

\$15.00

GREEK REAL ESTATE

Antiquities, Beaches, Mountains, and

Seas



**International
Real Estate
Institute**



International Real Estate Institute

Code of Professional Ethics

The purpose of this code is to establish clear and ethical parameters for the members of the International Real Estate Institute. Should a member violate these codes or standards of professionalism, their designation may be revoked for a period of time, and/or they may be expelled from the Association.

- 1** Members of the Institute must conduct themselves in a professional manner at all times.
- 2** Members must respect the professional reputation of other Institute members.
- 3** Members of the Institute must strive to maintain a public awareness that the Institute Members treat all assignments or projects fairly and impartially.
- 4** Members must strive to maintain and improve Professional Standards and be willing to assist the Institute to that end.
- 5** Members must respect a Confidential Relationship with other Institute members.
- 6** Members of the Institute must accept only those projects or assignments for which he/she has the ability to perform in a competent and professional manner.
- 7** Members of the Institute must not accept projects or assignments which involve a conflict of interest.
- 8** Members of the Institute must not engage in any practice which is in violation of the law of the land.

GREEK REAL ESTATE

Antiquities, Beaches, Mountains, and Seas

Table of Contents

Introduction	4
Distinguishing Features of Greek Real Estate	4
The Investment Environment for Greek Real Estate Investment	5
Interest Rate and Private Lending Trends	
The General Economy and Trends	
Government Ownership and Divestiture of Property	
Property Law and Regulation	10
Valuation of Greek Properties	12
Methods of Analysis: Use of Offering Prices Rather Than Transaction Prices	
High Ratios of Land Value to Total Property Value	
Relatively High Home Ownership Rate	
Leasing Terms and Investment Yield Comparisons	14
Marketing Greek Real Estate	15
Construction and Land Development	15
Financing Greek Property	16
Sources of Mortgage Loans	
Terms of Mortgage Loans	
Methods of Property Financing	
Mortgage and Real Estate Securitization	
Taxation Affecting Greek Real Estate Investors	19
Individual and Business Income Taxation	
Depreciation Allowances	
Real Estate Transfer Tax	
Real Estate Ownership Taxes	

By: Dr. M.A. Hines,
SCV, RIM, RPM

Clarence W. King Endowed Professor of Real Estate and Finance
School of Business
Washburn University Topeka, KS 66621
Tel: (785)267-4627 Fax: (785)231-1063 E-mail: zzhine@washburn.edu

Greek Real Estate

Antiquities, Beaches, Mountains & Seas

Greece, a Mediterranean country of central Europe, exhibits real estate opportunities that compete with the real estate opportunities of the rest of the European Union members. As Greece adopted the euro, the common currency of the European Union in January, 2002, its real estate investment took on the financial dimension that is common to a large part of the real estate investment world. Real estate investors from Greece and other countries may view Greek real estate opportunities in terms of worldwide and in terms of euro market competition.

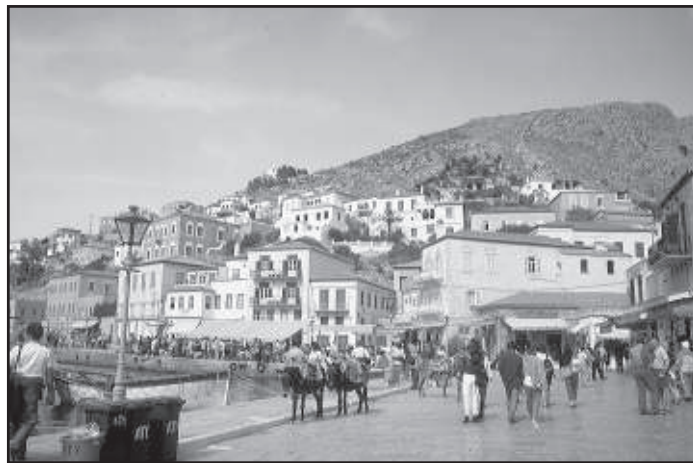
Distinguishing Features of Greek Real Estate

Greece continues to play a major part of world history as it is located on the southern tip of the Balkan Peninsula and is bounded by the Ionian Sea on the west, the Aegean Sea on the east, and the Mediterranean Sea on the south. Albania and Macedonia form the northern boundaries of this 11-million population country that is bounded on the north-east by Turkey. The culture exhibits south-eastern European influences and the impacts from the occupation of various forces over Greece's long and distinguished history. Greece has been occupied by Romans, the Mongols, Turks, Italians, and Germans through the many international conflicts on its soil. Its development has also been influenced by the many wars between the original city-states that were predecessors of the current central government with its

many prefectures.

The antiquities of Greece that attract millions of international visitors each year originate from the 20th century before the birth of Christ. Museums of Greece celebrate the country's history in terms of architectural remains from the 20th century B.C. (before the birth of Christ) through the present, the 21 th century A.D. (after the birth of Christ). New archeological discoveries add to previous archeological finds that have been well preserved for visitor observation. These architectural wonders have been influenced by the Egyptian civilization as well as the other early civilizations of the areas that border the Mediterranean Sea where Greek trade has taken place for more than 40 centuries.

Since eighty percent of the Greek surface is covered with mountains, relatively little agricultural land along the coastlines and between the mountains is available for the cultivation of foodstuffs for the Greek population. Therefore, the available farm land is intensely cultivated to feed the domestic population and to export to other countries.



For example, olive and citrus tree plantations profusely dot the agricultural landscape where cultivation is possible.

Fourteen hundred islands make up the outlying parts of Greece. A number of islands were formed by volcanic eruptions including the beautiful Santorini Island, a resort that is known across the world. Even the largest island of this large group

of islands, Crete, is largely covered by mountains. But this large island is still a contributor of large amounts of food stuffs for the Greek and other national populations. Crete has been a well-regarded trading center starting many centuries before the birth of Christ due to its central Mediterranean position and the development of its shipping industry.

Two industries dominate the Greek economy: tourism and shipping. Both of these industries depend on the domestic and international economies for their economic growth and decline. Since world and Greek economic growth has been relatively slow during the years immediately before and after the entrance of the 21st century, both of these leading Greek industries have suffered recently. The pursuit and punishment of world terrorists since the U.S. World Trade Center calamity of September 11, 2001 have also undermined world and Greek economic growth and, therefore, Greek tourism and shipping.

As the Greek government and businesses move ahead economically, they tend to compare their path of economic development directly with the historical economic progress of Ireland, Portugal, and Spain. The economies of the other Balkan countries to the north are behind the development of Greece; in fact, Greek investors have placed sizable sums in various businesses and real estate in Bulgaria, a country immediately to the north-east of Greece. The economic development of Italy, a neighbor to the west on the Mediterranean Sea, has taken a different path than that favored by the Greeks. Many of the Western European countries are far more advanced economically; many of the



Eastern European countries are far less advanced than Greece. As a country populated by Greek Orthodox Church members, the Islamic religious patterns of the Middle East do not influence the economy and society of Greece as they do the various countries of the Islamic Middle East.

The Investment Environment for Greek Real Estate Investment

As an introduction to the investment environment, we need to review the dynamic forces in place. We also need to review the trends in property ownership, the trends in property prices, the trends in property financing costs and primary and secondary market instruments, and other closely related topics.

The dynamics forces at work in the Greek real estate marketplace include European Union financing of new Greek infra-

structure low financing costs use of the euro, the European Union common currency stable government with a relatively flexible approach to economic restructuring and modernization good communications system based on computers and cell phones privatization and less government intervention, ownership, and control upgrading of tourism infrastructure due to the 2004 Olympic Games relatively low real estate commissions.

Since Greece joined the European Union (often abbreviated "EU") in 1989, it has received several distributions of funds for various infrastructure projects as one of the poorest members of the EU. The current Structural Funds program of the EU for Greece ends in 2006. This EU funding,

that is supplemented by domestic sources of funding, enables the government to upgrade the transportation system, as one example. An outer ring road for Athens that links the now international airport to the southeast of Athens to the Port of Piraeus which lies southwest of Athens is scheduled for completion by 2006, the year the current EU funding runs out. The EU funding is also being used for extension of the Metro (subway) lines and for the establishment of a comprehensive Greek land registry system.

Greece enjoys the continuation of relatively low financing costs. For example, home mortgage rates have declined from approximately 15 percent to less than 6 percent within the last few years. During the same period Greek 3month money market rates have declined from about 14 percent to a little over 3 percent and 10-year government bond yields have decline from 8 ½ percent to a little over 5 percent. The differentials between euro area interest rates related to home mortgage loans, money market deposits, and 10-year government bonds have all narrowed since 1998 to about one-twentieth of one percent. In recent decades, Greek interest rates in general have been relatively high in comparison with euro area interest rates. An abundance of capital is available from capital markets activity and institutional savings accumulated during the last half of the decade of the 1990s and during the initial years of the 21st century.

Greece's recent adoption of the euro, brings the country into property investment and lending competition with the other EU member countries as well as non-EU countries. The stable and highly valued euro has competed with the U.S. dollar, the British pound sterling, the Swiss franc, and

the Japanese yen the leading international currencies - since its formal adoption by the EU in January, 1999. Property investors wishing to avoid cur-



rency risk appreciate Greece's adoption of the stable and highly valued euro. Euro net receipts from other assets in the EU, including real property holdings, may be efficiently employed in euro-denominated real estate investments of Greece or euro net receipts from various assets in Greece can be efficiently employed in other EU euro-denominated investments without the risk of possible loss of principal.

The Greek government gives an impression of stability and flexibility in governmental changes to modernize the financial system, its programs, and its poli-

cies. The government has been open to suggestions from the private sector about economic restructuring, tax collection, and governmental change for efficiency. The government under the leadership of Prime Minister Simitis has taken the initiative to make welcome changes to the policies, programs, and operations of the government. A representative of a major international accounting and consulting firms was heard to say that, once the current government administration hears suggestions for needed changes, the administration considers the suggestions and often has adopted the suggestions in whole or in part. There have been comments in the national press that Prime Minister Simitis may face major challenges to his continuation in office in the next general election.

In preparation for meeting the EU and EMS entrance requirements, the Greek government has privatized some of the previously state-owned companies. Instead of selling all of the state-owned

national telecommunications company, OTE, National Bank of Greece, and the Hellenic Shipyards, only a portion of the total shares has been sold by the government. Since Olympic Airlines, the state-owned common carrier, has been adjudged bankrupt recently, no serious bidders have appeared on the scene for the national airlines. The older operating structures of the governments portfolio of casinos have been placed on the market in a privatization move; older casinos such as that of the island of Rhodes have reportedly drawn no interest from investors in the form of bids. The Greek government has started to privatize a portion of a few of its assets which portends a future with less national government intervention, asset ownership, and control. Even a portion of the governments tourism assets are being sold through the privatization of the Greek National Tourism Company. The pervasive socialism of earlier years is being gradually dismantled.

The communications system of Greece has recently become more efficient and accessible by more citizens due to the use of electronic mail through computer usage and due to the common personal use of the cell phone. New businesses and households do not feel compelled to wait for months to have phone line applications processed and fixed-line phones installed by the state-owned telecommunications company. There is a high-level of personal adoption and use of cellular phones for business and personal purposes. The worldwide personal adoption of cell phones for telecommunications has well penetrated the Greek market.

Investment opportunities exist as the tourism infrastructure is upgraded. As the pre-Christianity ruins are preserved more aggressively as protec-

tion against the weather and air pollution, the infrastructure upgrading for the 2004 Olympic Games and beyond is being financed by the European Union and domestic funds. The improvement of the Metro and the ring road as well as the international airport are part of this overall effort by the public and private sectors. The new international airport moves the airport traffic more to the southeast of the city where there is space for more land development and permits the redevelopment of the old international airport to the southwest of the city center near the coastline.

Improvements are being made in the existing Olympic Stadium and the surrounding auxiliary properties. Media buildings with residential space are being built so that they may be converted into



permanent residential buildings after the Games. The current traffic congestion in the area of the Olympic Stadium needs to be alleviated with the new ring toll road and the extension of the Metro. Since there are few hotels in the immediate vicinity of the Olympic Stadium, traffic is generated as

visitors move to and from more distant hotels as they attend the Games and auxiliary events. The Olympic Games central campus lies between the new international airport and the Athens central business district in a fully developed higher income residential and commercial area.

According to a recent news release in the Kathimerini supplement to the International Herald Tribune newspaper, an additional 1,950 rooms are being added to the existing hotel room supply with the approval of the Athens Planning Organization. The additional supply will be added to four hotels in various resort, urban, and suburban lo-

cations, according to the Hellenic Tourism Properties company (often abbreviated “ETA”), the asset management company of the Greek National Tourist Organization. Since a tourism training school that is situated currently at the Hellenikon airport is being moved, these accommodation facilities can be converted into 250 hotel rooms for the Olympic Games.

As part of the government privatization effort, the government-owned casinos are being sold - at least in part. The government plans to keep its contracts that provide for government receipt of 20 percent of the casino revenues. The Mont Pames casino complex on Mt. Pamitha in the heart of Athens, that provides 500 hotel rooms, is being privatized. The newer casinos are attracting some bids from private investors; the older casinos whose attendance and revenues have diminished greatly in recent years attract essentially no bids.

In a move to upgrade retail-leisure complexes, private companies have developed a few retail-leisure centers that have not yet proven financially successful in general.

The government is anticipating upgrading its marinas. Many marinas are located on the mainland peninsula, on the Peloponnesian peninsula, and on the 1,400 islands of the Ionian and Aegean Seas. Greece has long been a maritime country for social and commercial purposes. Crete, the largest island of the grouping, has long thrived on maritime trade. One of the Athens-based development companies that is affiliated with a major Greek construction company, is attempting to get planning permission for a retail-leisure center at one of the Cretan marinas.



The fees and commissions for real estate agents' services range from one to two percent of the sale price of the property. The range in commission income from a transaction stems from the terms negotiated by the agent and the client/property owner. The higher the offered property price, generally, the lower the commission percentage. In contrast, in the United States, the marketing commissions for commercial properties range from one to three percent of the agreed property price and for residential properties, six to eight percent of the property price.

Interest Rate and Private Lending Trends

An investor considering Greek real estate finds the interest rate environment favorable whether in Greece or in a foreign investor's home country. The worldwide recession has prompted relatively low short- and long-term interest rates. Therefore, borrowing to purchase Greek real estate or Greek real estate securities may be advantageous: Using financial leverage may be profitable. Looking to the Euro area and to Greece, we note that average

floating rates of interest for household-related loans approximate 5 ½ to 6 percent. In the same locations, the short-term rate - the 3-month money market rate - was 3.34 percent while the long-term government bond rate approximated 5 percent.

Due to the decline in interest rates and the availability of funds following the rise in stock market prices as the new millennium opens, private sector lending in Greece rose to high levels year-end 2000 (euro 55.2 billion) and 2001 (euro 69.4 billion). As Greek housing loans rose in financial volume to euro 15.2 billion by November 2001, the housing sector loans be-

came 22 percent of 2001 total private sector loans from 16 percent in 1990. The growth in the volume of housing loans has exceeded the growth in total domestic private sector loans as a whole. Many houses are purchased to accommodate growing families, to provide second homes in summer vacation locations, to replace earthquake damaged homes, and to gain up-to-date and modern homes in urban employment locations.

Earthquakes of significant impact to real estate interests have occurred in the late 1990s and in the early 1980s. The earthquakes have not registered significant numbers by the Richter scale as they have in eastern coastal Turkey and in Japan, but the earthquakes, nevertheless, have taken their toll on residential, commercial, and industrial buildings. The properties have generally remained in use, but reconstruction and renovation are needed particularly in a relatively low interest period.

The General Economy and Trends

The Greek general economy is still thriving in the aftermath of the prosperity of the last half of the 1990s and early part of the new decade. The decline in the major industries due to the worldwide slump in economic activity tourism and shipping - are given credit for the government budget deficit. Exports have declined from higher prior levels. Imports remain high. Basic manufacturing continues to be a minor employment area in a country that has always thrived on shipping and tourism. As the government seeks to raise the number of highly educated workers, it hopes to encourage the development of high technology companies rather than count of the rise in traditional manufacturing companies. Significant numbers of

people are migrating into Greece from the northern border countries of Macedonia, Albania, Bulgaria, Turkey and from previous Commonwealth of Independent States countries such as Georgia.

Labor costs remain relatively high as is the pattern in EU member countries. Retirement contributions from employers, employees, and the government are relatively high. The growth in numbers of retirement age people continues to outpace the growth in numbers of working people. Gov-



ernment provision of social security for retired workers becomes more of a problem as time passes as it does in all advanced economies. The high costs of health insurance continue to rise. The wages paid the migrants from the north tend to be the same as

existing Greek resident workers. The migrant workers may aid the Greek economy by at least initially taking lower-paid service jobs that are not considered as desirable by existing Greek workers.

Income taxes are relatively high. Due to the major government expenditures for the improvement of the infrastructure before the 2004 Olympic Games, income tax rates may have to rise if the Olympic Games do not "pay for themselves." In past Olympic Games, the events at a few locations have paid for themselves. It has been said that the Los Angeles Olympic Games paid for itself. More recently, for example, the Lisbon, Portugal Olympic Games created a big enduring government deficit. The Greek government and businesses are analyzing the possible financial results of the Games and trying to maximize the benefits to the Greek society and economy.

Government Ownership and Divestiture of Property

The government privatization is ongoing. But, as a number of Greek businesspeople say, the privatization amounts to only partial divestiture of government property, bank, telecommunications, airline, and other asset/company ownership. The government generally continues to control the companies and assets. The Greek Public Estate Co., a central government agency, tends to hold title to and manage the many wholly owned government properties such as subsidized housing and government office buildings. The government is said to own roughly 300 properties covering a variety of land uses.

The establishment of asset management companies is being encouraged for the skilled management of government and privately owned properties. The education and training of asset management personnel is being encouraged for multiple reasons. One reason is the impending development of real estate and security mutual funds that need properly trained personnel. For example, the government divestiture of property and companies has impelled the formation of asset-holding companies whose proper management requires educated and skilled security and real estate portfolio managers. At the same time, the traditional colleges and universities tend not to offer courses or course content in security and/or real estate portfolio management.

To alleviate the central Athens traffic problems, the Greek government proposes to move at least certain agencies to West Attica. Attica is the re-

gion or prefecture in which Athens is located. Major traffic arteries are located in West Attica that move traffic flow northward toward Larissa, Delphi, and Thessaloniki and the northern residential suburbs of Athens. At present cars with license numbers ending in even numbers may enter the Athens Central Business District on alternate days with cars with license numbers ending in odd numbers. As some Greeks say, a household needs two cars while this driving restriction is in effect, one with a license number ending in an even number and one with a license number ending in an odd number.

Property Law and Regulations

Greece has property laws and regulations that are much like those of other Western European countries. In contrast, though, Greece is newly establishing some institutions and legal systems that im-

pinge upon real property ownership; some of these have long existed in countries that have previously become members of the European Union. For example, with financing from the European Union funds, Greece is establishing a comprehensive property registry system. Until this time, the notaries



of Greek have been charged with the awesome task of assuring property title at the time of impending property title transfer. The notary has been forced to assure property title with the use of only a rudimentary form of a property registry system. At present, most of the property registry system is in place for the major urban areas of Greece, though the system may not be established in all rural areas. Generally the property price that is recorded on the land registry is the “objective price” set by the government for property taxa-

tion purposes, not the actual price paid to close the transaction. Since many Greek properties have reflected multiple owners in past years, the business of title assurance has been fraught with complexity and uncertainty. One reason for the delay in creation of a comprehensive property registry system may have been tax avoidance. Greece has long been a tax avoidance economy. With incomplete ownership records, tax regulations have been difficult to enforce.

Property taxation is based upon property tax rates, property assessed valuations, and property tax ratios that reflect how much of the property assessed valuations are subject to property taxation. The government sets an “objective price” for each taxable property. In recent years, as objective prices were re-established for each taxable

property, the objective prices have gradually approached market values or market prices. But the objective price is still considered lower than the “market price,” that is called “market value” in the United States. Since property taxes are associated with objective prices rather than market prices, the property taxpayer tends to be more comfortable with this form of taxation. Property taxes are collected nationwide, but local taxing authorities establish the objective price for each taxable property.

Environmental protection has become a commonly discussed topic in Greece. One reason for the concern about environmental protection is the gradual diminution of the ancient ruins such as the Acropolis and the Temple at Delphi due to the weather and air pollution. Another reason for the concern about environmental protection is the exorbitant number of vehicles that are operated on Greek

roads. One reaction to the period of economic prosperity of the last half of the 1990s and the early years of the new millennium has been the purchase by many households of private automobiles with their newfound personal “wealth.” The numerous vehicles in operation in the urban areas have caused air and noise pollution, but air pollution has caused health concerns and concerns about the deterioration of the many ancient sites that attract the millions of tourists each year. The



coal-burning heating systems of homes, office buildings, and industrial plants have been causing air pollution that may be remedied by the extension of natural gas lines from the countries bordering the Black Sea and the construction of natural gas-fueled heating

plants. Only a few municipal buildings in the heart of Athens have been fueled by natural gas; many industrial plants in West Attica have benefited from natural gas. In the immediate future, new residential and commercial space in the new developments near the new international airport and the new ring road toll exits will be served by natural gas lines. Greek residents and business owners are awakening to the benefits of natural gas; they have viewed as a danger natural gas as a fuel. Environmental pollution is leading the citizens to view favorably the cost effective and less polluting characteristics of natural gas consumption.

Land planning and project approval became more rigidly administered in the early 1990s, according to Greek real estate professionals in 2002. Earlier land planning and project approval were less vigorously administered. Government approval of project plans, according to a development com-

pany subsidiary of a leading Greek construction company, may take 7 or 8 years to obtain for projects on the mainland or on the Greek isles. After years of negotiation with Crete planning authorities, the development company chief executive officer was still negotiating with the various layers of government entities to gain approval of a proposed leisure-marina-retail project. Project permissions must be gained from the relevant government entities that are associated with the federal government, the numerous prefectural governments, and the numerous municipal governments.

Indexing of contract payments is permitted. Building leases may be indexed by the government-maintained Consumer Price Index. Mortgage rates may float a negotiated number of percentage points over Euribor, the short-term interest rate that is representative of short-term financial costs in the EU countries who use the euro for their currencies.

Valuation of Greek Properties

Property valuation in Greece is performed by two different groups of individuals and companies. Witnesses in property appraisal legal cases that testify about property valuations must be members of the Board of Sworn-In Valuers. This is a group of twelve university-trained engineers, architects, and lawyers use their education and training to perform their property valuation duties. The classical or traditional Greek universities do not educate prospective participants in the real estate business in approved methods of property appraisal. This is the same pattern established for property valuers in most of the Western European countries. A second group of



Greek property valuers is trained in the valuation traditions and practices of the United Kingdom. A large group of valuers who practice their skills and art in Western European countries today is trained in United Kingdom-based methods, also. Both of these Greek valuation groups serve their clients by estimating market values of properties for various client purposes. The 30 valuers trained in the British methods that are sanctioned by the Royal Institution of Chartered Surveyors (often abbreviated the "R.I.C.S.") have recently formed an Institute of Greek Valuers. This new trade association can educate prospective property appraisers in the British traditional appraisal methods. Quite often British-trained valuers, chartered surveyors, and estate agents of a country serve primarily foreign clients such as foreign-headquartered multinational corporations and foreign investors until more of the local valuers are trained

in the British-based methods. Then the British-trained valuers compete for domestic clients with their colleagues who are members of the Board of Sworn-In Valuers. The R.I.C.S. Red Book, a periodically updated loose-leaf 3-ring bound book with a red cover, serves as the appraisal guide to practitioners

adhering to the British traditions. The seven or so R.I.C.S. appraisal methods/techniques generally may be condensed into the three main appraisal methods that are advocated by the American Institute of Appraisers. A chief Athens-based valuer at a Greek branch office of a prominent U.K. chartered surveyor firm that is based in London presently serves as the president of the European Institute of Valuers, an organization that is headquartered in Paris. The European Institute of Valuers is an affiliate of the Royal Institution of Chartered Surveyors of London.

Methods of Analysis: Use of Offering Prices Rather Than Transaction Prices

Since real estate transaction information is so difficult to procure in the Greek society that is accustomed to secrecy in its real estate dealings, valuers trained in the British methods and techniques use property offering prices rather than actual sale prices of properties comparable to the subject property. The valuers inquire among architects, developers, and builders about sale and offering price information to establish the market value of the subject. The land registry records tend to show only “objective price” that are set by the government as property values for tax purposes. But actual transaction prices can be located for some comparables when the government is a party to the transaction; market prices for comparables are recorded for these government associated transactions.



As well as using the market approach to value, the British-trained valuer in Greece uses the depreciated replacement cost method to establish market value for properties in rural areas and in urban areas that have had little market activity. The income approach is generally used when commercial property is valued. Appraisals of commercial and industrial properties such as office buildings and warehouses are often performed to support share prices on the Athens Stock Exchange, to value loan collateral, and to give potential sellers and buyers assistance in valuing properties for sale or purchase.

High Ratios of Land Value to Total Property Value

Valuers recognize that land value may be 45 to 55 percent of the total improved land value. For example, the value of the land of office buildings

bordering on Syntagma Square in the center of Athens often amounts to 55 percent of the total value of the office building. In more secondary office building areas of Athens, the land value of the office building may be only 45 percent of total property value.

Relatively High Home Ownership Rate

In an era of increasing home financing due to the relatively low home mortgage rates, the appraiser gains more business as property in the form of loan collateral must be appraised. Home financing appraisal is particularly important because approximately 80 percent of all homes are owned by their occupants. The rate of home ownership in Greece is the highest of the countries of the European Union. This relationship is the reverse of the

situation found in most countries of the world where more than half of the country's citizens reside in the capital city. In most European cities, the home ownership ratio is relatively low because house prices are relatively high due to the traditional European construction methods that require ample time and expensive materials for construction and because the prohibitively high prices of houses precludes home ownership until the buyer is thirty years of age or older and has accumulated a sufficient down payment.

As well as using the market approach to value, the British-trained valuer in Greece uses the depreciated replacement cost method to establish market value for properties in rural areas and in urban areas that have had little market activity. The income approach is generally used when commercial property is valued. Appraisals of commercial and industrial properties such as office buildings and warehouses are often performed to support share prices on the Athens Stock Exchange, to value loan collateral, and to give potential sellers and buyers assistance in valuing properties for sale or purchase.

Leasing Terms and Investment Yield Comparisons

Even though apartment renting is not pervasive in such a high home ownership environment, the leasing of office and retail space is common. The minimum apartment lease runs three years, accord-

ing to some real estate marketing people; others say that a two-year apartment lease may be followed by a one-year renewal period. An apartment tenant may break the lease with an extra one month's rent payment. The minimum office lease period is 12 years. The advance payment runs one to two monthly rents. A service charge ranges from 10 to 15 percent of the rental charge. A lease clause may permit a break in the lease in the third year. The leasing fee runs 8 to 17 percent of the first years rent. The 12-year office lease may have a 4-year renewal period. The renewal of the office lease is subject to negotiation between the tenant and the building owner or the renewal clause may provide for indexing that calls for an increase in rent set at the change in the Consumer Price Index plus one to three percent. If there is no clause to this effect, the government says the office rent can rise to 75 percent of the Consumer Price Index; the same thing is true for apartment rents. Commercial tenants, including office space tenants, may break the lease by giving six months notice and by paying four months' rent as a premium. Or the commercial tenant may break the lease after two years with six months notice and by paying four months' rent.

Investment properties may yield 6 to 9 percent a year. In 2002, prime retail investment yields were estimated at 7 percent while prime office yields approached 8 percent. Earlier, from 1994 through 1996, prime office yields were 12 percent and prime retail yields approximated 11 percent. Since bank-related investments may yield only 3 ½ percent a year, major investors have turned to property investment in recent years from their earlier stock



market investments. The Athens Stock Exchange overall value has declined approximately one third since its recent peak in line with other leading stock exchanges of the world. Therefore, we note that major investors of Greece such as the commercial banks and the shipping companies, have large diversified portfolios that include real properties. The real estate portfolios of the banks are so large that each major bank, in general, has established a property management subsidiary to transact property business, to manage the property holdings, and to prepare for the listing of their properties through future real estate investment companies or real estate mutual funds. Legislation is mainly in place for the listing of more real estate investment companies or real estate mutual funds on the Athens Stock Exchange. At present less than a dozen real estate companies are listed and actively trade on the Exchange.

To track the movement of indications of property prices, an index is being developed under the auspices of such principal property investors as the commercial banks. The offering prices of thousands of properties are being fed into a computer model to derive an initial index. The office is managed by a graduate student of a university of Athens, and university students are aiding in the data acquisition from property owners and managers.

Marketing Greek Real Estate

The commissions paid the Greek real estate agents range from one to two percent of the finalized sales transaction price. An amount representing one month's rent may be paid as a leasing commission. In order to work actively in real estate marketing, the government requires the receipt of a license whose requirements are set by the gov-

ernment. The license requirements follow: (1) the licensee must have a clear criminal record, (2) a certificate must be presented that shows that the real estate company to which the marketing person is associated is not in bankruptcy proceedings or is not presently bankrupt, (3) a certificate must show the completion of high school or higher education, (4) the person must present his or her identification card. These certificates and cards must be presented to the professional chamber of Athens in order to obtain the necessary license. After attaining the real estate marketing license, the person must go to the Union of the Real Estate Agencies, the office that takes two photographs of the applicant and his or her identification card. After the presentation of this required information, the person may exercise the roles and assume the responsibilities of this profession. All licensed real estate agents and brokers are eligible for membership in the professional body called the Union of Real Estate Agents.

The media employed by property owners and licensed real estate marketing people include the internet, agency signs in front of properties to be leased or sold, classified advertisements in generally distributed newspapers such as the English-language *Kathimerini* newspaper, television, and real estate trade magazines. Two real estate professional publications are periodically published: One magazine that is printed on light green newsprint contains, in the Greek language, classified ads - a few in full color - for the various Greek areas and islands on 80 pages or more. The other real estate professional periodical that has full-color front and back covers contains tables of current mortgage offer-



ings, real estate stock market listings, articles on new projects by industry leaders, black-and-white and color full- and partial-page advertisements, and smaller classified advertisements covering all Greek mainland and island locations where properties are listed for sale and lease. For example, if a person were looking for a vacation home on a Greek island, many homes are listed for most of the islands. Many second home properties are also listed for southern suburbs of Athens where the weather is more tropical year round and properties line the beautiful shoreline.

Transactions cannot be finalized on the internet or web property marketing sites. The notaries must participate in each transaction. They search the title and prepare the way for the closing of each transaction.

Construction and Land Development

Several large Greek construction companies, that are each generally affiliated with major Greek banks, are occupied with infrastructure projects, building completion, building renovation and expansion, and the management of subsidiaries that are charged with land development and property management responsibilities. One construction-developer company is so prominent in a midcity area that signs advertising the company are placed on many buildings along a major artery stretching to the new international airport. The headquarters office of this prominent developer penetrates the skyline in the same general area with a multiple-story skyscraper.

The largest Greek construction company, Ellinkki Techniki, has a 35 percent ownership position in the new ring toll road and is actively engaged

in this project that has completion scheduled by the Olympic Games in 2004. It has plans for the development of one or more of the new ramp areas of this new toll road including a major toll road intersection in southeast Athens where a major site is under development with mixed land use. This construction company plans to incorporate natural gas heating in the upscale homes of this large development area that borders of the general location of the international airport. When the current infrastructure and land development projects are completed, this company looks forward to working with the National Bank of Greece and other banks as a joint venture partner in the development of bank land holdings. The construction company has a small ownership interest in the National Bank of Greece's real estate subsidiary.

(Note: The government still has an ownership position in most of the previously 100 percent state-owned banks.

As is the practice in Japan, scarce and expensive land of Greece is often developed by agreement between a builder-developer and a property owner. A building of several units may be built on the land according to the agreed development plans. Then the builder-developer will be allocated part of the units in payment; the land owner will take the remaining portion of the units. Both parties may benefit financially from the agreement. The land owner may reside in one of the resulting units as the owner of several of the apartment building units. Numerous commercial and apartment buildings are developed by this entrepreneurial design in Greece. For this reason, we might conclude that real estate development is one of the most entrepreneurial businesses in Greece.



Buildings are created primarily with steel, steel-reinforced concrete, and marble in Greece. Lumber may be used for scaffolding. The interior walls may be built of brick, not gypsum board and wood studs as in the United States. The ceilings in the older residential buildings may exceed the U.S. standard 8-foot ceilings: The higher ceilings allow the summer heat to move upward to the ceilings. These ceilings may exceed 15 feet from the room flooring. The building methods today allow for earthquake protection since Greece has experienced mild earthquakes periodically.

Since Greece mines marble from its quarries, bathroom floors, walls, and countertops may consist of varied colors of marble. Even sidewalks are made of marble. Their uneven surfaces may be traced to the earthquake activity and

fast and inefficient laying of these marble walking surfaces.

Financing Greek Property

Let us review the sources of funds, the methods of property financing, common loan terms, the mortgage lending process, and the Greek progress in the securitization of Greek real assets. As a part of the property financing picture, residential mortgage lending has been growing at a rate of more than 37 percent per annum as the end of 2001 while other lending to the private sector has been growing only 27 percent as of the same period.

Sources of Mortgage Loans

First, the large volume sources of funds for loans that finance real properties include the commercial banks, the Postal Savings Bank, the leasing companies, and the venture capital companies. The

government retains ownership interests in most of the Greek-chartered commercial banks. These banks finance residential, commercial, and industrial properties often in partnership with land developers, government agencies, institutions such as the Postal Savings Bank, and other large private lenders. According to the National Bank of Greece, the banks provide 80 percent of mortgage credit. The National Bank of

Greece, for example, finances about 40 percent of the Greek homes. This is partially due to the fact that the National Bank of Greece took over the portfolio of the National Mortgage Bank when it was recently privatized. According to the National Bank of Greece, the Postal Savings Bank and the Loans and Consignment Bank have provided financing for subsidized housing loans for certain sectors of the Greek population. As of May, 2001 a change in regulations permitted all commercial banks to provide subsidized home mortgage loans. First-time home buyers can acquire subsidized home loans if their incomes are below a certain amount.

The banks have large sums of money available from their capital gains from the recent sales of securities at the peak of the stock market which was reached a few years ago. The same thing tends to be true of the other mortgage lenders.

The leasing and venture capital companies tend to finance land for commercial and industrial land improvements and commercial and industrial buildings; larger residential land parcels and buildings may fall under their financing jurisdiction. (Note: Rental apartment projects do not assume a large portion of the residential property portfolio

of Greece since home ownership has attained a rate of approximately 80 percent.) Real estate leasing is a relatively new business activity since it



was endorsed in 1999 under National Law 2682. This recent law pertains only to commercial premises such as offices, shopping centers, and industrial properties and the users of leasing services who are professional people such as doctors, lawyers, and businesspeople.

Terms of Mortgage Loans

Housing lenders offer both fixed and floating rates of interest. These floating home mortgage rates have declined from 25 percent in 1992 to 5.7 percent in 2002 at the National Bank of Greece, for example. The housing collateral for the loans has increased in value more in the Athens metropolitan area than it has in the other urban areas. Athens area house prices were rising by more than 13 percent a year in 2000 and 2001 while other urban area house prices were rising only 8 percent on average in 2000 and 11 percent on average in 2001. Lenders have noticed that house building costs have been rising at a rate lower than the rate of inflation; recently inflation has declined to 3 to 3.5 percent while house building costs have risen at the relatively low rate of 2 2/3 percent a year. Life insurance policies are sold on a voluntary basis to borrowers as a part of home mortgage lending. Mortgagors are expected to maintain hazard insurance on the collateral property for coverage of such events as fires and earthquakes.

Methods of Property Financing

The real estate market has considered and used to some extent the following real estate finance methods: bank loans, project finance, sale-leasebacks, preselling of units of proposed land

developments, and securitization. Bank loans have assumed the leading position in housing finance. Commercial and industrial properties may also be financed through the banks. Bank loan terms range from 5 to 10 years and have interest rates that float on 3-month Libor or Euribor. Most of these bank loans that finance developers have balloon payments and a grace period of one to two years before the loan starts amortizing. Some bank loans for land development call for interest only with a balloon payment at the maturity date of the loan. Project finance has been explored as a financing option. Sale-leaseback financing was initiated in 2000 with buyback clauses that provided for purchase of the property at

an amount approximating the land value for tax purposes. Units of proposed land developments have been pre-sold to provide financing for the builder-developer. For example, shopping center units have been pre-sold in an effort to get the target tenant mix for a profitable shopping center.

Securitization has taken the form of real estate companies with listed stock that may be purchased by the public. No legislation is yet in place for the securitization of mortgage portfolios; discussions are underway that may underpin the establishment of a legal framework in the future.

Two levels of mortgage recording may be used. A pre-notice mortgage may be recorded. In case of mortgage default, the contract will become a mortgage. Then the lender can legally foreclose. This system entails quicker and cheaper mortgage recording.

Foreclosure activity may require two to three weeks before going to court. The pre-notice loan is converted to a mortgage. Another 40 days is

consumed by publicity about the impending auction of the foreclosed property and the acquisition of valid title by the lender. The property owner-borrower may pay the outstanding amount of the mortgage plus accumulated interest plus legal costs of the lender before the day of the auction and retain title to the financed property. Foreclosure may take up to three years to the detriment of the mortgage lenders.

Mortgage and Real Estate Securitization

Since mortgage insurance and guarantees are not yet a part of the Greek mortgage lending market,

these programs may have to be implemented before a viable secondary mortgage market can back up a mortgage securitization program. In like manner, a title insurance program may be needed to provide a more transparent and reliable real estate environment for investors. A



few real estate investment and construction companies are currently listed on the Athens Stock Exchange along with commercial bank and other private company listings.

Asset management including portfolio management has not been a business area that has drawn attention in the past. This professional area of expertise awaits development. The universities may assist with the necessary educational programs for university graduates. The accounting and finance fields of university education are combining to give more education in financial analysis and asset management. The listing of more companies that manage portfolios of securities and/or real property assets for public investors demands the professional services of qualified and experienced

asset managers. As mentioned previously, the banks have recently established asset management subsidiaries in preparation for the listing of mutual funds based on their assets.

Taxation Affecting Greek Real Estate Investors

Several types of taxes, including income, property, transfer, value-added, real estate duty, and capital gains taxes, are payable by Greek real estate investors. Depreciation regulations also vitally affect the taxation of real estate income. Individuals or companies, Greek or non-Greek, who acquire real property in Greece or who receive income from Greek real property need to obtain a Greek Tax Registration Number and file a Greek income tax return.

The Greek government is proposing a restructuring of the existing cumbersome real estate tax framework. All existing property taxes would be abolished and then replaced by a new "property ownership tax" A value-added tax would be placed on transaction prices for newly constructed properties. The new law is expected to come into effect on January 1, 2003.

Individual and Business Income Taxation

According to a PricewaterhouseCoopers source, rental income earned by individuals and companies is subject to Greek income tax. The tax on individual income taxpayers is calculated according to a progressive scale that ranged from 5 to 42.5 percent for income earned in 2001. Company income is taxed at a rate of 35 percent if a company has shares listed on the Athens Stock Exchange and at a rate of 37.5 percent if the company's shares are not listed on this exchange. Branches of foreign companies who are based in

a EU member state and whose shares are listed on an EU stock exchange are subject to a rate of 35 percent. Branches of other foreign companies are taxed at a rate of 37.5 percent on taxable profits earned during tax year 2001. A 25 percent income tax is imposed on any amount paid by a tenant to the owner beyond the agreed rental amount in a situation where a building alone is rented or where equipment and other installations are part of the rental estate.

Actual rent payments are subject to stamp duty at the rate of 3.6 percent. No value-added tax (often abbreviated "VAT") is currently charged on rental income, but may be in the future. As long as stamp duty is payable on rent payments, VAT taxes probably will not be added to this tax burden.

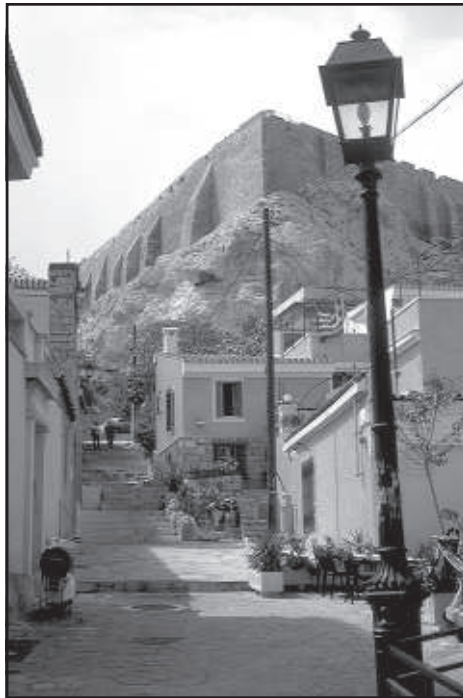
Rental income earned by companies is also subject to a supplementary income tax of 3 percent where rental income earned by individuals is subject to a supplementary income tax also but at the lower rate of 1.5 percent. For residences larger than 300 square meters in size, the supplementary income tax rate is 3 percent.

The income generated by the sale of real property is taxed at the standard corporate or individual tax rate that is applicable. Any capital gains are not taxable, but property transfer taxes are payable.

In the case of a first-time home buyer, the interest paid on a mortgage is fully tax deductible for income tax purposes.

Depreciation Allowances

A depreciation amount equal to 10 percent of the depreciable value of buildings used as residences,



boarding houses, schools, movie theaters, hotels, and medical clinics may be deducted from the otherwise taxable amount for individual taxpayers. According to Presidential Decree 100 in 1998, depreciation allowances for other types of buildings range from 5 to 12 percent of the depreciable value depending on the type of property.

Real Estate Transfer Tax

When real estate is transferred from one owner to another, the current transfer tax is 9 percent for real property that is valued up to approximately U.S.\$15,000 (GIRD 4 million) and 11 percent for real property valued over that amount. The rates have been higher for the two brackets of property that are located in an area covered by a public fire protection service - 11 and 13 percent. It was proposed by the government to reduce the 13 percent rate to 10 percent in 2001. A municipality tax of 3 percent is imposed by the local taxing authority on the real estate transfer tax.

Real Estate Ownership Taxes

The basic real estate ownership taxes - in Greek called "high property value tax" - are payable annually on the objective value as of January 1 that is assessed by the property tax authorities. The rate placed on the objective value ranges from 0.3 to 0.8 percent for properties owned by individuals. In the case of company-owned property, the first approximately U.S.\$225,000 of objective property value is not subject to the tax. Any objective value above approximately U.S.\$225,000 is subject to the 0.7 percent tax rate.

A real estate duty (in Greek called "TAP") is also placed on property ownership values. The tax rate ranges from 0.25 to 0.35 percent and is placed on the objective value of the property. Exempt from TAP are (a) buildings under construction for a 7-year period following the granting of the construction license or until they are rented or in any other way used prior to the lapse of such 7-year period, (b) commonly used sections of residential buildings, and (c) buildings characterized as historical monuments.



**SELECTED BIBLIOGRAPHY
GREEK REAL ESTATE**

- “Athens Stock Exchange: New Status Reveals Stresses,” Financial Times.
Greek Banking and Finance Supplement. July 9, 2001, p. IV.
- “Banking: Lending Takes Off and Boosts Earnings,” Financial Times. Greek
Banking and Finance Supplement. July 9, 2001, p. III.
- Beard, Allison, “Greek ADRs Emerge Into Developed Markets,” Financial Times
December 17, 2001, p. 24.
- Bryant, Ralph C., Nicholas C. garganas, and George S. Tavias, Editors.
GREECE’S ECONOMIC PERFORMANCE AND PROSPECTS. Athens and
Washington, D.C.: Bank of Greece and The Brookings Institution,
2001.
- Cushman & Wakefield Healey & Baker. BUSINESS SPACE ACROSS THE WORLD.
SUMMARY. London: Cushman & Wakefield Healey & Baker, March 2002.
- Dean, Sharda, “Europeans Prepare for a Notable Change,” (introduction of the new
euro notes and coins) Financial Times, December 17, 2001, p. 24.
- “Exports Crash to EU’s Lowest Level in 2001,” Herald Tribune. Supplement,
Kathimerini. Saturday-Sunday, March 23-24, 2002, p. 5.
- Hope, Kerin, “Challenges Remain Despite the Reforms,” Financial Times.
Greece Financial Times Survey. December 19, 2001, p. 1.
- _____, “The Economy: A New Mood of Realism Sweeps the Country,”
Financial Times. Greece Financial Times Survey. December 19, 2001, p. II.
- _____, “Inward Investment: Problems Amid Progress,” Financial Times. Greece
Financial Times Survey. December 19, 2001, p. IV.
- _____, “It’s Politics as Usual After a Smooth Euro Landing,” Financial Times.
Greek Banking and Finance Supplement. July 9, 2001, p. 1.
- _____, “Market Focus: Athens: Status Struggle Depresses Greece,”
Financial Times. December 20, 2001, p. 34.
- _____, “Pressure Grows on Reformist Greek Premier,” Financial Times,
July 6, 2001, p. 2.
- Karakousis, Antonis, “Commentary: Social Security Crisis,” Herald Tribune.
Supplement, Kathimerini. Saturday-Sunday, March 23-24, 2002, p. 1

Kousounis, Stathis, "ETA Able to Secure 1,900 Rooms as 2004 Safety Valve," Herald Tribune. Supplement, Kathimerini. March 19, 2002, p. 5.

McDonald, Robert and Kerin Hope, "Pension Reform: Change Essential for Fragmented Sector," Financial Times. Greece Financial Times Survey. December 19, 2001, p. IV.

"Private Equity: Athens Used as Balkan Launch Pad," Financial Times. Greek Banking and Finance Supplement. July 9, 2001, p. IV.

"Profile: Nikos Christodoulakis: Chance to Make Marathon Changes," Financial Times. Greek Banking and Finance Supplement. July 9, 2001, p. 11.

"Roadworks Spur Requirement for Private Financing," Herald Tribune. supplement, Kathimerini. March 21, 2002, p. 5.

Sotiropoulos Bros. CATALOGUE 2002. (Greek investment property rents, total occupation costs, and yields). In association with Healey & Baker, part of Cushman & Wakefield, New York, 2002.

Walkiden, David and Joanna Styles. BUYING A HOME IN GREECE AND CYPRUS. London: Survival Books, 2000.

ACKNOWLEDGMENTS

The comprehensive research of Greek real estate would not have been possible without the generous assistance of the following important Athens businesspeople: Helen Brella, Group Risk Management, and Dimitri Frangopoulos, Mortgage Credit Division, of the National Bank of Greece; Christos Sotiropoulos, Principal and Zara Tekakvorrian, Interpreter of Sotiropoulos Bros., an associate office of Healey & Baker International Property Consultants; Loukas Spanos, Special Scientific Consultant, Property; Yannis Perrotis, Managing Director, and Nick Chatzitsolis (Chairman, RICS Europe) of Lambert Smith Hampton; Demetra Pallis, Marketing Manager. Real Estate Development Services, S.A., a joint venture company of Elliniki Technodomiki and Lend Lease Europe; Theodore K. Xenidis, Surveying Engineer, Land Development Department, Elliniki Technodomiki; Constantinos Hassabis, Managing Director, J&P Development Co.; Constantin Pechlivanidis, Senior Manager, Real Estate Consulting, PricewaterhouseCoopers; and Theodore N. Charagionis, Managing Director, Thanos Efthymiopoulos, Group Financial Manager, Likourgos Fragoulis, Property Development, and Thanassis Baklatzis, Legal Department, Charagionis Group.

The author is particularly indebted for the comprehensive information and moral support of two long-time Greek friends, Drs. Elly and Costas Thanopoulou, who are now retired from Athens University of Economics and Business and the National Bank of Greece, respectively. Drs. Thanopoulou both were granted their doctoral degrees by Indiana University in the early 1960s: Dr. Elly Vassilatou-Thanopoulou with a D. B.A. in Accounting from the Graduate School of Business and Dr. Costas Thanopoulou with a Ph.D. in Economics from the Graduate School.

ABOUT THE AUTHOR

Dr. M.A. Hines, a member of the International Real Estate Institute since 1983 and author of numerous books, monographs, and articles published by the International Real Estate Institute, is the Clarence W. King Endowed Chairholder of Real Estate and Finance of Washburn University's School of Business in Topeka, Kansas. Among her 49 books and monographs are the International Real Estate Institute's book, INTERNATIONAL INCOME PROPERTY INVESTMENT, and the monographs, JAPANESE SHOPPING CENTERS: FINANCIAL AND INVESTMENT FEATURES, THE SECRETS OF SWISS REAL ESTATE SUCCESS, ITALIAN REAL ESTATE FOR SALE, INVESTING IN JAPANESE REAL ESTATE: LINKS TO INTERNATIONAL TRADE, THE IMPACT OF e-PROPERTY ON INTERNATIONAL REAL ESTATE, MOROCCAN REAL ESTATE: NORTH AFRICAN PROPERTY, BRAZILIAN REAL ESTATE, NORWEGIAN REAL ESTATE: A LAND OF THE MIDNIGHT SUN, and AN OVERVIEW OF GLOBAL REAL ESTATE FINANCE in three editions. She has spoken on various international real estate topics at IREI's Copenhagen, Vienna, Berlin, and other World Congresses. The IREI awarded her its Service Award at the Vienna World Congress.

Among her 49 real estate books and monographs and 113 academic and professional real estate and international business articles are four major real estate textbooks and professional books that are published in both the Japanese and the English languages. Dr. Hines was granted her Ph.D. in Business by The Ohio State University Graduate School and her Master's and Bachelor's Degrees in Business Education and Mathematics by Indiana University. After being promoted to full professor of finance and real estate by The University of Alabama in 1977, she continued to teach at the doctorally accredited University of Alabama and was a visiting professor of real estate and finance at the doctorally accredited University of Tennessee before accepting Washburn University's Clarence W. King Endowed Chair of Real Estate and Finance in 1982. Dr. Hines was the first woman to become an endowed professor of finance and/or real estate in the United States as she accepted Washburn University's endowed chair appointment in 1982.

RIM
Registered International Member

SCV
Senior Certified Valuer

RPM
Registered Property Manager



**International
Real Estate
Institute**

International Real Estate Institute

P.O. Box 879 Palm Springs, California 92263 USA

Tel: (877) 743-6799 Fax: (760) 327-5631

E-mail: info@irei-assoc.org Website: <http://www.irei-assoc.org>