

# **Alternative Ways of State Property Utilization: A New Proposal**

**Presentation by**

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# State Property Characteristics

- Huge number of state properties (many reasons for that).
- Several state property owners & administrators (KED, ETA, Ministries, Municipalities, etc).
- Absence of recording.
- No single consolidated database.
- Legal issues (encroachments, abuses, claims, etc).
- Urban planning issues (planning violations, arbitrary construction, use of asbestos, absence of land uses, etc).
- Aged buildings.
- Constitutional issues – Relevant legislation (State Court of Justice).

**Results: Inactive portfolio**

# State Property “Developments”

- Absence of an integrated strategic plan.
- The “active” role of Municipalities.
- Tenders without taking into account international trends and needs.
- Difficulties in valuation.
- Several unsuccessful tenders.
- Problems in the implementation of successful tenders (ex. Galatsi).
- Low credibility resulting in the absence of international developers / investors.

# Current Environment

- Tremendous time pressure.
- Need for a great number of privatizations.
- Individual privatizations – even with successful results – are lost in the barrel.
- Uncertainty for the future of the Greek economy.
- Unstable financial markets.
- Absence of “market”.
- Greek assets (especially real estate as said before) with several legal and urban planning issues that need to be solved – thus more time is needed.
- Greek state with a lot of (but also inactive) assets the total value of which is much higher as a % of GDP compare to other European countries.

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# ARHIMIDIS

# Primary Goals

- Back up – supplementary plan for reducing Greek debt and avoiding default.
- Raise sufficient funds immediately to allow Greece to successfully deal with its debt and its obligations to lenders.
- Remove uncertainty.
- Re-opening of the Greek financial market.
- Profitable exploitation of Greek assets based on the “maturity level” of each asset according to a 12-15 year period.
- Avoid fire sale privatizations.
- Involvement of both Greek and European experts into asset development.
- Attract direct foreign investment, fuel growth, increase employment.

# Proposal

- Concentration – engagement of a huge number of state owned assets of all kind (shares, real estate, rights, etc) within a period of 2-3 months. These assets will be divided into three + 1 categories:
  - **Category 1:**  
Assets for immediate privatization (timetable 1-6 years).  
Typical example are the assets that are already (or will be) contributed to the newly established Hellenic Fund for the privatization of Greek state property. Note that these assets are fully described in the previous agreement between Greece and Troika (the target was to raise 50billion euro by 2015). This list should be enriched.

# Proposal

- **Category 2:**

Assets that could be considered for privatization subject to certain restrictions (timetable 3-10 years). For example assets that belong to Municipalities, islets that are not subject to national security issues (approximately 600 according to KED records), etc

- **Category 3:**

Assets that we do not wish to privatize but we have to “engage” to the total portfolio so that we increase the expected value (timetable 4-12 years). Such assets could be the securitization of certain proceeds, buildings with historical value, etc.

- Category +1 involves assets that are currently held by international Greek debt holders (see Q&A).



# Proposal

- Note here that WE CAN'T HAVE from the beginning exact valuations for these assets for two reasons:
  - First and most important there is no time as WE HAVE TO ACT NOW!
  - Second, if we try to get valuations for these assets in such a bad environment and with all these issues pending we should expect pure figures. So first we have to change the environment and resolve pending issues and then get the valuations.

That is why it is of great importance to “engage” a huge number of assets.

# Proposal

- The whole portfolio of these assets is then contributed as equity capital to a company form the type of which will be decided (Company). The only shareholder of this Company will be a European entity that already exists or will be created for this purpose (for example the European Investment Bank, or a subsidiary of EFSF, or other). Obviously we have transfer of ownership (or alternatively in some assets the granting of long term rights of use).
- Immediate disbursement of 75billion euro as a first dose of the total expected value of this portfolio (approximately 40-50% of the total expected value). This amount will be used:
  - to repurchase on “actual paid-in value” the Greek bonds held by the ECB (i.e. we “buy” Greek debt of approximately 70billion euro at 50billion euro)
  - to finance the repayment of Greek debt that matures the next 12-18 months
  - to rekindle the Greek economy

# Proposal

- Within a period of maximum 12-18 months, we derive two independent valuations for all assets in the portfolio (one evaluator is appointed by the Greek government, the other from the Company) – final appraised value of each asset will be the average. Note that we should expect much higher appraised values for all assets since the actual implementation of this proposal will create significant investment interest for Greece.
- Given that the total appraised value of the portfolio is quite significant (we should target a figure in the area of 200billion euro), we start to “disengage” assets of Category 3 from the portfolio of assets until the total worth reaches the desired pre-agreed level (let us assume a 150billion euro level).
- After the disengagement of selective assets of Category 3, the total equity capital of the Company is now 150billion euro and a second payment of 75billion is made to the Greek state (150billion minus 75billion which was the first dose). These proceeds are also used to “withdraw” Greek debt from the market. In this way we expect that in the end of this 12-18 month period the Greek debt could be <95% of the Greek GDP.

# Proposal

- In the meantime (during this 12-18 month period), the privatization program of the Hellenic Fund continues as scheduled with assets of Category 1. The only difference is that now we also have the participation and assistance of the Company which will obtain the proceeds of the privatization. Again it is more than obvious that the actual proceeds from the privatization of these assets will be higher than before (and will come much faster).
- As said before, the timetable for the development of all portfolio assets is pre-agreed (first we dispose assets of Category 1, then the assets of Categories 2 & 3).
- Given that, for a period of 12 years Greece maintains the right to disengage any asset from the Company by paying an amount equal to the initial valuation plus an interest (coupon) for each year the asset was engaged to the Company's portfolio (**CALL OPTION**). In this way, if things go well Greece will be able to retrieve certain assets of significant importance. To make things even better for the Company's shareholders this interest (coupon) can be associated with the growth of the Greek GDP (the higher, the better).

# Advantages

- We can avoid voluntary (or involuntary) default.
- Significant contribution to the solution to the Greek financial deadlock (debt reduction, savings in annual interest payments, initialization of development activities).
- Protection of the Greek financial system and the Greek pension funds.
- Attraction of foreign direct investments.
- Growth rates much higher than today's expectations.
- Pilot plan for the future of a united Europe.

## Q & A

**Q. How many assets can be engaged in this proposal?  
Does Greece have so many assets?  
Do they really worth 150+ billion euro?**

**A.** We will have to engage as much as needed. Again Greece has a tremendous portfolio of all kind of assets that remains inactive for decades for several reasons. Definitely, the potential is there and it is time to ACT. Actions that should have taken place decades ago, should be executed within a very short timetable. Furthermore, we will contribute as much as required to achieve a critical level and we will feel “safe” since – as described before – we will be able to retrieve a lot of these assets. Part of this portfolio can be retrieved after the valuations and another part for a period of 10 years (we do have plenty of time to make things right and be able to retrieve the assets).

## Q & A

**Q. Where will this kind of money come from (150billion euro)?**

A. This proposal is not addressed to the international financial markets (at least in the beginning). It is addressed to our European partners (the European Investment Bank, a subsidiary of EFSF, or other). Note that according to the current agreement our partners will have to contribute approximately another 130 billion euro – and still they won't be 100% sure of what may happen to Greece during the next few years. In our alternative they pay 150billion euro, they buy assets, Greek debt is immediately and actually reduced, the Greek economy is strengthened, financial markets reopen, foreign direct investments can be realized in a secure environment. Of course risks do exist. But they are much lower than before.

## Q & A

**Q. Does Greece has to pay “interest” for these funds?**

**A.** No. Profit (reward) will come from the added value that will be derived from the development of these assets. With each privatization that is concluded, the shareholders will get back the initial appraised value of the asset plus a bonus (could be the interest that Greece is now paying to Europe – 4-5% annually). Extra funds will remain in the Company. Furthermore, Greece will pay interest for all assets that will be disengaged during the next 10 years but this will happen because Greece **CHOOSES** to disengage these assets (due to financial or sentimental reasons). It should be clarified from the beginning that this agreement is not “super profit” oriented. All we need is to organize this project in a mutually beneficial direction (win-win).



## Q & A

- Q. Is there an exit strategy for the shareholders of the Company or they have to wait 10 years?**
- A. Yes there is. If things go well after 5-6 years, the Company can issue a long term callable bond convertible to equity at maturity addressed to the financial markets. In this way Europeans get their money back very soon (but there are several other ways to do it).

## Q & A

**Q. Does Greece have to contribute assets of Category 3?**

A. YES. We need to convince our partners about the potential value of our portfolio of assets. Furthermore we need to remember that due to time pressure we will have to contribute many real estate assets that may have pending issues (ex. land uses). Therefore if we get the funds without risking the loss of other assets that are very important to us, we might delay giving land uses to these assets and therefore the shareholders of the Company might find themselves in a position of having an “inactive” asset for a long period.

## Q & A

**Q. Can we do it after the “haircut”?**

A. Yes we can, but there may be some complexities. In July the haircut was quite soft and there was no need for a significant state support of the institutional Greek debt holders. Also implications were more or less predictable. With the agreement of October 26-27th, things are much more complicated and uncertain.

# Q & A

## **Q. Is it fair to avoid the PSI?**

We do not know – this is a political decision. However consider the following. According to the current agreement institutional Greek bond holders will suffer a loss (especially the Greek pension funds and the Greek banks which their shareholders will probably end up losing equity). Furthermore there is no certainty that they will be paid in full in the future (nobody can predict what will happen).

Now assume that we could avoid the haircut and repay more than 40% of our TOTAL debt. Banks not only would avoid losses but they would be able to operate in a healthy financial environment, thus be profitable again. So why not contributing to this portfolio assets of their own? Instead of losing 25billion euro and still operate in an unsecure environment, why not losing assets of lets say 5billion euro worth and be profitable again? And in the next 10-12 years have the right to “repurchase” the assets using part of their profits.