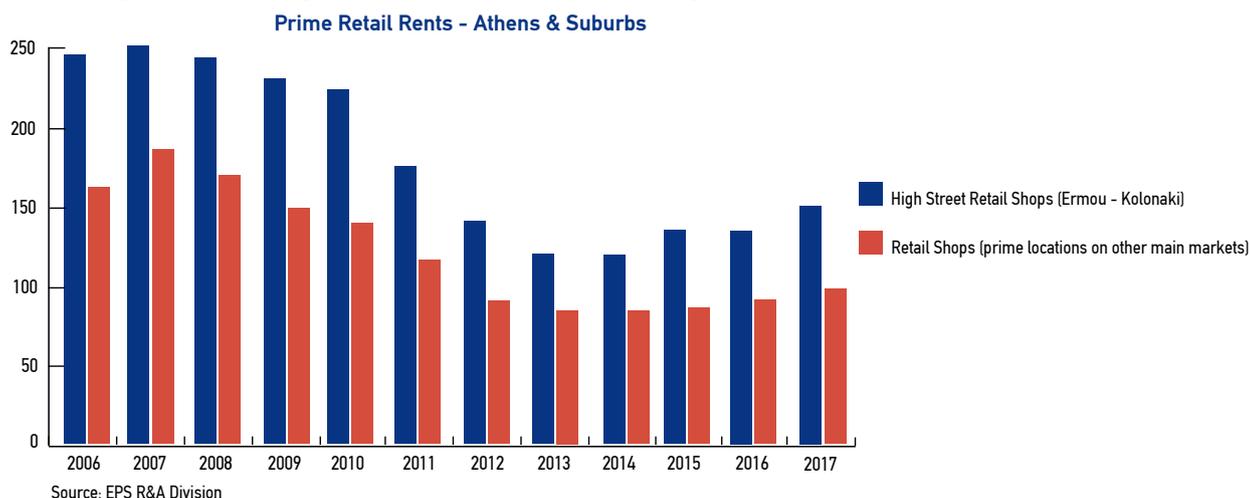
## **RENTS**

### **Athens**

Rents for prime spaces in the CBD of Athens (mainly Ermou Street and Kolonaki) were in the range between €110 - €150/sqm/month. These rents correspond to prime retail spaces in the region which includes the area of Ermou Street, the area surrounding City Link, as well as Kolonaki.

On the other hand, looking at rents for prime retail spaces in other areas such as those found in high interest suburban locations, they ranged between €70 and €95/sqm/month. Furthermore, as in many areas there have been a number of tenant relocations mainly due to renegotiations of rents which did not come to fruition or availability of better locations in the same area.

This led to sub area rent ranges changing in 2017, despite rents not exhibiting considerable variability when looking at these areas in their entirety.



### **Thessaloniki**

In 2017, rents for prime locations such as those on Tsimiski Street varied depending on their exact location. Rents for prime properties located between Agias Sofias Street and Aristotelous Square ranged between €65 and €120/sqm/month showing increases in their top end. It should

be noted though that in similarity with Athenian retail areas, higher rents were mainly related to smaller retail spaces. Rents for retail spaces in other locations of the city were relatively stable in relation to the previous year.

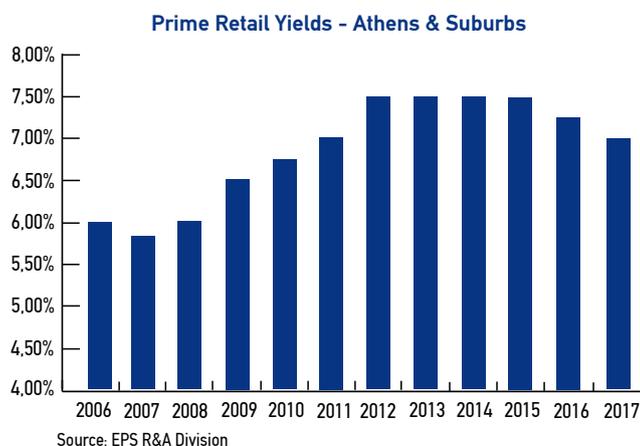
More specifically, rents for prime retail spaces found on Mitropoleos Avenue ranged between €25 and €47/sqm/month and between €22 and €45/sqm/month for those found on Egnatias Avenue. Finally, an interesting trend in the city is that of percentage leases, which seemed to gradually gain popularity among a wider range of retailers during 2017.

Again, as a reminder, it should be kept in mind that in both Athens and Thessaloniki, the majority of large retail properties in high interest destinations had already been leased by the beginning of 2017 and that in many cases, higher rents corresponded to smaller units which were particularly attractive to retailers who wanted to have a presence in high visibility locations with high consumer traffic.

## YIELDS

### Athens

Despite having experienced some pressure due to the increase in demand, overall, yields for prime retail spaces in Athens remained relatively stable, between 7.00% and 7.75%, during 2017. It should be noted that in high interest locations, yields below 7.00% were recorded for specific cases.



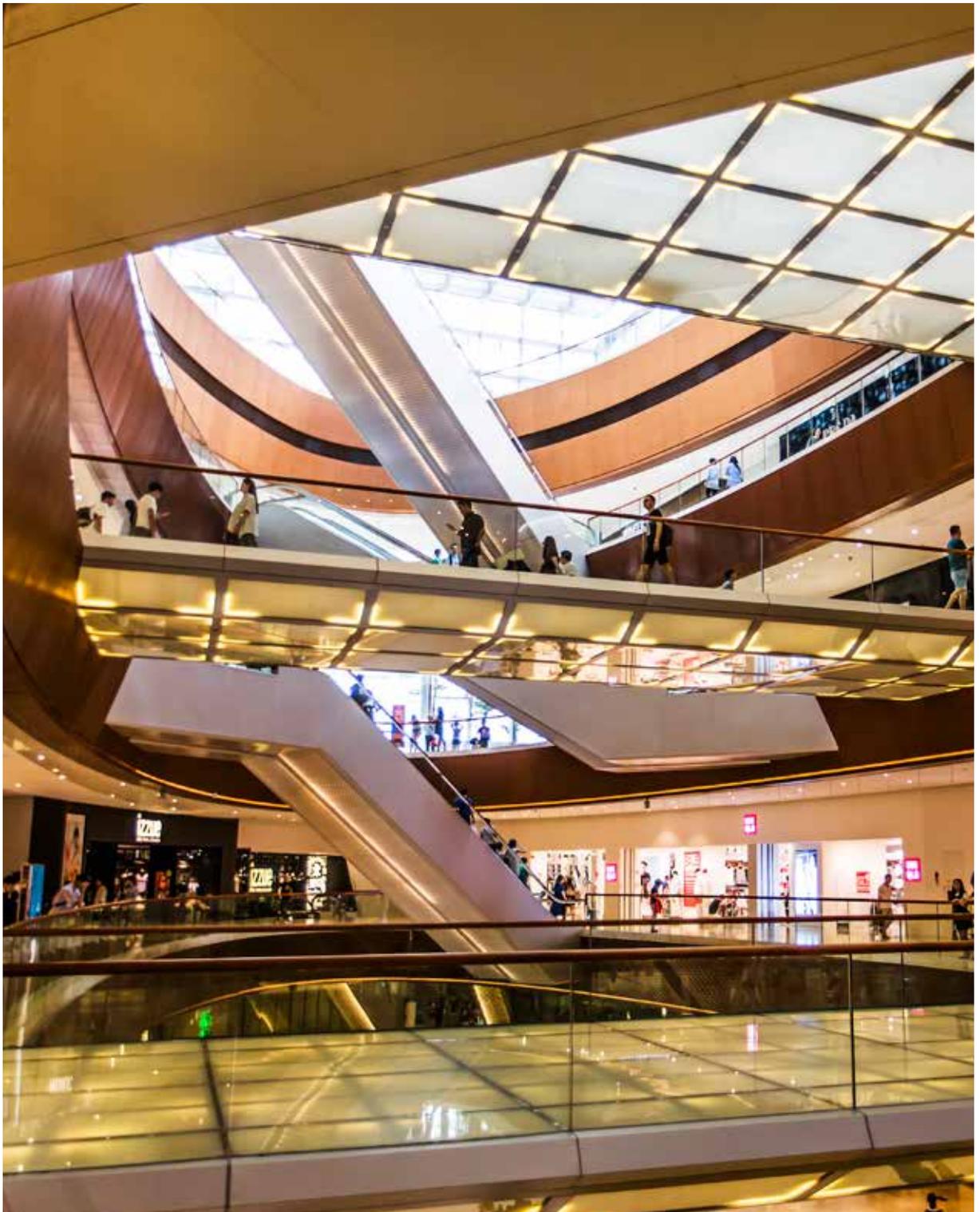
## OUTLOOK

The outlook regarding retail properties is positive. Consumption has been increasing in the recent past, and income sources such as tourism contribute to further increases. As indicated by investments in retail properties which are considered attractive at current price levels, there seems to be potential in this segment. Moreover, large scale investments expected to start in the near future, such as the Academy Gardens and the Hellenicon Airport regenerations, will also contribute to household income during their construction phase and after their completion, while at the same time they will add further retail options.

In the north of the country, the completion of construction works regarding Thessaloniki Metro is expected to breathe new life to retail spaces located on Egnatias Street, as many of its station exits are on it. Currently, it is considered relatively secondary due to its distance two of the main attractions of the city, i.e. Tsimiski Street and the seafront of the city.

Overall, another issue remains to be seen. It is the effect of electronic commerce on physical retail locations, since its popularity is gradually increasing.

Finally, as rents are expected to rise in the short and medium term, we might see a wave of upward renegotiations of rents. This might lead to tenant changes in prime locations, as those who will not be able to remain profitable, will be pushed to inferior locations, gradually.



## LOGISTICS MARKET

### DEMAND – SUPPLY

After many years of consecutive decreases in activity the logistics sector started to gradually turn around before 2016, with increases in activity being recorded in 2017 as well. With the gradual recognition of its potential to contribute to the recovery of the Greek economy, steps were taken in order to satisfy requirements that are necessary for the sector to acquire a solid grounding, in an effort to achieve consistent positive growth.



*A new focus on rail transport was fuelled by the increasing volumes of freight traffic in the port of Piraeus, which aims for the first place among the ports of the Mediterranean.*

Additionally, steps were taken for the transformation of the port of Thessaloniki into a transport hub which will provide access to new routes so that freight traffic will be able to reach Eastern Europe and Russia.

At the same time, steps were taken to move forward with the creation of logistics hubs that will enable the growth of commercial rail transport in Greece. More specifically, law 4302/2014 was enacted in 2017, with the publication of the relevant decision in the Government Gazette. Among other issues, it defines the procedure related to the creation<sup>5</sup> of logistics hubs in the country, allowing the sector to move one step forward, towards in its goal to grow and contribute more to the economy.

Furthermore, interest surrounding logistics hubs in Greece increased with focus mainly on the projects of Thriassion Region (Aspropyrgos, Magoula etc) in Attica and the conversion of the former Gkonos Military Camp in Thessaloniki into a logistics hub, with the first being more mature as a project. This was also highlighted by the expectation that construction works for the planned Goldair Cargo - ETBA BITE logistics hub in Thriassion will begin in the first half of 2018.

Focusing on 2017, interest for logistics facilities improved, especially in the second half of the year, as increased demand was recorded both in Thessaloniki and in Attica. Led to some extent by the gradual rise of electronic commerce, demand increased for warehouses between 500 to 1,500sqm, located in relatively urban locations. Demand also increased for high specification logistics properties located in highly accessible locations outside urban concentrations. Sizes which mainly drew interest were between 500 and 2,000sqm, as well as those over 10,000sqm, with a pressing additional requirement for the latter to include office spaces for administrative and other uses.

Due to the lack of adequate supply, demand for relatively lower specifications buildings (grade B) also increased, as did interest for high specification distressed assets. On the other hand, demand for properties having unfavorable layouts and construction specifications, i.e. mainly for older buildings, was very limited and vacancy rates were both high and increasing.

In terms of construction activity, few pre-let properties were under development in the past year and no significant speculative activity was recorded. New facilities were mainly owner occupied. Among them, the new 2,800sqm logistics centre of Med Frigo, completed in 2017.

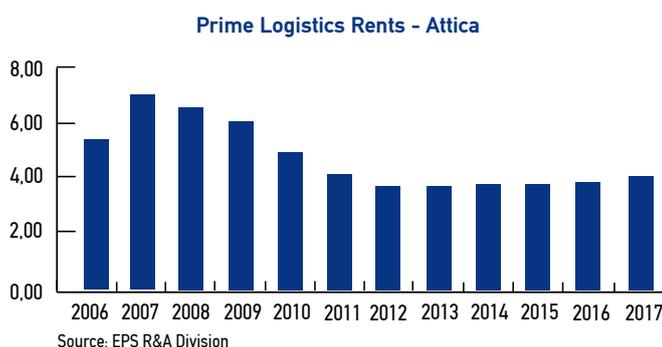
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<sup>5</sup> Installation and operation

Overall, as ready-to-use, modern specification facilities were limited, the imbalance between demand and supply led to a search for land plots suitable for development. It has to be noted that despite increased demand, a factor holding back transactions was the perception that needs for space might be defined by the actual freight volumes, as they will be distributed between rail and road transport, and as new areas become more accessible due to upgrades of the Greek highway network.

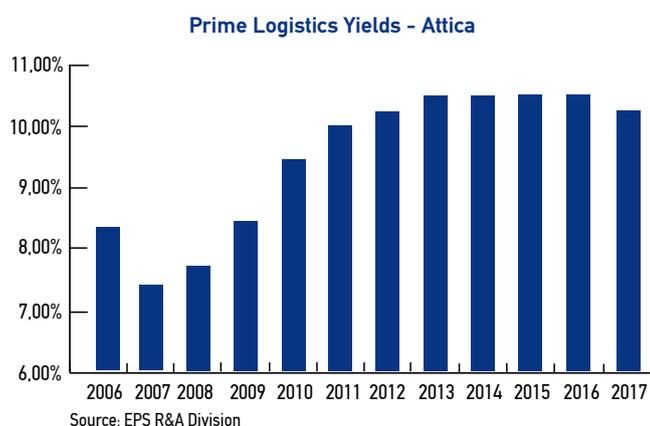
## RENTS

Increased interest and limited supply led rents marginally higher for prime properties in 2017. In Attica, rents for prime logistics facilities ranged between €3.00 and €3.75/sqm/month. In Thessaloniki, rents for prime locations ranged between €1.50 and €2.25/sqm/month, while for non-prime they ranged between €1.00 and €1.50/sqm/month. As the market was mainly driven by built-to-suit developments, the variability in rents was limited.



## YIELDS

Yields in Athens remained stable 2017 ranging between 10.25% and 10.75% for prime logistics facilities. As in other categories of properties, yields for some specific cases of logistics facilities were below 10.25%. In Thessaloniki, yields were a bit higher, ranging between 11.00% and 12.00% for prime properties and between 12.00% and 13.00% for secondary ones.



Finally, the outlook for the logistics property segment is also considered positive.

In the medium term, considerable investments are expected to take place in relation to rail transport. Additionally interest for a number of ports, besides those of Piraeus and Thessaloniki seems to exist, including those of Alexandroupolis, Volos and Astakos.

On the other hand, hurdles remain in relation to inner city logistics, to an extent due to delays related to the use of e-CMR<sup>6</sup>.



<sup>6</sup> *Digital consignment note / digital bill of lading*

## RESIDENTIAL MARKET

### DEMAND – SUPPLY

Overall, the residential property market experienced a year of relative calm, after a long period of consistent drops in prices.

A major contributing factor to the stabilization and the turnaround of certain areas was the popularity of short term rentals, using platforms such as those of Airbnb, Homeaway<sup>7</sup> etc. It is a fact that the extremely positive figures recorded in tourism during the past years have had an impact on the residential market of many Greek cities.

To be more precise, besides contributing to employment, residential property owners in many areas have been able to gain considerable income streams from their properties due to tourism. This has led to a great number of refurbishments and thus an overall upgrade of certain residential areas. Locations near tourist attractions have particularly benefited due to this trend which continued in 2017, attracting more investment than the previous year. Unfortunately, this was not without side effects. In certain areas, interest from owners for tourist rental conversions was so high that rents for traditional long term leases increased considerably. To some extent, this pushed traditional users out, as increases of asking rents led them to levels not seen for a long time.

On the contrary, interest continued being low for residential properties having inferior characteristics and located in areas which remained out of favour. This was due to the fact that supply of better properties found in better locations was more than adequate. Additionally, the pressure on the residential market due to events related to non-performing loans and the cumulative tax burden of a large share of Greek households continued being non-negligible.

Across Greece, different areas were affected differently, depending on the socioeconomic characteristics of residents drawn to them and special characteristics such as proximity to the local seafront or locations of interest.

### **Attica**

Focusing on the residential sector, in Attica, the combination of interest originating from tourism related uses and a relative stabilization of the economy led 2017 to be a year where residential property prices stabilized overall, after a long period of declining prices.

Two regions mainly drew interest in 2017. Similarly as in 2016, these include the parts of central Athens where short term rentals have become very popular and its south suburbs. The former included areas located near main archeological landmarks of the city such as Acropolis, as well as main museums of the city. First among these areas were the good parts of Koukaki. Other areas, such as Neos Kosmos and Pangkrati, also benefited from this trend, due to proximity and ease of access using Athens Metro.

As for the south suburbs of Athens, they remained attractive due to their lower density, as well as their relative proximity to the seafront and to famous beaches of Attica. These areas drew notable interest from Arab and Russian buyers, but also from Greeks who were drawn for similar reasons. This increased interest led to increased numbers of transactions and a diminishing supply near the end of the year.

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<sup>7</sup> *Expedia*

Besides these two areas, in other areas of Athens interest remained high as investors considered 2017 as a good entry point, since price levels remained at genuinely attractive levels. Such areas included Kolonaki where good properties were still available at the end of the year. For this area, increased interest was in part due to the popularity of high end apartments as law firm or doctor offices.

On the contrary, certain areas of Athens continued being laggards in terms of buyer interest, to some extent due to a large share of lower specification properties and increased urban density. These circumstances have caused a downward spiral in prices which has lasted many years. Again, even among such areas there are exceptions such as Exarchia, which seemed to draw attention from focused investors, speculating on a turnaround of the area due proximity to the historical centre of Athens and to tourist attractions such as the Archeological Museum.

### **Thessaloniki**

In Thessaloniki, increasing demand was recorded in 2017, especially for apartments on its urban seafront. As an area which always drew interest, an additional upward pressure came due to the popularity of short term tourist rentals. Supply for such properties was limited creating considerable imbalance in certain cases and making changes of tenants effortless and quick. Sales of high quality properties in the area were also much easier than in the past, a situation recorded throughout the year, as current prices were considered attractive.

In other areas of the city, the situation was a bit mixed. In Panorama, there was buyer interest and that was a positive sign, but at the same time, supply also increased considerably and often asking prices were considered high. This resulted to relatively limited numbers of transactions being completed throughout the year.



*In tourist destinations, besides the traditionally popular Mykonos and Santorini, buyer interest rose in many islands but also in many seafront destinations of the mainland, such as those of the Peloponnese.*

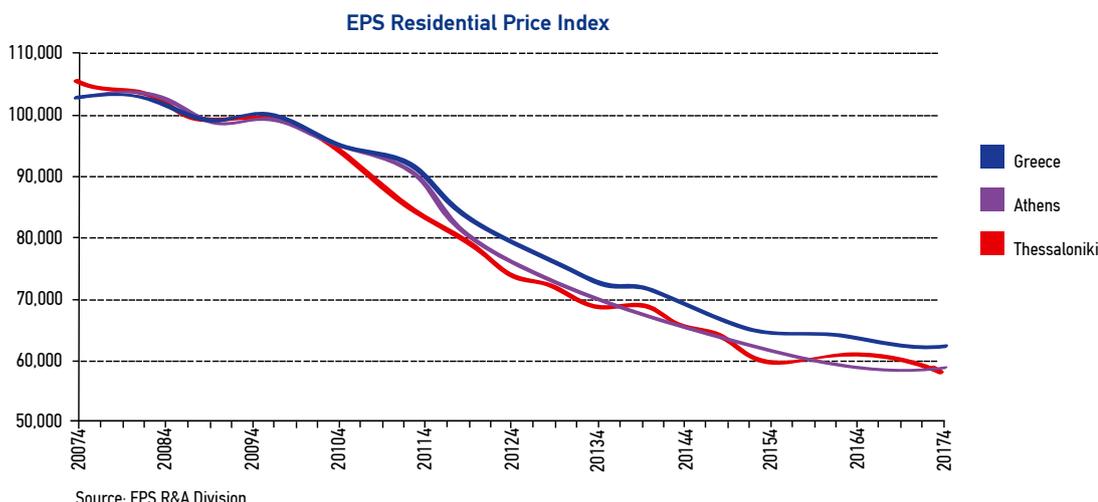
### **Vacation Destinations**

In the north, Chalkidiki also exhibited clearly positive signs in terms of buyer interest. For those located in highly desirable areas, demand was positive as the region benefited considerably from increased numbers of tourists visiting its pristine beaches and its world-famous monasteries. On the other hand and as expected due to the crisis, there were non-negligible numbers of properties with inferior characteristics and in found in secondary locations which came to the market. This increased supply considerably in certain areas having high concentrations of such properties.

Finally, contrary to what happened in areas attracting tourism during the summer, interest remained limited for vacation properties in winter destinations. This was mainly due to mainly attracting local buyers but also to the relatively warm winters of the past couple of years.

### **PRICES**

In terms of prices, the theme which prevailed in 2017 was that of stabilisation, as recorded by the residential property price indices of EPS.



Overall, residential prices in Greece fell by 1.2% on a y-o-y basis, less in comparison to the 1.8% y-o-y drop recorded in 2016. The improvement recorded in the economy during the past year had a positive impact on residential property prices. Unfortunately though, a clear turnaround had not been recorded by the end of the year.

Focusing on quarterly changes, in the second half of 2017 the stabilization in prices became more evident. Overall for Greece, a quarterly drop of 0.1% (q-o-q) was recorded in each of last two quarters of the year.

Finally, looking back at residential property prices since the beginning of the crisis, a cumulative drop of 39.4% had been recorded by the end of the year, as compared to the average prices of 2008. This was a clear indication of the extensive decreases of residential property prices in Greece so far.

## OUTLOOK

Looking forward, the expectation of positive figures in the near future is not unfounded, but there are still risks which should not be underestimated. Given the number of properties tied to non-performing loans, the prospect of increasing numbers coming to the market simultaneously is not negligible. This could create an imbalance putting further downward pressure on prices.

Furthermore, tourism, which has been the biggest contributor to Greek GDP and a great contributor to household incomes in the recent years, might experience some variability in the future. This could be due to greater competition from other markets in the region, such as those of Egypt and Turkey.

Moreover, short-term rentals are quite popular currently, but also closely correlated to the desirability of Greece as a travel destination. As they do seem to form a market which gradually matures, this starts drawing scrutiny from Greek tax authorities in the form of more regulation<sup>8</sup>.

Finally, major participants in the tourism sector understand that this segment seems to take part of their revenues. Gradually, they become more interested as short term rentals prove to be an investment worth putting funds and time into.

<sup>8</sup> Laws 4472/2017, 4446/2016, 4172/2013 etc.



### CLOSING REMARKS

After almost ten years of decline, real estate in Greece is starting to show some solid signs that there might be good things to come. The Greek economy is gradually starting to deal with its problems. Unemployment continues falling, despite remaining high among women and the younger generations, as well as in comparison to the EU average. Furthermore, inflation has gotten into a positive territory in the past quarters and this also seems to create expectations of solid increases related to local real estate markets.

A few issues need to be kept in mind though.

The first is that while Greece has benefited considerably over a long period of time due to its thriving tourism sector, a situation of relative overreliance might be building up. Despite having genuinely contributed to looking confidently at a brighter future and at a way out of its current economic troubles, with a 18.6% total contribution to the country's GDP in 2016<sup>9</sup> and on a clearly positive trend, a counterargument might arise. As the Greek economy is expected to remain greatly dependent on this sector, it will benefit for as long as it is thriving. Unfortunately, overreliance on a sector does have risks. As some of the competitor markets in the region such as Turkey and Egypt show signs of recovery, this is expected to raise obstacles regarding the continuous growth of Greek tourism figures.

Another issue is the sensitivity of the Greek economy to internal political risk. As proven in its recent past, political instability do scare investors away and do cause cautiousness among the business partners of the country. This has direct implications regarding the liquidity which is available to Greek businesses, the trust of foreign visitors towards the country as a safe place to spend time in, but also on the perceived reliability Greek businesses as reliable suppliers of products and services. Unfortunately, Greece has proven to be prone to political risk and this is not a good characteristic. It does prevent big, long-term investments which will have a long term positive effect on the country.

In conclusion, the country needs to keep dealing with its issues in a sustainable way and diversify its income sources. Greek real estate will benefit from it.

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<sup>9</sup> Source: WTTC

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