ROUND TABLE DISCUSSION ON THE FUTURE OF THE TURKISH REAL ESTATE MARKET

THE LAND OF REAL ESTATE OPPORTUNITIES

Will the public or the private sector take over in the coming years? Will the construction of flats still be the real estate sector's main activity? How will commercial real estate develop? What will be the weight of foreign investors in the development of the sector? How will a balance between housing and industry be reached in urban planning in Turkey? Hüseyin Kaptan, President of the Metropolitan Planning and Urban Design Center, Faruk Göksu, Founding Member and Partner of Urban Strategy Limited Co, Feyzullah Yetgin, General Manager of Real Estate Housing Investment Corp., Hakan Kodal, Chairman of ULI Turkey, Haluk Sur, Member of the Executive Board of ULI Turkey, Murat Ergin, General Manager of Kuzeybati-Savills Turkey and Ali Pamir, Partner of DTZ Turkey, exchange their ideas regarding the restructuring of the Turkish real estate sector during an enlightening round table discussion.

By Fehim Genç

PHOTOS: GARBIS ÖZATAY

Professionals of the Turkish real estate industry gathered together in the Swissôtel in Istanbul for a lively debate.

The Turkish real estate market is going through a dynamic transformation process. The residential and second homes markets are booming and the commercial real estate market is growing faster than ever before. Thus, the Turkish real estate market is full of opportunities for local as well as foreign market players. During a round table discussion that took place at the Swissôtel in Istanbul, seven professionals of the Turkish real estate industry exchanged their ideas regarding the restructuring of the Turkish real estate sector.

Question 1: What will be the future role of public and private companies in the Turkish real estate sector?

Feyzullah Yetgin: "TOKI, the Housing Development Administration and Emlak GYO, Emlak Housing Real Estate Investment Corp., both representing the public sector, have already built 250,000 housing units and are planning to carry on with their activities. 82% of these 250,000 flats cater to the needs of lower- and middle-income groups. TOKI's mission is to build housing for lower income people and to sustain urban transformation. >>

FLTR: Hüseyin Kaptan, Faruk Göksu, Haluk Sur.

FLTR: Murat Ergin, Hakan Kodal, Feyzullah Yetgin.

DEBATE IN SWISSÔTEL

1. **Chairman: Fehim Genç, Milliyet**
2. **Hüseyin Kaptan, Metropolitan Planning and Urban Design Center**
3. **Faruk Göksu, Urban Strategy Limited**
4. **Haluk Sur, ULI Turkey**
5. **Marinus Dijkman, Turkey Real Estate**
6. **Yasin Şahin, Turkey Real Estate**
7. **Ali Pamir, DTZ Turkey**
8. **Murat Ergin, Kuzeybati-Savills Turkey**
9. **Hakan Kodal, ULI Turkey**
10. **Feyzullah Yetgin, Real Estate Housing Investment Corp.**

EDITORIAL

Secret Garden Mansions, Tuzla, Istanbul.

TOKI has already signed transformation protocols with 110 municipalities. Turkey, with a population of 73 million, still needs shopping malls, housing and offices, and these investments must be financially optimized. The construction of a shopping mall in Diyarbakır, aimed at creating an area where local people can get together and relax, is sociologically significant. Since the private sector does not want to invest in non-profitable areas, the public sector still has a lot to do in this field. The public sector has built approximately 5%-10% of total dwellings in the last four to five years. TOKI sets an example with various projects in 81 provinces. The public sector should not lose its functionality and regulating power, but I do not think that there are problems in this area. The building sector, following a recession period, which lasted until 2004, has regained momentum thanks to the important role the public sector plays. The main problem is finding financial resources. Since Turkey does not possess short- and medium-term resources amounting to trillions of dollars, we need foreign investors. Foreign investors require the minimization of risk rates and the responsibility with respect to this rests with the public sector, which must establish a climate of political and economic stability."

Faruk Göksu: "I think there is a growing need for strategic Public-Private Partnership with regard to new housing."

Faruk Göksu: "I believe that housing will be the most important investment in the coming five years. 70%-80% of Turkish flats are under seismic risk. Therefore 10%-15% of the existing 15-16 million dwellings need to be refurbished, this amounts to a total of 1.5-2 million homes. There is also a demand for new housing which brings the total need to 4.5 million new dwellings. Will these flats be built by the private or the public sector?
I believe that there is a growing need for strategic Public-Private Partnership in this field. There is not enough available land and Istanbul will require new building lots in the coming five years. I also believe that there will be connections between cities; some Anatolian provinces are losing ground. I think that Diyarbakır and Mardin might cooperate in this area. Certain cities should be jointly planned."

EDITORIAL

Hakan Kodal: "There is serious growth potential in the housing sector, taking into consideration demographic growth rates; but when it comes to buying power, the situation is quite different. Only 20% of the population has buying power comparable with European standards. The remaining 80% can be divided into two groups: 40% belong to the middle and lower income groups and 40% are poor. A great part of the Turkish population lives in sub-standard dwellings and Turkish industrialists and traders work in sub-standard offices and commercial buildings. We need to transform the current real estate market where offices are perceived of as plazas and homes as residences with swimming pools because this trend does not satisfy the real needs of Turkey. We need B & C class housing as well as B & C class offices. The same principle goes for shopping malls. We already have seven shopping malls on Büyükdere Avenue in Istanbul, which clearly illustrates our tendency to exaggerate at times. Industry and logistics are promising sectors, but we are working under primitive conditions.
There is a great need for public-private cooperation in this sector. They must work together not only with regard to profit-oriented development, but also to risk-adjusted projects.
The first priority is planning, which covers urban planning and the impact of overall economic policies on planning.
If there is no coordination between the two sectors, we will be limited by small-scale planning. The public sector must play an important role in planning, but should also work in consultation with the private sector. The public sector should support planning though incentives and fiscal advantages; it must incentivize housing loans and orient demand towards particular regions, target groups with buying power and specific housing categories."

Haluk Sur: "Cooperation between the public and private sectors is inevitable. This is how things work everywhere.
Cooperation is especially important in urban transformation areas. The central administration must encourage cooperation in cases exceeding the capacity of local administrations. There are great opportunities in private-public cooperation in the field of urban transformation.
Foreign companies are interested in land development and investment opportunities in Turkey. Projects must be designed to attract the attention of global investors. We need projects with building permits, and feasibility reports must be available well in advance.
We are hopeful about the future, but know that we still have a long way to go. Unfortunately the market conditions in Turkey are not duly regulated and we are facing the most serious urban transformation crisis in our history. Shantytowns are scattered all over our metropolises and big cities. The authorities must interfere fairly and not treat equally those who illegally occupy public land and those who do not. Within the existing system illegal squatters on public land are making a profit, whereas honest people are losing money and opportunities.
The private sector has an important role to play in this field. Real estate companies must take part in urban transformation projects while taking into consideration their feasibility. Private real estate investment companies and trusts must deal with central and local administrations in order to solve building and infrastructure problems. The private sector can afford to compensate squatters and still make a profit out of its building activities. They may also assure fairness to the public by offering the potential profits of the urban renewal projects through securitization in the stock market. This may not exist in other countries, but our urbanization model is unique. Two million out of 3.5 million homes in Istanbul need renewal in order to eliminate seismic risks. You cannot tear down 2 million houses and contain 7-8 million displaced people by military or police force.
You need to reach an agreement with the squatters and create awareness in order to solve their problem."

Hakan Kodal: "We need to transform the current real estate market because the trends don't satisfy the real needs of Turkey."

Murat Ergin: "We do not approve of the current situation concerning the role of the public and private sectors. How did we reach this point? >>

PHOTO: TOKI/EMLAK KONUT

Novus Residence in Istanbul is a new project by TOKI/Emlak Konut GYO a.s.

The responsibility does not rest solely with the private sector, but with the authorities who allow people to settle on public land and build shantytowns. The state must act as a regulator and planning body and not as a developer or investor.
I believe that the state must

Feyzullah Yetgin: "New residential projects should target the middle-income group."

prepare settlement plans and building projects, but should not be involved in commercial activities."

Ali Pamir: "We are aware of the conditions of the local market. Housing and retail sectors will continue to grow and we have some expectations concerning government action.
The housing sector, largely driven by interest rates, will only grow if our economic policies are sound. We expect authorities to refrain from populist policies, continue to work efficiently within the coalition government (in case a new coalition is formed after the coming elections) and to not intervene in other matters. So far (that is until May 2007) the current AKP government has performed well in this respect. The land registry and zoning related formalities must be simplified and accelerated. I believe that the real estate sector, especially housing, can only thrive in an environment of political and economic stability."

Question 2: Which branches of real estate will develop in the near future?

Feyzullah Yetgin: "The housing sector catering to the A group has reached saturation point. New projects should target the middle-income group.
The current trend of real estate companies is focused on the lower segment, where there is serious shortage and demand. There will be no problems if investments are made in the right segment. I believe that prices will increase for a while in sectors where demand is higher than supply."

Faruk Göksu: "Urbanization will have high potential in the coming decade. I'm looking at developments not only in the field of commercial real estate, but also those linked to the urbanization trends. The private and public sectors must create urban plots. Some people think that the State should act solely as a regulating mechanism, but I do not agree with them. The State must be active in the creation of urban building plots. We need to develop a system and methods with the participation of city dwellers. 75% of currently existing flats were built in the past 30 years and 15% of the total building stock is at risk.
There are three processes that will dominate the coming decade. Firstly, Turkish cities and particularly Istanbul will experience a growing trend of urbanization, and building rights will be converted into cash and exchanged on the market. Secondly, there will be a process of collectivism with respect to building rights. Thirdly, building rights will be transferred and exchanged. This process, which has existed in Europe for centuries, is now on the Turkish agenda and will create new opportunities. Coastal transformation will develop even faster than urban transformation.
There is enormous potential in coastal towns where land is very valuable and summer residences are used as holiday homes only one or two months a year.
Building rights will be transferred and resources diverted. To devise new building projects for a city like Mardin will not foster local development. Those building rights could be transferred to investors in Istanbul.
Innovative methods must be devised by the private sector and the public sector must show its determination concerning the implementation of these methods."

Hakan Kodal: "The fact that Turkey does not have enough land to build on is a substantial handicap. If we do not tear down old buildings and replace them with new ones, in other words if we cannot achieve urban transformation, we will not be able to create adequate supply.
The demand for housing depends on demographic growth rates. The shrinking of the structure of the nuclear family, population increases and migration are the most important factors regarding the demand for housing. In the case of a shortage of 600,000 dwellings caused by a natural population increase, the transformation of old buildings will be higher than the natural increase. The only way to decrease the price of below-standard housing is with a balanced increase of supply. If supply increases in a balanced way, the prices of the existing housing stock will decrease and this will boost transformation. Otherwise, it will not be possible to achieve transformation when prices of existing housing stock are high.
A large amount of urban land is required for transformation.
Looking at the supply and demand balance, we notice a surplus of supply in certain zones and segments.
Turkish entrepreneurs are strong when it comes to copying. When a pharmacy or a grocery store is successful a new one is opened next to it; the same is true for the real estate market. There is a surplus of supply in given zones and segments and a surplus of demand in others. Therefore, local analyses must be performed. There is also serious potential in Anatolian towns, which must be supported by new housing. The public sector must play an active role in supply that targets low-income groups.
The period of easy sales in every segment is now over.
It will not be possible to achieve pre-sales and to find project financing as easily as it was in the past without good planning. More functional products will come onto the market. The period in which it was possible to earn money solely through land development is also coming to an end. Specialization will start in the sector. Since companies will suffer from competition and narrower margins, the profile of the actors creating supply as well as the housing sector itself will change." >>

Murat Ergin: "Macro-economic decisions and parameters will be the determining factors in the next five years."

FLTR: Hüseyin Kaptan, Faruk Göksu, Haluk Sur.

Haluk Sur: "The first thing to do is to transform housing investments into capital market instruments."

Haluk Sur: "Out of the 18 million houses existing in Turkey, 10 million will have to be renewed or replaced.
The monetary equivalent of this operation is US $1 trillion.
The business volume of this renewal amounts to US $3 trillion, with the exception of commercial real estate. As the Association of Real Estate Investment Companies (GYODER), we have prepared a projection for the housing financing system. According to this projection, 6 million houses will be included in the mortgage system in 2015. With fixed prices for these houses, the result will be a volume of housing loans reaching US $90 billion dollars.
The increase in Gross National Product will stretch to US $250 billion, again at fixed prices.
In reality it might even get up to US $350-400 billion. This is like adding one more Turkey to Turkey. There are numerous opportunities. The institutional real estate capital in the world has a certain size. This was US $475 billion in 2005. 20%-25% of this figure goes to China and the Pacific basin countries. US $100-110 billion are used in that region. US $180-190 billion are used in EU countries, US $75-80 billion of this amount are cross-border investments.
We have to attract these investments to Turkey."

Murat Ergin: "Macro-economic decisions and parameters will be the determining factors in the next five years. Interest rates, the national income and improvements in the rate of inflation must be stable. One reason for the revival of housing sales is the increase of the national income. People are not aware of this.
The regulatory role of the state will be seen in the decisions concerning places where the market is going to develop. I am not of the opinion that everything is going to be solved by the collective logic of society, as it is generally believed. If there is a high city tax in many cities in the world, it has to be applied in Istanbul as well. If entrance to the center of many world metropolises is subject to a fee, this has to be done in Istanbul as well. These decisions have to be made in a very short time.
The worst thing is to delay the decision. Even an erroneous decision is better than none. Indecision means putting off many good possibilities.
The development of the real estate market will be determined by economic parameters and decisions."

Ali Pamir: "The real estate sector will change in the next 10 years according to macro-economic implementations. If we succeed in running this country correctly and if we can overcome difficulties, there will be a huge boom in the housing sector.
The housing issue can in no way be solved in the next decade.
The solution to the problem is related to the added value that we can create. Projects creating added value, like the Kartal project, are essential to making Istanbul a global city. I believe that there is currently more supply than demand. There is demand but it is not real demand. People say that they want a home, but they do not have the means to get it. And I do not think that the state is in a position to allocate resources to such a large group. Funds coming from abroad are largely for commercial real estate. The volume of real estate has expanded very quickly in the world, but I do not believe that housing projects will attract resources from abroad as they have for commercial real estate. It is difficult to find short-term solutions to these problems. As is the case in all markets, there can be no balance in the housing market apart from temporary balances. There may be a balance in high-ranking housing projects. However, as long as construction costs remain the same, I do not think this difficulty can be overcome by enough production for low-income groups."

Question 3: What are the opportunities offered by Turkey from the foreign investor's point of view?

Feyzullah Yetgin: "There is very large potential for the foreign investor, fueled by the accession process to the EU and the mortgage law. These two stages will make it possible to overcome the problems of investments. I am hopeful about the transformation of potential into real activity."

Faruk Göksu: "We have to do something if we are to transform the stock of buildings. Urban transformation is not something that can be done with foreign funds. The share of the foreign investor in this respect does not exceed 1%. We have to solve this problem with our own resources. 70%-80% of the housing sector has been developed by non-institutional investors. We have to decide what we want to do from now on. Taking into consideration urban risks as well, we will now enter a phase of 'pull down and sell'. 50,000 buildings with 800,000 homes belong to the high-risk group. This means that in Istanbul alone, 800,000 homes urgently have to be built. This requires investment per building plot, per block and per district. Small investors have to get organized. For investments on blocks, incentives like exemption from corporate taxes will create new opportunities."

PHOTO: VEKTOR

Crystal Park, Istanbul.

Ali Pamir: "Projects creating added value, like the Kartal project, are essential to making Istanbul a global city."

Hakan Kodal: "We have to make comparisons with emerging markets. Turkey has many advantages. It is situated on the doorstep of Europe, while investment in Central and Eastern Europe has reached the saturation point. Expansion of the EU has almost stopped and the population increase is zero. Spain is very similar to us with regard to population and economy. It grew non-stop for 10-15 years, and the tourism, textile and automotive sectors developed fast. The global investor sees Turkey as a country with long-term growth potential. There is a serious building standard problem in Turkey. Financing and credit utilization is very low. Credit utilization in acquisition and sales of real estate has risen above 30%. Credit utilization is highly dependent upon real interest rates, thus macro-economic objectives. The arrival of foreign investment will continue if inflation maintains a low trend.
We are a society that likes to double its money within a year. But even an increase of 10% per year is very important. A stable increase within a period of 10-20 years would be the best.
Thinking on a short-term basis is like shooting ourselves in the foot. We can reach healthy growth with medium- and long-term strategies and policies."

Haluk Sur: "Global investors are showing great interest in commercial real estate investments. As owners of real estate that brings in rent, they create income for their fund partners. Housing does not seem to have this advantage. But the first thing to do in a country is to transform housing investments into capital market instruments. REITs, 49% of which should be open to the public, distribute capital widely. They reach an agreement with the owners of illegally >>

occupied homes, turning their transformation projects into liquid assets in order to give shares to all citizens. Turkey's debt is diminishing and the foreign trade deficit is decreasing. These are healthy signals; and global capital is relating more and more to the real estate market. Foreigners will be seeking new ventures in the housing sector as Turkey continues to sustain its stability."

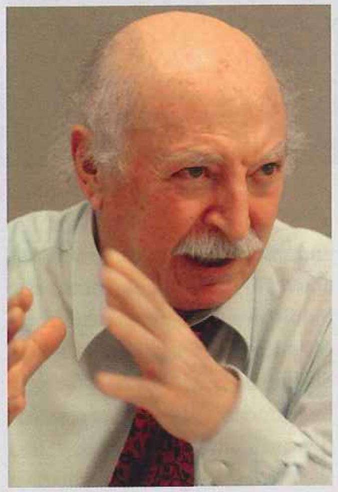
Murat Ergin: "These problems would disappear within six months if the Ministry of Finance would increase tax control. We have arrived at the present situation because the state has not performed its duty in time. We have to solve the tax issue before foreign investment arrives, otherwise the foreigners might not continue to be interested. We have to learn the rules of doing business with these investors."

Ali Pamir: "Housing is something that is largely local and will probably remain as such. Investment in housing is generally done by local investors all over the world.

Turkish housing developers will be able to do better since our education level is rising.

Additionally, there will probably be better funding available in the future for large-scale housing developments. When we look at investments, we see that commercial real estate is rapidly passing into the hands of foreigners. This will continue to increase. Foreigner investors will make a contribution in the fields of training and resources, and developers in Turkey have to learn to work with them. In terms of secondary housing for foreigners on the Turkish coast, foreign developers will play an increasing role. They have done it before in Spain and Portugal, and they have the resources.

Because Turkey is a much more economical alternative, I think the secondary market will grow substantially within the next three years." <<



Hüseyin Kaptan.

Hüseyin Kaptan

The Marmara region is the network of settlements around the Sea of Marmara. It is not possible to take one of these settlements and solve its problems independently from the others.

In the same way that you cannot treat the heart of a patient in one hospital and at the same time treat the lower part of his body in another, you cannot separately plan towns that are interlinked.

We give great importance to the rail system and sea routes in the new Istanbul metropolitan plan because there is a great TIR (International Road Transport) empire. As for logistics systems, we are not in a position to compete in the metropolises.

There are 450 warehouses and eight container areas around water basins. On the other hand, we have to ensure the continuity of the rail system. We have planned a 500-kilometer rail system. Can this pattern end at the city limits? For example, there is a road going in the direction of Gebze; can this road end at the border of the province? This is why we think it is necessary to take up the Marmara project as a whole, shift the greatest part of the transportation system to the sea, and use Ro-Ro or Ro-La systems to reach Anatolia. When we become full members of the EU, we will have to think of developing an infrastructure network together with Greece and Bulgaria. We made a proposal to the Ministry of Environment and Forestry aimed at the global planning of Istanbul together with the neighboring provinces, which has been deemed adequate. A protocol has now been drawn up.

Migration process

People in Turkey migrate from the east to the west – a situation that has not changed since 1960.

The master plan of Istanbul, which was adopted in 1980, was aimed at a population of 5 million. The opinion of the planners responsible at that time was that 5 million people would settle in this region.

The approach was that "there was no room for more than a population of 5 million". We could not even imagine a population of the present size at the time.

We now know that the population of Istanbul is 12-13 million, and it is expected to reach 20-25 million by the 100th year of the Republic. This is something that frightens us, and there is no policy to prevent this process. As the Metropolitan Planning Agency, we are taking serious measures to limit the population to 16 million. We shall see how successful we are going to be, but for the time being there are no powerful instruments to ensure success.

Lack of balance in distribution of labor force

The main reason for this population increase is the lack of balance in the distribution of the labor force. Istanbul is an industrial metropolis, and business organizations are exerting great pressure to ensure that Istanbul remains so. 51% of the labor force of the country's industry lives within the borders of Istanbul. If the door of Istanbul's labor force is left ajar, 1 million workers can immediately organize themselves. This is Turkey's most important issue. It is also necessary to consider Istanbul as a cultural capital from this perspective. One industrial labor force creates two labor forces in services, e.g. the street vendor, the accountant and the teacher – so that means three people.

Three more people also contribute with respect to family ties, and statistically they actually add up to 9.5 people.

Economic-ecologic war

Therefore 1 million people working in industry means 10 million in added population. This is why there is an important economic-ecologic war going on in Istanbul.

4 million people migrating to Istanbul will need 1 million homes. And we think this will happen within 15 years. This way of life is not sustainable. A good quality environment or an environment dominated by the middle-income group is absolutely necessary. Gebze, an indispensable part of the metropolis, will reach a population of 2 million. Other neighboring districts such as Çorlu and Çerkezköy will also experience serious population increases.

In 10 years, 15 at the most, a population of 2.5 million will be added to Istanbul.

A more social, more equitable, better environment has to be created. There is no room for housing in Istanbul. There is practically no room and a frightening level of poverty in the city outskirts on the Asian side.

Need for multi-story housing

There is no land left in the hinterland of Tuzla, Kartal or Pendik to accommodate the flow of settlers coming from the eastern part of Turkey. So we shall have to consider Selimpaşa and Silivri to create housing for this additional population of 2 million, which means 500,000 new homes. There is no more countryside, there are no more summer resorts or romantic settlements, and no districts with low density populations. We will not see any more country houses or houses with gardens. Even if people do not agree, we have to accept that low density areas are a thing of the past, we have to build multi-story housing. There is demand for country homes and villas and some land has already been bought in water catchment areas. We are seriously fighting against this trend and illegal housing developments. The new plans no longer allow developments in water catchment areas. However, decisions to clear these areas have been adopted. We are trying to reduce the populations of settlements like Sultanbeyli, Sarıgazı on the Asian side, but we do not know where to resettle the people. Forests are also sites that must no longer be used.

In short, there will be no construction in forests and water catchment areas from now on.

Renovation of cities

All the metropolises in Turkey are in a sorry state. There is a very high seismic risk. There are buildings that will collapse on their own, even without an earthquake, and there are numerous houses that will undoubtedly be destroyed during an earthquake. Cities must be renovated.

We have learned an important lesson from the examples on the Ayazağa and Büyükdere Roads, where office centers are located. We are planning Kartal anew in the light of this lesson.

The building capacity of Kartal is 5 million m². 2-2.5 million m² of this will become the service area. We have chosen 6-7 other zones like Kartal. Half of the available space will be used for housing. There will be squares, boulevards, landscape elements, opera houses, show and fair centers, museums and city halls.

We organized an international competition for the development and Zaha Hadid was the winner. It is a beautiful model and when we implement this project in Kartal, a new wave that will reach the housing zones will be created. Service with no sense of measure is accompanied by serious risks. That is why we are including at least 50% of housing in the project, because housing is a sector without risks and with a definite prestige value.