



THESSALONIKI PROPERTY MARKET

2nd Semester 2018



Economic Overview

According to official statistics provided by the Hellenic Statistical Authority (HSA) for the 2nd quarter of 2018, the Gross Domestic Product (GDP) in volume terms recorded a decrease compared to the 1st quarter of 2018.

Graph: Gross Domestic Product in 2009-2018 volume terms. Data with seasonal and calendar adjustments (Year of reference: 2010). Variations quarterly and annually

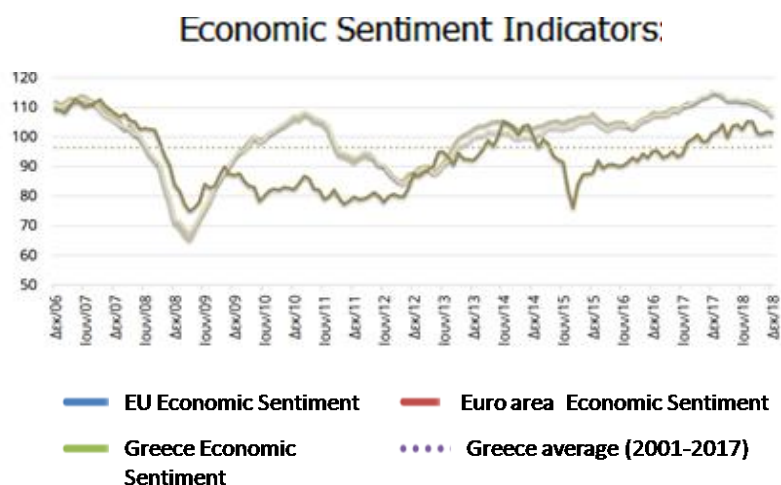


Source: ELSTAT

According to the quarterly report (January 2019) of the Foundation for Economic and Industrial Research (IOBE) for the Greek economy, the economic sentiment indicator in the 3rd quarter of 2018 moves at increased levels compared to the previous quarter, at a level of 2,2%, while it has improved compared to the corresponding specified period of last year's. The improvement of the economy in key economic sectors is in line with the continuous and slightly gradual economic recovery that is currently been recorded. The economic improvement is mainly attributed to the small increase of investments at a level of 1,5% and to the decrease in the deficit of the balance sheet in the external sector. The improvement in expectations in businesses is also attributed to the improved international environment which favors exporting businesses and other industries that are involved in the particular economic sector. Despite the fact that there was no significant adverse development in the last quarter, the uncertainty remains at some degree due to other issues apart from economic such as issues of internal and external policies.

The economic sentiment indicator for Greece records a decrease in the October-December 2018 quarter compared to the 2nd quarter of the same year. In Europe the corresponding indicator performed even at lower levels during the quarterly period under study compared to the previous quarter, in the European Union as well as in the Eurozone.

Graph: Economic Sentiment Indicators: E.U. – 27, Eurozone and Greece, (1990-2016=100, seasonal data)



Source: IOBE, European Commission, DG ECFIN

In terms of economic sectors, the business expectations in Greece are improving in the 3rd quarter compared to the previous quarter mainly in the production industry, while they remain at stable levels in retail trade. In regards to tourism a historically high level of activity is recorded in the summer. In terms of demand there is a significant recovery in the average quarterly index with an increase of +11 units.

Based on the predictions of the European Committee for Greece, the domestic economy has increased by 1,4% in the past year and that marks the first time since 2007 in which the real GDP increases by more than 1%. The economic recovery is expected to accelerate considering that the program for support of the stability is successfully completed. Unemployment is expected to fall below 20% by 2019 for the first time since 2011. With a fiscal surplus in 2017 for a second consecutive year, Greece is in a good way for achieving the primary target of surplus of 3,5% of the GDP in 2018 as well as in 2019.

[source: ec.europa.eu/greece/news/20180503]

Table II.8.1:

Main features of country forecast - GREECE

	2016			Annual percentage change						
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		174.2	100.0	0.5	0.7	-0.3	-0.2	1.4	1.9	2.3
Private Consumption		121.7	69.9	0.7	0.6	-0.5	0.0	0.1	0.5	0.9
Public Consumption		35.2	20.2	0.9	-1.4	1.2	-1.5	-1.1	1.2	0.4
Gross fixed capital formation		20.5	11.7	-1.9	-4.7	-0.3	1.6	9.6	10.3	12.1
of which: equipment		8.5	4.9	-0.4	29.3	7.9	-12.3	28.9	11.8	13.4
Exports (goods and services)		53.1	30.5	4.1	7.7	3.1	-1.8	6.8	5.7	4.6
Imports (goods and services)		54.3	31.2	2.4	7.7	0.4	0.3	7.2	5.5	4.4
GNI (GDP deflator)		175.1	100.5	0.4	1.5	-0.5	-0.2	1.0	2.0	2.0
Contribution to GDP growth:	Domestic demand			0.6	-0.4	-0.1	-0.2	0.9	1.9	2.3
	Inventories			-0.1	1.4	-1.1	0.6	0.6	0.0	0.0
	Net exports			0.1	-0.2	0.9	-0.7	-0.2	0.0	0.0
Employment				-0.2	0.9	0.7	0.5	2.1	1.7	1.8
Unemployment rate (a)				12.7	26.5	24.9	23.6	21.5	20.1	18.4
Compensation of employees / head				3.2	-2.0	-2.3	-0.9	0.1	0.8	1.3
Unit labour costs whole economy				2.5	-1.8	-1.3	-0.2	0.9	0.6	0.8
Real unit labour cost				0.1	0.0	-0.3	0.8	0.2	-0.3	-0.5
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.4	-1.8	-1.0	-1.0	0.7	0.9	1.3
Harmonised index of consumer prices				2.9	-1.4	-1.1	0.0	1.1	0.5	1.2
Terms of trade goods				-0.2	1.1	0.6	-2.3	0.7	0.3	0.0
Trade balance (goods) (c)				-14.7	-10.8	-9.1	-9.5	-10.5	-10.7	-10.8
Current-account balance (c)				-9.6	-2.1	0.0	-0.7	-0.9	-0.4	-0.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.0	-0.1	2.4	0.9	1.0	1.5	1.3
General government balance (c)				-8.2	-3.6	-5.7	0.6	0.8	0.4	0.2
Cyclically-adjusted budget balance (d)				-7.8	2.4	-0.4	5.4	4.5	3.0	1.6
Structural budget balance (d)				-	2.4	2.2	4.4	4.0	2.5	1.6
General government gross debt (c)				120.2	178.9	176.8	180.8	178.6	177.8	170.3

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Source: ec.europa.eu

Developments and Prospects of the Real Estate Market

In the housing market, the third quarter of 2018 showed a slight increase over the previous quarter, according to the provisional data of the bank of Greece, which are collected by the credit institutions. Indicative, in the first quarter of 2018 the apartments recorded a small increase compared to the last quarter of 2017, of the order of 0.3%, while in the third quarter there was a slight increase of 2.5% compared to the second quarter of 2018.

In the Commercial Properties Industry, there is an increase in demand from users for offices, retail and supply chains. Rental rates, for prime properties, are rising and yields are getting squeezed.

As far as the high-standard office sector is concerned, there is a lack of available space to meet the existing demand for companies to find quality premises to accommodate their business. An important factor for the properties on demand is high quality, while development activity is limited and the existing stock is discarded to a considerable extent. According to the data available from the Bank of Greece, in the first half of 2018, office rents in Athens recorded an increase of 2.4% over the previous year. In general, the office sector is expected to remain an investment target during the current year. As a result of growing competition and a lack of quality product, returns are expected to be depressed during 2019, while rental rates for privileged spaces are expected to increase.

In respect to the retail (shops) sector, in prime locations rental rates are stable.

Thessaloniki Real Estate

Incorporating signs of recovery are presented by the real estate market of Thessaloniki. There are projects that are either in progress or have been announced, which contribute to an optimistic view for the real estate market by both potential investors and owners and / or end users. In particular, the developments concerning the construction of the METRO, the privatization of Thessaloniki's port and the improvement works in the airport as well as the creation of the Holocaust Museum, will contribute to the increase in the demand for real estate options for rent and for purchase as well.

There is high demand for independent buildings in the Historic Center, especially in the area between I. Dragoumi – Aggelaki- Egnatia and Nikis Avenue. Demand comes from both domestic and foreign investors (mainly Israelis and Turks) and concerns the creation of tourist accommodation and student dormitories.

Demand focuses on old-built buildings, which require renovation (or conversion) and are sold at low prices.

Another important factor is the ownership status of the property, as in most cases such buildings belong to more than one owner. This is usually a negative factor as, there should be an agreement with co-owners who have different views for the price of the property.



Thessaloniki Real Estate

There is also mobility from foreign customers, mainly Turks, for the purchase of properties in order to secure the so called Golden Visa (Residency Permit for 5 years).

A key variable for the course of the real estate market is the possible mass sale of real estate in a fund as well as the course and intensity of real estate sales through electronic auctions.

The short-term leases with the support of the corresponding online platform were the main variables which helped the real estate market of Thessaloniki and Halkidiki in the second half of 2018.

Consequently, the demand for apartments of surface 50 sqm - 70 sqm in the historical center of the city remains at particularly high levels. Investors are looking for such properties, which they renovate in order to achieve a higher return. Also in several cases larger properties are selected, which will then be separated into 2 - 3 apartments. Usually these properties are at least 20 years old.



Office Sector

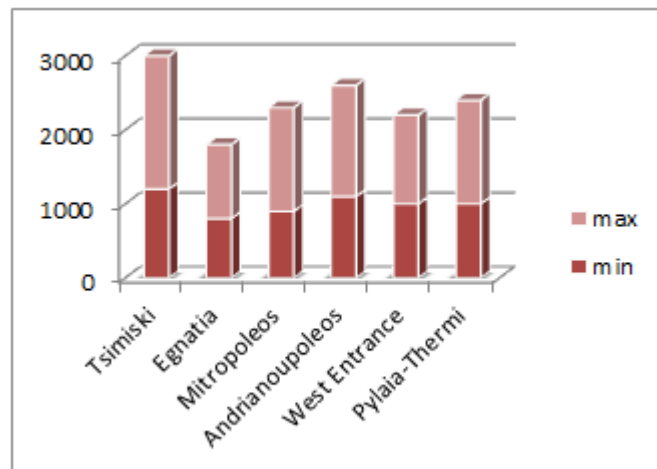
The office market presents for the last half of 2018 an upward trend, which is characterized by an increase in demand, mainly for the lease of assets. As a result, there is an increase in the asking rents and a decrease in available real estate properties.

Points of interest are mainly the properties which are located in the city center of Thessaloniki, but the demand is also high, the last semester, for offices, available for rent, in the western entrance of the city (mainly due the Privatization of the Port).

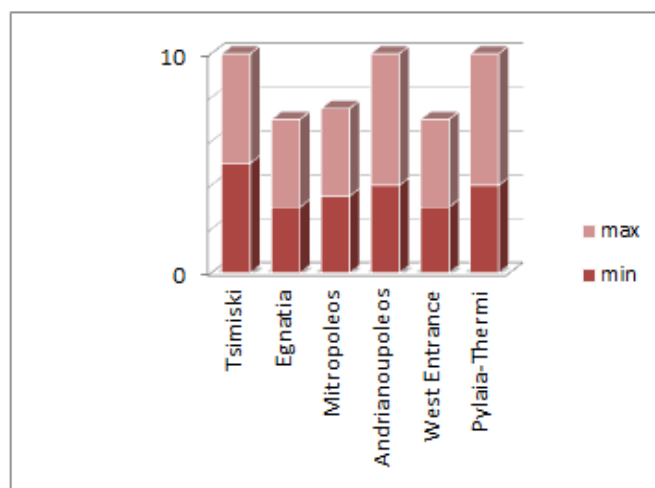
Companies looking for offices which are larger than 350 sqm are forced to leave the center due to lack of suitable options and look for new office space in the eastern sector, in order to have easy access and parking spaces for both their executives and customers.

The investments in the office sector of Thessaloniki are not the first choice for the investors. The main reason for that is the fact that the buildings do not have the quality investors are looking for and the tenants are not well known local or international companies. In most cases such companies have their own offices.

Finally, some companies that are active in the Thessaloniki market are considering the possibility of a potential acquisition of older office buildings in order to change the use and promote the particular properties as apartments, for short-term lease purposes.



Prime Office Sales €/ sqm



Prime office Rents €/sqm

Market Trends	
Rents	➡
Yields	➡
Vacancy Rate	➡
Absorption	➡

Source: Danos An Alliance member of BNP PARIBAS REAL ESTATE

Retail Market

Works are proceeding at an intensive pace in the former FOKAS department store, on Tsimiski Street, and in a very short space of time, Inditex, with the Pull & Bear brand, will operate in this property.

Tsimiski Street continues to be the target of large multinationals as well as Greek businessmen. The placement of Dust & Cream at number 59 on this street as well as the new Vodafone store near Kouskoura is a fact.

Shoe retailers companies carry out a dynamic placement at the Tsimiski street with the new Tamaris store, which will operate at junction of Tsimiski and Iktinou streets - in a property that has been hosted by the catering industry in recent years.

A similar example of a shoe retail company is the well-known NAK chain, which leased the shop located at the junction of Tsimiski and Aristotelous streets. The store is owned by the Papageorgiou Foundation and the new tenant has claimed it through a bidding procedure. The store has a total area of 530 sqm, which includes ground floor - basement - loft & 1st floor.

Finally, another key player of the specific sector, the well known company Scetchers, launched a new store in Tsimiski street.

After a long period of time, the property that hosted Citibank found a new user, the company Pop-Air, which, after completing the necessary tasks, started its operation.



Tsimiski



Plateia Mall

The Masoutis Group added to its network, another store, which is located in the heart of the city in the business center of Platia. The shop consists of 850 sqm ground floor and 150 sqm basement.

The company has been searching in the city center over the last years in order to find a suitable store for a supermarket.

Retail Market

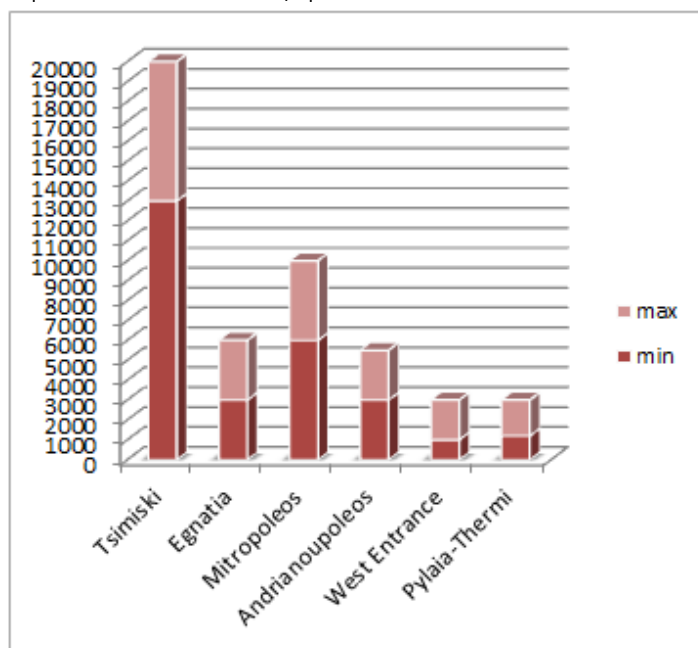
In their network development strategy, some companies choose to relocate to the historic center, as was the case with Cook – Shop company, which chose a shop in Mitropoleos street. Also the Famous company – shoe retailer, which opened its new store on Tsimiski Street.

The “Key Money”, as part of a lease agreement returns to Tsimiski's shops as an initial demand, although in many cases it acts mainly as a factor of pressure in the negotiations, with the aim of achieving the highest possible rent without finally considering the payment of a “Key Money” amount.

Also in some cases a prepayment of some rents (for example 12 months) occurs.

As far as secondary local markets concerned, the picture varies depending on the region, for example, Vas. Olgas Ave. and Delphon street have many vacant retail units, when at the same time Lambraki street and Evosmos have only just a few vacant properties, while in Ethnikis Antistasis and Andrianoupoleos streets new "players" like the "Terminal" brand are entering.

Shop Sale values - Thessaloniki €/sqm

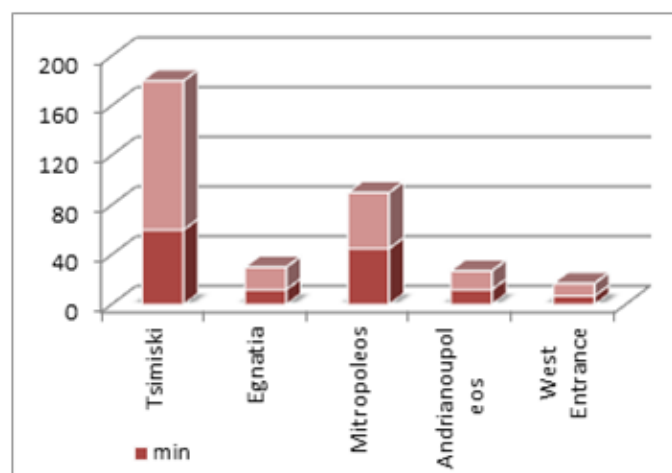


Market Trends	
Rents	↑
Yields	↓
Vacancy Rate	↓
Absorption	↑

Source: Danos An Alliance member of BNP PARIBAS REAL ESTATE

The yields of the retail stores in Tsimiski range at a level of 6-6,5%, while for the secondary markets the corresponding yield is 7,5-8,5%.

Shop rent values - Thessaloniki €/sqm



Residential Market

According to the Bank of Greece survey, the housing price fluctuations in Thessaloniki and Greece in general are shown in the table below. From the analysis of these figures, it appears that for Thessaloniki, apartment prices increased in the third quarter of 2018, compared to the corresponding quarter of 2017.

Following the same survey, the analysis of data by geographical area shows that the increase in apartment prices in the third quarter of 2018 compared to the corresponding quarter of 2017 was 3.7% in Athens, **1.9% in Thessaloniki**, 1.2% in the other major cities and 1.6% in the rest of the country. Finally, for all the urban areas of the country, in the third quarter of 2018 apartment prices were increased by 2.5% compared to the third quarter of 2017, while, on the basis of the revised data, for 2017 average annual decrease was 1.0%.

INDICES OF APARTMENT PRICES ^{(1) (2)}							
	2017	2018*	2017 Q4	2018 *			
				Q1*	Q2*	Q3*	Q4*
I. OVERALL							
Price index (2007=100)	59.0	59.9	59.1	59.2	59.6	60.1	60.5
(%) change over previous year	-1.0	1.5	-0.4	0.3	1.0	2.1	2.5
II. BY AGE							
1. New (up to 5 years old)							
Price index (2007=100)	60.7	61.7	60.9	61.1	61.5	61.9	62.5
(%) change over previous year	-0.8	1.7	-0.2	0.5	1.2	2.5	2.7
2. Old (over 5 years old)							
Price index (2007=100)	57.9	58.7	58.0	58.0	58.5	59.0	59.3
(%) change over previous year	-1.2	1.3	-0.6	0.1	0.9	1.9	2.3
III. BY GEOGRAPHICAL AREA							
1. Athens							
Price index (2007=100)	56.2	57.6	56.3	56.4	57.1	58.1	58.6
(%) change over previous year	-1.0	2.4	-0.4	0.6	1.4	3.4	4.2
2. Thessaloniki							
Price index (2007=100)	54.5	55.0	54.7	54.4	54.8	54.8	55.9
(%) change over previous year	-1.4	0.9	-0.6	-0.1	0.4	1.3	2.1
3. Other cities							
Price index (2007=100)	61.6	62.2	61.7	62.0	62.0	62.2	62.4
(%) change over previous year	-1.1	0.8	-0.5	0.3	0.9	1.0	1.1
4. Other areas of Greece							
Price index (2007=100)	64.1	64.5	64.2	64.2	64.6	64.6	64.7
(%) change over previous year	-0.7	0.6	-0.3	-0.2	0.6	1.2	0.7
5. Urban areas (total)							
Price index (1997=100)	149.6	152.1	149.5	150.1	151.3	153.0	153.9
(%) change over previous year	-1.1	1.6	-0.6	0.4	1.0	2.2	2.9

Source: Bank of Greece

Residential Market

Significant is the rise in apartment rents, especially if they are located in the center of Thessaloniki. Tenants are looking for the right property and usually want to have the following characteristics:

- Autonomous heating (ideal atomic gas)
- Parking spot
- Be the high-rise property (security and noise issue)
- The property is in good condition - no renovation needed
- Existence of a lift
- Good condition of communal spaces (e.g. building entrance)
- View



Hotel - Tourism

Greece continues to be one of the most popular destinations for summer holidays, while at the same time offers attractive proposals for thematic tourism all year round. Its comparative advantages, such as location, rich cultural heritage and climate, have led to the attraction of major investors in the tourism industry.

Even during the economic crisis, tourism in Greece has been one of the main factors of economic growth, with a significant contribution to GDP but also to the development of the labor market

The tourism rise of the city of Thessaloniki and Halkidiki continues and there is demand for the acquisition of hotels and residences in Halkidiki. But especially concerning hotels, supply cannot meet the demand because usually the asking prices are too high, which discourages potential buyers even from a potential counterproposal.

At the top of demand, are the holiday homes, which are next to the beach, with the prices rising steadily, especially in areas that are a summer destination for the Balkan countries citizens and also in the cases when there is a limited supply of options. Such examples are Pefkohori, Kalithea and Vourvourou.

The promotion of holiday homes, through short-term rental platforms for both apartments in Thessaloniki and for second home, remains high and, in some cases, the specific income complements the total income of households.





GREECE

Athens

15 Vouliagmenis Ave., 116 36
Tel: +30 - 210 7 567 567
Fax: +30 - 210 7 567 267
Email: office@danos.gr

Thessaloniki

4 Ionos Dragoumi Str., 546 24
Tel: +30 - 2310 244 962,3
Fax: +30 - 2310 224 781
Email: info.thes@danos.gr

www.danos-group.gr

Crete - Chania

3 Iroon Polytechniou Street, 731 32
Tel: +30 - 28210 50900
Fax: +30 - 28210 59700
Email: info.crete@danos-melakis.gr

Crete - Herakleio

7 D. Beaufort Str.
Tel: +30 - 2810 282822
Fax: +30 - 2810 282822
Email: info.crete@danos-melakis.gr

www.danos-melakis.gr

CYPRUS

Nicosia

35 I. Hatziosif Ave., 2027 Strovolos
Tel: +357 22317031
Fax: +357 22317011
Email: sales@danos.com.cy

Limassol

69 Gladstonos Str., 3040 Acropolis Centre,
Shop 10
Tel: +357 25343934
Fax: +357 25343933
Email: limassoldanos@danos.com.cy

www.danos.com.cy

SERBIA

Belgrade

Milutina Milankovica Str. 9z/l
11070 New Belgrade
Tel.: +381 11 2600 603
Fax: +381 11 2601 571
office@danos.rs

www.danos.rs



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