OAK INVESTMENT MANAGEMENT GROUP

JANUARY (2) 2015

Greek exit from the Euro and European Real Estate

Greece has had a disproportionate effect for its size on the continent of Europe since the 2008 downturn. Today its GDP is 1.3% that of the European Union. Yet the prospect of the exit of Greece from the European monetary union is met with huge gestations in the capital markets. What could the prospect of Greece's departure from the euro area mean for European Real estate?

It is clear that Greece will not be forced to leave the Eurozone. It has been technical default for the last three years but this default has been staved off by a series of measures guaranteed by the European Central Bank, and ultimately Germany. If a new government were to challenge this *modus operandi* it would be an active choice of that government not of the creditors.

No one knows what might happen or what the consequences would be of a Greek exit. If it were a straightforward corporate stock issue then the effect would be rise in the share price of the remaining euro zone and a decrease in the share price of Greece. The Eurozone would be able to borrow more and Greece would only be able to borrow at seemingly preposterous rates, but a sovereign default is not a straightforward share issue.

The first most important factor of Greece voluntarily leaving the euro is the principle involved. It punctures a political dream of ever closer unity of European nations as well as questions the economic viability of using the same economic foundations for each national economy in Europe. The second most important factor is whether contagion spreads as a result of Greece's voluntary exit. It is unlikely that contagion will take the form in the wake of the bankruptcy of Lehmann Brothers (few will be exposed to counter-party trades in Greek debt who are not aware of the level of risk they are taking).

Contagion in this scenario would be spread by the likelihood of the capital markets believing money can be made forcing other countries to exit as well. This in itself is not as destructive as countervailing measures attempted by national governments as well as by the European Central Bank itself. By definition warding off the capital markets from the larger countries will end in failure and huge losses. Effectively these will sooner or later crystallise into losses by national and supra-national governments which will need to be paid one way or another. This would be the beginning of another deflationary cycle in Europe.

What all this would mean for real estate is extreme instability as well as lack of clarity for global capital flows. A Greek exit would lead to a flight to quality – and ultimately more capital flowing to northern Europe. It would starve Greece and well as the southern region of Europe from much needed investment in real estate. The exercise would be completely unnecessary as the country has a healthy $242 billion GDP and with the necessary changes could become a great success.

Nicholas Frankopan is Managing Director of Oak Investment Management Group pan-European real estate investment manager. To contact the author please email nfrankopan@oakadvisors.co.uk or learn more about the group at www.oakimg.com.