Tomorrow's Affairs

Analysis of today
Assessment of tomorrow

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Istanbul, Dubai, London, Paris: leading cities in real estate investments. Why?

In the 1970s, “making your money work for you“ was neither a common nor a proper practice in Turkey. Trading and producing created two respectable classes in society: merchants and manufacturers.

The merchant class, however, was freer than the latter. While manufacturers were making their dreams come true on the production line, merchants were selling products designed and created by the manufacturers.

Today, the changing nature of commerce has brought about vertical specialisation, but merchants are still called “self-employed”.

Commerce is not an easy line of work. The supply of goods and services to consumers requires the ability to deal with many details - most importantly financing and logistics.

As business operations grow, it becomes more difficult to monitor them through conventional methods, which sooner or later necessitates the use of technology. Today, we know for a fact that digital transformation has helped commerce much more than expected.

> The rich learned by traveling the world, whilst others learned by reading about the world

Those who were neither industrialists or merchants worked as blue or white collar workers. While beautiful cars, beautiful houses, rare items and even toys were owned by industrialists and merchants, books, records, musical instruments and fun hobbies were decorating the homes of the working class.

It was almost like a silent agreement between the two classes. The rich learned by traveling the world, whilst others learned by reading about the world.

Neighbourhoods were home to people of all income levels. Wealthier citizens would not be offended or disturbed when they saw civil servants or high-level professionals in restaurants; on the contrary, they would make gestures to show their respect for them.

I think I would not be wrong in saying that, back in the day, we were living in a freer and more democratic Turkish society.

> Istanbul, located in the intersection of the East and the West, became majorly influenced by political winds blowing from all directions

Then, came the construction industry and developers. The attractiveness of the industry tempted even the industrialists. While being a developer was a side job once, it then became a main occupation.

Rapid population growth, immigration, inflationary growth, the construction economy and the new wealthy that emerge with each new government sadly killed this once civilised society.

From Istanbul to Beirut, Alexandria to Gibraltar, each and every one of them have deteriorated at a great pace over a period of 40 years.

Istanbul, located in the intersection of the East and the West, became majorly influenced by political winds blowing from all directions.

Proxy wars during the Cold War, green belt against communism, military coups, Americanism, Europeanism, liberalism, on the one hand; rapid wealth accumulation and corruption on the other, led to an identity crisis in Turkey.

In the 1970s, much of Europe‘s focus was on dealing with the Red Brigades, the Baader-Meinhof Group, ETA, IRA, and the negative effects of the Cold War, therefore, it had neither enough time nor strength to be concerned with what was happening in the East.

Amidst this chaos, the never-ending Arab-Israeli wars ravaged the region. The unrest never stopped. One by one, people started to seek out ways for making as much money as possible before they could escape that hellish place.

It was, however, not such an easy thing to do, especially when the region's totalitarian regime allowed only a handful of individuals to run and control economic activity.

So, getting rich without establishing close ties with the leaders of the region was nearly impossible.

> The lack or sometimes absence of women in the business world is another definition of underdevelopment

In the 1990s, when new states emerged after the dissolution of the Soviet Bloc, Istanbul started to attract the interest of businessmen close to the leaders of the autocratic democracies.

I call them "businessmen" because there were no women among them. To me, the lack or sometimes absence of women in the business world is another definition of underdevelopment.

Whether it's in the Middle East, Near East, Central Asia, or the Mediterranean, the life envisaged for women is always the same.

Even today, in shopping malls, restaurants or cafés, we see quiet and modest women trying to look chic and elegant next to excessively muscled and oddly dressed men of all nationalities.

All these people are the owners of real estate in major cities of the world, from Miami to Istanbul, Doha to Dubai.

In the 21st century, the huge interest and attention towards Istanbul made this city home to more than 15 million habitants.

Not only Istanbul, but many cities in Europe have a population equal to that of a small country. Both internal migration and external migration led to a growing scarcity of resources.

Europeans and Turks, who are less worried than Americans about the source of the money inflow, welcomed it with open arms.

Thus began the emergence of a flourishing a real estate economy in the region, even surpassing other economic activities. Now let's take a quick look at the main dimensions of this economy.

> The volume of the global real estate market will be much higher than the chemical market, and the latter is expected to achieve its largest volume in 2030

Followed by Europe, the Middle East and Africa with 34.7%, the United States takes the lion's share of the global real estate market: 38% of the total market, to be exact. The emerging Asia Pacific, on the other hand, takes a 26.5% share of the global market.

Last year, the value of global real estate market was around $9.5 trillion. A figure that is larger than the German economy and smaller than China's, and estimated to reach nearly 15 trillion dollars in 2030, which is equal to only half of the 2030 overall international trade target.

To put it more clearly, the volume of the global real estate market will be much higher than the chemical market, and the latter is expected to achieve its largest volume in 2030.

The United States, the leader of the global real estate market, has reached a volume of approximately 4 trillion dollars in the previous period.

Japan takes second place with low inflation but a high cost of living, while the United Kingdom ranks third in the list, with a total volume of almost 800 billion dollars, a figure nearly equal to its imports.

Germany's performance isn‘t bad either. With China, which is right behind it by a small margin, the German real estate market enjoys a size of close to 700 billion dollars.

France stands in the middle with 500 billion dollars before Canada, Hong Kong, and Australia, booming with Japanese capital investment.

The list continues with European and Asia Pacific countries whereas Russia and Turkey have not entered the list yet. Even though Russia and Turkey are not on the list, Moscow and Istanbul still hold their appeal for property investors.

However, in light of recent developments, both cities took the last place in “investable“ or “potentially investable“ lists.

> Things might change in Germany in terms of demand for real estate, given that this “free money” era will come to an end

According to a report published by PWC in 2021, Berlin, London, Paris, Frankfurt and Amsterdam are considered investable cities in the European region.

I should also mention that Germans have been afraid of a rise in housing prices since the hyperinflation crisis they experienced in the 1920s.

Former Chancellor Angela Merkel even attempted to set a ceiling on house prices before her term ended in 2021. I am doubtful about this high valuation potential of German cities without interruption.

Also, we now know that the European Central Bank will start hiking interest rates in July. So, things might change in Germany in terms of demand for real estate, given that this ”free money” era will come to an end.

As a side note, I should also add that Madrid, Milan, Barcelona and Lisbon are among the cities that attract real estate investors, along with the rising Warsaw, Dublin, Prague and Budapest.

> Turkey surpasses other countries in the matter of both real and nominal house prices

Recently, a list of countries with the fastest rising housing prices went viral on social media. A report issued by an international organisation says that Turkey surpasses other countries in the matter of both real and nominal house prices.

Although Turkey‘s real estate potential is uncertain, it remains ahead in terms of price increases.

Australia and New Zealand, which are ranked the top five after Turkey, were once the “carry trade“ investment for Japanese women due to the low interest rates they were offering. Apparently, the growing demand for real estate in those two countries continues.

The real estate market in Czechia and Slovakia, also in the top five, have also become an attractive investment. The Netherlands has recently moved up the rankings to number six.

Dutch companies are looking for foreign partners because they fear that there might not be a next generation due to extremely low population growth in the Netherlands.

It seems that the Netherlands is trying to make itself appealing to investors by providing certain advantages in acquiring real estate. More investment in this area will also help the country maintain its economic momentum.

Having grabbed the second spot in the first quarter of the last year, the US is currently ranked 7th in this new report on countries with the fastest rising housing prices. Together with South Korea, which sits in third place, they saw more than a 10% price increase.

The Bailiwick of Jersey ranks 9th in the list covering top 10 countries in demand. But, interestingly, an Eastern European country, Estonia, is also on the list.

Most of these countries I mentioned above are relatively small in terms of surface area. Land available for construction is limited, and prices naturally go up as demand for existing houses grows.

In the United States, on the other hand, the rise in housing prices is seen as a good sign, indicating that things are going well.

In the meantime, the number of people who want to buy a house before interest rates rise further, naturally increases.

Apart from places like Jersey, which is considered a tax haven, Turkey is one of the few countries where house prices soar because of the increase in construction costs and the increase in demand combined together.

> Real estate investors and developers will need to consider demographics when preparing housing projects

So which type of real estate has the most potential? Well, apparently, data centres, logistics facilities and industrial warehouses are more in demand than houses. Houses and flats in central urban areas are in fourth place.

Demand for medical real estate remains strong, followed by a growing investment in rental property. There is also a demand for public housing.

We see that the government-subsidised housing development called "projects" in the US, designed for low income groups, also have potential.

According to UN data, the world population is concentrating in urban areas, especially on lands near waters, and is ageing rapidly. So, real estate investors and developers will need to consider these demographics when preparing housing projects.

Again, according to a recent study by an international organisation, the housing sector takes the lion's share of global investments.

It looks like the housing market, with twice the volume of the debt securities market, will remain strong for many years to come.

Add up the GDPs of all countries and multiply the sum by four: the result nearly reaches the volume of the real estate sector.

Here's another comparison: the total value of worldwide commercial property is greater than the total tons of gold that have not been mined yet.

Let me give another example for further clarity: a number often thrown around is that there is more gold yet to be mined enough to fill two Olympic-sized swimming pools.

That is a very considerable amount indeed. 50 meters in length, 25 meters in width and 2 meters in depth makes 2500 cubic meters. When you multiply it by two, it equals to 5000 cubic meters.

That is to say, there is 315 billion dollars 'worth gold left to mine on Earth, which is still below the total value of global real estate.

> The fact that people are buying homes for investment purposes also has something to do with their desire to live in the West

The fact that people are buying homes for investment purposes also has something to do with their desire to live in the West.

Most of the people from the Middle East, Russia, Ukraine and Central Asia prefer Istanbul because of its geographical and cultural proximity.

Dubai, on the other hand, has been an alternative choice for the buyers. It is too soon to comment about the future of real estate in Doha.

In terms of property buying and selling, Eastern Europe is quite promising. Having returned to its pre-WWII cosmopolitan and entertaining self, Berlin is considered a rising real estate market.

London and Paris have always been and still are popular destinations for real estate investors. Although they might not be investors' first choice, Madrid, Barcelona, Lisbon, Porto, and Athens maintain their popularity.

I don‘t think this trend will change anytime soon and I could say that, on the contrary, it has accelerated even further after the pandemic.