
Real Estate Report 2014

Holiday Home and Hospitality Markets

Central Aegean Sea:
“INFINITE OPPORTUNITIES”





Overview

The Central Aegean Sea is comprised of a complex of more than 150 islands and islets called the Cyclades.

According to Greek Mythology, Poseidon, god of the Sea, turned the Cyclades nymphs into islands. Alternatively, the name refers to the islands forming an imaginary circle around the sacred island of Delos.

The Cyclades are one of the 52 prefectures of Greece and are subdivided into 19 municipalities. Ermoupolis, the capital of Syros, is the administrative capital of the Cyclades. The whole region has a land area of 2,572 km² with a population of 118,027. The complex consists of 25 inhabited islands, the major ones being Naxos, Andros, Paros, Tinos, Milos, Kea, Ios, Mykonos, Syros, Santorini and Sifnos.

The Cycladic islands were formed by a number of successive geological changes which included everything from floods and earthquakes to volcanic eruptions and the subsidence of the African plate 2 to 5 million years ago. The ancient Greeks believed that the Cyclades were formed during the Gigantomachy from the giant rocks that giants and gods threw at each other. The geological history of the region explains the uniqueness of the landscape and the geological, paleontological, archaeological and historical interest of the area.

The Cycladic islands are mainly mountainous with the exception of the four volcanic ones – Milos, Santorini, Kimolos and part of



Antiparos. Most of these islands are not fertile, excluding Naxos.

The Cyclades are recognised worldwide as a holiday destination, with around five million visitors every year. It is estimated that the proportion of Greek to foreign visitors is 60% to 40% respectively. All the Cycladic islands offer similar distinctive features; traditional villages, sandy beaches with blue-green

waters, renowned Greek hospitality, the Cycladic architecture, whitened cobblestone alleys, white isolated chapels and major archaeological, historical, religious and natural sights. However, each island has certain characteristics that make it unique.

Economy

The economy of the Cycladic islands was traditionally based on agriculture, livestock farming and fishery. Although the soil for cultivating is limited, the Cyclades produce fruit, wheat, potatoes, olive oil and tobacco and the production of wine is significant to some islands.

Livestock farming of sheep is widespread compared to the limited number of cattle. A variety of exceptionally high quality cheese

is produced, with 21 of them categorised as PDO (protected destination of origin) such as the cheese «San Michali» of Syros and the Gruyere of Naxos.

Fishing remains a primary source of income for several islands. There are many mines (marble, bentonite, emery, etc) in the Cyclades as most of the islands are rich in minerals. The renewable energy industry is growing fast due to strong daily sunshine and strong winds in the

mountainous areas of the islands. Tourism has been the key factor in the economy of the Cyclades over the last decade as more than 70% of production depends on the tourism industry.

Taking into consideration the latest elections (regional & European), the political situation has stabilised and the projection for tourism in the region is more than promising for the coming years.

Tourism has been the key factor in the economy of the Cyclades over the last decade

Island	Demographic		
	Total Land (km ²)	Population	Population density (people per km ² of land area)
Naxos	429,79	17.970	41,81
Andros	379,21	9.221	24,32
Paros	196,31	13.715	69,86
Tinos	194,59	8.636	44,38
Milos	158,40	4.977	31,42
Kea	131,69	2.446	18,57
Amorgos	121,46	1.973	16,24
Ios	108,71	2.024	18,62
Kythnos	99,43	1.456	14,64
Mykonos	86,13	10.110	117,39
Syros	84,07	21.507	255,83
Santorini	76,19	15.550	204,10
Serifos	75,21	1.420	18,88
Sifnos	73,94	2.625	35,50
Sikinos	41,68	273	6,55
Anafi	38,64	271	7,01
Kimolos	37,43	910	24,31
Antiparos	35,09	1.211	34,51
Folegandros	32,38	765	23,62
Makronisos	18,43	9	0,49
Irakleia	18,08	141	7,80
Donousa	13,65	167	12,23
Sxoinousa	8,14	227	27,87
Ano Koufonisi	5,77	399	69,15
Dilos	3,54	24	6,79

Source: ELSTAT, Algean Property Research

Tourism

The Cycladic islands are a versatile holiday destination. One can enjoy the cosmopolitan atmosphere, lively nightlife, local culinary experiences, romantic sunsets, innumerable sandy beaches, historical sights, water sports and relaxation. Alternatively, there is agro tourism, religious, geological as well as medical and therapeutic tourism.

The Cyclades are among the top choices for millions of foreign and Greek visitors for their holidays. In 2013, the tourism sector in Greece recorded an increase of 18% and 15.5% in tourism receipts and arrivals respectively, hence becoming the key driver for the deceleration of the economic recession. Along the same lines, the tourism performance of the Cyclades was very positive in 2013.

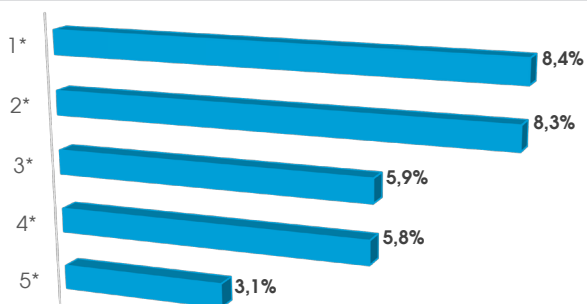
More specifically, 422,000 international tourists arrived in the two airports that welcome international flights -Mykonos:

177,500 and Santorini: 244,500. This was a 24% increase compared to 2012. Approximately 40% of the flights were charter or private flights. Additionally, millions of people visit the Cycladic islands either by boat and yacht or by air via the national airports of Milos, Naxos, Paros and Syros. There is an array of well serviced ferry connections and an adequate number of local and international flights.

The forecast for 2014 is favorable. A 62% increase has been recorded in the scheduled airline seats on the international flights; Mykonos and Santorini recorded a 85% and 46% increase respectively, since a number of airline companies including British Airways, Aegean, EasyJet, Transavia, Air Berlin, Condor and Germanwings increased their scheduled flights to the region. During the peak season - from June to September - two flights per hour are planned to arrive and depart from Mykonos and Santorini

airports. They are expected to serve more than 1.2 million and 1.4 million passengers respectively in 2014. The tourism potential of the region will be unlimited if some essential conditions are met and actions performed. On a national level, political stability and the implementation of reforms are necessary. Such reforms include the improvement of the investment procedure and the grant of a Schengen visa in less than 48 hours. On a local level, the improvement of tourist infrastructure - airports, roads, ports, marinas, integrated resorts and hotel units - and the development of integrated resorts are essential. These actions will attract additional visitors, increase the average stay and prolong the holiday season. There is room for improvement in the quality of the region's hotel units, since at present only 5% of the upper two categories of country's hotel beds are available in the region.

Country's hotel Beds per Category in the Cyclades (%)



The tourism potential of the region will be unlimited if some essential actions are performed

Source: SETE, Hellenic Chamber of Hotels, Algean Property Research

Overview

The Cycladic islands are a crucial segment of the Greek holiday home market as some of the most sought after locations and residences are found here. Greek and international celebrities and business people have bought holiday homes in the region including Tom Hanks in Antiparos and Rowan Atkinson in Andros. The Greek holiday home market is a new emerging market with outstanding potential

–Economy and Real Estate Report, for H2 2013: ‘Phoenix time for Greece?’ source: www.algeanproperty.com. Already there are some Cycladic islands such as Mykonos, Santorini and Paros with an established holiday home market. The holiday home market in the Cyclades was considerably influenced by the lingering financial crisis in Greece during the last six years. Nevertheless, a growing

interest in holiday homes in the region has been noted since the second half of 2013. This revival is due to the improvement of the Greek economy and the new legislative framework that provides a transparent and less bureaucratic investment environment with additional incentives to foreign investors.

Demand

Interest in the Cycladic holiday home market had declined since the beginning of the Greek financial crisis. Local demand has dwindled due to the tightening of the domestic financial situation. On the other hand, foreign buyers had a “wait and see” approach as they were wary of a further drop in property prices or political instability furthering the financial crisis. The first encouraging signs appeared in the second half of

2013 with the strengthening of overseas interest. A revival of the market is expected by the end of 2014.

The buyer’s profile is truly diverse – different nationalities and different interests. In the past years a large number of transactions have been completed by a variety of international buyers mainly coming from Germany, Italy, the Nordic countries and Israel as well as Greek emigrants from USA

and Australia. Nevertheless an increase in demand from Israeli, Lebanese and Egyptian investors is anticipated as they are looking to benefit from a residence permit for investments in excess of €250,000.

The buyer’s profile is truly diverse - different nationalities and different interests

Steps for buying property in Greece

1. Appointing a real estate advisory firm
2. Legal and technical due diligence
3. Preliminary contract
4. Deposit of Transfer Tax
5. Final contract & registration of property transfer

Supply

During the last four years there has not been any new development of holiday homes in the region. New development is not expected to be launched before the second half of 2014. The existing holiday home market mainly consists of private residences instead of organised residential developments; as many Greeks had built their holiday home in the Cyclades. Residence complexes can be found only in the more tourism-focused islands such as Mykonos and Paros. Some of the most exclusive holiday homes in terms of quality, location, building, architecture and on-site amenities are located on the Cycladic islands. The lasting financial crisis and the

rise of property taxes led a number of individuals, mainly Greeks, to place their properties on the market. Therefore, the holiday homes for sale increased during the last year even though the existing stock is still limited especially in the less developed islands. In the next few years, an increase in investment activity for holiday homes is anticipated, mainly from international buyers.

The existing holiday home market mainly consists of private residences

Insights for Buyers

- A. Prior to completion of the agreement the buyer must have obtained a Greek Tax Identification Number (AFM)
- B. The importation of funds used to acquire real estate needs to be documented and requires the permission of the Bank of Greece
- C. The average transaction cost of purchasing property in Greece ranges between 7-12.5% of the property value. The transaction cost will be higher for new constructions (after 2006), which are subject to VAT
- D. The minimum estimated time for the completion of any transaction varies from 1 to 3 months
- E. According to the new legal framework, any non-EU investor who spends in excess of €250,000 on Greek real estate is granted a residence permit for him and his family. This is automatically renewable every five years
- F. Major banks are willing to offer mortgages to foreign buyers that fulfill the banks requirements

Source: Algean Property Research



Prices - Transactions

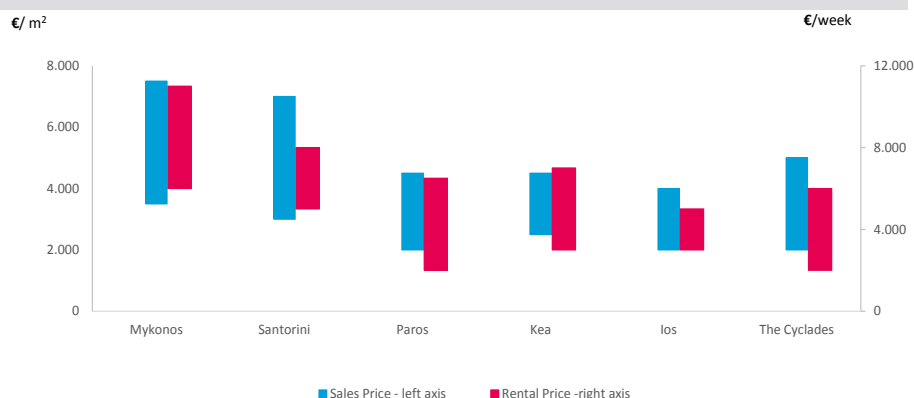
Holiday home prices in the Cyclades have fallen substantially mainly due to the contraction of the Greek households' financial position. A 30% drop has been recorded since the beginning of the crisis. Prices for high-end holiday homes however, have proven to be more resilient and in many cases have held on to the pre-crisis price. The average asking sale price in the Cyclades ranges from €2,000-5,000/m². As the market has not recovered yet, outstanding bargains even below this price can be found. On the other hand, unique residences with exclusive features

such as high quality construction, sea views, on-site amenities, short distances from the airport and proximity to the beach hold on to their prices even at €10,000/m². It is worth noting that these high end holiday homes are let at a €30,000 weekly rate during the summer peak season. According to our research, the average gross yield in the Cyclades ranges between 4-7%. This is expected to attract buyers who, as well as a holiday home, are looking for an investment providing them with a high return through the rental of the property in their absence.

There has been a reluctance of owners to sell in a "buyers' market" - this keeps down the number of transactions despite the increase in interest. Transactions will pick up during 2014, driven by the enhanced investment sentiment. It is noteworthy that all the transactions in 2014 in the region were completed by foreign buyers.

The market is expected to attract buyers who, as well as a holiday home, are looking for an investment

Average asking prices of high-end holiday homes in the Cyclades



Source: Algean Property Research, Seez Travel

Outlook

The Cyclades play an important role in the Greek holiday home market. The unique features of the region, and a variety of holiday options: ideal climate, easy accessibility and exclusive residences, prove the region ideal for all types of holiday home buyers; they could be searching for

a retirement home, an investment, a holiday home or all of the above combined. Although there are some developed markets in the region, the total Cycladic holiday home market has only recently become appealing to foreign investors looking to benefit from the new investment - friendly legislative

framework. The Cycladic holiday home market offers numerous opportunities to investors from all around the world, being that it is a rising tourist destination.

Overview

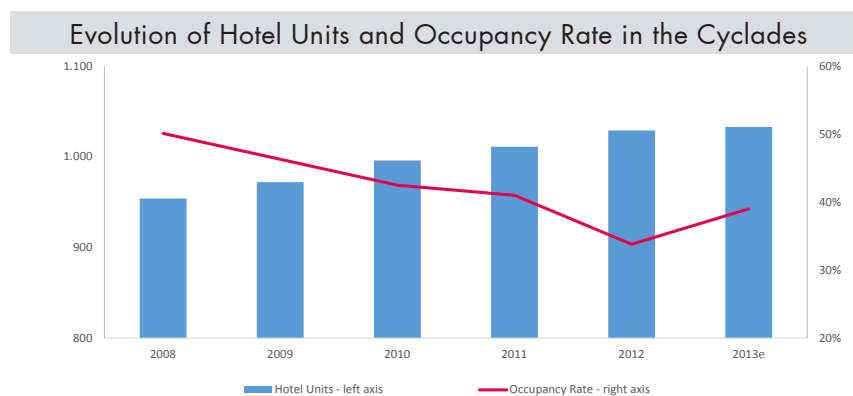
The hospitality business in the Cyclades is an emerging market with untapped capabilities. Excluding Mykonos and Santorini, there is a major lack of upper category hotel units in the other Cycladic islands. Even in these two islands the stock does not meet the

growing demand. The hospitality market is based on local brands with only a few international brands operating in the region. The “rooms to let” tourism still has a large share of the market. The growing tourism potential and the special features of the region combined with the new

investment friendly framework, offer the opportunity to change from the “rooms to let” style of tourism to attracting millions of visitors who prefer more organised vacations in integrated resorts.

Supply

The hotel capacity in the Cyclades has remained almost constant in the last five years, showing a slight increase of 8.3%. 79 hotel units with nearly 6,050 beds have been added to the current hotel stock of the region since 2008. It is worth noting that 70.9% of the new hotel units were in the top two categories – 42 four star and 14 five star new hotel units. The total hotel capacity in the Cyclades amounts to 1,033 hotel units with 25,240 rooms and 48,962 beds. An interesting conclusion is that only 3.6% - 37 hotel units - of the total hotel capacity belongs to the upper category, whereas 75% - 28 hotel units - are located in Mykonos and Santorini. 45% of the total hotel units of the region are located in these two islands. The existing track record and the



growing tourism demand in these two islands partially justify the above figures and underline the opportunity for further development of quality supply units in the other Cycladic islands. A substantial part of the current stock is of old or poor quality so a renovation or even reconstruction is required. The only drawback for the hospitality

sector in the region is the yearly low occupancy rate influenced by the seasonal operation of many hotel units. There is a lot of room for improvement and expansion in this market, if more activities are integrated in these resorts, leading to an extension of the season.

Hotel Capacity in the Cyclades						
	Hotel Units		Hotel Rooms		Hotel Beds	
	Number	%	Number	%	Number	%
1*	161	15,6%	2.330	9,2%	4.575	9,3%
2*	446	43,2%	9.685	38,4%	18.657	38,1%
3*	205	19,8%	5.548	22,0%	10.808	22,1%
4*	184	17,8%	5.886	23,3%	11.298	23,1%
5*	37	3,6%	1.791	7,1%	3.624	7,4%
Total	1.033	100,0%	25.240	100,0%	48.962	100,0%

Source: SETE, Hellenic Chamber of Hotels, Algean Property Research

Only 3.6% - 37 hotel units- of the total hotel capacity belong to the upper category

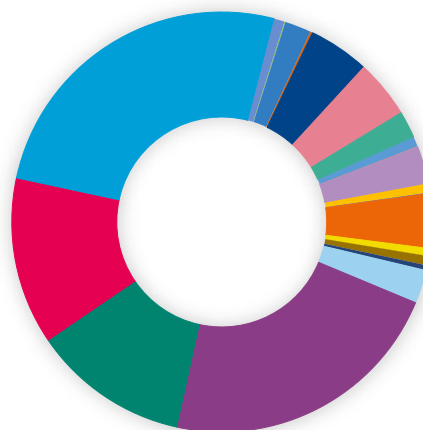
Perspective - Transactions

The Cycladic hospitality market is very promising, due to the fact that it offers natural beauty, moderate climate, historical, religious and geological interests. A few actions should be implemented in order to encourage these prospects:

- A. The improvement of tourist infrastructure; renovation and/or construction of new airports, ports and roads.
- B. The development of high quality integrated resorts that aim to attract tourists with high incomes and to prolong the vacation period. It is still common for many hotel units to operate only for 3-6 months per year.
- C. The enhancement of the classic "Sun & Beach" model with alternative types of tourism i.e. agro-tourism, religious, historical, geological, therapeutic and medical and yachting. In these areas, the region has many advantages and opportunities.

Percentage Distribution of Hotel Beds by Island

Amorgos, 0.8%	Anafi, 0.05%
Andros, 2.9%	Antiparos, 0.7%
Irakleia, 0.1%	Thirasia, 0.05%
Ios, 4.2%	Kea, 0.6%
Kimolos, 0.05%	Koufonisi, 0.7%
Kythnos, 0.4%	Milos, 2.6%
Mykonos, 22.2%	Naxos, 12.0%
Paros, 12.9%	Santorini, 25.7%
Serifos, 0.8%	Sikinos, 0.1%
Sifnos, 2.0%	Sxoinousa, 0.2%
Syros, 4.7%	Tinos, 4.5%
Folegandros, 2.0%	



Source: SETE, Hellenic Chamber of Hotels, Algean Property Research

To this end, a number of investments by funds have been announced. Some of the most important are:

1. Dolphin Capital Investors – development of an integrated resort including a 5 star Aman resort, 136 holiday homes, thalassotherapy centre and a diving centre in Vroskopos, Kea. The development cost is estimated at €60 million.
2. Taurus Investment Holdings – investment of €100 million for a 5 star hotel with holiday homes and spa centre in

Ammoudaraki, Milos.

3. 105 Tourist and Technical Real Estate Company – development of a 5 star hotel, bungalows, spa centre and marina in Ios. The budget is estimated at €50 million. Furthermore, COCO-MAT Hotels and Resorts are negotiating the acquisition of two hotel units while Intercontinental intends to undertake the management of a new integrated resort in Santorini.

Outlook

The Cyclades are already recognised as a tourist destination with great potential. This trend together with improved investor sentiment in Greece is expected to increase interest in the hospitality sector in the region. The limited supply of quality hospitality developments and the demand for new integrated resorts reveal real opportunities in the Cycladic islands that should not be overlooked. In many cases, the authorities have recognised the

necessity for improving the tourist infrastructure and are working in this direction. The announced developments are expected to attract the interest of investors and lead to new investments in the hospitality market of the Cyclades -Further information regarding the Greek Hospitality sector in our Economy and Real Estate Report, for H2 2013: 'Phoenix time for Greece?'; source: www.algeanproperty.com

The combination of growing demand and limited supply offers a real opportunity

Key Locations



	Kea	Paros	Santorini	Ios	Mykonos
Population	2,446	13,715	15,550	2,024	10,110
Weather Av. Temp:	18 C°	20 C°	20 C°	21 C°	18 C°
Av. Wind:	↙ 6 kts	↙ 10 kts	↓ 12 kts	↗ 2 kts	↗ 13 kts
Accessibility (from Athens)	🚢 1 hour	🚢 2.5-5 hours ✈️ 45 mins	🚢 5-8 hours ✈️ 45 mins	🚢 4.5-9 hours	🚢 3-5 hours ✈️ 40 mins
Nearest Airport	Athens (ATH) 1 hour boat ride	Paros (PAS)	Santorini (JTR)	Santorini (JTR) 35min. fast boat ride	Mykonos (JMK)
Season	March - November	May - September	April - November	May - September	April - November
Healthcare	Regional Clinic	Health Center	Health Center	Regional Clinic	Health Center
Culture	Historical, Religious	Historical, Religious	Historical, Geopolitical	Historical, Religious	
Social	International	International, Local, Quiet	International, Local, Quiet	International, Local, Quiet	International, Local, Quiet
Lifestyle	Dining, Nightlife	Wineries, Dining, Nightlife, Shopping	Wineries, Nightlife, Dining, Shopping	Nightlife, Dining	Dining, Nightlife, Shopping
Sports	Sailing, Scuba diving	Windsurfing, Scuba diving, Hiking, Horseback Riding	Windsurfing, Kite Surfing, Rock Climbing	Sailing, Windsurfing, Cycling	Waterskiing, Windsurfing, Kite Surfing

Source: Algean Property Research, Seez Travel

Key Locations

	Kea	Paros	Santorini	Ios	Mykonos
Investment	The next property investment destination. Prices are high due to close proximity of Athens. Attracts Athenian and international crowds.	A mature market with outstanding bargains for actual buyers. A real drop of prices due to substantial existing stock.	Established market. Sale prices for exclusive properties remain high.	Undiscovered, with great potential and excellent opportunities can be found.	Has a long established market; The financial instability of the last few years has opened a window of opportunity for investment.
Hotel Units	6	136	286	44	170
5* Hotel Units	0	2	16	0	12
4* Hotel Units	1	15	83	2	51
Sale Price ¹	€2,500-4,500/m ²	€2,000-4,500/m ²	€3,000-7,000/m ²	€2,000-4,000/m ²	€3,500-7,500/m ²
Rental Price ¹	€3,000-7,000/week	€2,000-6,500/week	€5,000-8,000/week	€3,000-5,000/week	€6,000-11,000/week
Expected Gross Yield ¹	6,9%	6,3%	6,2%	6,4%	7,4%

1. The above analysis based on 200 comparable properties, gathered from Algean Property research team. The main features of each property are minimum 3 bedrooms, a private pool, and high quality fittings in a total area of 150 to 350m²

Source: Algean Property Research, Seez Travel

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