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SPECIAL FEATURE 3: THE REAL ESTATE PROPERTY OF THE STATE

The Greek State is the largest property owner in Greece. However, the registration, protection, management and utilisation of such property involve numerous stakeholders of different or overlapping competences, making its overall valuation particularly complicated. According to recently published estimates, the value of real estate property owned by the Greek State (central government, local authorities, social security organisations, other legal persons in public law, bequests, public corporations, etc.) amounts to some €300 billion.¹ Today, the bulk of this property is managed by the Hellenic Public Real Estate Corporation (KED), which – according to its founding law – aims at an all-inclusive administration of public real estate and servicing the housing needs of public sector services.² KED manages roughly 92% of the real estate assets owned by the Greek State, while the rest belong to other public entities: ministries, the Hellenic Tourism Development Co, the Hellenic Olympic Properties SA, the Public Corporation of Urban Planning and Housing (DEPOS SA), the AGROGI-agricultural land SA (which goes into liquidation according to the draft law on the abolition or merger of public sector entities), the National Defence Fund, social security funds and other public entities.³

The difficulty in managing public property is associated with the lack of a central policy or a cohesive and comprehensive plan, emphasising on transparency, control and efficiency. The way in which public real estate assets were being used in the past presents serious drawbacks. Each entity or ministry was responsible for managing its “own” real estate property, either

¹ The amount of €300 billion does not include the property of the Church. At any rate, in a report published last year, the IMF made an indirect estimate of the Greek State property, according to which the value of the country’s net fixed capital stock in 2008 was equal to 51% of GDP, i.e. approximately €125 billion (*Greece – Selected Issues*, August 2009, Chapter II, pp. 9-10). However, based on the methodology applied, this does not include the value of the land, while the value of the capital stock was calculated indirectly, as the cumulative result of investments made between 1960 and 2008.

² KED was founded in 1979, by virtue of Law 973/1979, as a legal person in private law based in Athens. Supervised by the Minister of Finance, it is a Société Anonyme and its sole shareholder is the Greek State.

³ The State property can be divided into owner-used assets (used by State services), income generating (leased) real estate, non-utilised public property that may be developed and utilised in the future, and public property subject to legal abeyance and other limitations (lands encroached upon, properties of disputed ownership, properties held in abeyance by town planning authorities, etc.).



BANK OF GREECE
EUROSYSTEM

through bureaucratic mechanisms already in place, or by setting up companies (e.g. Hellenic Olympic Properties SA) with a limited number of assets in their portfolio. Apart from the negative impact on management costs and economic efficiency, this policy has also been blemished by instances of non-transparent management, which gave to private interests the opportunity to exploit or chisel out, one way or another, part of the public property.

A commonly held view is that within the huge – compared with other EU countries – real estate property of the Greek State lie considerable valuation gains that could contribute to economic growth and improve urban environment and public space, while strengthening public revenue. Nevertheless, efforts appear to be hindered by a number of constraints. In greater detail:

(a) The Greek State is unaware of the true size of its property, mainly because of an absence of a complete and accurate cadastre. The real value of public property will be reliably assessed after the identification of the State's assets and the required separation between communal property (which is untradeable and cannot be liquidated, though its use can be handed over to third parties for a price) and utilisable public property (land plots, buildings, fields, quarries, salt mines, etc.) that can be commercially traded.

(b) The lack of a cadastral survey of public property has given ground to repeated encroachments and unending litigations, with major legal problems of disputed claims obstructing the use and management of a considerable part of this property.

(c) The registration, protection, management and utilisation of public property is entrusted to a large number of entities (ministries, social security organisations, KED and other companies set up by the State, special services of the tax offices, local government, etc.), of different, overlapping or conflicting competences that make its overall assessment and utilisation particularly hard.

(d) A large number of public real estate assets is subject to multiple encumbrances and restrictions as to their use, and thus the commercial value of the public property stands at levels much lower than market prices. More specifically, many major urban buildings within city limits, which would be of a very high commercial value if they were privately owned, are subject to serious restrictions as to their use. The same holds also for many public buildings and lands located primarily in coastal areas, which have limited prospects of commercial use, due to legal restrictions (protection of the environment or of the local architectural identity, archaeological restrictions, land accreditations by forest inspection authorities, etc.).



BANK OF GREECE

EUROSYSTEM

(e) Significant limitations, invariably set by the donors, often hold back the use and management of bequests' property that has come under Greek State ownership. The legislation governing the bequests' supervision regime should be thoroughly revised, since the monitoring and administration mechanism has proven bureaucratic and ineffective. Modernising both the relevant legislation and the administrative and control mechanisms is necessary, in order for bequests to be utilised and fulfil their social role.

Notwithstanding the above, the real estate property of the Greek State can make a substantial contribution to public finances. Dynamic, rational and immediate use and management of the public property can ensure sizeable, steady and long-term proceeds for the Greek State, as well as additional growth gains for local societies and economies, while at the same time protecting the environment and safeguarding the local architectural identity and heritage.

At any rate, overcoming, immediately or in the short run, the country's fiscal problem through the management of the State's real estate property seems to be rather difficult. However, certain actions, such as the renegotiation of leasing contracts that has already been announced, are expected to help strengthening public revenue and reduce expenses. Profitable management and rational use of the public property can become a considerable source of public revenue in the medium run. But this requires easier use, full registering and, mainly, removal of existing limitations and red-tape or organisational obstacles.

Effectively managing the public property, while also ensuring the social interest, requires coordination between all entities involved and primarily the creation of a full electronic registry of the State's real estate assets, by consolidating all disperse information into a single electronic geographic database. The creation of an independent and flexible management entity would most probably help addressing more effectively the lack of coordination, red-tape and overlapping competences.⁴ Such an entity would supervise all individual public property management companies and entities, so as to ensure transparency and uniformity. Also, it would coordinate efforts to register and protect the public real estate property, and prepare a single all-inclusive property catalogue that will allow the assessment of its value. Finally, it could undertake the management and monitoring of tenders related to the utilisation of major public real estate assets, while being responsible for covering the housing needs of all State services.

⁴ For instance, following a complete overhaul and clear definition of competences, this role could be assigned to an already existing entity such as KED, which already manages a particularly large part of the public property.



BANK OF GREECE
EUROSYSTEM

These would constitute a first step towards a transparent, rational and efficient registration and use of the public property. The next step, which requires more time and systematic efforts, would be to develop a cohesive and comprehensive public property utilisation plan. Many individual plans submitted and approved by relevant government bodies in the past typically concerned liquidations and long-term leases, renegotiation of leases, private utilisation and concession agreements, Public-Private Partnership (PPP) schemes, etc. Emphasis must now be placed on the most advanced real estate portfolio management tools that make best use of the private sector's experience, such as securitisations of owner-used real estate assets (issuance of government bonds backed by real estate), the creation of a Real Estate Investment Company (REIC), the formation of holding companies that will be listed on the Athens Exchange as soon as conditions allow it, "sale and leaseback" or "lease and leaseback" techniques,⁵ etc. Moreover, concession agreements are a particularly effective tool for utilising the public property, e.g. in infrastructure but also in commercial property.

In any case, what is absolutely necessary is to rationally manage the housing needs of public services and efficiently use the State property, while ensuring the social interest.

It is worth noting that on 2 June 2010 the Greek government announced⁶ that KED, the Hellenic Tourism Development Co and the Hellenic Olympic Properties SA will merge into a new company, to which real estate assets now managed by other ministries will also be signed over. Also a separate portfolio management company could be established, via holding companies that may be later listed on the Athens Exchange. As regards the "Xenia" hotels, individual units may be sold, or an investment scheme will be created, to which the exploitation rights of all the "Xenia" units will be signed over for utilisation through concession agreements. This company may also be listed on the Athens Exchange, with the State retaining 51% or a binding minority of 34% of its shares. As for the Hellenic Tourism Properties SA, the government plans to build "high-quality" tourism real estate asset portfolios and sign them over to development companies through concession agreements. Finally, it will set up (or reactivate already existing) special purpose vehicles for the utilisation of major State assets (such as those in the Elliniko and Tatoi areas).

⁵ These refer to assets sold and simultaneously leased by the State, so that their use may continue, or similarly, to assets assigned to contractors for upgrading and renovation works, and then leased by the State for a certain period of time, upon expiry of which the State regains ownership.

⁶ Joint press conference by competent ministers on privatisations and the management of public property.