International investors accounted for over 75 percent of investment activity in 2007, a figure which has been increasing steadily over recent years. However, concerns over lease structures, a complicated tax regime and red tape hamper growth.

Foreign investors tune in to local property

The year 2007 was a relatively good one for property investment in Greece, with the total volume of transactions reaching approximately 650 million euros. Compared to the majority of other European markets, Greece remains small, although year-on-year rises in investment volumes is indicative of the increasing level of interest that the market is attracting, coupled with the rising amount of available investment grade stock.

The retail sector retains its position in the market, accounting for nearly 68.0 percent of transactions, with retail parks and shopping centers proving popular. However, there has been an improvement in the office market, which demonstrated better performance in 2007 than in 2006, now accounting for 23.0 percent, up from 15 percent. The same trend is expected to continue in 2008.

Historically speaking, private individuals and domestic institutions have been the main investors in commercial property, although the market has become steadily more international. This is demonstrated by the fact that foreign players accounted for over 75 percent of total investment activity in 2007, a figure that has been increasing steadily over recent years. However, international interest in the Greek market has been somewhat slow as concerns over lease structures (which are viewed as too 'tenant-friendly'), a complicated tax regime and the bureaucratic planning process have all made the market difficult to maneuver in. This is compounded by the high proportion of owner-occupation across all sectors, which has exacerbated the difficulties in sourcing stock, leaving the direct property market highly competitive, especially as many developers also act as investors. This is changing as the market opens up and foreign developer interest emerges. The overall level of liquidity is low but increasing as the level of interest from foreign buyers and developers increases, although the local funding and development market remains important. The majority of transactions are single-asset ones, often involving private, domestic investors. Institutional interest remains limited, as the larger funds tend to focus more on more sizable portfolio opportunities.

Both the office and retail sectors have seen a sharpening of yields since the beginning of 2007, while industrial figures have held firm. The relatively weak leasing markets and lack of stock have however held back the overall investment market. Despite these falls, yields remain high, although recent shopping center and retail park deals show yields to be more in line with the more mature European retail markets.

Toward the end of 2007 high-street prime yields saw an outward shift and are now expected to stabilize. This year is expected to be quieter in terms of investment transactions. Activity in the first half of 2008 was lower in relation to the same period of 2007 mainly due to the credit crunch, with banks more hesitant to provide financing than in previous years and requiring reduced loan to values and higher margins. Office and industrial yields should hold at their current values over 2008, although secondary values may see an early outward shift. In all sectors price levels for prime properties should prove sustainable while secondary properties and secondary locations are most likely to be affected as it becomes more difficult to obtain financing for the acquisition of secondary products. As the market has become more difficult for investors who are interested only in existing and income-generating stock, we have witnessed an increasing number of joint venture initiatives. Investors are looking at development projects as well as value-added opportunities, especially within the retail and office sectors.

While economic growth is expected to ease somewhat in 2008, it is expected to remain robust and outperform the EU in the short term. Athens and Thessaloniki will remain the two key target cities, although more regional locations should also be given some consideration, in particular in the retail sector which has the most growth potential. Well-located retail parks and shopping centers are expected to continue to trade well with strong demand from both domestic and international brands. The office market is reaching a significant turning point as vacancy rates fall and performance in the near term will be driven by rental growth rather than yield compression.

Infrastructure developments including the Athens metro and city ring road will help to spur interest in the industrial market, although sourcing investment stock that is of good quality and adequate lot sizes remains an issue across all sectors.

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