Preliminary study of the Greek property market

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Statistical qualification

This paper emanates from my recent visit to Greece. It should be noted that official statistics regarding the Greek property market are difficult to obtain - macro economic statistics are available, including building approvals, however building activity is not dissaggregated, that is commercial and housing are included in one line. In addition, in analysing a particular area, land title searches are restricted to solicitors.

Much of this research came from discussions with academics from the University of Athens, Athens Polytechnic, Panteon University of Social and Political Science (Athens), Aristotle University (Thessaloniki) and the University of Aegean (Mitylini). In addition, meetings were held with researchers in Public Enterprise bodies - National Statistical Service of Greece, Bank of Greece (Central Bank of Greece), Centre of Planning and Economic Research, Regional Development Institute, Land

and Housing Corporation, Centre for Planning and Economic Research and the European Union.

Hence the analyse in this paper is restricted and based on the limited publications available (many in Greek) and discussions with researchers. Therefore, any reference to this paper should be done with the same caution.

Introduction

Greece has an area of 132,000 square kilometres including more than 2,000 islands - its area is approximately the same as that of England [Ency Brit]. With a population of 10,583,000, Greece represents some 2.8% of the European Union (EU) [European, p192-3]. Athens, the capital, has expanded rapidly in the period since World War II and the area around the capital (known as Attica) has over 3,500,00 people, about a third of the country's population.

Greece is the southernmost of the countries of the Balkan Peninsula, lying at the juncture of Europe, Asia, and Africa and with some of the eastern islands lying just a few kilometres off the Turkish coast. It is a country that is at once European, Balkan, and Mediterranean. In 1981 Greece became the first eastern European country to join the European Community. The centuries of Ottoman rule have insulated the Greek lands from many of the important historical movements, such as the Renaissance, the French Revolution and the Industrial Revolution, that shaped the development of the western European countries [Ency Brit].

The most significant impact for the European economies (and to a lessor extent the world) will be the European Monetary Union (EMU). Whether the EMU in 1991 will affect the uniqueness of Greece remains to be seen.

Greek Property Market

The Greek property market is unlike that of the west. There is no CBD with office towers, rather there are centres sprawled out across the major cities and generally, no building is bigger than 10 storeys. The existence of real estate agents is minimal and there are no major international firms to be found and the valuation profession is basically non existent.

There is no main commercial centre in Athens with commercial activity sprawled across the large city. For instance, Kiffissia which is some 10 klm from the city centre has a large commercial sector. The majority of the properties in Kiffissia are owner occupied - office buildings are selling for around 500,000 drachmas ($A2,500) per square metre and retail for around 1 million drachmas ($A5,000) per square metre [Emmanuel].

Greece has a relatively free market policy on property. However, there are similar tiers of Planning controls as in the west. Based on 13 Regions of Greece, Athens being part of the Attica Region, each region has its own policy (similar to a State Planning Authority) and at a lower level there exists a Local Authority (similar to Local Council) [Sotiropoulos].

Greece has an open policy toward foreign investment in its property market, but is not attracting any major investment. In the commercial sector, foreign investment in Greek property is mainly in the form of a derived demand (that is, foreign companies operating in Greece). Holiday home investment attracts ex patriots in the diaspora and buyers from the northern Europeans who take advantage of Greece's warmer climate and natural island resorts.

As in most western economies, the Greek housing property cycle is much more evident than the commercial cycle. In Greece, this is more evident as this occurs due to the nature of demand for commercial attracting mainly owner occupiers whereas the housing market attracts a small level of speculation. Donatos [1995] found that housing demand derives mainly from the need for private home ownership and as a form of investment it is usually on a small scale. Donatos also found little government construction in housing with production almost entirely carried out by the private sector.

Donatos [1995] showed that building activity in Greece expanded rapidly for the period 1958 -1989, averaging 7% of GDP. During that period Greece housing investment exceeded the rate of growth of the economy. Investment in housing accelerated and peaked in 1980 creating an oversupply and housing activity remained low for the remainder of that period

More recent statistics, 1988 to 1995 in Table 1 show that the relationship between dwelling investment and GDP has risen. Except for 1990, dwelling investment is relatively constant around 10-11% of GDP since 1988.

Table 1
Dwelling Investment & GDP
1988 - 1995
Million Drachmas (at 1970 prices)

Year	Dwelling Inv	GDP	% Dwell/GDP
1988	48.348	477.221	10.13
1989	49.750	494.992	10.05
1990	51.243	288.297	17.77
1991	52.729	504.744	10.45
1992	54.047	508.681	10.62
1993	55.952	506.261	11.05
1994	56.344	513.473	10.97
1995	58.176	523.742	11.11

Source: Bank of Greece Monthly Statical Bulletin, Table 49a Nov/Dec 1996

Housing prices in Greece have tripled since 1988 however the level of inflation has also risen markedly. Table 2 shows the index figures for both housing and CPI for Greece since 1988 - housing's index rising to 310.6 compared to inflation's 285%.

Table 2
Index for Housing and CPI
1988-1996

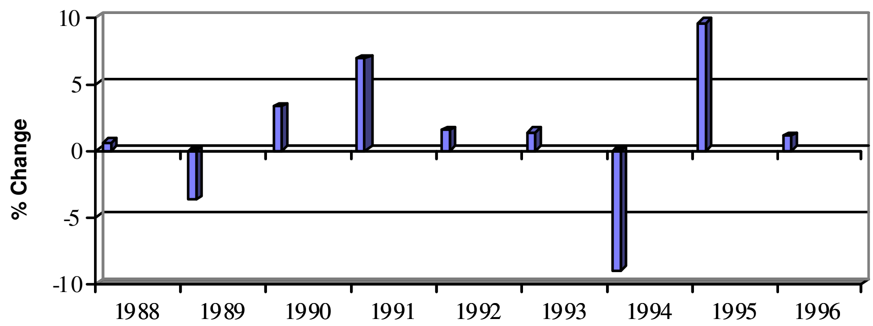
	Housing	CPI
1988	100.0	100.0
1989	110.0	113.7
1990	136.1	136.9
1991	172.0	163.6

1992	201.8	189.5
1993	233.7	216.8
1994	238.4	240.5
1995	283.4	262.8
1996	310.6	285.2

Source: Bank of Greece Monthly Statical Bulletin, Table 54 Nov/Dec 1996

As can be calculated inflation was also double digit up to 1994 causing negative *real* price changes in some years. Chart 1 reflects the *real* housing price movements of Greece since 1988. As can be noted 1989 and 1994 had negative *real* housing price changes of -3.7% and -8.92% respectively whilst 1988, 1992, 1993 and 1996 had less than a 2% real growth, with strong growth in 1991 and 1995.

Chart 1
Real Housing Price Change
1988-1996



Source: Bank of Greece Monthly Statical Bulletin, Table 54 Nov/Dec 1996

Konsolas et al [1993, p72-4] in a study of regional prospects for Greece found that the growing urbanisation, particularly in Athens has resulted in putting enormous pressure on existing infrastructure causing "negative external economies" and a low quality of environment. Konsolas [p115] study concluded that among other things, Athens requires the construction of a new international airport, a metro and the completion of highways and railway networks and all these need to be done under "environmental protection".

Athens 2004 Olympics have accelerated the need for these projects. In bidding for the Games, the authorities had already begun the metro and had put in place the construction of a new airport at Spata (15 klm to the west of Athens).

European Monetary Union (EMU)

The most significant change that is likely to occur for Greece in the coming years is the proposed European Monetary Union (EMU). The aim of the EMU is to eliminate all barriers in Europe and establish a "market free economy". The EMU is the next stage of evolution of the European Economic

Community (EEC or EC). The EC was founded in 1957 with six countries and aimed toward creating a ”common market” among the nations of western Europe. The number of countries has now grown to 15 and due to its success of the liberalised trade policies over the years made its members more receptive to the greater integration of the EC.

The Maastricht Treaty (December, 1991) established the parameters for the process of the EMU which will commence on 1 January 1999. Included in this union will be the establishment of the European Central Bank and a common currency, the *euro*. In addition there will be a removal of all barriers - fiscal (harmonisation of taxes), physical (passports and other controls) and technical (with the creation of a European technical standard). The expected benefits of an economic union is stable exchange rates, lower interest rates and efficiency in industry, all leading to strong economic growth [Plummer, 1997].

The main features of the "Single Europe Act" known as "Europe 1992" include:-

1. free movement of currency (that is, capital flows) throughout the EC
2. creation of a single market in finance:
    * banking
    * securities
    * investment
3. creation of a single European currency, the *euro,* requiring:-
    (a) convergence of fiscal and monetary policy among countries,
    (b) a European Central Bank. The Bank would be responsible for the overall monetary policy and accordingly setting the rate of interest,
4. removal of Trade barriers (includes real estate investment)
5. removal of labour barriers (labour will be able to move across borders, thus leading to wage equilibrium in the long term).

The Maastricht Treaty has also paved the way for other European countries to join the EU. Austria, Finland, and Sweden - all members of the European Free Trade Association (EFTA) - became members of the EU in 1995.

The long term ambition of the EC is to embrace all Europe:

> 150 Nationalities (and countless cultures)
> 50 States
> 800 million people

To ensure economic success, each country will need to meet the “Broad Economic Policy Guidelines (1993)” for entry [European, 1997]. These include:

1. public sector deficit not to exceed 3% of GDP.
2. national debt not to exceed 60% of GDP,
3. inflation not to exceed the average of the lowest three rates (of the group) plus 1.5%, and

4. interest rates not to exceed the average of the lowest three rates plus 2%.

In other words, all countries at the time of joining would be in a similar economic position. By complying with these guidelines credibility of the monetary and fiscal policies for the EMU will be enhanced. This should increase confidence and encourage overall investment.

However, many of the EC countries will be battling to meet these guidelines by 1 January 1999 as shown in Table 3, which analyses the latest statistic with the "acceptable" rates (the **bold** indicates over the acceptable level). The EC will decide early in 1998 which countries qualify and at this stage only two, France and Luxembourg meet all the criteria with four others[1] expected to meet the deadline - Austria, Denmark, Finland and Germany.

The table also includes Australia for a comparison. For the record, Australia would also meet the criteria.

Table 3
Meeting the criteria:
Estimated outcomes for EC 1997

	Inflation	Public Sector Debt %/GDP	Budget -ve %/GDP	Interest Rate
Austria	1.9	**72.2**	3.0	2.8
Belgium	2.1	**127.0**	2.9	2.8
Denmark	2.4	**67.8**	0.3	3.2
Finland	1.6	**61.5**	2.2	2.8
France	1.4	58.1	3.0	3.1
Germany	1.7	**61.9**	2.9	2.8
Greece	**6.9**	**109.3**	**6.5**	**10.8**
Ireland	2.2	**70.0**	0.9	**6.2**
Italy	2.9	**122.3**	**3.3**	**6.7**
Luxembourg	2.1	8.8	-0.5	n.a.
Netherlands	2.0	**76.8**	2.5	2.6
Portugal	3.0	**69.0**	2.9	**6.2**
Spain	2.9	**67.1**	3.0	**6.2**
Sweden	2.3	**77.6**	2.9	4.2
United Kingdom	2.4	57.0	**3.5**	**6.0**
Acceptable	3.1	60.0	3.0	4.7
Australia	0.3	24	0.006	4.7

Source: European Commission [1997], ABS [1997]

The magnitude of EMU

[1] Britain would expect to make it, however it remains undecided whether to join.

The early stages of the EMU should epitomise the typical economic textbook's model for economies of scale and efficiency. Specialisation will take place, shifting from high cost environments to lower cost ares, for instance, Germany may move away from heavy industry to specialise in finance (Frankfurt being seen as the EMU financial centre).

Once all members join the EMU, the EMU will become the world's largest trading bloc. The potential of the EMU is evident when examining Table 4 which compares the existing European Community members with the US and Japan.

Table 4
Comparing EMU with Japan and USA

	USA	EMU	Japan
Population (m)	**263**	**370**	**125**
GDP (US$b)	**6297**	**7315**	**3283**
Share of world trade (%)	**19.6**	**20.9**	**10.5**
World trade invoicing share (%)	**47.6**	**15.5**	**4.8**
Foreign exchange reserves (US$b)	**49.1**	**349.8**	**172.4**
Govt bond market (US$b)	**2124**	**2849**	**1087**
Bond equity market (US$b)	**7227**	**3699**	**2643**

Source: IMF, Goldman Sachs, Deutsche Bank (AFR, 18/9/97, p13)

From Table 4, one can note that the EMU is larger than the two major world economies in all but two indicators. The table shows the EMU has:

1. a population of 370 million people. This is nearly equal to the total of Japan (125m) and USA (263m),
2. a GDP which is greater than USA and more than double Japan,
3. a share of world trade greater than USA and double Japan's share,
4. double Japan's foreign reserves and seven times USA.

The EMU has an expected growth of 3-6% GDP which will lead to 2 million new jobs due to economies of scale, increased productivity and increased competition. For instance, truck movements have taken 70 hours to cross the continent due to border stops and VAT. There is an estimated 4% saving in transportation costs alone from the elimination of border stops.

The large share of world trade will see a movement towards three world currencies - $US, Yen and Euro.

In regards to the EMU impact on real estate Plummer [1997] sees two elements of the EMU which are likely to affect the structure of the European real estate market. Firstly, as a result of the union, lower inflation rates are expected which will mean that real estate will be bought as cash flow asset rather than as a hedge against inflation. Secondly, the EMU will see corporate restructuring will see headquarters regionalising.

Whilst one would have anticipated a convergence of economies particularly with the schedule of a one currency by 1999, it has not occurred. In a recent study by Ball and Grilli [1997] on the European Union housing markets, the authors found that the property markets in the EU are not very well correlated. They also suggests (p1) that "the evidence ... suggests that housing markets may be a threat to the current goals of EU governments, particularly convergence, efficiency, competitiveness and stability".

How will the EMU affect Greece?

As indicated from Table 3, Greece is the *poor* relation of the EMU being over the acceptable rate in all four criteria. However, Greece has been reducing its macroeconomic and policy imbalances. Assessing the period from 1994, rates in all areas have been falling - inflation from 15.8% to 6.9%, budget deficit 12.1% to 6.5%, debt 110.4% to 109.3% and interest rates 16.4% (1995) to 10.8%.

Whilst there are many benefits for Greece to be part of the EU and EMU, there is a reluctant reservation among many Hellenes who fear the loss of their identity. The Hellenes have a uniqueness which they do not want to lose, they are a proud people and above all, they are patriwvteς.

In regards to the Greek property, in the longer term one would expect portfolio investment to ultimately lead to large intra EMU buying of Greek property. Together with Spain, Greece has relatively cheaper property and has the additional comparative advantage with its natural endowment - a warmer climate than the northern Europeans and the large number of Mediterranean islands.

Whether the EMU brings about a convergence of the European property markets, one has to wait and see. However, one's initial instinct is that if all economies are operating together and there are no barriers, one would expect them to converge.

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Meetings/Interview

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