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"Faux depart" in Turkish real estate

My live experience tells me that what we have accomplished so far in Turkey is not even a proper start. It could best be described as a "faux depart".

Over the last 5 years, I have worked with international investors and developers in Turkey, I have witnessed as many failure stories on Turkish real estate as I have seen success stories. I have unfortunately seen more deal failures than successful closures. Nevertheless, almost everyone I worked with, from among local and international clientele, they were all very diligent and very constructive and yet the distance we have covered in Turkey on international real estate investments from an international perspective is not more than a few steps.

So what is wrong or is there someone to blame? My live experience tells me that what we have accomplished so far in Turkey is not even a proper start. It could best be described as a "faux depart". What were the main factors that lead us into this "faulty start"?

1. Sellers were not ready. Having stayed as a very local market for decades with very few investment transactions

happening, nobody knew about yields, cap rates etc. and to persuade a seller to assess value based on income capitalisation was almost impossible. Nobody wanted to give a prospect buyer an exclusivity period for due diligence.

2. Buyers were not ready. International investors did not fully realise that they have to have more social contact in Turkey compared to other European countries to close a similar deal. E-mails and faxes and conference calls did not have the same effect on a Turkish business person and most Turkish sellers were utterly disappointed to discover that their business counterpart would need to depart that afternoon instead of having dinner with him in a fancy Istanbul restaurant that evening.

3. Bankers were not ready. International lenders have entered the market quite early to follow their international clients but the international credit crunch slowed their lending activities around the world and that unfortunately included Turkey. Local banks were a little reluctant at start to lend for real estate development as their memories based on their bitter NPL experience collateralised on real estate during Turkey's banking crisis in early 2000's prevented them.

4. Legislation was not there. Turkish mortgage law was delayed, Foreign Direct Investment Law (FDI) was cancelled by the Higher court. Finally everything was put in place.

5. Infrastructure was not there. Property management companies were very few and small in size, international retailers were not large enough, Human resource was a big problem. Skill set almost unexisted.

6. Investment climate was not there. There was a case against the Ruling Party in early 2008, Credit crunch was limiting funds available to real estate not only in Turkey but around the world.

7. Most important of all the product was not there. Turkey is a country where commercial real estate was not structured for a modern investment motive. After all, most real estate was developed to be passed on to grandchildren. Decent structuring in terms of ownership, design, tax issues, tenancy etc. only started in late 2005. The current product pipeline is quite satisfactory but will only start flowing in late 2009. Most of the current development is correctly structured.

Of all the 7 factors I have touched above, there has been a lot of recent positive improvement. Time is probably the best teacher available in our universe. We know that all leaders of Turkish real estate sector learned a lot in the last couple of years and are now making every effort to make a "bon depart" this time. Why not be a part of it?

EXPO REAL TURKISH SESSION

Date: 7th October 2008 Tuesday
Time: 16:00-16:50
Place: Expo Real Exposition Area, Hall A1

Moderator
Yasemin Uzun - GMTR, Managing Editor

Speakers
Murat Ergin - Kuzeybatı Worldwide Real Estate Services, Managing Director
Gerard Groener - Corio N.V, CEO
Hakan Kodal - KREA Real Estate Development & Investment, CEO