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MARKET INSIGHT

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GREECE: THE NEXT TURNAROUND STORY

After a protracted and painful era of austerity patronized by the Troïka, Greece has finally started to write a new chapter in its history with the election of Kyriakos Mitsokakis earlier in July. Syriza and its leader, Alexis Tspipras, lost the majority in parliament after more than four years of governance. It is perfectly understandable that the Greek people were in need of a change, and the election of New Democracy, the political party led by Mr. Mitsotakis, reflects this wish. Reforms and investments are the principal topics on the agenda of the ruling party, with reforms coming first, as a number of changes are expected by foreign capital (notably on the tax side), before being able to deploy investments with confidence in the country. Could Greece become an appealing investment opportunity? What reforms are on the agenda to make this happen?

A LIGHT AT THE END OF THE TUNNEL

Amongst the five countries that define the infamous PIIGS acronym, Greece is the very last one to come out of austerity programs. Portugal, Ireland and Spain have all returned to solid growth economies by addressing their banking and credit issues with extreme rigor. These three countries are presently recovering and starting to flourish, with Ireland being the European hub of some of the biggest companies in the world, Portugal attracting European companies looking to benefit from a cheaper and well-qualified labor force, while Spain is running a diversified economy with a large allocation to tourism. The main reason as to why these countries have been able to move forward is that their governments were determined and had the necessary tools to introduce reforms to attract foreign investments and investors.

Kyriakos Mitsotakis and his New Democracy party have not lost any time on the reform side. Their very first move was to lower the corporate tax rate from 28% to 20% over a two-year period. They have also reduced by 30% a property tax that had been implemented during the austerity period and was disliked by the Greek people. The Prime Minister is also adopting several measures to simplify the current bureaucracy processes; measures considered as a concentration of power by the opposition. Greek authorities are also working to address the EUR 80 billion of bad loans crippling banks' balance sheets. Lenders have promised to significantly reduce their exposure to non-performing loans by 2021. In order to achieve such ambitious targets, the authorities are said to be exploring an Italian-like solution designed to unclog the banks. However, for this solution to be effective, it needs a secondary market and institutional investors motivated to transact via a facilitated legal and administrative framework. Very few international investors have already stepped into this market, but the new government will most likely take the necessary initiatives to make this market viable.

On the investment side, New Democracy is on the hook to speed-up two major projects in the country, and more specifically in Athens: the rehabilitation of Hellinikon and the development of the main port, Piraeus. Both projects have been widely advertised but have also faced delays and encountered some complications. Prime Minister Kyriakos Mitsotakis pledged to proceed with the immediate start of the Hellinikon Project in an attempt to reach more foreign investors chasing smaller transactions.

THE LARGEST RENOVATION PROJECT IN EUROPE

Hellinikon is considered the biggest rehabilitation project in Europe based on its buildable area.
The project sits on the former airport area that was became disused in 2001. Spanning over 6.2 million sqm, approximately twice the size of New York's Central Park, the site was last used in 2004 during the Olympic Games. It is ideally located between Posidonos and Vougliamenis Avenue, right on the Athenian Riviera and very close to the city's main attractions. The project includes 4,000 hotels keys, 200,000 sqm of Class A office space, a marina, a casino, and as many as 15,000 residential units. The project stalled for several years due to disagreements with some residents and the influential Greek Archaeological Service. However, the highest administrative court of the country, the State Council, recently issued rulings removing the latest roadblocks holding off the development of the area. In 2014, Greece agreed on a EUR 915 million deal to sell the site to a consortium led by the Greek developer Lamda Development. The total investment volume is estimated to exceed EUR 8 billion. The development of this prime location site will create a significant number of jobs during the process and, once finished, will certainly become a new showcase for Greece, for both tourism and business.

The second significant project in Greece is the port of Piraeus. Back in 2016, COSCO Group, a Chinese state-owned shipping and logistic services supplier company, acquired a 67% stake in the port authority of Athens and became the port's primary operator. For China, this acquisition is part of its ambitious project called "Belts & Road Initiative", a modern version of the Silk Road involving gigantic investments from Beijing to Europe. For Athens, Piraeus is one of those much-needed infrastructure projects. It involves an investment of more than EUR 3.5 billion, the creation of new well-paid jobs and, if everything goes as expected, it could be an excellent opportunity to lure potential investors into deploying capital in the country. COSCO has plans to create a high-end marina for yachts, an additional cruise-ships terminal, hotels and malls and a general upgrade of the infrastructure. However, as an illustration of how the Greek bureaucracy can impair projects, this came suddenly to a halt in April this year as the Central Archaeological Council and Museums declared that a large proportion of the Piraeus is considered an archeological site.

GREECE HAS NOT YET CROSSED THE BORDER MOUNTAIN

Some smaller yet trophy-type investments have transacted recently, illustrating the new dynamics in which the country seems to be operating. Earlier in August 2019, officials from Kuwait discussed closer cooperation between the two countries with a focus on tourism and investments. Kuwait investment is not new in Greece. In 2016, Kuwait acquired the Astir Palace Resort from the National Bank of Greece through an investment vehicle called "Jermyn Street Real Estate Fund IV". The hotel was sold south of EUR 400 million, is now operated by the Canadian luxury brand Four Seasons and has become the first resort of the brand in Greece.

Greece is not out of the woods yet; however, the new ruling party seems to have an exhaustive plan and appears determined to enforce it. Although much of the attention is focused on Hellinikon and Piraeus, the success of these ambitious projects will set the tone for smaller Real Estate transactions that will attract smaller yet bold investors. Should history be a guide to foretelling the future, the buoyant economic conditions prevailing in the PIIGS certainly leave a very optimistic future for investing in Greece.

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