CONSTRAINS IN REAL ESTATE INVESTMENTS IN GREECE

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Introduction

In this paper, we focus our attention on market and institutional constrains regarding real estate investments. In the contemporary globalized economy, real estate markets throughout the world currently attract a range of international investors, lenders, occupiers and developers, seeking cross-border opportunities in search of optimal investment returns. It is also stated that real estate markets can be the key for the emerging economies to raise the finances to start businesses (Jones Lang LaSalle, 2004). Greece is an emerging real estate market, where international real estate investors have not usually been particularly active. Markets are mainly organized by the State and government through institutional frameworks and practices. Over the last few years, the State has aimed at promoting the development of real estate markets and at encouraging foreign investments. However, despite the State's professed policy in favour of real estate market development, few efforts have been made to improve real estate market transparency, while foreign investments in real estate remain limited to date. Transparency is also catalytic in long-term change in real estate practices. A quoted public sector must act as the driving force for improvements in transparency. According to Keogh and D'Arcy (1999), market efficiency implies a State in which all economically viable solutions have been implemented. In this work, we pay attention on the facets of the real estate market low transparency in Greece, as well as constrains it imposes in investments.

The public sector and real estate market transparency are structural factors of the market, and highly interdependent. In this paper, we explore the role of the public sector in real estate market transparency and what effects it has had on tourism investments in Greece. Tourism is considered by the Greek State as the most promising economic sector of the country. Real estate development is one of the prerequisites for the increase in the supply of tourism infrastructure, even if –it must be said– the nature of tourism imposes the regulation of supply in face of an extremely volatile international demand and international Tour Operator's practices. However, the main objective of the state is to upgrade tourism. Tourism Development Co (TD Co) is a State-owned company with the mission of managing and developing public real estate assets in areas of tourist interest. TD Co is a relevant case to study: it is a state-owned company interfacing with the Greek public sector, market transparency and investors' attitudes and practices.

Managing tourism real estate assets

Greek State disposes an extremely large portfolio of real estate assets, managed by about 7.000 public authorities. Greek National Tourism Organization (GNTO) is one of the most important owners of valuable tourist properties. By the end of 1990s the Organization was looked into the mobilization of its large and diversified portfolio in real estate assets. The first state-owned company that has undertaken to manage and develop the numerous assets owned by GNTO was initially founded in 1998 (L. 2636/1998). In 2000 it took the name of Hellenic Tourist Properties S.A. (L. 2837/2000), while in 2004 the company was renamed at Tourism Development Co (L. 3270/2004). The fundamental goals of the Company are generally in accordance with those laid down by National Tourism Policy, being namely: to diversify the Greek Tourism Product, to upgrade the quality of services provided in the tourism sector, to sustain and make investments competitive, to gauge the social and economic impact of the investments made, to develop environmentally sustainable tourism, to increase investment activity in neighbouring areas of the properties (Hellenic Tourist Properties, 2001).

Properties managed by the company are of both significant tourist interest and potentially significant financial value, estimated at € 800,000,000 by the middle of the year 2003, when the portfolio was evaluated with reference to its capitalization at the Athens Stock Exchange Market. The assets under TD Co management currently include operating – or obsolete – business units and undeveloped land in prime tourism locations in the country, namely: More than 300 land plots totalling approximately 7,300 hectares, 40 hotels around the country, 6 yacht and pleasure boat marinas, 2 Casinos, Greece's biggest winter sports/ski resort, 9 thermal springs resorts, 11 camp sites, etc.

TD Co aims at managing and developing assets by mobilizing both international and national funds, and converting it into a company for administrating subsidiary companies and rental contracts. This public sector company initially adopted innovative financing techniques such as Public-Private Partnership schemes to attract international capital, real estate and development expertise. Mizuho Corporate Advisory Co Ltd, a wholly owned a subsidiary of FUJI Bank associated with local technical consultants, is the financial adviser and Overall Project Manager of TD Co. The privatization process of any asset –except leases– is submitted for approval to the Ministerial Privatization Committee, which possesses their own financial and technical advisers. Results are rather poor to date, as only few following projects have been completed.

- 2001 saw the beginning of the privatization of "Mont Parnes", the sole operating casino in Attica, there was an international invitation to tender for transferring 51% of the subsidiary company of TD Co, which managed it, and the management of the casino to a private investor. The tendering was completed at the end of 2002 when the contract for transferring shares to an investment scheme that included the Greek subsidiary of the Hyatt Regency was signed. The contract was ratified by the Greek Parliament by law in 2003.

▪ Also in 2001, international invitation to tender were extended for the development of the Attica's two marinas. These tenders were completed in 2002 with the signing of the relevant contracts. In the new joint ventures, in the companies that were created, TD owned 25% of the company shares.

▪ In 2003, another attempt for privatization was made, concerning the 150-hectare golf course on the island of Rhodes. The development program included the modernization of the 18-hole golf course, the construction of high-class hotels with a capacity of 1,000 beds, and 250 tourist residencies. Two consortiums of domestic and foreign enterprises were dealt in. One of the two consortiums pulled out and the property was awarded to the Rhodes Riviera Hotel Estate and Golf Development, but the contract was never signed. The proposed investment amount came to €93m. Following the Greek national elections in 2004, the new government decided to cancel the original tender and issue a new invitation to tender. Till today, this new invitation to tender has not been issued. The political decision for cancelling the original tender had the following significant outcome: investors lost faith in TD Co and consequently in real estate development procedures.

A few months following the national parliamentary elections in 2004, TD Co was preparing to floater on the Athens Stock Exchange. Its floatation was cancelled. The two reasons that were publicized most were: a) the ethics of granting private individuals the management of public property mainly acquired by expropriations with public funds; b) illegal actions concerning TD Co's management of GNTO properties.

<u>Facets of the Greek real estate market low transparency</u>

A purely transparent real estate market is completely open and clearly organized, operates in a legal and regulatory framework characterized by a consistent approach to the enforcement of published rules and planning regulations, and respects private property rights. More, property market transaction and information costs are relatively low. Greek real estate market is low transparent. According to Jones Lang LaSalle Real Estate Transparency Index (2004), Greece is on the 32th range between 51 countries, after all EU countries[1].

● The security of legal title and the enforceability of property rights are critical issues for investors, lenders, developers and occupiers. Where there is no security of title or where enforceability of contract is not ensured consistently, domestic and international investors are not always willing to invest. The protection of property rights is commonly one of the most important roles of the State. Land tenure security and investment linkage is a fundamental one which underlies property rights in land (Feder & Nishio, 1998). A land registration system defines the nature and content of rights in land, provides legal protection and guarantees these rights, the landowner or a purchaser of land. In Greece, there is no safe land registration system, such as a Cadastre, and property rights are not absolutely secure, neither for private properties, nor for public properties. Works for the establishment of Cadastre covering the entire surface of the country started in mid-1990s, but the project was suspended in early 2000s, because of money abuse scandals.

Property rights security was the first problem that TD Co encountered. Properties it manages were acquired three decades ago or more by the GNTO, through expropriations or purchases. Some of the properties were state-owned land that was ceded to the Organization, thus becoming "State-owned Tourist Land" belonging to the GNTO. In some cases, all of the above three procedures were used for the acquisition of hundreds of small land plots that formed only one big estate. In many cases, land estates were not developed and remain unused until today. Inefficient protection and management of GNTO's properties has resulted in major problems, which include:

- Parts of almost any unused land estate were trespassed;
- State-owned Tourist Land plots were never transcribed to the Land Registries. That is why, while land plots had already been ceded to the GNTO, they may have been ceded for a second time to another organisation, or even sold to physical persons;
- As mentioned above, most of the estates were acquired through the expropriation process. According to Greek Law (L. 797/1971) and jurisprudence, expropriated land ought to be used accordingly to the purpose of the expropriation in a determined period of time. Otherwise, land may be restituted to its former owner. In 2005, there were many land plots that were claimed or restituted to their initial owners, after the completion drawn-out legal proceedings and State Council decisions.

● Regulatory burdens may represent an area of dissatisfaction for investors, for contradictory reasons. Perceived over-regulation can be just as great a challenge for developers and investors as perceived under-regulation (Jones Lang LaSalle, 2004). Regulatory burdens comprise both the tax burden and the burden of planning and building regulations. The degree to which there are clear, published codes that are applied with fairness and consistency are of major importance. Although it is true that few countries are highly transparent in this respect, planning regulations regarding tourism investments in Greece are extremely complicated and inadequate. The main problem of tourism planning in Greece, which particularly affects large land estates development, is conflicts raised between different specific planning Laws and general planning regulations applied in the country. The following case is relevant:

In order to facilitate tourism development of private or GNTO's land estates, Law Nr 2160 came into effect in 1993. According to this Law, particular building and planning regulations were applied for the GNTO's properties, aiming at promoting their sustainable development. However, no investment was made. In 2003, Law Nr 3105 and Presidential decree Nr 250 came into effect, whose provisions were requested of the Government by TD Co, in order to make corrections on the provisions of L.2160/1993 and to facilitate development and privatization of the large estates, both of public and private ownership. As a state-owned company, TD Co possesses the privilege of direct access to the Government. Among many legal problems that arose, despite the consecutive institutional arrangements, we mention the following example: It is not clear if secondary homes constructed within a tourist resort comprising facilities as a golf course, spa and hotels, may be sold. This is a very important rule for investors, as early sales of second homes will decrease risks associated with hotel investments and other resort facilities. This regulatory problem has not yet been resolved. Thus, investments in tourism resorts remain risky and not particularly attractive for some real estate developers.

In fact, the main problem is that legal procedures in Greece are extremely fragmented, and they do not globally consider property development as tourism products. In this way, they do not come to embrace all critical aspects of the property development process. Although cultural and physical environment protection must be a prerequisite to any tourism real estate development, regulations concerning forestry, archaeological or environmental issues must be clearly defined. In Greece, these regulations are not spatially specified, in the sense that usually, when a land plot is purchased, its development perspectives are not always clear and guaranteed. Many of TD Co's land estates around the country, such big estates in privileged sites in the peninsula of Chalkidiki in the Northern Greece, or the island of Crete, may not be developed because of environmental or archaeological regulations that are not precisely delineated, this provoking frictions with the relative Public Service Offices. Some major private investments are also pending for many years are the golf resorts in the administrative department of Messinia in the region of Peloponissos, in the area of Toplos Monastery in the department of Lasithi in Crete. Finally, obtaining building licences is an extremely difficult task, even for small projects, while bureaucracy corruption often plays a dissuasive role.

● Generally, information regarding real assets that is economically relevant could include data regarding prices, vacancy rates, publication of firms' accounts, etc. However, agents also need information relative to laws and regulations, governmental processes, public agencies, public procurement contracts, policy implementation and its consequences, etc, in order to make appropriate decisions. In this sense, governments play a key role when it comes to access to significant information.

Inaccurate information is a major source of real estate market low transparency. In real estate markets, information efficiency implies that the distribution of market prices accurately reflects the spectrum of characteristics and risks associated with each asset (Gatzlaff & Tirtiroglu, 1995). Consequently, market efficiency means that market imperfections are rationally reflected in the market price. While this is the case in mature markets as some researches claim (Brown and Matysiak, 2000), this is not true in the Greek market.

Where direct and indirect market performance indices have been available for a reasonable period of time, they make a major contribution to high transparency. Neither direct nor indirect real estate market performance indices are available in Greece (IMF, 2005). Availability of market-fundamentals research for the main real estate sectors of the major areas of any country is an essential underpinning for a real estate market research. The availability of reliable performance indicators based on hard data is a key advantage in the eyes of investors. Performance indices based on national data provide some comfort, but they are poor substitutes when it comes to benchmarking performance against peers. Real property is a spatial product. Information regarding real property must be geographically specialized (ADEF, 1992). General information and data that do not refer to the specific sub-markets and areas is not really relevant for investors.

The lack of information leads to increased country risk premiums and consequently higher required local returns. Hotel real estate markets generally encounters a very weak-form of efficiency (Oak & Andrew, 2003) while it is recognised that in Europe reliable data are often difficult to obtain, rendering it necessary for hotel developers to research property market exhaustively (Nilssen et al, 2002). However, it is a fact that information on tourism and leisure market fundamentals in Greece is poor, or rather inexistent, when compared to the western European markets. Occupancy rates, market prices or market-based capitalization rates regarding hotel enterprises are completely unavailable. As far as secondary or tourism residences, statistical data are also unavailable.

For some Greek investors, and for accustomed projects, lack of transparency may present an opportunity rather than a risk, and they do not welcome competitive investments from overseas, seeking to use their local market knowledge and experience to their advantage. Real estate properties are extremely heterogeneous, with numerous attributes that make it difficult and costly to delineate and measure (Barzel, 1989). Thus, information asymmetries arise from the fact that information available to one party of a contract is not the same as the information available to the other contracting party or competitor (Byamugisha, 1999). Krutzman (2004) fairly states that opacity can starve a project, because "Opaque systems create information asymmetries between lenders and borrowers and can add complexity and additional burden lender's expectations of return on investment. Opacity also increases the ranges of possible projected cash flows from risky projects, resulting in lower risk-adjusted expected present values. This decreasing of expected discounted returns may ultimately result in the rejection of some projects that would be useful yet appear to be poor investments given opaque conditions." Local construction and tourism management companies have acquired the local market experience, and they are not willing to communicate so as to contribute to market transparency. International investors, when they are interested in a specific project, need insightful advice from market professionals, not just general local market trends and sources of a product. It is almost impossible to find this information in Greece, where hotel and leisure sectors largely concern underground economy. Acquiring information is costly, and one cannot know the actual value of information before it is acquired.

In some cases, lack of transparency may cause the country to be ignored by hotel and tourism investors when they draw up their international investment strategies. Although this is not always the case in Greece, it is certain that the country attracts some opportunistic investors who have high-leveraged return targets. However, there is an interest in new "integrated resort developments" this mainly concerns building and sale of secondary homes. This may be interpreted as an opportunistic interest, as second-home residences are as risky as other tourist enterprises. There is no standardised official information available about supply and demand or about market values of second-home properties.

According to Gelos and Wei (2002), international funds prefer to hold more assets in markets that are transparent, and that the herding behaviour is less prevalent in countries with a higher transparency in comparison to those that are more opaque. Opacity also increases the ranges Even if it is not certain that this is the case, it is worth mentioning that FUJI Bank of Japan, which is the parent company of MIZUHO Co, the corporate adviser of TD Co, has never expressed –to date– an interest in financing the development projects that its subsidiary company carries out.

● Low transparency is frequently considered to be synonymous with corruption. "Corruption is an outcome, a reflection of a country's legal, economic, cultural and political institutions" (Svensson, 1998). According to the Corruption Transparency International Index 2005, Greece holds the 47th range between 158 countries[1]. Government policies and bureaucratic corruption are at least partly responsible for the lack of development or slow growth of many economies (Shleifer & Vishny, 1993). According to Mauro (1995), corruption is a negative form of economic perspective. When examining corrupt public conduct, he states that it "discourages investment, limits economic growth, and alerts the composition of government spending, often to the detriment of future economic growth." Development economics also suggests that property markets are the bedrock of economic development (Torstensson, 1994; Goldsmith A., 1995). When corruption dominates in property markets, the private marginal product of capital invested decrease because of the bribes that have to be paid, lowering the investment rate. Even if there is not strong statistical evidence about the relationships between corruption and growth in many countries, case studies and micro evidence suggest that corruption severely retards development.

OECD (2003) states that transparency is a key input to effective governance and development, while Stiglitz (2002) explains that just as information asymmetries allow company managers to follow policies that are convenient for their own interest rather than for the interest of shareholders, such asymmetries give public officials the possibility of choosing to pursue policies guided by their own interests rather than by the interests of citizens. Public Choice theories also suggest that "public managers, bureaucrats and politicians use their control of State-owned enterprises to further their own interests, rather than the state's firm's efficiency" (Shirley, 1999). The aim of this presentation is not to discuss rent-seeking theory, but it is important to mention - as an indicative example – a case of corruption in the public sector that seems it is not sufficiently taken into account.

Indicative of bureaucrats' practices is the matter of the privatisation of many public companies in Greece, in whose cancellation high-ranking officials of the companies have played a major role. The privatization of these companies would have imposed much higher management transparency, especially in the following fields:

- In the selection of administrative staff;
- In the handling of the companies financing;
- In the methods and procedures followed in developing and managing activities.

Accusations were made for many of the companies, about inefficiencies in the management, and their real estate assets. During last two years, relative publications in the Greek press are abundant. Often these accusations are based on a wealth of detailed information or some facts on companies' businesses situation and practices, much of which had leaked from the bureaucrats of the companies themselves. The privatization of the companies was not in the interest of certain officials, because in the event that they were privatized, they would not only lose their relative freedom of action, exclusively internally and without public control, issues that mattered very much to them, while they themselves would have lost their privileged positions in the companies. As Lambsdorf (2002) states, corrupted practices has worse welfare implications than organized lobbying.

Conclusion

In this presentation we have attempted to explore constrains in real estate investments in Greece focusing on market transparency, by putting a public sector company opposite the Public Sector – essentially placing a mirror in from of the State. Our aim was, among other things, to stress the contradiction between the State's professed goals for economic growth and the ways it attracts investors. The main conclusions are the following:

Real estate investors interpret complicated regulatory burdens, lack of information and corruption as kinds of taxes, or major causes for extremely long and dangerous delays in the projects' feasibility and implementation. This attitude often discourage their investments, consequently slowing down economic growth and tourism development in general, sometimes in some peripheral locations of the country that need investments to start their development process.

It is not easy for the policies that the State professes it has for attracting private investors to develop when the State faces itself as an opponent. In point of fact, in an internationalized economy where capital and enterprises circulate without administrative barriers, the ability to attract investors depends to a large degree on the specific actions and policies of the State, within which the open market will operate.

There are significant differences between the real estate market and other markets since real estate investment can be either a simple investment product or a productive factor in various economic activities, as is the case with tourism. In the latter case, the State institutions' role is even more definitive since the business venture and the investors' intention of investing in a specific financial sector of the country that may yield high investment returns may be hindered by factors concerning the real estate sector. Consequently, real estate market transparency improvement is the prerequisite for attracting investors to Greece.

Notes

1. The Index is for indicative use, as it is not here analyzed how it works and what it exactly measures.

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