Overseas Property Professional
June 2007

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JUNE 2007

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mortgagewatch: Turkey

A new mortgage law in Turkey and the launch of several financial packages for non-nationals in recent months suggests a boom is on its way, but when asks ALEX EVANS?

The recent introduction of a new mortgage law in Turkey has been welcomed by many in the overseas property industry who believe it will help to attract more foreign buyers. However, while a number of agents, developers and brokers have been busy promoting Turkish loans over the past few months, the mortgage situation is not as clear-cut as it seems.

A competitive mortgage market

With property prices rising dramatically in recent years, the government was compelled to introduce domestic mortgages last year which led many to believe that competitive products for foreign buyers would soon be available.

Turkey has long been a popular destination for UK holidaymakers and so a boom in the property market would seem a little overdue.

However, historically, UK buyers have had to release equity from their homes or rely on savings to buy in Turkey – something many have not been comfortable with – so mortgages could make a big difference to the market.

The long term aim of Turkey's first ever mortgage law is to increase access to home ownership for middle- and lower-income Turks, but with base interest rates at 14-17% and monthly rates for current housing loans above 1.5%, domestic demand for mortgages will be limited initially, say analysts.

The fundamental change in the new mortgage law is the introduction of variable rate mortgages and extended loan terms (up to 25 years), which should make them more attractive to buyers. Nonetheless, while the law was passed on March 6, it will not take effect until September 6.

Western banks such as HSBC, Citibank, GE Consumer Finance, BNP Paribas, and Uni Credito have been waiting to launch products in what is set to be one of the biggest mortgage markets in the world.

As the banks start to compete with each other and drive rates down, many believe it could end up fuelling a housing boom in Turkey.

"This is true of other markets such as Spain and Portugal where initially mortgages were only available from a handful of lenders and mortgage deals were fairly expensive," says Simon Conn, of Conti Financial Services.

"Over the past five years, more and more lenders have woken up to the commercial advantages of foreign nationals buying property, not only for mortgages, but also other local banking services, and were keen to be part of this lucrative market."

In the last few months, CFS and developer Regnum have been promoting Turkish mortgages sourced from the Dutch bank, DHB. Conn adds that he has never dealt with Turkish lenders because they have never provided mortgages to non-nationals in the past. CFS has been offering Euro mortgages with a loan to value ratio of between 60% and 80% with a maximum term of 20 years, while Regnum claims to be able to offer similar terms – although there is no variable interest rate available (fixed interest for euro for one year is 5.9%, while sterling is 6.9%).

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> David Walker, Spot Blue

No completions

David Walker of developer Spot Blue, is also a member of the Turkish British Chamber of Commerce and Industry (TBCCI) and is cynical about Turkish mortgages. "A true mortgage from a bank for a foreign buyer is expensive and I haven't seen one completed yet," he says.

Walker claims that the only loans which have been made available so far are "building loans", with people typically borrowing in euros. While he believes that mortgages will most certainly result in more sales to non-nationals, he thinks that current rates are still too high. "For Brits used to paying 5% or 6% on mortgages over the last golden decade, 7% to 8% will seem a bit too steep," he adds.

Spot Blue has just started advertising a mortgage for Turkey (interest and repayment) but at the time of going to press had not yet completed on one. CFS is working with agent Turkish Homes to provide mortgages for UK buyers. Spokespeople from both firms confirm that there have been no completions at time of going to press and they are still in the application stage.

It seems that property companies are key to sourcing finance in Turkey. UK developer Braemore Group, which recently set up a joint venture in Turkey called braemoregemini, claims to have

Predominantly Euro mortgages are being offered to foreign buyers in Turkey

Spot Blue is working with a major bank to source funding for its Turkish projects...

...and believe mortgages will make property investment more attractive

sourced an off-plan Turkish mortgage. Available through CFS, which is providing a pre-qualification services, from an unnamed lender this 'real' off-plan euro mortgage is offered at 6.9% and 70% LTV. "It's interest only until completion when it becomes a full repayment mortgage," says Stuart Leslie of Braemore Group. "We have a credit line of €1 million from the lender for Aegean Hills and the potential for €10 million for our next project."

Now developers can become banks

Another crucial element of the new mortgage law is that non-deposit taking entities can set up as lenders.

For example, property company Urban Exposure, which is developing $1bn of property in Istanbul and has plans for around 24,000 homes, hopes to have its UX Mortgages operation set up in Turkey by 6 September.

The firm's managing director, Randeesh Sandhu, claims the new mortgage law may have been introduced later but for the fact that a number of lenders were threatening to set up offshore operations to provide mortgages, which would have undermined the Turkish government's aim of making its mortgage market more competitive for domestic buyers.

Buyer protection

Simon Conn believes local mortgages will help to protect buyers from unscrupulous agents and developers – and their own ignorance. He cites an example of a cash buyer who almost bought a 'depot' with no residential licence that was being marketed as an apartment.

"When Conti arranged a Turkish loan secured on the property, the Turkish lender discovered the buyer was about to sign up for a 'depot' worth only €30,000 in its current state, which was being sold for €90,000, and it was not registered as a fit structure for human habitation. Even if it was eventually re-registered as an apartment it would still only be valued at around €70,000."

Buyers can also be protected from developers and agents who deliberately play down the size of the property to avoid paying capital gains tax.

"A recent buyer was told the property they were interested in was 80m2 when in fact it measured 120m2," said Conn. "Whilst this may have no immediate implications for the buyer, when they come to sell the property in the future they will have a higher liability to CGT than originally thought."

A number of mortgage offerings have collapsed due to strict lender criteria in the past year as banks reject applications. While pre-qualification services can protect the buyer, many will resent fees if they are denied a mortgage – and this has wider consequences in the market as it makes such buyers wary of other brokers' offerings.

Everyone agrees that a competitive mortgage market in Turkey will benefit domestic and foreign buyers, and the property boom could begin on 6 September.

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Turkey's mortgage market

The new mortgage law has introduced variable rates, mixed currencies and extended loan terms (up to 25 years). Crucially, it has also allowed non-deposit taking entities to set up as lenders. This means that companies which borrow from the capital markets can provide mortgages to both residents and foreign buyers, including developers and other property companies.

Housing loans currently account for less than 5% of Turkey's $380bn economy (compared to an average of around 50% in the EU-15) according to Reuters. Credit Suisse expects it to be the biggest driver of retail loan growth for the next 5-10 years and Commerzbank's property arm, Eurohypo, last year said it would double new business in Turkey this year to €1bn.