

Commentary

Greek Residential Property Market Resilient Going into 2021, but Underlying Prospects Tied to the Economy

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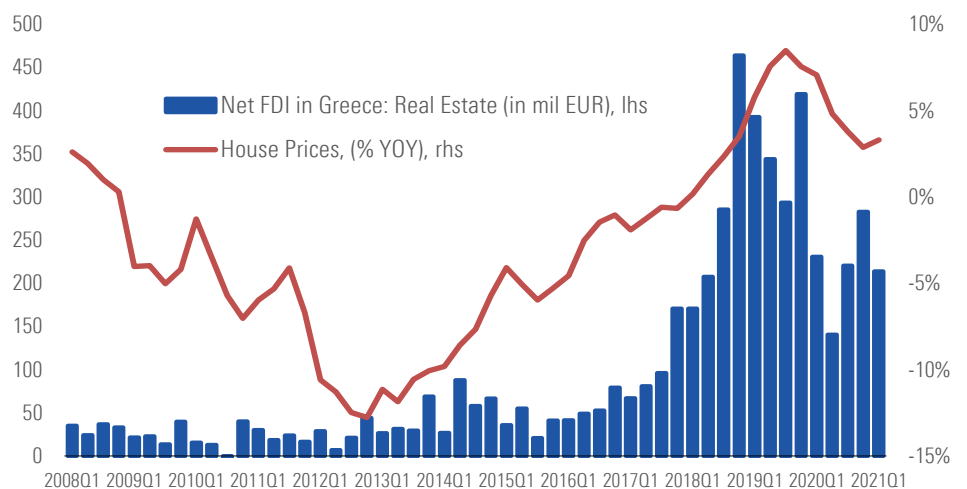
Overview

The residential property market in Greece showed resilience in 2020, despite the adverse overall economic impact of the pandemic. Following a 9.2% cumulative increase in 2018-19, residential property price growth slowed in 2020 due to the strict travel restrictions and other COVID-19 related measures, but price performance remained positive at 4.6%. Despite the reimposition of restrictive measures in the first quarter of 2021, preliminary data from the Bank of Greece show that property prices continued to rise at a rate of 3.3% YOY. The Greek real estate market is highly dependent on foreign investment resulting in more substantial price increases in Athens and in other popular tourist destinations. By contrast, prices and transactions in other areas of Greece that have seen more limited investor interest, although likely benefiting from spillover effects, are still at low levels. Over the longer term, the evolution of the residential property market as a whole will depend on Greece's ability to create jobs and pursue policies to support real incomes growth, while maintaining a stable macroeconomic environment conducive to attracting foreign investment.

Key highlights include:

- Residential market shows resilience going into 2021, despite the economic fallout from the COVID-19 crisis.
- Higher price increases are observed mainly in Athens and in areas with tourism-related investor interest, which results in spillover effects to other geographical regions.
- The evolution of the residential market as a whole will depend on Greece's long-term growth potential.

Exhibit 1 House Price Growth and Net Foreign Direct Investment in Real Estate



Source: Bank of Greece, Haver Analytics, DBRS Morningstar.

Property Market Remained Resilient in 2020, Despite Restrictions...

Residential real estate prices showed resilience in 2020. House prices on average increased by 4.6% in 2020 and by 3.3% YOY in Q1 2021. Price growth in Athens and Thessaloniki was more pronounced, reaching 7.6% and 4.8% in 2020 and 5.4% and 3.7% in Q1 2021, respectively, while prices in other cities remained unchanged, as shown by preliminary data published by the Bank of Greece. Despite the travel and movement restrictions in 2020, increased demand from foreign buyers before the pandemic and the expectation that the COVID-19 pandemic restrictions would be transitory, prevented a fall in the housing market. Building activity as measured by the number of building permits, continued on an upward trend, increasing by 8% in 2020 and by 13.7% in the first quarter of 2021.

...Supported by Foreign Demand...

Greece's attractiveness as a tourist destination and depressed prices after the prolonged crisis have increased demand for property from foreign buyers (Exhibit 1). Net foreign direct investment in real estate surged in 2018 and 2019 increasing by 172% and 28%, respectively. However, border closures and the fear of the virus resulted in a 40% drop in net FDI in Greece in 2020, especially in the second quarter of the year, although it started to show signs of recovery in Q1 2021. The evolution of the residential real estate market in Greece is tightly linked with the demand for tourism-related investments, which also results in spillover effects to other geographical regions.

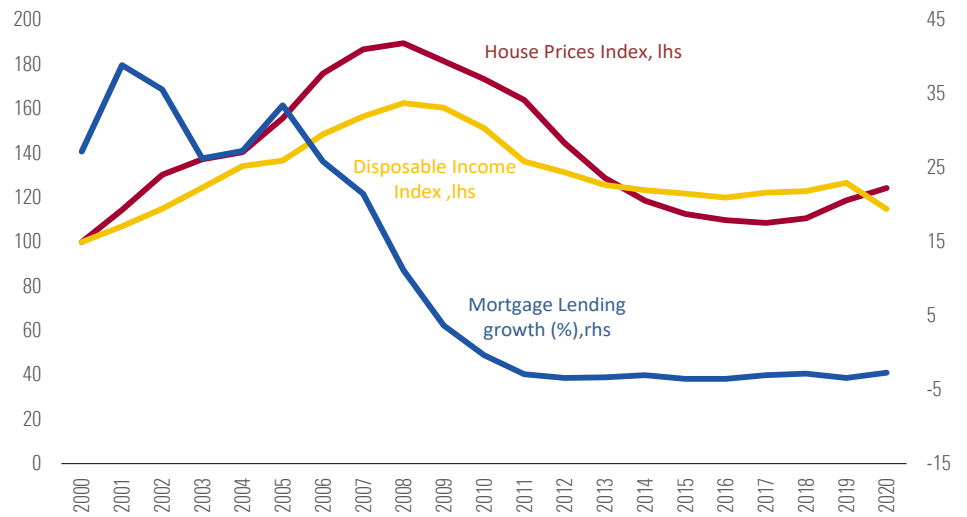
...And Government Policy Measures

Policy measures to contain the adverse effects of the pandemic have also helped mitigate the impact on the property market. The government introduced pandemic support measures including job retention schemes, tax deferrals, provided loan guarantees and interest rate payment subsidies, which together with banks' loan moratoria provided support to households and businesses.

The Evolution of the Residential Market As a Whole Will Depend on Greece's Ability to Grow

Residential prices in parts of the country with low investor interest remain depressed. Clear strong policy support for the housing market is evidenced in recent legislation. This includes reduced taxes for renovation expenses, a three-year VAT suspension for new building permits, the re-adjustment of property objective values that could rationalize the property tax and encourage housing transactions and the ongoing efforts to reduce red tape and improve the efficiency of public administration that could streamline planning and speed up sales. Other supportive policies include the Non-Dom regime, which was introduced last year and provides tax incentives to those willing to relocate their tax residency to Greece. Furthermore, banks' efforts to clean up their balance sheets enhance their ability to provide credit, but ultimately demand for mortgage lending will depend on the revival of the domestic real estate market. While the macroeconomic situation started to show signs of improvement before the pandemic, new mortgage lending remained at low levels and will likely remain subdued in the near term (Exhibit 2).

Exhibit 2 House Price (index 2000=100), Gross Disposable Income (index 2000=100) and Mortgage Lending Growth



Source: Bank of Greece, Eurostat, Haver Analytics, DBRS Morningstar.

DBRS Morningstar views that the long-term prospects for the market as a whole will depend on Greece's ability to recover from the COVID-19 crisis, and to sustain a stable macroeconomic and political environment. Foreign demand will likely continue to be the main driver of the residential property market, while the revival of the domestic market will be determined by Greece's ability to achieve sustainable growth that will create jobs and increase incomes. Greece's National Recovery and Resilience Plan (NRRP), which aims to deploy funds amounting to EUR 30.5 billion in grants and loans includes urban regeneration investment projects and renovation plans for upgrading the energy efficiency of residential buildings that will help renovate the older housing stock and could create new prospects for the Greek residential market.

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