

Key Players Market Insight

A panel discussion on the Greek Real Estate Market

Arbitrage Real Estate actively supported University of Reading's Henley Business School's MSc Real Estate Field Trip in Athens, during 18-22 May 2015.

On May 19th, Arbitrage set up and moderated an expert's panel entitled "Key Market Insight", consisted of Paul Gomopoulos, Managing Director at Hines Europe, Ioannis Ganos, Investment Director at Bluehouse Capital and Tassos Kotzanastasis, Managing Director at 8G Capital Partners. The discussion was moderated by Nikos Kountouriotis, Principal at Arbitrage Real Estate.



A. Welcome speech

Nikos Kountouriotis, Principal, Arbitrage Real Estate



In his welcoming speech, Nikos welcomed the MSc students in Athens, showed appreciation to Prof. Eamonn D 'Arcy for this year's field trip's city choice and congratulate him for doubling the size of the MSc class since 2009, when he graduated from the same Course. Following the introduction of the distinguished panelists¹, Nikos spoke about the Greek real estate market. He explained that the local market is trying to find its pace following 6 years of continuous recession, which brought historical lows across all segments. Vast arrays of real estate assets have been foreclosed, while domestic banks have been attained indirect controlling ownership over large commercial real estate portfolios through NPLs. In 2014 and before national elections were called, Nikos reported that there was a shyly increase of investment activity, mainly in commercial and hospitality real estate. Total transactions resulted to roughly €1bn, mainly led

by foreign funded and recently recapitalized domestic REICs. During the same period, international investors showed appetite for direct property investments and started evaluating opportunities across sectors. In the residential sector, there was some movement in summer housing as a result of tourism pick-up, better pricing and Schengen visa incentives. Taking the above into consideration, Athens was ranked 5th most promising investment destination in the 2015 ULI's Europe Emerging Trends Report, being the biggest mover among 27 major European cities, as it moved 23 places compared to 2013.

Despite the good signs in 2014, Nikos noted that momentum was lost due to the unconcluded parliamentary Presidential election process in late December and the subsequent procurement of national elections in January. The market was impacted and situation started deteriorating during

¹ Short bios have been cited at the end of this Executive Summary.

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the new coalition government transition period and was intensely worsening ever since due the new round of political instability.

The baseline, as Nikos stated, remained that Greece's position is within the Eurozone, but delays and brinkmanship in reaching an agreement between the new Greek coalition government and the institutional creditors (IMF, ECB, ESM/EC) have increased risks. Political stability will return only when an official agreement (on a new funding and adjustment program coupled with a comprehensive and detailed reform plan) gets passed by the Hellenic Parliament and starts getting credibly implemented. Therefore, until this happens, it would not be a surprise if Greece returns to recession in 2015, is in need for more official funds and a new bank recapitalisation program. Adding to the above, Nikos pointed out that the domestic real estate product continues to suffer from institutional inefficiencies such as a volatile taxation regime, legal and planning complexities and a continuous lack of transparency, deterring consequently any interest from foreign and institutional investors, an interest badly needed.

Nikos concluded that there is still a long way before market recovery in the Greek real estate sector. Major challenges light ahead, he highlighted

B. Introductory Speeches

Tassos Kotzanastasis, Managing Director, 8G Capital Partners



Tassos started his introductory speech by introducing 8GCP, an asset management firm operating in Europe and Asia with offices in London, Cyprus and Hong Kong. He explained that 8GCP has been providing for more than 7 years investment and asset management services to family offices, banks and developers with main activities in central and southeast European markets, while lately expanding to Asia and Middle East. 8GCP provide expert workout management in "difficult" assets such as shopping centers, hotels and developments, while also financial advisory (on the property side), focusing on strategy, joint venture structuring and management as well as transaction advisory. Lately, 8GCP has been engaged on loan resolution advisory providing bottom-up due diligence on property assets.

Tassos analyzed the market from a fund manager's perspective. He pointed out the 2 type of players in fund management, the "α" players and the "β" players. An "α" player is the kind of fund manager, who visions differently the property investment, explores best alternatives and adds value to the asset by adopting various strategies, whether this means a change of use, an improvement in the tenant mix, an altered capital/debt structure or a combination of the above. The "β" player is the kind of fund manager, who takes positions based on market timing and proper pricing, focusing on plain vanilla assets with little room for opportunity to add value through active management. According to Tassos, a fund manager's biggest attribute is to have conviction in his decision making. Analyse the often imperfect information at hand, if necessary draw parallels from other similar markets, form a view and then execute with determination.

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Ioannis Gkanos, Investment Director, Bluehouse Capital



At his introductory speech, Ioannis explained the investment scope of Bluehouse Capital (BC), an investment management firm focusing mainly on Emerging Europe. Ioannis mentioned that SEE market has shown large investment activity during the last year, with total transactions reaching € 6.5 bn. Half of the transaction volume was recorded in Poland, which has been attracting big investor names such as Blackstone, Hines and other players. Ioannis pointed that BC is definitely an “α” player, according to Tassos’ prior analysis, who seek to create value in their assets. BC is currently exploring opportunities in Hungary and Poland and does not intend to re enter the Greek market anytime soon.

Ioannis analyzed the Greek market and its current state of turbulence. He explained that in the last 6 years 30% of the domestic GDP has been lost, deposits have been reduced by 55% and liquidity has gone down 50% in comparison to the high levels of 2007, when the market was estimated at €230bn. He explained that there is currently no lending from the banking system, which has pushed the property market at its bottom. The only interest is shown by foreign investors in listed vehicles. Commenting on the Greek property stock, Ioannis mentioned that there is lack of quality product, whether this is A’ class office space or shopping centers with good lease profile, high specifications and no planning issues. There are also frictions in the market that lead to big differential in pricing. Ownership is fragmented at a great level and development project are challenging due to the strict planning regime. To explicate his last remark, Ioannis used as an example BC’s only Greek investment, Mc Arthur Glen Retail Park. The land plot was bought in 2006 and the planning permission was granted in 2009.

Paul Gomopoulos, Managing Director, Hines Europe LLC



Paul started his introductory speech explaining that Hines initially started looking at the Greek market at the end of the good cycle, back in 2007. They left in the beginning of the crisis and came back in 2012 with a different strategy this time, focusing merely on distressed assets. In the meantime, Paul was operating in the Irish market, which showed that once stability comes back in a falling market, recovery can be fast. He now sees that the big funds have put Greece into their radars, while there are still opportunities to buy properties at prices lower than their replacement costs. Paul also mentioned that there are several risks related to the Greek property market, which once they get correctly stressed they can lead to good returns. Political instability is seen as major risk and a main reason for foreign investors to still keep a distance.

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C1. Panel Discussion

The panel aimed to give an insight of the Greek property market from an investor's perspective, as well as to debate on risks, inefficiencies as well as opportunities and comparisons with neighboring SEE and CEE real estate markets.



When asked about the most important parameter they would improve in the institutional inefficiencies of the Greek real estate market, Ioannis answered that the current planning regime should be administered in a more efficient way, as it operates in a restrictive framework, which demands too many permissions. Paul mentioned that a big drawback is the slow process of the Greek judicial system that needs to be improved. Time is crucial and thus even correct verdicts could kill business if they get delayed and come at the wrong time. Tassos' view was that the legislative framework should be simplified, beginning with laws affecting Landlord and Tenant relationship as well as with the stability, rationalization and simplification of the taxation regime.

Assuming that political stability returned and Grexit scenario ceased to exist, the panel was asked in which asset classes and in what type of deals they would see investment opportunities. Paul pointed out that hospitality assets would be a first option, since they are able to provide hedge against currency risk and Greece is a worldwide renowned touristic destination. However, it is an asset class with few large units that operate as resort destinations which currently perform well in the global hospitality markets. Ioannis mentioned that all sectors could attract an interest, albeit at a different timing. He would prioritize though office and retail as well as NPLs and repossessed assets from the banks. Tassos on the other hand would concentrate on new developments, since the market is starving for new supply because of the lack of financing of the last 5 years, which has led to a constantly ageing building stock with very few developments completed.

There was also reference to competition from peripheral European countries in Central and South East Europe, which is increasing with property investments mainly in Poland as well as in Czech Republic, Hungary and Romania now approaching 2006 record levels. Tassos and Paul highlighted that Poland is a core market for fund managers, since it offers both liquidity and attractive fundamentals. Ioannis added that all peripheral European countries are benefited from huge influx of foreign money since they provide cheap labor, while their infrastructure is being constantly evolved. The lack of quality product in certain markets offers good development opportunities to fund managers. Looking at the countries selected by Bluehouse as investment destinations, Nikos spotlighted that 7 out of 8 deal with local currencies, thus he asked whether currency risk could deter investors from focusing on these markets. Ioannis stated that big transactions in those markets are executed in euros and for that reason currency was not a major issue. Current leases

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were agreed in euros, thus property investors were hedged against currency fluctuations, which have proved to impose less affordable leases, especially to retailers, at times of increased inflation. Another interesting input was that those markets were preferring transactions in Deutsch mark and U.S Dollar before the euro era. Setting aside currency element, Ioannis stated that CEE markets have shown good signs of fiscal growth and opportunities for new developments caused by a significant lack of quality product. As an example in Poland, the property market has now rebounded since 2007 with an annual growth rate of 4%.

Further on there was a discussion on the Greek systemic banks, which have become the largest owners of Greek real estate either directly due to foreclosures or through their NPL portfolios. Nikos wondered whether this could get unwind with a “bad bank” option. Paul stated that a few years ago the Government decided to recapitalize the domestic banking system as an alternative way to attract foreign capital. Unfortunately, those investors had not seen any returns until today, thus it might be rather late to drive their assets into a “bad bank” as this would impose to these investors major losses. Ioannis added that a next step for the banks is to create specific vehicles to offload some potentially commercially attractive assets out of their balance sheet. On the operational side, there was currently no interesting story on the way banks were managing their real estate assets, thus a solution could be the creation of small agglomerated commercial portfolios.

In relation to the empty stock of commercial, industrial and residential buildings in Athens, Nikos asked whether it was going to be a very slow take-up process following a steady economic growth, falling unemployment and disposal income rise. Tassos replied that there is currently a large number of derelict buildings , WITH FRAGMENTED OWNERSHIP, that require an appropriate regulatory framework in place to incentivize either current owners or potential third party investors to finance their redevelopment to be reused the soonest possible. Paul added that tenants seize the opportunity of lower rents and move to better buildings. Ioannis pointed out that in contrary to what has happened in the rest of the commercial building stock, shopping centers with good management had been proven to be resilient during the crisis. All panelists concluded that the take up pattern would be determined both by economic growth and the needed reforms in current legal and planning regime.

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C2. Students' Q & A session

The students Q&A session opened with the audience trying to get an estimate on prime property yields, in comparison to mature western European markets, where prime office yields have reached 4% and 5%. The panel answered that in Athens CBD prime office properties were sold at a gross initial yield between 8% - 8.5%, with secondary spaces trading with a minimum discount of 10% on the abovementioned yield. In the hotel and leisure market, Tassos explained that despite hotel and leisure market having plenty of stock available, the big majority is being operated by family owner enterprises who do not think along the lines of the investment criteria used by property investors.



The audience asked more information about the competition in terms of international investors (like KKR, Blackstone, at al.), who are looking at the Greek real estate market. They were informed that Blackstone is not actively looking, while KKR tried to enter in an asset backed debt portfolio buy-out, which did not end up successfully. The panel also informed them about the indirect placement of other worldwide known funds, such as York Capital who invested both in Lamda Development and NBG Pangaea REIC, Fairfax, who invested both in Eurobank and Grivalia REIT as well as Invel, who also invested in NBG Pangaea REIC. Other major players include Oaktree Capital that invested through a JV with Sani Resort in ex Gerakina Beach Hotel in Halkidiki Peninsula and Thirdpoint, who invested in Dolphin Capital.

There was also reference on other international investors including Fosun, Global Family Partners, Dogus, who were waiting big state privatization projects such as Hellinikon, Asteras Hotel in Vouliagmeni, Thriaseio Logistics Center to mature.



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Apart from the abovementioned investors, the audience was further updated about other global investors who had entered in different asset classes, such as corporate stocks and shipping.

Later on there was a discussion on whether current lack of quality product in the market should be considered as an investment opportunity. Paul acknowledged this as an opportunity for the “ α ” players; however timing was not right, since the existing very low rental values did not make economic sense for such investments to take place at the present time. Unfortunately he stated, things move very slowly towards economic growth and thus, it was not the time for office redevelopment projects. Ioannis added that there were some good opportunities in the retail sector and mentioned the example of City Gate, a 21,000m² GLA shopping center in Thessaloniki, which was bought by APN Property Group and Eurohypo Bank. The investor paid € 1m in cash and took over a € 5,5m loan, invested € 3m on the top of that and ended up with an annual income of € 2,2m. High street retail building stock is not sufficiently proper for retailers and this is an element that drives shopping centers with good management to good performance. Ioannis added that new developments were not happening at the moment, because the banking sector was totally dried out, while mezzanine and debt financing investors seek relatively high IRRs, above 15%.

At the end, Nikos posed the question on how someone would succeed in today's real estate, a question a lot of the students would like to get it answered from an experts' panel. A question he also had when he was doing the similar Master degree as a student in Reading. All panelists agreed that Real Estate is cyclical and happy days always follow downturns. They pointed out that success depends on someone's vision on what they wish to accomplish in this asset class, since there are diverse professional pathways to follow within Real Estate industry.

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Participants Bios (1/2)



Tassos Kotzanastassis, CFA

Tassos is an experienced property investment professional with 21 years of experience in the fields of property investment and management. He is the founder and managing director of 8G Capital Partners Ltd, a private equity real estate firm. Based on the core notion of *'Putting Real Estate to Work'*, 8GCP offers asset management and workout services, financial and transaction advisory as well as loan resolution advisory. Immediately prior to 8GCP, he was one of the co-founders of the European arm of HSBC Property Investments, the principal real estate investment arm of HSBC Group, in London. During his tenure as a Director, he helped to set up the investment platform from scratch and build a portfolio in excess of Euro 900m. The portfolio was focused on retail assets in Europe. Before joining HSBC, Tassos was a fund manager with PRICOA Property Investment Managers, the European subsidiary of Pramerica Real Estate Investor, co-managing a USD 1 billion commercial property fund which focused on value-add opportunities in Southern, Central and Eastern Europe. During his tenure at PRICOA, he also worked as an asset manager specializing in carrying out value-add initiatives (including development) in retail and office assets and then as a transaction manager, responsible for originating, negotiating and closing property investments. Prior to PRICOA, Tassos was a manager at Investment Property Databank (IPD) responsible for performance benchmarking and bespoke property research to property companies. Other work experience includes Henderson Global Investors (Tassos was one of the original members of the European property research team) and a leading property valuation firm in Cyprus. Tassos holds a BSc (Hons) in Economics & Accounting from the University of Bristol and an MSc in Land Management from the University of Reading. He has earned a number of investment management qualifications and he is a CFA charter holder. He is also a Chartered Surveyor (MRICS).



Ioannis Ganos

Ioannis is an Investment Manager at Bluehouse Capital, responsible for sourcing, structuring and executing acquisitions and exits in CEE and SEE. Prior to Bluehouse, he worked as a Real Estate Associate for the Technical Olympic Group, a major Athens Stock Exchange listed Greek construction and real estate conglomerate including a NYSE listed subsidiary. His duties included feasibility studies, investment appraisal and business plan assessment while he was member of internal committees and group's representatives in negotiations. Prior to this, he was an Associate of OTE Estate S.A., the real estate subsidiary of Hellenic Telecommunications Organization (OTE S.A.), where he was involved in the strategic planning and the re-organization of the group's corporate real estate portfolio. Ioannis started his career as a research associate for the foundation for Economic and Industrial Research (IOBE) in the department of Public Finance. He is a chartered surveyor (MRICS) since 2008 and he is the Chairman of the board of the RICS Hellas (Royal Institution of Chartered Surveyors) since 2010. Ioannis holds a B.Sc. degree in Economic and Regional Development from Panteion University and an M.Sc. degree in Real Estate Economics and Finance, from the London School of Economics and Political Science. He is a graduate of the PDC in Innovations in Real Estate Finance from Massachusetts Institute of Technology. He has published academic and professional articles and is co-author of the book "Hidden economy and tax evasion in Greece" 2001, by Papazisis publications.

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Participants Bios (2/2)



Paul Gomopoulos

Paul is the Managing Director of Hines Greece. He is an experienced investment manager with 15 years of experience in the fields of real estate development, real estate investment and asset management. He is currently sourcing and structuring investment opportunities with a focus on hospitality and hotels in the Greek market. Paul joined Hines in 2006 in the Fund Management Group responsible for managing the two flagship Hines pan-European development funds with €1 billion of equity commitments. In 2011 he helped open the Hines office in Ireland, where he was responsible for the execution of development and investment transactions. Prior to Hines, Paul worked in the real estate team of the European Bank for Reconstruction and Development, at which he has responsible for financial modelling, deal structuring and due diligence for debt and equity investments in Central and Eastern Europe and Commonwealth of Independent States. Previously he spent two years at SCA Consulting, a Chicago based boutique international strategy consultancy focused on Value Based Management. Paul is a graduate of University of Chicago in Biology and Economics, while he also holds an MBA from Harvard Business School.



Nikos Kountouriotis

Nikos is a Chartered Surveyor (MRICS), Principal at Arbitrage Real Estate. He is responsible for valuation, brokerage and technical due diligence services to major investors, financial institutions, insurance and auditing firms. He also provides asset management services to property landlords, banks and real estate investors. Previously, Nikos was heading the property management department of L.P Ellinas Real Estate, with total portfolio under management exceeding 220,000m² including office and retail units, as well as healthcare facilities and residential complexes. Earlier, he spent a 3 years' period in the consulting department, where he was responsible for mortgage lending valuations, investment appraisals and feasibility studies. Prior to L.P Ellinas Real Estate, Nikos was involved in residential development, majoring on the summer homes market. Nikos holds an MSc in Real Estate Finance & Investment from the University of Reading and a BSc in Mathematics from the University of Patras.

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Event Moments

