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Property investors wary of ‘overbuilt’ Turkey before riots

A protest against plans to cut trees for a development near Istanbul’s Taksim Square, the precursor to five days of rioting, reflects the scarcity of open space in Turkey’s largest city, thanks to rampant construction.

Broader anti-government sentiment has fuelled the violent protest after a police crackdown on the peaceful demonstration, which won’t help Turkey’s appeal to global property investors already wary of its chaotic planning system andunappealing leasing market.

Although Turkey received its second investment-grade credit rating last month and construction is booming, international capital from real estate investors has been thin on the ground, though transaction data is limited in what is still a relatively opaque property market.

“There have been riots in other countries, but Turkey is different because it comes on top of other issues,” said an investor at a fund with more than $6.5 billion of European property under management.

The decision to bulldoze a handful of trees in Gezi Park is part of plans to pedestrianize the adjacent Taksim Square and build yet another shopping center and luxury flats.

Parts of Turkey are already “overbuilt,” said Murat Ergin, managing director of Istanbul real estate agent Kuzeybati.

Istanbul has 2 million square meters of mall space under construction, dwarfing the 1.3m total mustered by 6.

Western European cities tracked by consultants CBRE. Only Chinese cities Chengdu and Tianjin have more.

Lax controls have created a beggar-my-neighbor building spree as bigger new malls muscle out older rivals.

The Trump Towers, Sapphire and Carousel malls have all suffered as newer buildings sprouted up nearby, a trend that has contributed to the closure of 24 shopping centers in Turkey over the last two years.

“The thinking is if you can build a five-story mall that’s worth more than a one-story car showroom, then you will always build the mall,” said a property expert at a global consultancy.

Brave pioneers

Foreign institutions looking for a secure rental income stream would also think twice before investing in Turkish office space, since there is not much of a local market base. Office blocks are a common investment for funds in major European cities, but in Turkey they are typically owned by the builder, sold off floor by floor or sold to the tenant.

“It’s slightly chicken and egg, because with no buyers, local developers can’t generate the profits needed to build investment grade assets,” said a second property source familiar with Turkish market.

Despite the obstacles, a few brave investors have led the way with mall investments, buoyed by a young population of consumers aspiring to European shopping habits, which has resulted in the number of Turkish malls growing from 46 to about 300 since 2000.

Investment yields, or the rental income as a percentage of the property’s value, reflect the investment risks of Turkey and appeal to those seeking higher returns.

Yields are at a relatively attractive level of about 8 percent for the best retail properties in Istanbul versus 3 percent in London’s West End, 4 percent in Paris or about 4.5 percent in the major German cities.

Investors that have bought Turkish retail property include the Singapore sovereign wealth fund GIC and U.S. private equity giant Blackstone, which bought three Turkish malls from Dutch company Redevco last year.

Blackstone has also bought about half of the debt of Dutch mall developer Multi Corp in a move that could enable the private equity giant to take control of the company, which has as tring of shopping centers across Turkey.

Time will tell if fortune favors the brave.