

## Thinking about buying property in Greece in 2016

When one hears about Greece these days, what comes to mind is often the news of austerity measures, banking capital controls, new taxes, and the shrinking Greek economy which continues to be publicized in the media. These issues may make any foreign investor reluctant to purchase property in Greece during these unsettled times. However, it is just these conditions which have led to a flooded property market with lots of purchasing potential, as local owners are trying to get out from under properties, they can no longer support.

Prices are far below where they were one year ago, let alone five years ago. Investing in property in Greece, is investing in Greece. Sellers are anxious to get out from under their accumulated past debt or to avoid foreseeable future debt and they welcome the possibility of finding a buyer. Currently many who are looking, and buying, are from outside of Greece. The process of purchasing a property in Greece may seem daunting as there are numerous requirements and steps that need to be taken, but with a bit of help and guidance the possibility of owning property in Greece can become a reality.

### A Bit of Background

Since 2008 the housing market in Greece began changing as the ripple effect from the US housing and financial crisis hit the world markets. By 2010 Greece had signed the first memoranda of financial understanding with the EU and austerity measures were introduced in Greece.

Greece has traditionally had a very high property ownership rate. This was because property often passed within a family as a part of a dowry or as a small investment to gain some rental income to supplement a pension, particularly for women. Culturally, property played a strong role in Greek society. A family might own an apartment in the city and a village house. Each child would inherit a share of both of those properties and then maybe save up and purchase their own apartment in a city. Greece has had about 80% home ownership <sup>i</sup> at the same time in the U.S.A.; home ownership has been closer to 63%.<sup>ii</sup>

In the United States we are familiar with property taxes and we know that it is a big part of property ownership. Asking what the property taxes are on a certain property would be normal when looking to purchase property. However in Greece, property taxes were traditionally small and previously, they did not also affect the owner's annual income tax. So when The EU and Greece were looking for funds to balance Greece's budgets, several of the many new taxes introduced were on property. For a country that is struggling with high unemployment, shrinking pensions and unusually high income taxes due to the austerity measures, the new property taxes, small by some U.S. standards are significant to the many property owners in Greece to the point that liquidating their properties seems to be the only alternative.

### Local Income Tax Burdens and Borrowing Obstacles

The Greek State, in its many attempts to reign in tax evasion, also created a basic level of income for each taxpaying individual in Greece. This is referred to as "Objective Criteria," where by the Greek State has determined that for one to survive in Greece they would need a certain level of income. The tax payer is responsible for this base amount even if he/she has a smaller income. If the

taxpayer owns property or even worse multiple properties in their name, and maybe a car, their annual income tax is calculated using a complex mathematical equation which creates a new base amount reflecting what the State determines they should have made for that year (to also support the properties and the car). Thus an individual could end up paying far more on his income tax than if he was taxed solely on his income. In this way the local tax payer is burdened in several new ways through both (assessed) income tax and property tax (even if not income producing).

These “Objective Criteria” do not burden foreign property owners as they only pay income tax if they use their Greek property to generate income. As most foreign buyers pay taxes in their home countries, they will be able to justify their income in Greece if need be.

In regard to borrowing, the Greek Banks have ceased giving mortgages under the capital controls. Many banks are carrying numerous bad mortgages on their balance sheets, with the owners unable to pay the loans. The State has had to re-capitalize the Banks again and again, as people are struggling to pay their existing loans.

Certainly other conditions are playing roles in the contracting economy of Greece, but it is due to these changes that the housing market is full of available properties, as property transactions amongst the local population have fallen to the lowest rate in 30 years. So any buyer would have to realize that this investment is not for the short term, as to re-sell a property in this market would not bring a good return. However, it would certainly be a good investment for someone who is looking for a secondary residence in Greece or has the ability to wait for the market prices to rise again, at some point in the future.

### Current System Upgrades

Greece has made some drastic changes over the past few years as it strives to catch up with the new electronic era that will enable the country to play some role in the global marketplace. This includes updating financial and tax procedures that have remained stagnant for decades. These changes include detailed computerized tax filings and the registration of property with all its parameters in a computerized format. While this sounds like Greece is entering the 21<sup>st</sup> century, the bureaucratic requirements for the new systems can be overwhelming.

These changes and requirements have shaken the status quo as almost every tax or legal procedure that had been in practice became obsolete. The evolution of the current systems has been especially hard on local professionals, as steps were introduced rapidly and the transition from the old systems to the new was not carried out smoothly. It is important to have professionals who are aware of the new requirements and changes guiding you along the way.

### Making a Purchase- Step by Step

#### A) Finding the right property

Perhaps you are looking for an apartment in Athens or a house on a Greek island. There are many choices currently in Greece. There are various web pages that list properties for sale or you might have a friend or relative that wants to sell. When you see a unit/property that you like, you will first need to determine if you are in the price range of what the owner is asking for the property. You will need to have the funds available for the sale, or arrange to obtain the funds through a loan outside

of Greece, as it is almost impossible to secure a mortgage through a Greek Bank with the current capital controls.

The next step is to request a copy of the property title from the seller. With the copy of the title your attorney will review the paperwork and follow up with a thorough title search at the title office where the property is registered. There are over 300 title offices in Greece, each covering a specific area of the country.

#### B) Value of Property

Property in Greece has two actual values, The Objective Value and the Market Value. The Objective Value is the tax value of the property determined by various standards such as location, floor level if apartment, size (square meters), year of construction etc. All of these factors are added into a formula provided by the tax office to determine the tax value. All taxes on a property will use this objective value or tax value. The Market Value is what the sales value of a property is in today's market.

Historically in Greece the Objective Value has been noticeably different than the Market Value. As recently as six years ago Market Value was on average about 30% higher than Objective Value. However with the financial crisis the Objective Tax Value is now higher in many cases than the Market Value, in some areas the Market Value has fallen to almost half of the Objective Value.

This creates a "buyers market" as the prices of property have reached record lows. To determine if a property price is fair there are several options. Your attorney can determine a reasonable price range as can a civil engineer or a formal appraisal is highly recommended. In this way the buyer can make an offer on a property that is fair both to the buyer and the seller in the current Greek housing market.

#### C) Requirements to Close the Sale

If your attorney has verified the title to the property is clean and you have negotiated a price on the property and you are ready to move ahead, the next steps are to obtain a Greek Tax Identification number (AFM) and open a Greek Bank account. If you have ties to Greece you may already have a Greek Tax ID and a Bank Account. If not, your representative or attorney in Greece can have a Greek Tax ID issued for you through a Power of Attorney and with an additional filing with the tax office, allocate who will be the local tax representative to receive tax notices in Greece. It is a requirement by the Greek tax authorities that if an individual is registered at the tax office of foreigners (people who reside outside of Greece) then a local tax representative (antiklitos) must be assigned. At this time also by registering you with the foreign tax office, key codes and passwords will be issued linking you with the computerized tax system so that future tax filings can be made on your behalf.

Unfortunately, opening a Greek Bank account in Greece is much more difficult, at this point in time. All of the Banks in Greece currently require physical presence to open a bank account. While this may change in the near future, at the time of the writing of this article, it remains an obstacle as a purchaser must physically travel to Greece.

To encourage investment into Greece there are certain conditions within the capital controls (imposed on the Greek Banking system since July 2015) where a "foreign buyer" can open a bank

account for the purpose of purchasing property but there is a hefty requirement of 10,000 euro to be deposited at the time of the opening of the account. This amount has to remain in the account and cannot be depleted. This account still requires your physical presence to open and a series of documents will be needed to prove your residence outside of Greece. Your attorney can help you gather what you need to present to the bank to open the account.

While an account in a Greek Bank might not be necessary for the payment of the sales price, (as this can be done via a wire transfer from your Bank account abroad, directly into the seller's account with safeguards put into place by your attorney), you will need it to be able to pay the property transfer tax (as it can only be paid through a Greek Bank account) and then, after the sale is completed, it will be prudent to link this Bank account with the property's utility bill payments (water, electricity).

#### D) The Sale

If you have all of the above, including a bank account and a Greek Tax ID an attorney with a specific Power of Attorney can complete the sale on your behalf, you do not need to be present at the signing. Your attorney can make all of the necessary arrangements and negotiations on your behalf, as he/she will also have to thoroughly review the paperwork submitted by the seller.

In addition to the title search, there are new tax requirements that necessitate the generation of a series of specific certificates that the attorneys of both the buyer and seller will need to produce. As the tax system has changed, many of these certificates need corrections and this can take time. Some of these corrections could result in additional taxes paid by the seller if the measurements of the property do not line up correctly. From the time your attorney accepts a deposit on your behalf, with your authorization, to the time that the sale is complete may run from one to several months. Small discrepancies within a deed can cause havoc with the paperwork and may require several steps to correct.

For example, recently a seller had an additional storage area (apothiki) listed within the deed. The way the storage area was listed and the way the storage areas of the building were eventually built did not agree. To track down the discrepancy two attorneys had to review the deeds of every unit built by the contracting company to track the correct data of the storage units for the building. While this is an extreme case, these discrepancies can set back a sale in time and money. Being thorough up front is key.

#### E) Fees and Taxes

The Transfer taxes will need to be paid through your Greek bank account. Fees for notaries, attorneys, engineers etc., as well as any refurbishments can be paid through your bank account in Greece, or via a wire transfer from abroad.

Once the sales deed is signed by all the parties, in person, or through a Power of Attorney, the property is yours. The final steps carried out by your representative will be to register the property at the appropriate title office and register the property with the New Land Registry. Within thirty days of purchasing, as a new property owner, you will need to file an E9 form, registering your property with the tax authorities. Your tax representative can follow up with filing any necessary tax forms and notifying you of any taxes due. It is also prudent, even if the property is not generating an

income, to file an annual income declaration. This will give you a tax clearance that your local Greek bank will request every year. There are other property taxes but as they change frequently this article cannot outline the taxes in detail (though, the current example is the ENFIA tax, which is being paid annually, calculated on the property's objective value). Your tax representative or your attorney can let you know about taxes pertaining to that given year.

In closing, the market in Greece is a buyer's market as locals try to sell property they no longer can afford. As values continue to fall some amazing properties have come on the market. If you are looking for a long term investment there are many opportunities. The best advice is to find a thorough team of professionals to guide you through the purchase or sale to protect your interests.

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<sup>i</sup> Housing Statistics in European Union 2012, p.66,

[http://www.bmwfw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing\\_statistics\\_in\\_the\\_european\\_union\\_2010.pdf](http://www.bmwfw.gv.at/Wirtschaftspolitik/Wohnungspolitik/Documents/housing_statistics_in_the_european_union_2010.pdf)

<sup>ii</sup>United States Census Bureau, Home Ownership rates for the US and Regions, 1965 to present (2012), Table 14 <http://www.census.gov/housing/hvs/data/histtabs.html>

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