

# Review of the property market of Athens

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## OFFICE & RETAIL

### MARCH 2018

# Basic Aspects of the Greek Economy

(source: Focus Economics, March 2017, ELSTAT)

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	2015	2016	2017	2018f
GDP (Annual change %)	-0.2	0 —	1.4 ↑	2.1 ↑
Private consumption (Annual change %)	-0.2	1.4 ↑	0.9 ↓	1.3 ↑
Exports (Annual change %)	-4.8	-1.4 ↓	5.7 ↑	5.8 ↑
Industrial production (Annual change %)	1.0	2.5 ↑	1.6 ↓	2.0 ↑
Unemployment (% of the economically active population)	25.0	23.5 ↓	20.8 ↓	20.0 ↓

# Current Situation and Prospect

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- The GDP presented marginal growth (**0.3%**) during the first quarter (y-o-y). This marks the first time since 2006 that the Greek economy has grown for three consecutive quarters. In real terms the GDP amounted to 187.1 bn Euros demonstrating positive change **1.4%** compared to 2016 (1<sup>st</sup> estimate).
- This is due to the revival in the investment climate and to the respective changes that recorded in components of GDP.
- Budgetary and financial situation is improving, with the closing of the review being crucial not only for the disbursement of the last bailout tranches, but also for the possible Greek Bailout Program exit.
- The Greek Government, under IMF instructions, has made steps in the direction of reducing the tax-free amount and reforming the National Insurance system.
- As Greek banks accelerate the process of restructuring and subsequently disposing of their non performing loan (NPL) portfolios, favorable conditions are created for the viability of the banking system.



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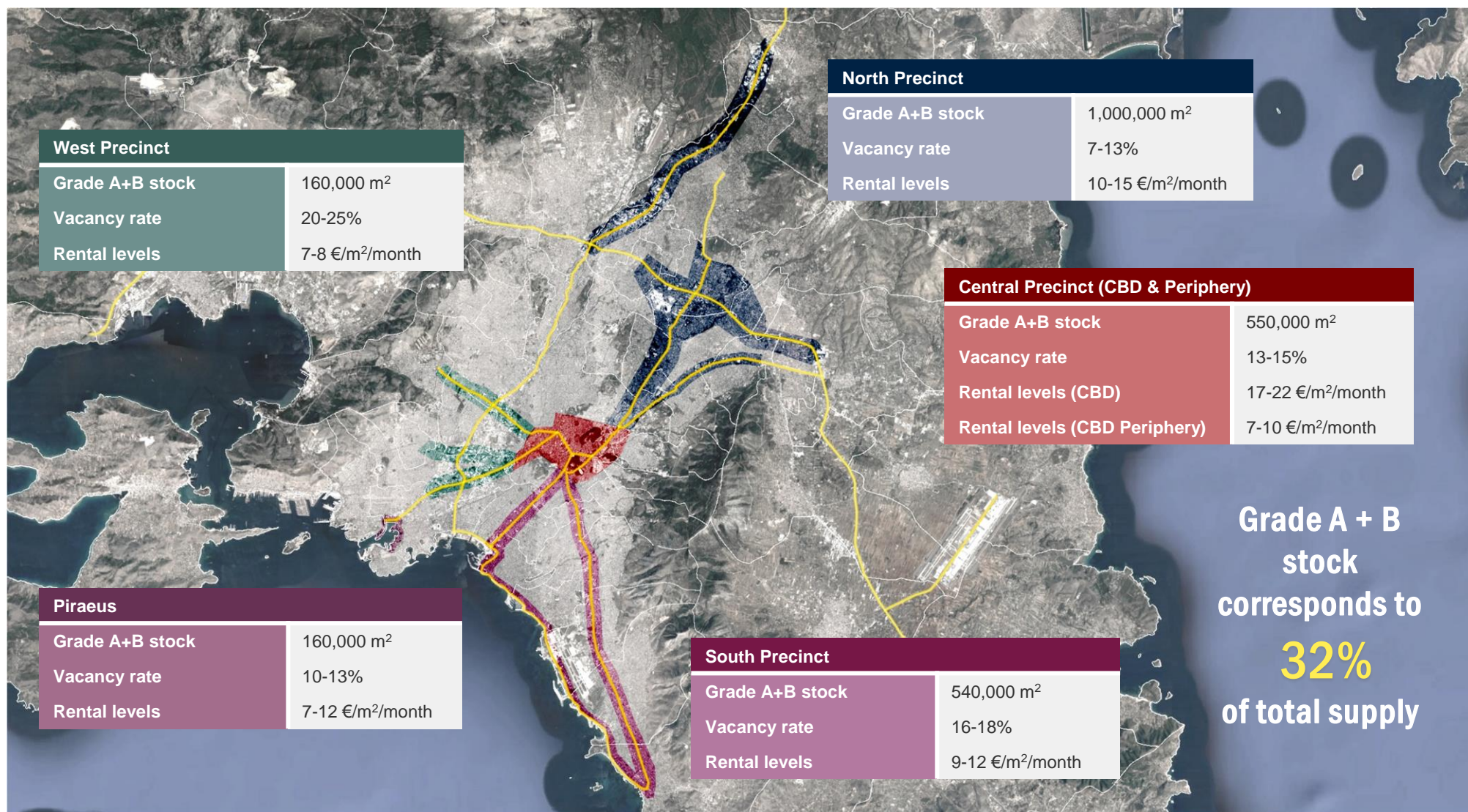
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# Office Sector

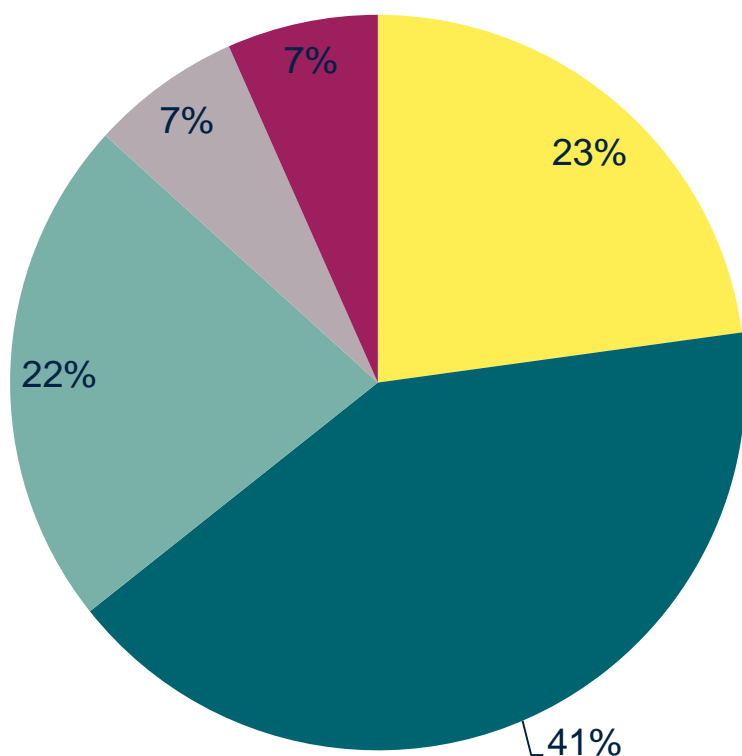




# Basic markets of Attica



# Office stock allocation, % m<sup>2</sup>



Central Precinct (CBD & Periphery of CBD)

North Precinct (North Athens + Attiki Odos Motorway & E75)

South Precinct

West Precinct

Piraeus



The total stock of Grade A & B offices is estimated at **2.4 million m<sup>2</sup>**

# Demand / Supply

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- **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 m<sup>2</sup> with few cases which are over 1,000 m<sup>2</sup>.



## 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 2017 onwards are observed in Grade A offices.
- The majority of asking rental values range between **10€/m<sup>2</sup>/month** and **15€/m<sup>2</sup>/month** while for higher quality office spaces these may exceed **15€/m<sup>2</sup>/month**.
- In older office spaces, of inferior specifications, rents lie below **9€/m<sup>2</sup>/month**.

	2016	2017
Vacancy Rate Grade A & B	8-13%	7-13%
Vacancy Rate Grade A	3-5%	2-4%
Vacancy Rate Grade B	12-14%	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 continue demonstrating a slight positive run in 2017 with respect to the lower range value by ranging between **17€/m<sup>2</sup>/month** and **22€/m<sup>2</sup>/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 due to lack of new developments.
- 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€/m<sup>2</sup>/month and 12€/m<sup>2</sup>/month**.
- Vacancy rate for Grade A & B offices in the South Precinct: **≅ 16-18%**
- Vacancy rate for Grade A offices:
  - Syngrou Avenue: **≅ 5%**
  - Posidonos Avenue: **≅ 15%**
  - Vouliagmenis Avenue: **≅ 18%**.





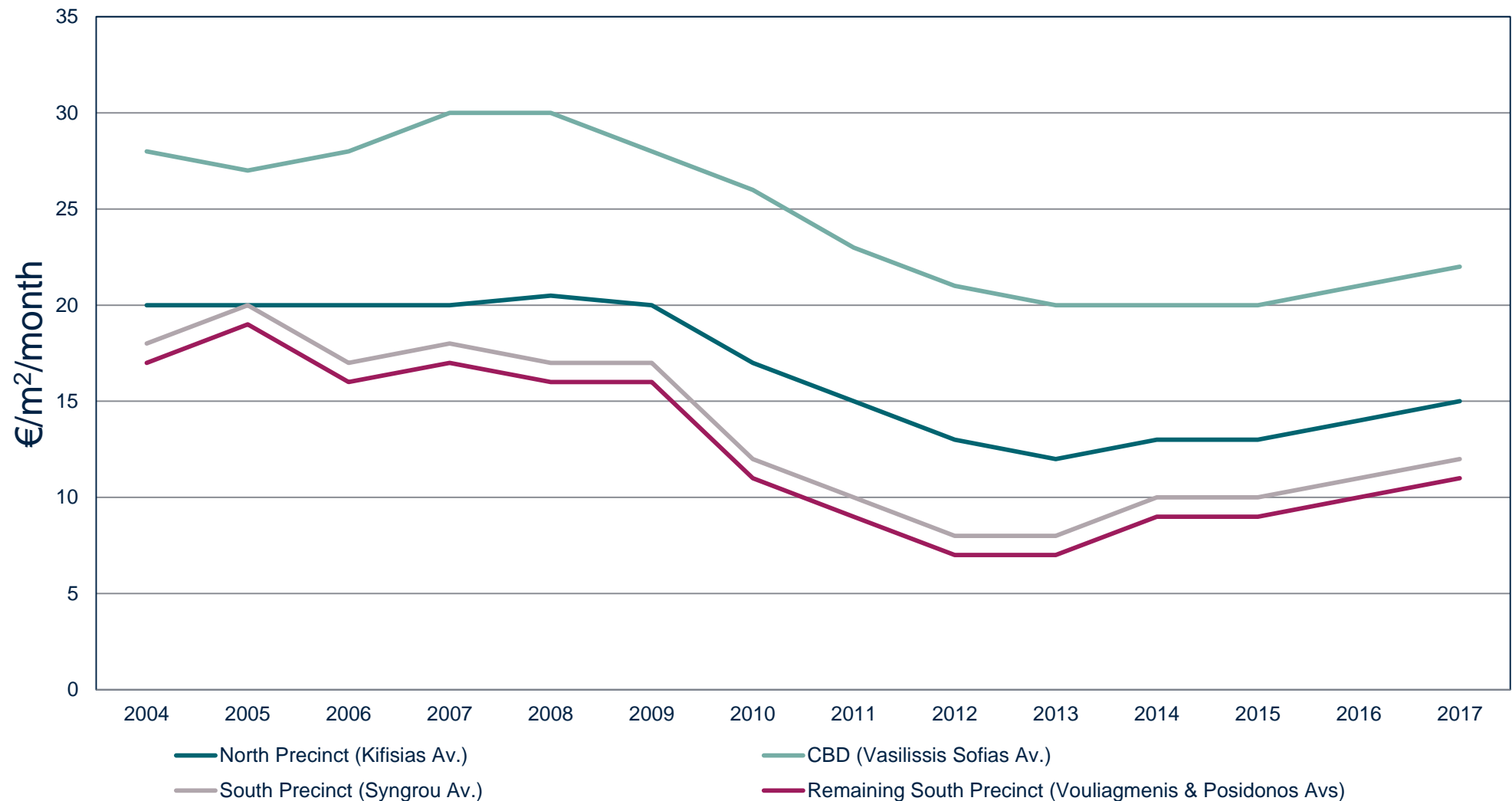
## Less Interesting Sub-markets (2)

- The main thoroughfares 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 relocation activity.
- The demand for offices in this submarket has decreased significantly and as a result any development plans have been put on hold.
- The subject submarket is expected to recover as it could attract large scale developments in the future, either owner-occupied or not.



# Rental levels – Grade A & B (€/m<sup>2</sup>/month)

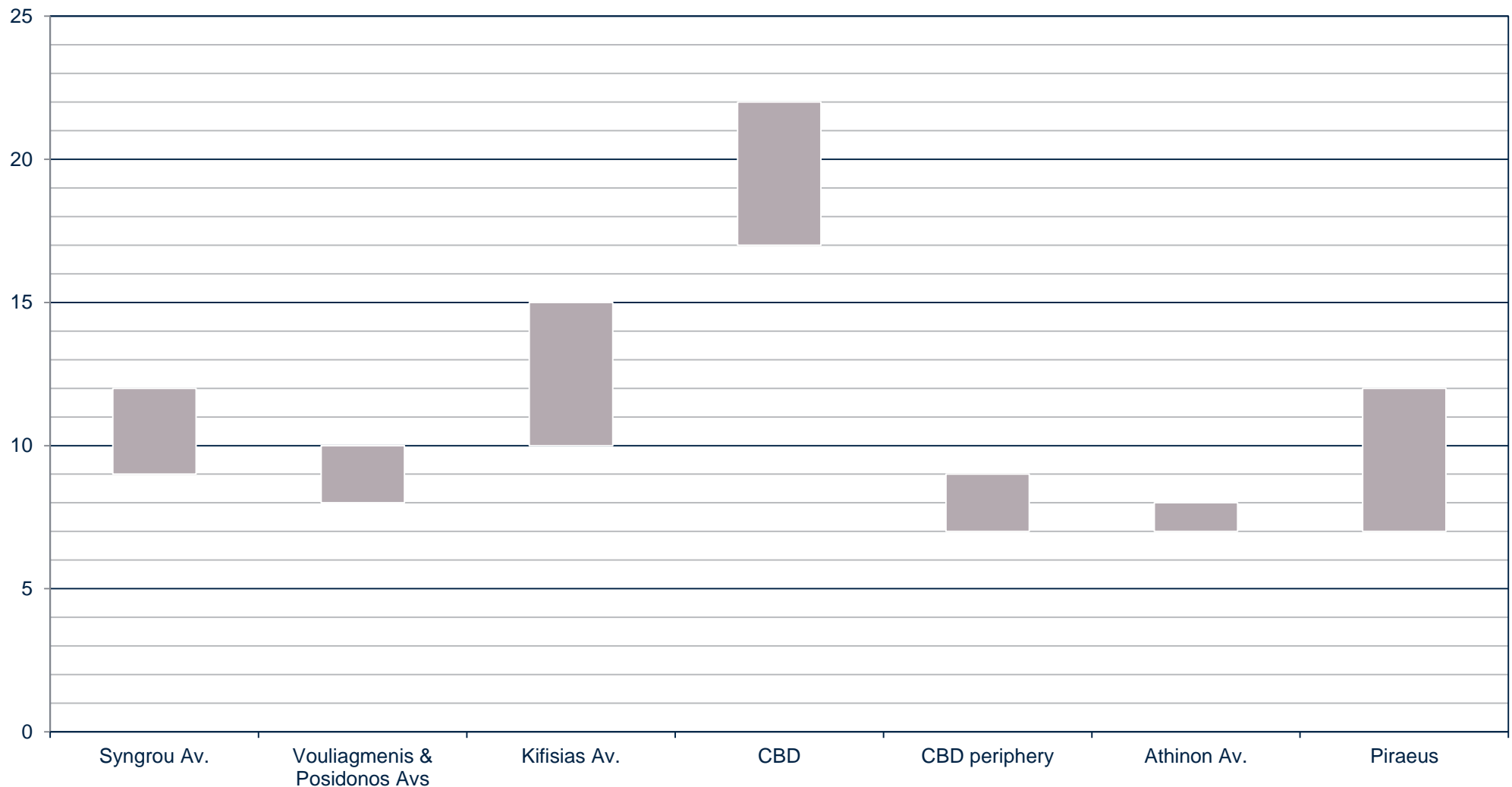
Average rent for Grade A & B offices





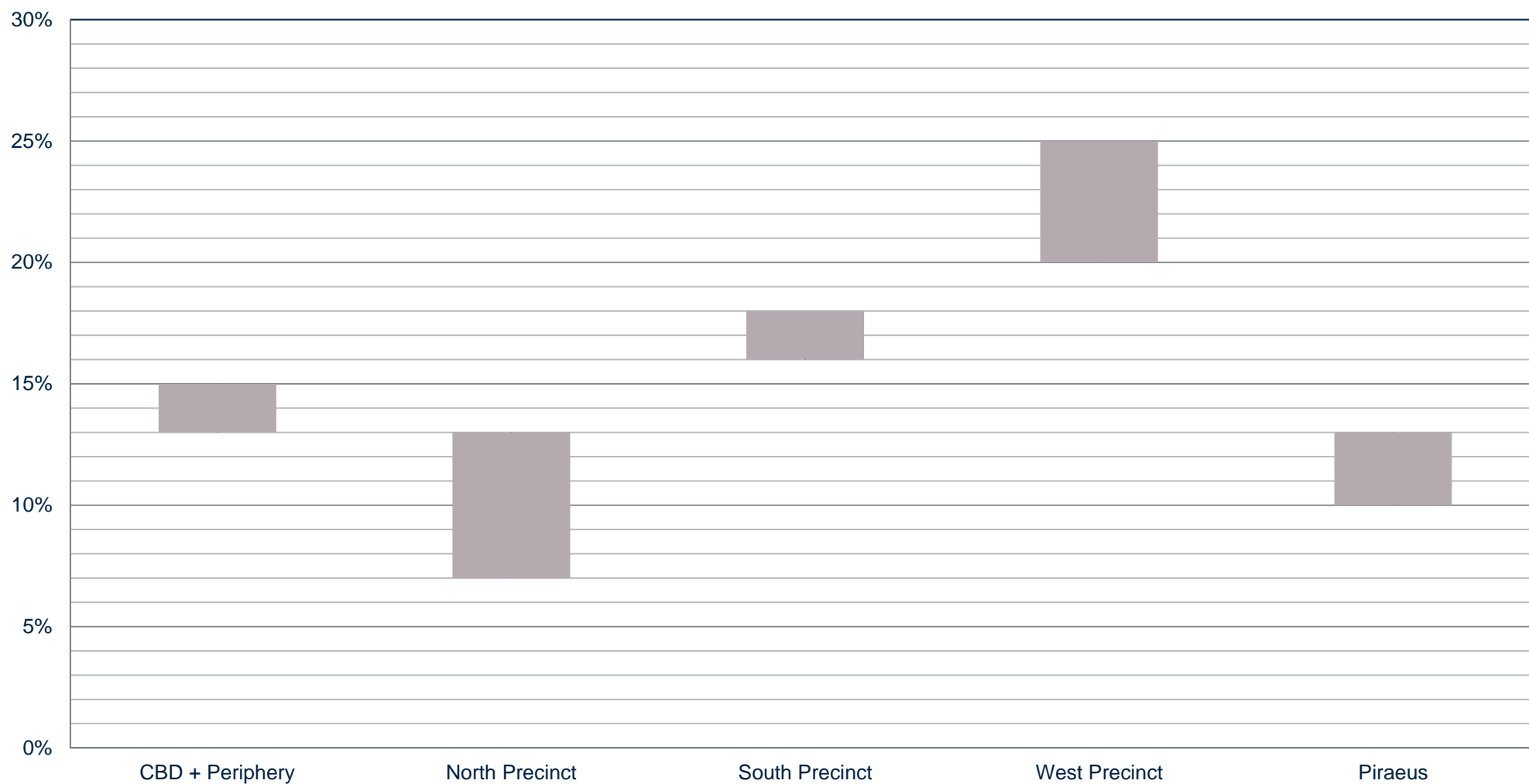
# Rental levels – Grade A & B (€/m<sup>2</sup>/month)

Achievable rents for Grade A & B offices, 2017 (€/m<sup>2</sup>/month)



# Vacancy rate (%) - Grade A & B

Vacancy rate, estimated range per office submarket Grade A & B, 2017





# Investment Market - Prospects (1)

- Similar to the previous years, the most important investors appear to be the two largest REICs (PANGAEA, GRIVALIA). However, Trastor REIC also demonstrated increased activity during the previous year.

s/n	Year	Quarter	Building	Location	Seller	Buyer	Transaction value (€)
1	2018	Q1	Agiou Konstantinou Street 50, Marousi	North Precinct	-	Grivalia REIC	7,500,000
2	2018	Q1	Kronos Business Center (acquisition of 80%)	North Precinct	Lamda Development	Trastor REIC	6,500,000
3	2017	Q4	Archirodon	North Precinct	Archirodon	Trastor REIC	2,100,000
4	2017	Q2	115-117 Vouliagmenis Avenue, Neos Kosmos	South Precinct	-	Intercontinental International REIC	1,741,000
5	2017	Q2	4 <sup>th</sup> and 5 <sup>th</sup> floors, Othonos & Filellinon, Athens	CBD	-	Trastor REIC	1,577,841
6	2017	Q1	Media markt (ex. New Democracy)	South Precinct	Hellenic Capital Leasing	Grivalia REIC	14,360,000

- During 2017, there was interest from Hedge Funds to acquire a package of properties which occurred from Greek Banks's mortgages, although without any significant actions taking place. Currently there is such a project in progress by Piraeus Bank, whereas similar projects are expected to emerge by the rest of the systemic banks.

## Investment Market – Prospects (2)

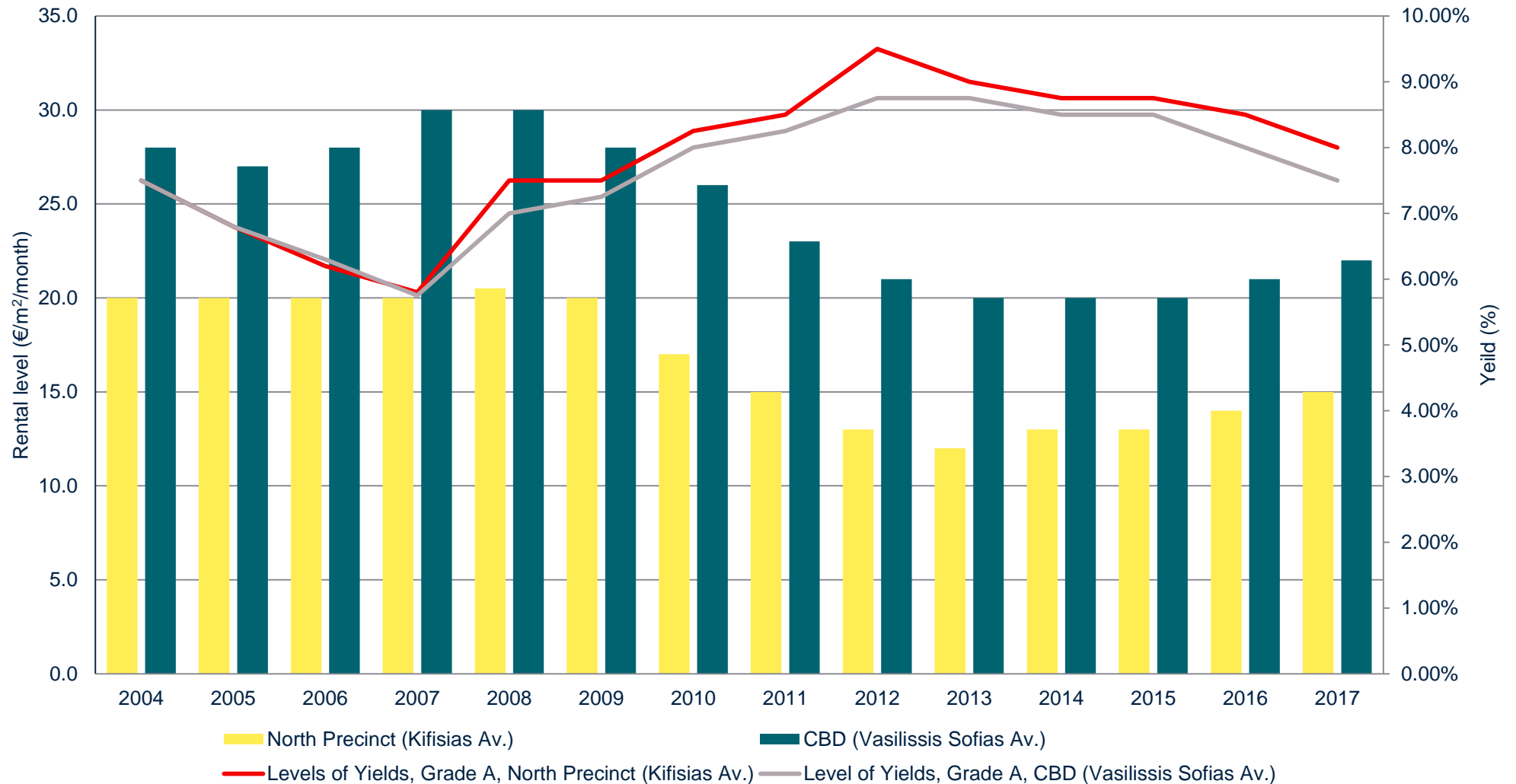
- The Initial Yields for Grade A offices range between the following levels:
  - Centre of Athens: **7.25 – 7.75%**
  - North Athens: **7.75 – 8.25%**
  - Other areas: **> 8.50%**

The Initial Yields for Grade A Offices appear stable at **8%**.

- Further interest is expected to appear from Hedge Funds for the acquisition, refurbishment and remarketing of portfolios of properties/offices, which have resulted 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).
- Piraeus Bank is offering for sale the first major portfolio of secured NPLs to the market, i.e. “Project Amoeba”, that is expected to be completed in June.



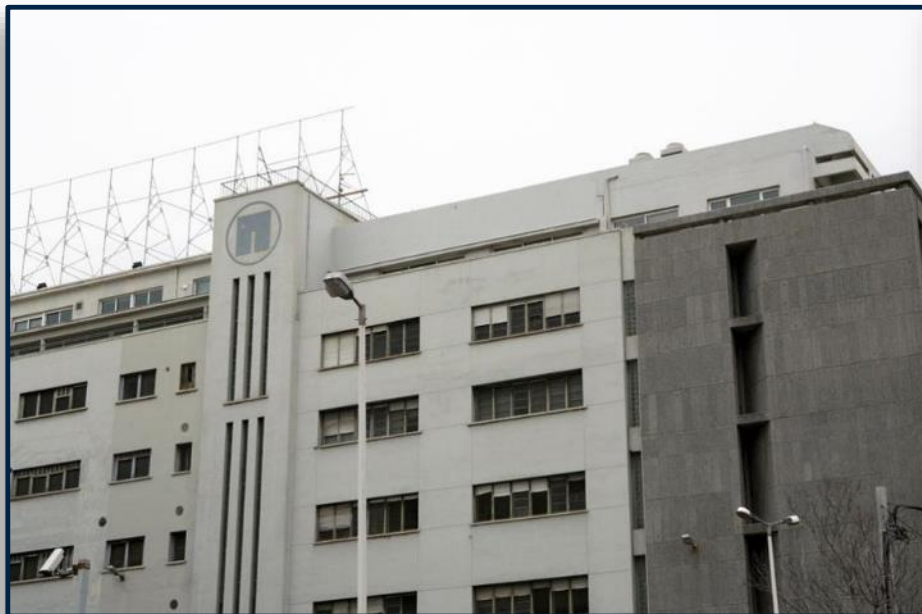
# Achieved Rents and Yields Grade A Offices





## Investment Market –Prospects(3)

- With the supply of Grade A offices being limited, as a result of the absence of new developments, we observe that the first investment initiative for large scale modern office spaces at Piraeus from Dimand, who acquired the old facilities of Papastratos Tobacco company, is progressing successfully so far, with the first building which was converted into modern offices (ex warehouse “Vomva”) having already been fully let. The total investment is expected to surpass the amount of **€100 mil**, reforming significantly the local and wider area.



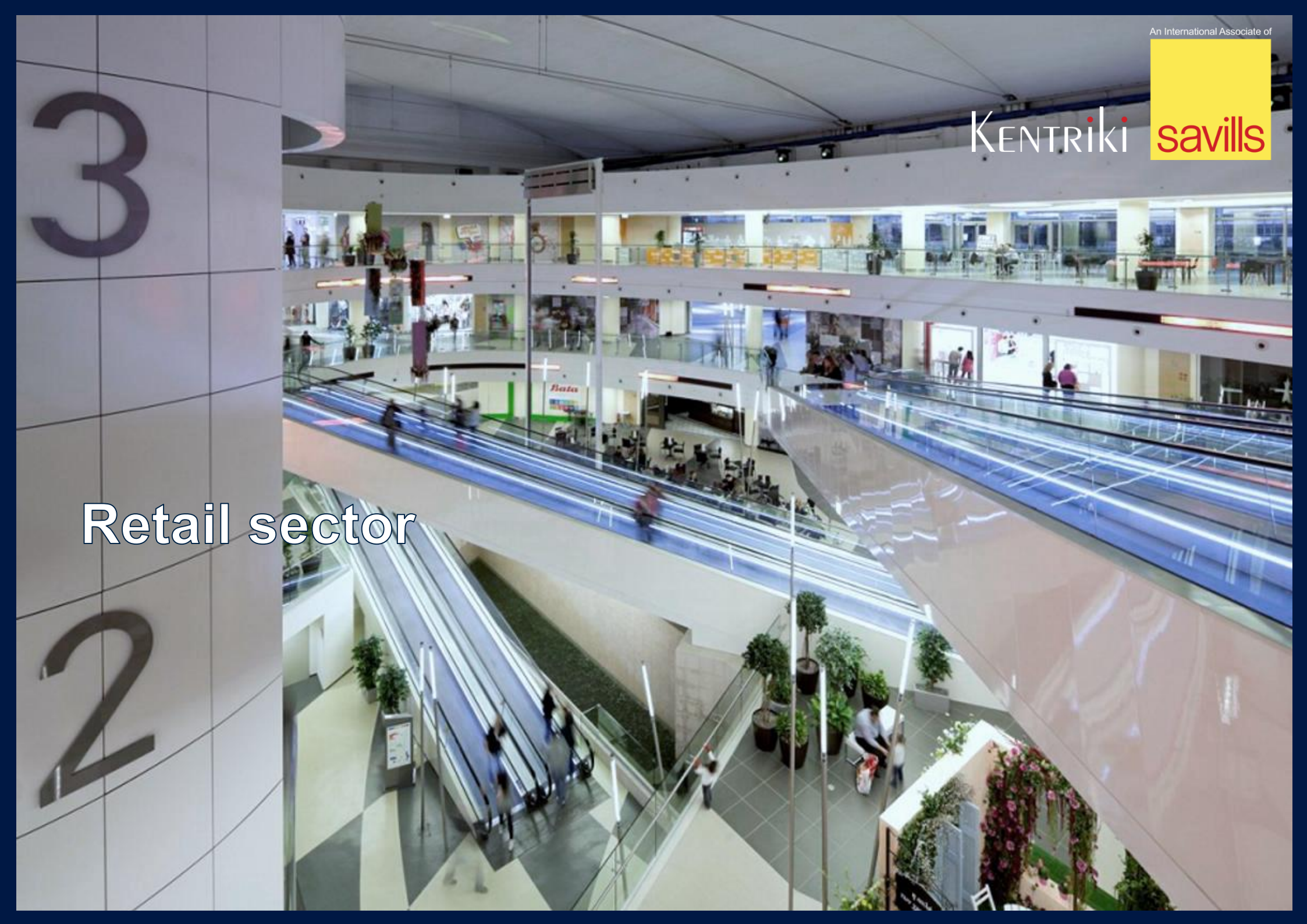
## Investment Market – Prospects (4)

- In the same direction, a tender process is in progress for the development of a site owned by TEE (technical chamber of Greece) which is located at the Attiki Odos junction with Kifisias Avenue (North Precinct).
- Furthermore, the office complex development by Demand at Neratziotissa, Marousi, close to Attiki Odos and Kifisias avenue interchange, was sold to Ravago Group, a Belgian plastic producing company in order to establish its Headquarters for Greece and Balkans.





Retail sector





## Trends in Retail Real Estate market (1)

- The retail sector is influenced by the private consumption expenditure and by the consumer confidence. The **retail turnover index** on a year-on-year (2016 vs 2017) comparison increased by **2.2%**. For the same period, **the volume index** increased by **1.8%** respectively. Various initiatives of retailers such as “*Black Friday*” sales and “*Open Sundays*” contributed towards this direction.
- The national consumer confidence index (Nielsen’s research), on a quarter-on-quarter (3rd vs 4th, 2017) comparison decreased by 1 point and finally reached 52 points (lowest in Europe), whereas the subject index at Global and European level reached 104 points and 85 respectively.

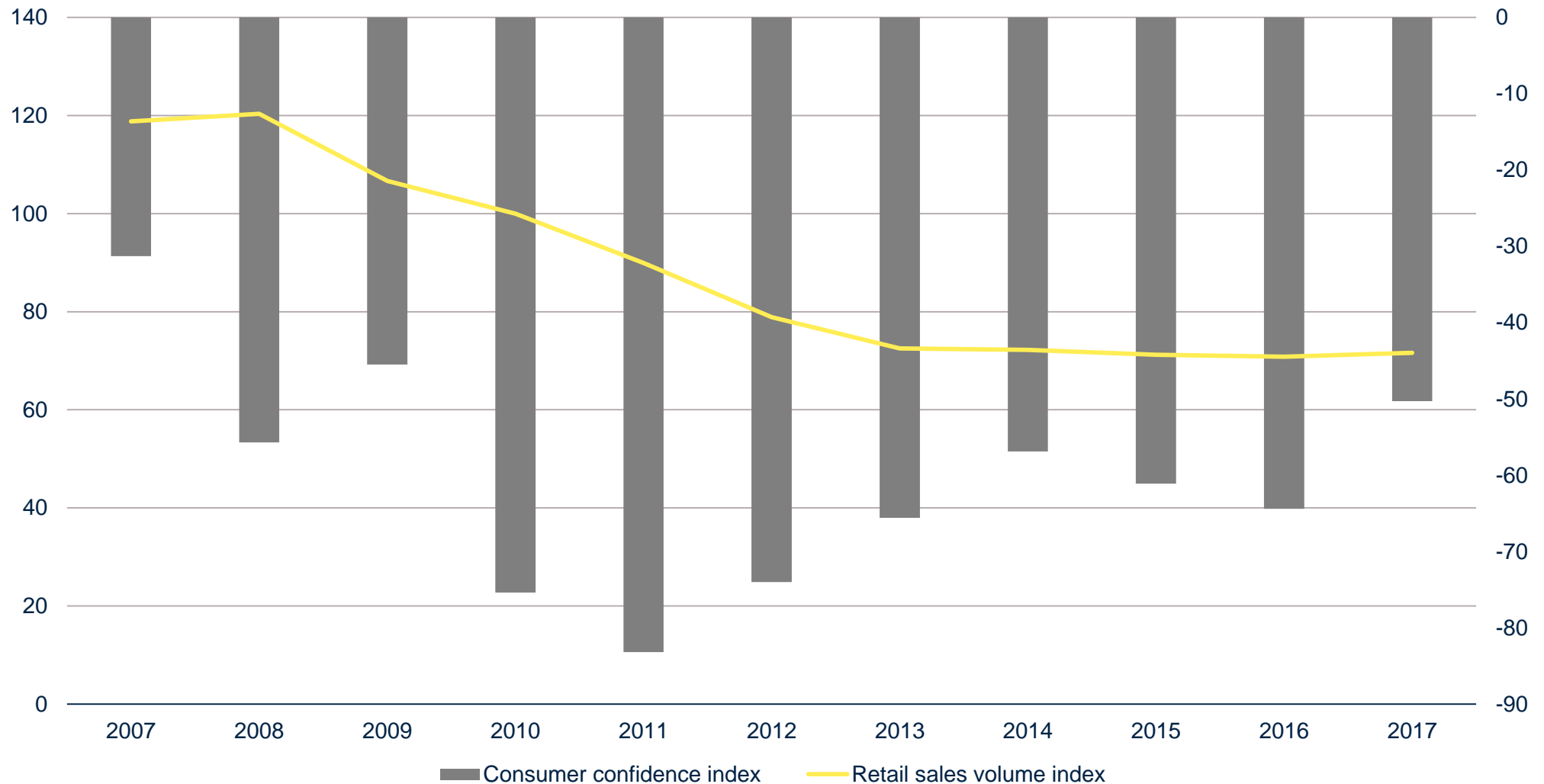


# Retail sales volume index and Consumer confidence index

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(Source: Eurostat, Hellenic Statistical Authority)

# The retail market outlook (1)

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- The high streets of the city centre demonstrate increased level of attractiveness with non-remarkable vacancy rates. Moreover, regional submarkets such as Chalandri, Marousi, Nea Smyrni etc. have started showing signs of improvement in terms of their restructuring based on the rental demand.
- 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).

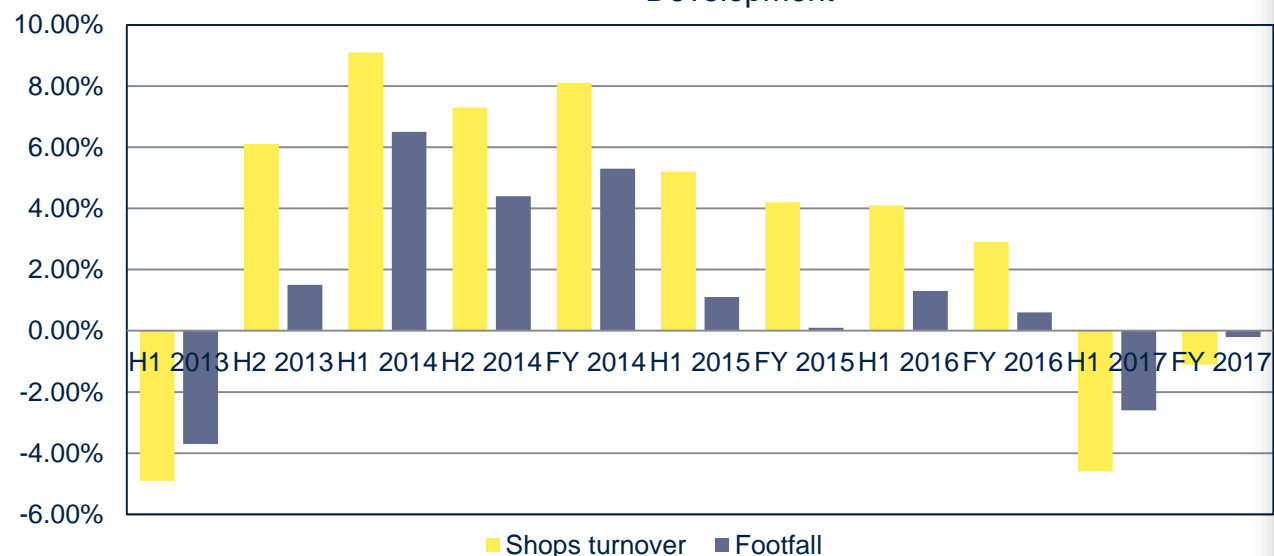




## The retail market outlook (2)

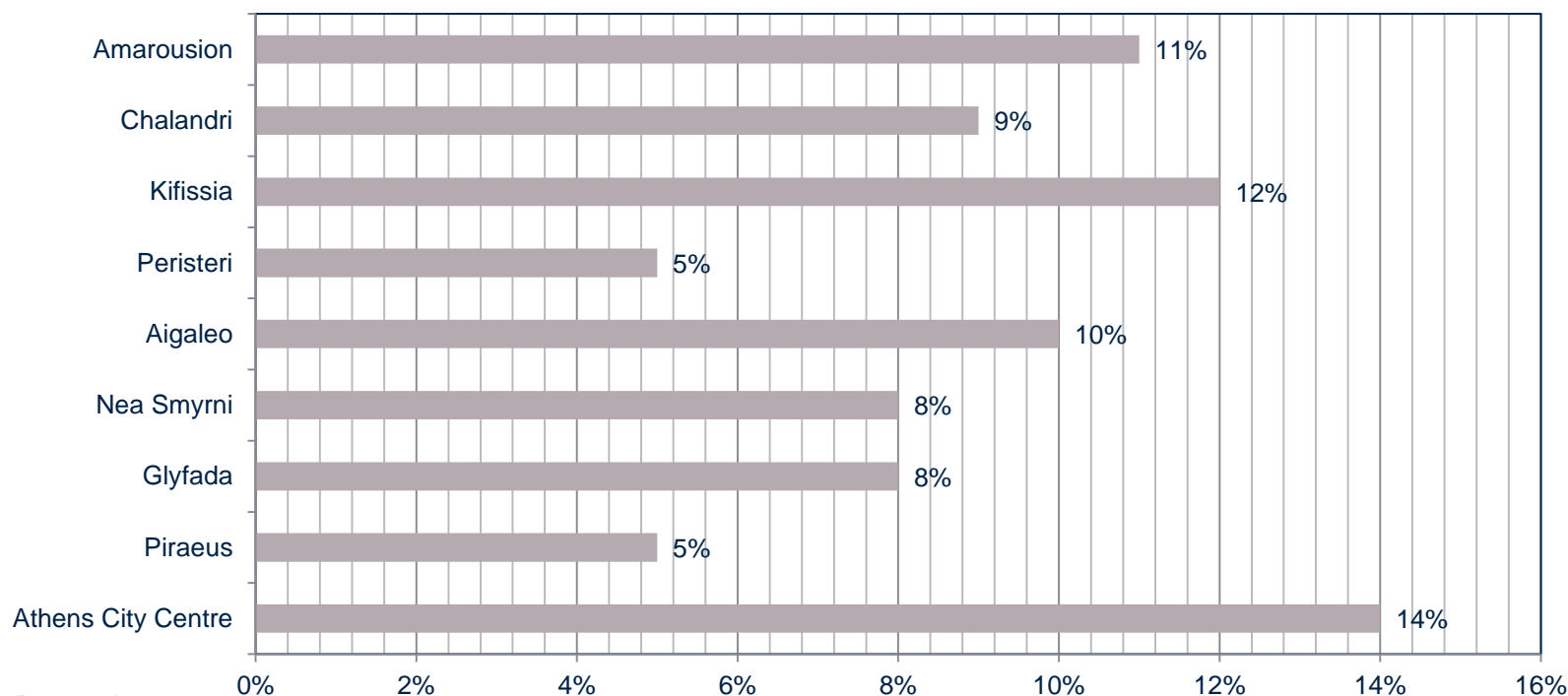
- Nevertheless the well-established/successful shopping centres continue to have an upward trend in 2017. The total performance of LAMDA Development group's shopping centres on a year-on-year (2016 vs 2017) comparison shows stability in both footfall and turnover, whereas the number of vacant stores appears to be quite limited. Golden Hall was affected temporarily due to the Lemonis Group's restructuring. However, the subject shopping center managed to fully restore its performance during the second half of 2017.

Shops turnover and footfall (yoy) Shopping centres managed by Lamda Development



# Vacancy rate in shopping streets

- The number of vacant store units (of various sizes) reached its peak in 2015 with the secondary streets of Athens CBD being the most affected. Nowadays, the vacancy rate in the secondary central shopping streets has reached **20-25%**, whereas in the primary streets is less than **10%**.
- Landlords in various retail districts are willing to negotiate passing rents at lower levels in comparison to the historically high prices. However, the demand shifts the market upwards. It should be noted that Ermou and Voukourestiou streets demonstrate high occupancy rates over **97%**.



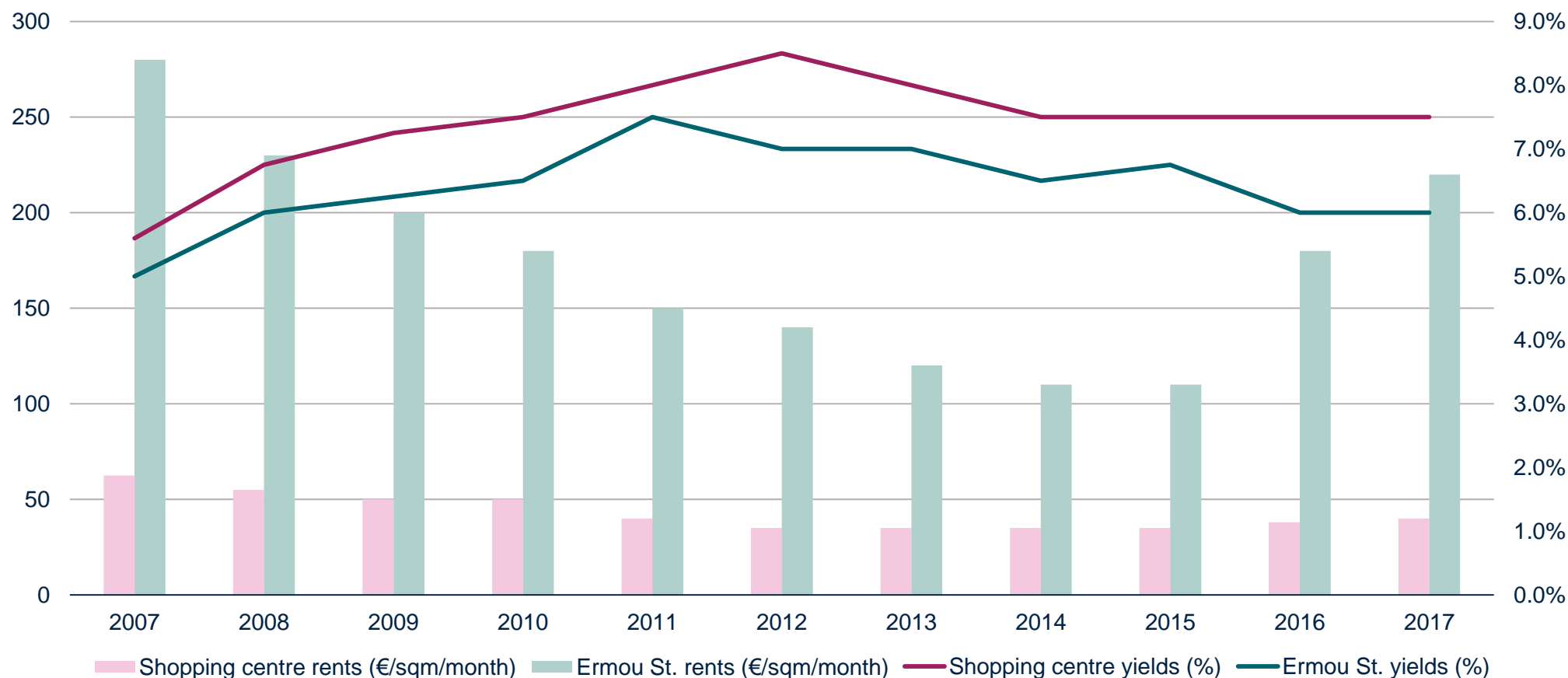
# Supply

- The total supply of large-scale / organized commercial developments has stabilised at **1.15 mil. m<sup>2</sup>**
- In the most recent years, no shopping center development has taken place. We understand that there are only two projects regarding shopping center development that maintain high possibilities of actualization: the Mall in the area of Votanikos and the Academy Gardens at Akadimia Platonos. Based on projections, these will add c. 90,000 m<sup>2</sup> GLA to the current stock. To this figure we can also add the extra retail space of the expansion of the Smart Park (**15,500 m<sup>2</sup>**) and the Golden Hall (**14,000 m<sup>2</sup>**).
- The existing operating shopping centers in Athens have led to an increase in the available GLA at **144 m<sup>2</sup> per 1000** residents. However, Greece remains quite lower than the European average (e.g. Madrid, 6,4 million residents, 479 m<sup>2</sup> 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



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%.

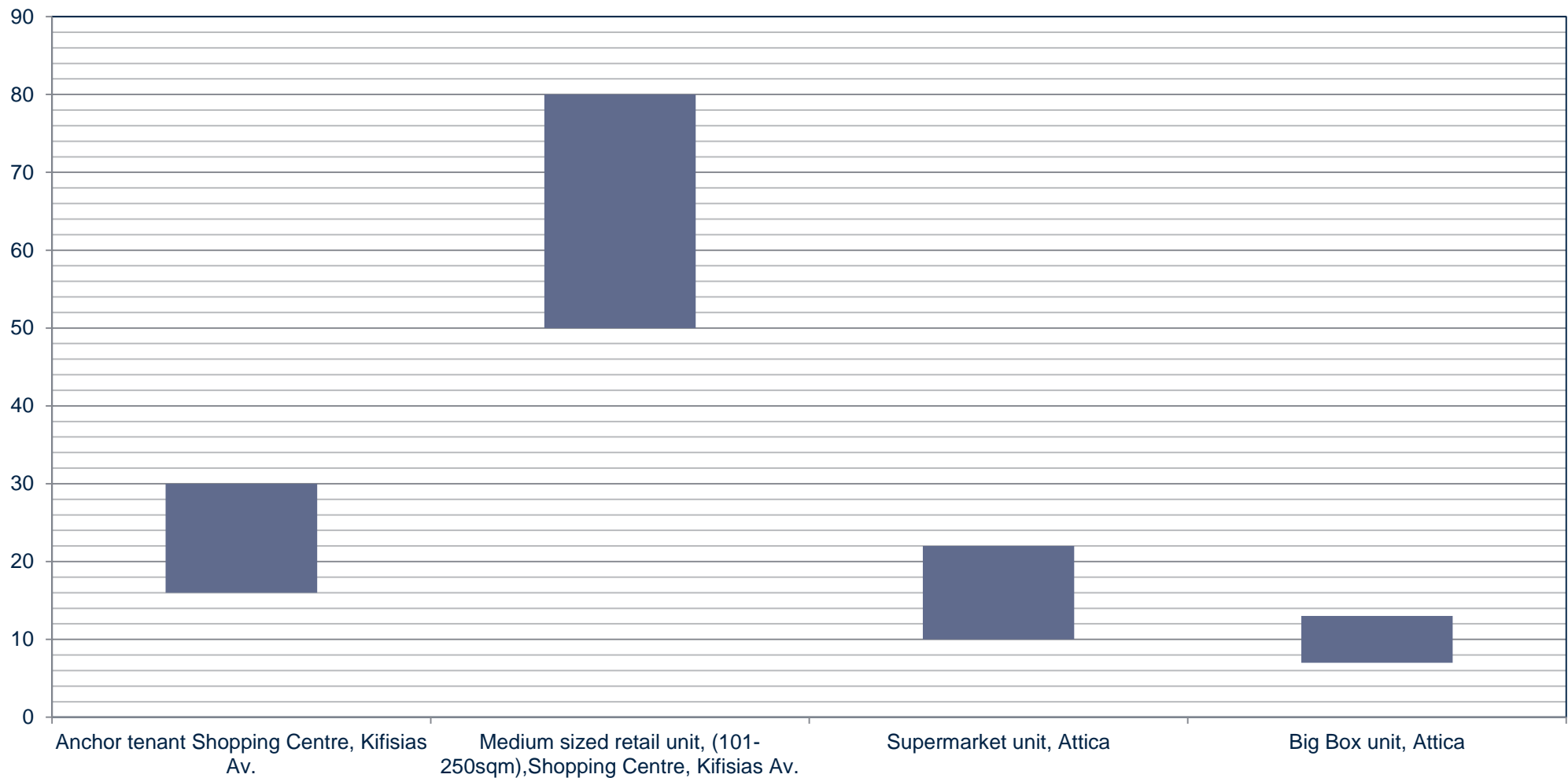
# Rental value levels of large retail establishments (€/m<sup>2</sup>/month)

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Large scale retail units, current rents in Attica (€/m<sup>2</sup>/month), 2017



# Investment market – prospects, most significant transactions, 2017 (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	2018	Q1	Listed retail and F&B building, Solonos & Kanari, Kolonaki	Athens CBD	-	Pangaea REIC	3,750,000
2	2018	Q1	Ermou 66 & Agias Irinis 4	Athens CBD		Pangaea REIC	5,700,000
3	2017	Q4	2 supermarket units	Athens, (several locations)	-	Grivalia Properties REIC	22,570,000
4	2017	Q3	Retail unit, Chalandri, Attica	Athens North Precinct	-	Trastor REIC	780,000
5	2017	Q2	4 supermarket units of 87,000 m <sup>2</sup> , Marathonos Av. (Gerakas), Athinon Av., Petrou Ralli Av., Patra	Athens, (several locations)	-	Pangaea REIC	47,000,000
6	2017	Q2	2 retail units in Kifisia	Athens North Precinct (Kifisia)	-	Trastor REIC	2,120,000
7	2017	Q2	Commercial Building, Tsimiski Street	Thessaloniki CBD	-	Trastor REIC	8,450,000
8	2017	Q1	Patision Avenue, leased retail unit	Athens CBD	-	Trastor REIC	1,100,000
9	2017	Q1	Media markt, Kifisias Avenue	Athens North Precinct (Kifisias Avenue)	-	Grivalia Properties REIC	5,280,000
10	2017	Q1	Zinon portfolio (16 properties)	Several locations	Zinon Properties SA	Grivalia Properties REIC	16,250,000

# Investment market – prospects, most significant transactions, 2017 (2)

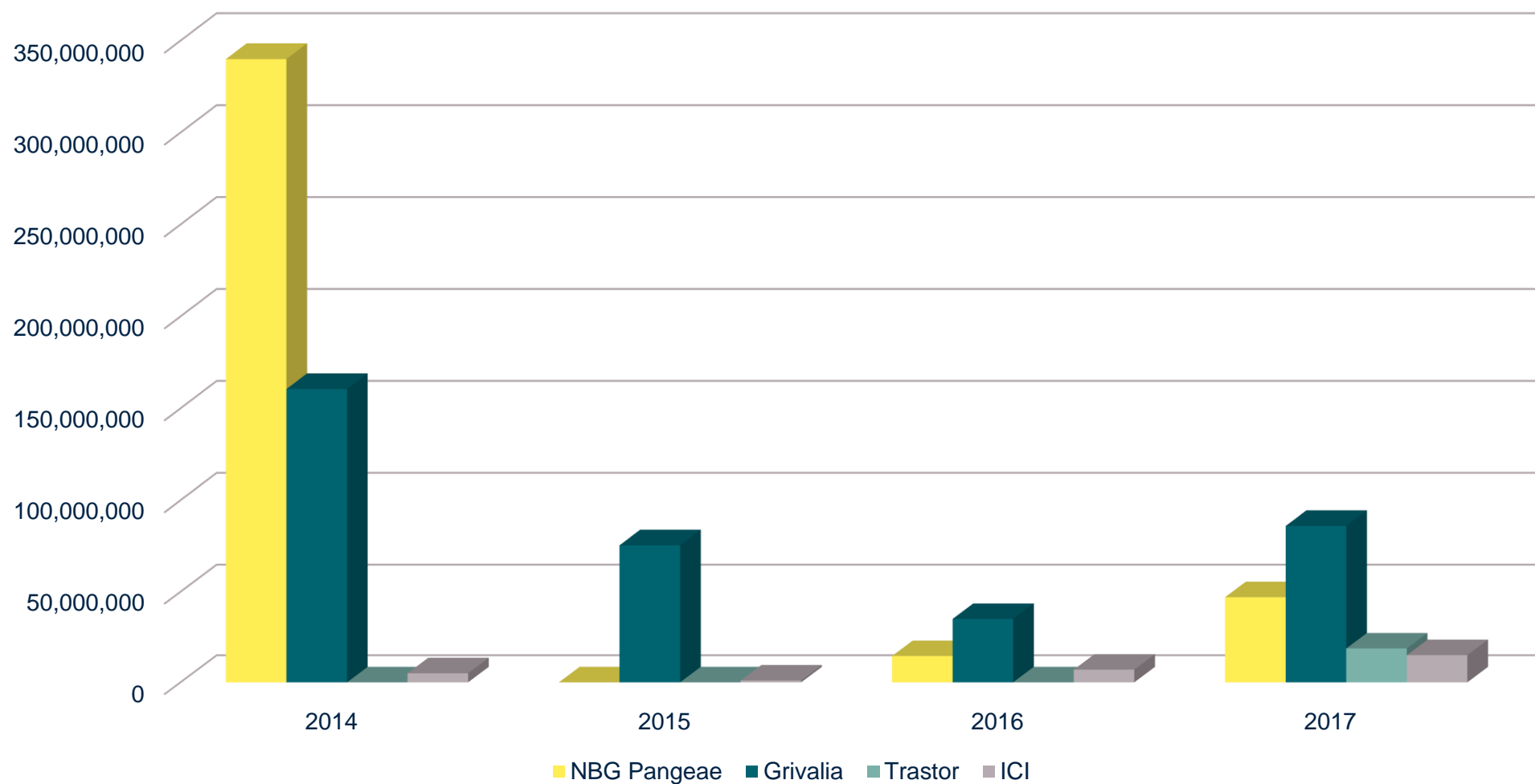
- **Värde Partners** came to final agreement with **Lamda Development S.A.** at the amount of **61.3 mil euro** for the acquisition of **31.7% of LAMDA MALLS S.A.** – which holds the shares of LAMDA Domi S.A. and Pylea S.A., owners of Golden Hall and Mediterranean Cosmos Shopping Centers.
- The initiative from the related banks regarding the reform and reestablishment of **Athens Heart** shopping center in the real estate market are still remaining strong.
- **Leroy Merlin** continued to expand in the market by opening a new store at Vasilissis Sofias Avenue, Athens.





# REICS– Investment activity

Greek REICs, Investment volume, 2014-2017



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