



CRETE PROPERTY MARKET

1st Semester 2015



Table of Contents

1. Economic Overview	3
2. Office Market.....	5
3. Residential Market	9
4. Retail Market.....	14
5. Logistics & Industrial Market	19
6. Tourism.....	20

1. Economic Overview

Since May 2010, the euro area Member States and the International Monetary Fund (IMF) have been providing financial support to Greece through Economic Adjustment Programmes in the context of a sharp deterioration in its financing conditions. The aim is to support the Greek government's efforts to restore fiscal sustainability and to implement structural reforms in order to improve the competitiveness of the economy, thereby laying the foundations for sustainable economic growth.

Europe's economies are benefitting from many supporting factors at once. Oil prices remain relatively low, global growth is steady, the euro has continued to depreciate, and economic policies in the EU are supportive. However, the Greek economy is unable to recover substantially, due to the unstable political and economic circumstances.

The continuous uncertainty regarding the Greek economy, as well as the lack of liquidity in the public and private sector, have led to further deterioration of the financial climate, as depicted by the reduced levels of the Consumer Confidence Indicator (CCI) and the Business Climate Indicator (BCI).

The continuous decay of the real economy intensifies the fiscal weakness of Greece and as a result, the coverage of its financing needs is becoming more difficult.

The above-mentioned apprehensions are supported by the Spring Economic Forecast of the European Commission, which is reviewing at a high level downwards the winter forecast regarding the indices of the Greek economy for 2014 and 2015. These forecast figures are subject to a high degree of uncertainty and take into account developments up until the cut-off date of 21 April, while they are based on a no-policy-change assumption. However, by considering the development of the Greek economy during Q2 2015, as well as the delay of the Greek government in achieving a deal with the creditors, it is taken for granted that the spring forecast figures will be reviewed once again downwards, which is reflected in the economic forecast summary of the Organization for Economic Co-operation and Development (OECD).

Based on the spring forecast of the European Commission, the Greek economy is forecast to grow by around 0.5% in 2015 (the forecast of OECD is 0.1%), instead of the forecast of 2.5% at the beginning of 2015 and of 2.9% at the end of 2014. Accordingly, the forecasts for the headline balance in 2015 and 2016 have been lowered to -2.1% of GDP and -2.2% respectively (the forecast of OECD is -3.4% and -2.8% respectively).

The rise in uncertainty since the autumn of 2014 and the slowdown in the recovery have had a significant impact on Greece's public finances, resulting in a significant shortfall in state revenues at the end of 2014 and in Q1 2015. The poor revenue collection around the turn of the year resulted in a significantly weaker-than-expected fiscal outcome for 2014, since the general government balance at -3.5% of GDP in 2014, is substantially worse than expected in the winter 2014 forecast.

Investment reduction

The main factor that defines the lower forecasts for real GDP are investments, which are expected to decrease by 3.1% (it means a decrease in real GDP by 0.4%), instead of an increase by 8.4% that was predicted in January.

GREEK ECONOMY – SPRING FORECAST OF THE EUROPEAN COMMISSION				
ECONOMIC INDICES	2013	2014	2015	2016
GDP growth (% , yoy)	-3,9	0,8	0,5	2,9
Inflation (% , yoy)	-0,9	-1,4	-1,5	0,8
Unemployment (%)	27,5	26,5	25,6	23,2
General Government Balance (% of GDP)	-12,3	-3,5	-2,1	-2,2
General Government Gross Debt (% of GDP)	175,0	177,1	180,2	173,5

Source: ec.europa.eu

GREEK ECONOMY– OECD's FORECAST			
ECONOMIC INDICES	2014	2015	2016
GDP growth (% , yoy)	0,7	0,1	2,3
Private Consumption	1,4	0,9	1,1
Public Consumption	-0,8	-1,7	-0,9
Exports (goods and services)	8,8	2,3	7,8
Imports (goods and services)	7,4	3,5	4,0
Terms of trade goods	0,2	-0,5	1,1
Inflation (% , yoy)	-1,4	-1,4	0,3
Unemployment (%)	26,5	25,7	24,7
General Government Balance (% of GDP)	-3,6	-3,4	-2,8
General Government Gross Debt (% of GDP)	177,4	180,0	178,1

Source: www.kathimerini.gr

2. Office Market

During the 1st semester of 2015, office market and rental values in Crete were decreased up to 5-10% in comparison with 2014. Despite the fact that asking prices are nowadays at very sensible levels, asking prices are still negotiable and can be decreased up to 15-20%.

In **Chania**, rental values around the Court Square are higher relatively to the city center, due to the privileged location of the square, which is close to the building of the Regional Union of Chania and the Court House, while the higher market values can be found at the city center (Skalidi & Giannari Streets, 1866 Square).

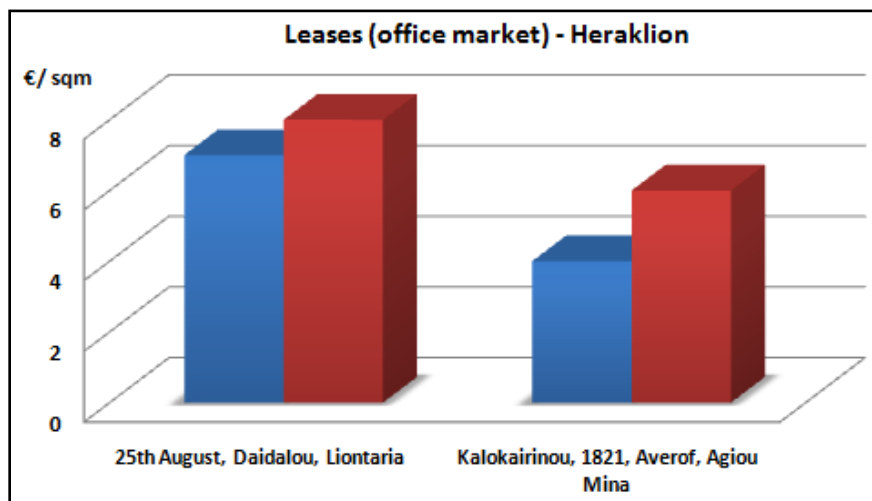
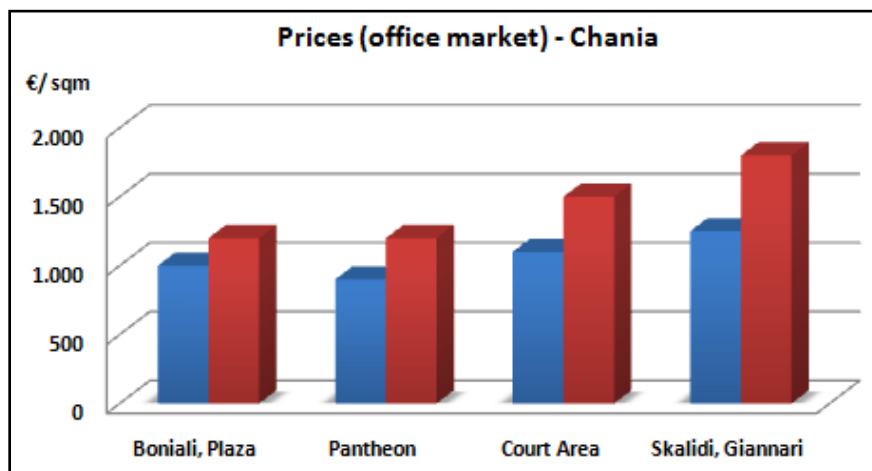
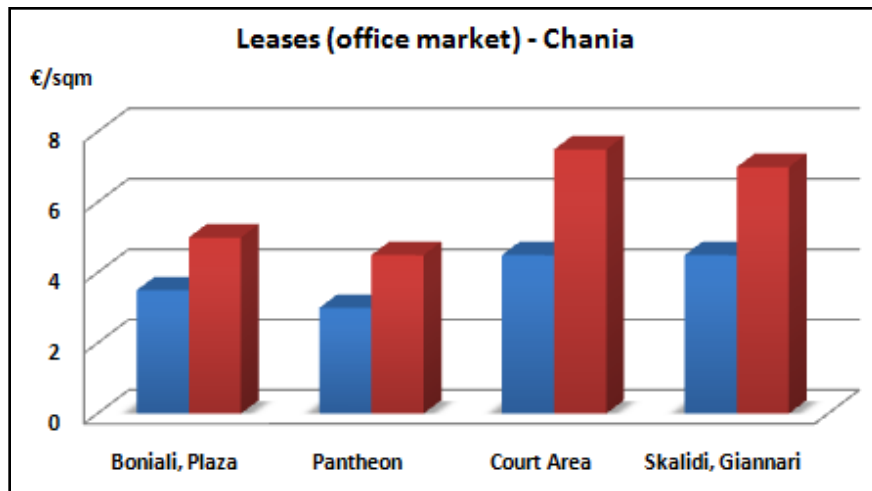


Trianon Center in Court Area, Chania

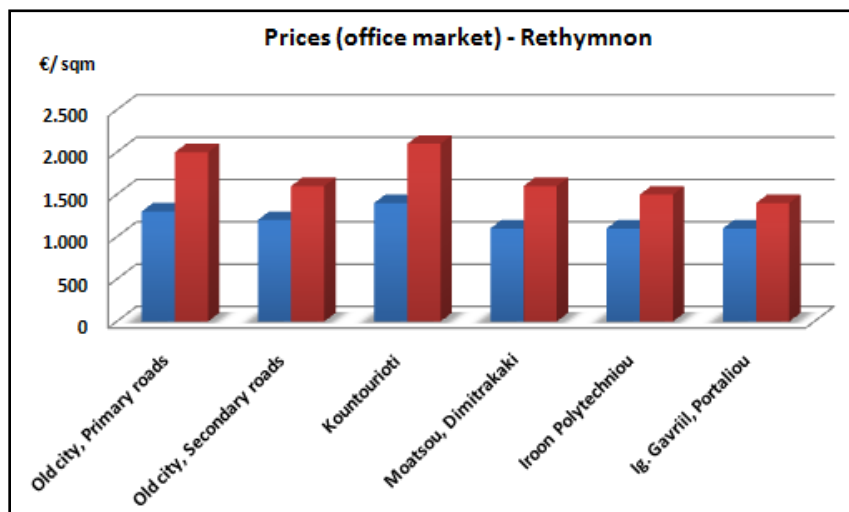
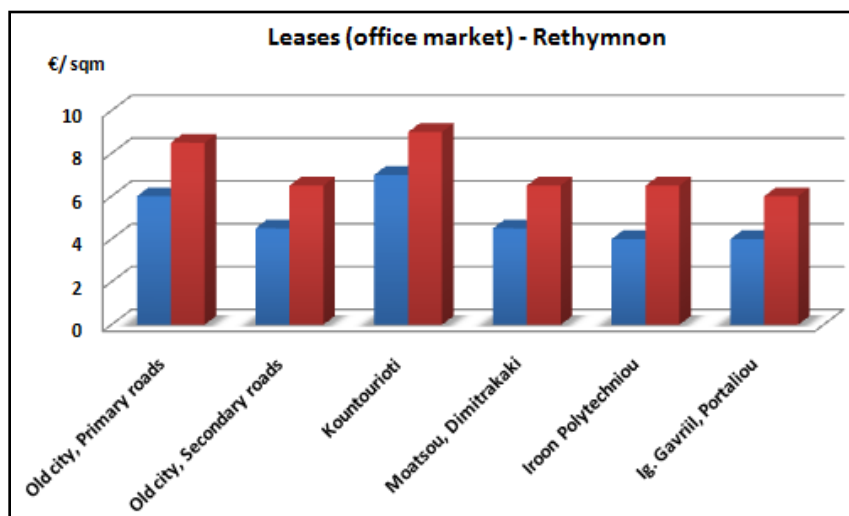
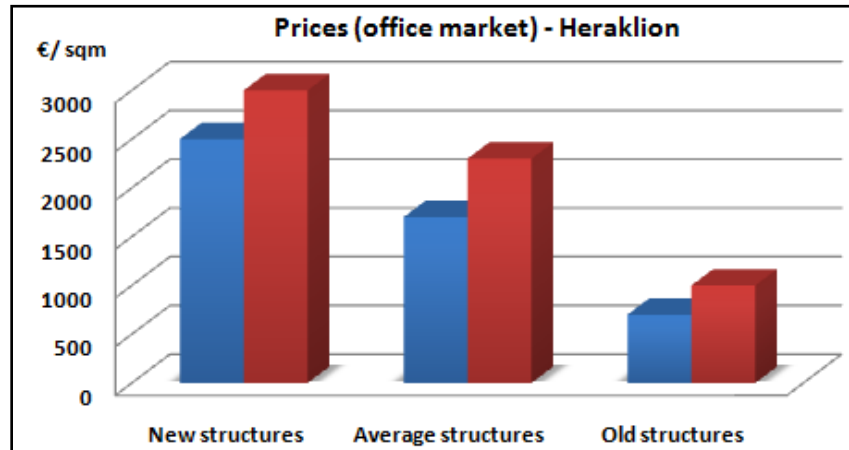
In **Heraklion**, the vast majority of office spaces are congregated around the city center and especially at Zografou St, Daidalou St, Dimokratias St, Dikaiosinis St, 25th August St, Evans St, Kalokairinou St, Averof St and Liontaria Square, where lawyers, doctors, engineers and accountants are highly interested due to the proximity to public services. On the other hand, there is no interest for offices spaces outside the city center and in low commercial streets.

In Rethymno, the main office market is situated around the Center Business District, the Old City and Iroon Polytechniou Square, close to the main retail market and the public services buildings, while relatively new office spaces can be found at the main streets that lead to the CBD, i.e. Igoumenou Gavriil Avenue (west entrance) and Portaliou Avenue (east entrance).

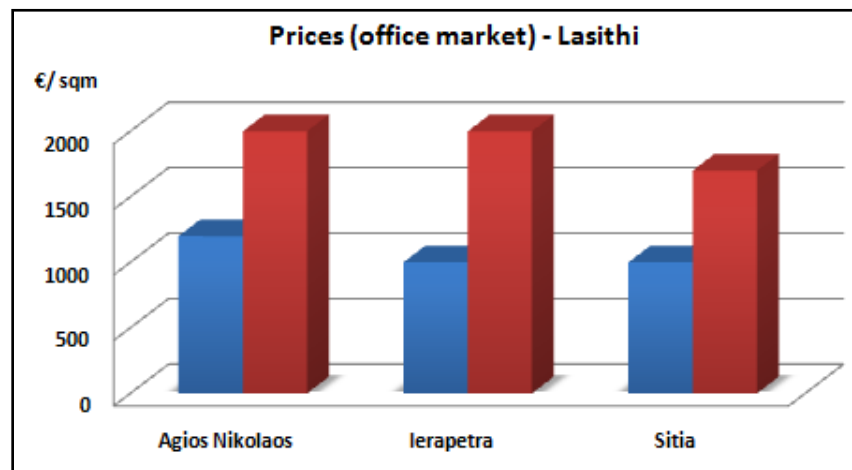
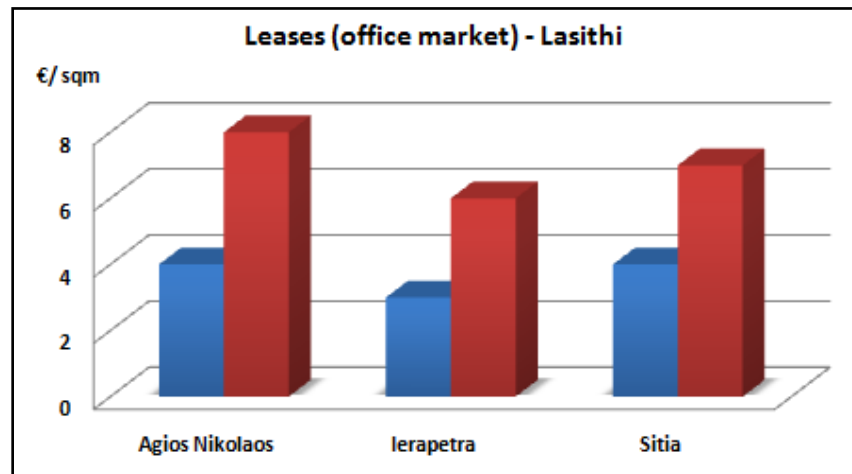
Finally, in **Lasithi**, due to the small size of the cities of Agios Nikolaos, Ierapetra and Sitia, office spaces are congregated only in the center of the cities.



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd

* Leases and prices depend on the age, the condition and the location of the buildings.

3. Residential Market

After the announcement of the national elections in January 2015, there was an increase in the demand for small apartments mainly (with a living space between 70 and 90 sqm), since many people decided to withdraw their deposits and invest them in economical and old apartments. The recent activity in the real estate market showed that residences turned into a safe investment for many people with anxiety and economic insecurity. However, this small activity did not manage to reverse the negative climate in the real estate market and was interrupted due to the negative economic developments.

It is worth mentioning that asking prices have decreased up to 5% in comparison with 2014, while negotiations usually result in a price cut over 15%.

As for the holiday residence sector, many investment opportunities can be found, due to the significant price decreases during the past five years. Approximately 5.000 holiday residences in Crete remain unsold, a number that remained almost stable during the last three years, since construction activity has stopped. At the same time, market values have decreased up to 40% and sometimes even more in comparison to the period before crisis.

At the end of the 1st semester of 2015, real estate market in Crete faced a big recession due to the recent negative economic developments, since the interest shown by foreigners or natives regarding the residential market, has become null.

In **Chania**, around CBD, the vast majority of residences are at least 25-30 year old and the price range is from 750 – 1.200 €/sqm, depending on the exact location, age and level of maintenance, while new structures' prices vary from 1.800 – 2.100 €/sqm. The prices regarding new conventional structures in popular residential areas near the CBD vary from 1.600 – 1.900 €/sqm in Chalepa, from 1.450 – 1.650 €/sqm in Lentariana & Aberia and from 1.550 – 1.800 €/sqm in Nea Chora.

Rental prices remained almost stable in comparison with 2014.

In **Heraklion**, around CBD, the vast majority of residences are at least 25 years old homes whose price range is from 1.0200 - 1.400 €/sqm, mainly depending on the level of maintenance and the parking availability around the property. The price range, for recently built residences in popular areas near the CBD, such as Analispi, Mastampas and Therissos, is from 1.800 – 2.200 €/sqm. The same price range stands also in the suburb of Agios Ioannis. Regarding the rest suburbs (i.e. Deilina, Koroni Magara, Mesampelies, Pateles, Poros, Katsampas and Mpenntevi), the price range is from 1.700 – 2.100 €/sqm. Rental prices remained almost stable in comparison with 2014 and vary from 4 – 6 €/sqm, with the upper levels representing residences in the CBD or popular suburbs, such as Agios Ioannis.

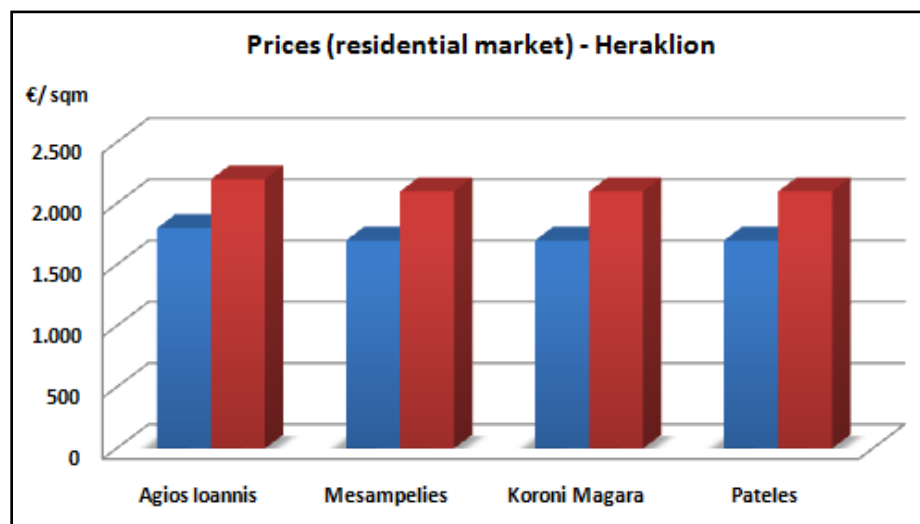
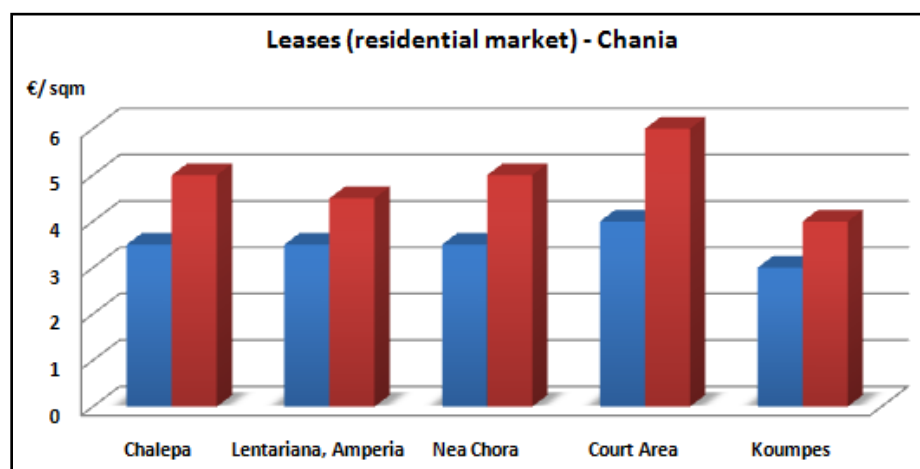
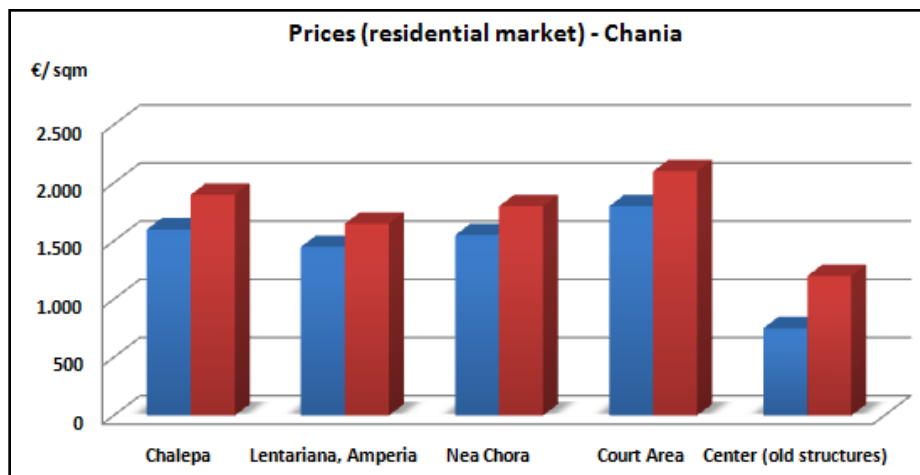
In **Rethymno**, the vast majority of residences in the Old City are old structures whose price range is from 1.000 - 1.400 €/sqm, mainly depending on the level of maintenance. The price range for new conventional residences in areas near CBD, such as Kallithea, Mastampas and Koumpes, is from 1.600 – 2.000 €/sqm, depending on the specific characteristics of the property, such as location, floor level, view and size. Rental prices remained almost stable relatively to 2014, with a reduction of about 10% in comparison to 2012.



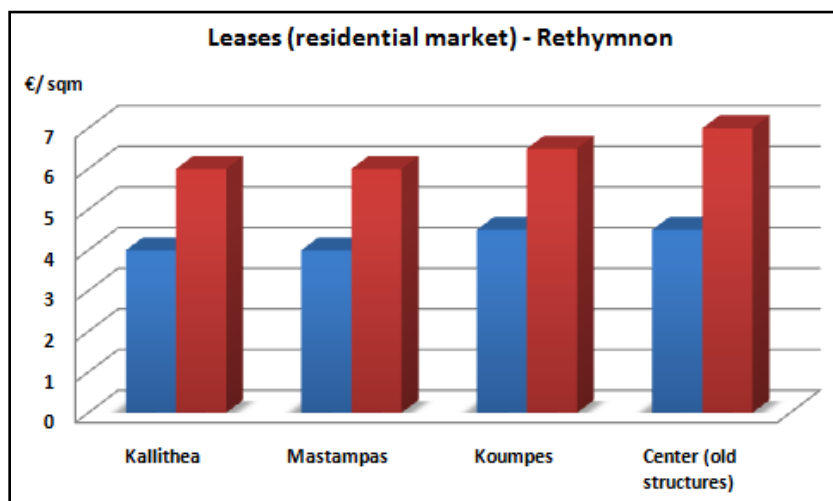
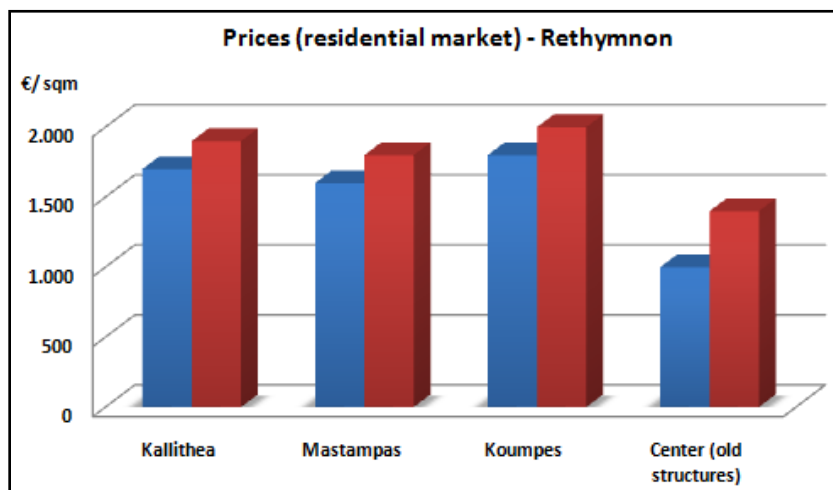
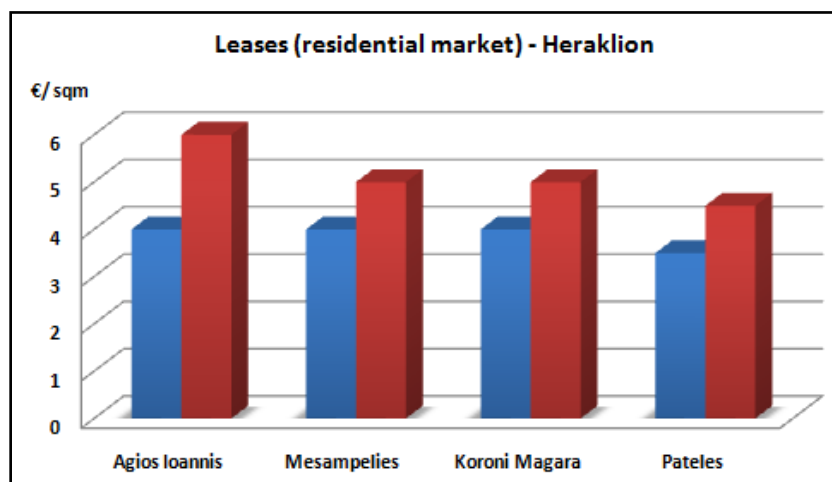
New Apartment Complexes in Heraklion and Rethymno

Finally, in **Lasithi**, the highest market values can be found at the coastal zone as well as the new suburbs of Agios Nikolaos, Ierapetra and Sitia, due to the most recent structures that can be found there, while market values at the old sections of the cities are slightly smaller.

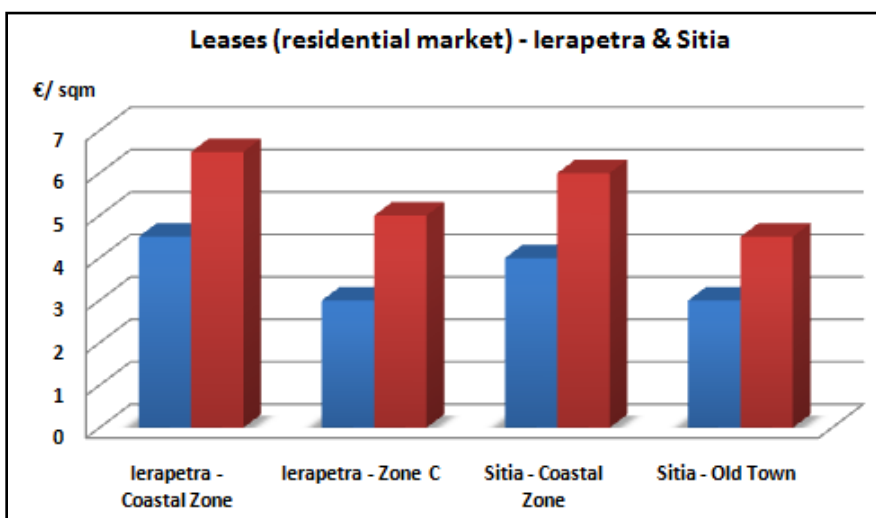
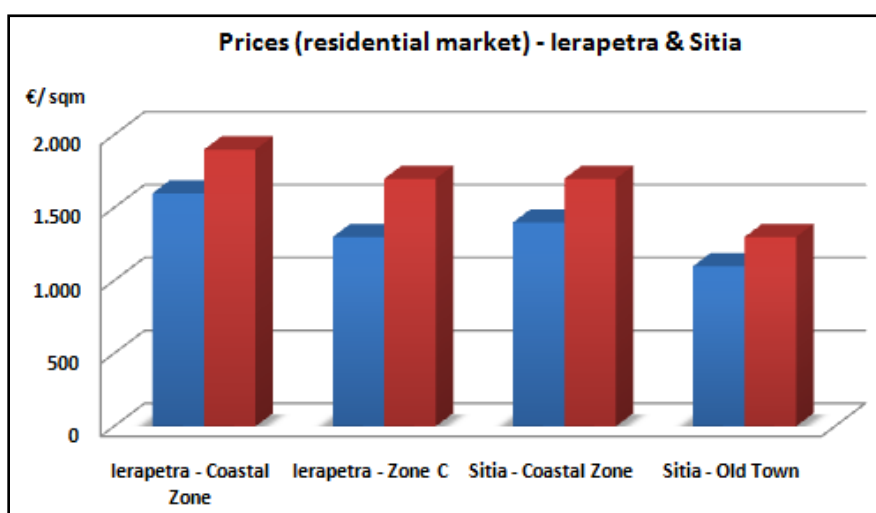
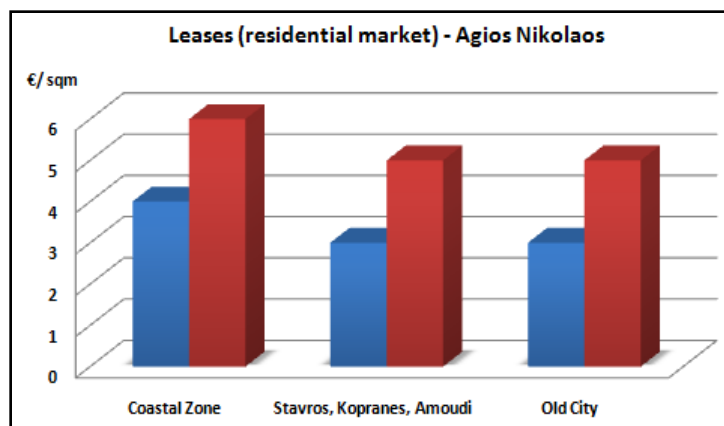
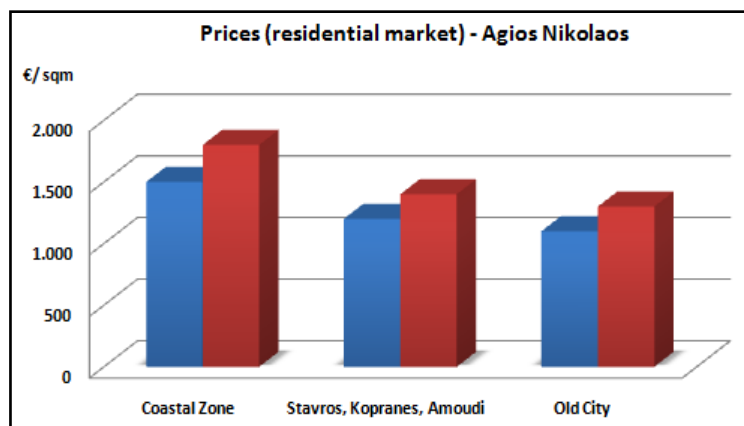
Rental prices remained almost stable in comparison with 2014.



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd

4. Retail Market

The decrease in the market and rental values of retail stores continued during the 1st semester of 2015 in general terms, while only a few sale transactions were carried out. Market values are nowadays equal to forced liquidation values, due to the high levels of supply, as well as the urgency of many owners to redeem their assets due to the extended financial crisis. Moreover, the number of retail stores available for rent has increased. Both in sales and rentals, negotiations are very intense and usually result in a price cut up to 20% in many cases. Another main characteristic of the retail market is the ever larger price gap between commercial and non-commercial roads, due to the higher demand for retail stores in high-commercial areas.

Despite the historical low prices in the major retail streets, only a few big retail brands took advantage during the 1st semester of 2015. The Swedish multinational retail-clothing company H&M opened its first store in Chania during March. It is a three-storey store with an area of approximately 3.000 sqm, which stands at one of the most commercial roads in Chania, i.e. Tzanakaki Street. Also, the company plans to open a second store in Heraklion and has already rent a neoclassical building at August 25th Street.

During the 1st semester of 2015, the rental renegotiations have been depleted, while many local retailers have moved to nearby properties, perhaps in better location and surely with comparably better rental price. This trend was also mentioned for 2014 and still happens, since business owners have the opportunity to decrease their fixed expenditure and move simultaneously either to better shopping streets or to more spacious retail properties.

According to our recent research of the retail market in Crete, there are some main streets around CBD and towards the suburbs of the cities that used to be of high commercial importance, but due to the extended economic recession, we can nowadays typify them as streets with steady or low commercial interest. This happened because many businesses have seized their operation and many retail properties have been empty for a long period.

In **Chania**, the most commercial area is the Old Port, where rental values vary from 30 - 40 €/sqm and from 15 - 20 €/sqm at the area of Koum Kapi, while the most commercial roads are still Chalidon, Chatzimichali Giannari and Skalidi Streets (main area of retail market), where rental values vary from 25 - 40 €/sqm. The new H&M store at Tzanakaki Street and the pedestrianisation of Potie area have led to higher rental values and less unoccupied retail properties.

In **Heraklion**, there is a high interest for retail stores within the old walls and especially the CBD. The most commercial areas are Daidalou Street, 1821 Street and Lontaria Square, where rental values vary from 30 - 50 €/sqm.



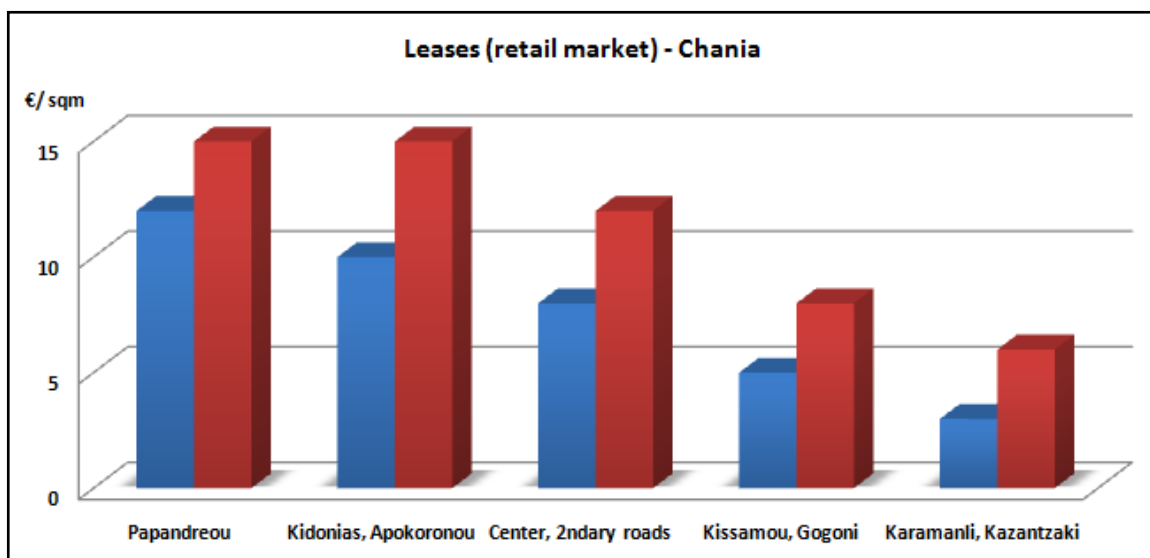
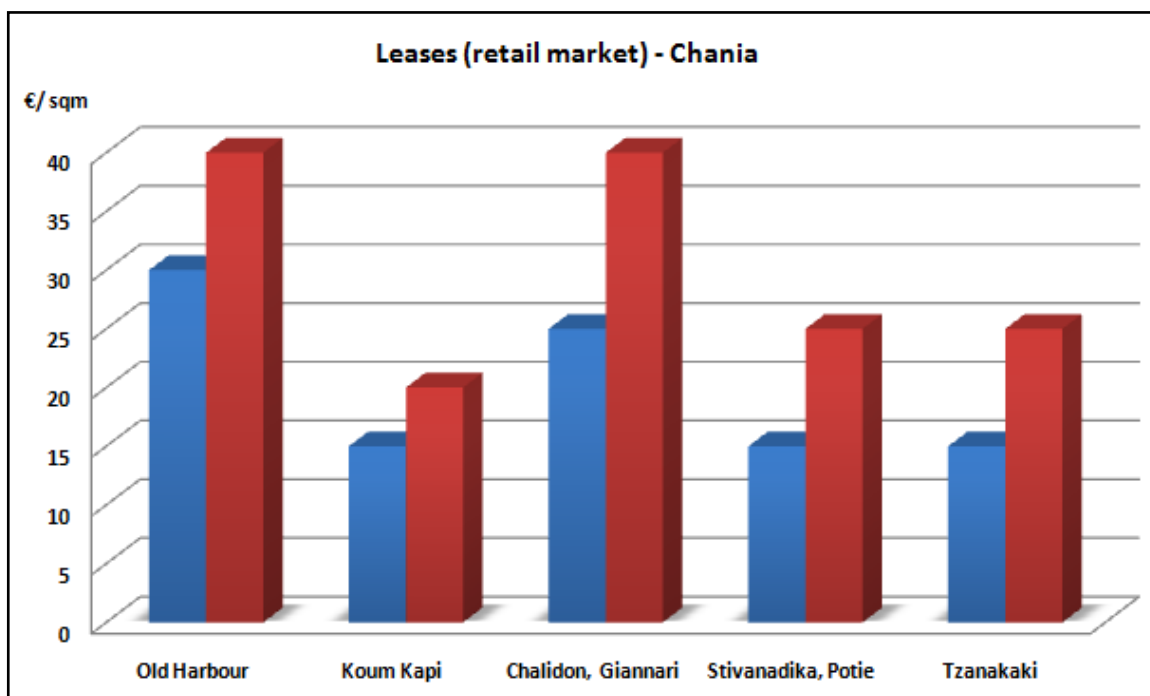
Shopping Center 'Olea' in Platanias



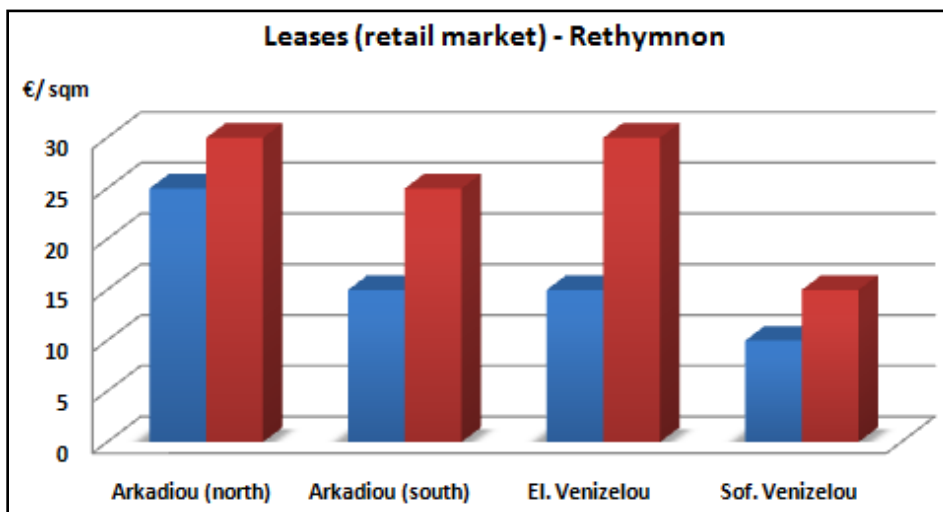
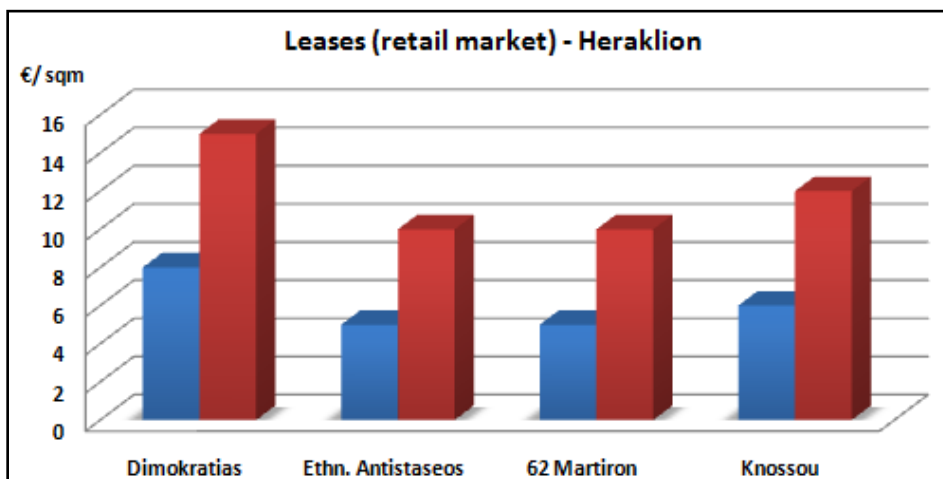
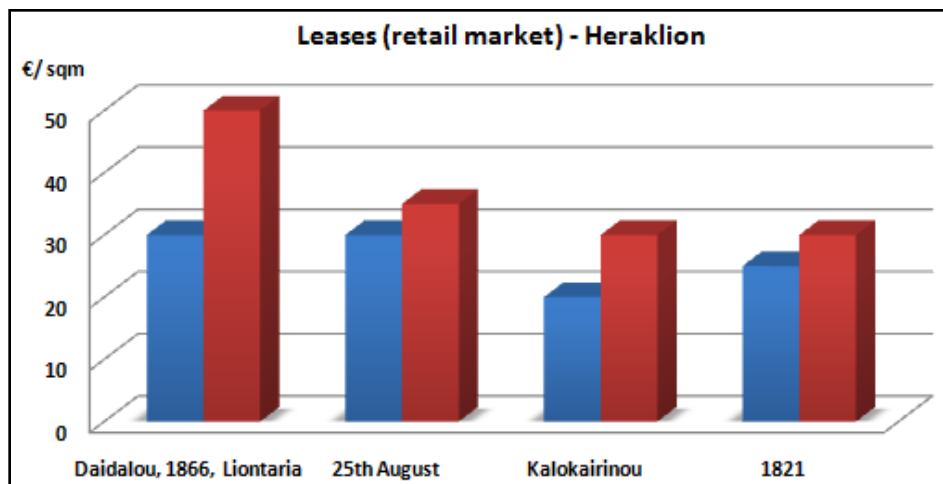
Shopping Center 'Talos Plaza' in Heraklion

In **Rethymno**, within the Old Town, rental values vary from 15 – 30 €/sqm in Arkadiou Street (↑ prices at the north part) and from 10 – 15 €/sqm in secondary streets (Gerakari, Ethnikis Antistaseos), while in the coastal zone, values vary from 15 – 30 €/sqm at El. Benizelou Street and from 10 – 18 €/sqm in Sof. Benizelou Street.

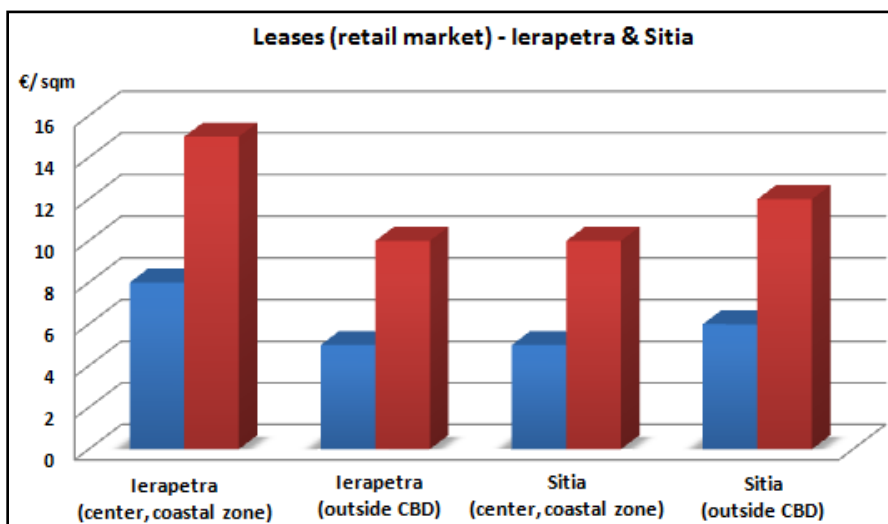
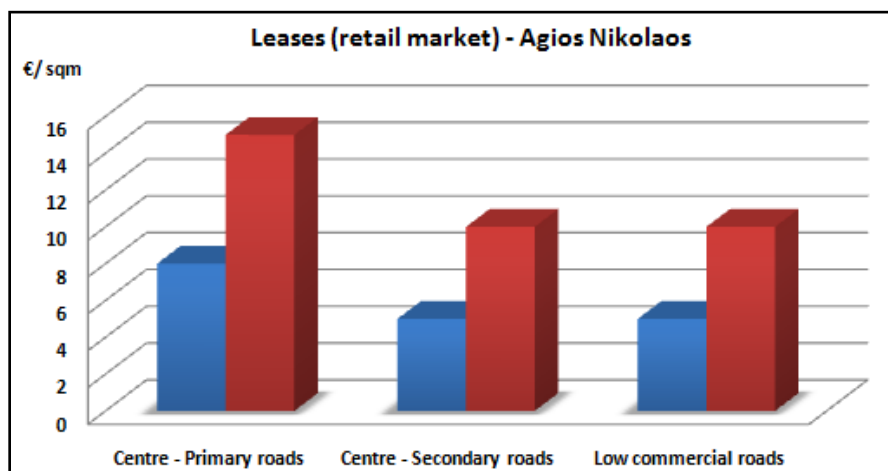
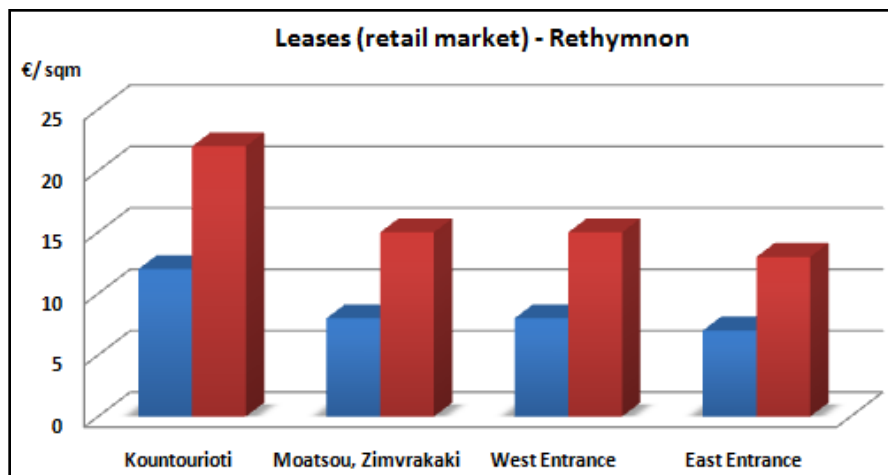
Finally, in **Lasithi** (Agios Nikolaos, Ierapetra and Sitia), commercial activity is being found only in the cities' center and the coastal zones. The relatively small offer of retail stores has led to very high market and rental values in some cases.



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd



Source: Danos – Melakis Ltd

5. Logistics & Industrial Market

In Crete, no interest is observed in logistics and industrial market; therefore during the 1st semester of 2015 market has remained stable.

The divestment of Makro's Greek cash-and-carry operations to the local retail group 'Sklavenitis' has brought no change in the operation of the two wholesale stores in Heraklion and Chania. On the other hand, the German hypermarket chain 'Praktiker' showed interest in opening a new store in Chania; however, plans were put on hold due to the unsteady political and economical conditions in Greece.

Large storage units can be mainly found in Heraklion and Chania, due to the presence of industrial parks, airports and large commercial ports in those two cities. Asking rental values vary from 2 - 4 €/sqm in Heraklion and from 1.5 - 3 €/sqm in Chania.

As for the regional units of Rethymnon and Lasithi, there is no formed real estate market in this sector, since the few large storage units are constructed upon request and based on the customer's needs.



6. Tourism

Tourism is one of the few sectors of the Greek national economy that is competitive at a global level. Despite the lingering economic challenges, tourism sector has shown a remarkable strength in 2014, a record year in tourism. Greece's unique geographical characteristics, in combination with its highly developed and still fast developing transportation infrastructure and also the development and modernization of more specific tourist facilities, are expected to contribute to its development as a major tourist destination in Europe and as an international transportation hub of European proportions.

According to the most recent data published by the World Tourism Organization (WTO), in 2014 Greece was in 15th place as regards of the number of international tourist arrivals, showing the third highest increase (+22.7%) among the fifty major tourist destinations in the world. 2014 closed with 24.5 million international tourist arrivals and 13.44 billion euros tourist receipts. Based on the initial forecast of the Association of Greek Tourist Enterprises (SETE), 2015 would be a new year record for the Greek tourism, with a target of 25 million international tourist arrivals (2.5 million from the cruise sector) and over 14 billion euros receipts. At the beginning of 2015, there were great expectations regarding the number of German tourists that would visit Greece and especially Crete, since the big German tour operators had increased their special offers and TUI initially intended to provide 10% more air seats for Greece relatively to 2014.

Airports - Arrivals

Based on the data given so far, during 2015, a large number of tourists are expected to arrive at the airports of Heraklion and Chania, giving a boost to the tourist sector in Crete. After 30 years and namely at the end of April, the 1st British Airways flight landed at the airport of Heraklion after taking off from Gatwick airport in London. The airline has planned four flights per week and an extra flight during July and August. Furthermore, at the end of May, the German airline Lufthansa has begun after 20 years its flights from Munich to Heraklion. Finally, the low-cost airline Ryanair has significantly increased the number of domestic and international flights to Chania, the airline TUIfly has added three new flights from Stuttgart, Dusseldorf and Hannover to Chania and one from Vienna to Heraklion, while the Swedish airline Finnair has added to its weekly program two flights from Helsinki to Heraklion and six flights from Helsinki to Chania.

June 2015 was a record month for the airport of Chania regarding the number of arrivals, due to the significant increase (25.25%) in the arrivals from Athens and Thessaloniki, while internationals arrivals remained at the record levels of last year. During the 1st semester of 2015, international arrivals numbered 838.260 at the airport of Heraklion (-4.3% relatively to 2014) and 340.634 at the airport of Chania (+ 1% relatively to 2014).

Based on the data given by OAG Schedules Analyser for August 2015, the airport of Chania is expected to hold the 1st place and the airport of Heraklion the 7th place in whole Europe, in respect of the airports with the highest increase in the number of scheduled flights relatively to August 2014. The constantly increasing number of flights landing at the airport of Chania has made the completion of the expansion even more imperative, a project that was initially planned to be delivered at the end of 2015.

Ports - Arrivals

As far as the cruise sector, Greece is the 3rd most popular tourist destination in Europe, following Spain and Italy. Despite the initial predictions of zero increase relatively to 2013, during 2014, 2.5 mn passengers arrived at the Greek ports, relatively to 2.2 mn passengers during 2013. Based on the official arrival schedules for 2015, a new increase is expected regarding the number of cruise tourists in Crete, since new and important cruise companies show preference to the ports of Heraklion and Souda

According to the data given by the local authorities, 339.512 passengers (on the basis of the tonnage of ships) chose **Heraklion port** as transit or homeport during 2014. The growth was up to 20% relatively to 2013, despite the competition from other countries in the region as well as the decision of some important cruise operators to withdraw from the Mediterranean Sea, due to geopolitical developments in the region. Based on the official arrivals schedule, 63 cruise ships dropped anchor at Heraklion port during the 1st semester of 2015 and 93 arrivals are expected during the 2nd semester, with October being the peak month. The significant increase regarding the cruise arrivals in Heraklion Port has lead to the decision of constructing a cruise terminal at the national airport of Heraklion.



New Cruise Terminal in 'Kazantzakis' Airport, Heraklion

Due to the lack of infrastructure and the abandoned ships at the docks, **Souda Port** did not manage to benefit from the overall raise in the cruise sector. According to the official statistics of Souda Port, 39 cruise ships visited the port during 2014 relatively to 47 cruise ships in 2013. This decrease was mainly due to the decision of the group ‘Royal Caribbean International’ to withdraw the cruise ship ‘Navigator of the Sea’ from Souda Port. However, 2015 is expected to close with a positive sigh, since three new cruise companies are expected to drop anchor in Souda Port for the first time and especially MSC Cruises on May, Crystal Cruises on September and Costa Cruises on November. The scheduled cruise arrivals for 2015 reach the number of 68 so far (both ports of Souda and Chania), with a total capacity of almost 90.000 passengers.

Investments

There is a high interest from private equity funds and world calibre operators to expand in the Greek market, enhance infrastructure and attract even more tourists, mainly of a higher level of income. As a result, there is a strong demand for large and medium size hotels, large land plots by the sea and small private islands.

More specifically, the ‘ITANOS GAIA’ investment of more than € 250 mn by the British company Loyalward Ltd, affiliate of Minoan Group Plc, intends to develop a total area of 25 hectares in Cavo Sidero, Lasithi. Based on the initial concept of the project, the hotel complex which will consist of five hotels with 1.936 beds, a golf court and other sport facilities, will be mainly intended for luxury tourists. The hotel complex is expected to operate in 2017, creating approximately 1.200 job vacancies and arising noticeably the touristic profile of Crete.

In addition, DCI’s (Dolphin Capital Investors) investment portfolio includes three major projects in Sitia, Plaka and Triopetra. DCI has already reached an agreement for the construction at Sitia, eastern Crete, of a Waldorf Astoria hotel, which constitutes the highest quality hotel chain of the group of Hilton Hotels and Resorts. The complex will be situated on a land plot of 280 hectares with 2.5km of seafront and consists of over 80,000m² of buildable residential units, a 200 room luxury hotel, a convention centre, an 18-hole golf course and clubhouse, a 32 berth marina, a beach & country club and other leisure facilities. The ‘*Plaka Bay Resort*’ in Lasithi will be developed on a land plot of 440 hectares with 7km of seafront and consists of a residential development of over 100,000m² buildable area, one or more five-star hotels, other supporting recreational facilities and potentially an 18-hole golf course. Finally, the ‘*Triopetra*’ project in south Rethymno will be developed on a seafront plot of more than 11 hectares and will consist of a 63 room luxury hotel with 2,500m² public areas and a 600m² spa and fitness club, as well as 82 residential units with a total 8,870m² buildable area.



Sitia Bay Golf Resort, Sitia, Lasithi

Also, the international chain ‘Carlson Rezidor Group’ has signed a franchise contract with the owner company of the hotel ‘Minos Imperial Luxury Beach Resort and Spa’ in the region of Milatos, Lasithi. The hotel will be renamed into ‘Radisson Blue Beach Resort’ in 2016.

The American colossus ‘Diamond Resorts International’, that has already leased four hotels in Heraklion (Village Holiday Club & Village Heights Golf Resort) and Rethymno (Grand Leoniki & Leoniki Residence), intends to invest together with the owner company around 3 million euros in order to update the two hotels in Rethymno.

The Greek hotel group ‘Vita Hotels’ completed in June 2015 the purchase of a hotel in Heraklion, reaching the total number of five in Crete. Moreover, the group leased for the next fifteen years the 4 star hotel ‘Elounda Aqua Sol’ and plans to expand and upgrade it to a five star hotel during 2016 and also change its name to ‘Elounda Breeze Resort’. As for the rest of the hotels managed by the group, ‘Karolina Mare’ was totally refurbished and upgraded from two to four hotel, ‘Sun Beach’ will be upgraded from one to five star hotel in 2016, while a new water park was added at the four star hotel ‘Zorbas Village’ at the beginning of 2015.

Also, ‘Karatzis’ group intends to built a new five star hotel with 240 beds in the area of Hersonissos in Heraklion, an investment that has already been under the provisions of the Investment Law with a total amount of 14.55 million euros and financing rate 30%. At the same time, ‘Stella Polaris Creta’, an affiliate of the ‘Karatzis’ group, plans to build a new five star hotel with 597 beds in the area of Agios Ioannis, Ierapetra, an investment for which the building license has already been issued.



Karolina Mare, Malia, Heraklion

Finally, in the region of Chania, the owners of the five star hotel ‘Minoa Palace Resort & Spa’ intend to build a new five star hotel with 690 beds in the area of Skoutelonas, Kolympari, an investment that has already been under the provisions of the Investment Law. Also, in the area of Georgioupolis, Papadakis family, owner of the five star hotel ‘Pilot Beach Resort’, plans to build a new five star hotel in the area, while Vantarakis family, owner of the four star hotel ‘Vantaris Palace’ has already begun the construction of a new five star hotel, which will start operating in 2016 based on the initial plan.

INTERNATIONAL COVERAGE FOR LOCAL SOLUTIONS



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