Commercial Property Market

Determining Indicators

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Contents

• Three sectors
  - Office
  - Retail
  - Industrial

• Bank of Greece has extensively analysed first two

• A quick overview of offices and retail followed by a lengthier presentation of the industrial (logistics) sector
Offices

• Macroeconomic factors are more important determinants than micro, real-estate specific parameters

• Ours is a not-so-mature market hence office rents are more influenced by the general economic situation and business confidence

• How important is the role of inflation and the distinction between nominal and real rents?
Athens North - Office Rents – Nominal vs Real Levels
2002 - 2014

Source: Athens Economics Ltd - Jones Lang LaSalle, March 2015
Real office rents are positively and highly correlated with the following parameters:

- Retail volume index (-2)
- Industrial production index (-1)
- 12-month deposit rates
- Gross fixed capital formation as % of GDP (-1)
Offices
Correlations

• They are also negatively and highly correlated with:
  ▪ Unemployment rate

• And negatively but less strongly correlated with:
  ▪ Current inflation

• Insofar as real estate variables are concerned:
  ▪ There is a negative but not very strong correlation with current % change in office stock
  ▪ And a negative, albeit not statistically significant, correlation with the vacancy rate
Prime Office Vacancy Rate in Greater Athens

Source: Athens Economics Ltd - Jones Lang LaSalle, March 2015
Retail

- Retail has been hard hit by the recession
- Malls have weathered the storm better than the high street
- First three quarters of 2014 recorded some encouraging facts: new leases, new brands hitting the malls
- Vacancy rates are 5–10% in best locations but c. 30% in secondary ones
Retail
Correlations

• Real high street rents are positively and strongly correlated with:
  ▪ Industrial production index
  ▪ Retail volume index (-2)
  ▪ Gross fixed capital formation as % of GDP
  ▪ GDP
  ▪ Banking sector employment (-1)
  ▪ 12-month deposit rates

• They are negatively and highly correlated with:
  ▪ Unemployment rate (-1)
Industrial (Logistics)

- This sector relates to logistics rather than manufacturing plants; the latter are contracting in numbers and are largely owner-occupied.
- Rents have dropped significantly in recent years but seem to be stabilizing while the gap between prime and secondary product is very distinct and actually widening.
Greater Athens Warehousing & Logistics:
Leasing Activity

- This market has been busy over the past couple of years but rents have dropped in the aftermath of the recession.
- Rents have sharply fallen from their 2008 peak (€5.50 – 6.50/ sq m/ month) to €2.70 – 3.85/ sq m/ month today although certain outliers in the €6 – 7/ sq m/ month band still exist.
- Renegotiations are a frequent occurrence while the vacancy rate does not exceed 15% in Thriassio, the most popular location in Greater Athens. It is estimated to exceed 25% in Inofyta, less popular on account of its bigger distance from the city centre.

- One of the main features of the market today is a serious mismatch between supply (older buildings, < 5,000 sq m) and demand (higher spec buildings, > 10,000 sq m).
Industrial (Logistics)
Correlations

- Real logistics rents are positively and highly correlated with:
  - Industrial production index
  - GDP change (-1)
  - Gross fixed capital formation as % of GDP (-1)
  - Retail volume index (-2)
  - Inflation
  - 12-month deposit rates

- They are also negatively and strongly correlated with:
  - Unemployment rate
Greater Athens Warehousing & Logistics: Investment Activity

- This sector was until recently totally neglected by investors and any purchases related to owner-occupation.
- In 2014 Q1 the situation took a turn for the better, though, with Grivalia Properties (a REIT owned 42% by Fairfax) purchasing two grade A facilities with first class covenant (a) 18,555 sq m @ € 8.32 mn (net initial yield is 11.8%) and (b) 12,260 sq m @ € 5.88 mn (net initial yield is 12%).
- The above has triggered a significant amount of interest from several quarters; we are currently aware of two specialized funds seriously exploring this market.

Source: Athens Economics Ltd - Jones Lang LaSalle, March 2015
Thank you

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