

Turkish property boom fuelled by foreign cash: as it prepares for admission to the European Union, Turkey is opening up to foreign property buyers. Jon Gorvett reports from Istanbul on how the country's financial sector is gearing up to provide mortgages.

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ON TURKEY'S AEGEAN AND MEDITERRANEAN coasts, something is stirring. While long famous for its package holiday resorts and awesome ancient cities, these regions are now more alive with foreign languages and cultures than ever before. The reason is that Turkey has become the latest focus for overseas property buyers--mainly from Germany, Britain and Ireland--all of whom are keen to purchase their own private place in the sun.

This new influx of foreigners has been matched in recent months with a surge in interest in the property market from Turks themselves. In response to the new trend, the government is advancing fast with plans to introduce a new mortgage system that many analysts say could revolutionise the country's housing market and bring an enormous boost to the economy as a whole.

The reason is that until now, most Turks have either rented or bought their flats and houses outright--frequently with generous help from family and friends--while others have been fortunate to inherit property. Mortgages have barely existed in any form, with banks reluctant to lend out money on such a long-term basis.

"The legal system [for mortgages] has long been in place," says **Murat Ergin** of Istanbul's **Kuzeybati Real Estate agency**, "but the Turkish banking system has been short of long-term funds and cannot securitise money borrowed on this basis."

In the past, interest rates have been phenomenal, with the maximum repayment term for a loan averaging around five years--at a 2% per month borrowing rate.

This has been enough to shut almost everyone out of the property market except for companies and individuals with major capital behind them. Now though, if the government has its way, this year will see the introduction of a mortgage system based on that in use in the

United States. Mortgage lending companies will offer loans that can be paid back over 10, 20 or even 40 years, and at rates that make them comparable with rents.

COMMERCIAL BOOM?

This could have a revolutionary effect not only on the housing market, as many ordinary Turks join it, but on the rest of the economy as well.

"Already owned land and property could start coming into the system," says Tolga Kotan, of Finans Invest. "The money could then be used to finance commercial activity."

The capitalisation of existing housing assets would release large amounts of money into the economy, as Turks use their properties as security against loans.

One other effect of this is likely to be a surge in demand for property, with a corresponding boost in real estate prices dependent on the nature of this demand and how building supply responds. While Turkey has a large and well established construction sector, prices for ordinary dwellings and commercial property may remain relatively stable and prices for exclusive and unusual properties could accelerate.

This might be welcome news for many of those foreigners--and Turks--who have been investing in recent years in older and more select properties. In Istanbul, districts such as Galata and Beyoglu, which have large numbers of well-built, but often semi-derelict late 19th century and early 20th century properties, have already seen a major jump in prices. Although at present these are somewhat detached from actual demand due to distortions in the local housing market, in future, similarly high prices could become more realistic and widespread.

COASTAL ATTRACTION

Yet the really big property market is on the coast. From Alanya round to Canakkale, demand for apartments, houses and land has been rising, particularly from foreigners. Germans top the list of new purchasers, with British and Irish buyers not far behind. Attracted by comparatively low prices--villas from 50,000 [pounds sterling]-100,000 [pounds sterling]--a warm climate and friendly locals, long familiar with visitors from northern climes, the Mediterranean and Aegean coasts have become a magnet for European buyers.

The town of Alanya currently has some 9,000 foreign residents, mainly German, with over 5,000 properties in foreign ownership. Likewise, the towns of Kas and Kalkan have attracted large numbers of Britons, with the latter place often referred to as "Little England".

Another national group that has also been in evidence more recently are Greeks. With much of the Aegean coast an ancestral home for them, areas such as Izmir have proved particularly attractive. Some sources claim that up to a third of all foreign ownership in Turkey is Greek, although it is not clear if this includes properties owned by Turkey's own ethnic Greek minority.

NATIONALIST CONCERN

At the same time, however, there are also stirrings of a more troubling kind, as many Turks have begun to wonder just how much of their land will end up in foreign hands--and what effect this will have on local culture and prices.

Taking up this nationalist concern most recently has been the opposition Republican People's Party (CHP), which tabled a series of questions in parliament asking precisely how many properties had been sold to overseas buyers in recent months. Minister of public works and settlement, Zeki Ergezen, told the assembly that some 10,121 individuals and three companies from overseas had bought land in Turkey since this was first allowed, back in July 2003.

Prior to that, while foreigners were allowed to buy flats and houses, the land itself had to remain Turkish. There were also further restrictions on such properties, with all applications to buy having first to gain the approval of the General Staff, even in the middle of cities or places far removed from any military bases. At the same time, land on the Aegean coast in particular was considered highly sensitive.

This goes back to the 1923 population exchange agreement between Turkey and Greece, under the terms of which the large Greek-speaking population of the formerly Ottoman Aegean coast--and elsewhere--was forced to abandon its property to the Turkish government and leave. Simultaneously, the Turkish-speaking population in Greece--with the exception of those in Western Thrace--had to do likewise. The Turkish government then handed out abandoned Greek property to Turkish refugees, but much was left over. Some of this has lain abandoned ever since. Yet to prevent Greeks from returning later and buying back their family's old property, a law was introduced to explicitly prevent them--and other foreigners--from doing so.

RURAL REVIVAL

But all that has now changed. As Turkey moves towards European Union membership, it has been obliged to simplify the law, allowing residents of all countries where Turks can buy property to purchase homes in Turkey if they wish. At the same time, Greek-Turkish

rapprochement means that nowadays, many Greeks visit Turkey--around 120,000 last year, according to Turkish tourism officials--some of whom have also bought property, particularly in Istanbul and on the coast.

CHP deputy Fuat Cay, who tabled the parliamentary questions, clearly sees this as a problem, announcing to the assembly that purchases of property by foreigners constituted a threat to national security. In particular, he was referring to buyers from Greece and neighbouring Syria. Many Syrians have reportedly bought property in Hatay province, an area of southern Turkey that, until recently, Damascus claimed was still part of Syria.

The government was quick to slap Cay's argument down however, saying the total amount of land owned by foreigners countrywide is still less than the equivalent of one small island off Istanbul. Nevertheless, there are clear signs that nationalist groups are trying to use the issue to drum up support. There has also been an attempt by groupings such as the far-right National Action Party (MHP) to link this to grievances over perceived 'concessions' to the European Union on issues such as Cyprus and the Greek Orthodox patriarchate in Istanbul--and to growing reports of Christian, mainly US, missionary activity in Turkey.

Yet most lurks remain only too pleased to see foreign interest reviving rural villages and bringing capital and colour into local communities. At the same time, as the economy improves, many coastal areas are seeing a new wave of Turks from cities such as Istanbul buying properties, either as investments, or holiday homes.

Meanwhile, many others are waiting for the new mortgage law to come into effect. The government wants it to pass into law this year, although many analysts see this as optimistic, citing 2006 or even 2007 as more likely dates for the system to start working.

In any event, expectations are high that this summer will see yet more pale northerners toasting themselves on the decks of their newly bought seafront homes.