REAL ESTATE BASED ASSET FINANCING FOR THE HELLENIC REPUBLIC

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EXECUTIVE SUMMARY

The Hellenic Republic holds a diverse collection of assets, many of which have been scheduled for sale as part of its commitments under the Memorandum of Understanding (**MoU**) between the European Commission, the International Monetary Fund, the European Central Bank and the Hellenic Republic. The sale of state-owned assets is a one-off opportunity to raise capital for the Hellenic Republic. It is for the benefit of the Hellenic Republic that the proceeds of sale from these assets are maximised and realised within reasonable time.

The objective of the report is to propose a framework for attracting private sector pre-privatisation finance for the share of state-owned real estate portfolio available for privatisation not already included in the MoU. This would help increase the privatisation proceeds beyond the amount currently foreseen in the MoU. The majority of the real estate is undeveloped land, with substantial potential for value enhancement through development, but with a more challenging scope for monetisation and hence not subject to current privatisation efforts. The report presents the benefits from the effort, in terms of increasing the net present value of its assets for the Greek State and improving liquidity in the Greek economy.

While the valuation of the portfolio of state-owned real estate assets is uncertain because of a lack of comprehensive data, estimates suggest that its current value may reach at least €20 billion. Given the Troika's MoU of privatisation proceeds from real estate assets is only based on a set of well-identified assets, which according to HRADF estimates corresponds to approximately €9 billion, the additional value of assets targeted by this report could be substantial. In addition, given that the total amount corresponds to approximately 10% of the available number of state-owned properties, it could be envisaged that a deepening of the privatisation process could unveil some additional value in the remaining unidentified real estate portfolio.

This report puts forward a proposal for facilitating pre-privatisation financing, in a way that could provide additional value for both the Hellenic Republic and its creditors. This plan revolves around three main axes:

- The first one consists in addressing weaknesses in the institutional framework for privatisation. The report argues that the Hellenic Republic should pass a law that transfers all the state-owned real estate assets to the vehicle in charge of privatisations, giving it responsibility for managing assets, funding its operations, and taking strategic decisions. This would enable it to realise value from privatisation assets through financing arrangements, without prejudice to the rights of any third party to assert rights and encumbrances claimed to be held at the time of transfer. With the appropriate governance structure, the privatisation vehicle can then restructure, develop and potentially finance assets before privatisation. Two such vehicles were recently formed, namely the Public Properties Company (**ETAD** merging several older entities responsible for the management of the Hellenic Republic's real estate assets) and the Hellenic Republic Asset Development Fund (**HRADF** the privatisation agency established in 2011 following discussions with the Troika). These institutions could be endowed with the means mentioned above to perform their task, and it could also be envisaged to merge them into a Holding Company structure. The optimal institutional structure would be characterised by an arms' length relationship with the State, a scale above the critical size, and the legal ability to take effective ownership, undertake pre-privatisation financing, and manage the assets.

- A second axis outlines reforms targeting the strengthening of the regulatory procedures allowing for an accelerated registration, zoning and legal clearing of real estate assets. This could also envisage a change from a geographical organisation of the registration to a property or ownership driven strategy of land registration and the establishment of a complete and comprehensive database of properties satisfying investor needs.

- Finally, the third axis of the report tackles the development of financing instruments. While the precise arrangements can only be structured once the portfolio is known with sufficient precision, the report outlines a general approach for a suitable financing arrangement. A stake in the various holdings of the portfolio could be sold to private developers in return for the necessary commitments to develop the portfolio and raise the necessary financing, prior to its full privatisation. The proceeds would be remitted to the Hellenic Republic and onwards to its creditors as required. Alternatively, the privatisation vehicle could be permitted to grant security over its assets. This will permit it to raise borrowings to fund payment of the Hellenic Republic's international obligations and to improve the assets that it holds for sale. Keeping public sector control over these assets requires a setup insulated from political interference, as outlined above, and sufficient managerial experience.

The potential benefits of this approach when combining the three elements are substantial:

- Pre-privatisation financing (either as a financing or developmental proceeds) enhances the privatisation process while at the same time attracts private sector capital in the short term. Through the proposed structures, majority control is transferred to the private sector through a partial private sector investment, while the Hellenic Republic is incentivised (as an owner and regulator) to work alongside the private sector to maximise the value of the assets. The liquidity that is generated contributes towards the cash flow objectives of the MoU while the involvement of the private sector with the assets ensures that optimal management and private sector development practices (as the case may be) are introduced.

- With its direct developmental and monetisation goals, it provides an incentive for the Hellenic Republic to accelerate the process for registration in the national land registry of real estate assets—and the means to finance the resources needed for this process to take place.

- It creates the capacity for the Hellenic Republic to make this real estate portfolio transparent and effectively audited (valued) for the first time, a pre-condition to a value-extracting privatisation.

- This approach also creates the prospect of raising the value of the real estate assets at privatisation by allowing greater capacity to develop the assets prior to sale and greater flexibility with respect to the timing of the sale. This in turn would strengthen Greece's ongoing capacity to meet its international obligations and improve its debt profile for the period beyond 2016. It would also ensure that the Greek people see that the assets that are held in their name are being developed and sold at their best potential and optimal values.

- By relying on appropriate private sector development, improved asset transparency, better servicing and greater flexibility on timing, it opens the market to a wider group of private sector investors and ensures a better value than a sale conducted in the context of depressed market values and political uncertainty.

- The opportunity for the Hellenic Republic to raise revenue from its assets ensures prompt payment of its obligations under the MoU, which are currently in danger of not being met because of the underdevelopment and lack of transparency of the Greek real estate portfolio and their limited market and marketability. Such scheme may significantly contribute to safeguarding debt sustainability for the period beyond 2016.

- Assuming that such a financing was conducted with private sector participation, this approach to privatisation would foreshadow a return by the Hellenic Republic to debt markets. This would be a small but important step on the road back to market credibility for the Hellenic Republic.

It has to be noted that, by involving the issuance of state-owned equity in privatisation assets, individual transactions may need to be adjusted, to the extent possible, to avoid any increase in government debt. This would need to be subject to detailed discussions with EUROSTAT on a case-by-case basis and on the basis of their advice and interpretations, This process may generate broader externalities beyond the targeted increase of revenue from privatisation. The effective management of the process itself would publically incentivise the Hellenic Republic to require an important degree of regulatory reform with respect to the management of state commercial assets in Greece, including the acceleration of the establishment of a national land registry and specifically a body of transparent public data required for the valuation, financing and sale of public assets. It would also provide a clear and compelling example of reformed governance of state assets in the public interest, by reversing the current fragmented responsibility for state commercial real estate assets. In both cases, it would provide additional reassurance for inward investors contemplating renewed Greek exposure.

The rest of the report is organised as follows. Part 1 (Asset Financing and the Hellenic Republic) explores the ways in which the Hellenic Republic can raise finance backed by state-owned commercial assets. Part 2 (Realising value of the commercial real estate portfolio) and Part 3 (Assessing, Structuring and Valuing the Portfolio) set out the different ways in which to realise the value of the commercial real estate portfolio of the Hellenic Republic and the necessary steps that need to be taken. Part 4 (Institutional Framework for Asset Development) examines the institutional framework that would need to be put in place for the management and development of the commercial real estate portfolio. Part 5 (Structuring Finance) identifies the financing options. A last section provides our concluding remarks and set out the proposed next steps.

1. ASSET FINANCING AND THE HELLENIC REPUBLIC

1.1 Introduction

(a) The principle of raising finance backed by state-owned assets is well established. Governments across the world raise funds to develop assets and therefore contribute to asset value appreciation. In many cases, the value of assets may be significantly improved through developmental expenditure. As an example, a residential plot of land has a value of 100 units. It requires another 30 units of development expenditure to achieve a realisable value of 200 units. However the government may not have the liquidity to spend 30 units on development. Financing provides that liquidity.

(b) Alternatively, it could be envisaged that the government sells 40% equity stake in the land for 40 units to a developer. The developer undertakes the 30 units of development expenditure and is also charged with selling the assets. As and when the assets are sold for 200 units, the developer has first claim on 120 units and the government has a claim on 80 units. With the public-private approach the government has achieved 120 units through this process (40 upfront and 80 subsequently).

(c) This architecture ensures an alignment of interests between the private sector and the Greek government, as owner and regulator. Given that the government has an equity participation in the sale of the assets, they would be incentivised to implement all the necessary reforms to maximise the value of the assets. This could include clarifying land use or ownership status or resolving other legal or practical encumbrances on the asset. This alignment between the government's dual interests as owner and regulator and the momentum behind the taking of the assets to market is crucial.

1.2 Relevance to the Hellenic Republic

(a) The Hellenic Republic holds a diverse collection of real estate assets, many of which have been scheduled for sale as part of its commitments to its official sector creditors. The total real estate portfolio includes at least 80,000 properties, comprising over four billion square metres of real estate owned through different government bodies. These have historically been owned and managed by individual authorities, with different goals and strategies. The land is currently classified for forestry, agricultural, residential, retail or commercial use, with a large portion of it being under-utilised or used below its potential value. The nature of the portfolio is discussed in greater detail below.

(b) These assets exhibit many of the features described above with respect to the Hellenic Republic's ability to extract maximum value from their sale. Many:

(i) are legally encumbered and/or;

(ii) have unclear title; and/or

(iii) are subject to valuations that could be increased by developmental investment or simply greater transparency.

(c) Adopting a pre-privatisation financing approach to these assets would start the monetisation process and allow a form of liquidity transformation. The proceeds from their future privatisation and the repayment of the Hellenic Republic's creditors would be realised in reasonable time through finance raised, while creating an additional window of time to clarify and resolve these issues in a way that ultimately increases their sale value.

(d) A pre-privatisation financing approach would have a number of key benefits for the Hellenic Republic over the current approach implied by the MoU:

(i) *The ability to improve the monetisation process by institutionalising a professional process.* A substantial part of the state portfolio of commercial assets is currently not financeable. Ring-fencing the assets and preparing the assets for pre-privatisation financing would not only increase the level of flexibility and value of the assets, but would also create a more transparent and manageable process for privatisation.

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(ii) *The ability to meet the Hellenic Republic's existing MoU repayment targets from financing proceeds.* Greece is currently at risk of failing to meet its privatisation targets because of the underdevelopment of the Greek real estate portfolio and the limited market and marketability of the assets in question. Pre-privatisation financing enables the Hellenic Republic to drawdown future privatisation revenues for meeting MoU debt repayment targets or facilitates early repayment, in a way that provides additional certainty and confidence for the Hellenic Republic's creditors.

(iii) *The ability to realise potential higher value in sales by timing each sale.* Under the current terms of the MoU and the constraints imposed on HRADF, Greece has no alternative, if it needs to monetise value from its state-owned assets (as it does), except to sell them. Although the HRADF has some scope to collateralise assets, the sale option has been hard-wired in the Troika MoU and in HRADF's own constitution and practice and has been publicly stated. This buyer's market, while not in principle problematic, nevertheless can depress asset prices in a way that is suboptimal for the Greek taxpayer and for the Hellenic Republic's creditors and has operationally ran into problems in delivering the expected cash revenues.

(iv) *The ability to raise the value of the assets before sale.* Even minimal developmental investment in the assets prior to sale can enhance returns in a way that increases future privatisation proceeds, enables future debt repayments and will in almost all cases increase the saleability of the assets themselves. It also removes the perception for the Greek public of a firesale conducted without proper consideration of their interests in maximising the value of the assets of which they are the stewards. A central part of the remit of the body charged with financing the Greek asset portfolio would be to manage and improve those assets (including, importantly, the generation of reliable data on them). The scope of these potential benefits is quantified below.

(e) The raising of financing would be an important step forward to restoring market credibility for the Hellenic Republic. The Hellenic Republic currently has no access to the international capital markets. The same is true for almost all Greek state-owned institutions. Assuming that such a financing was conducted with private sector participation, it would foreshadow a return by the Hellenic Republic to debt markets. This would be a small but important contribution to enhancing market credibility for the Hellenic Republic.

(f) The effective management of this process would in itself have a range of important spillovers for the Hellenic Republic. It would require an important degree of regulatory reform with respect to the management of state assets in Greece, including the development of a modern land registry and specifically a body of transparent public data required for the valuation, financing and sale of public assets. Here, it is recommended to initiate a certain accelerated registry process for the public assets in order not to have to wait for the national Land Registry project (which is based on geography rather than ownership) to cover all assets in the portfolio. It would provide a clear and compelling example of reformed governance of state assets in the public interest by reforming the current fragmentation of responsibility for state-owned real estate assets across multiple ministries and state bodies. In both cases, it would provide additional reassurance for inward investors contemplating renewed Greek exposure.

(g) Nonetheless, one must also be aware of the fact that the unfolding of the Eurozone crisis and its management may affect any initiative materially. With the recent turn of events in Cyprus, the investment community has been visibly shaken. While the fears of Grexit seem to have largely dissipated for the near term future, doubts remain about the treatment of investors' property rights by the national authorities as well as the European counterparts.

(h) Moreover, most forms of loan or equity investments in Greece do not have an early exit option available (except for a distressed sale). This leads to a premium being charged for longer dated transactions. Some of these risks could be mitigated if the underlying assets were to have assured hard currency earnings.

2. REALISING VALUE OF THE REAL ESTATE PORTFOLIO

2.1 Stock of real estate assets

The stock of state-owned real estate is probably the largest stock of unrealised value in the portfolio of the Hellenic Republic. The Greek state currently owns more than four billion square metres of real estate, through different government bodies (Table 1). The real estate assets have been owned and managed by each individual authority, with different goals and strategies. The ownership of the bulk of these assets (other than some key assets, e.g Hellinikon) remains and is intended to remain with each such relevant authority up to the point of privatisation. The table below summarises the number of properties and land surface per relevant authority:

SUMMARY OF REAL ESTATE PORTFOLIO[1]

Database	# of properties	Land area (in 000 m^2)
KED	71,332	3,278,155
OSE / GAIAOSE	3,989	98,881
Ministry of Health	2,489	41,718
Ministry of Culture (ΥΠΠΟ)	1,234	1,260
Ministry of Rural Development (ΟΠΕΚΕΠΕ)	584	605,428
Other	421	15,559
ETA	373	71,781
ATTIKO METRO S.A	188	322
Ministry of Justice (Fund)	137	498
Total	80,747	4,113,602

Source: HR's databases
[1] Subject to data availability as of March 2013

Table 1: Summary of Real Estate portfolio[1]

2.2 The nature of the portfolio

(a) As described above, realising the value in each of these assets or groups of assets requires a process that can take several years. However by reassessing the development prospects in the underlying assets, significant new economic and growth potential can be created. Maximising the value of Greece's real estate portfolio generally requires the creation of new markets for enhanced assets, especially for vacation homes, upmarket resorts, golf courses and spas. A small part of the portfolio is also appropriate for solar energy development. In many cases, this will involve the reclassification of Greek real estate assets to allow for development.

(b) A large part of the Greek real estate portfolio is suitable for tourist development, and given Greece's climate and leisure and holiday potential this is the key source of potential value for investors. Greece is a mid-tier international tourist destination both in terms of tourist volumes and average spend. According to several market reports[2], the Greek hospitality industry is fragmented, with no active large hotel chains and little penetration by high net worth individuals seeking large-scale private holiday developments. Its tourist market has not grown significantly in the last decade.

(c) Greece also has considerable potential to attract investment from a Northern European customer base seeking to own properties in the Mediterranean for the winter months. Yet it currently has a limited stock of holiday homes and limited infrastructure for this sort of seasonal or retirement ownership. The Greek holiday home stock is currently less than 1% of that of Spain.

1 Out of the 8,000 properties that are held or could be held by HRADF, 4,921 properties are held by KED, 251 are held by the Ministry of Rural Development and Food and the remaining 3,000 emanate from the valuation undertaken by Planet S.A.

2 Section I.a. of Greek Hotel Branding Report, SETE, Hellenic Statistical Authority, GBR Hospitality Newsletters.

(d) The portfolio is exceptionally diverse and includes both developed real estate assets and undeveloped land. The land is currently classified based on use, according to existing zoning practice. The criterion of the type of land use (forestry, agricultural, residential, retail or commercial use) provides a first indication of the opportunity of future development, but the current standing of the land registry does not allow for a more detailed specification.

(e) The largest part of the portfolio is comprised of different categories of agricultural land. Approximately a quarter of the land holdings is currently classified for residential, retail or tourism uses. A further quarter of the current portfolio is classified as 'special use' – including properties in public service such as churches or prisons. The remaining half of the portfolio consists of completely unclassified land or land classified as forest/agricultural land. Therefore, the challenge ahead remains to determine the use (i.e. re-classify) the forest/agricultural part of the portfolio to a category that could have some commercial value (e.g. tourism). In terms of the geographical distribution of the real estate properties, the main focus of the portfolio is in central and northern Greece, although holdings are distributed across mainland Greece and the islands. Many of the largest lots are located in Macedonia and the Peloponnese. A very small number of properties are located outside Greece. The distribution of land by size shows the same focus on northern and central Greece, although a number of large holdings in the Aegean islands increase its share of the total distribution.

(f) Available valuations comprise around 8,000 properties from the total Greek portfolio - corresponding to approximately 10% of the number of properties or 36% of the total land area[3], in both cases of all properties referred to in Table 1 above. It is realistic to assume that the remaining properties (72,000) have an inherent additional value that will require the provision of relevant data, active management and further development to become fully exploitable. Properties valued have been selected on the basis of possessing the greatest potential for project development or providing sufficient valuation data. These suggest a value ranging between €16 billion to €18 billion according to the HRADF. The valuation must be regarded as provisional, but it confirms the likelihood that significant additional value could be added if a more holistic approach was adopted with respect to the development and sale of the Greek state real estate portfolio.

2.3 Principal ways to realise value from a Greek state perspective

(a) Realising value of the real estate assets can be achieved in two basic ways:

(i) The assets can be sold in their current state at current market prices; or

(ii) The assets can be developed prior to sale in a way that increases their ultimate sale value.

(b) The key benefit of a pre-privatisation financing approach lies in the ability to raise the value of a monetised asset through development, in a manner that produces a net benefit over the financing costs incurred and flexibility in the timing of the sale. Using finance will also allow the asset sales to be timed in a way that ensures that they are not simply subject to a 'fire sale'.

(c) As discussed in Part 5 below, financing through a private sector equity stake in properties where the Hellenic Republic is not only the owner of a property but also the tenant has the additional benefit of creating an incentive for the Hellenic Republic to relocate out of expensive rental properties in favour of private sector tenants. This efficiency effect reduces state expenditure. Incentives would be aligned to increase the value of the portfolio as well as to decrease the cost for the Greek government, by optimising the efficient use of floor-space and increasing the number of private sector tenants in the portfolio.

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3 This figure has been extracted from the valuation report of PricewaterhouseCoopers of May 2012. Land area of the valued 8,000 properties (10% of 80,000) is 1,550,899,004 sqm compared to the land area of the total portfolio of 4,287,766,901 sqm which is equal to 36% of the total land area.

(d) The most significant scope for value enhancement in the Hellenic Republic portfolio lies in the development of the real estate assets for the purpose of converting them from undeveloped land to land ready for immediate use. This requires investments in utilities such as energy and water and infrastructure such as roads and public areas.

(e) It is useful to demonstrate how additional value may be extracted from the residential sector portfolio, by allowing for infrastructure development costs. HRADF currently values this component of the portfolio at €3.3 billion. Marketing and infrastructure related development could without question enhance the value that may be extracted from the residential sector of the Greek portfolio during the three-year period prior to privatisation. Using internationally accepted methodology, it could be expected that in net present value terms an investment of €50 per square metre in the portfolio would increase the cash proceeds at sale by almost €10 billion (or €1 billion in Net Present Value (**NPV**) terms), to €19.9 billion (or €4.4 billion in NPV terms) compared to the value currently assumed by HRADF (Table 2). Part 5 provides a full discussion on how development financing might be used to raise the ultimate privatisation value of the Greek real estate portfolio.

RESIDENTIAL SECTOR (€billion)	
Original Valuation	**3.3**
Land surface (in million sqm)	136
Infrastructure/development costs €/sqm	50
Infrastructure/development costs (€ billion) - over a 3 year period	6.8
Land available after development (million sqm)	109
Developed land - average market price (€/sqm)	182
Cash Proceeds - over a 10 year period (gross)	**19.9**
NPV of Cash Proceeds	**4.4**

Table 2: Development to raise sale value, residential portfolio[4]

[4] Original valuation is based on preliminary work conducted by HRADF.

3. ASSESSING, STRUCTURING AND VALUING THE PORTFOLIO

3.1 Preparing the real estate portfolio for financing

(a) The real estate portfolio remains the most complex and opaque component of Greece's commercial asset portfolio. Currently, only a small proportion of the properties (possibly as low as 10%) is potentially financeable. This share of properties could be significantly increased by ring-fencing the portfolio and creating genuine scale, as well as by implementing a coherent, viable and structured property development and management strategy (please see Part 4). In this manner, there will be an improvement in rent collections and a better utilisation of prime property locations (including Olympic Games properties and properties abandoned after the 1999 earthquake).

(b) However, creating the necessary conditions for the financing of the wider portfolio would require a substantial data gathering and consolidation process as well as a fast track process for completing the land registry and accelerating the resolution of related legal processes. Assuming adequate political will and support, we estimate that it would take from a technical feasibility perspective two to four years to complete the overall process comprising an inventory of all real estate assets, the completion of land registry/legal processes and the harmonisation of information across the various databases and data centralisation. Development strategies would then need to be implemented according to the various sector/sub-sector characteristics. These processes would not affect the real estate assets already earmarked for monetisation and, hence, the expected privatisation proceeds for the period until 2016. In addition, the enhancement of financeable real estate portfolio could strengthen the public support of the wider privatisation programme in Greece and could constitute an example of resolution and successful accomplishment.

(c) The estimated time frame of two to four years for the completion of the overall process is based on experience of similar processes from Germany in the 1990's and Ireland in 2009 showing that it is possible to deal with very large portfolios of real estate under an accelerated process. Within the period of four years, the Treuhandanstalt (founded in 1990) executed the restructuring and sale of approximately 8,500 state owned enterprises and approximately 2.4 billion square meters of land (76,000 properties) in former Eastern Germany. In Ireland, the National Asset Management Agency (**NAMA**) was established in December 2009 to address the serious problems which arose in Ireland's banking sector as a result of excessive property lending. In a short period of time, NAMA has acquired loans (land and development and associated loans) with a nominal value of €74 billion (more than 16,000 properties) from participating financial institutions. Its objective is to obtain the best achievable financial return for the Irish state on this portfolio over an expected lifetime of up to 10 years. Common success factors for these two examples include a clear overall strategy and the creation of professional and focused organisations responsible for ensuring that the transparency requirements are met.

(d) The problems encountered in satisfying these transparency requirements for the real estate portfolio of the Greek government are substantial. They include fragmented sources of information for the government as an owner, as well as a lack of clarity on the legal status for many assets and an underdeveloped and fragmentary land registry for the Greek government as a regulator. These issues of clarity are exacerbated by limited market activity to facilitate price discovery and multiple and overlapping governmental bodies responsible for the assets in question.

3.2 The dual role of the Hellenic Republic in the monetisation process

The Hellenic Republic would need to adopt two different perspectives of the monetisation process as a result of its dual role as regulator and owner.

(a) ***The Hellenic Republic in its role as regulator.***

(i) In its rôle as regulator, the objective of the Hellenic Republic would be to secure that there are relevant structures in place to support an effective administration, an operational real estate and financing market and an operational taxation system.

(ii) The establishment of a unified land registry with an accelerated resolution of related legal processes constitutes the single most important issue that the Hellenic Republic would need to solve in order to execute the monetisation process. The underlying reason is that the effective registration of real estate assets is likely to encourage more investors to get involved with these assets. The land registry would need to record spatial, legal and property information (as well as connected rights) and would serve as the indisputable source of information for legal title, property transactions, mortgages, property taxation etc. The land registry would need to display accurate and reliable information to the extent that no party would be able to question or successfully dispute its accuracy. In addition to the establishment of a unified land registry, the Hellenic Republic would also need to accelerate and strengthen its efforts to structure and manage the real estate portfolio for the purpose of financing.

(iii) There are several examples of countries that have been able to establish relevant land registers in a limited period of time, such as Lithuania and Estonia. Several initiatives have been launched in the past by Greek local authorities to improve the Greek land registry. However, internal challenges have slowed down the progress and additional effort is required to ensure the success of such project. For instance, although the entity for creating a national land registry (Ktimatologio S.A.) was founded in 1995, the register is not expected to be finalised until 2020 at the earliest. At present, less than 20% of the properties identified are included in the land registry. With reference to the state-owned portfolio, only a small portion of the properties are likely to figure in the system. The current situation seriously impacts development and privatisation processes where land title is not clearly secured. Thus, an accelerated registry process for the state-owned portfolio is strongly recommended in order not to be slowed down by the national Land Registry process. The Ministry of Environment has requested the support of The Task Force for Greece for the planning, tendering and monitoring of the completion of the land registry. One major obstacle for the completion of this process is an incapacity to close tenders for the appointment of external parties to undertake field work such as mapping / zoning etc. Due to the fact that they remain subject to dispute, tenders issued in 2008 have not yet been completed. Although legislation was introduced in 2012 to provide for the option of a simplified tender process, it does not appear to have positively impacted on the process which still remains very slow. In addition, the special town planning development plan (ESCHADA) for defining the use of land, only identifies 15 real estate titles out of 20,000.

(iv) The next necessary step in the land registry process would be the creation of an accelerated process specifically for state-owned real estate assets. A specific process is required because the national system is organised on a geographical basis rather than on the basis of the type of property or ownership. From a financing perspective, the clearing of the state portfolio would take too long if we needed to wait for the completion of the national process. However, the accelerated process would need full support from the Hellenic Republic in terms of internal co-ordination and resolution of disputes.

(b) ***The Hellenic Republic in its role as owner.***

(i) In its role as owner of the assets, the objective of the Hellenic Republic would be to put in place structures that support the effective supply and use of the property, ensure the effective asset management of the state-owned portfolio and facilitate the financing of these assets.

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(ii) The existing property databases are both fragmented and remain incomplete. They do not appear to reflect investor market expectations and cannot be relied upon as a basis for a real estate development strategy. More specifically, since 1995, ETAD has been compiling a list of its assets, which comprise c. 72,000 line items (including KED). Currently, HRADF is managing this list, on behalf of ETAD, supported by a consortium of domestic banks led by National Bank of Greece S.A. under the supervision of a consultancy firm called Planet S.A. Also, the General Secretariat of Public Property maintains a list on its website, which seems to contain identical data to the ETAD/HRADF database. The General Secretariat of Public Property was established under article 20 of Law 3965/2011 and its mission is to supervise, coordinate and control the implementation of governmental policy by the relevant departments and legal entities. Its objective is to ensure the administration, management, development and protection of public property, the Hellenic Republic's private property, as well as property intended for public benefit purposes. Its responsibilities include directing, monitoring and controlling the operation and work of the services, collective bodies and committees under its authority with the aim of ensuring optimum management of public and charitable property.

(iii) In addition, the Hellenic Republic would need to examine how the premises are used by local authorities and to conclude on the efficiency of the space use, potentially identifying cost saving alternatives.

(iv) Many countries have identified the need to look closely at the state-owned real estate portfolio in order to establish an efficient asset management procedure. Relevant examples include Sweden and Finland where a thorough analysis of demand and supply has led to distinctive policies for ownership of state properties and the disposal of surplus assets.

3.3 A Central Real Estate Database

(a) The information needed to undertake a pre-privatisation financing would normally be based on official data from the land registry supplemented by other information necessary to manage and valuate the property, such as commercial and market information.

(b) In the absence of a complete land registry, a key step is the establishment of a central real estate database (**CRED**) to ensure the quality of information and support demand from financial and real estate markets. This can be built on the datasets that already exist, but which require substantial harmonisation, standardisation and expansion and can thus act as a pilot for the land registry in accelerating the process.

(c) The CRED is the basis to develop a more precise strategy for all the state-owned real estate assets, for decision-making on how to manage the assets and for the ongoing management of the real estate and the monetisation process. We recommend the improvement of the quality of the information in CRED as a matter of urgency to have a basis for decision-making.

(d) The recommended approach would be to organise the data collection in a step by step approach.

(i) *Phase 1* of such an approach would be to collate the first complete picture of the broad structure and value of the portfolio.

(ii) *Phase 2* would be based on a more detailed and specific data collection exercise including site inspections to assess the value and potential of properties in detail and the level of legal or other encumbrances on them. The expectations of lenders would need to guide the data collection exercise at this stage. Reasonable expectations would typically involve verified information with respect to the physical features of the property, such as size, location, ongoing projects/construction, legal aspects such as title, encumbrances, zoning, environmental liabilities, and fiscal aspects such as property taxes. Investors would typically weigh this information alongside market and financial aspects such as risk profile, LTV ratios, covenants and guarantees.

(e) Both processes would combine decentralised data collection with centralised reviewing. They would be conducted by centrally trained teams to ensure that the assessment is conducted in the same way across the country. Assuming the decentralised approach by local teams, a time frame of 9 to 12 months would be required to collect all information from phase 1. In addition, a preparation phase of three months in advance and a reconciliation phase of two to three months after the completion of the on-site collection phase would be required.

(f) We assume approximately 100 to 150 local two person collection teams would be required to collect information. The central project management team will consist of 5 to 10 people, supported by the reviewing team during the collection phase, consisting of 20 to 30 people. The estimated costs based on the calculation of resources above will be in the range of €10 to €20 million. The local collection teams have been assumed as supporting teams from the landlord (the **Greek government**), most likely emanating from the existing company responsible for the creation of a national land registry (Ktimatologio S.A.).

3.4 Structuring the portfolio

(a) This data collection exercise is the first necessary step towards structuring the portfolio for financing. Once a full picture of the portfolio is available, properties should be considered in five broad categories:

(i) properties capable of earning immediate and constant cash flows (rental producing properties);

(ii) properties capable of earning immediate one-off cash flows from disposal (e.g. sale and lease back properties);

(iii) properties capable of earning one-off cash flows after necessary developmental/restructuring initiatives have taken place;

(iv) properties to be immediately given away to reduce associated costs (if any) and indirectly increase state proceeds (e.g. property taxes); and

(v) special use properties that may not be subject to further exploitation (e.g. military properties).

(b) These 'horizontal' categories also need to be grouped 'vertically' by relevant sub-sectors and clusters (i.e. by risk profile and critical mass in terms of value) to make them attractive to international investors.

3.5 Properties subject to rental income

(a) The real estate portfolio includes both developed properties and undeveloped land. Parallel to several activities to bring administrative buildings with dual use to the market, we recommend proceeding with the proper documentation of the terms and length of the lease agreements. Any governmental institution that occupies government owned buildings with a dual use (i.e. offices etc.) should be treated as a tenant, responsible for paying for the use of space. This will encourage a reassessment of the optimal use of government property.

(b) All government-owned buildings subject to an "internal" lease may generate permanent cash flows to the entity and (in theory) might be sold to the market to cash flow oriented investors. In an optimisation process the value of the buildings can be influenced by the creditworthiness of the tenant, the lease term, the status of maintenance and future investments in the buildings. The attractiveness of such buildings may be high for long-term cash flow searching investors as well as for opportunistic investors looking for value added properties in central and top locations.

(c) The governmental bodies acting as tenants must budget for the lease payments (i.e. burden the state costs) but can earn advantages from market competition to adjust rent according to market level. This scenario is more possible for buildings used as offices than buildings used for other purposes. A variant to this which would not lead to an increased state cost budget, involves government agencies/ministries relocating to less commercially attractive buildings and having third parties use the office space as long term tenants (see discussion in section 5 and in particular in paragraph 5.4 below for an elaboration of this position).

3.6 Undeveloped Properties

(a) The undeveloped land is subject to significant potential in value, especially for residential and tourism properties. The value is not accessible as long as neither the zoning nor the infrastructure is in place. Several studies by market researchers show a significant underdevelopment in tourism properties, such as hotels, apartments and holiday parks as seen in other European/Mediterranean countries. The same status is given for residential properties as demonstrated above.

(b) We assume a similar process for the tourism properties compared to the residential assets. It will be essential to create the right mix between the different quality standards (three to five star developments). This is a strategic element which can be handled by the management of the entity.

(c) The investment process for tourism properties will require a similar approach and timing as for residential properties. As the development areas might be larger for residential properties and the infrastructure is also a bit different, the cost for tourism properties could be less than for residential properties. The potential project development can be conducted by construction firms specialised in project development but also by investors collecting money from different investors looking for tax savings, long term investment in the hospitality and leisure business, time sharing etc. This wide range of different investors might allow similar timing as for residential properties but it also requires an improvement in infrastructure (roads, airports, etc) in order for tourists to be able to approach their properties more easily.

(d) A specific asset class will be the hotel properties as locations can be more in rural areas and be attractive to different groups of investors. The selection process should identify the location for such hotel investments, which should be a good micro location in order to attract tourists. The hotel business normally requires an investor owning the property and a management company (hotel chain) to operate the hotel. Investors would be mainly real estate funds, having also experience in developing the property. Hotel chains should be approached early in the process to ensure that the approach fulfils operators' standards.

3.7 Agricultural and forest assets

Although both of these asset types are in principle attractive to the market, it is unknown at this time how valuable the assets are under both groups. In general, there are specialised funds acquiring such properties on a global base. It is essential to have an overview on the location, quality of land/forest and current use. This information would need to be collected by the CRED in the first year of operation. The privatisation proceeds can be finalised in further two years but would require significant investments in a clear legal status and proper documentation.

4. THE INSTITUTIONAL FRAMEWORK FOR ASSET DEVELOPMENT

4.1 Elements of an effective institutional framework

(a) The financing of this asset portfolio requires a vehicle to manage the structuring of the real estate portfolio, organise its development and raise finance against it. It would require that the Hellenic Republic pass a law that transfers all the state owned real estate assets such a vehicle with a mandate for managing and realising value from those assets through financing arrangements. A Holding Company could fit such a requirement as a standalone entity, owned by the Hellenic Republic and with an appropriate governance structure that ensures transparency and accountability to the Hellenic Republic, all relevant official sector stakeholders and the relevant investors. In Annex 1, we set out in some detail a proposed governance structure for the Holding Company.

(b) The Holding Company could hold title to all the state-owned real estate assets and constitute a vehicle capable of raising finance on the back of these assets. The assets intended as security would be ring-fenced in the Holding Company and would be available to the lenders in case of enforcement. This would provide a legally robust structure that ring-fences the assets.

(c) Financing raised at the level of the Holding Company would have the additional merit that any security granted by it over the assets is unlikely to breach any negative pledge restrictions on the Hellenic Republic. As a matter of Greek law "Hellenic Republic" is not construed as to include references to separate legal entities which are owned or controlled by the Hellenic Republic. Therefore, if, as is the case in the post-PSI Greek government bonds and the EFSF facilities:

(i) the negative pledge obligation is only on the Hellenic Republic without any express reference to owned or controlled entities; and

(ii) there are no anti-disposal provisions,

then the Hellenic Republic is not prohibited by the terms of these instruments from disposing of assets to a separate legal entity even if owned or controlled by it which then grants security over these assets. The analysis may need to be conducted in respect of other debt instruments of the Hellenic Republic but it would be unusual to find stricter provisions in a sovereign debt instrument. It is also unlikely that the negative pledge restrictions set out in (i) the €80,000,000,000 Loan Facility Agreement between the euro-area Member States, KfW, the Hellenic Republic and the Bank of Greece dated 8 May 2010, and (ii) the Master Financial Assistance Facility Agreement between the Hellenic Republic, the European Financial Stability Facility, the Hellenic Financial Stability Fund and the Bank of Greece, as amended on 12 December 2012 would be breached.

4.2 Holding Company

(a) The Holding Company could be established as:

(i) a Financing Vehicle (**FV**) with the main purpose of arranging pre-privatisation financing; or

(ii) an Asset Management Company (**AMC**) with a wider mandate including a significant management or development of real estate assets.

(b) The FV would prepare and oversee the ongoing commercial aspects of any sale, leaseback, grant of concession or other transaction relating to the real estate assets. The FV would also be responsible for organising any pre-privatisation bridge financing. The managers of the FV would be responsible for ensuring that the assets for financing are of sufficient value and overall reliability to attract finance. The core management of the FV would be a small team of professionals with significant international experience creating a senior management team of around five senior managers.

(c) The AMC would have a broader mandate for developing non-revenue generating assets. It would have the flexibility to optimise the use of these assets and maximise their value. The core management of the AMC would initially be a team of professionals of around 20 persons employed by the AMC, supported by a cadre of external professionals and auditors assisting the management on a project-by-project basis. This team would subsequently grow into a team of 35 to 40 professionals, responsible for the execution of the strategy.

4.3 Conditions for market credibility

(a) To attract financing/private sector capital into Greece, the entity requesting such financing needs:

(i) to be at arm's length from the Greek state apparatus;

(ii) to have credibility with the market;

(iii) to have an acceptable business plan; and

(iv) to ensure transparency of asset valuation by managing this process in a comprehensive and professional way.

(b) In the context of state-owned commercial assets, it is imperative to ensure isolation from political interference with regard to the administration and management of the assets and to have an authority which can look across the portfolio as a whole for planning and prioritisation purposes. It is important to avoid a situation in which the effective management of the portfolio is hampered by a wide range of decision makers with competing objectives.

(c) Similarly, the achievement of transparency is a necessary preliminary to the effective management and marketing of the Greek state-owned commercial asset portfolio. It is also the first step to finding the optimal financing structure. Transparency should be understood to mean the capability of both the public and investors to understand (i) the nature and the status of the assets held and managed by the entity requesting such financing needs, and (ii) the structure, operation and activities of the entity. Factors that would contribute to the achievement of transparency include:

(i) *Independent auditing and valuation of the assets.* The quality and reliability of information in this respect has to be precise and accurate for any marketable initiative to be viable. This information is currently rather poor with respect to major parts of the Greek state-owned commercial real estate portfolio.

(ii) *Clarity and certainty as to the ownership and legal/corporate structure* (including the power to manage, sell and pledge). At present many of the assets in the wider Greek state commercial asset portfolio are legally or practically encumbered in a way that limits their marketability. In some cases, changes in the law may be required to demonstrate that the entity has good title to the asset and to facilitate the sale, a change of control to the private sector and any servicing arrangements following the transfer of the asset. Such changes may also be required to facilitate the pledging of assets as collateral.

(iii) *Clarity and certainty as to the structure, operation and activities* of the entity requesting such financing needs, which implies the regular provision by the entity of the following information:

(A) a good description of its strategy, business activities, organisation, financial targets and non-financial objectives, as well as its main financial risks;

(B) information relating to its organisation, governance and its appointment and compensation policies;

(C) a good description of any investments, acquisitions or other important events that have taken place, the business activities of its assets and a basis for continuous follow-up and assessment of such activities; and

(D) the publication of its financial quarterly reports, year-end reports and annual reports of the highest international standards, on its website.

(d) An entity in Greece would have to be found that could meet the requirements for an efficient governance structure and build a track record of credibility in the international capital markets and hence be in a position to attract private sector capital for real estate assets. The entity will hold assets which are currently either held or managed by two different Hellenic Republic controlled entities: HRADF and ETAD. It is useful to consider whether either of these entities might be the basis for a future holding company and financing vehicle or a new entity could be established with a broader mandate. The following section will show that this can only be achieved with a restructuring of the existing institutions and their mandate (see also Section 14).

4.4 The establishment of HRADF

(a) HRADF was established in the summer of 2011 in the context of the discussions with the Troika for the rationalisation of the privatisation process and the need for Greece to contribute, through the sale of state commercial assets, to the funding of the economic adjustment programme. It was in essence a revamping of the Privatisations Secretariat of the Greek Ministry of Finance which was not seen as appropriate to carry an expanded privatisation programme. HRADF was therefore given a broad mandate to realise the value of state commercial assets under the law which provided for its establishment dated 1 July 2011 (L.3986/2011). In the context of this broad mandate Greece asked that HRADF be given the flexibility to raise loans and do securitisations. Although the Troika did concede this point, it considered that burdening with debt what was in essence an asset realisation company would run counter to the its strict sale (and through the sale) and revenue-contribution programme. In essence the Troika was concerned that debt raising simply deferred the asset realisation, something which they could not accept in the absence of a plan which saw both the contribution being made and the debt repaid without recourse to the amounts budgeted in the programme.

(b) In addition the Troika was concerned that if state assets were to be held and managed by HRADF over a long period the loss making ones might continue to be mismanaged, thereby creating within HRADF a subsidiary budget deficit. This would lead to a squandering of resources, a throwing of "good money after bad" with revenue from the sale of the better assets being used to cover losses of unreformed state enterprises. This in turn would undermine what was seen to be the principal aim of HRADF namely to act as a responsible and professional asset realisation agency with the proceeds of sale being committed to the economic adjustment programme in accordance with a strict timetable. Indeed Troika's concern for delays and therefore gaps in the Greek programme was such that it proposed that any assets not sold by the HRADF within the agreed timetable should be "wound up" and "liquidated" regardless of other considerations.

(c) The Troika therefore required that HRADF's use of available funds be restricted. HRADF's constitutional documents provide that HRADF's revenues can only be applied towards the repayment of its loans and other commitments, pay its administrative expenses and the expenses of the advisers it hires for the sale of the assets and otherwise towards the State debt (or as agreed with the Troika for the State budget).

4.5 Effective restrictions on HRADF

(a) As a result HRADF cannot use any of its liquidity to maintain, restructure or "mature" any of the assets it holds. In practice, these restrictions make it impossible for HRADF to do anything else besides sell these assets. This means that assets are either:

(i) not developed when transferred to HRADF and their sale does not realise the full value; or

(ii) developed by another state entity prior to transfer but without necessarily a unity of view and purpose. This fragmented approach delays the timing, deprives HRADF of the relevant management experience and building of market credibility and ultimate undermines value.

(b) These restrictions coupled with the very tight sales plan did not allow HRADF to develop into a broader asset management company, something which its constitutional provisions would have permitted it to do. Instead HRADF has become the de facto sales agent of state assets and has developed internally with such a focus.

(c) This transforms the HRADF into a sales agent, a mere liquidator of assets in a market environment in which assets are inevitably treated as distressed. Moreover, HRADF rose to the challenge and was developed to satisfy the actual demands made of it.

(d) It is not clear that the current setup will necessarily achieve its intended aims. The European Commission expressed its concerns with respect to the privatisation targets stating that the downward revision of the expected proceeds "*has meant that the privatisation plan is falling short of achieving its potential in terms of improving economic efficiency and boosting investment and growth. At the same time, the shortfall in proceeds implies increased financing needs for the economic adjustment programme*". Moreover, the European Commission added that "*doubts on the effectiveness of the governance of the privatisation process continue to persist, which calls for setting better incentives in delivering higher proceeds, while contributing to better industry practices, more investment and net job creation.*"

(e) The Troika has repeatedly asked the Hellenic Republic and the HRADF to improve the transparency of the entire portfolio of state-owned commercial assets with the aim of meeting the international standards of financial reporting, in line with countries such as Finland, Sweden, Norway or Singapore. Similar efforts have been made by the governments of Estonia, Lithuania and Latvia. This request has not yet been materialised by the Greek authorities.

4.6 ETAD

(a) ETAD, a company owned by the State manages the State-owned real estate assets. It was created in late 2011 from the merger of two pre-existing state entities (the Hellenic Public Real Estate Corporation (**KED**) and the Hellenic Tourist Properties (**ETA** – whose individual holdings appear in tables in this note). ETA itself had previously merged with the Olympic Games Real Estate company.

(b) KED was established in 1979 as the maintenance arm of the Ministry of Finance and has been used as the management company for the real estate assets, involving the registration of property and the development of the land registry and the assets. ETA was the equivalent maintenance arm which managed the real estate assets of the Ministry of Tourism.

(c) None of the organisations from whose merger ETAD was created had either the expertise or the market credibility to raise finance. In addition and notwithstanding their many years of operation, these organisations did not succeed in having clear records of the State's holdings, their permitted uses and more generally produce the sort of information that a prudent manager of real estate would require to administer the affairs of the property portfolio properly and for the benefit of the owner. There is therefore still a considerable work which needs to be done to ensure that the real estate database is accurate and reliable.

(d) More than one year after the merger and the establishment of ETAD as a new company it still has not published its constitutional documents. The ability of ETAD to manage effectively the portfolio with its own resources must be questioned since, to discharge their current role a consortium of Greek banks had to be brought in to assist with sorting out titles, uses, databases etc. In other words the task which ETAD was set to perform had to be subcontracted to a third party.

(e) Because of the deficiencies of ETAD some management oversight was given to HRADF for the purpose of extracting value out of the real estate. But because HRADF does not have the power to spend the money and in fact develop the assets, this maturing seems to be happening within ETAD, at the direction of HRADF, with the assistance of the consortium of the Greek banks. Arguably this is not the most transparent and efficient solution for managing effciently or for promoting investor and stakeholder transparency.

(f) With its history and track record ETAD would find it challenging to demonstrate ability and the necessary independence from the Greek state to reassure investors.

4.7 HRADF and ETAD

(a) In an attempt to cover the constitutional and administrative constraints of HRADF, the Ministry of Finance has suggested a scheme whereby legal ownership of the assets remains with it, management and operational expenditure with ETAD and strategic planning with HRADF.

(b) The intention to bring together these activities could help to overcome some of the existing shortcomings, but effectively the existing fragmentation is institutionalised and the insufficient clarity as to the objectives and institutional capacity could persist. The risk, in particular in view of attempts to sell in a buyers' market, is a continued lack of credibility with investors, a privatisation process which is under-delivering and therefore ultimately an erosion of real estate value.

4.8 The PDMA

(a) As the Holding Company would be the *alter ego* of the Hellenic Republic at times when the Hellenic Republic is not in the markets but seeks to re-enter them, it would make sense to involve the Greek Public Debt Management Agency (**PDMA**) as one of its sponsors.

(b) The debt of the Holding Company, especially if the assets are substantial or become more diverse is likely to be of interest to specialised investors but will be watched carefully by the wider investment community as a bell-weather of the Hellenic Republic's attitude to investors. From the perspective of the Hellenic Republic, the maturities, pricing and terms of the Holding Company's funding should be at the very least consistent with the policies of the PDMA and at best so structured so as to allow it to manage its yield curve and maturities.

4.9 Governance and official sector requirements

(a) The development of the assets by a Holding Company would required the continuous support of the state. The Hellenic Republic would need to continue taking the legislative, executive and administrative steps necessary to ensure the development of the assets since a Holding Company cannot assume any powers vested in the Hellenic Republic's legislative, executive and administrative bodies. Monitoring these developments will be necessary and the Troika may well need to continue monitoring progress on this front with the evolving list of actions required for the appropriate administrative, executive and legislative actions to continue to be taken as agreed from time to time in the MoU.

(b) At the same time, an enhanced governance structure of the Holding Company, as summarised in Annex 1, could see the Supervisory Board of the Holding Company assume the responsibility for the monitoring of these administrative, executive and legislative actions within the context of a longer term business plan for asset development consistent with the MoU.

5. STRUCTURING FINANCE

A Holding Company possessing ring-fenced ownership of the Greek real estate portfolio could in principle raise finance on that portfolio. As noted above, this finance could widening the scope for maximising the potential of the Greek real estate portfolio, prior to privatisation, and thus be used to ensure consistent repayment of the Hellenic Republic's external creditors.

5.1 Financing alternatives

(a) Given current information, there are in all likelihood no or only very limited Greek state-owned real estate assets that are generating reliable cashflows. Most of the assets are not rented out to third parties but they are owner occupied. Accordingly, there is a very restricted (if any) potential for securitisation as defined under standard financial terms.

(b) In the absence of real estate assets generating reliable cashflows, the following alternatives are available:

(i) Immediate sale of real estate assets, whereupon the risks and rewards of ownership (including potential development value) are transferred to the purchaser. The potential downsides of this immediate disposal have been discussed above. The benefit of the sale of real estate assets is the immediate reduction of government deficit and, to the extent that sale proceeds are used to repay the outstanding debt or reduce planned debt issuance, the immediate reduction of debt.

(ii) Deferred sale of real estate assets, with interim financing provided by the financier, whereupon the risks and rewards of ownership (including potential development value) are retained for the time being but which may (or may not) be shared with the financier on terms agreed between the owner and the financier. This financing may be debt, equity or a mixture of the two. In addition, recourse to the issuer may be provided to improve the risk profile for the investor and reduce the implied internal rate of return (**IRR**) required. As discussed further below, the impact on government deficit and debt would depend on the nature of the issuing vehicle and the details of the specific transaction. A conservative assumption can be made that pre-privatisation financing is likely to be treated as government debt.

(iii) Immediate sale of the real estate assets, but also with the creation of new putatively reliable cashflows based on them. This is a sale and leaseback type transaction, which (broadly) is economically equivalent to a secured borrowing. A sale and financial lease-back would also be treated as a secured borrowing for the purposes of government debt, although, depending on investors' risk appetite and pricing, it may also be possible to structure the lease-back as an operating lease. This would have the same impact on government debt and deficit as an outright sale of the real estate assets.

(c) The precise form of the transaction may vary depending on the nature of the assets and the respective requirements of the Holding Company suggested above and the financier. There are, however, a number of obstacles for any financing.

(i) It is not immediately apparent that there are any assets that are immediately available and suitable for a financing. The institutional approach described above is in large part designed to resolve this.

(ii) By definition the real estate assets under consideration are physically located within Greece and subject to Greek law. Consequently, there is a risk that Greek government entities may impede (whether through inertia or otherwise) the due implementation of the financing terms. Therefore, the financier may require some form of performance guarantee (including from the European official sector) to remove or minimise this risk.

(iii) Currently institutions may be insufficiently incentivised to enter into any financing transaction (whether by way of sale or otherwise) in view of the state of permanent crisis in which the Greek government finds itself and due to the restrictions imposed by the adjustment programme.

(d) This report identifies two financing options that could be envisaged following the creation of a credible asset management company with ring-fenced ownership of the Greek state-owned real estate portfolio: a public-private partnership (**PPP**) to develop the real estate portfolio for sale. Here an example of a PPP using a subset of real estate portfolio, namely 28 office buildings, is provided. In addition it outlines an approach of secured financing. This approach is only suitable if the appropriate institutional setup and managerial capacity is created

5.2 PPP

(a) The Holding Company could sell a stake in the portfolio or a component of it, to a developer, thus generating liquidity for the Holding Company. The developer would be charged with both developing and selling the portfolio.

(b) This structure ensures an alignment of interests between the private sector and the Greek government. Given that the Greek government (through the Holding Company) has an equity participation in the sale of the assets, it would be incentivised to implement all the necessary reforms to maximise the value of the assets. The Greek government has an upside from (a) a quicker sale of assets, and (b) a higher realisation value on sales.

(c) It is important to bear in mind that as of the present time any private sector capital contemplating investments into such government related projects prices the risk of political and bureaucratic interference. It is particularly true with respect to real estate related investments, a politically and socially sensitive topic in Greece. The risk is related to both the timing and the implementation. The risk manifests itself through the Greek government not making good its obligations regarding the structural changes to be implemented or the planning consents to be provided. As the Greek government implements such projects over time, it is expected to gain credibility with the private sector investors and this risk may be alleviated over time. the private sector may be more amenable to investing into similar projects without the indemnities contemplated in paragraph 5.7.

(d) In the context of the past few years, in the eyes of investors there is a risk relating to the change in the political will of the government: this could arise from a change in the government or indeed the government falling short of its promises. These political risks can be addressed by having the official sector as a co-investor in the financing/development structures. The official sector could enable such private sector involvement either as a co-investor or through providing performance guarantees to the private sector. As in paragraph 5.2(c) above, over time and as Greece gets more credibility with the private sector through the successful implementation of the projects, these risks could reduce over time and the private sector may be more amenable to investing into similar projects without the indemnities contemplated in paragraph 5.7 (See further paragraph 5.7 below).

(e) A sale of the asset portfolio to the developer may not be treated as an outright sale transaction for statistical purposes where the government, either directly or through the Holding Company, continues to have material exposure to the economic risks and rewards of the transferred assets. A combination of deferred consideration and equity participation retained by the Holding Company could be treated as a retention of economic risks and rewards. Although a detailed assessment should be made by relevant authorities, including EUROSTAT, a conservative assumption would be to treat such financing (even in the legal form of equity shares) as part of the general government debt. Similar treatment is likely to apply if the special purpose vehicle (**SPV**) is used for leasable assets.

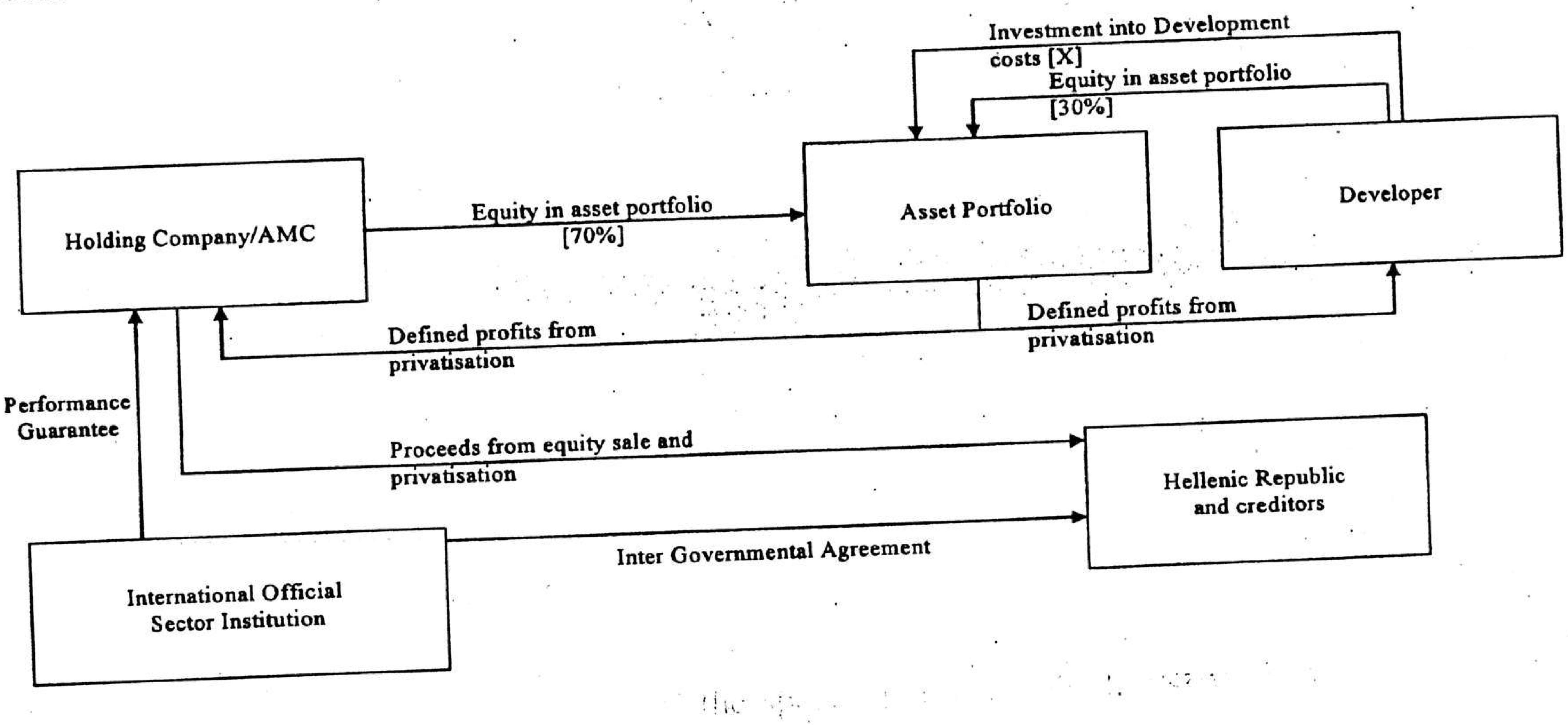


Fig 2: PPP

5.3 Example 1: Financing the residential real estate portfolio

(a) The residential real estate portfolio described in Part 2 could be financed through a PPP of the kind described above. This example takes the current HRADF valuation of this part of the portfolio of €3.3 billion and assumes a development cost of €50 per square metre as set out in Table 2 above.

(b) The Holding Company transfers the assets to an SPV (the **Issuer**) and subscribes to 70% of the equity while the private sector developer subscribes to the remaining 30% of the equity. The Issuer has full discretion to manage the development and sale of assets and the issuance of debt / equity without any interference or influence from the Hellenic Republic (it will have representation from the Holding Company, developer and other stakeholders on its management board). This is required to ensure that the Issuer falls outside the general government sector. However, detailed statistical analysis would need to be considered further with the relevant authorities, including EUROSTAT.

(c) The sale of 30% of the equity generates a liquidity of €1 billion for the Holding Company. The Holding Company could (i) upstream this amount to the Hellenic Republic in order to repay creditors, (ii) use such cash proceeds for the development of other assets, or (iii) a combination of (i) and (ii).

(d) The proposed sale of the equity stake would be managed in the following way:

(i) The developer undertakes the €6.8 billion of development expenditure and is also charged with selling the assets.

(ii) As and when the developed assets are sold the developer receives all sales proceeds until it has realised an annualised cash return of 20% on its total investment (initial purchase value and development expenditure), subsequently the developer receives 20% of the sales proceeds and the Hellenic Republic receives 80% of sale proceeds.

(e) Effectively the Hellenic Republic has achieved €6.7 billion (€1 billion upfront and €5.7 billion between 2022 and 2024). This implies a net present value benefit of €1.1 billion at a discount factor of 4.75% p.a. being the Greek marginal cost of interest.

(f) The portfolio of residential assets is not a homogeneous pool and it may be more efficient to sub-divide the portfolio into homogeneous pools and execute PPP on the individual pools.

(g) The transaction efficiency could be further enhanced (for the Hellenic Republic) by having part of the developmental expenditure financed through a non-recourse private sector debt. The debt issued would have no linkage to the Greek government and will have the sale of the assets as the primary source of repayment. Appropriate changes will be made to the cash flow waterfall as described in paragraph (d)(ii) above to reflect the seniority of debt financing. It is expected that regulated investors may participate in such senior secured debt.

(h) Any private sector financier (either debt or equity) will require comfort in relation to risks identified in paragraph 5.2(c) and (d) above. These are:

(i) *Change of law risk*: a change in Greek law where the Greek government wilfully acts in a manner detrimental to the economic interests of the private sector investors in the project.

(ii) *Non-approval risk:* the residential land is subject to a number of clearances, approvals, licences and zoning requirements. These approvals/clearances have to be provided by various authorities of the Greek official sector. At the outset of the project it is expected that a detailed timeline will be set out for obtaining these approvals.

(i) The default option in relation to provision of this comfort would be for the Hellenic Republic to provide such comfort through an indemnity. Such an indemnity would not appear to alter the risk/reward analysis in relation to development of the assets and ought not therefore to result in a requirement to consolidate the development finance into Greek government debt. The nature and extent of such indemnity is likely to be a matter of negotiation both with the relevant private investors and EUROSTAT.

(j) It is likely that the persuasive force of such indemnity would be maximised if it came from a supra-national institution which is capable of exerting influence on Greece. It is accepted that the institution providing the indemnity would require counter-indemnification from Greece. The advantage of the insertion of a supra-national institution into the structure in this manner is that it enables the realisations from the real estate portfolio to be further improved. (See further paragraph 5.7 below).

(k) A detailed assessment of the PPP structure for each portfolio should be made by relevant authorities, including EUROSTAT, to determine whether the transfer of assets would result in a "privatisation" or "debt/financing" under the European System of Integrated Economic Accounts (ESA) 95 and the Manual on Government Deficit and Debt, as well as the net impact (if any) on the government debt (including the extent of the indemnity required by private sector investors).

5.4 Example 2: Financing the government office space portfolio

(a) A similar approach could also be considered for a sub-component of the portfolio. The following example is based on 28 selected government buildings with a gross leasable area of approximately 270 thousand square meters and a rental value of approximately €30 million[5]. Under the following example, the Greek government is under an obligation to pay rent, as a tenant, for the use and occupation of any buildings that have been privatised, in line with the intentions expressed in the MoU[6]. It therefore needs to adopt and apply both an owner and a tenant perspective.

(b) As it stands in its current form, in the absence of any rental payments payable by the Greek government, no private sector investor would buy these buildings with the government as the sole

5 According to HRADF.
6 Annex IV (Privatisation Program), section III (Real Estate), item 2 of the MoU.

tenant. However, based on the assumption that the Greek government would be under an obligation to make payments, as a tenant, equal to the rental value of the governmental buildings of €30 million, a theoretical value of these urban buildings could be estimated at around €250 million. Nevertheless, the reality is that there still seems to be no market for such a portfolio and hence no evident chance of value realisation as structured today.

(c) Through a PPP arrangement the government, as an owner, would enable the development of the buildings, including relocating the government tenants to a cheaper and more efficient location, thus allowing interest from the private sector investors, as the new private sector tenants would be creditworthy. Given that the new private sector tenants would assume the rental obligation of €30 million from the Greek government, upward rental adjustments related to investments in selected buildings could be realised and a lower risk could be applied in the calculation, the estimated value of the portfolio would increase to the level of €400 million.

(d) In this example the portfolio would be transferred to an SPV jointly owned by the Holding Company and a private investor (the **Investor**). The Holding Company would receive an upfront payment for this equity stake.

(e) As in the previous example, the Investor would be charged with developing the property further (€36 million investment over 2 years) and maximising its value, including by attracting new tenants on market-standard leases and divesting the individual assets in the portfolio successively to maximise the return for the SPV.

(f) The Investor would receive distributions from the SPV until he has achieved a reasonable return on his total investment (annualised return of 20% on the initial purchase value plus development expenditure). Beyond that point, distributions would be made to the Investor and the Holding Company in accordance with their respective shareholdings.

(g) A deal structured in this way has a number of important incentive effects for the government both as an owner and a tenant.

(h) As an owner, the government and the private Investor, via the Holding Company, are both incentivised to maximise both income from the properties in the form of rent and the value of the properties through the divestitures. The NPV for the government as an owner would amount to around €247 million, or the equivalent cash proceeds of €320 million over five years.

(i) As a tenant, the government is incentivised to optimise the efficient use of floor-space for the respective government offices currently occupying this space, to find a more efficient location for its operations both in terms of cost per square meter and the amount of space used per employee. If the Greek government could reduce its long term rental cost from the above assumed €30 million to an estimated cost of €20 million by relocating from the 28 buildings in the portfolio, it would potentially be able to achieve rent savings of €99 million in terms of NPV, or the equivalent of €262 million in cash proceeds over 20 years.

(j) The total benefits to the Hellenic Republic as an owner and a tenant would therefore amount to a NPV of €346 million, or the equivalent of €582 million in cash proceeds.

URBAN PROPERTIES (EUR billion)	
OWNER PERSPECTIVE	
Theoretical Valuation - based on assumed €30m rent from government (no chance of value realization)	250
Upfront 30 per cent Sales Proceed (HR share)	40
Sales Proceeds - after development and exchange for creditworthy private sector tenants	400
Sales Proceeds - after development and exchange for creditworthy private sector tenants (HR share)	280
NPV of Total Sales Proceeds (HR share)	247
TENANT PERSPECTIVE	
Rent Savings – based on long term reduction of assumed €30m government rent in case of privatization to estimated €20m by relocation outside the 28 selected government buildings and more efficient use of space, gross proceeds	262
NPV of long term Rent Savings	99
Total effect from government perspective	**346**

Table 3. Urban Properties

(k) The financing would proceed as follows:

(i) The Investor would purchase a 30 per cent equity stake for €40 million in the SPV, at a discount, including a commitment to a debt finance refurbishment/development costs of old buildings (i.e. before 1990). The cost of refurbishment would be at €500 per square meter GBA (5 buildings in total, €36 million cost spread over a 2 year period).

(ii) After development and replacement of all government tenants with private sector tenants, the assets would be sold with an estimated total sale proceeds of €400 million spread over a 5-year period. This high level valuation is assuming market rentals with a 25% increase in rents (for refurbished buildings only), from a well diversified range of AAA tenants and length of contracts. This will also contribute to a lower discount rate of 10% and an exit yield of 8.5% for disposal purposes following the end of the contractual period.

(iii) The cash proceeds of €400 million from the sale of the portfolio would be attributable 30% to the developer and 70% to the Hellenic Republic. In cash flow terms, the government would receive €320 million (€280 million after development, as well as the €40 million cash proceeds received up-front).

5.5 Secured Borrowing

(a) In this approach, finance is raised by security on the portfolio or some component of it. As an example, the residential portfolio described in Part 2 has a value of €3.3 billion, however it is estimated that with €6.8 billion of development expenditure over a three year period the realisable value would increase to almost €20 billion over a ten year timeframe. The Holding Company could envisage raising €1 billion of financing from the private sector (the **Financier**) against this portfolio. The Financier will seek economic incentives through a combination of:

(i) interest paid on the financing;

(ii) profit participation in the sale proceeds, when arising; and

(iii) security on the real estate.

(b) The cash so raised could be used partly for repaying the creditors of the Hellenic Republic and partly for developmental expenditure. The development of the land is funded in part by this financing and in part from an additional injection of development capital. If appropriate, all or almost all the amounts could be committed to developmental expenditure making it more attractive to investors.

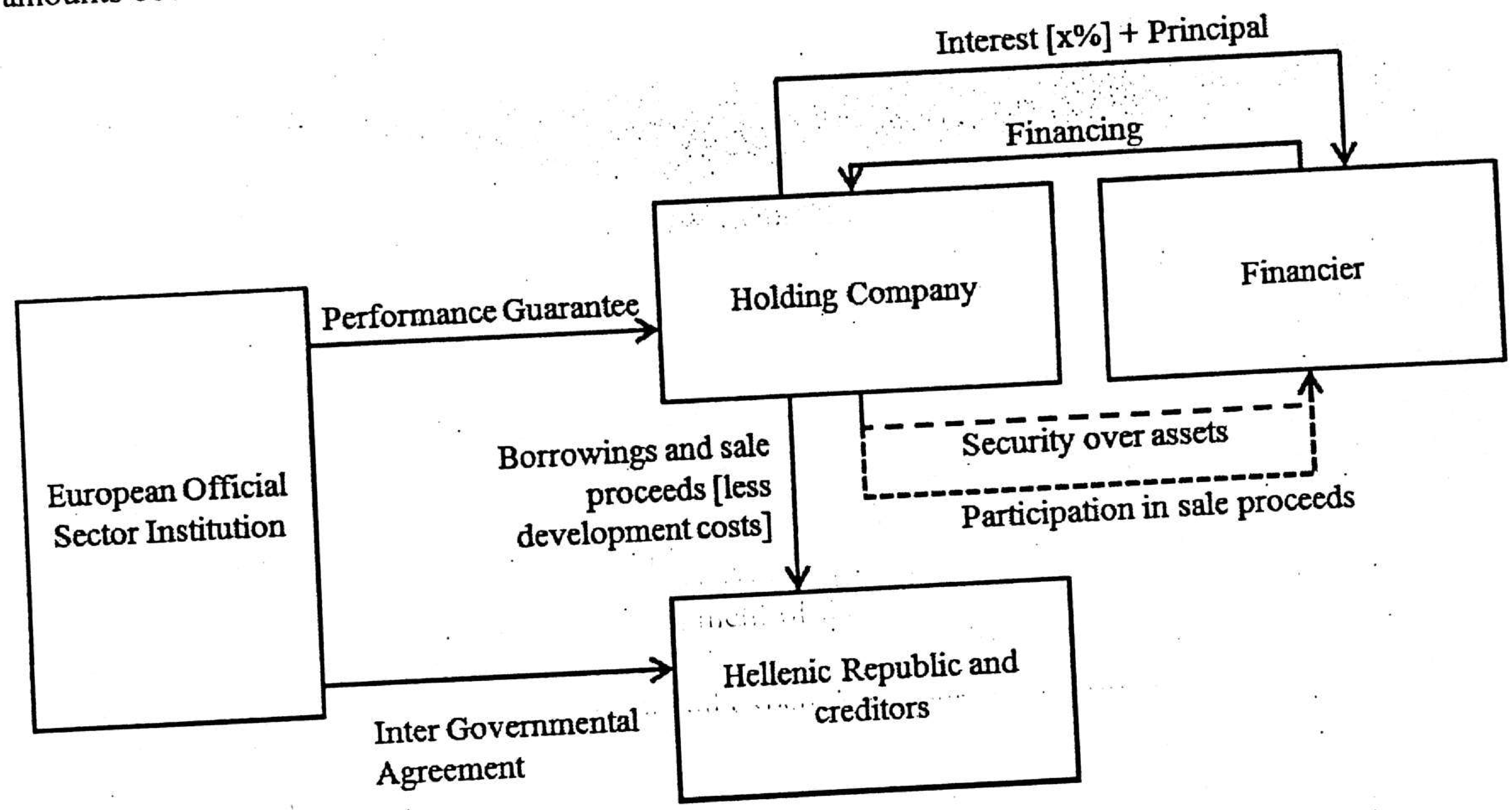


Fig 1: Secured Borrowing

(c) This financing may add to the Hellenic Republic debt due to the majority of the risk rewards being retained by the Holding Company (given that a large component of the development costs in this approach would have to be funded by the Greek budget or from Greek borrowing),.

(d) The impact of financing raised against the portfolio on the government debt would depend on (i) the sectorisation of the Holding Company, and (ii) to the extent that the Holding Company is not part of the general government sector, the classification of the assets transferred by the Hellenic Republic. While it may be possible for the Holding Company to be outside the general government sector, it should be noted that any financing provided to the Hellenic Republic would still be treated as government debt. Thus, although the detailed statistical analysis would need to be considered further with the relevant authorities, including EUROSTAT, the working assumption should be that any secured debt raised by the Holding Company would be treated as government debt by the Hellenic Republic.

(e) This financing scheme should be considered as unrealistic in the current context due to the fact that this approach requires that the development costs for the portfolio are ultimately borne by the Hellenic Republic. Moreover, it would put higher requirements on the development capacities of the institution, which may not be available in the short run. Therefore, this approach cannot be recommended at the current juncture, but may be applied at a later stage when the necessary institutional set-up has been created.

5.6 Operational and financial independence of financing vehicles

(a) As described in more detail in Annex 1, it is necessary that the Holding Company operates at arm's length from the Hellenic Republic in all respects. In particular, the governance of the Holding Company would be set up so that it has operational independence (including the ability to appoint or terminate the appointment of its own managers) from the Hellenic Republic, the Holding Company could have the power to raise its own finance and the decision-making power in relation to disposals of its assets.

(b) Further, to the extent that PPPs are established for all or specific parts of the portfolio, it is envisaged that the PPP entities would be separate vehicles from the Holding Company with their own independent governance arrangements. These arrangements would be a matter of negotiation between the Holding Company and the relevant private investors but it is to be expected that the PPP entities will themselves have operational independence (including the ability to appoint or terminate the appointment of their own managers) from the Holding Company, be responsible for raising their own finance and that decisions on disposals will be made between the PPP entities, the Holding Company and the relevant private investors in such PPP entities.

5.7 Assurances and Indemnities from the Hellenic Republic

(a) Private investors around the world investing in large scale projects usually require certain assurances and indemnities from the host government as to certain matters such as certainty of taxation, discriminatory or adverse change of law, regulatory framework and consents, and underwriting of unknown risks such as certain environmental costs and archaeological finds (for each project the appropriate set of these assurances and indemnities, the **State Assurances & Indemnities**).

(b) The current view is that international private investors would not or only to a very limited extent be prepared to invest in large real estate projects in Greece on the basis of State Assurances & Indemnities provided by the Hellenic Republic. This view is shaped principally by the perception that such State Assurances & Indemnities may be unilaterally changed by the Hellenic Republic at a later stage as happened with the pharmaceutical receivables, the rentals payable by the Hellenic Republic in its capacity as tenant and last, but not least, with the official-sector-sponsored private sector involvement (PSI). The lack of certainty over taxation policy of the real estate and the current form of taxation on the officially pronounced value of real estate regardless of income generation exacerbate the matter further. The perception may improve, but, in order for real estate projects to have sufficient credibility to private sector investors in Greece in the current climate, these State Assurances & Indemnities would preferably either:

(i) be provided by an international institution in order to give them sufficient credibility; or

(ii) be given also to an international institution which either co-invests in the projects or whose interests are and are seen to be aligned with those of the private sector investors.

(c) It should be noted that the aggregate exposure of any institution under any indemnities described in (b)(i) above at any one time is likely to be substantially less than the aggregate amount of the €6.8 billion development expenditure referred to above. In reality, the real estate portfolio is likely to be developed and privatised in several parts and at different times. The indemnities which will be required will be project specific and are likely to run off as each successful project completes. Nonetheless, the ESM itself would not be able to take on the exposure described in (b)(i) above as it is, by nature, a rescue fund. For the same reasons it would not be able to use its leverage to procure compliance with the State Assurances & Indemnities. More generally we have not so far identified a supra-national institution which would be willing to take on the additional exposure which the granting of such indemnities would involve (even though that institution would be counter-indemnified by the Hellenic Republic).

(d) Identifying an international institution constitutionally able and credit willing to participate in the funding of these projects as described in paragraph (b)(ii) above is a challenge and the remaining of this paragraph 5.7 considers a number of partial solutions, a combination of which may be sufficient to attract private investors into Greek real estate projects either now or in the reasonably short term. These are:

(i) A critical component of the success of private investor participation in Greek real estate projects is the creation and maintenance of a modern land registry. This project is contemplated in the MoU that the Hellenic Republic has signed with the European Commission, the European Central Bank and the International Monetary Fund. The MoU could explicitly include conditionality which earmarks the amount of funds currently budgeted for the land registry project for this use and ensures that this task is successfully achieved in a timely manner. Other agreements and reports could supplement this point to ensure that the task is achieved beyond the expiry date of the MoU.

(ii) Other projects are currently being planned or carried out in the Hellenic Republic on the assumption that private investors will be satisfied with the covenant of the Hellenic Republic in relation to State Assurances & Indemnities. This covenant may be governed by a system of law external to the Hellenic Republic and may be subject to non-Greek jurisdiction. It could also, depending on the circumstances, be backed by the investor protection provisions of any applicable bilateral investment treaty. On the other hand, the Hellenic Republic may wish that this covenant be governed by Greek law and not an external system of law. There would be circumstances where foreign investors may be prepared to accept this if, for example, the covenant is granted in respect of the laws of the Hellenic Republic as they stand at the time of the covenant and is backed by international arbitration.

(iii) Indemnities against failure to grant approvals facilitate the timely execution of projects by giving private investors comfort to commit funds prior to approvals being granted. It is however possible for projects to be funded only once all necessary approvals have been obtained. Real estate projects would need to be examined on a case by case basis in order to determine the extent to which this would be feasible and the timing implications of this approach.

(iv) Further due diligence is required to identify possible international institutions as described in paragraph (b)(ii) above. The European Bank for Reconstruction and Development and the International Finance Corporation also need to be ruled out as their geographical mandate does not extend to the Hellenic Republic. Consideration should be given as to whether, and in what circumstances, the European Investment Bank for example, might be willing to take on such a role.

(v) A number of new investment/development funds are currently being discussed for Greece whose sponsors are such international institutions and whose investment guidelines are intended to include providing credit support in circumstances such as those contemplated in this paper.

6. CONCLUSION AND NEXT STEPS

(a) This report has identified a series of practical weaknesses in the current privatisation process in the Hellenic Republic. For a range of structural and operational reasons, the Hellenic Republic has had difficulties in meeting the privatisation targets as these are outlined in the Second Economic Adjustment Programme, while there are still strong indications of underperformance of the privatisation process. Therefore the risks of implementation regarding the privatisation programme and the related structural reforms continue to be significant.

(b) This report has been tasked with looking only at a limited scope of the portfolio of state-owned commercial assets being the real estate assets and proposes an alternative approach to this process that widens the scope for the Hellenic Republic to strengthen the process and operational visibility, as well as to maximise the exploitable value in its state-owned real estate portfolio through:

(i) a renewed and accelerated process of data transparency on the portfolio and full clarity on the status, title and development potential of its individual assets;

(ii) an asset-backed financing of the portfolio to ensure repayment of the Hellenic Republic's obligations to its creditors;

(iii) widened scope to time the liquidation of the portfolio in a way that maximises its sale value; and

(iv) widened scope to invest in the development of the portfolio to raise its value at sale.

(c) The implementation of this plan requires the existence in Greece of a vehicle that can take ownership of the Hellenic Republic's real estate assets, structure, develop and potentially finance them. Such a vehicle does not currently exist. Some vehicles have been contemplated in Greece since 2010, but they have not attained the necessary scale and distance from the Greek state and thus not attained sufficient credibility with the market. ETAD and HRADF, which both cover some elements of this remit, are nevertheless in their current forms not optimally designed for, or capable of, undertaking it. The next step in the realisation of this plan therefore would have to be the creation of such an effective institutional structure. This could be done by way of a vehicle taking the form of a Holding Company, capable of implementing it, as well as generating the credibility domestically and in the international capital market.

(d) These aims combine in an obvious way the interests of the Hellenic Republic, its taxpayers and citizens and their creditors. They do not undermine any current privatisation process. They do not in any way disincentivise the ultimate privatisation of the Hellenic Republic's real estate assets. If successfully implemented this plan would provide tangible new evidence of revived and reformed standards of governmental transparency and efficacy in the Hellenic Republic.

(e) No less importantly, the raising of asset-backed financing would be an important step back to market credibility for the Hellenic Republic. Assuming that such a financing was conducted with private sector participation, as proposed here, it would foreshadow a return by the Hellenic Republic to debt markets. This would be a small but important step on the road back to market credibility for the Hellenic Republic.

(f) Because of the potential challenges in attracting private sector pre-privatisation finance in respect of the real estate assets of the Hellenic Republic it is important that the process is commenced as soon as possible in order to allow maximisation of the proceeds of privatisations of such assets within the shortest practicable timetable. The first step in such a process should be the consolidation of all the state-owned real estate assets into a single vehicle which has a constitution and a corporate governance which makes the raising of private sector pre-privatisation finance a realistically achievable aim.

ANNEX 1

GOVERNANCE STRUCTURE OF THE HOLDING COMPANY

1. LEGAL FORM

The Holding Company would be a Greek *Société Anonyme* established by law, subject to general corporate law on Greek *Sociétés Anonymes* as modified by the founding law.

2. SHAREHOLDER

Its sole initial shareholder would be the Hellenic Republic through the Greek Ministry of Finance.

3. POWERS

The Holding Company would have the express power to create subsidiaries and sponsor SPVs to further its corporate goals, including subsidiaries and SPVs outside Greece.

4. INDEPENDENCE AND EUROSTAT CONSIDERATIONS

While the shareholder of the Holding Company would be the Hellenic Republic through the Ministry of Finance, the Holding Company would operate at arms-length from the Hellenic Republic in all respects. In structuring the Holding Company, the necessary steps should be taken to ensure that EUROSTAT does not consolidate it, and its transactions, with central government.

5. CONCERNS ON TRANSFER OF ASSETS

Transfer of state commercial real estate assets would be done in a way that avoids the triggering of "change of control" provisions, resulting in prepayment of the debt of the underlying entity or the triggering of mandatory offers for shares.

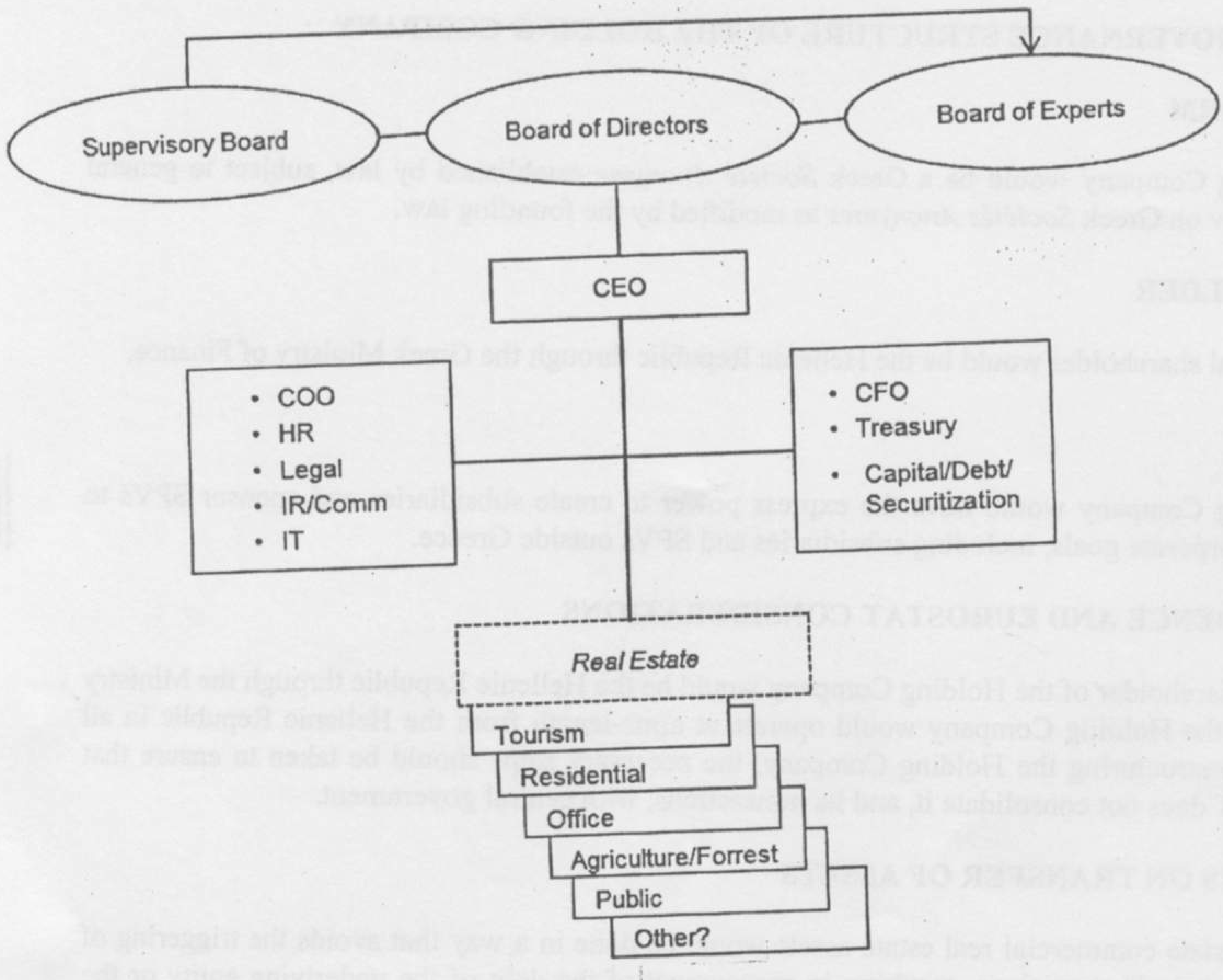
6. PHILOSOPHY

As a steward of public assets, governance policy and structure should aim to emulate best international practice for listed companies with a few additions aiming to reinforce political insulation.

7. SUPERVISORY BOARD

(a) The Supervisory Board would have responsibility for the overall supervision of the Holding Company, although corporate executive responsibility would remain with the Board of Directors. The majority of members of the Supervisory Board could be appointed by the Troika/ESM/EFSF. The shareholder would appoint the remaining members of the Supervisory Board.

(b) The Supervisory Board would appoint the minority (e.g. one of the three or two of the five) members of the Board of Directors with rights of consultation on the appointment of the other members of the Board of Directors and employees in key management positions. The Supervisory Board would also appoint the majority of the Board of Experts and have rights of consultation on appointment of the other members of the Board of Experts. There would be regular presentations from the Board of Directors to the Supervisory Board.



8. BOARD OF EXPERTS

The Board of Experts would be responsible for delivering views on the valuations and process for the sale of any asset. The majority of members of the Board of Experts would be appointed by the Supervisory Board (or the Troika/ESM/EFSF) and the remaining members would be appointed by the shareholder. The Board of Experts would ensure the enhancement of transparency and assist the Board of Directors in taking difficult decisions that could potentially be challenged.

9. BOARD OF DIRECTORS

Management power would be vested in the Board of Directors, which would have overall responsibility and accountability for delivery of the business plan and the standard responsibilities of directors of Greek *Sociétés Anonymes*. Directors would be appointed for a fixed term and could only be reappointed once. The majority of the Board of Directors would be appointed by the shareholder with the remaining members being appointed by the Supervisory Board (or the Troika/ESM/EFSF). The directors would have executive experience directly relevant to the activities of the Holding Company and a track record of delivering value through management, restructurings, development and disposal of assets.

10. GOVERNANCE

It is crucial for a functioning governance structure that the Board of Directors would be clearly established as the main body responsible for each holding in the portfolio of the Holding Company. Unless this responsibility is fully vested in the board of the Holding Company as well as the board of each individual holding, the Greek government will not be able to transfer its responsibility for the assets, but will remain the culprit for any success or failure. In order to manage this transfer of responsibility there needs to be a professional and institutional nomination process to populate the boards.

11. INDEPENDENCE

To restrict (to the extent necessary) political interference in the nomination of boards of the Holding Company and to increase the independence and professionalism of the nomination process, it would be necessary to put in place a structured nomination process, which ensures that the ultimate selection criteria is based on relevant competence. A proper board nomination process must not only be based on a board evaluation but also have its roots in the requirements of the current business plan in order to understand the combination of competence and skill that is required at that point in time.

12. MANAGEMENT TEAM AND STAFFING

The management and staffing of the Holding Company will differ depending on whether the Holding Company takes the form of a FV or a AMC.

12.1 Management and staffing of the FV

The core management team of the FV would be a relatively small team of professionals, with significant international experience in finance and real estate, creating a senior management team of around five senior managers employed by the FV, including:

(a) A Chief Executive Officer (**CEO**) ultimately responsible for creating the structure that will bring the Hellenic Republic into the international capital markets;

(b) A Chief Financial Officer (**CFO**) responsible for the accounting, valuations and financial structuring;

(c) A Head of Legal Affairs responsible for the legal process and documentation required to render the assets financeable;

(d) A Head of Investor Relations and Communications, responsible for ensuring the transparency and coordinated communication with potential investors and stakeholders; and

(e) A Head of Real Estate responsible for the technical work required to make the assets financeable and to maximise their value. Two managers will support the Head of Real Estate with relevant international experience from real estate financing and transactions.

12.2 Management and staffing of the AMC

(a) The core management of the AMC would initially be a small team of professionals of around 20 persons employed by the AMC, supported by a cadre of external professionals and auditors assisting the management on a project-by-project basis. This would grow into a team of 35 to 40 professionals, responsible for the execution of the strategy.

(b) The senior management team would consist of professionals including a CEO ultimately responsible for the execution of the strategy for the AMC together with a Chief Operating Officer, responsible for compliance and risk management and a CFO, who would have both a treasurer and a debt structuring specialist in his team. The senior management team would also be supported by professionals with responsibility for Investor Relations and Communication, as well as having complete ownership of its information technology systems in order to have control of accounting and cash management. It would also require an internal Head of Legal Affairs.

(c) In addition, five Portfolio Executives (**PEs**) would head a five sector team with one for each sub-set of assets supporting the senior management team. These PEs would come from senior positions and have extensive international experience as sector heads of international investment banks or private equity firms. One or two Investment Managers (**IM**) would support each sector team. The IM would have responsibility to undertake financial and industrial analysis, having relevant project management transaction experience of both equity and debt, as well as restructuring.

13. FUNDING AND DISTRIBUTION OF PROCEEDS

(a) The Hellenic Republic would contribute to the Holding Company state commercial assets as required by the Troika and other appropriate external stakeholders. The Hellenic Republic would also contribute amounts earmarked in the State budget for the establishment and maintenance of the Holding Company as a going concern until such time as it becomes self-sufficient.

(b) The interest of the Hellenic Republic in the Holding Company would be reflected in a deferred subordinated payment obligation. Proceeds from the sale, management or monetisation of assets would be distributed in accordance with agreed priority. This could include the following in the order set out below (or some other agreed order of priority):

(i) Payment of corporate/operating expenses on the basis of agreed budgets.

(ii) Creation of a reserve fund to develop assets as per the business plan.

(iii) Payment of proceeds to the Hellenic Republic for debt redemption.

(iv) Payment of management incentive fees.

(v) Balance to the shareholder as deferred interest.

(c) The above distribution scheme relies on a waterfall of payments to creditors of the Holding Company. It is not contemplated that any of the funds would be paid by means of dividends on the shares of the shareholder. Rather the Hellenic Republic will receive amounts as creditor for contributing the assets and in the order, at the time and in the amounts contemplated in the payments waterfall.

(d) The funds received by the Hellenic Republic as an investor in each asset will be included in the budget as an income to be used at the government's discretion, including for further development of the land registry, thus accelerating the efficiency of the government's role as a regulator. Some funds would need to be reserved to pay the fees for an accelerated process of registering all governmental real estate assets unless the land registry is privatised.

Box 3. Holding companies for state-owned assets

Holding companies are commonly used for the management and realisation of value in state-owned assets, both in situations in which assets are transferred to the holding company in distressed circumstances and in circumstances where there is no distress. Examples of the former are NAMA (Ireland), Danaharta (Malaysia), Securum (Sweden) and the Resolution Trust Corporation (USA). Examples of the latter are Temasek (Singapore), Solidium (Finland) and Mubadala (Abu Dhabi).

Some principle comparators for the Holding Company might include:

Solidium Oy (Finland)

Solidium is a holding company wholly owned by the Finish state, managing the shareholdings of the Finnish government. Its stated mission is to strengthen and stabilise Finnish ownership in nationally important companies and increase the value of its holdings in the long run. It holds and manages the equity assets of the Finnish state in corporates, banks and real estate including, Kemira, Metso, Outokumpu, Rautaruukki, Sampo, Sponda, Stora Enso, TeliaSonera. Solidium's portfolio currently is valued at €7.5 billion. Solidium's investment yield was 9.2 % for 2012. It paid 800 million euros in profit distribution to the State of Finland.

Treuhandanstalt (Germany)

The Treuhandanstalt (THA) was founded in Germany in 1990. It took over the ownership and responsibility for tens of thousands of corporates, governmental institutions, retail and hotel properties, agricultural and forest land, residential properties and unimproved land that had previously been in the ownership of the German Democratic Republic. The task of the THA was to privatise quickly, to restructure and/or develop the assets if necessary and to maximise the privatisation revenues as well as to maximise the number of jobs in the corporates.

During the process of privatisation, many disputed ownership of corporates and real estates had to be decided as well as reimbursements to the former owner for changes in zoning and deterioration. This centralised approach was successful as the approach was clearly defined, under full responsibility of an independent management and managed in a commercial way. The Treuhandanstalt and its successor funds have generated more than €5bn in real estate revenues since 1994.

Temasek Holdings (Singapore)

Singapore's Temasek Holdings, is a state-owned investment company, incorporated in 1974, which owns a S$198 billion portfolio (as at 31 March 2012), mainly in Singapore, Asia and growth markets. Temasek's investment theme centres on transforming the local economy and growing the middle income population. Temasek's portfolio covers a broad spectrum of industries: financial services; media and telecom, technology, transportation and industrials, consumer and real estate, energy and resources and life sciences.

Total shareholder return for Temasek since its inception in 1974 has been 17% compounded annually. Temasek enjoys an overall corporate credit rating of "Aaa" by Moody's and "AAA" by Standard & Poor's. Temasek's portfolio is strongly biased toward equity investments with most of its allocations in financial services; media and telecom, technology and transportation and industrials.

14. HOLDING COMPANY AND HRADF

(a) The establishment of the Holding Company does not imply the abolition of the HRADF. On the contrary, it requires its evolution and incorporation into the regime contemplated by the Holding Company structure. The exact steps that will result into a transformed privatisation structure will need to be discussed with the Troika, the Greek government and HRADF to ensure continuity and to take advantage of the groundwork laid by HRADF, its achievements and its current work plan.

(b) It is however useful to consider some of the features of HRADF to understand how the Holding Company could be structured. HRADF was established as part of the Troika rescue package for Greece to provide a flow of repayment revenues from privatisation. Immediately realisable Greek assets were seen as an item with which the Greek funding gap could be bridged. As a result the focus then was to establish an entity that could quickly assume control of the assets and sell them to the market. Ambitious quarterly plans were drawn with exact numbers, treating the assets as very liquid and of certain value.

(c) Little consideration was given to the state of the market, the absence of debt financing, the state of the assets and the fact that an advertised sale would have an adverse impact on realisable sale values. The problem was perceived as a mere lack of will to liquidate, with HRADF proposed as the solution. HRADF was thus designed with the following characteristics:

(i) Assets could only come into HRADF through administrative acts (there are no purchases by HRADF and or consideration is paid up front).

(ii) Assets transferred to HRADF had to be sold or if not sold within a certain agreed period wound-up or liquidated.

(iii) Proceeds from the sale had to be made available to pay running expenses of HRADF itself, expenses of advisers for the sale or liquidation and otherwise to pay down HRADF's and the Hellenic Republic's debt.

(iv) HRADF could not use proceeds to maintain, restructure or "mature" any of the assets. This remained the responsibility of the Hellenic Republic and all such costs were to remain in and expressly appear on the Hellenic Republic's budget.

(v) The governance structure of HRADF included a management team and a board of experts and was designed to give the maximum protection that Greek law can afford to those taking decisions to dispose of assets.

(d) Few of the assets scheduled in this respect turned out to be easy to transfer to HRADF without further work and restructuring. Even when transferred it became obvious that additional legal certainty was required either with respect to the provisioning of assets to resolve legal issues and protect the Hellenic Republic from claims or to provide potential investors with certainty over the control and operation of the assets.

(e) As a result, a very small number of these assets were capable of being sold quickly and for immediate value. HRADF is not constitutionally empowered to run the assets and many of the required administrative and legislative actions depend on the co-operation of various government departments often involving hard choices. These concerns are currently being addressed on an ad-hoc basis.

(f) A consequence of this is that assets are not fully developed before they are transferred to HRADF for sale. This transforms the HRADF into a mere liquidator of assets in a market environment in which assets are inevitably treated as distressed. The Holding Company would face some of the same challenges. However, if it is to be empowered to own, run, restructure, resolve and sell the assets then it may more realistically overcome these challenges.

(g) Since it will be impossible for the Holding Company to assume any powers now vested in the Hellenic Republic's legislative, executive and administrative bodies, the Troika will need to continue to play its role with the evolving list of actions required for the appropriate administrative and legislative actions to continue to be taken. However, the monitoring of these actions and the determination of any new ones could be transferred to the Supervisory Board who could perform such monitoring and determination better in the context of the Holding Company's business plan and the MoU's long term goals.

(h) The Holding Company would strengthen this process through an enhanced management structure that is an evolution on HRADF's current management structure. Established for longer management of assets the Supervising Board of the Holding Company will have permanent members who will be appointed in their majority by the Troika/ESM/EFSF and the remainder by the Ministry of Finance. With proper selection this Board will be able to work together better and provide more detailed, more considered and more and consistent feedback on the asset development process to the various stakeholders.

(i) The Board of Directors, in its majority selected by the Ministry of Finance will have the responsibility of managing the Holding Company just as its equivalent body does for HRADF. Finally, a Board of Experts would be there to play much the same role as in HRADF striking a good balance between efficiency and assumption of corporate and political responsibility. The net result will be to build on HRADF's achievements and in essence expand its mandate and action to enable the goals set by the Holding Company. The Holding Company in this respect is simply an evolution of HRADF, not its replacement.