DUBAI FESTIVAL CITY, DUBAI, UAE
DEVELOPER: AL FUTTAIM

Big Risks, Big Rewards

AHMET KAYHAN

AHMET KAYHAN, FOUNDER AND CEO OF REIDIN, SPEAKS TO RLI ABOUT THE KEY INDICATORS INVESTORS, DEVELOPERS AND RETAILERS LOOK FOR IN EMERGING MARKETS...

Emerging markets are nations with social or business activity in the process of rapid growth and industrialisation, showing a certain grade of GDP growth on a year-on-year basis and a growth in infrastructure for a period of time.

In many of these countries, particularly Asian countries like China and India, labour is cheap which makes them attractive to developed markets for production houses.

This production of goods kick starts in the local market. As these people start producing goods and earning more money, they start consuming as well so this improves the consumer market. As the consumer market grows, so does the demand for the production of goods, such as electronics, food and textiles. This is almost the same story in the top 20 emerging countries.

Russia and the Gulf are different because the main drivers of those economies are the countries commodities like oil and gold.

Infrastructure such as roads, transportation, airports and seaports are a key indicator of emerging markets. These then have a knock on effect on neighbouring countries and encourage growth across a wider geographical area creating transport hubs, industrial zones, commercial, retail and residential areas.

Many emerging markets are open to foreign development in the real estate market, both residential and commercial and have a strong - and growing - mortgage market.

Demographics are very important. As the population of a country grows, so does the demand for infrastructure, better housing and goods.

From a retail point of view, the retail space per capita can also show significant divides. The retail space per capita in emerging markets since 2000 has almost tripled but the average is still only one fourth compared to the UK. For example, the retail space per capita in Turkey is one fourth of the UK, and Russia is one third.

We expect that investable commercial real estate supply will increase 10 fold in the next 15 years, according to a study by CBRE Richard Ellis.

The main countries tipped for rapid growth include Brazil, Russia, India, China and South Africa (BRICS countries). However, smaller countries are also forecast for significant growth including Indonesia, Malaysia, Singapore, Taiwan and the Philippines in Asia, and in the Middle East we are looking at Morocco and Egypt, Jordan, and Saudi Arabia and the UAE. In Europe, Turkey and the Ukraine, Romania, Bulgaria, Russia, and in South America – Mexico, Argentina and Chile.

Colombia, Thailand, Vietnam and South Africa have smaller populations than the BRICS but they have built good infrastructure and integrated into financial infrastructure much earlier than the others. The drivers and fundamentals are very strong but there are political issues.

The ones who built up the legal infrastructure right like China, Brazil, Turkey, are also at an advantage.

Even though countries like Colombia have been growing strongly for the last 5-6 years, they need foreign investment because they cannot finance everything. They will definitely need the help of finances internationally.

Emerging markets differ from city to city. The emerging market is not really a country, it is a city. For example, Beijing and Shangai are different – each one of them needs to be looked at individually. A better term may be emerging cities.

Investors look for good returns. There are two levels of investment – foreign and domestic. Each one of them has two levels – corporate investment and individual private investment.

Overall, investors are looking for a door to enter that market, no matter what door that is for investment opportunities. They have to consider returns on commercial deals and entry points and exit points.

The real estate market has become more open to foreign investment over the last 10 years. This mainly started in the residential market as this type of development has the highest and fastest return on capital investment.

However, the residential development market in that country has to be backed by the financial market – the mortgage market. If this isn't in place you don't see a boom.

In Turkey five years ago the mortgage market was worth \$500M and right now its \$52B. In China it's almost 10 times higher than 10 years ago, and in Dubai there was no mortgage market seven years ago.

Neighbouring countries also benefit from emerging markets because they are seeking a better lifestyle, better infrastructure, better shopping, leisure and hospitality, better housing and better schools. People in those neighbouring countries and regions are willing to have a one hour commute to their place of work for a better lifestyle. The urbanisation will be the main driver of these markets.

Initially the recession hit very badly. Although there were good demand and good investment and development, all the countries are integrated into the global financial markets.

As the recession started kicking in, most of these financial institutions found it hard to finance lending so the money started getting expensive to borrow. As the impact start hitting the American and European markets, this had a knock-on effect on the smaller markets.

Some emerging markets were immune, like India and Turkey because they had already gone through tough economic times in recent years and taken the time to become more financially stable.

When the recession started to bite globally some of these countries, like Brazil, were already ready because their banks had some good amount of money in their reserves and although they didn't get hit badly, they saw less growth than expected.

The biggest advantage to developers, retailer and investors entering an emerging market is diversification. They are long term markets which could prove to be very profitable.

Lots of international retailers are trying to enter emerging markets as their home markets see business opportunities reducing.

We are looking at possibly \$20-25 trillion worth of potential investable commercial real estate space available over the next 15 years.

The biggest risk is not understanding the fundamentals – Brazil is a great market but the tax kills you; in Russia the tax issues are very unclear. These local issues need to be understood thoroughly and the best thing for most people planning to enter a market is to find a local partner. They can help you understand the market and take some of the burden off your shoulders and then the growth can come - otherwise it can have serious repercussions.

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OWNER: LIBERTY GROUP AND PARETO LTD

ZORLU CENTER, ISTANBUL, TURKEY
DEVELOPER: ZORLU PROPERTY

BOULEVARD LONDRINA, BRAZIL
DEVELOPER: SONAE SIERRA

AHMET'S TOP 10 EMERGING MARKETS

- Brazil
- Colombia
- Chile
- China
- Indonesia
- Romania
- Saudi Arabia
- Thailand
- Turkey
- Vietnam