QPE

QUADERNS DE POLÍTICA ECONÒMICA

Tuna Tasan-Kok.

"New commercial property investment methods in the course of financial deregulation"

Quaderns de Política Econòmica.
Revista electrònica. 2ª época.
Vol. 5, Sept.- Dic. 2003

Edita:

Dpto. de Economía Aplicada - Universitat de València
Av. Tarongers s/n, 46022 Valencia
FAX: 963828415 - WEB: www.uv.es/poleco

ISSN: 1579 - 8151

New commercial property investment methods in the course of financial deregulation

Tuna Tasan-Kok

University of Utrecht, Faculty of Geographical Sciences
Department of Urban Geography
P.O.Box 80.115, 3508 TC Utrecht/The Netherlands
E-mail: t.tasankok@geog.uu.nl

Abstract

Property markets of the countries at the periphery of advanced capitalism have gone through a transformation process since the beginning of 1980s stimulated by the success of financial deregulation brought by the economic globalization. Throughout 1980s, not only the demand for new large-scale commercial property increased but also the property development and investment tradition had to be adjusted to the new market dynamics. This paper aims to display how new investment methods are introduced and how the existing ones are modified in the cases of Hungary, Poland and Turkey. By describing these markets as *externally* or *internally driven*, this paper reveals how transformation of the property investment instruments and methods are influenced and shaped by external and internal forces. We exposed the evolution of property investment methods in the cases of major cities in these countries, Budapest, Istanbul and Warsaw, where new and/or modified property investment tools are used in different ways and degrees based on the contingencies within the property markets. Local contingencies involve different risks, capacities and opportunities that are created by the reaction of the local organizations and institutions to the new demands and pressures within the property market.

1. Introduction

Property investment tools and methods are closely related to the increasing mobility of international capital within the globalization era. Especially in the peripheral markets that are slowly becoming part of international investment networks, traditional property investment methods are modified and/or gradually replaced by the new ones. In this article, we aim to display how different property investment strategies; methods and instruments are created and implemented in countries at the periphery of advanced capitalism in neo-liberal transformation process. We claim that due to the local contingencies in the local property and finance markets, this process has different consequences in each country although they are driven by the same cause of transition. Moreover, transformation is faster in some countries where the local markets are easily adopting themselves to the new systems than the others where the adjustment process is slower and more complicated. We defined Budapest and Warsaw as *externally driven markets* as the transformations have been mainly initiated and financed by the international capital in the urban property markets of these cities, whereas Istanbul as an *internally driven market* since local capital and local actors have been dominantly the driving force behind the new property investments. Istanbul displays a gradual neo-liberal transformation process compared to Budapest and Warsaw, where the property markets have high involvement of international capital and local investment instruments are rapidly adjusted to the advanced capitalist markets. In this respect, in the externally driven markets changes are rapid and more radical compared to the internally driven markets.

After giving brief information on the financial deregulation and property investment, the article focuses on the different investment methods of property investment in these cities.

2. Financial deregulation and property investment

Within the framework of economic globalization, removing the barriers to the international capital requires a deregulation process of financial institutions. The pace of the financial deregulation depends on whether the governments hinder the course of market forces by erecting new barriers to the globalization of trade and finance or they ease the mobility of capital (Dorn, 1993). The transformation of the property markets -especially at the investment side-, are highly affected by the financial deregulation process as property becomes increasingly important target for global investors who are dynamically seeking for new markets.

Throughout the 1980s, restrictions on capital movement were relaxed, stock markets were deregulated, market boundaries were dismantled, controls on the operation of banks and other financial institutions were removed, and large sections of state-owned activities were privatized, as Martin also argues (1998). Financial deregulation lead to increasing global financial activities in the cities, and this resulted in increasing share of new service jobs and increasing weight of banking and financial activities. These activities create a demand for new urban land uses.

In the countries at the periphery of advanced capitalism, openness to new financial instruments eased the entry of international capital and caused physical redevelopment in and around existing concentrations of economic activities. The role of international capital became very important for the redevelopment of some cities, while in some others the financial deregulation became a stimulating force for local investors. In the mean time, due to the increasing mobility of capital, traditional ways of making massive investment in production and manufacturing left their place to short-term investments. In this respect, uncomplicated regulations became important among international investors. The stock market investment and trade of short-term instruments such as portfolio investments became popular due to this reason. This tendency leads the usage of new investment tools like property investment funds and property investment partnerships, which requires less regulatory arrangements and contains less risk. Moreover, starting from the beginning of 1990s international investors began to invest in urban property as a short-term investment to decrease the risks. Financial organizations established investment funds especially for commercial property developments. As an outcome of international investment banking, the share of subsidies and loans within large-scale retail developments like shopping malls and hypermarkets increased as well. This tendency caused a dramatic increase in such projects especially at the periphery of the cities.

We revealed that two types of reactions appeared in the course of deregulation: Firstly, the contemporary investment instruments are adapted more or less in similar ways like in advanced markets. In this way local property market conditions and regulations are focused on introducing brand new instruments and methods. In Hungary and Poland, countries where liberal property market dynamics were neglected throughout the socialist era, new reforms are quickly implemented following the first non-communist governments in Poland in 1989 and in Hungary in 1990 with a strong focus on attracting international capital and being part of the European liberal economic and political system.

The second type of reaction displays a more smooth and gradual change. This can be explained firstly by the strength of the local capital and local regulatory system, and secondly by the longer period of neo-liberal transition. Turkey constitutes a good example for this case. In Turkey local property markets have a strong tradition of building typical to the conditions of the country. Even though the financial deregulation eased the conditions for the entry of the international capital, the sophisticated market conditions kept the international actors out of the market for a long time. Therefore, the incentive of the deregulation is the modification of existing investment tools and methods in the property markets

Property investment methods differ by type and location of the project. For instance, a large-scale office project developed in Budapest has a different financial pattern than a shopping center developed in Istanbul. The dominant tendencies for property investment by type of project in these cities are summarized in Table 1.

Table 1. Commercial property finance strategies in comparison

	Offices	**Shopping centers**	**Hypermarket and supermarket chains**
Budapest	International dominant: - Solo and compound individual finance (liquid or lending)	International dominant: - Solo and compound individual finance (liquid or lending)	International dominant: - Solo individual finance (liquid or lending)
Istanbul	Domestic dominant: - Solo individual finance (mostly liquid and domestic)	Domestic dominant: - Solo individual finance (mostly liquid and domestic)	Domestic dominant: - Solo individual finance (mostly liquid and domestic)
Warsaw	Mixed: - Institutional finance and individual solo/compound finance	Mixed: - Institutional finance and individual solo/compound finance	Mixed: - Solo individual finance (liquid or lending)

The experience of the selected cities displays two main types of commercial property investment: *individual and institutional investments*. The individual investments are made by companies either directly or indirectly (by mortgage schemes or partnerships). Individual investments can be either *solo investments* and *compound investments*. The solo investment is directly related to developing a specific project. In most of the cases, the investor has the role of the developer as well. This type of investors search opportunities in immature markets and try to enter the market as early as possible before the market share of international corporations becomes larger. The first commercial property developments in Budapest and Warsaw display examples of such solo international investment strategies. Istanbul, due to its limitations for the international investors, displays domination of solo domestic investments. The compound investments are more secure ones for the investors. In this case, some property developers and investors get together on project basis (can also be on country basis) to develop in share. This investment type mostly happens in the form of a consortium, which is a very popular method in Warsaw property market. It can be claimed that the higher the risk factor is the more the compound investment strategy become preferable.

In terms of *institutional investments* property investment funds and property investment trusts initiated by financial organizations, banks and property investors who do not take part in the development of projects but only in the investment side. This type of investment strategy perceives the property as an asset and evaluates its profitability in a given period. The property is one of the items in their investment portfolios. Therefore, the institutional investors are not really involved in the development process unless it is a part of their portfolio development. Therefore, they are temporarily owners of the projects until the profit expectations begin to decline.

If we look at each city individually, the implementation of these tools can be observed in detail.

Budapest

As soon as the first signs of liberal economic transformation emerged at the beginning of 1980s, international property investors began to seek for investment opportunities in Budapest market. The economic restructuring program in Hungary has focused on areas of *stabilization* (reducing the central government expenditure), *pricing* (control program on consumer prices), *decentralization* (financial independency of urban governments) and *privatization* (transferring state ownership to local governments and private persons) (Derviş and Condon, 1992; Alm, 1994). The deregulations were largely adopted from advanced capitalist countries (mainly from Western Europe), leaving out the national particularities and the special features. Therefore, this adoptive approach created the need to reformulate the regulations irregularly after adopting laws and acts. The laws on taxes for instance, were modified, on average every second week in mid-1990s (Mellár, 1999). Therefore, the reforms could only become affective by the mid 1990's.

The first companies faced biggest obstacles created by the inappropriate investment environment; lack of international banking and financial activities and regulations;

and less interest from the urban governments compared to later periods. Due to its unique financial center and capital city characteristics Budapest has been the most popular target for international property investors in Hungary. Within the financial framework defined above various types of investors began to operate in the market. In Hungary the dominance of international investors in property market is noticeable.

In the beginning, the most visible type of investment was solo property investments, which mostly came through private international channels. In those years, the banking system was still not adapted to the European standards; international money transfers were complicated and sometimes even impossible; exchange rate policy was not clear and regulations were not ready for operation of international investments. Because of these factors, many companies went bankrupt and many projects had to change hands from weak investors to more strong ones who could survive in these risky market conditions for a long time. Coming to the 2000s, the property investors have also become more risk-sensitive. The partnerships and merges among investors, banks and other financial institutions related to property development is the new trend, which secures the investment operations in Hungarian property market in recent years. In the mean time domestic individual mortgage systems and institutional investors have begun to operate in the market, although to a limited extend.

In most of the Central and Eastern European countries, increasing amount of real estate is being financed through equity investments and direct financial instruments rather than through traditional bank loans that are used by Western European markets. Hungary is a very good example of such a domination of individual investments. As a nature of the property investment, office and retail sectors and the banking and finance systems are being affected by each other. New actors of a rapidly developing economy, mushrooming international associations and corporations as well as the demand for office and retail markets supported the need for a dramatic change in the banking system in Hungary, as new customers require both the expansion of the banking network and the perpetual innovation of banking (Gál, 1999). Following the rise of office sector, retail market attracted considerable attention as an opportunity to broaden the banks’ market share when the number of commercial banks reached the maximum in the middle of the 1990s. Following this tendency, more and more banks with foreign direct investment started to build up their own branch network in order to serve corporate clients (Jöns, 1999). Parallel to the decentralizing retail market shares throughout the extending branch networks of the major banks at the end of 1990s, the household lending sector began to develop. The further developments of the banks' branch networks for client acquisition both in offices and retail market, most of the banks aimed at the widening of the bank's retail product range (retail loan facilities etc.); developing investment bank facilities; enhancing the profitability and efficiency of the operative units; installing an integrated information technology infrastructure, and training employees (Jöns, 1999). The intensive development in banking sector created a spatial concentration in the center of Budapest, the Vth district. In 1990 about two third of the banks were based in this district (Gál, 1999). These developments affected the reformation of the CBD of Budapest where most of the capital-intensive enterprises, joint ventures, multinational companies, shopping and service centers, more expensive hotels and travel agencies are based.

The speed and quality of international financial trade actions as well as development of institutional property investment branches of commercial banks assisted the rapid internationalization of the property market. The main purpose of bank consolidation and privatization was to decrease the percentage of state ownership in banking sector to a minimum of 25% in the beginning of 1990s (Gál, 1999). The achievements in the Hungarian building sector are a legal framework based on EU standards, the establishment and monitoring of security regulations for the banks' operation, the privatization of state-owned banks, and institutional diversification (Jöns, 1999). Bankruptcies, mergers and acquisitions decreased the number of banking institutions due to between 1992 and 1996. In 1998 the ownership structure of the commercial banks revealed a foreign share of almost 80% reversing the situation in the beginning of 1990s (Jöns, 1999).

Property investment funds should be mentioned here as emerging investment tools for property investors since the beginning of 2000s. Although quite solo investment driven, the Hungarian property market has slowly become a mature market in terms of commercial property investments. Especially in the central city, projects began to change hands as they reached their profit targets of the investors. Now it is time for the investors of these first wave projects to sell their properties (or shares) and move to other investments. Being aware of this necessity, property investment funds began to raise funds, allocate money or start looking to buy property in Hungary. Especially in the office market, investment funds play an important role. These funds seek buildings with at least 75% occupancy rate. For instance, two major international fund managers, Property Fund Management plc., and the Carlyle Group are buying properties in Hungary recently. Moreover, German real estate fund manager DEGI Grundwertfonds has recently set up a new open-ended fund, DEGI International, which is likely to spend €70 billion-€80 billion in Hungary.

To sum up, the property investment market in Budapest has been dominated by the international individual investors' actions. Since the beginning of the 1980s, local investors have almost been non-existent in the investment scene. Although banking reforms were successfully completed, offering some instruments for real estate investment and retail banking, the institutional property investments have been insignificant in the city. The property investment funds were not established at the beginning but the picture at the first quarter of the 2000s display that international property investment funds began to invest in commercial projects in the city.

Warsaw

The internationalization of the economy introduced new opportunities for the local investors as well as increased the number of the international companies seeking for investment opportunities in Poland. With the deregulations in the financial sector, capital mobility increased as well as all types of banking activities became easier for international and local companies. All of the international finance institutions present in Poland located their national headquarters in Warsaw such as ABN-AMRO Bank, Citibank, Deutsche Bank, Dresdner Bank/BNP, EBRD (European Bank for Reconstruction and Development), ING Bank, KBC Bank, Westdeusche Landesbank, etc. Moreover, Polish and international insurance and accountancy firms like Arthur Andersen, Deloitte&Touche, Ernst&Young, KPMG, and PricewatershouseCoopers as well as international real estate developers, retailers and property consultancy firms are located their headquarters in the city.

Another important development in terms of banking deregulation is that the mortgage banks are licensed by the Polish Banking Law. The restriction of lending up only 80% of the mortgage value of the property, once the mortgage had been registered, has amended in September 2002 to allow the banks to lend up to 100% of the mortgage value on a property. This lead the establishment of mortgage banks like Rheinhyp-BRE, Śląski Bank Hipoteczniy, and HypoVereinsbank. The availability of new financial services contributed the rapid development of the commercial activities in the city. Although in the beginning the risk factor to invest in Poland seemed to be high, the country Poland gained a high share of international capital during last two decades.

Two patterns can be observed in the Polish property market in terms of international investors since the beginning of the period. First, they explored the market by their own sources and took the risk of investing individually like in the case of ING Real Estate or Skanska; or they established property investment funds with the participation of local and (mostly) international companies. However, even in the first case investors tend to play the game in the safe side. For instance, ING Real Estate has the guarantee of ING Bank behind its activities.

Property investment funds are a very popular way of developing in Polish property market thanks to the legal basis sustained by the new regulations. On 21 March 1993, the amended Law on investment funds enters into force opening possibility to invest in real estate. However, this opportunity is available only to specialized closed-end investment funds. In case of opened-end-investment funds, or so-called mutual investment funds, investing in real estate is impossible. However, the Law adopted a very flexible solution, which allows investing even 100% of assets in real estate, and opens the way for establishing typical real estate funds. The degree of engagement in real estate will depend on the investment policy of the fund defined in its statutes. Real estate may constitute the basis of the investment portfolio, or only a part of it, or may be only an alternative for investment in securities in bear capital market. The solutions adopted in the Law were formed on German Law.

Investment funds are established with the participation of several companies for reducing the risks of property investment. In Warsaw these funds are mostly invest and develop office related service buildings. Among those Central European Retail Property Fund (CERPF), Commercial Union, Doughty Hanson, Europa Fund, Europolis CE Holding GmbH, Heitman Central, European Property Partners, Parkes and Company, Pioneer Real Estate, and PZU Tower can be mentioned.

As long as the property market promises high profits with successful projects, international investors keep their eyes on the market until they find the right opportunity to invest. One of the biggest property investors in Europe, Dutch Rodamco Europe's last activities in Poland is a good example of how an investor acts in emerging markets. The company has been waiting by screening the Polish market to find out the best possibilities to invest. Therefore, until 2001 they did not make any investment in Poland. In 2001, the company took an action to invest in ING Bank's highly promising Złote Tarasy project by buying 50% stake of the project from ING Real Estate. According to the agreement, ING Real Estate will be responsible for the project until its completion (Eurobuild, 2001a). The following year, the company has made their second huge investment in Warsaw on one of the most successful shopping centers in Poland, Galeria Mokotów in October 2002. The investment company followed a different strategy by buying the 50% of developer Globe Trade Center stake in the company. Like their first investment, the investor followed a very careful screening policy before taking an action.

An example for an institutional investor is a consortium consisting of GE Capital Real Estate, a division of GE Commercial Finance, and Heitman Central Europe Property partners, a Heitman managed investment fund, in which GE controls 38% equity. The consortium has signed an agreement in 2002 to take over thirteen shopping centers in Poland for more than € 200 million. Eleven malls will be acquired from Domy Towarowe casino, a real estate subsidiary of the Casino group, and two more in Warsaw and Wrocław currently owned by Apsys and partner Fonciere Euris. Geant hypermarkets, owned by Casino, are the anchor tenants in all thirteen malls (Eurobuild, 2002d).

From the beginning of the transition, the international banks either opened branch offices in Poland, like in the other countries in the region, or bought national banks; or set up a leasing company. Bank involvement has two types in general: real estate lending banks and banks in relationship with a large corporate client to whom they lend (Hook, 2000). For instance, Austrian Bank Creditanstalt that merged with Hypovereins Bank in 2000 works mainly with Ahold and Metro in Czech Republic and Poland. The Polish Handlowy Bank for instance is owned 75% by Citibank, which in return owns a 25% share in Metro-Poland (Hook, 2000). Setting set up a leasing company is also a preferred method for banks. The trend of the banks is to own the leasing company as a whole and provide the equity capital and the loan to construct the development. In this way the leasing company's investment is secured because it has may be a ten-year lease to buy agreement with an anchor tenant like Metro or Ahold (Hook, 2000).

Parallel to the compound investment methods, individual methods have also been developed in Polish property market based on individual capital (although to a limited extend). Along with the international property investors and developers in the scene the local construction firms have become successfully strong. Companies like Mitex and Budimex etc. are strong players of the property market in recent years. With an income around PLN 800 mln, Kielce based company Mitex was the most successful Polish builder in 2001 – according to the list of 100, published by Murator. The next companies in the ranking were Exbud Skanska (PLN 620 mln), Budimex (PLN 500 mln) and Hochtief Polska, (PLN 470 mln). According to the same research, the largest capital group was found to be the Budimex with an income of around PLN 2.5 bln. Exbud Skanska with PLN 2.3 and Mostostal Zabrze with 1.2 bln of income came second and third respectively (Eurobuild, 2002a).

In terms of the capital formation Polish market is absolutely dominated by external investors most of which are canalized through international finance organizations however, this time not only the individual investment but also the institutional ones are popularly implied.

Istanbul

The property sector is one of the leading sectors in Turkey with 9.98% share in GNP (as of 1999). It is traditionally an important investment area due to the risky inflationary environment (Kuzey Batı, 2001). However, the biggest problem of the Turkish property sector is the high capital costs. Due to the high and uncertain inflationary economy, banks would not provide middle and long-term credits to the construction sector. High interest rates forces the builders to concentrate on residential projects that could be subsidized by state organizations or co-operatives (Ellialtıoğlu, 2001).

Although Turkey appears to have all assets deemed relevant and valuable by investors, given its attractive investment locations and geographical position between Europe, Middle East and Central Asia, the country has never been able to attract the substantial FDI inflows and other international investment channels as much as Hungary and Poland. Especially in the urban areas, the involvement of foreign capital in property development is very low compared to that of Hungary and Poland. Moreover, FDI never seems to have been a strong strategic element in the national development strategy of Turkey whereas in Hungary and Poland FDI has a great influence on the economic growth especially after 1990s. As mentioned above, Turkey is an example of an *internally driven market* for that reason. In the urban areas, the reason for the low internationalisation of the property markets can be explained by the political and economic instability, length of the time to develop a project (due to bureaucracy, informalities and unclearities in regulations) and extremely high land prices and speculation (with 16,5% expected rate of return which is around 6-7% in Hungary and Poland). Turkish property sector is locally driven thanks to the strength of local building sector with its own investment methods. The unavailability of lending and mortgage systems in banking sector lead to the dominancy of equity based property investment in the country.

Although originally the building sector in Turkey has never followed a sophisticated methodology or trend but a very specific way of investing and building, it began to evolve with the developments in the finance and property sector. Despite the gradually increasing foreign direct investments, the share of foreign capital in urban property investment displayed a very slow development tendency. As a result, compared to more recently liberalised Hungarian and Polish markets, the amount of foreign investors in the Turkish property market is limited to some retailers and hypermarket chains (like Carrefour). The international property developers and investors have only begun to explore the market by the beginning of the 2000s. Within the increasing financial limitations of the property market traditionally equity based building companies that kept the investment sector in their hands by constructing projects without partnerships or other subsidies but just with their own equity resources, began either to find partners or other financial means like lending mortgages (although to a limited extent) until mid-1980s. New types of projects have affected the commercial property sector. New finance instruments and methods were very rapidly adopted by the companies, mostly by the large groups or holdings who already had experience in property market. The size and type of the commercial projects, like shopping malls, office towers, mixed-use projects etc. necessitated the change in the way investment is carried out. Already in the beginning of 1990s, joint ventures began to appear on project basis to reduce the risks, and practically to be able to complete the huge investment. Larger and stronger building companies began to establish holdings as well as founded their own financial banks to support the property development. Most of the solo players of the market united their capital with building companies, commercial firms, banks or other investment organizations that are willing to participate. These local dynamics kept the market very actively evolving. In the mean time the international investors' hesitancy in this risky market kept them out of the scene for long years.

Until the end of 1990s it can be clearly observed that local companies were been seeking for new investment means for project development. The 'property development' concept has been introduced to the country only at the end of 1990s by limited amount of companies. Before that, there were only builders that were working in mainly *built to suit model*. In general, the large building companies have stayed as builders but seek for additional, new and comprehensive finance methods for their projects. Bank loans; partnerships and Property Investment Trusts (PIT) became more popular finance tools than just investing the own capital. As a natural cause of the high risks of the market the investment strategies of the property builders (and of developers/investors) have been evolving since the mid 1990s. The banking reforms have a big importance in this respect. Many large banks like Yapı Kredi, İş, Garanti as well as holding banks like EGS, İhlas Holding etc. were increasingly interested in property development through the PIT applications. Therefore, the partnerships with such banks have also become a new strategy for investing in property for former large building companies. Although becoming more important, taking bank loans for project development is still not a very popular way of financing property development in Turkey. Since the risk factor is high due to the high and unstable inflation rates, interest rates are high in general. These type of investment only occurs when the bank is involved in the development process either as an investor for developing its own building (like headquarters) and provide a loan to the building company, or the bank is the landowner.

There are two tendencies in the local investment market through building companies. Taking bank loans or making partnerships with banks are not very widespread methods due to the risky economic conditions of the country. For a building company or a developer the investment method is almost chosen on project basis. Based on the size, cost, location, land ownership and even the relations with the municipalities, the builder or developer chooses the most suitable way for developing the project. Therefore, it will be a wrong conclusion to claim that companies choose one method and follow the same one in each project. The cases in this section, therefore, are selected based on the investment structure of the project.

In partnerships and joint ventures, the typical attitude is that, one of the partners, mostly the one with a building background, comes up with the idea or has a plot of land, to develop a project and seeks for partners for the investment. Since the bank loans, credits and similar tools are risky, companies mostly try to attract strong partners to ensure the investment. Once the financial agreements are sign, partners establish a development company, which generally takes on the management of the project. Carousel and Akmerkez shopping center projects in Istanbul display a similar investment attitude. Both are partnerships for financing large-scale commercial projects among the property builders and developers as well as other type of commercial companies.

Within the highly competitive and risky investment environment Turkish building companies have become more innovative in the way they act in the market. Although traditional equity base investment is still the dominant way of developing property with the increasing demand on variety of new commercial projects as well as the increasing possibilities in the banking and finance sector the Turkish property investment sector has began to evolve slowly but surely. Due to the same reason, the highly competitive and risky investment environment, the international investors approached the Turkish market with slow and small phases. Moreover, their investment customs were evolved to suit to the Turkish situation.

Not only because of the high risks of the market but also of increasing demand for new large-scale projects that cannot be subsidized in previous traditional investment methods, Turkish investors began to find alternative investment methods within the possibilities of property and finance sectors. In this respect the transformation of the local property investment occurred in two manners:

1. The local building companies began to be involved more in the investment. As a result of this involvement two tendencies occur in the property market: building companies either share the investment with partners (either commercial companies or financial organizations) or, although to a very limited extent, they take loans from local or international banks and/or finance organizations.

2. The financial institutions and other commercial firms began to be more involved in building. As a result, they establish property development sections within their bodies that were previously not investing in property else than their own needs created new types of investment channels. The most important result of this is the increasing number of Property Investment Trusts (PIT), a kind of property investment trust, which allowed the investment to be approachable to many shareholders

Since the local building sector has a long tradition, the transformations within the sector have been more drastic compared to Hungarian and Polish building sectors. Moreover, due to the risky economic conditions new property investment methods are created within the domestic finance sector. In the country, despite the existence of strong local building market mortgage systems and similar investment instruments do not exist. Only recently, with the increasing popularity of commercial projects like shopping centers, office towers, entertainment centers, hypermarkets, etc. the investors began to seek for new investment instruments in order to reduce the risk especially in the large metropolitan cities. Property Investment Trusts (PIT) are property investment instruments that have been functioning in Turkish property market since mid-1990s.

After the completion of regulatory arrangements in 1995, the first PIT began to operate in the market in 1996 in Turkey. Starting from 1996 nine PITs were founded by several organizations mostly by banks and financial organizations in Turkey. PITs in Turkey displays three types of organizational structures: 1) PITs of banks, 2) PITs of joint venture of banks and private companies, 3) PITs of private companies. PITs in Turkey are designed similar to American Property Investment Trusts. PITs suit well to the Turkish property market, although they are only recently becoming popular among the investors. PITs are capital market institutions established to manage portfolios composed of real estates, capital market instruments, capital market instruments backed with property and property development projects (CMBT, 2002). The instrument operates as a financial instrument that gives investors the chance to collect the capital in a pool to finance the project or to become an owner or a shareholder in a project. The Capital Markets Board of Turkey (Sermaye Piyasası Kurulu-SPK) defines certain procedures for PIT operations. The Board is the regulatory and supervisory authority in charge of the securities markets in Turkey.

The basic principle of PITs is to open the investment as a partnership for shareholders and to keep it in the framework of Property Investment Trust regulation. According to the regulation, the 49% of the shares should be open to the public after following a certain procedure. The founders have to certify that they have not been subjected to any legal prosecution due to bankruptcy or another disgraceful offence. Moreover, there must be at least one founder (called leader entrepreneur) who meets the specific requirements laid down in the regulations and who has at least 25% of the shares. Legal persons as well as real persons can be founders of PITs. At least 25% of the PIT's shares are issued in return for cash while the rest of the paid-in capital can be based on property. Within this framework, PITs operate in Turkey in more or less a way to secure a cash capital for the developers on already completed projects.

3. Conclusions

In this article, we reveal the increasing variety and sophistication of the property investment methods and tools in countries at the periphery of advanced capitalism. In these countries, financial deregulations go hand in hand with the transformations of the property investment market. Although the deregulations are brought by the same cause of economic globalization, in each country the experience of property investment differs. Even in the externally driven Hungarian and Polish property markets, differences are noticeable especially in the institutional investments. The property investment funds have been in the scene for the Warsaw property market since the beginning of the transition period, whereas in Budapest only recently they began to operate. Moreover, they have different market strategies for these markets. In Budapest the property investment funds are mainly investing on existing successful projects. They simply scan the market and buy the profitable ones. Whereas in Warsaw, besides investing on the existing projects, the property investment funds were established for developing and investing on the projects as initiators. This is mainly due to the risky conditions of the Polish property market. It can be observed in the Istanbul property market that the local market actors tailored the property development for the local conditions. Due to the limited entry of international capital domestic actors have been very active and competing with each other in the market. Consequently, their transformation has been deeper and more innovative than in Hungary and Poland. On the one hand domestic building companies have been learning the rules of the game to act like developers to stay as primary actors of the market, on the other hand new concepts for property investment have been introduced to use new sources of finance for the new large-scale commercial projects. The PITs (Property Investment Trusts) are good examples of the new property investment methods in the market, which connects the capital power of companies and investors including banks to support project development. Thanks to PITs, banks and financial organizations have become regular actors in the property market.

References

ALM, J. (1994), Decentralization, privatization , and the solvency of local governments in reforming economies: the case of Budapest. Environment and Planning C: Government and Policy. 12, pp.333-346

CMBT (CAPITAL MARKETS BOARD OF TURKEY) (2002), Real estate investment trusts: Brief guide, www.spk.gov.tr/english/kyd/yo/yo.htm

DERVIS, K.&CONDON, T. (1992), Hungary: an emerging gradualist success story?, Working Paper, National Bureau of Economic Research. Cambridge:MA

DORN, J.A. (1993), Financial deregulation in a global economy. CATO Journal. 13,2, pp. 155-165

ELLİALTIOĞLU, M. (2001), Gayrimenkul yatırım ortaklıkları ve Türkiye uygulamaları (Property investment trusts and implications in Turkey). Unpublished Masters Thesis. Marmara University, Institute of Banking and Insurance, Department of Stock Exchange Market

EUROBUILD (2001a), Złote Tarasy investor found, September 2001

EUROBUILD (2002c), New mortgage bank, November 2002

EUROBUILD (2002d), Consortium acquires shopping malls, October 2002

HOOK, W. (2000), The over-development of real estate in Central Europe and the risks of financial crisis. A policy paper by The Institute of Transportation and Development Policy. November 29

GÁL, Z. (1999), The Hungarian banking sector and regional development in transition. In: Z. Haydú (ed.), Regional processes and spatial structures in Hungary. Budapest: Center for Regional Studies

ITD (2002), Hungarian Investment and Trade Development Agency Information Center, www.business2hungary.com

JÖNS, H. (1999), Foreign banks are branching out: Changing geographies of Hungarian Banking: 1987-1999. In: P. Meusburger and H.Jöns, eds., Transformations in Hungary: Essays in economy and society. Berlin (?): Physica-Verlag

KUZEY BATI (2001), The commercial real estate market in the Istanbul metropolitan area. Middle of year 2001 review. Kuzey Batı Gayrimenkul Hizmetleri A.Ş.: Istanbul

MARTIN, R. (1998), Money and the Space Economy. Chichester: John Wiley and Sons

MELLÁR, T. (1999), Economic policy conceptions and political force fields. In: M. Schmidt and L.G.Tóth, eds., Transition with contradictions: The case of Hungary 1990-98. Budapest: Kairosz