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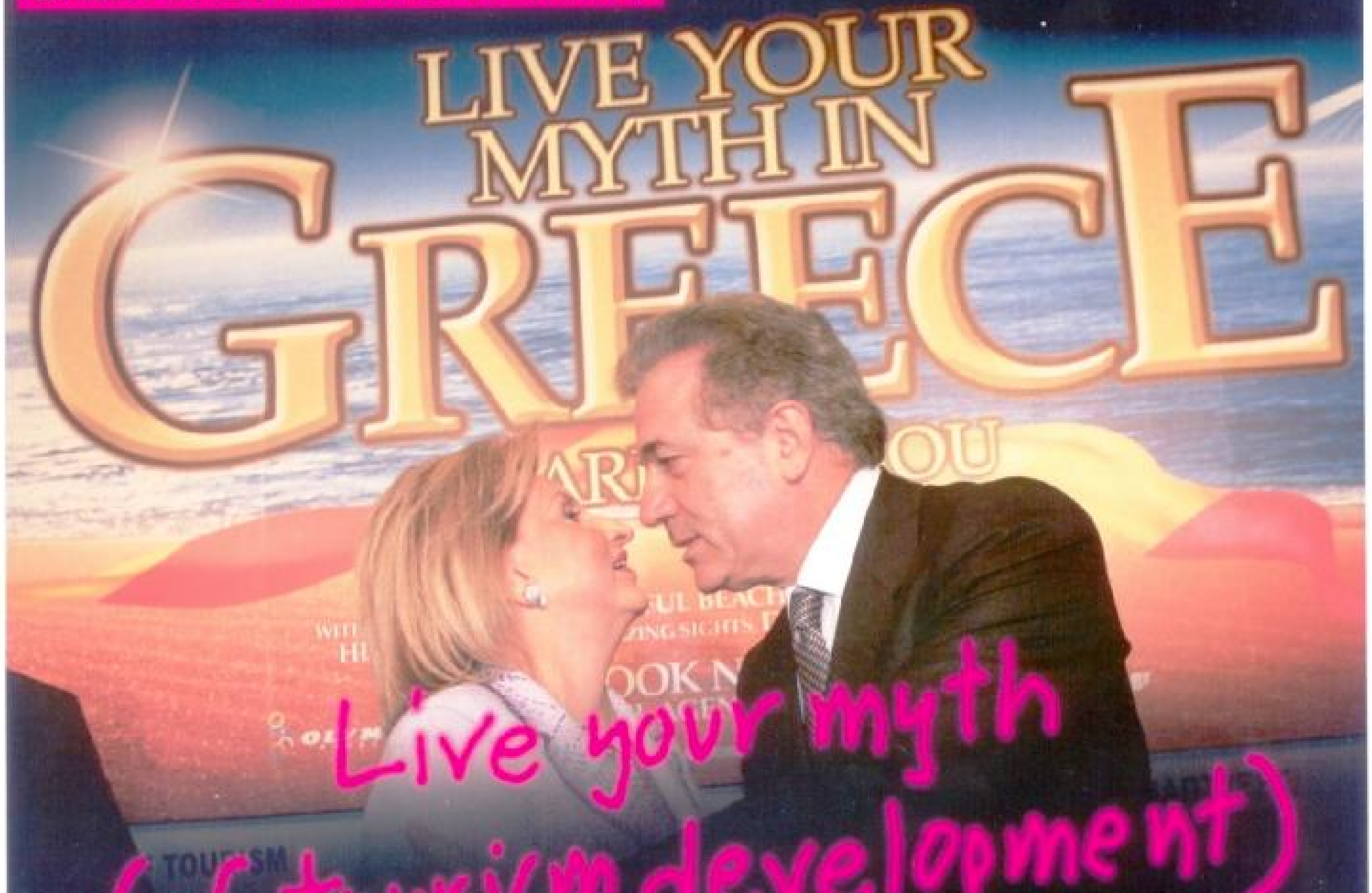

Live your myth
(of tourism development)
in Greece

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A SURVEY OF TOURISM PROSPECTS IN GREECE

by ROBERT M^c^DONALD

Coccossis says the Law on Spa Tourism, when it finally makes its way to parliament, will reduce the number of approvals that YTA requires in the permitting process from 24 to five: a building licence; a fire safety certificate; a certificate from the local authority that the installation's connection with the local sewage network is in order; a statement from the Chamber of Hotels on the legal form of the company for the purposes of social security and taxation; and, a statement regarding who are the legally responsible persons in the event of any judicial action against the company.

Residential resort development

There has long been talk of Greece becoming the Florida of Europe, a playground for the wealthy and a retirement home for northern Europeans seeking to escape the cold months of winter.

But for this to happen requires the development of integrated resort and villa complexes with associated leisure facilities such as golf courses, marinas, tennis camps and equestrian centres.

Historically, however, there has been resistance to such development for a number of practical, social and political reasons.

The first and principal difficulty has been the aggregation of large, contiguous plots of land. Successive land reforms in the 19th and 20th centuries led to the break up of most privately held estates.

This means that to put together a tract of sufficient size a developer must buy from many smallholders. The Constantakopoulos shipping family, which has been trying for nearly a decade to put together a large integrated tourism development in the south-western Peloponnese (see page 49), had to acquire land from 1,200 individual owners.

Because of Greek inheritance laws, even quite small parcels often are owned by many family members, some of whom may have emigrated. Greece is the only European Country without a Land Registry making it difficult to identify who are the beneficial owners and thus to clear title.

The Church still holds large tracts historically associated with monasteries. In other Mediterranean countries – notably Spain and Portugal – churches have been in the forefront of deals with developers, offering long-term leaseholds on land, in exchange for a portion of the revenues from their projects. It has been a mutually beneficial exercise providing developers with the necessary property and the church with funds to sustain its clergy and the fabric of its places of worship.

In Greece, the Church in the main has not been amenable to such arrangements believing that its lands should be used for more 'social' purposes. In the one notable instance where it has entered into such an arrangement (see page 52) the lack of requisite historical documentation regarding ownership proved a major stumbling block to the development.

The Hellenic Public Real Estate Corporation (KED) is the repository of lands owned by the state. It, too, has large tracts at its disposal. But even it has had difficulty securing clear title on properties in order to release them for development. The situation is complicated by the strict rules and regulations regarding the transfer of public property to the private sector. Moreover, development has not been KED's primary concern. Its main brief is to provide accommodation for government ministries and agencies and, when it has turned its attention to development of other properties in its portfolio, the interests of municipalities have usually taken priority over those of private developers.

Even once land is aggregated, zoning and planning laws have inhibited the creation of new 'townships' outside existing urban areas. To be profitable, such developments have to be up market. The presence of luxury villas alongside the modest homes of rural residents breeds local resentment. Politicians have been loathe to pay the political cost of legislating to facilitate development.

Additionally, the owners of existing hotels are anxious not to face the competition arising from new developments and have been successful in lobbying politicians against taking actions that would promote new large ventures. Those that have sold units to private individuals have usually gone the time-share route.[30]

The result is that while Greece has many luxury resort hotels, with small-scale associated leisure developments, there is only one large integrated resort, the Porto Carras complex on the Chalkidiki peninsula. Its development was predicated on the construction of some 2,000 villas whose residents would make use of its 18-hole golf course, marina, casino and other resort facilities. Planning problems have to date hindered the development of the associated housing leading to financial reverses and foreclosure by a state-owned bank. The resort has since been privatised and become profitable under private management but the issue of the residential component remains unresolved.

The development of leisure facilities such as golf courses and marinas has largely fallen upon the state through the National Tourism Organisation or municipalities. As a consequence, the facilities tend to be mean and not of a standard to attract the wealthy patrons that they are supposed to attract. This makes diversification of tourism into upmarket products difficult.

The social context is, however, changing. In the past two decades, Greece has seen the emergence of a rapidly burgeoning middle class. Convergence for membership of the Eurozone has raised living standards and meant more local people with more disposable wealth. This in turn has generated domestic demand for high-end facilities for the many rather than for the rich few who have bought their own islands or built their own seaside estates with private beaches, quays and tennis courts.

The changed mentality has meant that the politicians have been more willing to make the legislative reforms necessary to promote development. The 2003 legislation allowing the development of villas in conjunction with four- and five-star hotels was a first step in this direction. As noted above, its terms limit profit potential, which means that few developers have sought to take advantage of it. Because of the complexity of the permitting process, none of those that have has yet realised a project. The new Ministry of Tourism Development has proposed amendments to improve viability but it is not clear when – or if – these will be forthcoming.

In February 2005, the inner cabinet took a decision to create a special inter-ministerial committee of secretaries general to clear the path for nine large investment projects worth more than €2 bn that had been bogged down for a decade and more in bureaucratic red tape. Six of these related to the tourism sector. The bureaucratic thicket is such that none of them has yet got off the ground despite such high-level intervention.

If, however, the legislative and bureaucratic environment can be improved, the time would appear to be ripe for considerable such development. At least international investors would seem to think so.

Two young Greeks (see page 36), who have experience working with the $1 bn fund managed by Soros Real Estate Partners (SREP), have recently launched their own private equity firm to promote "master-planned, leisure-integrated, residential resorts" in the eastern Mediterranean.

Their venture is predicated on the assumption that market demand remains high but that traditional centres for such developments in western Europe – particularly Spain and Portugal – have become saturated.

Their company was listed on the Alternative Investment Market (AIM) in London on December 8, 2005 raising €104 mn in capital from some of the world's most prominent institutional investors.

Their prospectus – always bearing in mind that a prospectus seeks to put a positive spin on a venture – paints a very rosy picture of market potential. It notes that there is a rapidly growing number of older people in north-

30 See *Life's a beach*, Special Survey No. 47, March 2003, pp. 48 – 50.

Comparative development indicators in southwest and southeast Europe

Indicators	Southwest Europe (Spain and Portugal)	Southeast Europe (Greece, Cyprus, Turkey and Croatia)
Tourist arrivals (2004)	65 mn	43 mn
Growth in tourist arrivals (2004/2003)	3%	10%
Area	597,000 km^2	978,000 km^2
Shoreline	6,757 km	27,359 km
International airports (2004)	18	17
Number of Blue Flag beaches (2005)	669	699
Golf courses (2004)	333	20
Completed projects with golf (2004)	(est.) 200+	1

Source: *Placing and Admission to AIM*, Dolphin Capital Investors Limited

ern Europe who are planning to retire overseas – particularly as governments move to reduce pension entitlements because of the actuarial problems created by the increased longevity and rapid aging of their populations.

As an example, the prospectus cites a report by a leading UK financial services provider, Alliance & Leicester, which says that over the next seven years, i.e., to 2012, 2.3 mn people from the UK alone will be looking to retire abroad.

The prospectus notes that retirees, holiday and second-home buyers are becoming "increasingly mobile, in particular within the European Union". Thirdly, it notes that there is increasing demand for such home ownership from newly wealthy Russians.

The prospectus argues that traditional Mediterranean markets – Southern France, Portugal and Spain – have become "over-developed and expensive" but that there is "considerable scope" for such resorts in Southeast Europe.

There is only one such development currently operational in the eastern Mediterranean basin – the Aphrodite Hills project developed by the Lanitis Group in Cyprus. The prospectus argues that Southeast Europe could "sustain today more than one hundred such projects".

The prospectus says that more than 20 such projects are in the pipeline in Greece and Cyprus and argues that the market is at a stage of evolution that "resembles Spain and Portugal in the mid-1990s after the Barcelona 1992 Olympics".

Dolphin Capital Investors

Historically, it has been possible to say that a property market is ripe for development when the deal-makers ride into town. It's not always the case. Sometimes the first movers are the first to go bust because they've misjudged the state of readiness.

But more often than not, they are the ones who make the killing by getting in while land is still relatively cheap and who either make a profit and get out once competitors move in or make such a name that they dominate the market in future.

Dolphin Capital Investors is a private equity investment vehicle that has been created by two new-generation, money-savvy MBAs who understand how to take other people's money and make it work.

They are 33-year-old Miltos Kambourides and 34-year-old Pierre Charalambides, respectively managing partner and partner in Dolphin Capital Investors (DCI), a private equity investment company capitalised at €109 mn. Both men have experience with SREP – Soros Real Estate Partners – the private equity real estate investment vehicle founded by the legendary investment guru George Soros.

That venture took $200 mn and parlayed it into a $1 bn investment fund that targeted real estate developments in Western Europe and Japan. While Kambourides was with SREP he was involved largely in projects in the UK but had responsibility for investment strategy in Southeast Europe. Charalambides worked with Kambourides in an SREP initiative to identify investment opportunities in the region. Before joining the Soros company the two had worked respectively for Goldman Sachs and JP Morgan.

Building upon their contacts, the two founded Dolphin Capital Investors with €5 mn raised in a private placement with institutional investors and a further €104 mn raised through an initial public offering (IPO) on the AIM, the alternative market of the London Stock Exchange. That market is traditionally used by institutional investors looking for higher-risk, higher-return investments for their insurance and mutual fund portfolios that consist in the main of more staid blue chips. DCI says it will only invest in projects with an internal rate of return of at least 25% and that it expects some of its ventures to generate up to 45%.

The investor list claimed by DCI reads like a who's who of the world's major asset management companies plus the National Bank of Greece which has taken an 11.5% stake worth €12 mn.

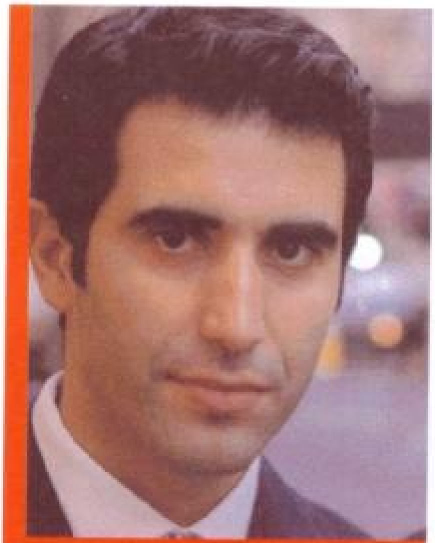
Dolphin Capital Investors is an offshore company registered in the British Virgin Islands. Its board consists of a Cypriot lawyer, a Turkish investment consultant and a Greek American asset manager.

The fund is managed against fees by Dolphin Capital Partners (basically Kambourides and Charalambides) a company based in Athens. Its board includes a vice-president of GE Capital and Constantine Hassabis, founder of J&P Development, which was responsible for development of the award-winning Pitiousa residential complex on the island of Spetses.[31]

The company plans to focus on investments in Greece, Cyprus, Turkey and Croatia. It has identified six projects in Greece and Cyprus in which it proposes to make €66 mn worth of investments. It has named these (see table on page 38). It has identified a further 11 projects – which the prospectus identifies only alphabetically – with investment potential of a further €127 mn. Three are in Greece, four in Cyprus, two in Turkey and two in Croatia. The prospectus said that the company had no legally binding agreements with the developers of any of these projects but expected to reach agreements with at least half of them.

Project Amanmila is a tripartite joint venture between Dolphin Capital Investments; Aman Resorts, a Singapore-based developer of villa-integrated resorts and spas,[32] and the Heah family (represented by Bali Four Seasons award-winning architect John Heah, who is also the architect nominated for the project).

The three investors have each pledged €3 mn to acquire a 1.4 square kilometre site on the island of Milos and to finance initial works. The prospectus said the group was in negotiations to acquire the site and had already begun the planning process that was expected to take approximately 18 months.



Miltos Kambourides, managing partner, Dolphin Capital Investors

The company, listed on the AIM in London and capitalised at €109 mn, is a private equity fund committed to investments in "master-planned, leisure-integrated, residential resorts" – basically golf courses with housing – in Greece, Cyprus, Turkey and Croatia. It has identified four sites in Greece and two in Cyprus in which it has plans to invest €66 mn and a further 11 in the region in which, if deals can be done, it might invest a further €127 mn. The company will commit to the projects at an early stage – including financing site acquisition and permitting. It is a risky business but returns are anticipated to be high – of the order of 25 – 45%.

The project is planned in two phases the first involving the construction of a luxury Aman hotel and spa together with 30 villas; the second involving the development of other residential complexes (no numbers were given) on "other portions of the site".

Aman Resorts would be responsible for design, management, branding and sales.

Project Kilada Hills is a residential resort to be sited some 5 km from Porto Heli on the eastern Pelonponnese. Plans call for 200 upscale residential units and an 18-hole golf course (see page 41).

Project Kyparissia Bay is described as "a strategic land acquisition" of 0.3 square kilometres in the western Pelonoponnese with a present capacity of 120 beachfront villas of a total of 18,000 square metres. The company claims 3 km of unspoilt beaches on its western boundary and pine forest on the eastern.

The company planned to spend €5 mn on the property and to contribute a further €5 mn towards its development. At the time of writing, it was still negotiating details of the land purchase. Dolphin said it looked to expand the site through acquisitions of adjacent properties.

Project Scorpio Bay is situated on a 1.72 square kilometre plot of contiguous land currently owned by the Mavroleon shipping family at Skorponeri, about an hour's drive north of Athens. It is situated on a mountainous peninsula near an area in which many members of the Greek parliament already have holiday homes.

The prospectus said the company had a memorandum of understanding with the current owners valid until February 28 (Kambourides said whether it would be extended was "market sensitive" information) and that they had already initiated the permitting process. The proposal was to acquire a 50% interest through the investment of €9 mn to be used towards the financing of the permitting and the initial phases of development.

31 See *Building blocks* Special Survey No. 41, October 2001, pp 58 – 59.

32 The company has resorts throughout southeast Asia (Indonesia, Thailand, Cambodia, the Philippines), the subcontinent (India, Sri Lanka, Bhutan), French Polynesia, the Caribbean (Turks and Caicos), north Africa (Morocco), France and the US.