

## **A New Financial Instrument for External Balance: International Real Estate Investments**

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### **Abstract**

*Foreigners have increased their real estate investments since 2003. Therefore, a new finance account of which visible fiscal burden is zero has been emerged. This finance account has increased as a result of liberalizing policy on having real estate of foreigners. However, this finance account contributes to balance of payments positively. Whatever position foreigners have real estate, examining this topic only with economic idea and ignoring political, military, social issues will carry future of country anywhere not further the condition of multi probability equation.*

**Index Terms:** Real estate investments, external balance, and balance of payments

### **1. Introduction**

Financial globalization has affected investments on real estate significantly. Turkey has the system that acknowledges real estate acquisition as well including constraints in special circumstances. It is not inaccurate to interpret that application of Turkey and the European Union in terms of real estate acquisition of foreigners is generally similar; in fact, Turkey is more advanced in real estate acquisition compared to most of the European Union members. Foreigner real estate acquiring should not be only in the form of “land”; the acquiring should also include “building residential land” as well, considering public interest, public, and country security in the framework of constitutional requirements. Therefore, the circumstances about real estate acquisition of foreigners and effects of this mechanism on the economy directly impress the significance of the issue. In this paper, effect of international real estate investments on the economies which industrialization has not completed and per capita national income remains low is reviewed. In this context, relations among international real estate investments, external deficits, and foreign direct investment inflows are aimed to introduce. Economic results and existing social and political tendencies are evaluated together.

### **2. International Real Estate Investments**

International real estate investments is a field where intensive discussions occurred from the past and subjected to permanent regulation changes in the last period. Finding the dimensions of international real estate investments that are closely concerned with the social and economic circumstances of the country and rights of independence reveals the importance of the issue (Yılmaz, 2013: 1-2). Globalization that opens most of the areas such as banks, stock market, media, communication, and industrial facilities to the international markets does not have complete effect on the real estate acquisition of foreigners. Because nations do not permit their lands to be purchased in the form of absolute property; as, it happens in citizens (Uzun-Yomralioğlu, 2007). Land is crucial as a more effective production instrument compared to other instruments in the societies where industrialization has not improved enough and per capita income is quite low in terms of socio-economic perspective. On the other hand; in the sociologic framework of land-human relations, land has a very important blessed value that is battled for in the history. In fact even countries that shows higher tolerance to the global capital block which purchase strategic firms and real estate are identified with themselves using invisible bureaucratic measures (Uzun-Yomralioğlu, 2007).

In our country; the last regulations about real estate acquisition of foreigners are briefly expressed as follows; a foreigner can purchase not more than 30 hectare real estate. Administration is authorized to raise this limit as double. Official permit is required for real estate acquisition and rent of foreigners in military prohibited and security regions. Foreigners are permitted to obtain real estate and limited real right not more than 10% of the surface of the county that is subjected to private property. In accordance with the law no. 6302 reciprocity\* condition is removed and question of which country citizens can benefit from independent qualified real rights and real estate property rights is determined by the administration. As a difference from previous laws, the law does not predict any limiting registration considering the purpose factor in terms of built real estates. In other words, real estate acquiring of foreigners for other purposes except from residential use or business is possible in the framework of existing regulations. For instance, no measures left in terms of foreigners to purchase real estate in our country regarding agricultural purposes (Yılmaz, 2013: 1-2).

This situation encourages foreigners acquiring real estate in our country. Changing the reciprocity law that hinders real estate sells to the foreigners and promoting property acquisition of foreigners raise foreign capital inflows to Turkey as international real estate investment and provided growth in the sector. It is necessary to evaluate foreign capital that inflows as international real estate investment in three parts. First; flow of migration mostly by retired people. Those people who come by migration settle into Turkey where they can satisfy all sorts of their needs immigrate to Turkey because of high cost of living and raising crime rates and other several reasons in developed countries. Second part is evaluated as a different initiative of foreign capital which is used to make loans in Turkish market and acquire high interest income for long years which can be expressed as providing the interest income via profits abandoned by contractors and Turkish recipients. In other words cheaply purchased real estates in a shrank market will be sold with higher prices after some time when the domestic demand grows and thereby a very high income will be obtained compared interest profit losses. Finally; international real estate investments inflows may have political reasons. Capital flows towards Turkey aim to purchase lands in significant regions and to obtain efficiency by providing majority. This case threatens the independence and dominance of the country and permits dividing the land of the country by foreigners who acquire real estate.

**Table 1: International Real Estate Sells in 1923-2011**

Years	Real estate (number)	Land (m2)	Foreign firm (number)	Foreign individual (real-corporate-capital-firm)
1923-2002	20.843	11.961.565	818	23.044
2003-2011	96.735	136.527.787	28.180	136.787

**Source:** Answer to the written parliamentary question asked by Ayşe Nedret Akova who is parliamentarian of Republican People's Party by Minister of Environment and Urbanism Erdoğan Bayraktar and data from Land Registry Cadastre General Management.

It is observed from Table 1 that number of selling to foreigners is 23044 until 2003 and this number jumped to 96000 in last 10 years. The remarkable point is foreign national people who land or real estate sells made in 1923-2002 years are Turkish people who must emigrate Turkey from countries such as Bulgaria, Greece. Sells in last ten years are made to individuals and foreign firms that will to have property in Turkey. Among these individuals, there are 89 citizens of different countries notably Germany, England, Austria, Greece, Netherlands, and Denmark. 96735 real estate in 76 provinces among 81 provinces is sold in Turkey and the number of people who invest in real estate reached to 136787 people. Regulations that ease real estate acquisition of foreigners cause high number of sells until 2008. However, cancels of regulations regarding real estate acquisition of foreigners by constitutional court in 2006 and 2008 hinders capital inflows in this subject. Also rate of rise in sells which are increased till 2008 is decreased in 2009 economic crisis year. After the regulations that ease to have real estate for foreigners imposed in May 2012 because real estate sells increase at high rates. 7145 real estate (916 lands and 6229 house) sold to foreigners in the first half of 2013. In the first half of last year, the number of real estate sells to foreigners is 3107 (306 lands and 2801 house). Reciprocity law has influences in this double rate increases.

\* Reciprocity is described as a principle imposed at least between two states enounces that same rights should be guaranteed by the state not only for the state's own citizens but for the other state's citizens as well.

**Table 2: Real Estate Purchases of Foreigners**

Period	Million Dollars
2011 Q1	461
2011 Q2	781
2011 Q3	264
2011 Q4	507
2011	2.013
2012 Q1	557
2012 Q2	702
2012 Q3	586
2012 Q4	791
2012	2.636
2013 Q1	719
2013 Q2	600

Source: [http://imsad.org/docs/08\\_2013\\_ayerap.pdf](http://imsad.org/docs/08_2013_ayerap.pdf), 07.10.2013

After the imposition of regulation in June; real estate purchase of foreigners is 1, 38 billion dollars in the first half of 2012 and 1, 32 billion dollars in the second half of 2013. Distribution of real estate sells illustrate that Hatay, Kilis and Mardin are first three provinces and this makes that a general political assessment is necessary about real estate sells in the country. Because these provinces do not have the necessary conditions to live during the retirement days or to obtain high real estate income. Even in some regions, foreign people reached a position to determine their candidate by consisting majority.

Foreign real estate investment exists in 76 provinces of our country. Real estate acquisitions of foreigners are on the rise in İstanbul, İzmir, Muğla, Antalya and Konya.

**Table 3: 2003-2008 Province Distribution of International Real Estate Investments**

Provinces	2003-2008 Total m2
Hatay	80.856.470
Kilis	26.072.288
Mardin	11.760.741
Muğla	4.626.501
Antalya	4.324.937

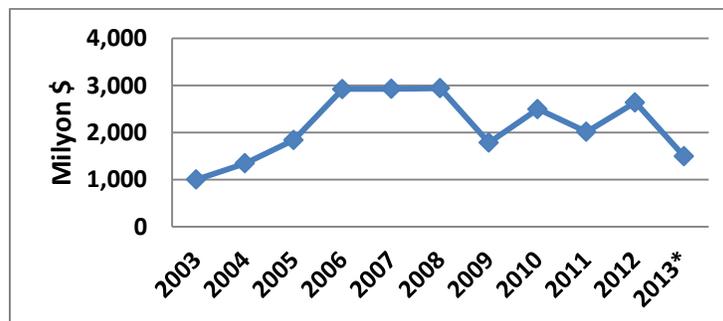
Source: Land Registry Cadastre General Management

The table shows that real estate sells to foreigners cannot be assessed in terms of property problem and income. The results of the situation in terms of dominance and independence should be studied as well.

**3. A New Financial Instrument to Form External Balance: International Real Estate Investments**

External balance states the equity in balance of payments (zero, negative or positive). It states no surplus or deficit in balance of payments or means that imports and exports are equal. Foreign exchange gap that reveals in external deficit cases are financed via borrowing, gold export, IMF special drawing rights, foreign exchange reserves or foreign direct investment inflows. In case of an external surplus a reverse case is occurred.

**Figure 1: Real Estate Purchases of Foreigners (Million \$)**



\*Till June Source: Land Registry Cadastre General Management

Real estate acquisition of foreign real individuals and corporations was almost impossible in accordance with the reciprocity and deed laws in our country before 2002. But in 2003 real estate acquisition of foreigners are eased via regulations. Real estate sector experienced fast growth due to political stability, recovery in economic conditions and constitutional regulations.

International real estate investments which are worth 998 million dollars in 2003 raised 1, 35 million dollars in 2004 and 1, 85 million dollars in 2005. However, in 2006 and 2008 real estate investments of foreigners reached approximately 3 billion dollars level even though the constitutional law court cancelled the regulations on land register law. Global economic crisis and the economic crisis in the country decelerated real estate purchases of foreigners and lowered till 1,8 billion dollars. Concerns of foreigners to our real estate market increased in 2010 and afterwards. Real estate investments of foreigners are 2,5 billion dollars in 2010, 2 billion dollars in 2011 and 2,6 billion dollars in 2012. Removing the reciprocity regulation in 2012, decreasing quotas, and smoothing the blocking regulations raised the concerns of foreigners to those investments.

**Table 4: International Foreign Direct Inflows, External Balance, and Real Estate Purchases of Foreigners in 2003-2013 Period**

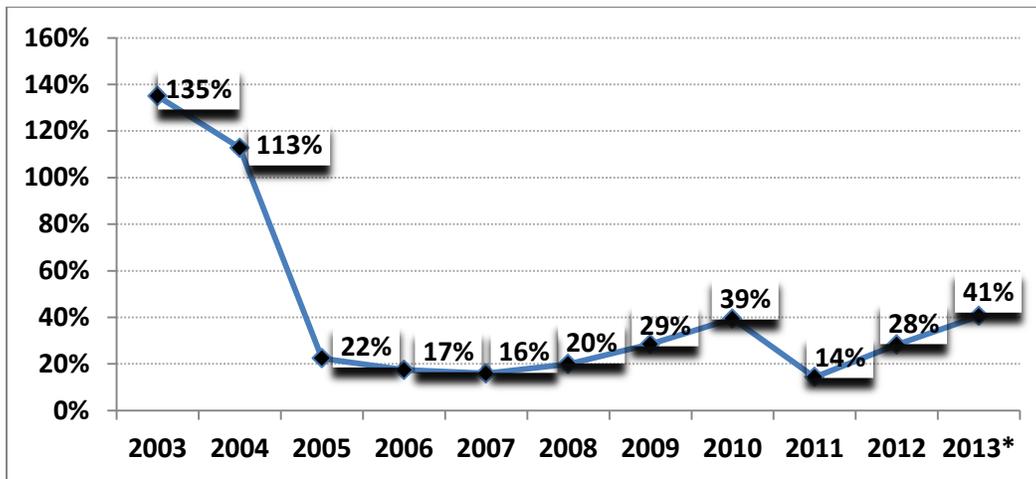
Years	International Foreign Direct Inflows (Million Dollars)	External Balance (Million Dollars)	Real Estate Purchases of Foreigners (Million Dollars)
2003	737	4097	998
2004	1.191	4342	1.343
2005	8.210	23200	1.841
2006	16.789	10625	2.922
2007	18.394	12015	2.926
2008	14.712	-2758	2.937
2009	6.252	791	1.782
2010	6.238	14968	2.494
2011	14.064	1014	2.013
2012	9.335	22821	2.636
2013*	3.683	5580	1.494

\*Till June **Source:** Ministry of Economy

Table 4 clearly illustrates the magnitude of foreign capital inflows to our country as a result of international real estate investments. It is even much clearer when foreign direct inflows data and external balance indicators are observed together. Surprisingly; the amount of real estate purchases of foreigners are higher than the amount of foreign direct net investment inflows in 2003 which is the year that real estate sells to foreigners are eased. This tendency continues in 2004 and the amount of real estate purchase inflows is 113% higher than the amount of foreign direct inflows. Even though the real estate purchases of foreigners raise in 2006-2008 years, higher increases in foreign direct net investments inflows lowers the ratio of real estate purchases to foreign direct investments to the rate of 16%.

As a result of cancels of the regulations that simplify real estate purchase for foreigners by constitutional law court; the concern to the sector had fallen. Although the ratio of real estate purchases to the foreign direct net inflows rose, the reason is originated from diminished foreign direct net investments because of the economic crisis. In 2010 the ratio of real estate purchase to the foreign direct net investment increased as 39% while the downturn continued in foreign direct net inflows. There are two important incidents occurred in 2012 and 2013 years. First is the sudden interrupts in international foreign direct net inflows and second is the regulation changes on land registry cadastre law imposed to dissipate negative effects of those sudden interruptions on the economy. Remove of reciprocity law in May 2012, simplifying real estate purchase for foreigners, and raising the amount of it lead to capital inflow increases in the country for real estate purchasing reason. In these years, the ratio of real estate to the foreign direct net investment inflows raised 41% from 28%.

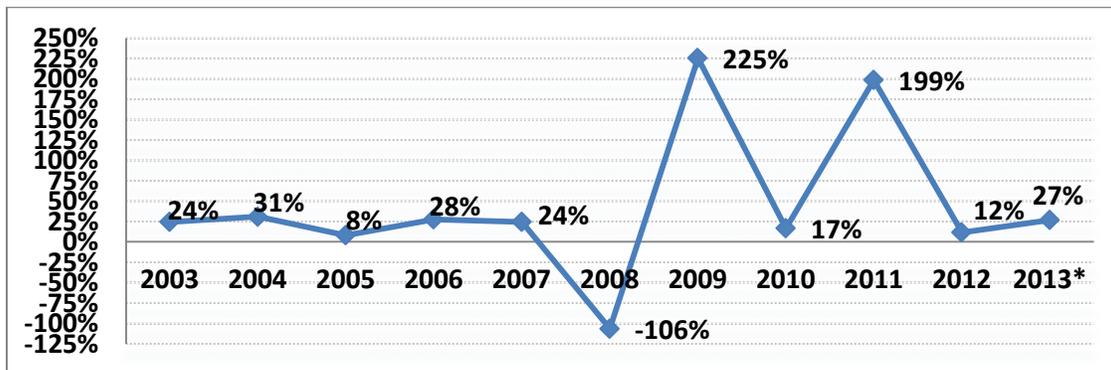
**Figure 2: Rate of Real Estate Purchases of Foreigners on the International Foreign Direct Net Capital Inflow (%)**



\*Till June **Source:** Data is obtained from Land Registry Cadastre General Management indicators.

On the other hand, when the relation between real estate purchases and external balance is reviewed; it is observed that real estate investments have huge contribution in providing external balance. There is important contribution of real estate investments in 2003-2007 periods. Foreign capital inflows in our country which are real estate investments did not let the external deficit reach high levels and helped it remain at 2, 7 billion dollars level in 2008 which is the year of global economic crisis. Real estate investments hinder external balance to give deficits and contributed external balance to give of 791 million dollars surplus in 2009 and 2011 years which are the years when domestic economic stability deteriorated. Real estate investments continued to make high rate contributions helping the country’s financial burden decrease in 2012 and its afterwards.

**Figure 3: Rate of Real Estate Purchases on External Balance**



\* Till June. **Source:** Data is calculated by the author using obtained data.

**4. Conclusion**

International real estate investments of foreigners emerge as a new financing which do not exist in previous periods and visible financial burden is zero after 2003. This new financial item which increased after the liberalization of real estate acquisition of foreigners have positive contributions on balance of payments of the economy as lowering the external deficit and causing external surpluses for some years. This new item seems distant in terms of creating an additive financial burden while providing these positive contributions. However, it has importance to know that who makes these real estate acquisitions and what those acquisitions target. If it is mostly originated from immigration fact of retired people then it is interpreted as a dimension which has high economic contribution but unknown social and political contribution.

If people who make real estate investments are the foreigners who are used to loan in Turkish market via stocks and bonds and make high interest income; these people withdraw the currencies they brought through selling real estate they bought comparatively cheaper in advance with high prices when domestic demand starts to grow. In that case, answers of the questions “when will they quit” and “who will they sell” will reveal clearly its economic and political contribution. Finally, if foreigners who make international real estate investments have a political purpose in buying real estate; the political and economic burden of it will be huge on public and the state because it will threaten independence and dominance of the country. It will help us to have opinion to understand the purpose of foreigners in real estate acquisition of foreigners to watch the regions where real estate acquisitions are comparatively higher. If real estate acquisitions are mostly in the regions, where we have border issues or have geopolitical importance, the threat becomes more obvious. This situation cannot be assessed just as transfer of economic or properties.

Finally assessing the issue only in terms of economic dimension and ignoring social, political and military dimensions means including the country into a multiple uncertain equation. This means endangering the indispensable element of the country which is independence and dominance.

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