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Greek Villas Get 45% Markdowns as Crisis Devalues Island Homes

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By Sharon Smyth

July 28 (Bloomberg) -- Greek island homes, long coveted by millionaires and Hollywood stars such as Tom Hanks, are being marked down by as much as 45 percent as the country's debt crisis destroys demand for holiday getaways.

A half-built villa on Mykonos, an island in the Aegean Sea known for its all-night beach parties, is being offered by brokers at Athens-based Ploumis Sotiropoulos OE for 2 million euros (\$2.6 million) after the price was reduced by 500,000 euros. The same firm is seeking a buyer for a three-bedroom home on Corfu for 750,000 euros, down from an original asking price of 1.4 million euros. So far, no bidders have emerged.

"It's a scary place to invest right now," said Mike Braunholtz, a broker at Prestige Property Group, which markets properties on the Greek islands. "Things aren't going to improve until the economic picture becomes clearer."

Greece is counting on a 110 billion-euro bailout from the European Union and the International Monetary Fund to avert a default and end the nation's first recession since 1993. Prime Minister George Papandreou, having raised taxes and cut civil-service wages, is imposing luxury property taxes to convince voters that the wealthy also are helping foot the bill.

Papandreou's austerity package calls for an extra levy on properties valued at more than 5 million euros. Owners of homes worth more than 400,000 euros also will pay higher taxes.

The program puts pressure on homeowners and debt-laden developers to lower prices, said Ioannis Kaligiannakis, an Athens-based property analyst at Colliers International Hellas.

Tourist Trap

Greece, which borders Albania, the Republic of Macedonia, Bulgaria and Turkey, has more than 1,000 islands and the 10th-longest coastline in the world. The country attracts about 15 million visitors a year, according to data compiled by the Hellenic Statistical Authority.

Property declines have been smaller in Spain, Portugal and Italy. Prices for luxury homes have dropped 8 percent to 10 percent in Spain from the peak in 2008, according to Idealista.com, the country's largest real estate website.

The market is holding steady in Portugal, where 832 kilometers (517 miles) of coastline and the archipelagos of Madeira and Azores attract about 13 million tourists each year, said Liselore Ligtermoet, a Lisbon-based marketing manager at International Realty Group.

"We're not seeing bargain hunters here," Ligtermoet said.

Discounts also have been hard to find in Italy since the country emerged from recession in the third quarter of 2009, said Angelo Savioli, a director at Sotheby's International Realty in Rome. "Prices are actually rising in areas such as Rome, Venice, Milan and Florence," he said.

Tax Increases

Greece plans to increase the so-called objective value it places on real estate for tax purposes next year. The system depends on an assessment of a property's value based on the area and amenities, rather than on the actual market value, which is usually higher.

State revenue will increase next year with the new program, Finance Minister George Papaconstantinou said on July 5.

"The tax overhaul is certainly a concern for property investors in Greece," said Liam Bailey, head of residential research at Knight Frank LLC in London. "These measures specifically target the rich, higher-end buyer."

Prestige is marketing a three-story, eight-bedroom villa with a swimming pool on Mykonos for 4.1 million euros, down from 5.5 million euros. More than a third of the island's 11,000 residents are foreigners, according to its official website.

'Forrest Gump'

Tom Hanks, the Oscar-winning star of "Forrest Gump" and producer of "My Big Fat Greek Wedding," and his wife, Rita Wilson, an actress whose father was born in Greece, have a property on Antiparos, according to a spokeswoman for the island's Community Council.

House prices on the mainland also are falling. Ploumis Sotiropoulos is helping sell a 450-square-meter (4,800-square-foot) villa in Ekali, a wealthy suburb of Athens where former Prime Minister Andreas Papandreou lived until his death in 1996, for 2 million euros. The asking price has dropped 48 percent.

"It's tough this year," said Giannis Ploumis, the chief executive officer of Ploumis Sotiropoulos. "More properties are on the market and fewer buyers are willing to invest."

The economy will contract by about 4 percent this year and by 2.6 percent in 2011, according to estimates from the Greek Finance Ministry.

Greece is losing its cache with potential buyers "simply looking at other places," said Bailey of Knight Frank.

French Chateau

France is gaining in popularity as it offers plenty of bargains and the country's economic prospects make the market more attractive than Greece, Braunholtz said. The economy will grow 1.4 percent this year, according to analysts' estimates compiled by Bloomberg.

Prestige's website features a 12-bedroom French chateau near Toulouse for 477,000 euros and a nine-bedroom property about 15 minutes drive from Grenoble that's on the market for 1.9 million euros.

London is profiting from Greece's financial turmoil. In April, Greek buyers accounted for about 6 percent of all property purchases above 2 million pounds (\$3 million) in the U.K. capital, according to Knight Frank. That was double the average of the past three years.

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