

Review of the property market of Athens

OFFICE & RETAIL

MARCH 2017











Basic Aspects of the Greek Economy

(source: Focus Economics, March 2017, ELSTAT)

KENTRIKI

An International Associate of

savills

	2015	2016f	2017f
GDP (Annual change %)	-0.2	0 	1.7 
Private consumption (Annual change %)	-0.2	0.5 	0.9 
Exports (Annual change %)	3.4	-1.1 	5.0 
Industrial production (Annual change %)	1.0	2.3 	1.6 
Unemployment (% of the economically active population)	25.0	23.5 	22.5 

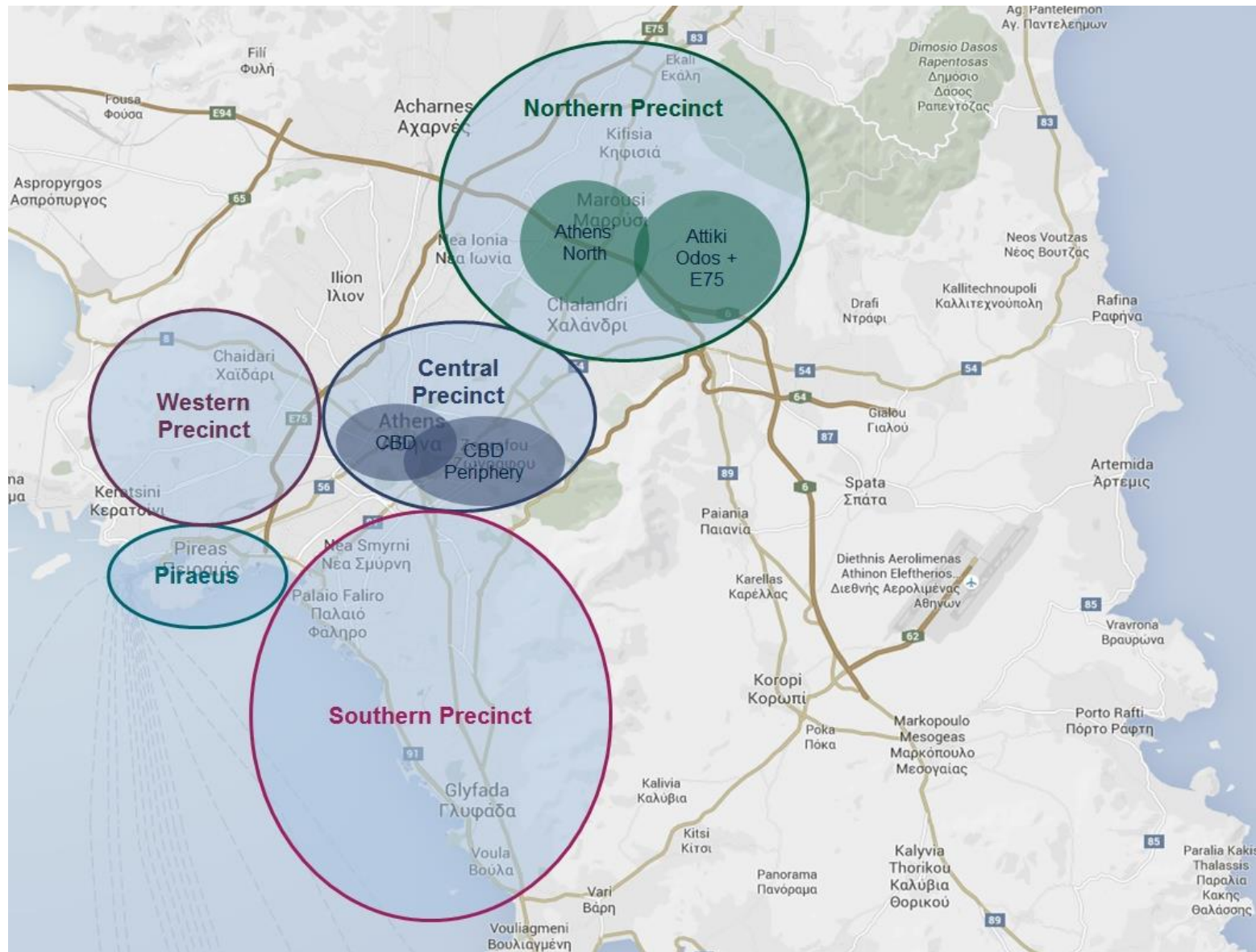
Current Situation and Prospect

- The GDP presented significant growth (2%) during the first quarter (y-o-y), which is the largest growth since the first quarter of 2008. This positive run has been reverted as during the fourth quarter (y-o-y) the GDP decreased by 1.1%. In real terms the GDP amounted to 184.5 bn Euros demonstrating zero change compared to 2015 (1st estimate).
- This is due to the reduction of private investments, exports and the uncertain economic environment.
- The completion of the assessment is crucial for the disbursement of new funds and the possible accession of Greece to the quantitative easing program, because the fiscal situation is exacerbating.
- The Greek Government, under IMF instructions, has made steps to the direction of reducing the tax-free amount and reforming the National Insurance system. However, is resisting in implementing further reforms that the lenders side requires.
- As a result of the general economic uncertainty, during the first months of 2017 we have observed a reduction of bank deposits and an increase in non-performing loans.

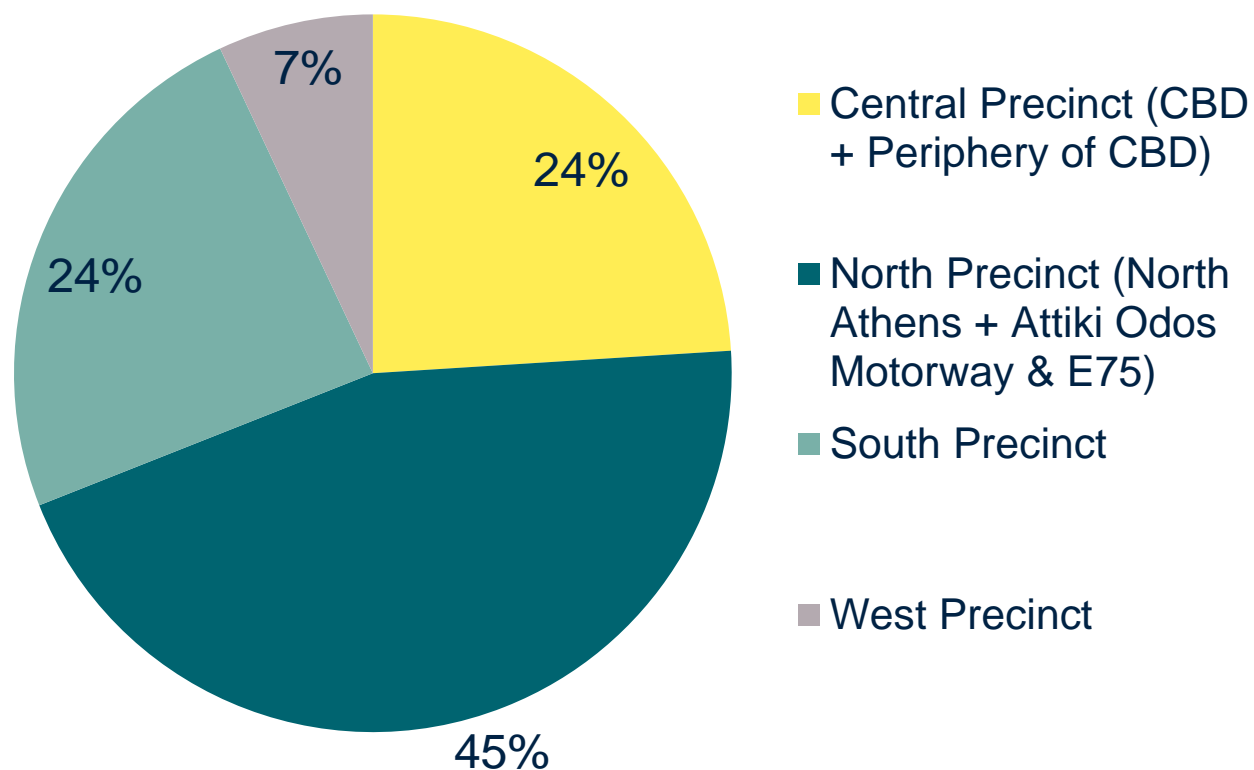
Office Sector



Basic markets of Attica



Office stock allocation, % m²



The total stock of Grade A & B offices is estimated between 2.2 and 2.4 million m²

Demand / Supply

- **The main demand drivers are:**
 - **Relocation of firms to prime properties** (Grade A), in terms of location and specifications, combined with cost rationalization as rents are at attractive levels.
 - **Accumulation of spatially dispersed business activities** under the same roof in order to rationalize costs.

Demand Polarization. The demand for Grade A offices is at much higher levels than for Grade B and lower quality offices. However, due to the absence of new office constructions, from 2010 until today, it is hard to find large scale prime (Grade A) office buildings. The demand is focused on office spaces from 350 to 700 m² with few cases which are over 1,000 m².

Interesting Sub-markets(1)

- The **North Precinct** (Kifisias Avenue, Soros, Paradeisos, Mesogeion Avenue, Attiki Odos Motorway) represents the most important office market in terms of size and attractiveness. Rental values have been compressed since the beginning of the economic crisis. On the contrary, stabilising and upward trends in rents from 2016 onwards are observed in Grade A offices.
- The majority of asking rental values range between **10€/m²/month** and **14€/m²/month** while for higher quality office spaces these may exceed **15€/m²/month**. Indeed, there are cases where asking rents are in the order of **17€/m²/month**.
- In older office spaces, of inferior specifications, rents lie below **9€/m²/month**.

	2015	2016
Vacancy Rate Grade A' & B'	10-15%	8-13%
Vacancy Rate Grade A'	4-6%	3-5%
Vacancy Rate Grade B'	13-15%	12-14%



Interesting Sub-markets (2)

- The second most popular office sub-market is the **Athens CBD**. The majority of the office spaces are categorised as Grade B as they have been developed during the 70s-80s.
- The vacancy rate for Grade A and B offices lies between 13% and 15% due to the specific problems of the city centre of Athens.
- However, low levels of vacancy (under 5%) for Grade A offices are observed due to, among others, the low availability of the stock. The rents demonstrate a positive run in 2016 ranging between 17€/m²/month and 22€/m²/month.
- At Grade B offices, particularly at the periphery of the CBD, high mobility is observed due to the relocation of private freelancers and middle-size companies in more affordable spaces. Consequently, the vacancy rate remains at high levels and reaches 20%.



Less Interesting Sub-markets (1)

- The main thoroughfares of **South Athens** (Syngrou, Posidonos and Vouliagmenis) exhibit stability.
- Many office buildings of the South Precinct are owner-occupied such as office buildings of insurance and shipping firms and as a result the investment opportunities are limited.
- At Syngrou Avenue exclusively, the interest is concentrated mainly on office spaces with the take up of Grade A offices having improved. The rents range between **9€/m²/month and 12€/m²/month**.
- Vacancy rate for Grade A & B offices in the South Precinct: \cong 16-18%
- Vacancy rate for Grade A offices:
 - Syngrou Avenue: \cong 5%
 - Posidonos Avenue: \cong 15%
 - Vouliagmenis Avenue: \cong 18%.

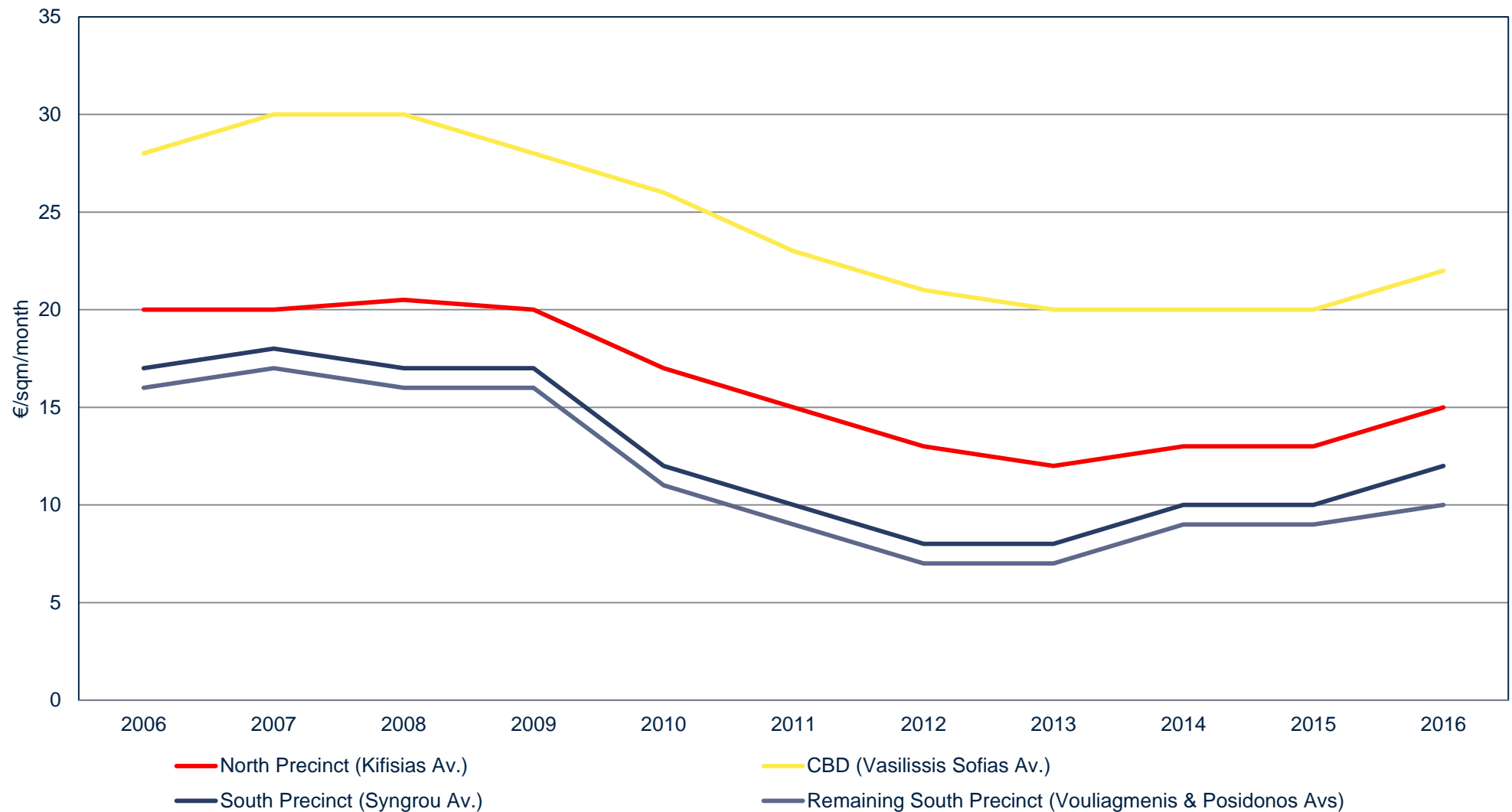


Less Interesting Sub-markets (2)

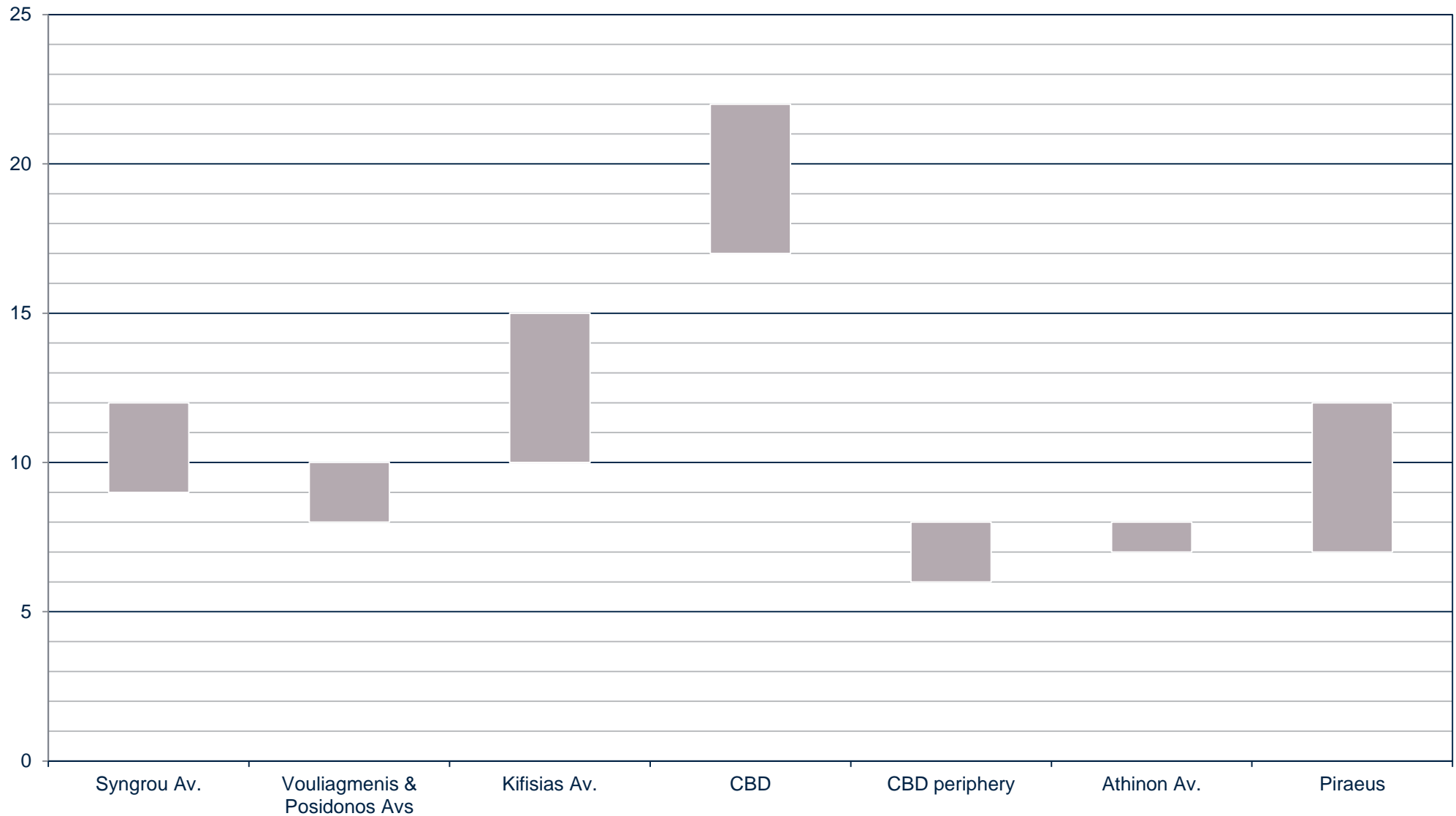
- The main thoroughfare of the **West Precinct of Athens** are Athinon Avenue and Kifisos Avenue while the secondary road axes are Iera Odos and Petrou Rali.
- The west Precinct had appeared, before the economic crisis, as an alternative submarket for businesses, mainly after the relocation of the Athens Stock Exchange Market at Athinon Avenue, with considerable movement activity.
- The demand for offices in this submarket has decreased significantly and as a result any development plans have been put on hold.
- OPAP has made a remarkable movement by purchasing an 8-storey office building close to the Athens Stock exchange Market from KanAm to the price of €14 millions (late 2015). The subject property was purchased from KanAm in 2007 to the price of €47 millions.
- The subject submarket could attract large scale developments in the future either owner-occupied or not.



Rental levels – Grade A & B (€/m²/month)

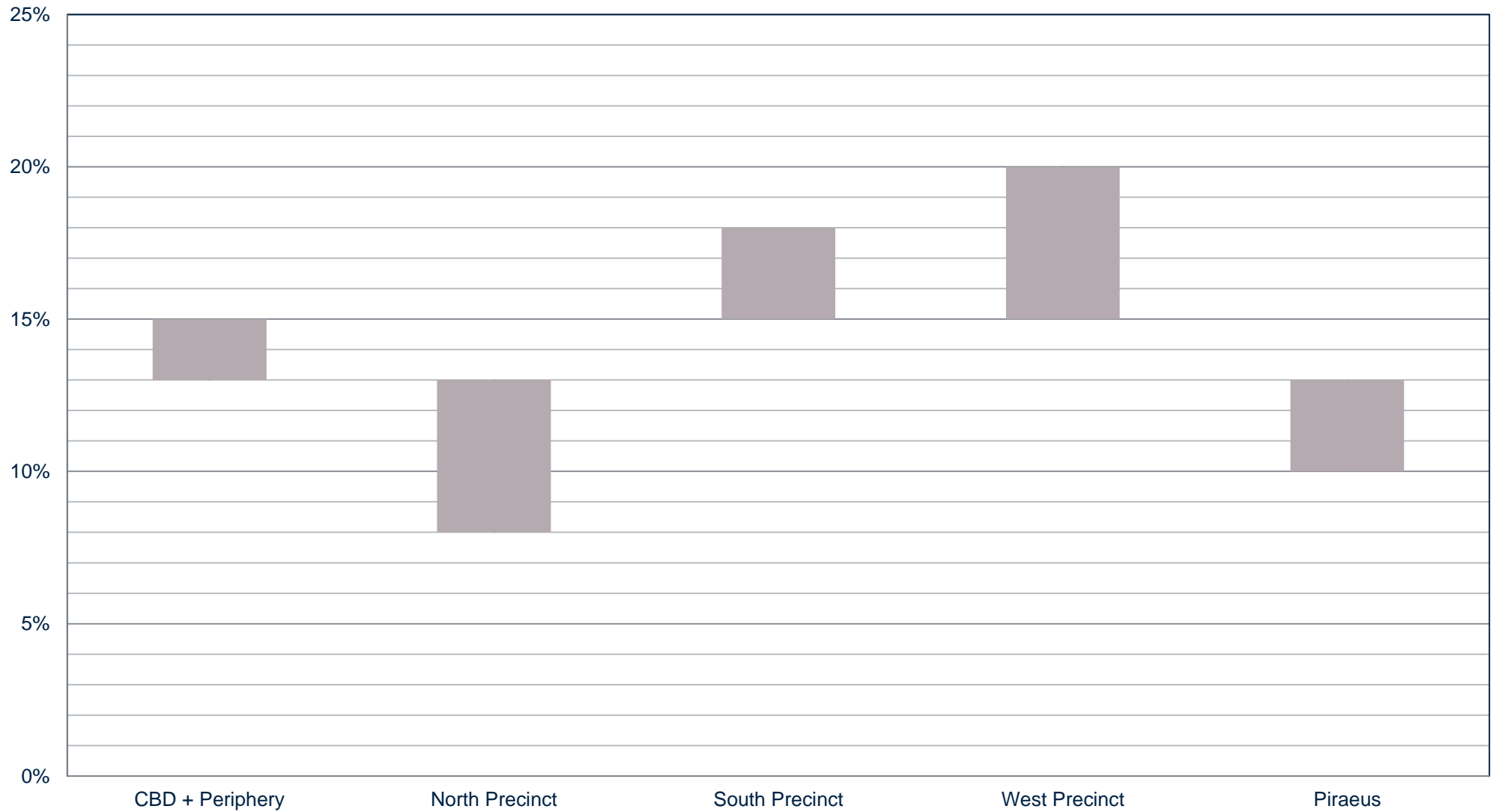


Rental levels – Grade A & B (€/m²/month)



Vacancy rate (%) - Grade A & B

An International Associate of



Investment Market - Prospects (1)

- Similar to the previous years, the most important investors appear to be the two largest REITs (PANGAEA, GRIVALIA).

s/n	Year	Period	Building	Area	Seller	Buyer	Value (€)
1	2017	Q1	Media Markt (contains a retail component)	South, Syngrou Avenue	-	Grivalia REIC	13,200,000
2	2016	Q4	OTE	CBD, Stadiou	OTE ESTATE	Douzoglou	11,000,000
3	2016	Q4	Papastratos	Piraeus	Phillip Morris International	Dimand/Grivalia REIC	13,000,000
4	2016	Q4	Arcania	North	Arcania	Grivalia REIC	14,300,000
5	2016	Q3	Hospice for the Disabled (two office spaces, Kifisias & Alexandras Avenue 1.900m ² . – Kifisias Avenue 625m ²)	North Precinct	Hospice for the Disabled	Pangaea REIC	4,500,000
6	2016	Q1	Vasilisis Sofias 68	CBD, Basilisis Sofias	Aspis Capital	Grivalia REIC	11,250,000
7	2016	Q1	IBG	North Precinct	Investment Bank of Greece	BB Energy	8,300,000

- During 2016, there was interest from Hedge Funds to acquire a package of properties which occurred from Greek Banks's mortgages without although any significant actions take place.

Investment Market – Prospects (2)

- The Initial Yields for Grade A offices range between the following levels:
 - Centre of Athens: > 7.50%
 - North Athens: > 8.00%
 - Other areas: > 8.50%

The Initial Yields for Grade A Offices appear stable at 8.25%.

- It is expected to appear further interest from Hedge Funds for the acquisition, refurbishment and remarketing of portfolios of properties/offices, which result from non-performing loans, with the prospect of achieving higher rents and gaining added value. Within this context Grivalia refurbished Green Plaza (office complex) with the aim of remarketing and achieving higher rents (Aghiou Konstantinou St., Athens North).
- Commerzbank offered their portfolio to the market, through a tender process, which consists of mortgaged properties such as Med-Cosmos and two properties of Pradera (Florida 1, Village Shopping & More).

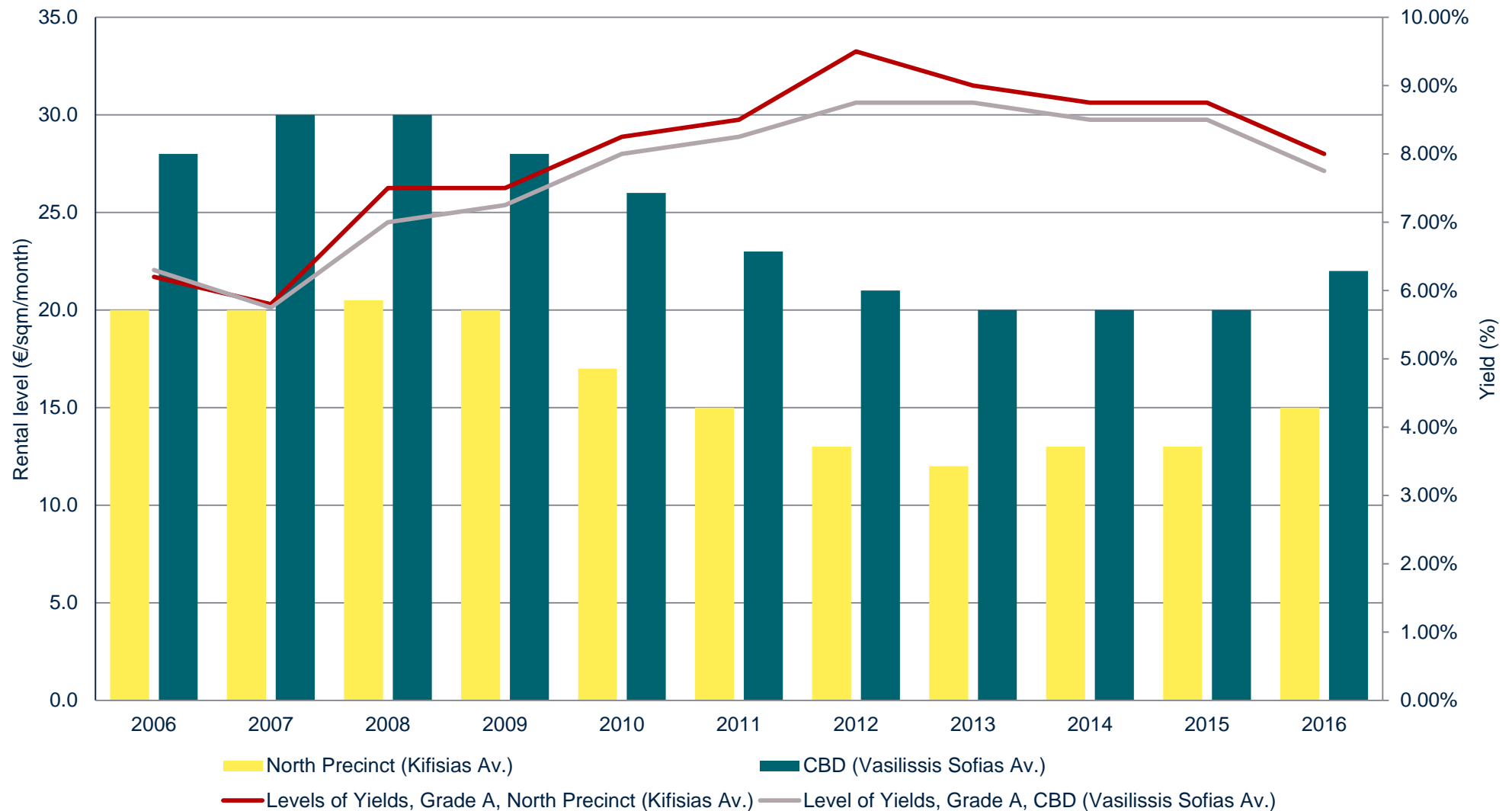


Achieved Rents and Yields Grade A Offices

KENTRIKI

An International Associate of

savills



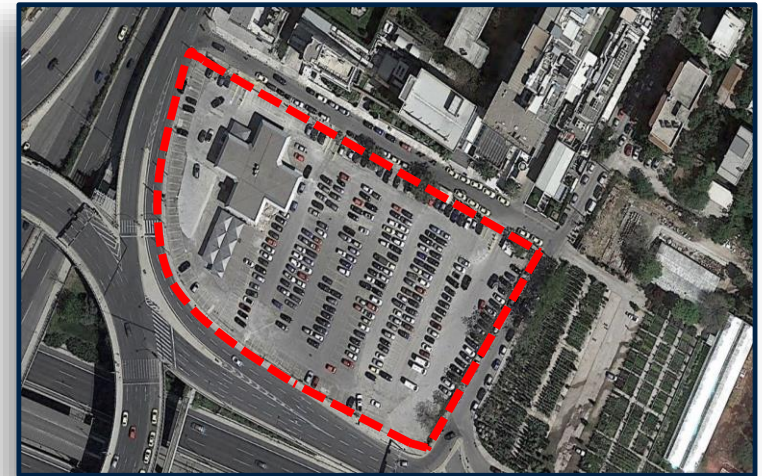
Investment Market – Prospects (3)

- With the supply of Grade A offices being limited, as a result of the absence of new developments, we observe the first investment initiative for large scale modern office spaces at Piraeus from Dimand who acquired the old facilities of Papastratos. The first phase will be completed within one year and concerns the conversion of a 5,500 m² warehouse to a 10,500 m² Grade A Offices. The total investment is expected to surpass the amount of €100 millions, reforming significantly the local and wider area.

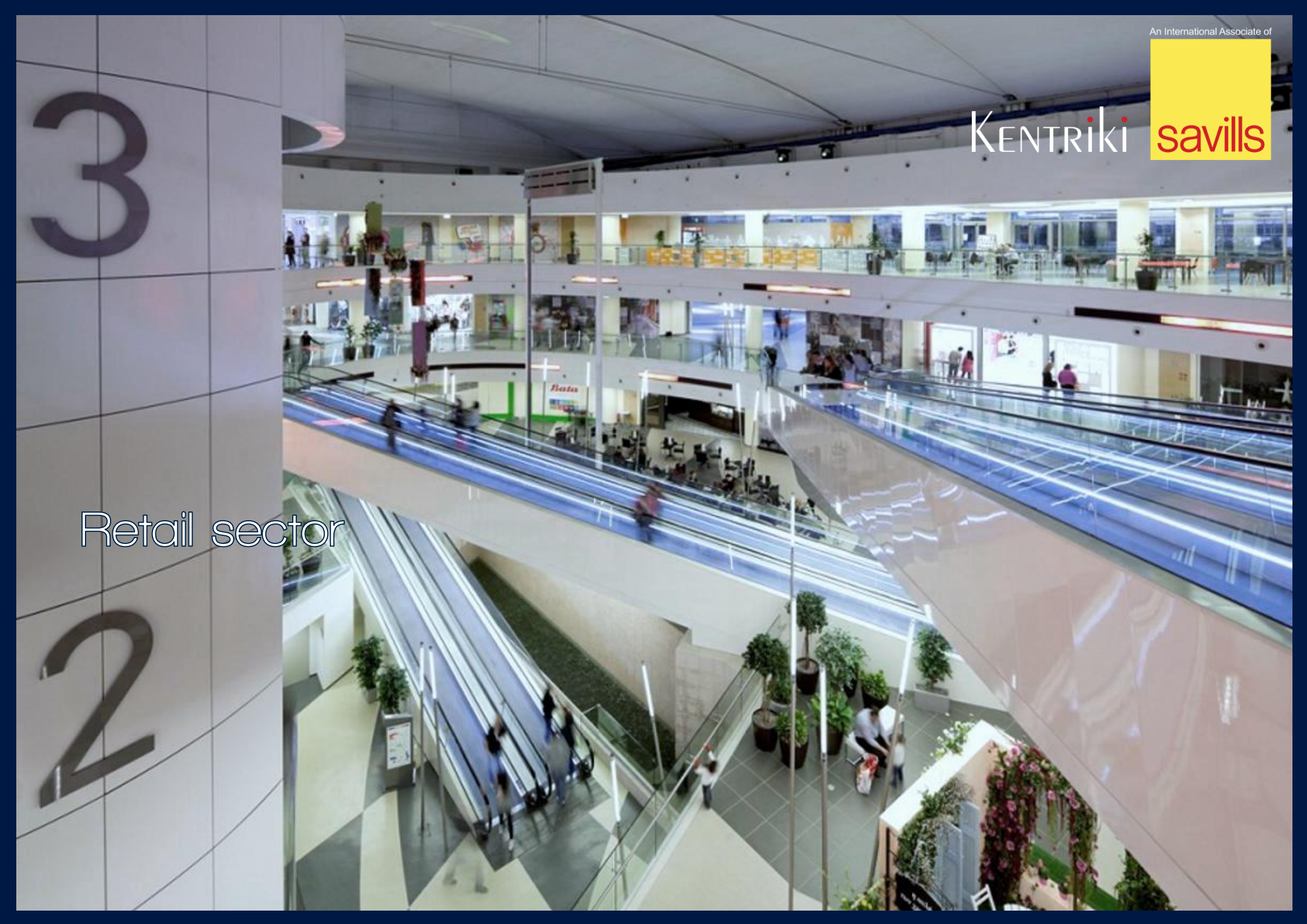


Investment Market – Prospects (4)

- To this end, a tender process is on progress for the development of a site owned by TEE (technical chamber of Greece) which is located in the ring road at Kifisias Avenue (North Precinct).
- Important new development is the office building close to Syngrou Avenue, Kalithea which is developed for owner-occupation from Anangel Maritime.



Retail sector



Trends in Retail Real Estate market (1)

- The retail sector is influenced by the private consumption expenditure and by the consumer confidence. Both the **retail turnover index** and the **volume index** on a year-on-year (2015 vs 2016) comparison decreased by 2.1% and by 0.63% respectively, despite various initiatives of the retailers such as the “*Black Friday*”.



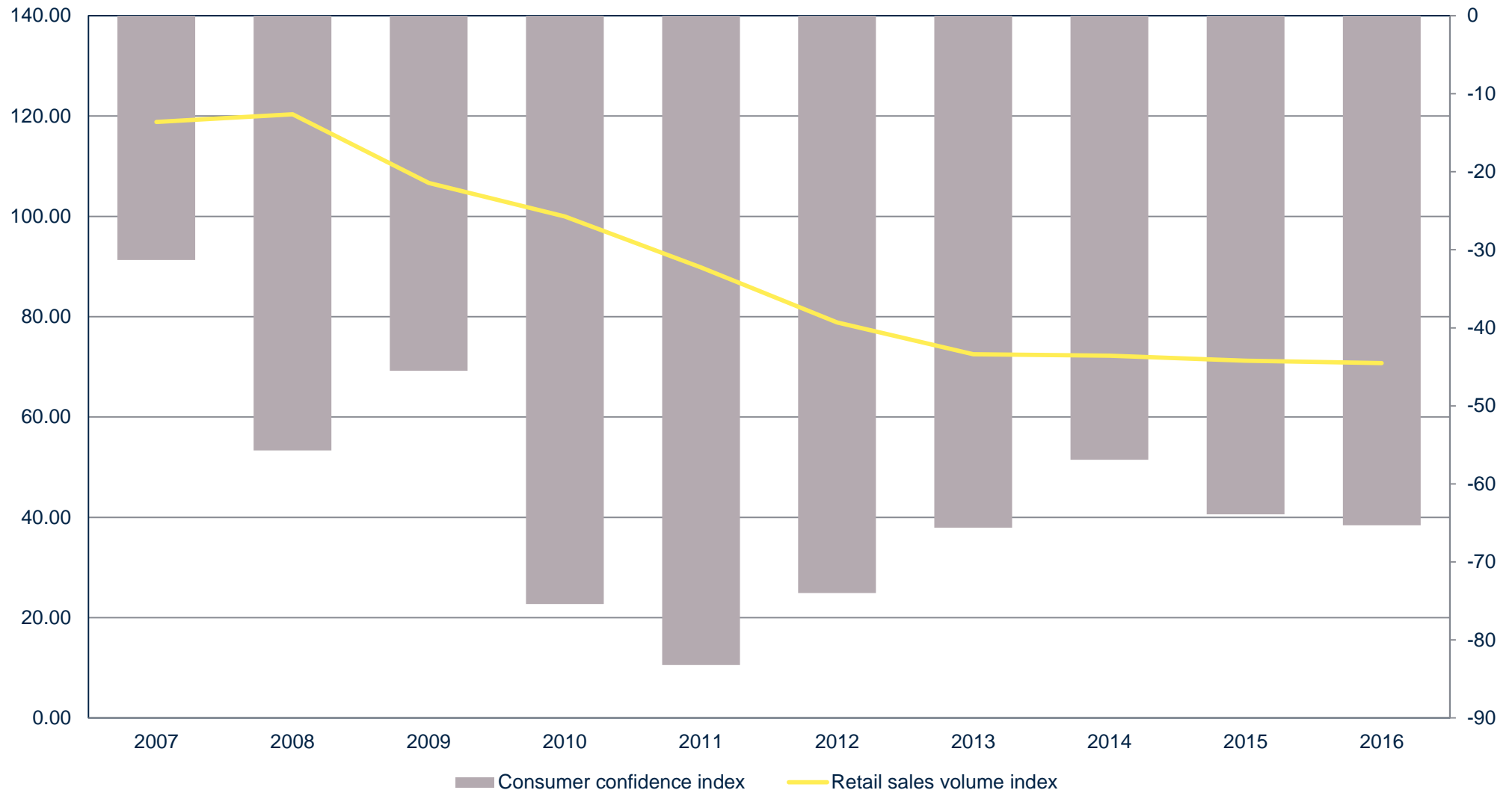
- The national consumer confidence index (Nielsen's research), on a quarter-on-quarter (3rd vs 4th) comparison decreased by 3 points and finally reached 53 points, whereas the respective index at global level reached 101 points. In Greece, the 84% of the interviewed believe that the economic recession will continue in the next year, which is the highest percentage among the 63 countries that participate in the survey.

Retail sales volume index and Consumer confidence index (Eurostat, Hellenic Statistical Authority)

KENTRIKI

An International Associate of

savills



The retail market outlook (1)

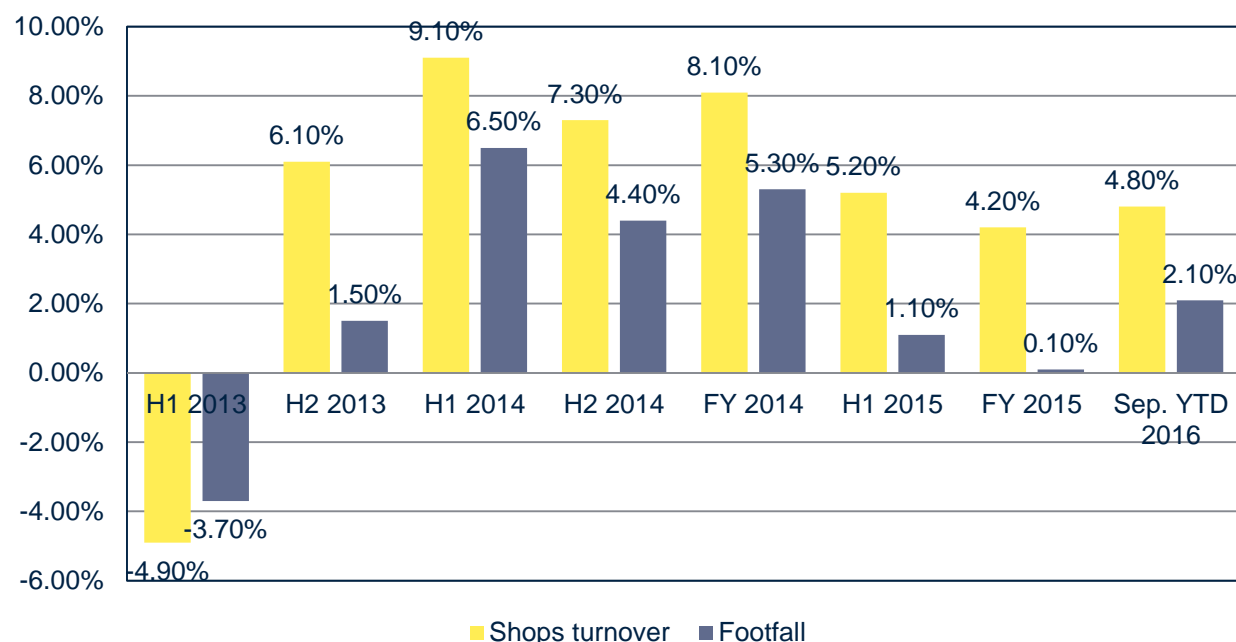
- The high streets of the city centre demonstrate higher durability and stabilisation in terms of sales volume, whereas in sub regional markets such as Chalandri, Marousi, Nea Smyrni etc. the drop in sales is more intense.
- A significant number of small retailers have been forced to close due to the continuous economic recession. Large retail chains experience liquidity problems and as a result some of them have gone bankrupt, such as Ilektroniki Athinon and Marinopoulos.



- At the same time in popular areas of the city centre, such as the neighborhood of Kolonaki, there seems to be a transition in progress from retail uses to food and beverage uses (restaurants, cafes).

The retail market outlook (2)

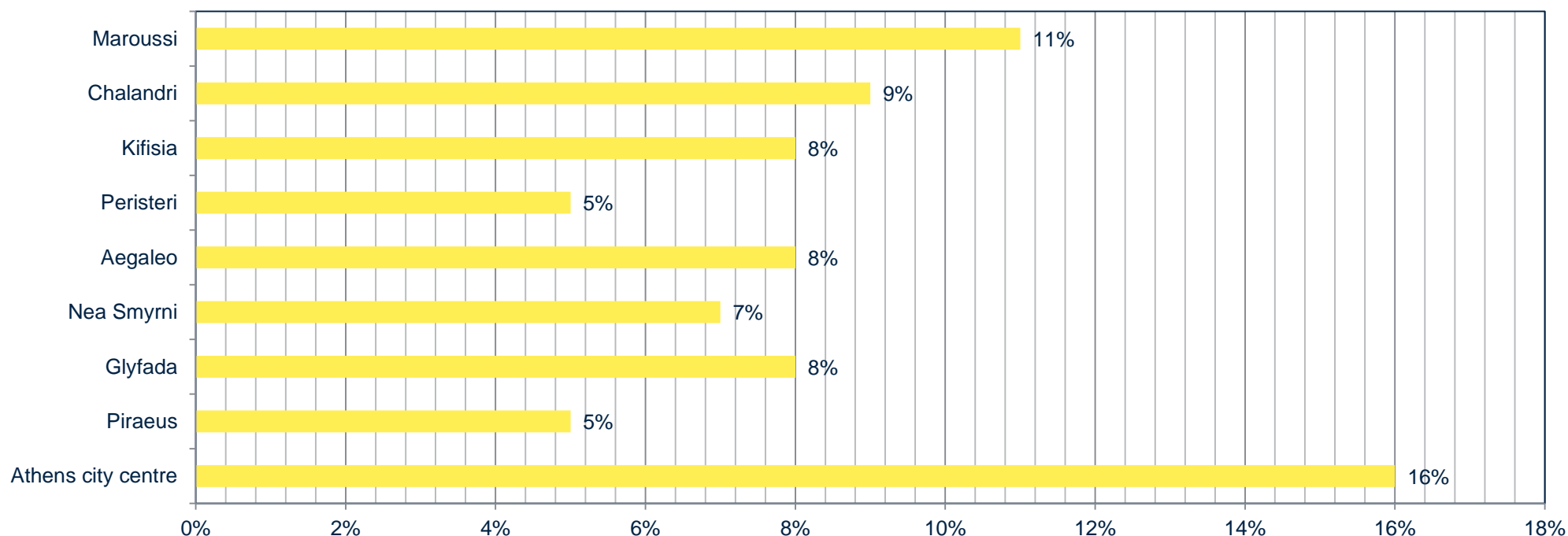
- Nevertheless the well-established / successful shopping centres continue to have an upward trend in 2016. The total performance of LAMDA Development group's shopping centres on a year-on-year (Sep YTD: 2015 vs 2016) comparison shows an improvement in both footfall (+2.1%) and turnover (+4.8%), whereas the number of vacant stores appears to be quite limited (**occupancy rate 98%**).



- More analytically, the Mall Athens and Golden Hall shopping centres on a year-on-year (Sep YTD: 2015 vs 2016) comparison show an annual growth in terms of turnover by 3.1% and 6.7%, terms of footfall by 2.2% and 3.6%, whereas the average occupancy rate is 97% and 98% respectively.

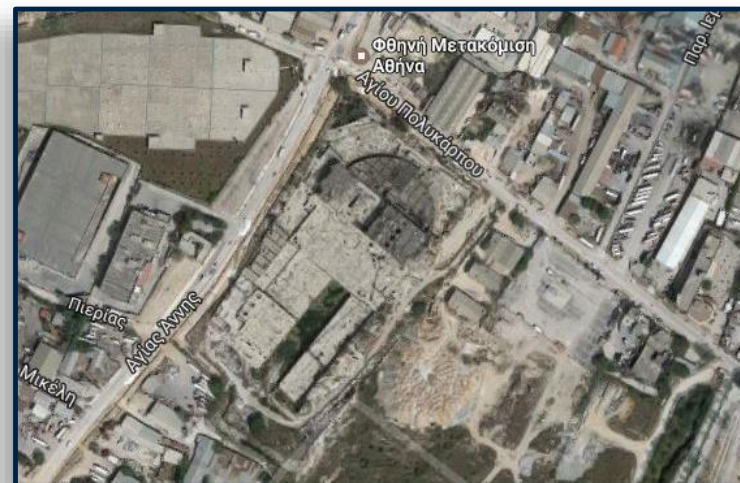
Vacancy rate in shopping streets

- The number of vacant store units (of various sizes) has reached its peak in 2015 with the Athens CBD being the most affected due to labor strikes. The vacancy rate in the primary and secondary central shopping streets has reached 10% and 25-33% respectively.
- Landlords in various retail districts are willing to negotiate passing rents in lower levels due to the fact that a lot of retail stores remain vacant for more than 12 months, whereas at the same time they bear significant tax burdens. Exceptions to the above statement are the high streets of Ermou and Voukourestiou, as their occupancy rate has reached at 97% in 2016.



Supply

- The total supply of large-scale / organized commercial developments has stabilised at **1.15** mil. sq. met.
- In the most recent years, no shopping center development has taken place. We understand that the only project regarding shopping center development that maintains high viability is the Mall in the area of Votaniko, as a lot of legal and technical issues have been resolved. Based on projections, it will add c. 48,000sqm GLA to the available GLA.

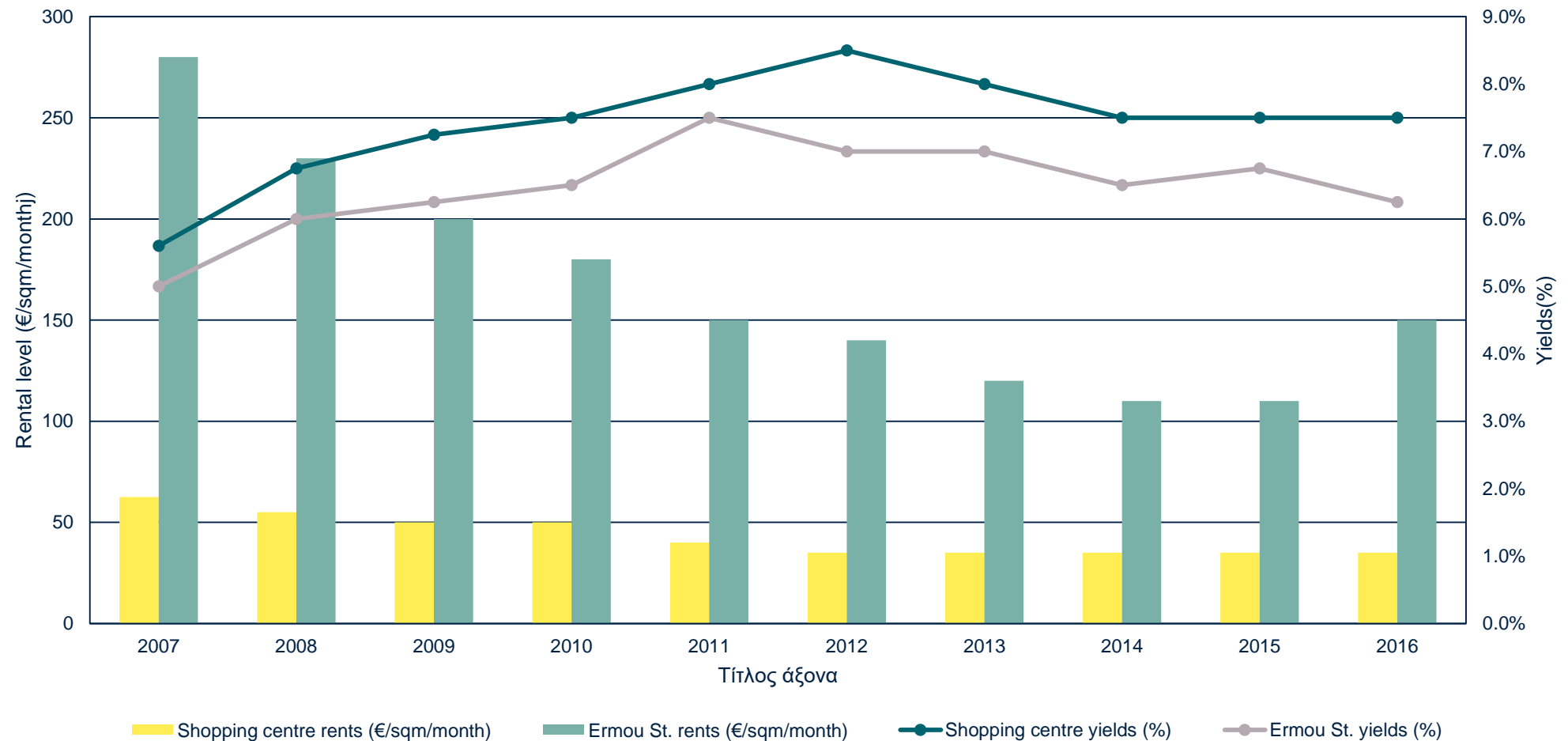


- The existing operating shopping centers in Athens have led to an increase in the current GLA at levels of 144 sq. met. per 1000 residents. About 90% of the total stock of modern and organised commercial premises in Greece, is concentrated around Athens.

Retail rental values and yields

An International Associate of

KENTRIKI savills

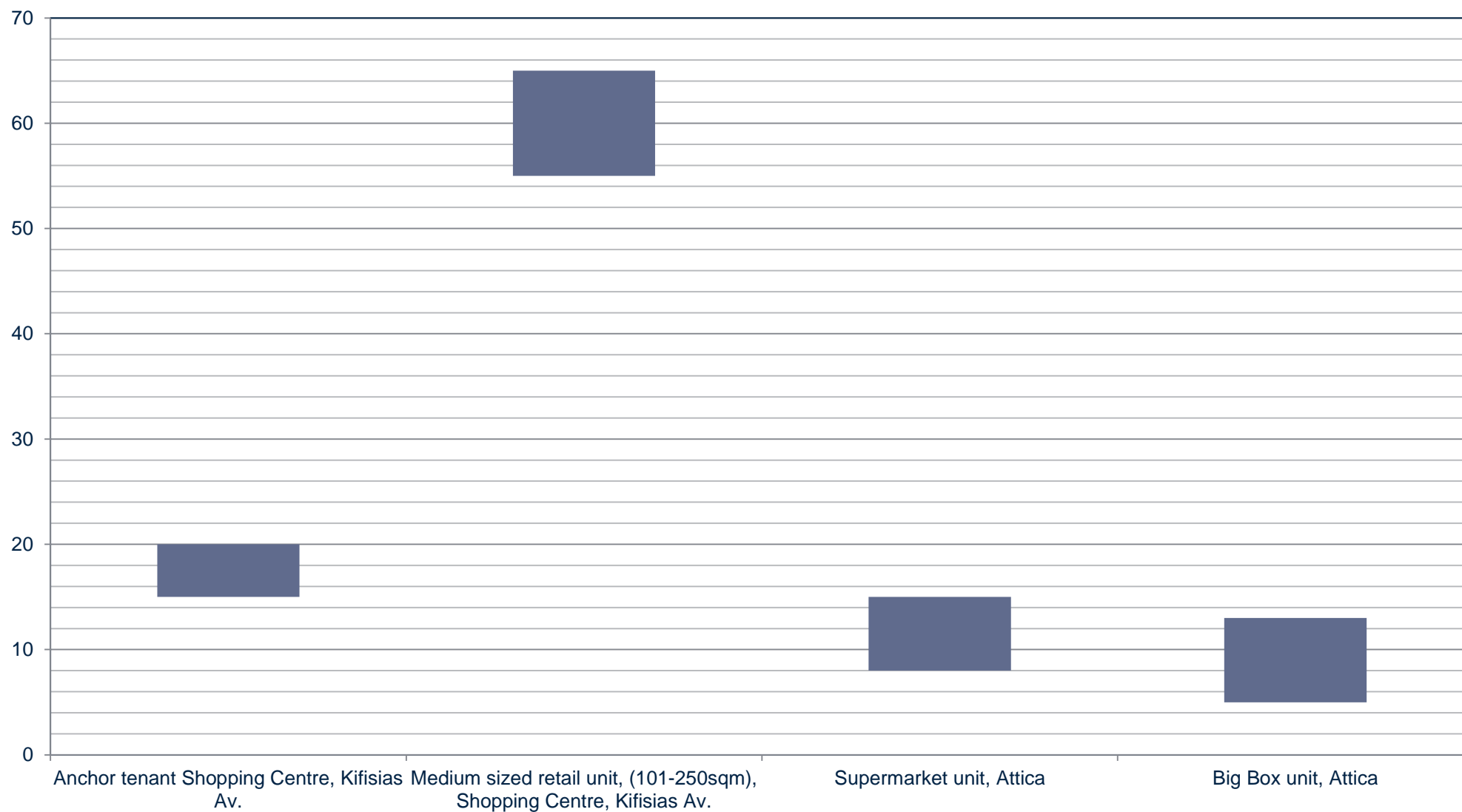


Yields in primary shopping streets are about 6.0-6.5%. In some cases, such as Ermou and Voukourestiou, yields might be even lower than 5%. Moreover, rental values in the aforementioned streets have increased in 2016. Regarding shopping centres, yields are estimated to be at about 7.5%.

Rental value levels of large retail establishments (€/sq.met./month)

KENTRIKI

savills



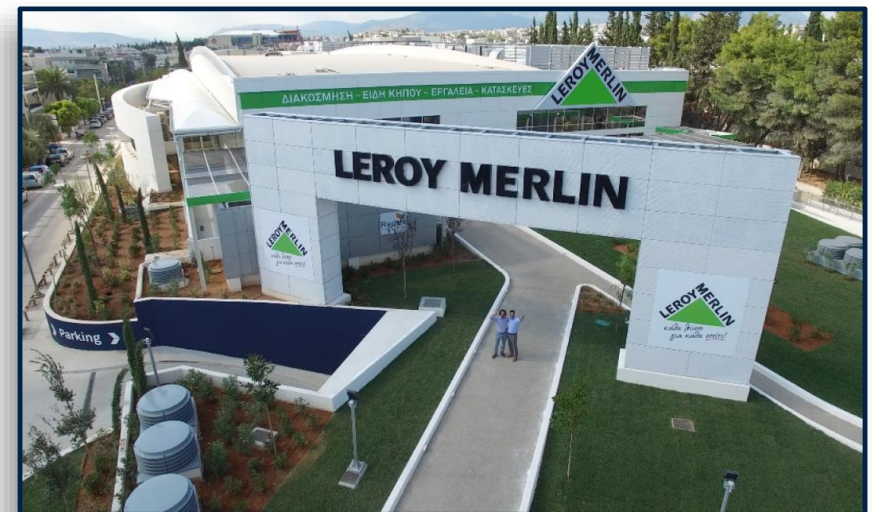
Investment market – prospects, most significant transactions, 2016 (1)

- As in the office market, the two big REICs have also dominated in the retail market.

s/n	Year	Quarter	Building	Location	Seller	Buyer	Transaction value (€)
1	2017	Q1	Media Markt (two retail units, the one in Syngrou features an office component)	Syngrou avenue and Kifisias avenue	-	Grivalia Properties REIC	18,480,000
2	2017	Q1	Zinon, 16 properties	Several locations	Zinon Properties SA	Grivalia Properties REIC	16,250,000
3	2016	Q4	Sklavenitis	Koropi	Eurobank Leasing	Grivalia Properties REIC	2,270,000
4	2016	Q4	AB Vasilopoulos	Chalkidiki	Eurobank Leasing	Grivalia Properties REIC	800,000
5	2016	Q4	TGI Fridays	Athens	Eurobank Leasing	Grivalia Properties REIC	2,760,000
6	2016	Q1	Massimo Dutti	Patra	Bank of Cyprus	NBG Pangaea REIC	2,500,000
7	2016	Q1	Public	Chania		NBG Pangaea REIC	1,800,000
8	2016	Q1	Hospice for the Disabled (50 sq.m retail store at the junction of Nikis and Voulis street)	CBD	Hospice for the Disabled	Pangaea REIC	4,500,000

Investment market – prospects, most significant transactions, 2016 (2)

- The big deal between **Lamda development** and **Grivalia Properties** for the acquisition of Lamda's shopping centres, finally did not take place.
- We observe initiatives from the related banks regarding the reform and reestablishment of **Athens Heart** in the real estate market.
- **Leroy Merlin** continued to expand in the market by opening a new store of c. 9,000 sq. met. at Kifisias avenue, Marousi.



Investment market – prospects, most significant transactions, 2016 (3)



- New players especially in the retail sector of large scale are considering their entrance in the Greek real estate market by taking advantage of the appealing market levels.
- Smart Park at Spata is considering its expansion.
- Satisfying absorption is observed in big box units that were previously occupied by Ilektroniki Athinon.

Disclaimer: This document has been prepared solely for information purposes with regard to the current state, trends and prospects of the Greek office and retail property markets. The present document does not constitute an investment recommendation or strategy proposal addressed to its recipients or to the public. The facts stated and estimates and opinions given have been obtained from or are based upon sources believed to be reliable. However, they have not been independently verified by Kentriki Property Valuers & Consultants, *Private Company* with distinctive title Savills Hellas, *Private Company*. As such, neither the Company nor any of its officers, employees or agents make any representation or warranty, express or implied, is made nor responsibility of any kind accepted either as to the truth, accuracy, completeness or correctness of the information stated herein, or that material facts have not been omitted. The Company, its directors, managing directors and employees, do not undertake, regardless from the circumstances, any liability for any investment strategy, transaction of investment pursued on the basis of the present document. Any opinion expressed in this document is a matter of judgement at the time of writing and is subject to change without notice. The present document does not create the obligation of the Company to constantly update, renew or adopt in any way the present document to new market conditions. The reproduction or communication in any way of the present document to third parties without the consent of the Company is prohibited. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Kentriki Property Valuers & Consultants, *Private Company* with distinctive title Savills Hellas, *Private Company*.