

Deloitte.



REPUBLIC OF TURKEY PRIME MINISTRY
INVESTMENT SUPPORT AND
PROMOTION AGENCY



**YOUR ONE-STOP-SHOP
IN TURKEY**

invest.gov.tr



REPUBLIC OF TURKEY PRIME MINISTRY
Investment Support and Promotion Agency of Turkey

**REAL ESTATE
INDUSTRY REPORT**

JANUARY 2010



CONTENTS

1.	Executive Summary	3
2.	Sector Overview	4
2.1	Global Sector	4
2.2	Domestic Sector	5
2.2.1	Overview	5
2.2.2	Housing and Residential Market	6
2.2.3	Office Market	10
2.2.4	Retail Market	12
2.2.5	Logistics Market	13
2.2.6	Main Players	14
2.3	Investment Opportunities	15
2.4	SWOT Analysis	19
2.5	Sector Establishments and Institutions	20
	LIST OF FIGURES	21
	ABBREVIATIONS	22



1. Executive Summary

The US and the European real estate markets have been significantly affected by the recent sub prime crisis and the global economic recession. Based on a Knight Frank report¹ in 2009, the supply of new space in the US is at the lowest level in the survey history. Also purchase mortgage originations which were almost US\$ 1,500 billion in 2005 decreased to US\$850 billion in 2008. The picture is similar in many European property markets. The IMF expects that GDP in the Euro zone will have declined by 3.2% in 2009. As a result of the contraction, reduction in demand and a downward trend in house prices have been observed all over Europe. On the other hand, the real estate markets in emerging markets like Turkey and Russia are still promising although they also have been notably affected by the global crisis.

As a developing country, Turkey has been going through wide-scale urbanization as a result of the rapid industrialization since 1950's. The increase in population and migration from rural to urban areas triggered rapid growth in the cities. Based on market requirements, the real estate market can be basically classified into the following classes in Turkey: Housing & Residential Market, Office Market, Retail Market and Logistics Market.

After the Turkish banking crisis in 2001, the real estate sector has started a prolonged recovery period. The number of apartment units authorized by construction permits rose rapidly from 2002 to 2006, with a CAGR of 21%.² Housing loans increased from TL 3.5 billion in 2004 to TL 37.5 billion in 2008.³ Office stock (m²) in Istanbul has risen from 2002 to 2006 with a CAGR of 10.7%. The number of modern shopping centres has increased from 44 to 190 between 2000 and 2008. On a square meter basis, construction permits for warehouses increased with a CAGR of 22% between 2002 – 2007.⁴

The sub-prime crisis which intensified in the US in September 2008 quickly spread globally. Turkey has also been negatively affected, experiencing real GDP growth of only 1% in 2008 (due to contraction in the last quarter of the year) and an expected contraction of 6% in 2009.⁵ The number of apartment units authorized by construction permit has decreased by 12% in 2008 and 17% in the first 9 months of 2009 compared to the same period of the previous year.⁶ The average vacancy rate in the Istanbul office market has increased from 4.87% to 14% in the first half of 2009.⁷ Average rent for warehouses has decreased and vacancy rates have increased.

However, the depressed market has started to improve in the second half of 2009. The number of apartment units sold in the second quarter of 2009 increased by 72% compared to the same period of 2008.⁸ Considering the recent development in sales and regarding the growth potential of the sector, it can be expected that the Turkish property market will enter another improvement phase after the full recovery of the economy.

Key factors behind the growth potential of the real estate market can be listed as follows;

- A large number of low quality houses will be replaced by new ones or are expected to be demolished. This also puts pressure on housing supply.
- The mortgage loan system is recently introduced in Turkey and has huge growth potential
- The immature retail market brings significant growth prospects for retail property.
- Houses that are illegally constructed will be demolished which will directly reduce the supply.

¹ Knight Frank Global Real Estate Market Report 2009

² GYODER Real Estate Sector Report, 2008

³ The Banks Association of Turkey

⁴ GYODER Real Estate Sector Report, 2008

⁵ Economist Intelligence Unit

⁶ GYODER Real Estate Sector Report, 2008

⁷ Colliers International Turkey Real Estate Sector Report Second Half , 2009

⁸ Turkstat



2. Sector Overview

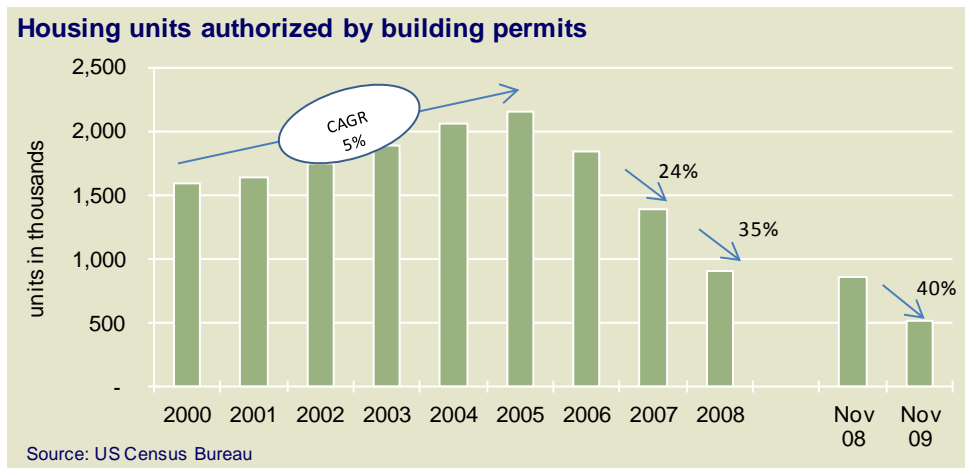
2.1 Global Sector

The US Market

The recent sub prime crisis and global economic recession significantly affected property markets across the world starting from the second half of 2008. New housing starts almost ceased, the demand for office space reduced, and vacancy rates increased all over the globe.

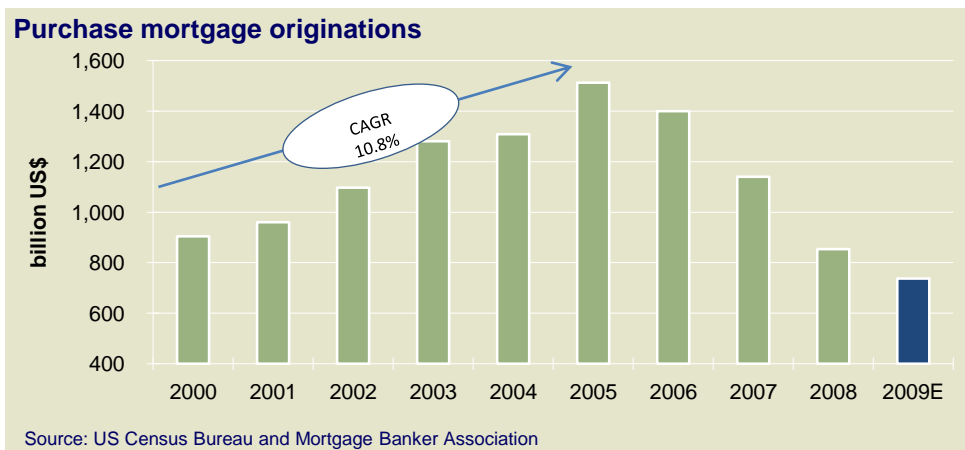
The number of building permits issued is a good leading indicator of housing supply. In the US, housing supply has decreased drastically after 2006. Based on the Knight Frank Global Real Estate Market Report, the supply of new space in the US is at the lowest level in the history of the survey. The reduction in demand resulting from the sub prime crisis and the increase in unemployment together caused the low supply in the US.

Figure 1 – Privately Owned Housing Units Authorized By Building Permits in USA



In the US, purchase mortgage originations, which had continuously risen with a CAGR of 3.4% between 2000 - 2005, started to decrease drastically after 2006. They decreased by 25% in 2008 and according to the Mortgage Banking Association are expected to have decreased by a further 14% in 2009. However it appears that home sales, residential construction and house prices have started to improve and stabilise in the last quarter of 2009.

Figure 2 - US Purchase Mortgage Originations





The decline in house prices, reduction in mortgage interest rates, slowing job losses and the extension of the home buyer tax credit are the major factors believed to lie behind the recovery. Following these corrections and the recovery of the economy, housing supply, housing demand and home sales are all expected to improve in the US in 2010.⁹

The European Market

The European economy was also affected significantly by the recent global economic downturn. Most economies in the Eurozone experienced a recession in 2009. The IMF expects that GDP in the Euro zone will have declined by 3.2% in 2009.

The impact of recession has immediately affected property markets in Europe. The RICS¹⁰ European Housing Review 2009 highlights the recent situation of the European housing market as follows:

- A downward trend in house price all over Europe. The Central and Eastern European Countries, the United Kingdom, Ireland and France all showed significant declines
- There is a decline in the demand for housing as opposed to a high level of supply
- There is a decrease in housing loans (mortgage loans) availability as a result of the credit crunch and the stagnation in the European economy
- However, real estate market in emerging markets like Turkey and Russia is still promising although affected by the global crisis.

2.2 Domestic Sector

2.2.1 Overview

As a developing country, Turkey has been going through wide-scale urbanization as a result of the rapid industrialization since 1950's. Increase in population and migration from rural to urban areas have triggered development in the cities. Today, based on results of the Emerging Trends in Real Estate Survey, Istanbul is ranked as the third most attractive real estate investment market among all European Cities.¹¹

There are several factors driving or affecting the infrastructure requirements in Turkey. These factors, amongst others, include the following:

- Population increase,
- Continued migration from rural to urban areas,
- Natural disasters,
- Renewal of existing housing,
- Modernization and the development of the retail market,
- Increase in the number of multinational and large national companies, leading to office space requirements in the commercial cities, and
- The geographical position of Turkey being a bridge between Europe, Central Asia and the Middle East puts emphasis on the development of the logistics sector and related construction.

⁹ Moody's economy.com

¹⁰ Royal Institution of Chartered Surveyors; RICS provides the world's leading professional qualification in land, property, construction and the associated environmental issues.

¹¹ ULI and PWC (Urban Land Institute and Price Waterhouse Coopers), 2009

Based on the requirements listed above, the Turkish real estate market can be divided into the following main classes:

- 1) Housing & Residential Market
- 2) Office Market
- 3) Retail Market
- 4) Logistics Market

2.2.2 Housing and Residential Market

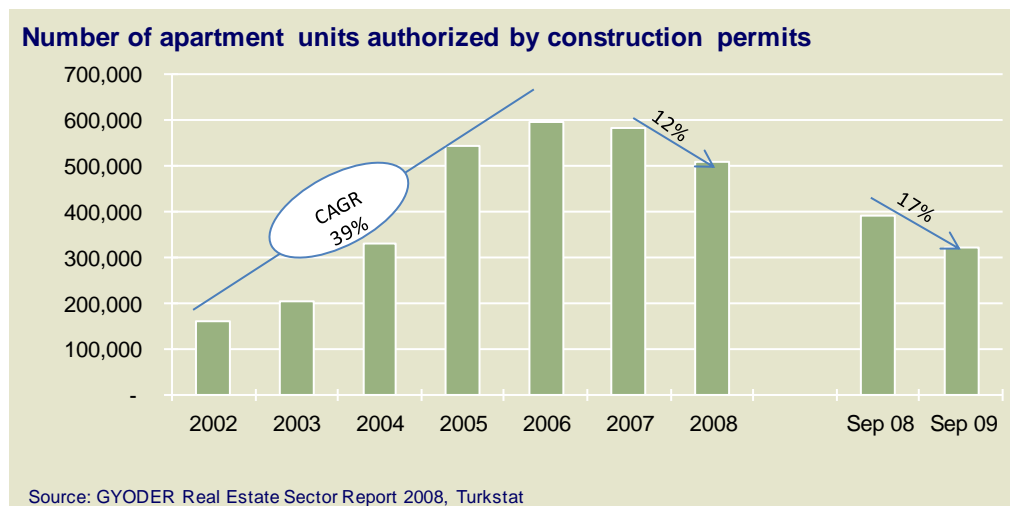
Since 1950's, the increasing population, relative economic conditions and availability of resources caused a migration from rural areas to the biggest and the most industrialized cities of Turkey, such as Istanbul, Ankara and İzmir. Particularly in Istanbul, the volume of construction and housing prices are significantly higher than other cities in Turkey.

Population increase, continued migration from rural to urban areas, renewal of existing housing are the main factors that affect the housing requirement in Turkey. On the other hand, income level is another factor that affects demand. Investing in real estate is the traditional investment instrument for Turkish people since Turkey has a narrow stock exchange market and historically the return on investment on real estate has been relatively higher particularly in periods of economic development.

At the end of 2008, the total housing stock in Turkey consists of 16.8million apartment units.

After the banking crisis in 2001, the real estate sector has started a recovery period. Construction permit is the licence that allows to start the construction. The number of apartment units authorized by a construction permit rose rapidly from 2002 to 2006, with CAGR of 39%.

Figure 3 - Number of Apartments Receiving Construction Permits



Due to a sharp decline in the fourth quarter, Turkey experienced real GDP growth of only 1% in 2008 and the recession continued with an expected contraction of 6% in 2009.¹² The real estate sector is one of the leading sectors immediately affected by a slowdown or contraction of the economy. The number of construction permits decreased by 12% in 2008 and by 17% in the first 9 months of 2009 compared to the same period of the previous year. The amount of housing loan originations also decreased by 9.7% when the first 9 months of 2008 and 2009 are compared.¹³

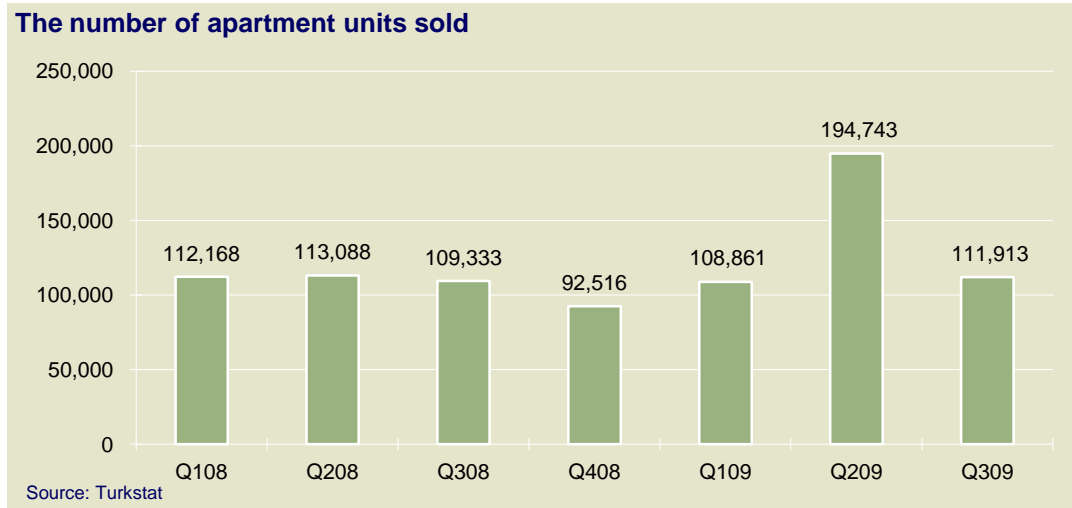
¹² Economist Intelligence Unit

¹³ TBB



Although the number of construction permits and housing loans originations have decreased in the first 9 months of 2009, the number of apartment units sold in the same period in Turkey has recorded an increase of 25% compared to the same period of 2008.

Figure 4 - Number of Apartment Units Sold



According to Colliers International, the housing market started to improve in the second half of 2009.¹⁴ Indeed even in the second quarter of 2009 the number of apartment units sold was surprisingly robust. The aggressive decreases in interest rates in 2009 are believed to have been the leading reason behind the increase in sales. Low interest rates made real estate investments more attractive for both individual and corporate investors. Colliers International¹⁵ indicates that although there is a gap remaining between the asking and bid prices from owners and sellers, the stagnant period in the sector appears to have ended.

The gap between housing demand and supply is another positive indicator for the future growth of the sector. The results of GYODER's study on housing requirements are that supply still does not meet demand in Turkey¹⁶. However the situation should be interpreted as being that the number of house units constructed legally is far from meeting the demand. Sector experts such as Colliers and Buldecon state that the deficit is mostly met by unlicensed construction, a traditional feature of the sector in Turkey.

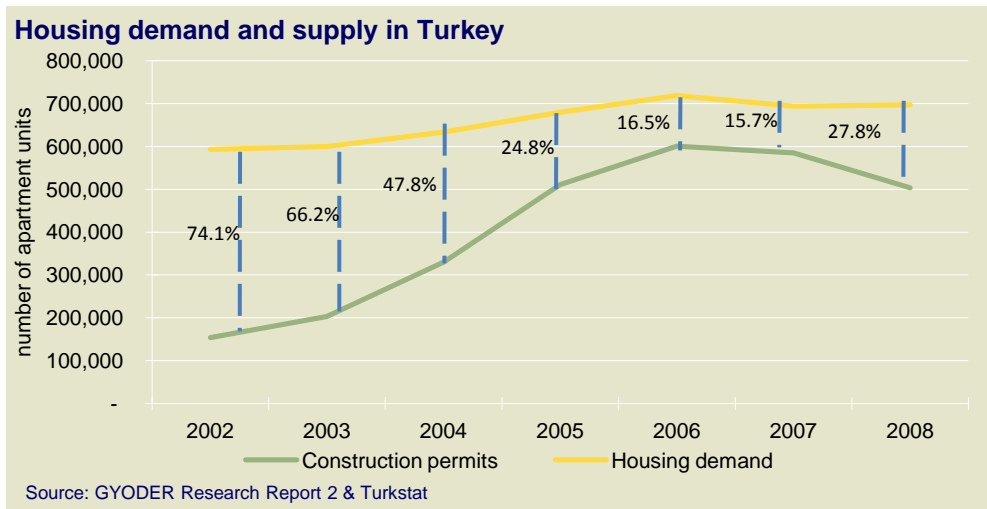
¹⁴ Colliers International Turkey Real Estate Sector Report, 2009

¹⁵ Colliers International Turkey Real Estate Sector, 2009

¹⁶ GYODER Real Estate Research Report 2, 2009



Figure 5 - Turkish Housing Demand and Supply (Number of Apartment Units)



The significant amount of illegal construction is a signal for the need for restructuring in future. Those illegal houses are of low quality and their future is questionable due to their illegal status. These houses may be demolished or the owners may move to higher quality ones as their income level increases. It has been historically observed that the government has demolished these slum houses in the context of restructuring in the cities. As a result of this probable shortage in supply, growth can be expected in the construction of higher quality structures and an increase in housing prices. Since the real estate sector in Turkey experienced an average 40% annual growth rate after the banking crisis between 2002-2006, one can again expect a significant growth rate in the sector after the recovery from the recent economic downturn.

Housing Finance

The sources of housing finance are both institutional and non-institutional in Turkey. Project debt finance, housing loans and mortgages are the institutional financing, while cooperative housing and equity sharing agreements are the non institutional alternatives.

Housing cooperatives are legal entities established to provide their members with residential flats or houses. These entities are traditionally one of the most favoured methods of acquiring a property among Turkish citizens, generally of middle income levels.

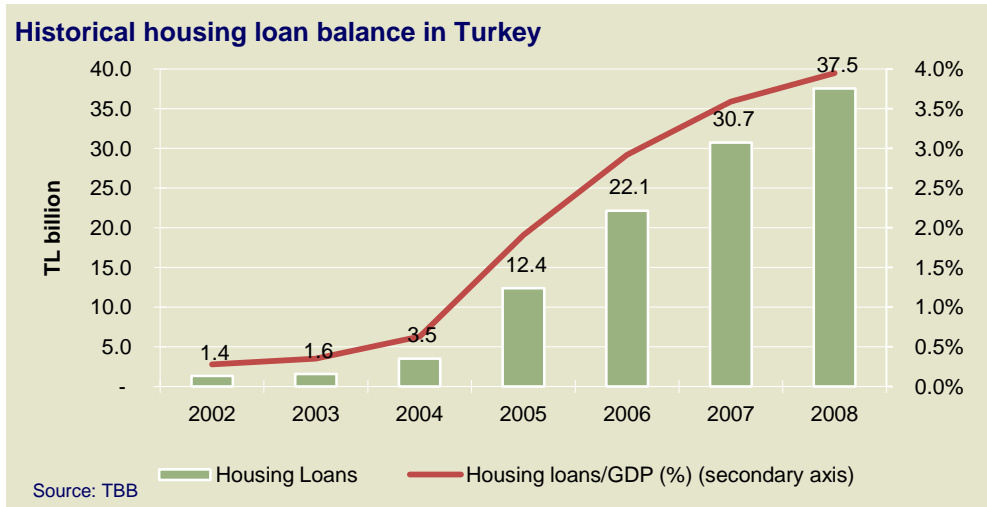
Equity sharing agreements are also widely used in Turkey. In this arrangement the land owner offers his land to the contractor in return for a portion of the equity interest (for example, in return for half of the apartments that will be built in the development).

In project debt financing, the project developer applies to a financial institution which agrees to provide a secured loan of appropriate maturity and terms.

The most rapidly growing source of housing finance in recent years is housing loans, but from a very low base. In line with the decrease in inflation and interest rates, housing loans significantly increased after 2005. The percentage of housing loans, which had been less than 1% of GDP before 2004 has increased to 4% in 2008.

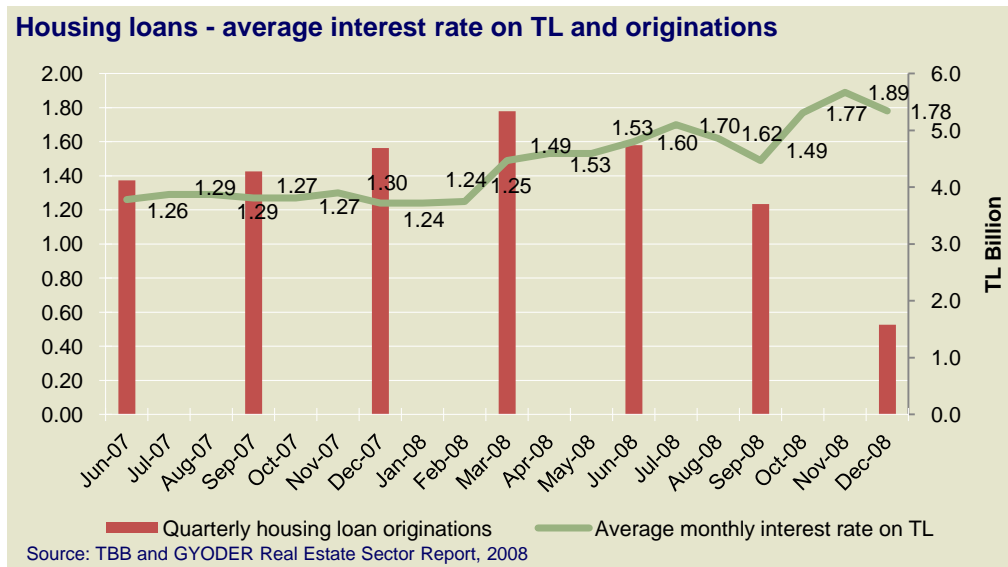


Figure 6 - House Loans



The level of new housing loans decreased starting from the last quarter of 2008 a result of the recent downturn and the increased interest rates during the crisis period. The negative impact of the increase in financing cost continued in the first half of 2009. Starting from the second half of 2009, interest rates have reduced and this has positively affected housing loans and apartment unit sales.

Figure 7 - Monthly Interest Rates on Housing Loans and Quarterly Originations



Monthly interest rates on Turkish Lira house loans have been reduced to around 1.25% - 1.30% in the second half of 2009 from the 1.89% reached in November 2008. Starting from August, some Turkish banks have reduced their monthly interest rates below 1%. These recent adjustments in the rates should positively affect sales and the real estate sector in the following periods.¹⁷

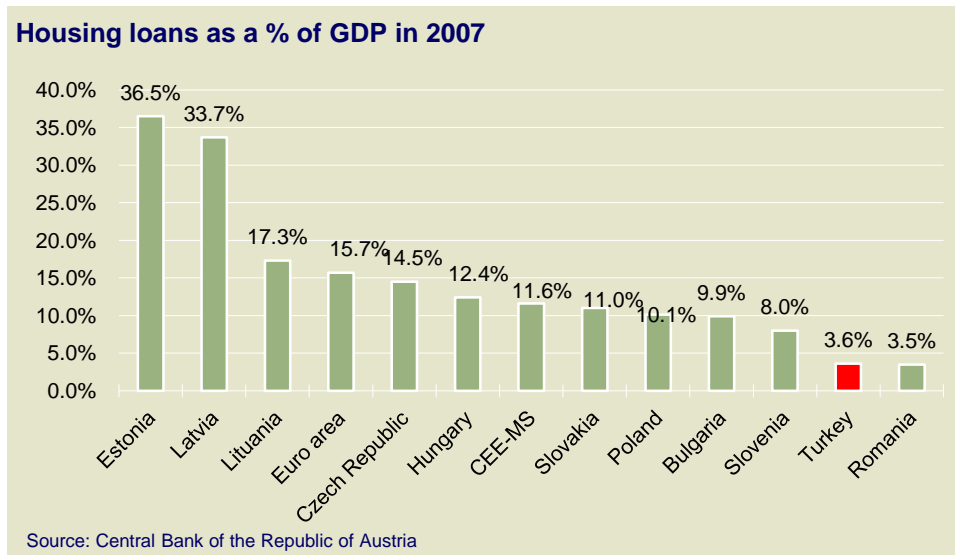
Total housing loans are far lower than the Central and Eastern European EU Member States (CEE-MS) and the average in the Euro Area. Unlike some Central European countries, the level of housing loans in Turkey was not large enough in 2008/09 to cause any instability or risk to the Turkish banking system (which did not need any rescue and remains well capitalized).

¹⁷ Colliers International Turkey Real Estate Sector Report, 2009



High interest rates and short maturities up to 5 years are the basic reasons for the low level of housing loans. In addition, a significant part of the residential stock in Turkey has no construction licence. Low income groups who purchase unlicensed housing cannot utilize the housing loans since it is not legally permitted.

Figure 8 - Housing Loans / GDP in 2007 (%)



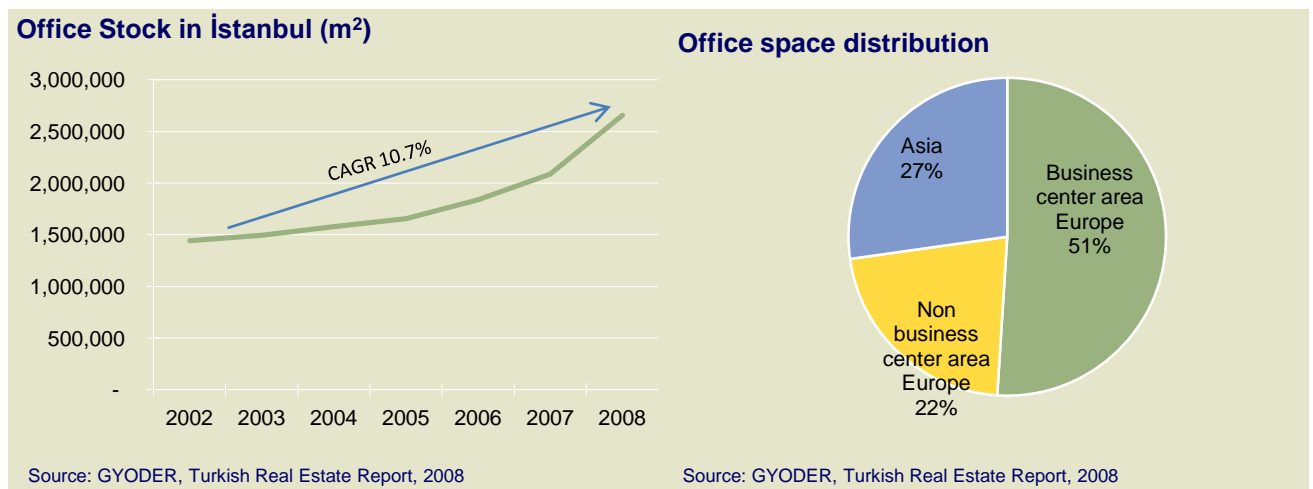
In the light of these problems, the government has introduced the Mortgage Law in 2007 in order to increase the level of housing loans by allowing longer maturities and tax savings.

The current low level of housing loans indicates big growth potential for the mortgage system which is expected to have positive effects on the real estate sector in Turkey.

2.2.3 Office Market

Istanbul, Izmir and Ankara are the major office markets in Turkey. However, the office market in Istanbul is more developed and more similar to international standards. Offices are generally classified as A, B or C class based on the price and location. The office market has been developing since 2002 as the number of multinational companies, foreign investments and large national companies has grown in Turkey.

Figure 9 - (a) Office Stock in Istanbul (m2) and (b) Distribution in Istanbul

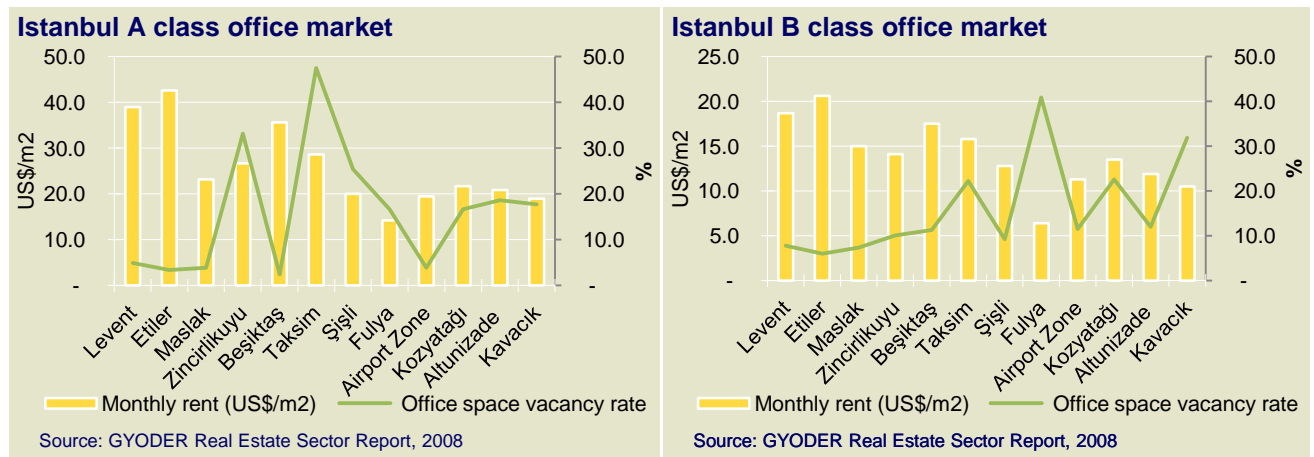




Office stock in Istanbul has risen from 2002 to 2008 with a CAGR of 10.7%. The European side holds almost 75% of the office stock in Istanbul. Maslak, Levent, Beşiktaş and Şişli are the major business centres and the Airport zone (Güneşli – Yeşilköy – Topkapı) is the non business centre area on the European side. On the Asian side, Kozyatağı, Ataşehir and Ümraniye are the major office areas in Istanbul.¹⁸

Based on the Colliers 2009 Real Estate Sector Report, A class office stock has been risen by 144,700 m² in the first quarter of 2009. The report indicates that office supply will increase mostly in the Şişli, Levent, Kozyatağı and Ümraniye areas in the upcoming 2 – 3 years.

Figure 10 - (a) Istanbul A Class Office Market (4Q08) & (b) Istanbul B Class Office Market (4Q08)



Among the A and B class offices, Levent, Etiler and Maslak have the lowest vacancy rates and the highest rents per month. These areas are key business centres in Istanbul, and the rents vary between US\$ 35 - US\$ 45 per month.

The above picture has changed in 2009 with the recent developments. The average vacancy rate in the Istanbul office market has increased from 4.87% to 14% in the first half of 2009.¹⁹ The average A class rent per month has decreased by 10% in the first half of 2009. Colliers International estimated that the fundamentals of the office market will change in 2010 when the average vacancy rate may exceed 15%. Rents will be readjusted and lessees will gain more power over the conditions in rent contracts.

¹⁸ GYODER Real Estate Sector Report, 2008

¹⁹ Colliers International Turkey Real Estate Sector Report Second Half 2009, 2009

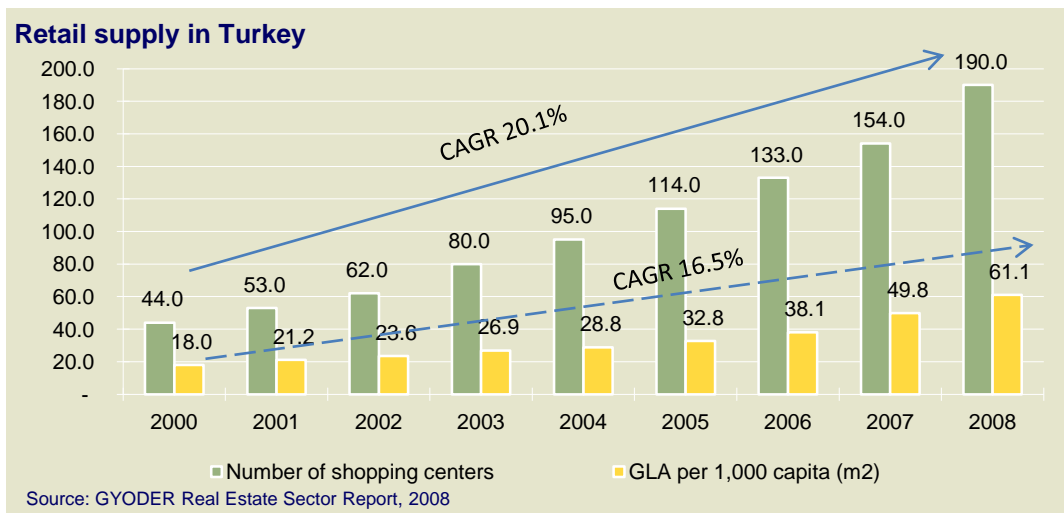


2.2.4 Retail Market

The retail part of the real estate sector has gained great significance in recent years with the increasing number of organized retailers (shopping centres). Based on revenue, the percentage of organized retailers in the total retail market has increased from 28% to 38% between 2002 and 2008. At the end of 2008, the total retail market has a total revenue of US\$ 241 billion.²⁰

As opposed to the office market, the retail property market has spread all over the country, not limited to the biggest cities. There are a total of 190 shopping centres built in Turkey since 1988, with the development peaking from 2000 to 2008 with CAGR of 20.1%.

Figure 11 - Retail Supply in Turkey



The gross leaseable area (GLA) of the shopping centre market has reached 5.03 million m² with an addition of 160,000m² floor space in the first half of 2009.²¹ Compared to the past very rapid growth of GLA, there has been a considerable slowdown in 2009. Despite the slowdown, retail property is still growing due to the continuous development of the sector. In the pipeline league in Europe, Turkey occupies the leading position in front of countries such as Russia, France, Italy, Poland and Romania.²² Shopping centre completions in the Anatolian market represented 67% of the total shopping centre floor space added in the first half of 2009.

Gross leaseable area per thousand capita is a good indicator of the development and a comparison indicator for the retail market. This figure in Turkey has increased from 18 m² to 61 m² between 2000 and 2008. Ankara and Istanbul are the leading cities in GLA per 1,000 capita with 176 m² and 150 m², respectively.²³

Average shopping centre provision per 1,000 habitants is still very low in Turkey with 61m² compared to the EU-27 average of 214m². Turkey's average is also below Central and East European countries such as Czech Republic, Poland, Slovakia and Hungary.

²⁰ AC Nielsen

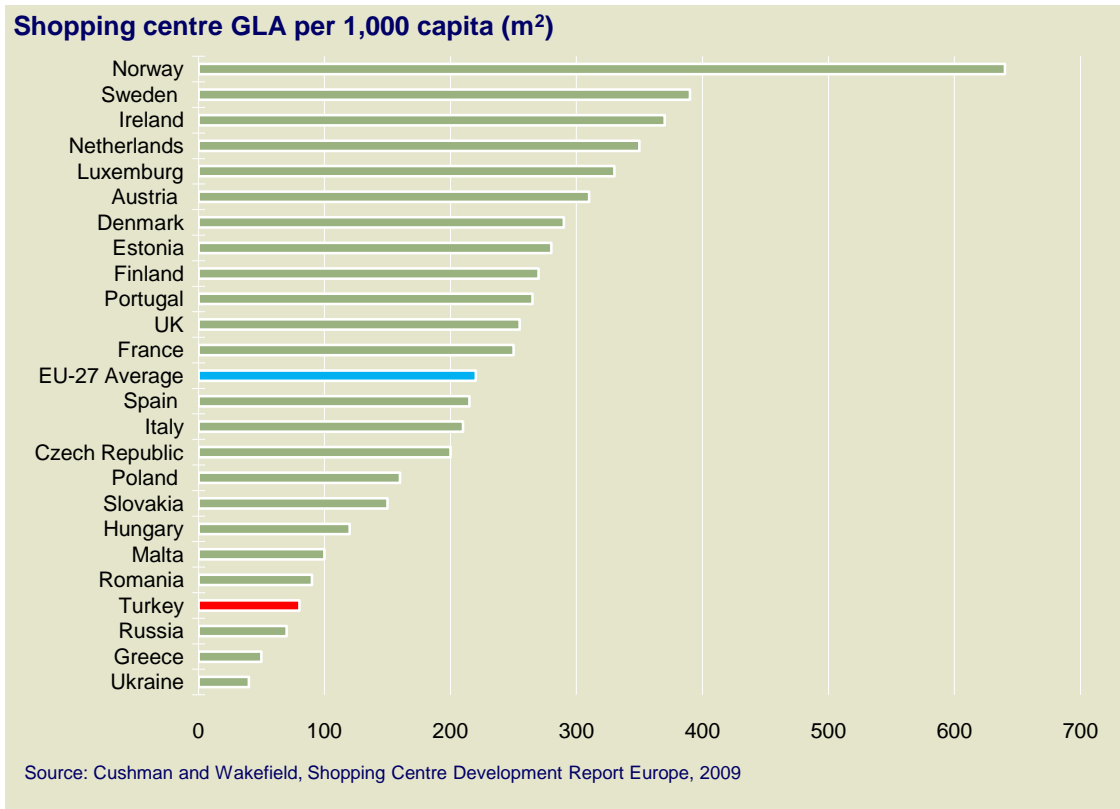
²¹ Jones Lang Lasalle Turkey Real Estate Overview , H1 2009

²² Cushman and Wakefield, Shopping Centre Development Report Europe, 2009

²³ Jones Lang Lasalle Turkey Real Estate Overview, H1 2009



Figure 12 - Shopping Centre GLA per 1,000 capita (m²) in H1 2009



The retail markets in Turkey and Russia are the fastest growing markets in Europe. The GLA per 1,000 capita in Turkey is expected to be 118 m² by the end of 2010.²⁴ In addition, the organized retail market as a percentage of total retail is still very low in Turkey. Therefore, it is not optimistic to expect substantial further growth for the future.

2.2.5 Logistics Market

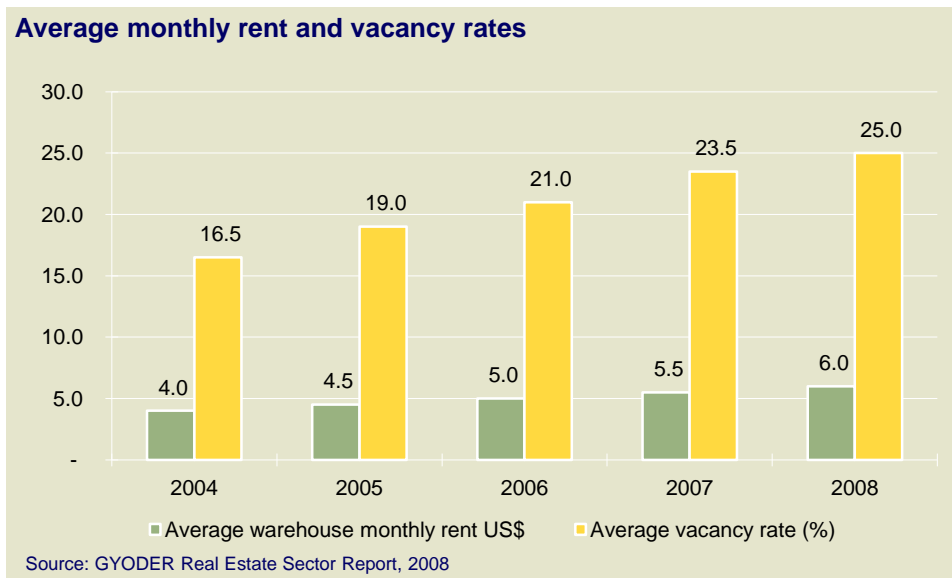
The logistic market is one of the most rapidly growing markets in Turkey, a country that is at the crossroads of intercontinental transportation routes between Central Asia, Europe, the Middle East and North Africa [See also the separate report on Logistics in this series]. More than 60% of Turkey's logistics activity is operated from Istanbul. The industrial areas in Istanbul are mostly situated along the main highways crossing the city, the TEM and the E5. In addition to Istanbul, surrounding cities of Izmit and Tekirdağ are the main logistic centres of Turkey.

The rent levels for warehouses have increased in recent years although vacancy rates have increased during the same period as well. It is thought that average prime rents in Istanbul decreased by 15% in the first half of 2009.²⁵ The reason is that the logistic sector's performance is highly correlated with economic conditions. The recent economic downturn led to a reduction in the production and trading activity which increased vacancy rates in the warehouses.

²⁴ Jones Lang Lasalle Turkey Real Estate Overview – H1 2009, 2009

²⁵ Jones Lang Lasalle Turkey Real Estate Overview – H1 2009, 2009

Figure 13 - Warehouse Average Rent and Vacancy Rate in Istanbul



However, numerous international logistics companies have entered Turkey in the last few years including DHL, CEVA Logistics, Kühne Nagel and Gergo. More may enter following the recovery of the global economy. Due to the geographical significance of Turkey, there is room for the development of the logistic market in the medium and long term to support the increasing activity in the region.

2.2.6 Main Players

There are 14 Real Estate Investment Trusts (REITs) in Turkey. According to the Capital Market Board Communiqué on Principles Regarding Real Estate Investment Companies, REITs are allowed to invest in buildings, land, development projects, real estate backed securities and, to a limited extent, other capital market instruments such as government bonds and securities. REITs should be registered to the Capital Market Board and should be quoted on the Istanbul Stock Exchange.

The number of REITs and the value of their portfolio has increased throughout the past. Between 2002 – 2006, the number of REITs remained constant but the total value of their portfolios almost tripled from US\$ 661 million to US\$ 1.8 billion. In 2008, the number of REITs increased to 14 and the total value of their portfolio reached US\$ 2.8 billion. On the other hand, global recession and the downturn in the global finance markets have hit the Istanbul stock exchange and the market capitalization of REITs drastically decreased from US\$ 2.7 billion to US\$ 763.3 million from 2007 to 2008.

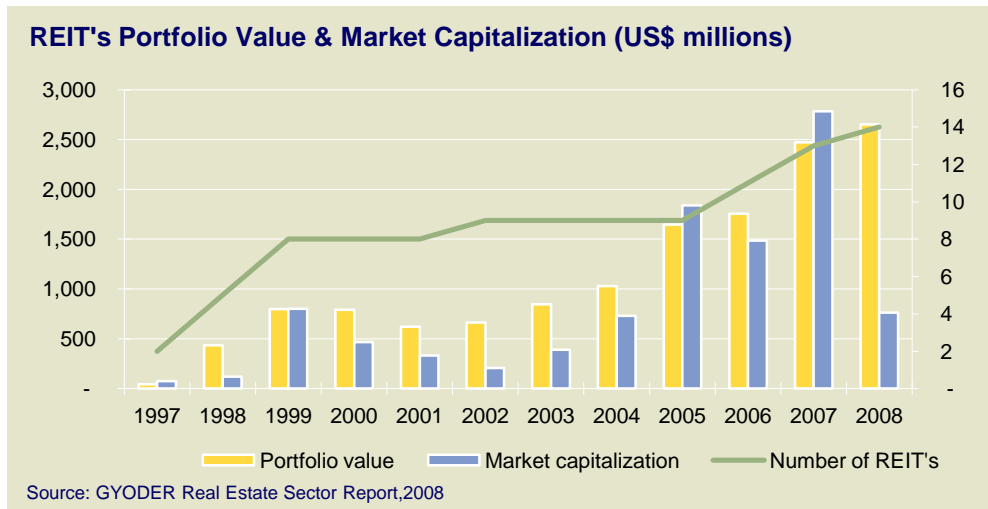
Figure 14 - REIT's in Turkey

Turkish REIT Information as of 31.12.2008			
	Portfolio value per share (TL)	Net portfolio value (US\$m)	% breakdown of net asset value
Akmerkez REIT	68.4	619.5	21.9
Alarko REIT	44.7	162.0	5.7
Atakule REIT	2.1	117.2	4.1
EGS REIT	0.4	12.9	0.5
IS REIT	1.8	109.4	3.9
Dogus GE REIT	2.7	787.6	27.8
Nuroi REIT	5.3	34.9	1.2
Özderici REIT	1.4	7.2	0.3
Pera REIT	1.1	67.3	2.4
Saglam REIT	1.2	44.8	1.6
Sinpas REIT	7.7	698.6	24.7
Vakif REIT	4.8	60.6	2.1
Y and Y REIT	0.7	15.9	0.6
Yapı Kredi Koray REIT	3.4	89.9	3.2
Total		2,827.8	100.0

Source: GYODER



Figure 15 - REIT's Portfolio Value and Market Capitalization



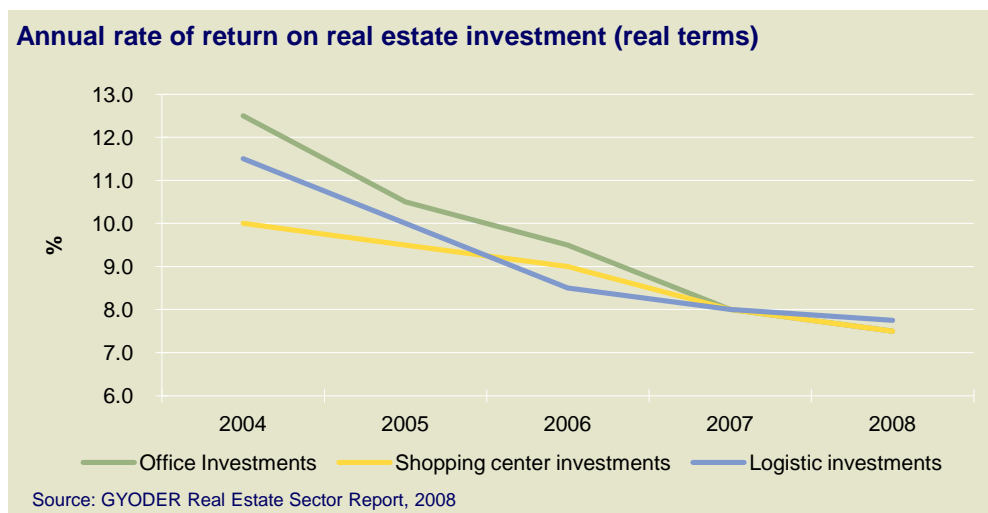
In Turkey, one important role of REIT's is to eliminate the unrecorded real estate market and to bring transparency to the real estate sector. This role is achieved by the help of appraisal firms. Transactions and the portfolio valuation of REIT's are based on appraisal reports from independent appraisal firms which are certified by the Capital Markets Board.

2.3 Investment Opportunities

Since the beginning of 2002, an organized and international property market has started to develop in Istanbul. Accordingly, the interest of local and foreign investors in the property market in Istanbul progressively increased every year.

Return on real estate investment in Istanbul has reached a peak between in 2003 and 2004 with an average annual return of 12.5% in real terms for office investments, 10% for shopping centre investments and 11.5% for logistic property investments.

Figure 16 - Istanbul Annual Rate of Return on Real Estate Investments

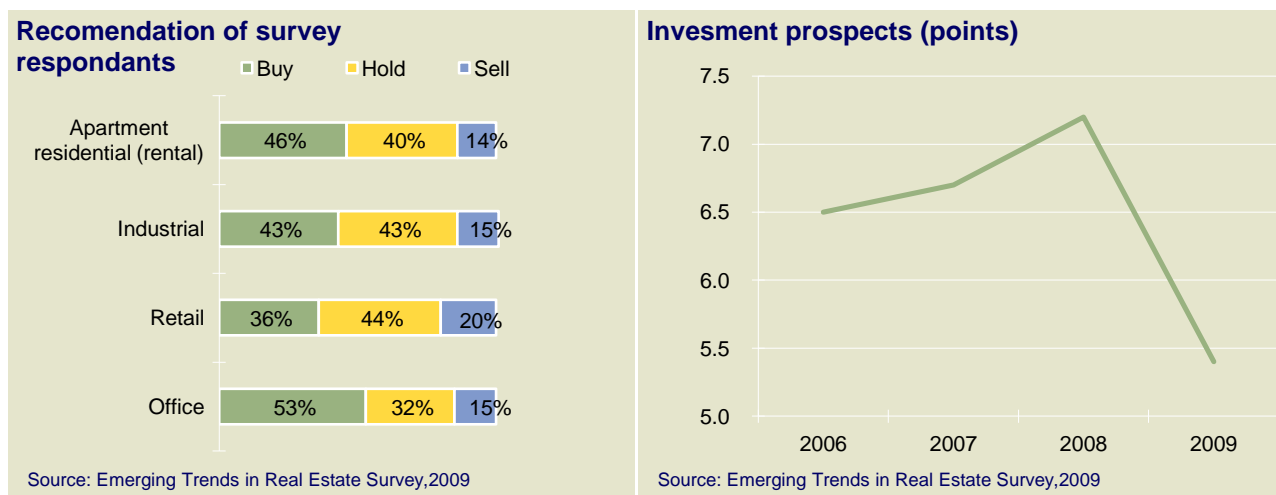


The Emerging Trends in Real Estate Report prepared by ULI and PWC provides an outlook on European real estate investment and development trends. According to the 2009 publication of this report, Istanbul is ranked as the third most attractive investment market in Europe after Munich and Hamburg. The report indicates that Istanbul is still one of the most attractive markets for investment professionals.



The survey showed that the majority of the respondents rated the property market in Istanbul as a buy except for the retail sector. The strongest buy recommendation was given for the office market explaining that the A class office supply in the central business district is not sufficient to meet the demand and the land supply is limited and expensive. On the other hand investment prospects had declined from the historical peak of 7.2 points in 2008 to 5.4 in 2009. However the report remarks that Istanbul will be the top ranked investment market in Europe again as it was in 2008.

Figure 17 - Investment Recommendation of Survey Respondents and Investment Prospects (Points)



Key factors which attract investors to the real estate market include;

- Houses that are illegally constructed are likely to be demolished which would directly reduce the supply.
- A large number of low quality houses will be replaced by new ones or are expected to be demolished. This also puts pressure on housing supply.
- The Mortgage loan system recently introduced in Turkey
- The immature retail market brings significant growth prospect for the retail property.

The real estate sector attracts foreign investment in two ways. The first is the property purchases of foreign real persons and the second is the foreign direct investments of foreign or multinational companies.

Deloitte Turkey's report "Real Estate Investment in Turkey: From Reluctance to Appetite, 2009" explains the legal and tax framework regarding real estate investments by foreign investors. The framework can be briefly explained as follows:

The government has made some improvements to the Title Deed Law regarding real estate acquisitions in Turkey by foreigners. The law regarding the amendment of the Title Deed Law numbered 5782 has entered force as of July 15, 2008. The amendment of this law has become the sole law regulating:

1. Real estate acquisitions by foreign real persons and foreign companies incorporated abroad,
2. Real estate acquisitions in Turkey by companies which are incorporated or partly owned in Turkey by foreign investors.



These two can be briefly explained as follows:

1. Foreign real persons can acquire real estate within the boundaries of Turkey provided this right is reciprocal, and complying with legal restrictions. The law also regulates that foreign real persons are entitled to acquire real estate and rights only up to 10% of the total parcels of the area within the boundaries of the application plan for zoning and local zone plan in a central district or district terms.

Foreign legal entities incorporated abroad can only acquire real estate in accordance with the Petroleum Law, the Tourism Law and the Industry Zones Law.

2. Companies incorporated or partly owned in Turkey by foreign investors are entitled to acquire real estate or rights which are related to the activities set forth under the articles of association of such company. The same will be applicable for the assets and deals and share deals between foreign investors and local companies. Real estate acquisitions in military zones, security zones and strategic zones are subject to Turkish General Staff approval.

Foreign investors can acquire real estate and rights by obtaining the approval of the governorship where the real estate is located. Investors should file an application to the relevant governorship together with the required documentation listed in the same article. The commission will carry out the assessment of the application file in line with the written opinions provided by the governmental authorities in question.

A quick guide to investors about the tax framework is as follows:

1. Corporate income tax: 20% of net profit including capital gains from real estate transactions and rental income.
2. Personal taxation: Real persons receiving rental income from property are liable to 15% income tax which increases progressively to a top marginal rate of 35%.
3. Value added tax: 1%, 8%, 18% depending on the types of goods and services. Residential apartment units smaller than 150 m² are subject to 1% VAT, all other real estate is subject to 18% VAT.
4. The registration of real estate is subject to a title deed fee. The fee is calculated at 1.5% of the acquisition/transfer value; payable both by the buyer and the seller.
5. Real Estate (property tax): The taxes for 2009 are; 0.1% for buildings used for residence, 0.2% for other building (those used as factory or office), 0.1% of land in general and 0.3% for building sites land per annum of registered value.

Below is a list of M&A transactions by foreign investors (foreign direct investment) in the real estate sector between 2002 and 2009:



Figure 18 - M&A Transactions in the Turkish Real Estate Sector (2002 – 2009)

Acquirer	Origin	Target	Date	Stake	Deal Value USD(m)
Private Investor-Malone Mitchell	USA	Gundem Resort Hotel	June-09	100.0%	50.0
Metaltrade International	Romania	GKY Real Estate Investment	Sep-08	9988.0%	13.8
Corio	Netherlands	Tarsus Gayrimenkul Gelistirme Yatirim Insaat	Aug-08	100.0%	74.9
Corio	Netherlands	Iskenderun shopping centre	Jul-08	100.0%	181.7
Corio	Netherlands	Act 4 Gayrimenkul	Jul-08	100.0%	174.7
Hellenic Petroleum	Greece	Opet Aygaz Bulgaria	Jun-08	100.0%	15.6
Corio	Netherlands	Adacenter	May-08	70.0%	44.8
Ocean Real Estate Management	United Kingdom	Logiturc	May-08	90.0%	325.0
HAL Investments	Netherlands	Optiproje Optik Sanayi ve Ticaret	May-08	100.0%	4.5
Apollo Real Estate Advisors ; Multi Turkmall	United States; Turkey	CarrefourSa Merter AVM	Nov-07	100.0%	n/a
Corio	Netherlands	Bursa AVM	Nov-07	100.0%	n/a
Corio	Netherlands	Tekira AVM	Oct-07	100.0%	90.8
Corio	Netherlands	Zirvekent AVM	Jul-07	100.0%	44.0
Apollo Real Estate Advisors	United States	Taurus Gayrimenkul	Jun-07	100.0%	29.6
Corio	Netherlands	Edip Alisveris Merkezi	May-07	35.0%	29.6
Corio	Netherlands	Esenyurt Alisveris Merkezi	May-07	50.0%	60.0
St. Martins REIT	United Kingdom	Cevahir Alisveris Merkezi	May-07	50.0%	421.0
Corio	Netherlands	Adacenter	May-07	30.0%	19.5
Merrill Lynch & Co., Inc.	United States	Neo AVM	Feb-07	100.0%	94.0
St. Martins REIT	United Kingdom	Cevahir Alisveris Merkezi	Sep-06	50.0%	421.7
Aerium Finance	United Kingdom	Six shopping malls of CarrefourSa (Mersin,	Apr-06	100.0%	249.0
AREF Investment Group ; The International Leasing and Investment Company	Kuwait	Pro-Med Leasing	Nov-04	99.0%	n/a

Source: Merger Market and Deal Watch



2.4 SWOT Analysis

Strengths

- Sound banking system
- Recently introduced mortgage system
- Strong construction firms reputable worldwide
- ULI ranked Turkey the leading and the third investment market in Europe in 2008 and 2009, respectively

Weaknesses

- High ratio of unlicensed and old housing; not qualified for mortgage credit
- Land area is limited and expensive, particularly in Istanbul

Opportunities

- Housing supply is less than housing demand, indicating growth potential
- Expected increase in quality of housing in compliance with the earthquake regulations
- Increasing need for residences and plaza buildings
- Restructuring process in the cities leading slum houses to be demolished and replaced by the quality ones

Threats

- High risk of earthquakes in Turkey, particularly Marmara region which covers Istanbul and the leading industrial zones of Turkey
- Traditional volatility of the sector.



2.5 Sector Establishments and Institutions

Establishments and Institutions			
Name	Code	Description	Website
The Association of Real Estate Investment Companies	GYODER	GYODER, The Association of Real Estate Investment Companies, was established on 2 August 1999 by the representatives of existing and founding Real Estate Investment Companies (REICs), to promote and represent the promising real estate industry that leads the economy as a locomotive, to encourage the development of the industry, to provide, improve and protect standards for quality, control and education within the sector.	www.gyoder.org.tr
Capital Market Board of Turkey	SPK	Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. Empowered by the Capital Markets Law (CML), which was enacted in 1981, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions for the past nineteen years in Turkey.	www.cmb.gov.tr
Housing Development Administration of Turkey	TOKİ	The State organization that takes measures to meet the needs of housing within the framework of a plan according to the characteristics of cities and environmental conditions and shall support mass housing projects.	www.toki.gov.tr
Ministry of Public Works and Settlement	n/a	Ministry responsible for the infrastructure in Turkey	www.bayindirlik.gov.tr
The Association of Appraisers in Turkey	DUD	Association organized by the appraisers in Turkey particularly expertised on Real Estate	www.dud.org.tr
The Association of Licensed Appraiser Companies in Turkey	Lidebir	Association organized by the licensed appraisers in Turkey expertised on Real Estate	http://www.lidebir.org/



LIST OF FIGURES

Figure 1 – Privately Owned Housing Units Authorized By Building Permits in USA	4
Figure 2 - US Purchase Mortgage Originations	4
Figure 3 - Number of Apartments Receiving Construction Permits	6
Figure 4 - Number of Apartment Units Sold	7
Figure 5 - Turkish Housing Demand and Supply (Number of Apartment Units)	8
Figure 6 - House Loans	9
Figure 7 - Monthly Interest Rates on Housing Loans and Quarterly Originations	9
Figure 8 - Housing Loans / GDP in 2007 (%)	10
Figure 9 - (a) Office Stock in Istanbul (m2) and (b) Distribution in Istanbul	10
Figure 10 - (a) Istanbul A Class Office Market (4Q08) & (b) Istanbul B Class Office Market (4Q08)	11
Figure 11 - Retail Supply in Turkey	12
Figure 12 - Shopping Centre GLA per 1,000 capita (m2) in H1 2009	13
Figure 13 - Warehouse Average Rent and Vacancy Rate in Istanbul	14
Figure 14 - REIT's in Turkey	14
Figure 15 - REIT's Portfolio Value and Market Capitalization	15
Figure 16 - Istanbul Annual Rate of Return on Real Estate Investments	15
Figure 17 - Investment Recommendation of Survey Respondents and Investment Prospects (Points)	16
Figure 18 - M&A Transactions in the Turkish Real Estate Sector (2002 – 2009)	18

**ABBREVIATIONS**

CAGR	Compound Annual Growth Rate
CEE-MS	Central and Eastern European EU Member States
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISPAT	Republic of Turkey Prime Ministry Investment Support and Promotion Agency
GYODER	The Association of Real Estate Investment Companies
GLA	Gross Leaseable Area
TBB	Turkish Banking Association
US	United States
US\$	US Dollars

**Disclaimer**

This Document is one of a series which have been assembled by the Republic of Turkey Prime Ministry Investment Support and Promotion Agency ("ISPAT") with the assistance of DRT Kurumsal Finans Danışmanlık Hizmetleri A.Ş. ("Deloitte") for the sole purpose of giving investors a sector synopsis of key priority growth sectors in Turkey.

This Document has been prepared for information purposes relating to this sector. This Document does not purport to be all-inclusive nor to contain all the information that a prospective investor may require in deciding whether or not to invest in this sector. No representation or warranty, express or implied, is or will be made in relation to the accuracy or completeness of this Document or any other written or oral information made available to any prospective investor or its advisors in connection with any further investigation of the sector and no responsibility or liability is or will be accepted by ISPAT or Deloitte or by any of their recipient or respective officers, employees or agents in relation to it. Each of ISPAT and Deloitte and their respective subsidiaries and associated companies and their respective officers, employees and agents expressly disclaims any and all liability which may be based on this Document or such information, and any errors therein or omissions therefrom. The information contained herein was prepared based on publicly available information sources at the time that this Document was prepared. In particular, no representation or warranty is given as to the achievement or reasonableness of future projections, targets and estimates, if any. ISPAT and Deloitte have not verified any of the information in this Document. Recipients of this Document are not to construe the contents of this Document as legal, business, tax or other advice. Any recipient or prospective investor should not rely upon this Document in making any decision, investment or otherwise and is recommended to perform their own due diligence and seek their own independent advice.

This Document does not constitute an offer or invitation for the sale or purchase of securities or any of the businesses or assets described herein or to invest in the respective sector and does not constitute any form of commitment or recommendation on the part of ISPAT or Deloitte or any of their respective subsidiaries or associated companies.

Neither ISPAT nor Deloitte accept any liability in relation to the distribution or possession of this Document in and from any jurisdiction and neither ISPAT nor Deloitte shall be liable for any violation by the recipient of any such registration requirements or other legal restrictions.

Under no circumstances should this Document itself or any modified version be published or reproduced or sold by any third party in return for a fee or membership. The intellectual property rights of this Document are owned by ISPAT.