

**Real Estate Investment: A Strategic Approach
Fourth Edition, 2023**

Andrew Baum

**Chapter Eleven
The Ankara Case**

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Coy Yolu: background



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C&A

- The C&A department store business was founded by Clemens & August Brenninkmeijer in 1841 in Sneek, the Netherlands and has endured for six generations as a private family enterprise
- C&A operates from 1,900 stores in 21 countries worldwide (Europe, Brazil, Mexico and China) employing 51,000 people
- C&A often owned the buildings they operated from
 - The Primark building, Oxford Street, London
- The property ownership was split from the store operation in 1999 to create Redevco BV, a property company wholly owned by the Brenninkmeijer family




Redevco, 2020

- € 7.5bn assets under management as at 2020
 - 324 properties, 2.7 million m2 GLA, 2,288 leases
 - 84% of the portfolio by value BREEAM certified
- Since 1999, key challenge was to diversify the tenant mix in the portfolio through trading
- Former C&A-occupied assets - the Gap Store in Oxford Street, London, for example – remain in family ownership through Redevco, despite C&A closing its UK operations (109 stores) in 2001
- Redevco has a niche focus on retail real estate and continues to be a major C&A landlord; share of C&A rental income reduced over the years from 95% to < 30%
- Redevco expanded into Eastern Europe, China and then Turkey in late 2006 with the aim to grow to €10bn in assets (from €5bn in UK and Western Europe)



Turkey, 2007

- Excellent demographics
- Strong GDP growth
- Falling inflation rates
- Falling interest rates



With thanks to Dr. M. Emre Çamlıbel and Redevco

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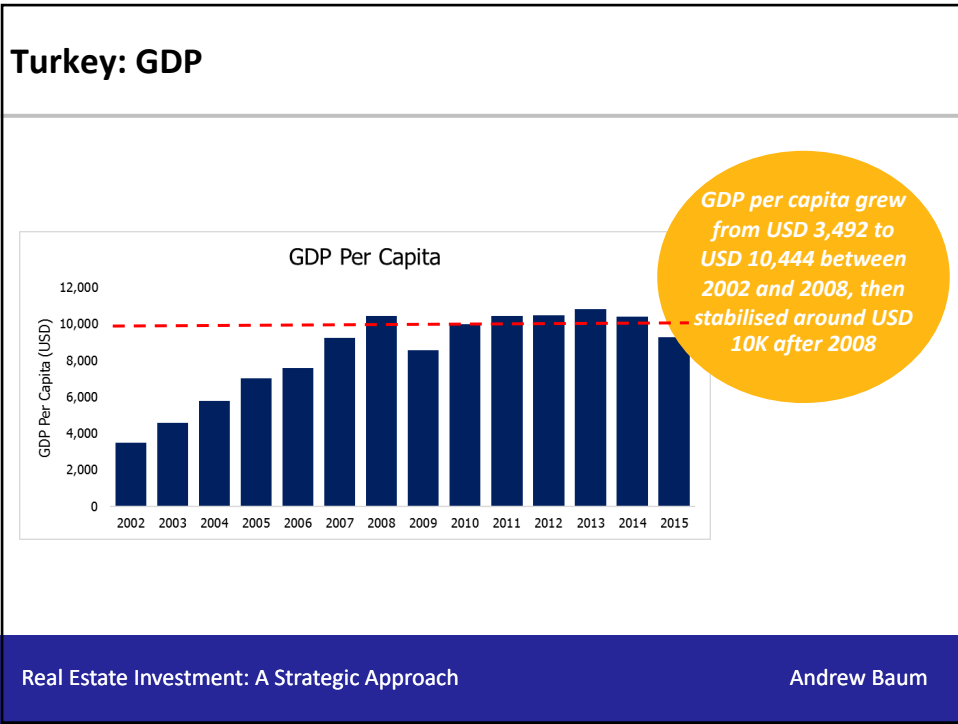
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Turkey: demographics

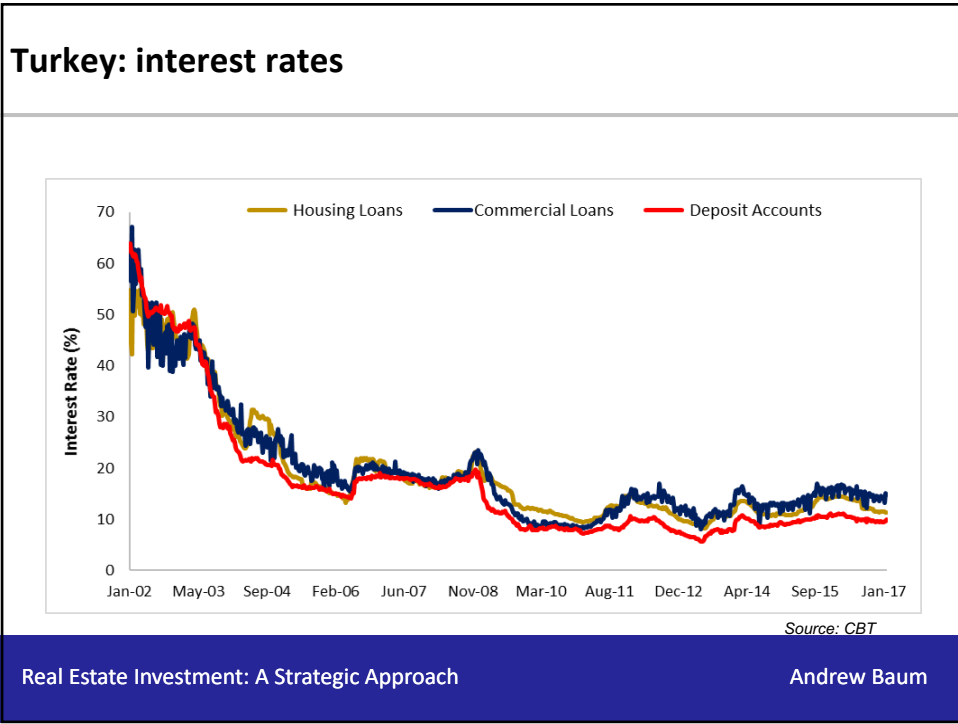
- Population in 2016: 79.8 million**
- Median Age: 31.4**
—
The EU Average: 41.9
- Population growth rate in 2016: 1.36%**
—
The EU Average: 0.25%
- 20+ cities over 1 million population**
- Marriage Rate: 8.0 ‰**
—
The EU Average: 4.2 ‰
- Divorce Rate: 1.6 ‰**
—
The EU Average: 2.0 ‰
- Birth: 2.14 children per family**
—
The EU Average: 1.6
- 2.6 million domestic migration into cities per year & 3 million Syrian Refugees**

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Redevco Turkey, 2007

- Multi Development Corporation (MDC) was a Dutch-origin developer and manager of shopping centres in Europe
- Three Dutch expats, who had previously worked for MDC, left to set up on their own in 2005 in Turkey, hiring one local
- Redevco expanded into Turkey in 2006 - found and took over the ex-MDC team and 5 sites they had sourced
- €200m was eventually invested in 3 schemes in Turkey
- C&A opened in Turkey in 2007
 - eventually opening 24 stores



Ankara

- Ankara was a key target location
- One of the five original sites was in Cay Yolu, Ankara, Turkey
- This area of Ankara was rapidly expanding, supported by a new metro line
- By 2008 there were plans for 14-15 shopping centres serving a population of 2 million

Construction

- Redevco Turkey employed Gurtas, a local contractor, paid in Lira including a profit share
- New metro station to be built within centre
 - local authority promised opening by Q4 2008

GÜRTAS
İNŞAAT



Cay Yolu: deal summary

- Gross lettable area: 50,000 sq m
- Estimated value on completion: €170m
- Estimated cost: €140m
- Construction start: October 1 2007
- Planned completion: April 1 2009
- Construction time: 19 months

Traditional valuation: Coy Yolu

- Size: 49,300 m² GLA
- Rent: €26/m²/month
- Market rental value: €15,250,000
- / Cap rate: 9 %
- Capital value: €170,000,000
- Estimated costs: €140,000,000
- Pre-tax profit: €30,000,000
- Development IRR: 22%

What could go wrong?

Cay Yolu: what happened?



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Cay Yolu: letting

- Anchor tenants (Carrefour, Cinemars - Turkish cinema, C&A, Inditex)
 - very important to get Inditex into this scheme
- Samsung's first store in Turkey before, Electroworld (Turkish), plus food court Burger King, KFC, plus locals
- Turnover rents, but truthful records not always provided
- Rents had to be chased (locals) - contract seen as the beginning of a new negotiation
- Redevco had no other local relationships to use as leverage

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Tenants and leases

	Space sq m	Rent pm	Term yrs
Que	229	35	10
Divarese	126	35	10
Oysho	249	20	15
Nike	286	45	10
T-Box	36	35	10
Zara	1745	15	15
Teknosa	505	25	5
Zara Home	429	20	15
Massimo Dutti	436	20	15
Network	337	35	15
Stradivarius	347	20	15
Benetton	419	35	10
Fabrika	399	35	10
Pull&Bear	481	20	15
Bershka	633	20	15
ITN Farklı Faal	42	65	10
Avea	90	52	10
G Lingerie	134	45	10
Emo Optik	65	70	10
	6988	34.05	11.84

Cay Yolu: leasing

- Leasing in 2008-9 in an increasingly weak market
 - recession (-3% growth) in 2009
- Leasing in Euros only but many special conditions agreed
 - rents for some tenants in liras
 - tenants negotiated caps on service charges
 - caps agreed - tenants pay in Lira if Lira depreciates to above €2
- Centre opened in September 2009
 - by 2009 29 new centres were in the pipeline – doubling floor space
- Lira went from €1.75-1.80 to above €2.1 in 2009
 - rents converted to lira

Infrastructure

- New metro station to be built within centre
 - local authority promised opening by Q4 2008 - opened early 2011
- The basement area was left undeveloped pending the metro opening
 - Gordion opened with only 43,500 m² GLA (of 49,300)
 - Expected annual rent loss of ca. €2 million
- Basement level eventually filled 2011 by local DIY operator
 - Cumulative loss c. €5m

Construction



2008: €10m cost over-runs

- Civil works (2%)
 - unanticipated additional steel works (49 ton steel bridge plus 18 ton structural bridge)
- Architectural works
 - increase in the furnishings (new skylight cleaning equipment, x-ray equipment and car park system)
- Mechanical works (3%)
- Conveying equipment (9%)
 - increase in the number of escalators
- Infrastructure works
 - increase in connection charges and connection road costs
- The diversion of the main water channel
- Tenant incentives

"We specifically decided, after we had already tendered and the works had started, that we wanted to incorporate numerous additional sustainability measures in order to achieve a BREEAM Very Good rating (which was just starting up at the time). We ended up adding big CHP installations (combined heat and power) to try to generate as much electricity as we could on-site, especially for the common area requirements, but also for the individual shop units"

2009: out-turn v budget

- Valued at €160m
 - Rents down €27 to €24
 - Investment value decreased by €9.5m compared to budget
- Construction cost €150m
 - €10m above budget
- Profit on cost 7% v 22% - in Euros
- Development IRR 7.5% after taxes and profit share – in Euros
- Was this enough?

2010: valuation and IRR

Year	Costs	Income	Sale	Total
2007	-50			-50
2008	-50			-50
2009	-50			-50
2010		13.75	160	173.75
			IRR	7.5%
			EM	1.16

Financing

- Initial plan had been 65% debt, 35% family equity
- Growing financial crisis meant Redevco became ultra cautious
- Redevco slowed down exposure to new markets...
- ...and did not now need to use leverage
- Deal was all equity

2010: out-turn with debt?

Year	Equity in	Income	Interest	Sale	Total
2007	-17.5		-14.625		-32.125
2008	-17.5		-14.625		-32.125
2009	-17.5		-14.625		-32.125
2010		13.75		62.5	76.25
				IRR	-11.3%
				EM	0.79

Sale



2010: decision to sell

- Cay Yolu took 18 months to establish itself, now trading well
 - Area improved and became more central
- Redevco decided to pull out of Turkey and China, 2010
- Sale process commenced 2010
- Turkish lira at same exchange rate against Euro as 2005
- Financials as at 2010? c.€10m profit

2010: valuation and IRR

Year	Costs	Income	Sale	Total
2007	-50			-50
2008	-50			-50
2009	-50			-50
2010		13.75	160	173.75
			IRR	7.5%
			EM	1.16

2012: asset sold

- Sold all 3 assets to Blackstone with management in 2012
 - Blackstone also bought MDC
 - 10 schemes in Turkey in combined platform
 - CEO ended up back where he started - but now in charge
- Deal was in Euros
- The sale took two years to complete
- Currency depreciated: Euro price cut - profit reduced to zero
- New political risks 2012-7

2012: the out-turn

Year	Costs	Income	Sale	Total
2007	-50			-50
2008	-50			-50
2009	-50			-50
2010		13.75		13.75
2011		12.5		12.5
2012		10	150	160
			IRR	5.9%
			EM	1.24

2012: out-turn with debt?

Year	Equity in	Income	Interest	Sale	Total
2007	-17.5		-14.625		-32.125
2008	-17.5		-14.625		-32.125
2009	-17.5		-14.625		-32.125
2010		13.75	-14.625		-0.875
2011		12.5	-14.625		-2.125
2012		10	-14.625	52.5	47.875
				IRR	-17.3%
				EM	0.48

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Lira v dollar

US dollar to Turkey lira

TURKISH LIRA

SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

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2012 on - reflections

- Shopping centre development exploded: Ankara had higher densities than EU average; rents stuck at US\$20 per sq m per month
- Getting out was a big challenge – two years to sell
 - Tax and corporate issues – winding up businesses took several years
- C&A closed its Turkey operations (24 stores) in 2016
- September 2018: no more Euro rents
 - *Turkey rules that property sales, rental contracts and leasing transactions must be made in lira from now on, halting the use of foreign currencies for such deals in a fresh step to support the ailing local currency*
- Was this a good experience for Redevco?
- Is the buyer happy to be in Turkey?