Danos

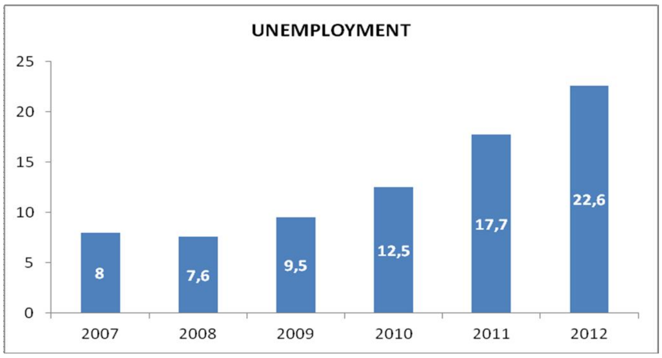
INTERNATIONAL PROPERTY CONSULTANTS & VALUERS

THESSALONIKI PROPERTY MARKET

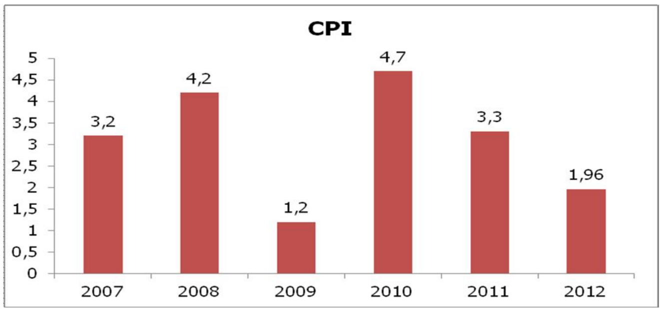
2nd semester 2012

1. Economic Overview & Indices

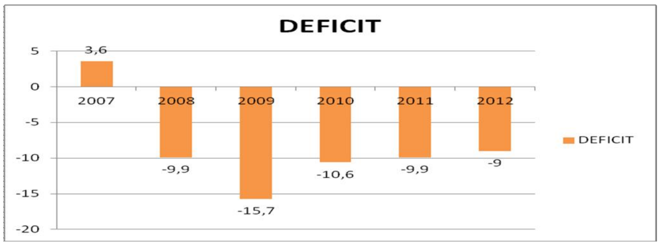
The market suffers from a deep recession and a currently unstable commercial environment. Income has been reduced by 30% in central administration and 15% in special wage regimes, 35% in state enterprises, 6.6% in private sector employees and by 15.5% in pensioners. Unemployment has reached 22.6% during the first semester and is not expected to fall significantly before 2020. A negative GDP growth of - 6.9% was seen in 2011 (as compared to – 3.5% in 2010). CPI has also decreased from 4.7% in 2010 to 3.3% in 2011. Exports have dropped to -0.3% in 2011 as compared to 3.8% in 2010 and imports -8.1% as compared to - 4.8% in 2010.



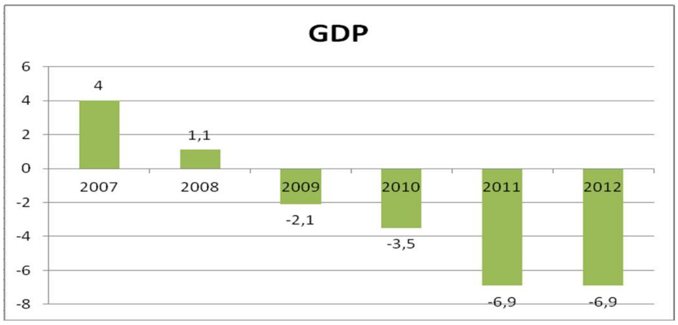
Alpha Bank analysis stresses that on one hand, fiscal consolidation and structural reform have been reinvigorated, benefiting from debt relief and prior actions making the path of adjustment more predictable and less accident-prone. With confidence restored and labor markets fully liberalized, economic activity is bound to improve. This will be supported by bank financing becoming available as the deposit outflow is reversed and banks are successfully recapitalized without being nationalized.



On the other hand, the new financing package is conditional upon Greece's specifying by mid-2012 new expenditure reduction measures of about 7% of GDP so as to ensure the emergence of a primary surplus of 4.5% of GDP by 2014. Savings to the tune of 5.5% of GDP will come from streamlining social benefits programs, restructuring operations and cutting pension payments. The remainder 1.5% of GDP adjustment will come from reforming the tax system and overhauling the revenue administration.



The financial climate has very much affected the real estate market. The construction industry has severely been hit with massive drop of activity and about 157,000 people being left unemployed. The current environment, combined with the harsh governmental tax regime, has put on hold any form of investment. Many companies are often seen to face the danger of default, while many others have already been listed for bankruptcy. A significant re-negotiations activity has been seen by most tenants. Multinational companies, even the ones who have recently signed lease agreements, have initiated a dialogue of rental reduction. In most cases, and thanks to an even tenant friendlier system, tenants have succeeded to secure significant discounts even in the most prime districts. We have seen prime rents being negotiated down by 40%.



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2. Market & Corporate News

Probably one of the most popular topics of the real estate market is the exploitation and privatization of public estate. With the currently elected Government, a new management team is put in place for the Republic Asset Development Fund SA, which has launched a very ambitious project for the exploitation of private properties of the public sector, aiming to receive about € 25 billion. The scope of work encompasses more than 70,000 properties of the public sector that are currently managed/owned by public real estate companies (KED, ETA), DEKO and the various Ministries.

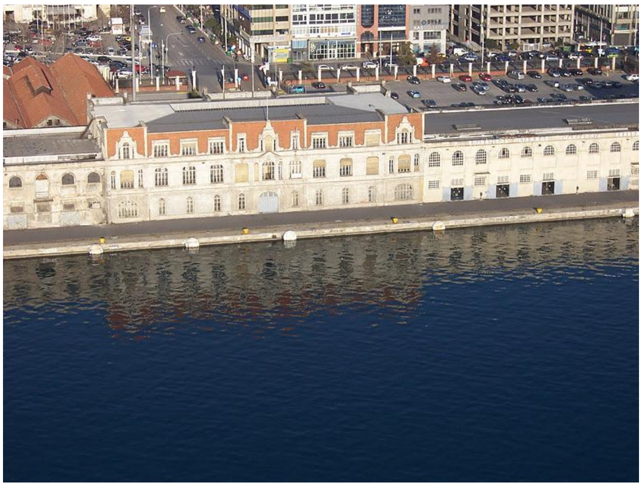
Late on 2011 Daskalantonakis group announced its decision to stop operating Makedonia Palace 5* hotel. The owner of the property is the Social Insurance Institute (IKA) and it is situated on the sea side of the town. It is one of the oldest hotels of Thessaloniki. There was a reduction of approximately 40% in the turn over of the hotel and IKA was not willing to make any reduction to the rental (3.6€ million per month). The operation of the hotel lasted until the end of 2012.

A new international competition is expected to take place during 2013 for a long term lease of the hotel. Until then, in order to continue its operation, IKA announced a contest that will take place on the 4th of February 2013 for a short term lease agreement of 12 months.

In anticipation of the selection of a contractor who will undertake the construction and operation of Thessaloniki's marina. The marina will have 218 berths; the construction time is estimated at three years, while the total budget of the project is estimated at 11.3 million. According to the management ThPA the creation of the marina will promote maritime tourism, through the satisfaction of the needs of tourist boats mooring. At the moment two groups of companies are selected to phase 2 of the tender, these are Lamda Development and the Consortium Aktor, Texas – Vega, Cosmos Yachting and Marina Kröslin GMBH. The second phase will be concluded during H12013.

Despite the recession of the Greek economy, which negatively affects both production and trade, Thessaloniki's Port Authorities announced an increase of 7.45% of the movement of cargo in 2012 compared with 2011. It is though important to mention that according to mr. Aggeloudis, during 2012 ThPA serves not only areas of Central Makedonia and Nothern Greece, but succeeded to increase the flow of goods to and from the South Balkans, which in recent years served by other ports in the Balkans.

Macedonia Pallas



Thessaloniki's Port

3. Office Market

A significant re-negotiations activity has been seen during the first semester of 2012. Multinational companies, even the ones who have recently signed lease agreements, have initiated a dialogue of rental reduction. In most cases, and thanks to an even tenant friendlier system, tenants have succeeded to secure significant discounts even in the most prime districts.

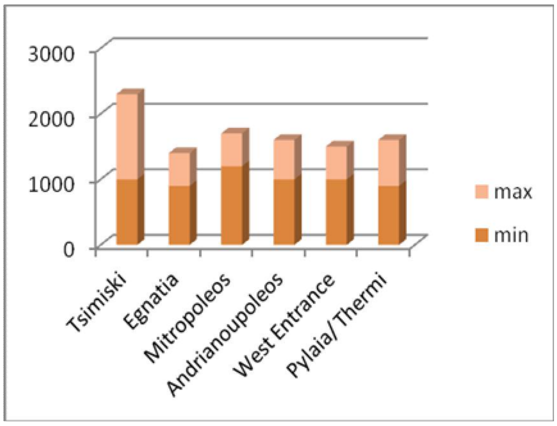
The main volume of demand for office space is from companies searching to relocation.

It is important to mention that there is a decline of 5-10% between the H1 and H2 of 2012. Many office spaces are remaining vacant as there are quite a lot companies that terminate operation. The construction sector is the affected of the crisis as there is no work field. Many companies are searching, or have already start operation in other countries.

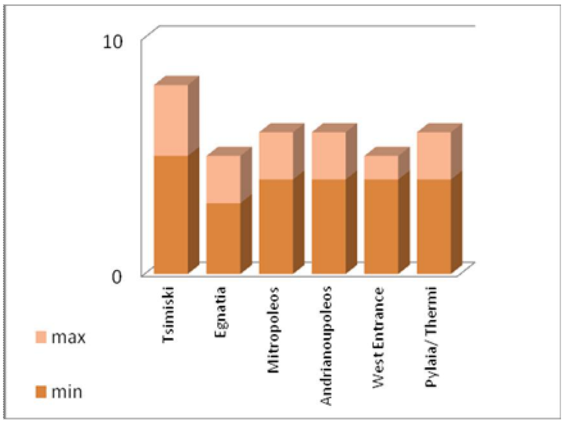
Office market has never been an attractive investment for foreign or Greek investors in Thessaloniki. At the moment the estimated yield is 8.5%- 9.5%, as the risk is high enough because of the economic liquidity.

As far as the sales of office spaces concern there are few companies or individuals who are searching for opportunities in order to invest their money and save the rentals.
Seeing the decline during 2007, that the rentals and the market values were even 100% higher in some areas than 2012, there is the opinion that there will be stability in the office market. Also we should take into consideration that most of the buildings in the city center (higher demand) are already old they need renovation works (costs) and that is an inhibitor for any kind of transaction.

PRIME OFFICE SALES (€/SQM)

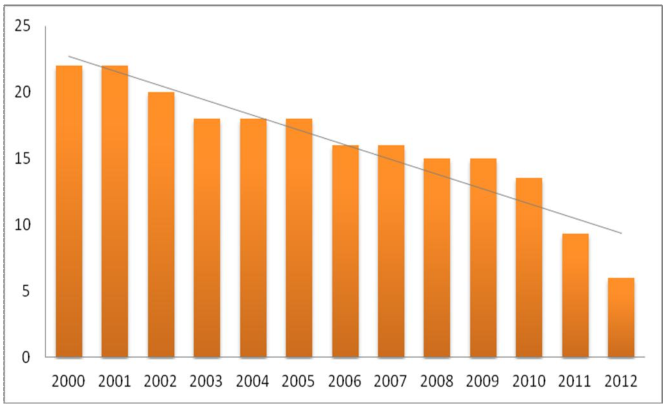


PRIME OFFICE RENTS (€/SQM/MONTH)



Source: DANOS An Alliance Member of BNP PARIBAS REAL ESTATE

OFFICE RENTS



OFFICE MARKET TRENDS

RENTALS	↓
YIELD	↑
VACANCY RATE	↑
TAKE UP	↓

Source: DANOS An Alliance Member of BNP PARIBAS REAL ESTATE

4. Retail Market

The sector has experienced the impact of the financial crisis through the decrease of the private consumption, and tenants were able to renegotiate their current leases with no key money at all.

In terms of supply, vacancy rates are high ever in the most commercial streets (Tsimiski, Mitropoleos). The food industry seems to be the sector with the higher demand at the moment, but with better terms as far as the rentals concerns. From the other side the owner and the investors do not seem to prefer it.

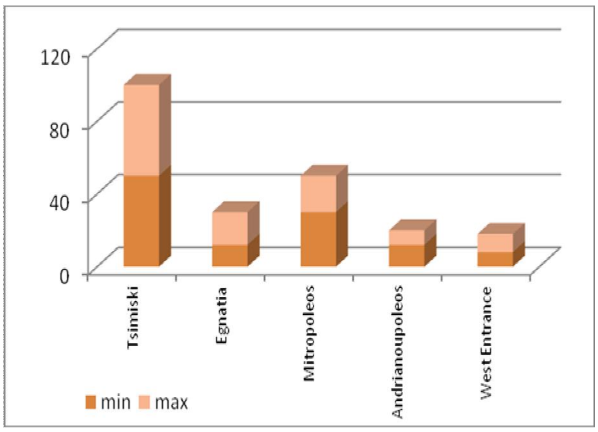
According to a research prepared by the National Confederation of Greek Commerce on August, the most commercial street of Thessaloniki's city center presents the greatest percentage of vacancy rate: 20.4%, the vacancy rate on March 2012 was 13.7% and on August 2011 11.6%. Vacancy rates on Proxenou Koromila str. and Mitropoleos str. (lower commerciality) are lower than the above and according to the above research are 19% and 17.2% respectively.

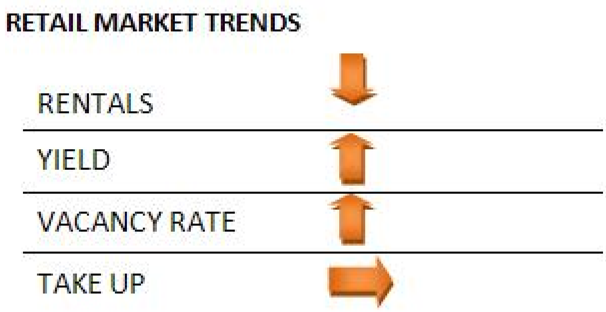
It is important to mention that in many cases the reason of the vacancy is the asking rental, which many times remains too high.

In the secondary markets the vacancy rate reaches the 42.5% and the rentals are even 50% lower than in the past.

Notos Galeries, Tsimiski Street

Mediterranean Cosmos





Source: DANOS An Alliance Member of BNP PARIBAS REAL ESTATE

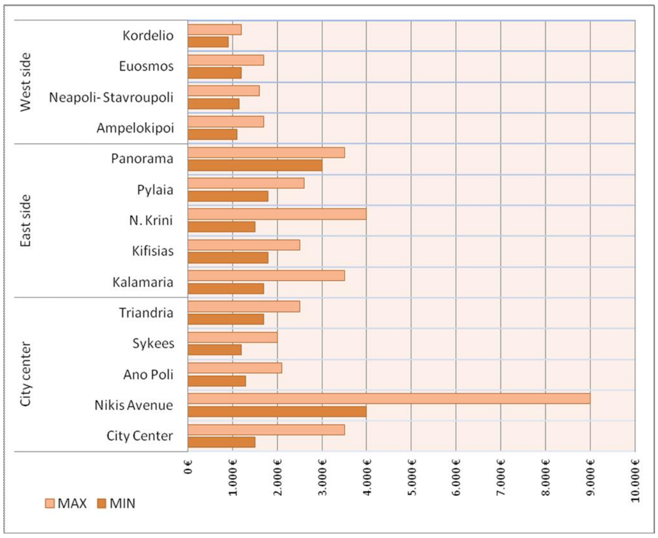
5. Residential Market

H2 2012 presents a further decrease due to low interest from buyers (uncertainty), lack of financing from banks, significant supply and high interest rates.

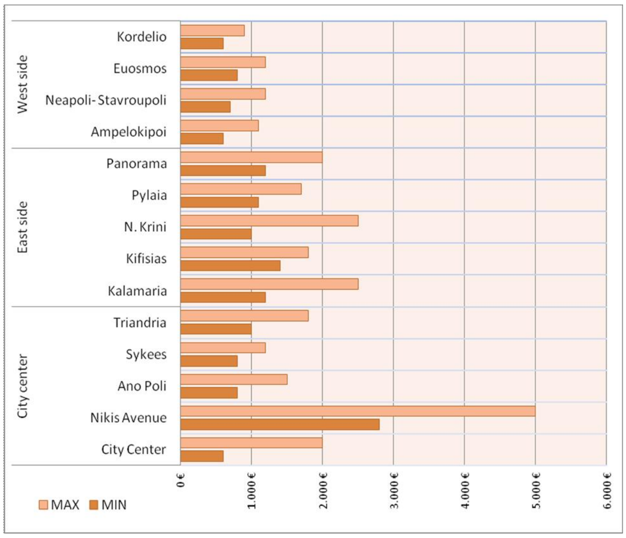
The areas capturing the greatest decrease in selling and rental prices are the east (luxury) suburbs of Thessaloniki, where prices have decreased up to 40%.

The tax system of Greece is too strong for real estate owners and charged them with new taxes. From the other hand the incomes have been decreased and the owners are now willing to sell their property even at a lower price. Also until 5 years ago most of the people acquired their residence using a bank loan that they are not in a position to pay.

Aristotelous square, Thessaloniki



Sale prices for new constructions



Sale prices for old constructions

Source: DANOS An Alliance Member of BNP PARIBAS REAL ESTATE

6. Logistics & Industrial Market

The Industrial and Logistics Sectors have also slowed down due to the economic conditions during H2 2012. Rental values fluctuate to 1-3 €/sq m.

Vacancy rates are still increased and yields have been sustained to 11% since last year. Transactions have not taken place due to lack of finance and lack of investors' confidence.

The major demand concerns the lease of already constructed buildings of surface up to €2,000 - €3,000 sqm or the purchase of land plot for development according to the specifications of each company.

Market values are within the range of €600 - €1,000/ sqm. In both cases the prices are correlated with the quality and the infrastructures of the property.

Industrial Area of Thessaloniki- Sindos

MARKET TRENDS

RENTALS	↓
YIELD	↑
VACANCY RATE	↑
TAKE UP	↓

	Old industrial buildings	New constructions
Sale price €/sqm	200 - 350	350 - 600
Rentals €/sqm	1,00 – 2,00	1,50 - 3,00
Yields	11%	

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