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Global investors; "Istanbul will be the star of the next decade"

URBAN REGENERATION AND ISTANBUL

The negative effects of 1999 Marmara Earthquake coupled with the positive effects of the developments in the Turkish economy in the last few years have rendered the concept of "urban regeneration", with its different aspects, as the main topic in the current agenda of urbanization in Turkey. A review of the last 40 years of

urbanization in Turkey will reveal that the urban areas have been rapidly "transforming" by the methods of "build-sell", "demolish-build", and "sell-build".

This rapid urbanization resulted in high risks in terms of "building safety" and "a safe living environment" in urban areas, especially in Istanbul. The main reasons behind these two risks are "rapid uncontrolled urbanization", "illegal building", "amnesties with regard to illegal buildings" and "high density developments".

These developments have necessitated new approaches to "project development" in order to realize a comprehensive regeneration of urban areas to remove these risks and include spatial, economic and social dimensions of regeneration.

In Istanbul where these risks are high, number of comprehensive studies at national and international levels are initiated and new institutions are set up after 1999 Marmara Earthquake.

- The study undertaken by the cooperation between Greater (i.e. Metropolitan) Istanbul Municipality

and Japanese International Cooperation Agency (JICA) have recommendations to reduce human life and material losses based on possible future earthquake scenarios.

- Istanbul Earthquake Master Plan (IEMP), prepared by the Greater Istanbul Municipality in accordance with the recommendations of the JICA Study, recommends immediate action in high risk areas through action plans and necessary legal, financial and institutional arrangements.

- Istanbul Metropolitan Planning and Urban Design Center (IMP) is established to prepare the Strategic Development Plans and Urban Regeneration Projects.

- Istanbul Urban Workshop, established within the Directorate of Urban Regeneration and Settlements is currently preparing Earthquake Centered Urban Regeneration Projects for high risks districts of Istanbul.

The Strategic Plan's 2023 vision creates opportunities for local and international investors through the preparation of urban regeneration projects.





The Expectations of The Real Estate Market From Urban Regeneration Projects and the Trend:

The study 'Emerging Trends in Real Estate Europe 2007' prepared jointly by "Urban Land Institute (ULI) and PricewaterhouseCoopers states that "Istanbul will be the star of the next ten years" and that "urban regeneration projects will provide important opportunities to investors in the coming years".

The study prepared with the views from approximately four hundred experts and managers in the real estate sector to determine the trends in the sector further states that;

- Many European investors and developers will be attracted to urban regeneration and renewal opportunities much more than the previous years.
- Shopping centers will continue to be the most profitable investments. This will be followed by hotels, mixed use developments and central urban

European Economic Growth

	Percentage Real GDP Growth			
	2001	2006	2005	2004
Turkey	6.88	7.10	7.58	8.00
Russia	5.89	6.41	5.40	7.20
Poland	4.55	4.95	3.24	3.40
Czech Republic	4.44	5.70	5.95	4.40
Ireland	4.15	4.98	4.70	4.50
Greece	3.21	4.00	3.70	4.70
Sweden	3.33	4.50	3.70	3.10
Finland	3.21	4.13	3.10	3.50
Hungary	2.90	4.91	4.14	4.60
Spain	2.82	3.65	3.40	3.10
Belgium	2.51	2.98	3.20	2.70
Denmark	2.39	3.00	3.10	2.10
Netherlands	2.25	2.85	1.10	1.70
France	2.20	2.95	1.50	2.10
Switzerland	2.12	2.88	1.60	2.10
Austria	2.04	3.57	1.60	2.40
U.K.	1.95	2.43	1.80	3.20
Italy	1.49	1.64	3.00	1.00
Germany	1.33	2.48	3.90	1.60
Portugal	1.32	0.90	3.30	1.20

Source: World Bank, World's (www.worldbank.org) - Projections

office developments.

- The Turkish economy is at the top of the development league with 7% growth in GNP in 2006.

- International investors believe that Turkey is a low risk investment area in the long term. The young and dynamic population of Turkey and the high

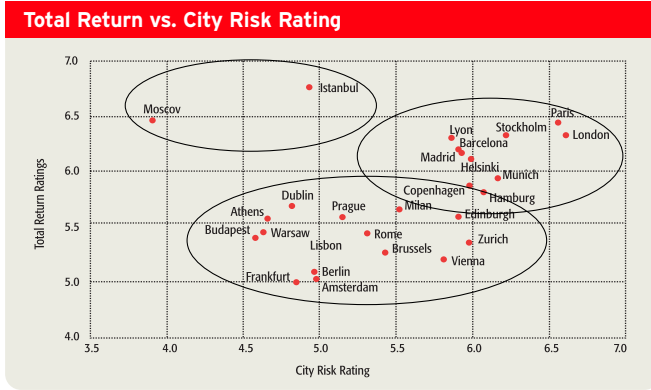
growth rate have already attracted many investors in the sector.

- Global investors have their focus on the east. The current capital flow in Europe is towards the middle and eastern European markets. Turkey and Greece are on the radar screen. "Moscow and Istanbul will inevitably be the investing destinations for European investors. "Moscow and Istanbul are on the top of the list (inclusive of the risks involved) of real estate buyers.

- The purchase prices for offices, industrial estates and warehouses have put Istanbul at the top in these categories. Furthermore, Istanbul ranks first in terms of developing markets.

- The only problem is the risk ranking; but this has improved compared to previous years. The optimist view is spreading among the investors.

- The Government's Istanbul agenda has Urban Regeneration as the main item. The future years will show that one of the most important market in the general real estate market will be "urban regeneration".



Source: ULI - PricewaterhouseCoopers

Another study prepared by the Association of Real Estate Investment Companies (GYODER), i.e. "Real Estate Sector and Visions for Istanbul in 2015" shares the views of the previous study:

- Turkish real estate sector will be much more influenced by the developments in the global real estate sector.

- The full EU membership process will positively affect the real estate sector.

- There will be 2.135.045 units of housing demand until 2015. In other words, there will be a demand for 250.000 units per annum. The most important obstacle in front of this

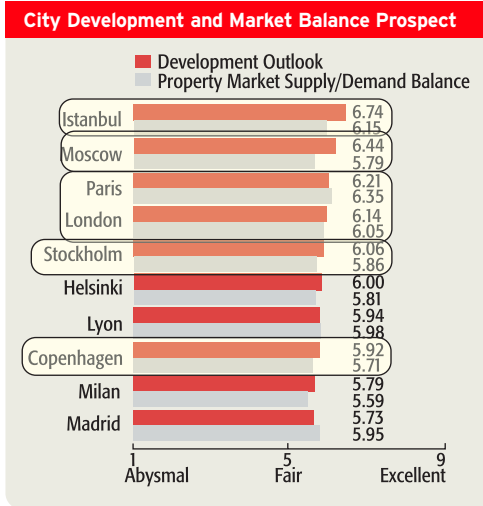
demand is the lack of adequate developable land. For this reasons, urban regeneration projects will meet a major portion of this demand.

- Retail market and shopping centers will exhibit a rapid development in the next decade. Existing 80 billion USD market will reach a volume of 150 billion USD by the year 2015.

- The demand for A class office space will increase in the next decade in parallel with economic development and total office space demand will be 400.000 sq. meters. The demand for B class office space is estimated to be 250.000 sq. meters in the next ten years.

- The market for industrial and logistic space has entered into restructuring. Istanbul Strategic Plan envisages decentralization of industrial activity presently located within the urban area.





Source: ULI - PricewaterhouseCoopers

• The hotel market is directly induced by the developments in the tourism sector. The number of foreign arrivals to Turkey reached 20.000.000 in 2006. For Istanbul this figure was 5.000.000. This figure is expected to reach 15.000.000 by 2015. It is also expected that approximately 91.000 beds will be added to the first class tourism accommodation facilities in Istanbul in the next ten years.

These two studies that reviewed the real estate market in Istanbul in the general framework of global tendencies and local developments show that the "real estate sector" and "urban regeneration projects" will have direct relationship with each other and will be interdependent.

The coming together of "real estate sector" and "financial sector" for realization of urban regeneration projects is an important step. The major indicators of the cooperation between these two sectors are the growing numbers in Real Estate Investment Trusts and their growing share in the real estate market, the arrangements with regard to mortgage financing, institutionalization of the Turkish banking system in accordance with this new financial instrument and financing or development of middle and long term real estate development projects by foreign funds.



New Approaches to Urban Regeneration

Five topics need to be considered in order to design and implement urban regeneration projects. These are;

1. Vision
2. Project Partnership
3. Social and Economic Development
4. New Models and Techniques
5. Project Financing

1.Vision

Large scale urban regeneration projects need to consider middle and long terms issues and processes. There needs to be a vision that determines the goals and objectives of a project that intends to develop a way of life for the future by designing the future.

The strategic decisions that are given in accordance with the vision is very important in terms of the future of the Project and its implementation.

2.Project Partnership

Urban regeneration projects, by their nature, require "consensus". This consensus rests on bringing together and sharing the ownership and value on the basis of the Project. For this reason and in order to successfully implement urban regeneration projects in Turkish cities, we need to solve the problems associated with real estate ownership.

Project partnerships are platforms within which the groups most effected by the Project come together in accordance with the Project scenario. These partnerships vary from establishment of a company to declaration of dedication based on trust. In some projects, these partnerships are



Orange Blossom Valley

realized as simple partnerships during the process of consensus, evaluation commissions, associations or platforms of joint activity.

The Ankara Experience

The first important examples to urban regeneration projects in Turkey are "Portakal Çiçeği Vadisi" (Orange Blossom Valley) and "Dikmen Vadisi" (Dikmen Valley) Projects in Ankara in 1990's. These projects have introduced new models and techniques with regard to "project partnership", "project financing" and "land development".

The project partnership in "Orange Blossom Valley" Project in Ankara is established by the incorporation of a public-private sector partnership in a "Project Development Company" by the inclusion of landowners and developers. Landowners are represented in the decision making process of the company with regard to the Project.

Furthermore, all proposals by the company are discussed with the landowners during monthly meetings. The project development responsibility in "Dikmen Valley Project" is assumed by the Greater Ankara Municipality in cooperation with the district municipality by establishing a "Project Development Company".

The partnership is established by the inclusion of landowners under a cooperative umbrella and representing themselves in the "Project Decision Board" together with representatives of the company and the Municipality.

The objective of this Board is to decide on each issue through discussions and decide by agreement of all representatives.

The Istanbul Experience

In order to alleviate the urban risks with earthquake risks ranking first as the major risk and to proceed towards the 2023 vision, Istanbul has commenced urban regeneration projects. The urban regeneration projects in Istanbul can be categorized into two major groups. The first one is the "earthquake centered urban regeneration projects" conducted in earthquake prone districts that aim to reduce risks associated with a potential earthquake. The second one is the "vision projects" that will guide the developments and make regenerations possible.

Earthquake Based Regeneration Projects

Important regeneration projects are prepared for districts of Zeytinburnu, Fatih and Küçükçekmece in accordance with the JICA Study and Istanbul Earthquake Master Plan. Strategic Action Plans and Programs are being prepared in these districts to reduce the risks involved.

Within the context of the Project, building stock in each district is evaluated by engineering methods in terms of safety and "urban risks maps" are being prepared. "Emergency Action Plans" (EAP), "Neighborhood Renewal Action Plans" (NRAP) and District Development Action Plans (DDAP) are in the process of preparation.

Also, legal, institutional and financial recommendations are being developed within the projects.

Vision Projects

Greater Istanbul Municipality is also preparing urban regeneration projects that will support developments and regenerations: Kartal District Kartal Project is an example of partnership that aims to achieve successful "planning" and "project development" in the district of Kartal through cooperation between the Association formed by major landowners and the Municipality.

Dikmen Valley Project





The cooperation between the Municipality and the private sector has resulted in an international competition for design won by the Architect Zaha Hadid. The Project provides important opportunities for both local and international investors and delineates Kartal as 1st degree sub-center in the Anatolian part of Istanbul.

Coastal Project in the District of Küçükçekmece is also being prepared after an international design competition won by the Japanese Architect Ken Yeang. The area between the Küçükçekmece Lake and Marmara Sea carries earthquake risks as well as ecological values. This Project aims a consensus with the residents of

the region during the regeneration process. The local non-governmental organizations (NGO's) and the Municipality of Küçükçekmece are the major stakeholders in the Project.

3. Social and Economic Development

The urban areas of Turkey have to live the regeneration process in terms of social and economic regeneration that aim to improve the living standards as well as physical regeneration. Urban regeneration projects in Istanbul provide major opportunities to alleviate poverty and unequal income distribution.

If the projects developed by the municipalities do not address social

and economic issues of regeneration, and do not include public participation, success is not possible and tensions are prone to arise. To view urban regeneration as a "social consensus" and to develop projects along this line will reduce potential social tensions.

An important "participatory" project development process is being implemented in the Hacı Hüsrev Neighborhood Renewal Project to achieve social consensus and economic development.

4. New Models and Techniques

The first condition for developing adequate models and techniques suitable for regeneration is proper recognition of problems and evaluation of dynamics. High population densities, high building densities, unsafe buildings, inadequate infrastructure, and ownership patterns give importance to the below stated methods.

- Aggregation of development rights,
- Transfer of development rights, and
- Securitization of development rights.

These methods can be applied especially in situations where the area



Kartal Urban
Regeneration
Project designed
by Zaha Hadid
Architects

needs to be evacuated due to earthquake risks and creation of new safe settlement areas. Furthermore, these methods will be effective in especially central urban areas where regeneration is a necessity, by establishing consensus for aggregation of ownership rights.

Even though the method of transfer of development rights is not yet implemented in Turkey, there are successful examples worldwide. Especially implemented in US and in Europe, the objective of this methods is to protect agricultural land surrounding urban areas and green areas within the urban areas. The system is based upon landowner accepting to utilize his development right by transferring his right into a security that can be utilized elsewhere in another project through cooperation with the local authority.

The securitization of development rights is important in terms of bringing together the real estate sector and the financial sector. The reality that the real estate is an instrument of investment and the reality that the ownership patterns are fragmented clearly shows that this method can be applied widely in the Turkish urban sector.

5. Project Financing

Evidently, finance is the most important issue in the realization of urban regeneration projects.

Comprehensive regeneration projects need to effectively utilize public financing and incentives as well as resources provided by the private sector. In urban regeneration projects based on real estate, project financing is obtained mainly through the market, whereas 'social and economic development based' projects and 'earthquake based' projects necessitate public resources.

The approaches to creating new financial resources show that Turkey has experience in this field. In the projects realized in Ankara, "cross financing" and "project bonds" have been important instruments in the realization of the projects. The exportation of project bonds to German and Japanese stock-markets is the first and an important development in this respect.

In the "Revenue Sharing" model adopted and implemented by the Prime Ministry Housing Administration, public lands are being developed by the private sector and the revenues generated by these developments are utilized to meet the housing needs of low income people in urban regeneration projects. By this method, the Housing Administration has produced 200.000 housing units in the last three years.

The major problem with respect to finance is the lack of adequate self resources of people living in urban regeneration areas as well as

their inability to access adequate loan facilities. In order to solve the problem of adequate financing a new financial system has to be established within which relative relationships are established between the Treasury (by the utilization of foreign funds), the banking system and the user (beneficiary). An Urban Regeneration Fund needs to be established in order to have dedicated resources for the necessary financing requirements. This fund needs to be established based on the "risk sharing" principle between the public sector, private financing institutions and the beneficiary.

Urban Regeneration Fund (URF) is to be made up of two different funds, i.e. Regeneration Insurance Fund (RIF) and Project Development Fund (PDF). RIF should secure the return of the loan in order to share the risk and PDF should provide medium to long term loans for the realization of the projects.

In summary, we can state that Istanbul has entered the process of "re-generation" in order to alleviate the problems associated with urban risks with earthquake risks as the major risk and to provide the necessary environment for healthy development. Within this process, projects are being developed by both the central government agencies and by Greater Istanbul Municipality, partnerships with private sector are sought and are established. New institutions are in place and new legal arrangements are being introduced to facilitate the process.

Istanbul has to prepare for its future well in advance considering the assumptions by the global investors that Istanbul will be "the star of the next decade" and that "urban regeneration projects will provide important opportunities to investors in the next few years". The studies completed or currently underway, the plans prepared and projects developed and new legal arrangements with regard to urban regeneration are important developments for the investors. **EDT**

