
Greece H1 2014 Economy & Real Estate Report

Holiday Home and Hospitality Markets



UNLEASH GROWTH!

Overview

The expectations that the Greek Economy is on a recovery trend are verified from the first half of 2014. The recession of the Greek economy has been almost zeroed in the second quarter (Q1: -1.1% & Q2: -0.3%) and is expected to turn to positive growth from the third quarter. The IMF projection remained constant to a 0.6% GDP growth in 2014.

In the first half of 2014, the average unemployment rate slightly eased to 27% from 27.5% in 2013 and a further drop to 26.7% is expected until the end of the year. A potential decrease to below 15% will need a period of more than 5 years. At the same time, the deflation of consumer price index continues at 1.3% in the first half 2014, mainly driven by weak domestic demand. The estimate for 2014 was revised downwards to 1% deflation from the initial projection of 0.4%.

The challenging adjustment in the fields of fiscal consolidation and structural reforms was successfully carried on. A general government primary surplus of €1.8bn was recorded in the first half of 2014 in comparison to €1.86bn deficit for the same period in 2013. The target for €2,73bn (1.5% GDP) primary surplus in 2014, according to the Economic Adjustment Program, will be achieved. The general government primary surplus has been revised to €3.6bn (2.0% GDP) in 2014.

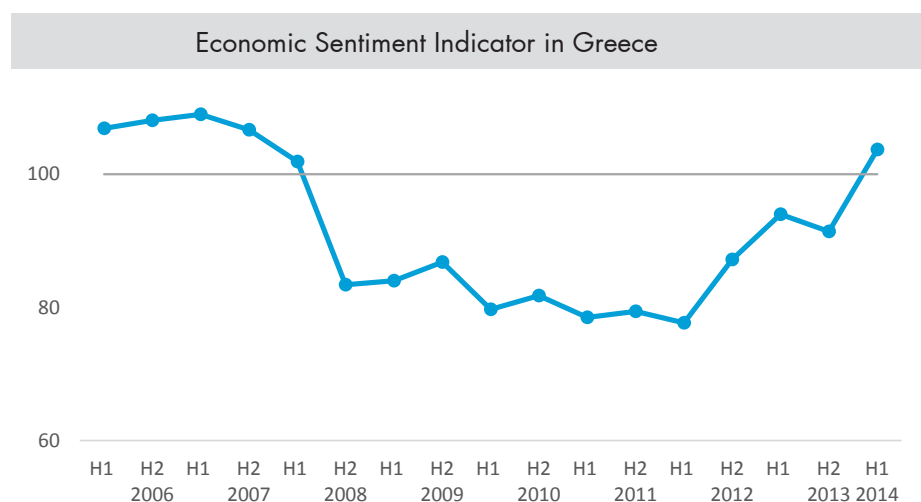
Nevertheless, Greece has the highest rate of implemented structural reforms since 2009 among the OECD countries, the implementation of additional

structural reforms is crucial for the improvement of Greece's international competitiveness and economic sentiment. According to the World Economic Forum (WEF), Greece climbed 10 ranks in the Global Competitive Index, ranking 81st among 144 countries for the period 2014-2015. The main negative impact factors are the lack of access to financing (22.4%), the bureaucracy (18.8%), the tax legislation (16.4%) and the political instability (14.2%). In the same trend, in June 2014 the Economic sentiment indicator exceeded the pre-crisis level of 100 base points.

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Rating Agency	Date	Current Rating	Previous Rating
Fitch	23/05/14	B	CCC
Moody's	01/08/14	Caa1	C
S&P	12/09/14	B	B-



Overview

Foreign investors endorsed the efforts of Greece, signified by the oversubscription of the issued Greek government Bond during 2014 as well as by a substantial inflow of capital. The Foreign Direct Investment ("FDI") inflows grew by 265% in the first half of 2014, reaching €940mn against €260mn in the same period last year.

Greece returned to the markets in 2014, following four years of absence, with the issue of a 5 year government bond in April - raised €3bn at a yield of 4.95% - and the issue of a 3 year government bond in June - raised €1.5bn at a yield of 3.5%.

As the existing lending program expires in Q1 2016 - the period of the last IMF disbursement - access

to the debt markets is critical for the funding of the fiscal gap and for avoiding a third bailout program from the EU and the IMF. However, the country's commitment to the agreed arrangements in the fields of fiscal consolidation and structural reforms is essential for international investors. Any diversion from this policy could lead to a new cycle of recession. The international investors applaud the progress of the Greek Economy but at the same time, point out that the continuity in the fiscal consolidation effort and the structural reforms agenda is necessary.

In spite of the improvement of the Greek Economy, the following issues have to be tackled until the end of the year:

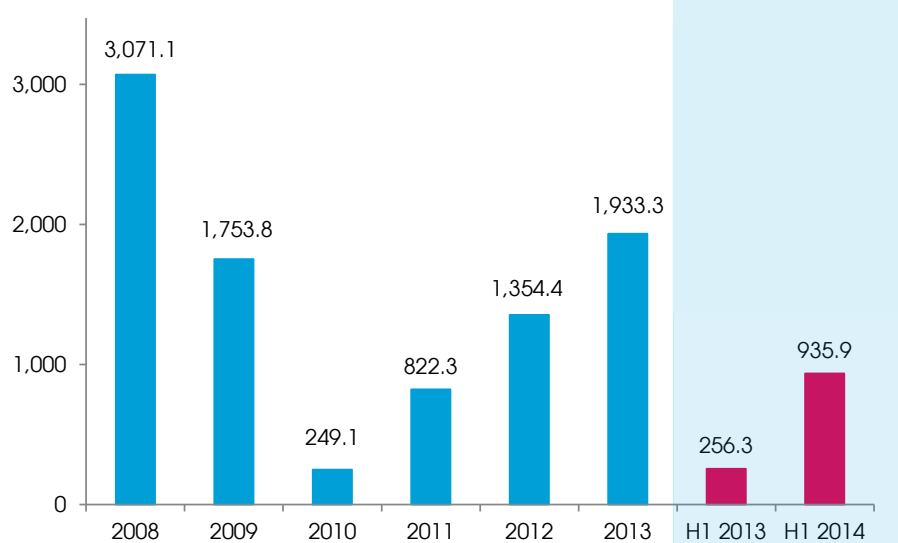
a. the completion of Bank

recapitalisation, following the positive EU-wide stress test results

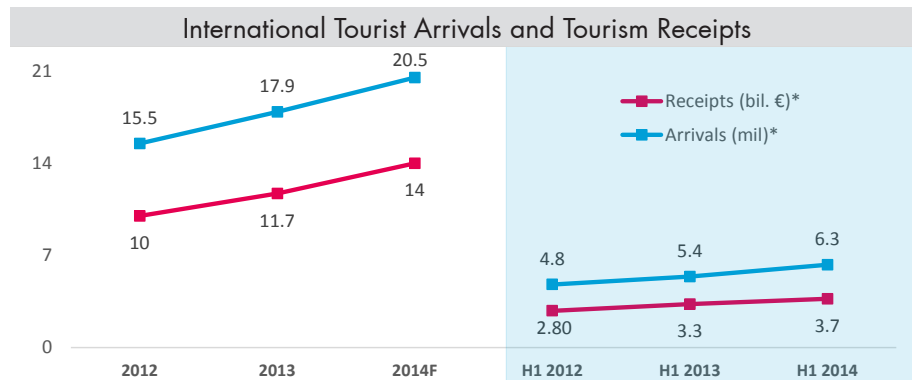
- b. the fifth TROIKA review of Greece's economic reform program
- c. ensuring a sustainable solution for the debt after the European part of Greece's loan program ends next year
- d. the political stability

The coalition government has surpassed the critical European elections in May without significant cost. However the reform fatigue and the lingering political jitters, especially in view of the upcoming parliamentary vote for the election of the new President of the Hellenic Republic by early next year, could negatively affect the process of recovery.

Foreign Direct Investment (Net inflows in mil. €)



Tourism



*Numbers of international cruise passenger arrivals and receipts have not been included

A new record in terms of tourism arrivals and receipts is expected in 2014. The impressive performance of the tourism sector continued, positively influencing the recovery of the Greek economy.

Tourist arrivals reached 6.3mn in H1 2014, from 5.4mn in H1 2013, registering a 15.6% yoy increase, following a further increase by 12.3% yoy in H1 2012. In the same context, tourism receipts recorded a 10.2% increase to €3.7bn in H1 2014 from €3.3bn in H1 2013. The estimate for 2014

is revised upwards to more than 20.5mn tourist arrivals and €14bn tourism receipts compared to the initial target of 18.5mn tourist arrivals and €13bn tourism receipts. The tourist arrivals and receipts will reach the 23mn and €14.5bn respectively, if we take into account the cruise figures. It is estimated that the contribution of tourism to Greek GDP will be above 20% in 2014.

A 25% increase has been recorded in the scheduled airline seats - 4mn seats more - on international flights

to Greece in 2014 as a number of airline companies increased their scheduled flights in order to meet growing demand. In 2014, 51% of the international flights were scheduled and 49% were charter or private flights.

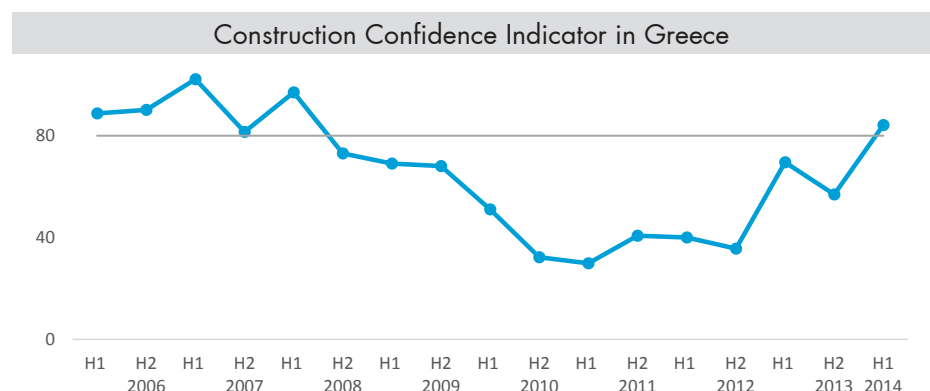
The positive performance of the Greek tourism sector continues as there already is an increasing interest in 2015 pre-bookings. A number of reforms and developments are essential for supporting this trend. According to SETE, there is a need for €3bn private investments and €0.5bn public investments in 2015 mainly for tourist infrastructure - airports, roads, ports, marinas - and the development of integrated resorts and hotel units. Additionally, targeted actions to attract visitors to alternative types of tourism such as religious, medical, cultural and outdoor activities are required to address the main issue of Greek tourism: seasonality.

Building Activity

The construction sector still negatively affects the recovery of the Greek Economy. It is estimated that the drop in construction has removed 1.26% and 0.8% of GDP in the first and second quarter of 2014 respectively. The Greek economy would have turned to growth from the 1st quarter of 2014 if that decline had paused, with positive impact on employment and tax revenues for the country. The remarkable increase by 52.7% of the volume of private building permits in m^3 in June is a positive sign that this trend will continue in the second half of 2014 for the first time since 2009.

In H1 2014, the volume of private building permits in m^3 increased by 1.4% compared to H1 2013. At the same time the construction confidence indicator in Greece recorded a significant increase to

84.3 base point in H1 2014. The launching of the announced real estate developments, especially in the hospitality sector, and the privatisation program are expected to resume the construction activity.





Market News

Holiday homes and hospitality sectors are attracting the attention of investors due to the boom in the tourism sector

There is a growing interest of foreign funds and private individuals to invest in the Greek real estate market. The holiday home and hospitality sectors are attracting the attention of investors due to the boom in the tourism sector. The demand is not limited to these sectors but also to office, retail and logistic markets as the yields are still higher compared to other European countries. More specifically, the prime yields range between 8-9%, 7-8% and 10.5-11.5% in office, retail and logistic markets respectively. The attractive investment framework of Real Estate Investment Trust (REIT) makes it the preferred vehicle for entering into the Greek real estate market.

The key prerequisites of foreign investors are political stability and a friendly investment framework. The new legislative framework improves the current investment environment while further enhancements and actions are needed in the same direction.

The implementation of the following actions are of major importance for the revival of the Greek real estate market:

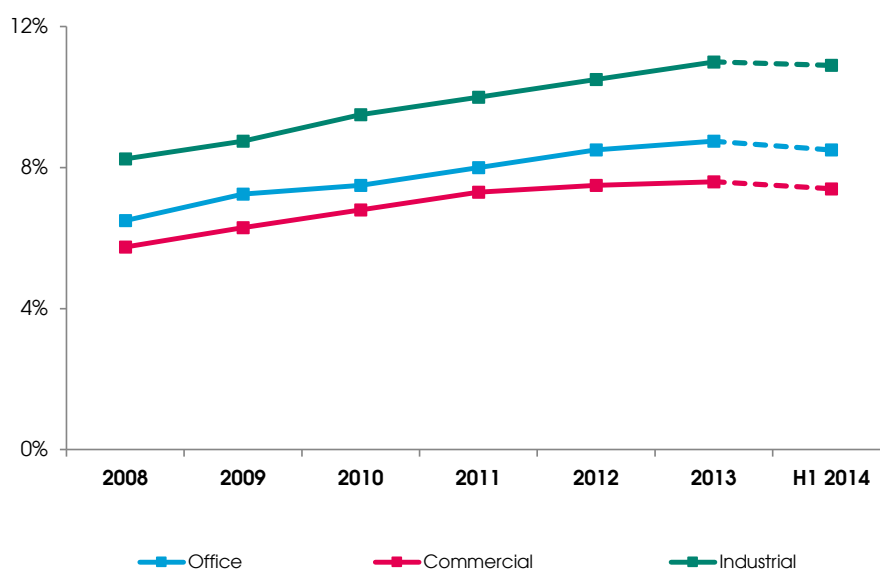
- rationalisation of taxes
- stable tax framework
- completion of the national cadastre
- clear spatial planning
- equation of assessed and market values
- access to financing.

The necessity of these actions is recognised by the authorities, despite the fact that in some cases their decisions are inconsistent. Characteristically, the unclear terms of the new tax framework in real estate transactions froze the property market at least for the first quarter of the year. Greece has the 5th highest property taxes in the

EU, close to the OECD average - Greece: 2% of GDP, OECD: 1.8% of GDP.

The real estate sector is the last obstacle for the recovery of the Greek Economy. The significant investments in this sector, mainly by institutional investors, and the promising fundamentals of the market are expected to reverse the negative trend in real estate. The privatisation program of public real estate assets is progressing, even though with some delays. Office, retail and logistic markets are stabilising in 2014, following a substantial decrease of nearly 50% in prices during the crisis. These markets are estimated to pick up by the end of the year, following the positive path of Greek economy. The revival of the residential market will take longer.

Average Prime Yields per Sector





Key Figures

According to the results of the 2011 Population and Housing Census from Elstat, the total residential stock of Greece amounted to 6,384,353 residences. 64.7% of them are occupied while the remaining 35.3% are vacant. One out of three residences is located in Attica and the figure climbs to 96.1% to include all the big urban centers. The biggest share of occupied residences, 73.2%, are owner-occupied and 21.7% are rented ones. Only 15%, circa 987,000 residences, were constructed during the 2001-2011 period.

The total fall in prices is over 40% from the beginning of the crisis. In the same context, the number of residential transactions with MFI intermediation in H1 2014 was limited to only 7,000 recording a 50% drop compared to H1 2013. However, it is notable that only the 17% of all transactions were financed by banks, while the average loan-to-value ratio came to roughly 35%, below the 82% and 70% corresponding figures of 2009.

A permanent solution to the household loans in the "red" is crucial for the residential market. The value of these loans is



appraised at €25bn of the total €71bn of household mortgages. In addition, immediate actions in reducing the tax burden, establishing a constant real estate taxation system and financing the market through the banking system are required. The reduction of the transfer tax from 10% to 3% and the amendment of the tax framework regarding the tax on capital gain derived from the sale are encouraging signs showing that the government is willing to support the revival of the residential market. On the other hand, the issue of high property taxes for properties valued at more than €300,000 acts as a constraining factor to the increase

of transactions and the revival of the market. On the positive side, major Banks are intending to lend over €800mn for mortgages in 2015. In 2014, the banks are expected to offer an amount of approximately €300mn for mortgages, instead of their initial announcement for €650mn. It is worth mentioning that according to Knight Frank's report "The Global Opportunities Report 2014" Greece has the second most undervalued housing market in the world, only behind Japan, and therefore is the second most promising residential market for investment in the world.

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Overview

The holiday home market is the only segment of the residential market that already shows signs of recovery. In 2014, the interest from abroad was reinforced further with demand coming from Russia, China, Lebanon, Egypt,

Israel and UAE as well as the EU countries. Foreign capital inflow for residences, which mainly focused on the holiday home market, is recording a remarkable increase in H1 2014 as the first positive signs of the "Golden"

visa scheme are apparent. The volume of transactions is still below the country's potential but the strengthening figures in 2014 indicate a growing trend.

Demand

Chalkidiki, Crete, Peloponnese, the Ionian and Cycladic islands are traditionally the most appealing regions to foreign buyers. An increasing demand for the southwest coast of Athens, called the Athenian Riviera, is also apparent. The significant developments in the region such as the Hellinikon Project and the Stavros Niarchos Foundation Cultural Center have revived interest in the Athenian Riviera - Further information in our report Athenian Riviera:

«Watch this space...» source: www.algeanproperty.com. The "Golden" visa scheme - residence permit for investments in excess of €250,000 - seems

to be successful as 436 permits have been issued and 83 more are under consideration compared to 420 and 285 residential permits in Portugal and Spain for May 2013 to September 2014. The conclusion is more impressive and promising, taking into account that the 392 residence permits were issued in the period between May to September 2014. Russians and Chinese, with 185 and 119 permits respectively, are the main investors, followed by Egyptians, Ukrainians, Lebanese and U.S. citizens. The average property value is calculated at €317,000 while only 1.86 permits per transactions are offered. The buyer profiles are diverse.

Country of origin of foreign buyers granted "Golden" visa

	Issued Permits	Under Issuance
Russia	185	22
China	119	31
Egypt	33	8
Ukraine	22	1
Lebanon	15	8
U.S.A.	11	0
Other Countries	51	13
Total	436	83

Buyer profiles

Russia - Ukraine	Mainly looking for detached residences with sea views in the regions of Chalkidiki, Crete, Peloponnese or Mykonos. Regions with intense religious heritage are also interesting.
China	Sea coast residences with close proximity to airport and hospitals. They prefer residences in residential complexes with concierge services and security. Regions of interest are the Athenian Riviera, Crete and Peloponnese.
UAE, Lebanon, Israel, Egypt	Luxury residences with sea views and swimming pool. The Athenian Riviera is attracting their attention. The Cycladic and Ionian islands, Crete and Dodecanese are also in their target.
Nordic Countries	Mainly residential complexes in the region of Crete and the Ionian & Cycladic islands. Increased interest for holiday homes ideal for retirement.
UK and other EU countries	Have a "wait and see" approach and looking for bargains. The main regions of interest are Dodecanese, the Ionian and Cycladic islands. They are also considering the option to acquire a plot of land and build a house or renovate an old house.

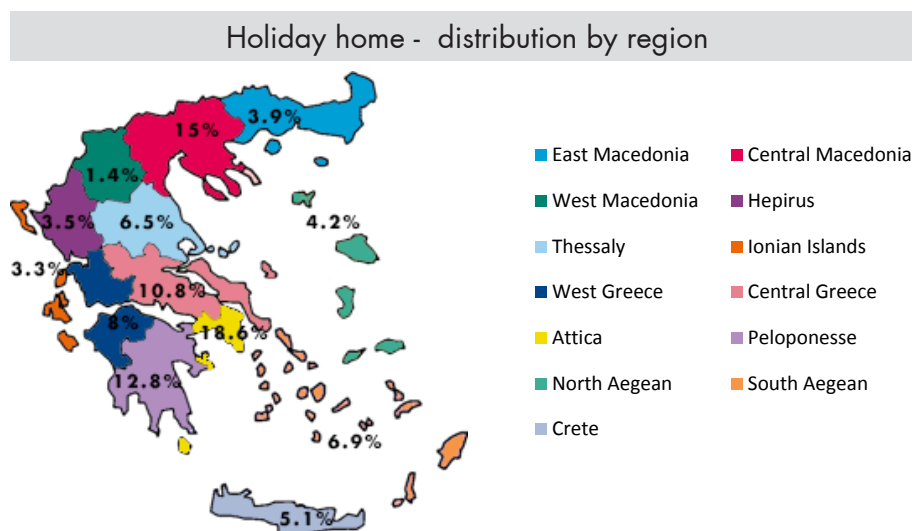


Supply

The total number of holiday homes of the country was 729,964, as recorded at the 2011 Population and Housing Census by Elstat. According to the same report, there is an additional stock of 621,881 residences as secondary homes. The existing stock is almost equivalent to the above figures as there has not been any large development of holiday homes in the last years. A number of owners have placed their properties on the market due to the lingering financial crisis, however the holiday homes for sale do not exceed 50,000. Taking a look at the holiday home distribution by region, an interesting finding is that there is a substantial lack of supply in some regions with strong demand such as the South Aegean, the Ionian Islands and Crete.

Additionally, the distinctive feature of the Greek holiday home market is that it mainly consists of private residences instead of organised residential development. These reasons have led to a shortage of "proper" stock. Foreign buyers prefer residential complexes

offering on site amenities, concierge services and security. Developments of organised residential complexes with at least 40-50 residences are required in the coming years in order to cover the growing demand in the market.



Prices – Transaction Trend

Holiday home prices remained stable in H1 2014 following a substantial fall in the last years. On the other hand, strong overseas interest for renting of luxury holiday homes has been observed since the second half of 2013. It is noted that 70,000 owners have rented their holiday homes to more than

1 mn foreign visitors during the first seven months of 2014. The gross yield ranges between 4-6%, making the acquisition of a holiday home in Greece ideal not only for a vacation or a retirement home but also as an investment. In H1 2014, the foreign capital income from property acquisition reached

€117.4mn, around double that of the figures of H1 2013 - €60.3mn - and above that of the figures for the whole 2012 - €113.4mn. From the above data, the upturn of the holiday home market is evident, as well as the improved investment sentiment of the foreign investor.

Outlook

The recovery of the Greek economy and the adjustment to a clearer real estate taxation system is expected to do away with the last remaining obstacles in the Holiday

home market. The new legislative framework offering additional incentives to foreign investors is attracting a growing audience. Greece has all the potential and

features to draw the interest of all types of holiday home buyers. Large organised holiday home developments are anticipated in the next year due to the rising demand.



Overview

Due to the improvement of the Greek Economy and the constant outperformance of the tourism sector the hospitality market is becoming the most promising sector of the Greek real estate market. In

addition, the development of an investment - friendly framework and a transparent spatial planning are drawing the attention of international hotel operators, developers and funds. A number

of significant developments have been planned while many foreign investors are interested in entering the Greek hospitality market.

Perspectives

The significant performance of tourism in 2014 is mainly driven by

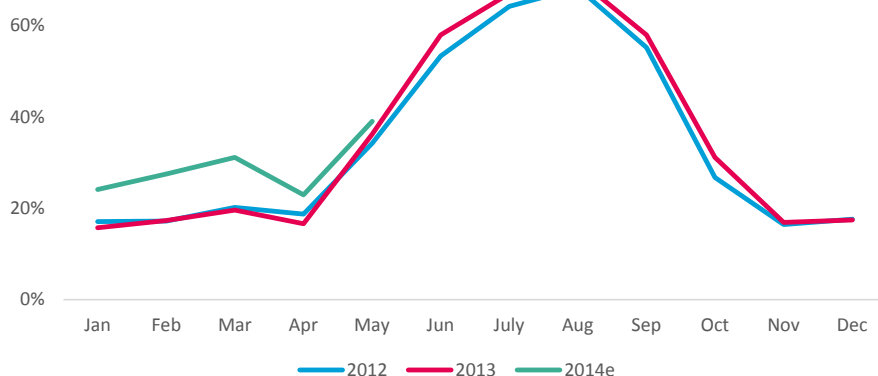
- the enriched image and the unique location and features of Greece
- the improvement of the country's hotel capacity
- the professional services by experienced staff
- the increasingly competitive prices in accommodation and food and beverage
- the promotion of additional types of tourism.

In the same context, the level of visitor satisfaction in January - July 2014 for Greece is recorded at 84.1%, above all its main competitors according to Global Review Index. The satisfaction level is even higher for five star hotel units - 86.6% - or high end destination - Mykonos: 87.6% and Santorini: 87.8%. The revenue per tourist per day is estimated to slightly increase to €74 in 2014 from €72 in 2013 and €69 in 2010. An important weakness of the Greek hospitality sector is its perceived seasonality. The performance has improved considerably in the first months of 2014 through coordinated actions from all the engaged parties of the

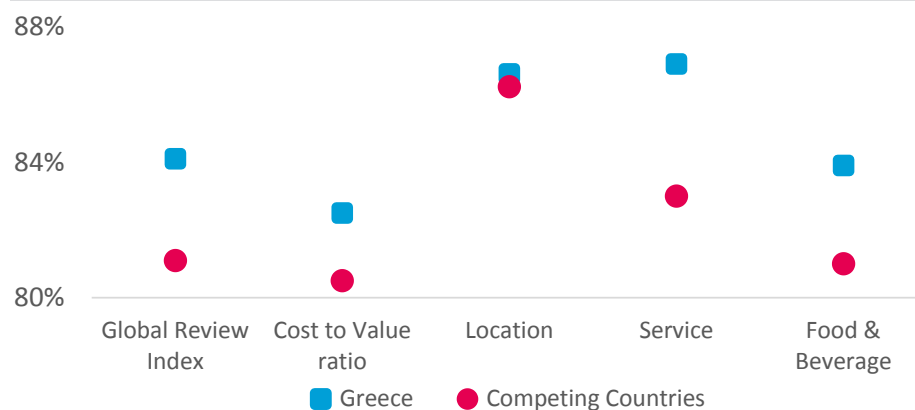
sector. The promotion of alternative types of tourism with competitive advantages - Religious, cultural, medical, retirement and outdoor

activities tourism - and the development of integrated resorts will prolong the tourism period of Greece.

Seasonality - Occupancy Rate per month



Level of Visitor Satisfaction in January-July 2014 (Global Review Index)



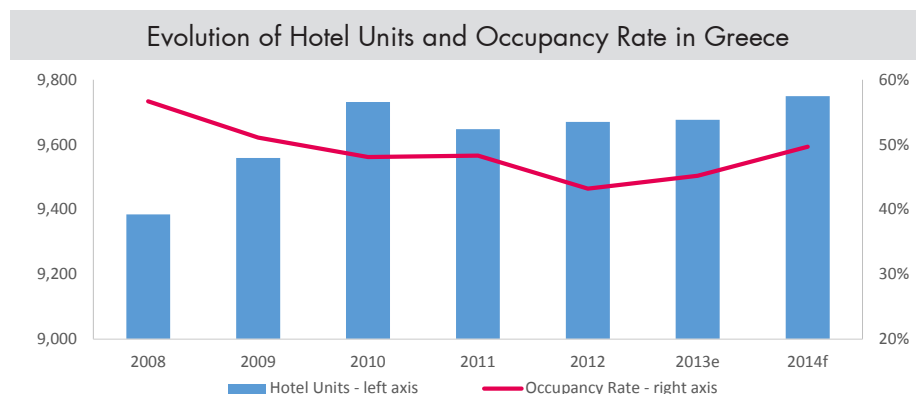


Supply

The hotel capacity has increased to more than 9,700 hotel units with over 780,000 beds during the first half of 2014 as some new luxury hotel units and villas launched their operations. The rising tourism demand has led to the increase of the occupancy rate. Greek tourism is achieving the targets three years earlier than estimated in their strategic plan. According to this strategy, an investment of €26bn - €3.5bn per year - from both private and public funds are required up to 2021. This indicates the necessity for an investment of at least €3.5bn

for tourist infrastructure - airports, roads, ports, marinas - and the development of integrated resorts and hotel units in 2015. There is an

immediate need of 250,000 bed in 4 and 5 star hotel units in order to achieve the target and attract tourist with higher income.



Transaction

The most impressive transaction in the first half of 2014 was the undertaking of the Hellenikon development project by a consortium of Greek, Chinese, UAE, Turkish, European and American investment group. The development is the largest privately funded investment in Greece to date - €7bn - and will include residential communities, hotels, shopping centres, marinas, theme parks, art and cultural museums, sport and recreational venues as well as one of the world's largest

€5 bn worth of developments are expected in the next years in the hospitality sector

metropolitan parks. In May, another important deal was concluded as the group of the USA fund Oaktree Capital Management and Sani S.A. came to an agreement with the National Bank of Greece for the acquisition of Gerakina Beach Resort at the price of €17mil. The hotel is located in Polygyros,

Chalkidiki with a capacity of 503 rooms and 955 beds. It is noted that approximately €5bn worth of developments are expected in the next years in the hospitality sector mainly in the regions of Chalkidiki, Crete, Cyclades, the Ionian islands and Peloponnese.

Outlook

The untapped potential of the Greek hospitality sector is attracting international developers and investors. There is intense interest from European, Asian, American and South American

funds to invest in the hospitality market. The demand is strong not only for the development of new integrated resorts but also for the acquisition of existing hotel units. It is indicative that international

funds such as Fairfax, Invel, Fosun, Blackstone, Oaktree, Hines, QIA, London & Regional, Carlton Group and others are willing to invest in the Greek real estate market.

Economy

Macroeconomic Data

	2009	2010	2011	2012	2013e	2014H1	2014f
Population (mil.)	11.2	11.2	11.1	11.1	11.0	11.0	11.0
GDP growth (%)	(3.1)	(4.9)	(7.1)	(7.0)	(3.9)	(0.7)	0.6
Inflation (%)	1.3	4.7	3.3	1.5	(0.9)	(1.3)	(1.0)
Unemployment rate (%)	9.6	12.7	17.9	24.4	27.5	27.0	26.7
FDI (net inflows in mil. €)	1,753.8	249.2	822.3	1,354.3	1,936.5	935.9	
Spreads (10 year bond)	238.7	950.9	3,313.4	1,058.4	649.0	471.0	
Athens Stock Exchange	2,196.2	1,413.9	680.4	907.9	1,162.7	1,214.3	

Real Estate

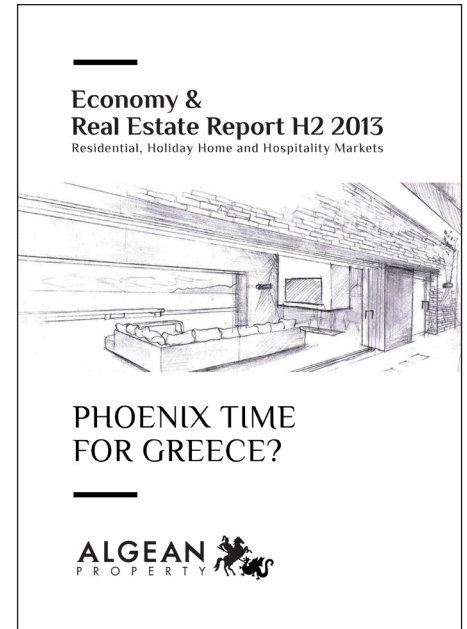
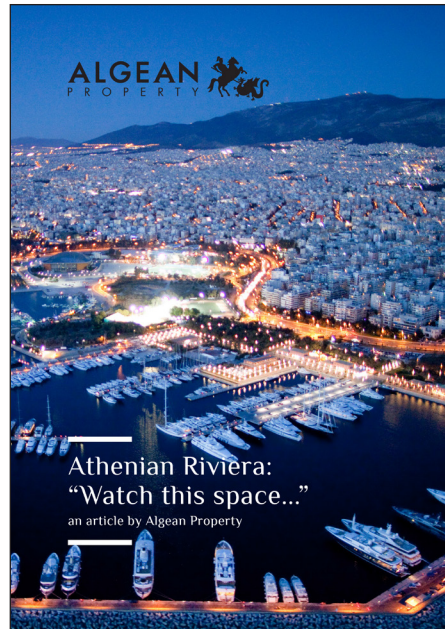
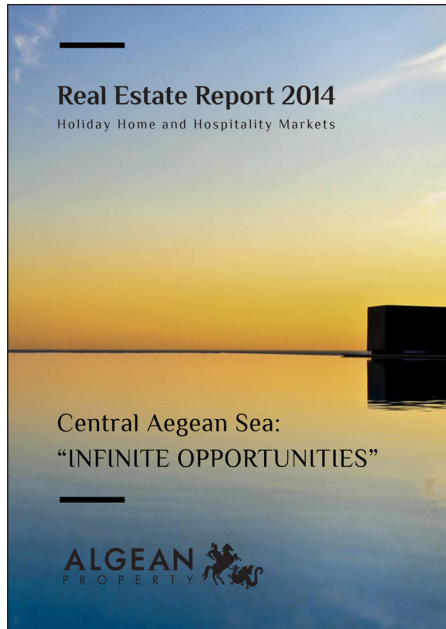
Market Trends

	Stock	Price	Demand	Supply
Residential Market	270,000	↘	→	→
Holiday Home Market	50,000	→	↗	→
Hospitality Market	9,700	↗	↗	↗

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Sources: Bank of Greece, European Commission, International Monetary Fund (IMF), Eurostat, Hellenic Statistical Authority (ELSTAT), OECD, Association of Greek Tourism Enterprises (SETTE), Hellenic Chamber of Hotels, Foundation for Economic & Industrial Research (IOBE), Global Review, Ministry of Finance, Ministry of Development & Competitiveness and Algean Property Research.

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