Deloitte.

Turkish Real Estate Market 2014

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Foreword

The global financial markets have started to experience significant volatility since May 2013. The reverse capital flows continue to put pressure on many emerging markets and developing countries. Turkey is a country whose growth potential is challenged with major current-account deficits and domestic political uncertainty. However, the rebalancing growth model will likely help the Turkish economy to heal itself in the intermediate-long term.

Since 2008, residential, office and commercial properties have outperformed in the Turkish real estate market. Indeed, rental yields and selling prices for retail and residential properties kept growing over the last three years. In future, primary commercial properties in central areas will likely attract investors' interest. The sector will definitely find a way to overcome the coming storm. The real estate market has been one of the key elements of the Turkish economy over the past decade and it will continue to remain the same in the future. Turkish real estate players may differentiate themselves by creating new opportunities such as joint ventures with international partners.

I am pleased to share our Turkish Real Estate Market 2014 report with you. This report describes our expectations on the real estate sector based on our research and experiences. It describes the significant hot topics which will be critical for the Turkish real estate market within the next three years.

For those that are interested in topics raised in this report, we will be glad to welcome your feedback and comments.

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1. Global Economic Outlook

The global economy continues to grow at a modest pace and the global GDP growth is estimated to be 3.0% percent in 2013 by the IMF. The United States and Europe are likely to experience a slow-to-moderate economic growth through 2014. The US economy is estimated to grow by 2.8 % in 2014 (from 1.9% in 2013). Growth in the Eurozone, after two years of contraction, is projected to be 1.0% in 2014 by the IMF.

The global financial markets have started to experience significant volatility since May 2013 after the Federal Reserve's announcement for "tapering" on quantitative easing ("QE"). The US Federal Reserve has reduced its bond purchases by 20 billion since its first announcement on December 18, 2013. The FED is likely to continue to taper its monetary stimulus through 2014 until it is fully finished.

The dollar continued to strengthen against the most emerging-market currencies in 2013, which also reflects the signs of continued economic recovery in the US. China has begun to mature and is expected to slow its growth with policy measures to be taken by the government for increasing the cost of capital to slow credit expansion.

The fragile five countries -Turkey, Brazil, India, Indonesia and South Africa, whose weaknesses are mainly related to current account deficits, need to manage the risk of capital outflows to developed countries. Their currencies' value have fallen by about 15-25% against the US dollar over the past twelve months as risk-averse investors and funds have started to switch their money to secure and stable developed countries. As a result, they had to raise interest rates in response to reverse capital flow since May 2013 and further policy rate hikes are expected going forward. In addition to that, Ukraine crisis has come into the scene by the first week of March and revealed the risk of political imbalance to investors in the emerging markets.

> The external demand of the developed countries will help to the emerging and developing markets to heal their economies.

However, global economic activity has strengthened with the support of recovering advanced economies in 2013. It is expected to continue growing in the next three years. In the short-term, the reverse capital flows will continue to put pressure in many emerging markets and developing countries and lead to high interest rates combined with structural challenges such as unemployment and vulnerability of the growth expectations.

In the medium and long term, the external demand of developed countries will help emerging markets and developing countries to heal their economies.

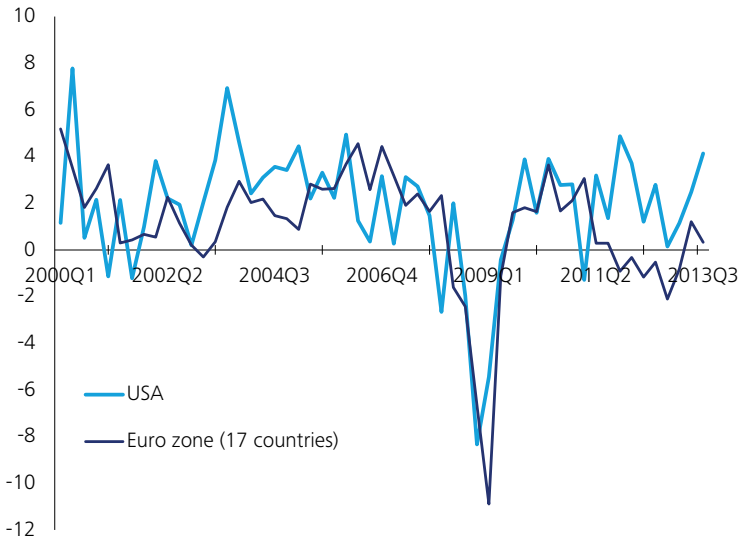
Table 1: Key economic indicators, % change

	2011	2012	2013	2014 F	2015 F
Gross domestic product, constant prices (% change)					
World	3.9	3.1	3.0	3.7	3.9
United States	1.8	2.8	1.9	2.8	3.0
Euro area	1.5	-0.7	-0.4	1.0	1.4
Emerging market and developing economies	6.2	4.9	4.7	5.1	5.4
Turkey	8.8	2.2	3.8	3.5	4.3
	2011	2012	2013	2014 F	2015 F
Inflation, end of period consumer prices (% change)					
World	4.7	3.9	3.7	3.8	3.6
United States	3.1	1.8	1.2	1.7	1.9
Euro area	2.7	2.2	1.3	1.4	1.4
Emerging market and developing economies	6.8	6.2	6.0	5.5	5.1
Turkey	10.4	6.2	8.0	6.0	6.0

Source: International Monetary Fund, World Economic Outlook Database October 2013 and World Economic Outlook Update January 2014

The FED announced in its latest decision on interest rate in February 2014, that it would continue to keep interest rates near zero as long as the unemployment rate stays above 6.5%. Following the FED Chairman Ben Bernanke's taper announcement in May 2013, the market yield on U.S. Treasury securities at ten-year rose by just 150 basis points to around 3% from 1.5%, from May 2013 to February 2014, but eased somewhat to 2.7% - 2.8% since then (Graph 2). Under the FED's forward guidance policy, the policy rate is not expected to be lifted until mid-2015.

Graph 1: GDP growth rates (quarterly, % change)



Source: Deloitte Economic Outlook Report, December 2013

Graph 2: USA interest rates (%)

Source: Deloitte Economic Outlook Report, December 2013

2. Turkish Economic Outlook

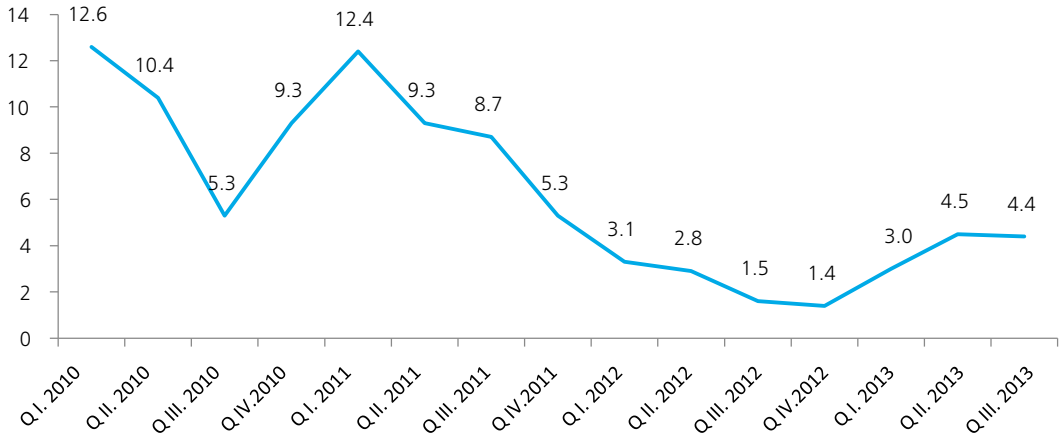
Turkey is a country whose enormous growth potential is challenged with major current-account deficits and domestic political uncertainty. There are challenges that Turkey faces - the Turkish lira is sliding more than 20% against the US dollar since mid-2013. The Central Bank of Turkey raised overnight interest rate from 7.75% to 11.5% - 12% on January 28, 2014. While many international players tend to shift their investments to assets of the developed countries rather than those of the emerging markets, not all investors leave the emerging markets, such as Turkey, whose reduced asset prices are at a much more favorable level. The devaluation of the Turkish Lira can help boost competitiveness and reduce external deficits. But in the short term, it also leads to economic problems by causing inflationary pressures and higher financing costs. The rebalancing growth model will likely help the Turkish economy to heal itself in the intermediate long term. Despite the significant sell-off to date and emerging markets falling out of favor, majority of experts do not see a significant risk of a general emerging market crisis. An overall emerging-market crisis is unlikely in 2014. Significant capital-flow reversals have been very limited, and no advanced country will raise interest rates sharply until mid 2015.

As the 16th largest global economy, Turkey has seen a more stable economy for the past 10 years. Although the GDP growth rates slowed down (2.2% in 2012) right after recovery from financial crisis, Turkey is expected to record around 4% GDP growth rate in 2013. The growth is mainly driven by private consumption, government investment and restocking. The inflation levels are still higher than government's plans (above the government's target rate of 6.8% as revised in its Mid-Term Plan) and it is expected to end the year in the 7.5% - 8% range.

While many international players tend to shift their investments to the assets of the developed countries rather than those of the emerging markets, not all investors leave the emerging markets such as Turkey.

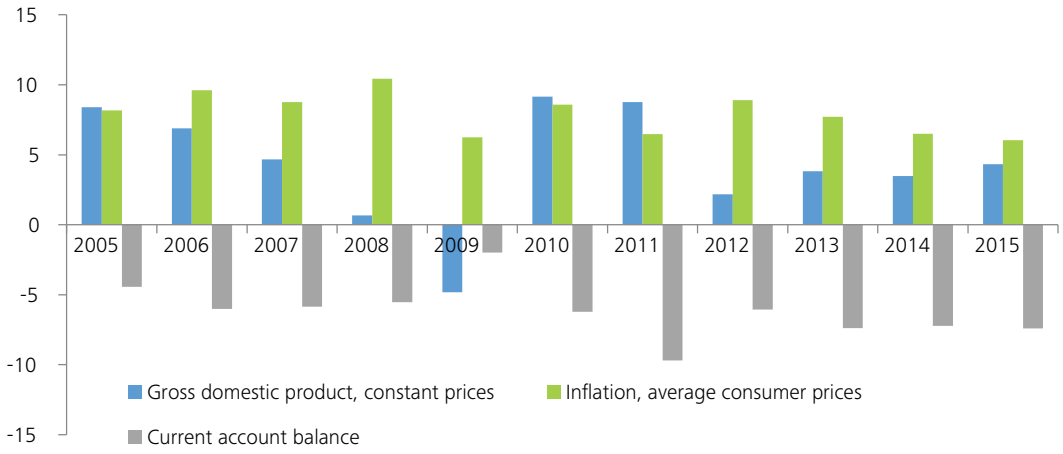
The most vulnerable aspect of the Turkish economy has always been its dependency on external financing due to large trade deficit and historically low level of domestic savings. Although current account balance as percent of GDP reduced from 9.7% to 6.1% in 2012 compared to 2011, it increased to almost 8% in 2013. As Turkey's dependence on external energy continues, the current account deficit remains the Achilles Heel of Turkish macroeconomics for the economy.

Graph 3: GDP growth rate (constant)(% change)



Source: TurkStat

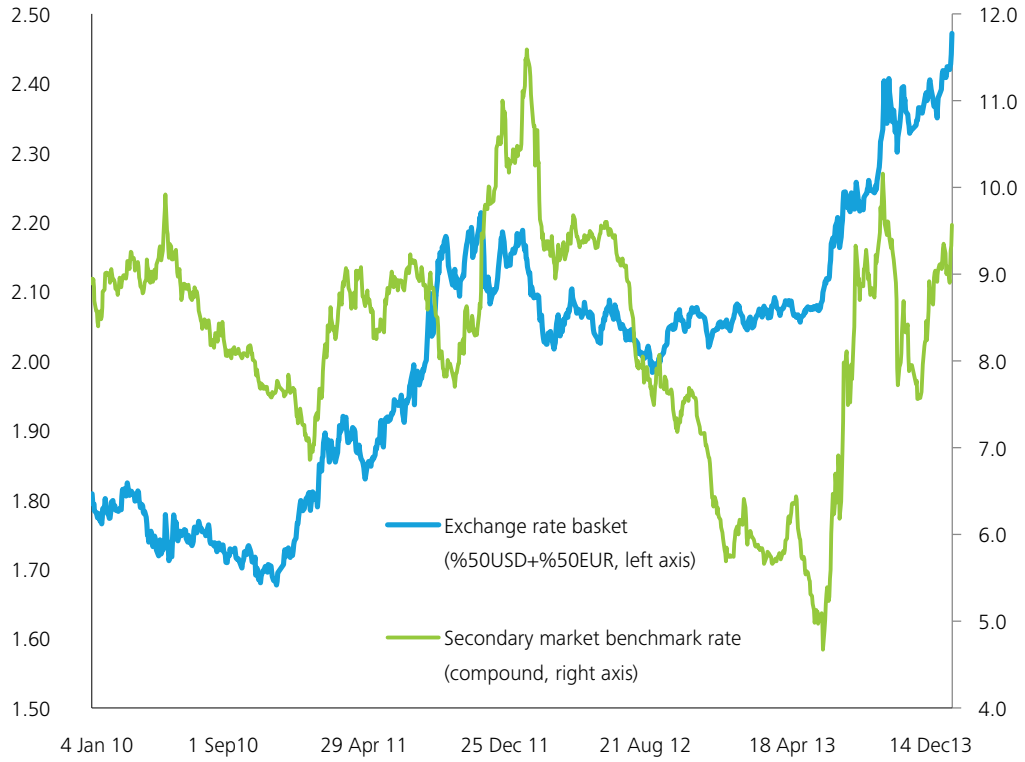
Graph 4: GDP % change, inflation % change, current account balance as % of GDP



Source: IMF, World Economic Outlook Database, October 2013

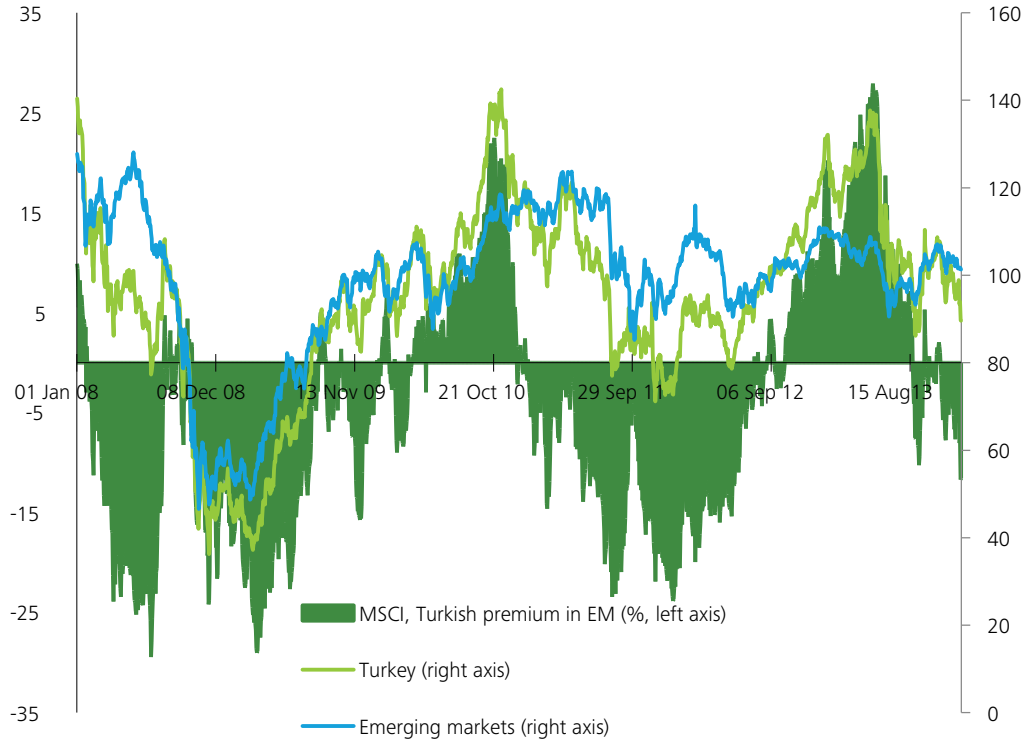
After depreciation of the Turkish Lira by 20% against the US Dollar and Euro currency basket since May 2013, thanks to slower growth, the current account deficit, which has likely reached 8% of GDP last year, should start to fall in 2014.

Graph 5: Exchange rate and interest rate



Source: Deloitte Economic Outlook Report, December 2013

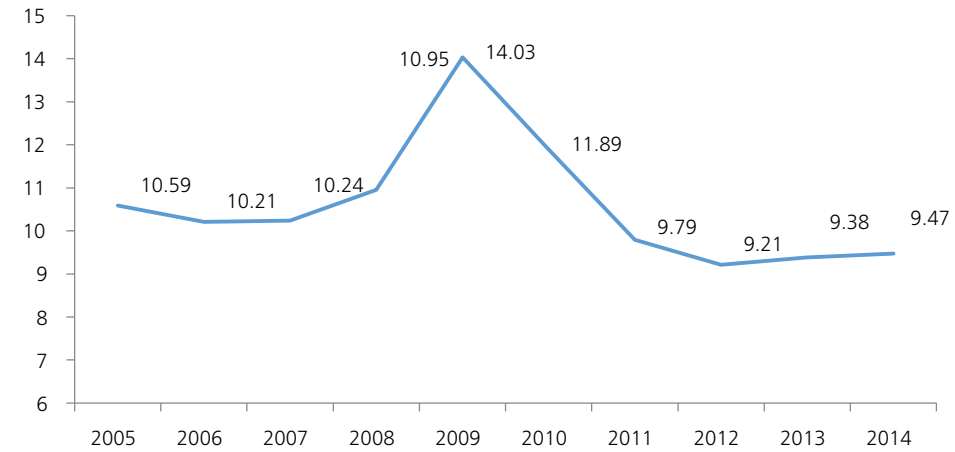
Graph 6 - MSCI and Turkey indices (August 2008=100)



Source: Deloitte Economic Outlook Report, December 2013

With half of the population under the age of 30, domestic demand trends are expected to be strong. However, the unemployment rate was 9.38% in 2013. In 2014 one of the key challanges of Turkey is to reduce or keep the unemployment rate level below 10%, which highly correlates with growth. Any growth rate below 5% is estimated to have negative consequences on the Turkish unemployement rate.

Graph 7: Unemployment rates



Source: IMF, World Economic Outlook Database, October 2013

The government in its Medium Term Program for the 2014-16 has revised the expectation of the GDP growth rate as 3.6% in 2013 (it was 4% previously), 4% in 2014 and 5% in 2015 and 2016. Similarly, the inflation rate is targeted at 6.8% in 2013, 5.3% in 2014 and 5% in 2015 and 2016. Although the current account deficit at the end of 2013 was targeted to be 7.1%, it reached at 8% in 2013.

There is a general consensus that if Turkish economy is to continue to grow at the rate of 5% or higher, which is the minimum growth rate to create enough employment opportunities for Turkey's young population, this will cause higher current account deficit. Thus the initial focus should be on structural reforms to reduce the deficit in order to ensure sustainable GDP growth in the long run.

Increased inflows of FDI are also needed in order to address the risk that external debt represents for the economic growth. In order to reduce the current account deficit, the government in its Mid-term Plans indicated to focus on energy efficiency projects. The focus will be on the use of local coal and renewable energy sources. Investments in nuclear power stations will continue to enable local resource based energy generation. In addition, the recent private pension scheme helps to boost private savings in the medium term, while government's regional incentive scheme is expected to support investment in import-substituting industries.

3. Real Estate Market Outlook

Since 2008, residential, office and commercial properties have outperformed in the Turkish real estate market. Indeed, rental yields and selling prices for retail and residential properties kept growing over the last three years. In future, primary commercial properties in central areas are likely to attract investors' interest.

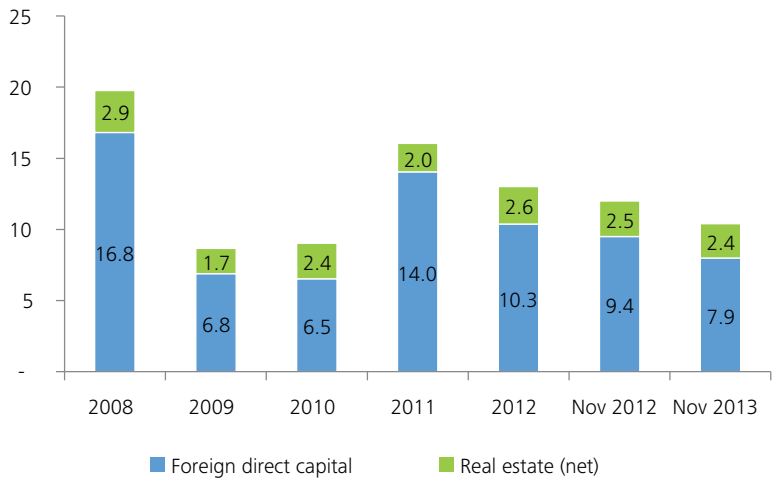
However, since Spring 2013, following the FED's announcement for "tapering" its QE ("quantitative easing") and the recent political developments in the region, there have been pressures on the Turkish real estate sector. Now, opportunistic investors and risk-averse investors from emerging markets seek security in more stable regions such as the US and Europe. The Turkish real estate market continues to feel the impact of slow domestic growth which will result in investor demand for only high-quality properties and resultant cap rate compression. The Turkish real estate players may differentiate themselves by creating new opportunities including joint ventures with international partners.

Although, currently investors remain hesitant to make transactions to see how upcoming elections will have an impact on the economical situation in the short term, the Turkish real estate industry presents many opportunities to local and international investors over the mid to long term.

Turkey's young and large population drives domestic consumption to some level. In addition, the government implemented new schemes in the past years to increase foreign investments to make Turkey a manufacturing and export base in the Eurasia region. Logistics infrastructure projects continue to increase logistics industry performance and given the expected efficiencies are achieved; more foreigners will be willing to re-locate their base to Turkey. These developments will inevitably drive demand for industrial buildings and warehouses. With the spread of new Organized Industry Zones and logistics villages, more companies may choose Anatolian cities for establishing their base. Following this, there will also be a demand in these regions for new office spaces.

Over the mid to long term, Turkish real estate industry presents many opportunities to local and international investors.

Graph 8: Foreign direct investment in Turkey (USD Billion)



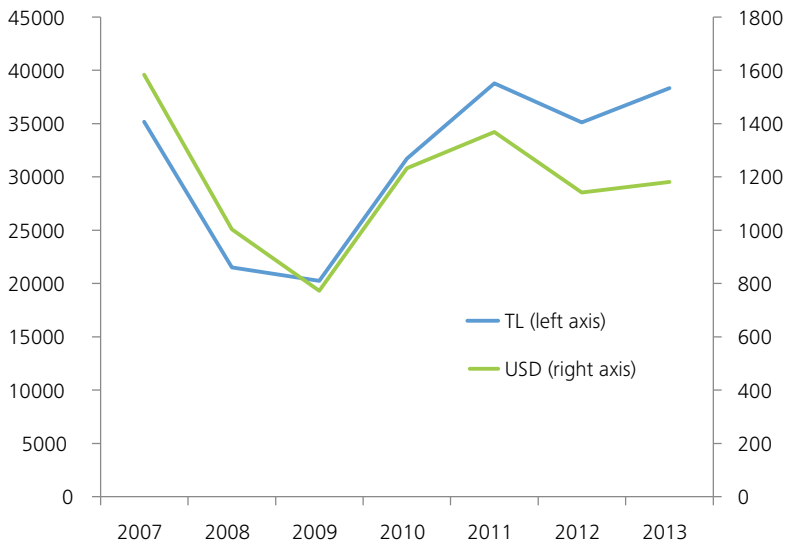
Source: The Ministry of Economy, Foreign Direct Investment Bulletin, January 2014

The privatization of various state-owned companies has attracted the interest of investors. The government has plans on public private partnerships for many infrastructure projects, hospitals and ports (Izmir and Derince port privatizations are added to the portfolio). Also in order to increase foreign direct investment (FDI), the government will focus on ensuring land availability for foreign investments.

Share of property sales to foreigners as percentage of total foreign direct investments have increased. Especially, by April 2014, the government plans to enact a new law to supplement the law that sets forth regulations related to property sales to foreigners. With the changes, the government will be extending residence permit of foreigners from three months to one year and allowing the renewal of the residence permit as long as the foreigners continue to own a property in Turkey. This will further drive demand for housing and office spaces in Turkey by internationals.

The number of Real Estate Investment Trusts (REIT) in the Turkish market has increased indicating the market potential of the Turkish real estate industry. Currently, 29 REITs are trading on the BIST and 3 REITs are waiting for the establishment permission. The Real Estate Investment Trust Price Index is in a rising trend since the drop in 2009 crisis; the index has increased by 89% in TL and 52% in USD from 2009 levels to the end of 2013 (Graph 9).

Graph 9: Real Estate Investment Trust Price Index performance



Source: Borsa Istanbul

Turkey as an investment destination in the next three years

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There is a fundamental contradiction in the European real estate investment markets nowadays: the market is awash in capital desperately seeking investment opportunities, while the appetite for higher yields assets or locations is not increasing. 2013 is the first year since the 2008 crisis where professional investments volume have reached pre-crisis level again, however with a notable run on quality and towards refuge cities.

As the ECB managed to cut again its main refinancing rate in May 2013 down to 0.5 % it pushed the interest rates to a new historical low level. While this did not affect so much the banking sector in the core Western Europe countries where the banks' funding cost was close to nil already, it provided support to the struggling economies in the south of Europe. It has had the asymmetric effect in the right direction.

Although not an overwhelming volume yet, this was corroborated by an increase in acquisitions by non - domestic investors in European peripheral countries and in eastern Europe, thereby seeking higher yields in exchange for risk taking.

The apparent contradiction referred to above remains true though: with the bulk of the European investments directing themselves to (a) safe havens cities, (b) the Nordics economy and (c) the German economy, the market speaks, and focuses on risk aversion still.

Investments in EUR millions

	H1 2012	H1 2013
London (a)	10,178	11,458
Paris (a)	4,903	4,282
Moscow	1,000	2,180
Stockholm (b)	1,656	1,895
Munich (c)	1,580	1,571
Frankfurt (c)	748	1,256
Hamburg c)	787	1,172
Berlin (c)	951	1,152
Oslo (b)	1,618	1,125
Copenhagen (b)	1,251	-
Dusseldorf (c)	-	1,082
	24,672 ie 50 % of European investments	21,173 ie 50 % of the European investments

There is an underlying logic to this behavior: but for a few exceptions, the economic growth is in essence nil in the European Union as it struggles to remain just above the 0 line, while there has always been an almost perfect correlation between GDP growth and demand for property space and thus real estate investments. So far, keeping both interest levels at an historical low and inflation below the 2% ECB target just offset the plague generated by public debt and abysmal demographic prospects. There is no surprise thus in seeing institutional investors confirming European investment strategies that focus on core assets.

At the doorstep of Europe, the Turkish market addresses two of these fundamental flaws:
- a glowing economy and GDP growth;
- favorable demographics,
as further confirmed by a persistent growth in consumption.

However, while offering a clear opportunity for the Turkish property market to attract non-domestic investors, risk aversion remains high on their agenda and recent surveys of investment decision makers definitely confirm a long term interest in the Turkish investment grade assets market albeit cautiously and taking time to monitor the country and market evolution.

Shortly put, the Turkish market is no more viewed as a far away exotic and emerging market, but not yet as a stabilized and mature property market neither. In such a context it takes time to get comfortable with the economics, legal system, end users market and property sector dynamics.

For the Turkish property market to confirm the attractiveness of its favorable country fundamentals it should keep offering a yield spread still ie a country and market yield premium that helps overcome the investors' analysis of risks with foreign exchange, inflation and local cost of financing.

Residential Properties

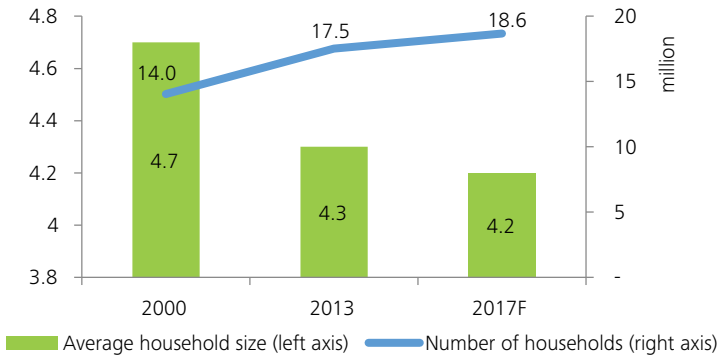
Migration from rural regions to urban cities continues in Turkey with 71% of the population currently living in urban areas. This population shift increases the demand for construction of new buildings in urban areas. Furthermore, the average household sizes are decreasing and the number of households have increased from 14 million in 2000 to 17.5 million in 2013 according to the EIU's estimates. This is mainly due to increased number of students living away from families and more women joining the workforce. These demographic changes combined with the increase in disposable income per capita (from USD 3,000 in 2000 to USD 8,000 in 2013[1]) and the increased financing opportunities, the home ownership over the long run would increase. Combined with the need for the renewal of the existing buildings in risky conditions (considering Turkey's position on the seismic belt), this will drive the need for new housing.

However, there are also some downside risks that may impact the residential real estate market. The amount of VAT charged for the purchase of new housing has been revised as effective from January of 2013. Previously, for residentials with a net surface area of 150 m^2 and less, VAT charge was applied as 1%. However, currently with the new regulation in place, given the per m^2 value of a housing is between 500 - 1,000 TL, the VAT is 8% and for buildings per m^2 value higher than 1,000 TL, the ratio to be paid for VAT is 18%. This change will not impact housing with construction permits dated prior to the effective date as well as the areas within the scope of the urban regeneration program. While this may have a positive impact on the sales of already existing new housing stock, the sales of new housing with permits dated January 2013 and newer may be negatively impacted to some level.

The total area of construction permits reached 90 million m^2 in the first 9 months of 2013, which is a 12.7% increase compared to the same period last year. Occupancy permits have increased even at a higher rate of 31.5% within the same period contributing to the housing stock (Graph 11).

Demographic changes, increase in the disposable incomes per capita and financing opportunities combined with the need for renewal of risky buildings will drive the demand for new housing.

Graph 10: Number of households and average household size



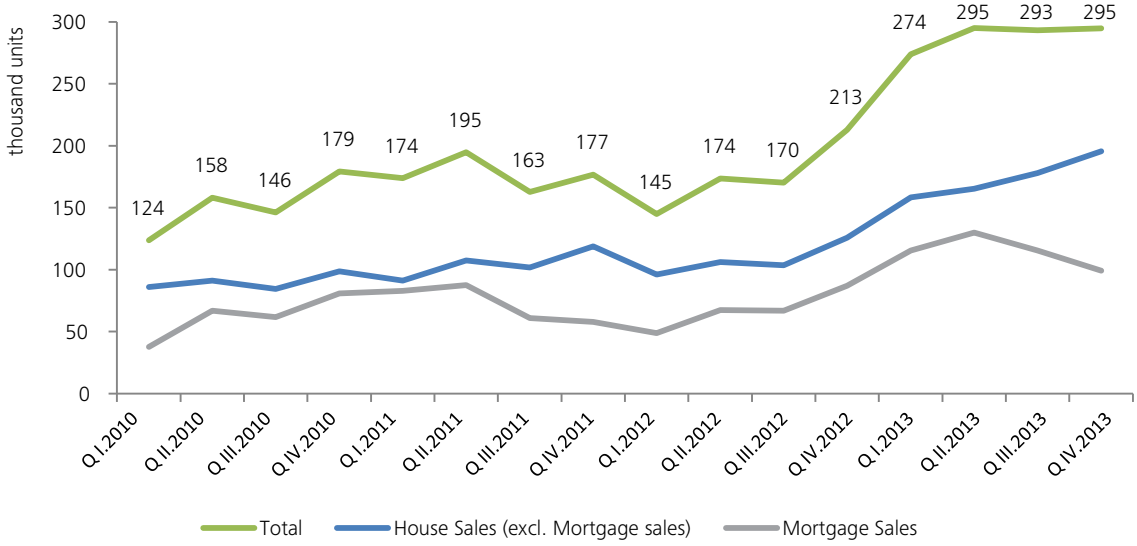
Source: Economic Intelligence Units (EIU)

Graph 11: Dwelling buildings, total area of construction and occupancy permits (floor area m^2)

Source: Turkstat. Excludes residences for communities

The total house sales (including mortgage sales) showed a significant jump from 4th quarter of 2012 to 2013. In total, 2013 house sales have exceeded 2012 levels by 65%. This is a healthy sign indicating that there is no accumulation in the vacant housing stock.

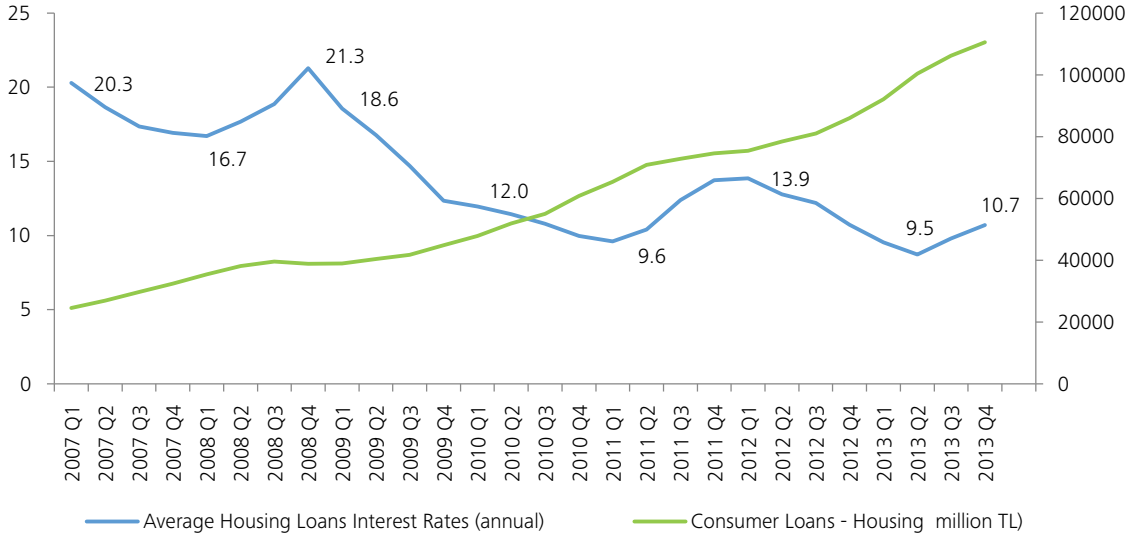
Graph 12: House sales (units)



Source: Turkstat

The total volume of housing loans have been rising since 2008. However, the housing loans interest rates have started to increase in the last quarter of 2013 and would likely to continue its upward trend in 2014.

Graph 13: Average annual housing loan interest rates (%) vs. total housing loans (million TL)



Source: BRSA, Central Bank of Turkish Republic

From 2010 to 2013, the average new house prices increased by a CAGR 11.4% in Turkey. In İstanbul, the new house prices rised even at a higher rate with a CAGR of 15.2%.

Table 2: New House Price Index (2010=100)

	İstanbul New House Price Index	Turkey New House Price Index
2010	100.0	100.0
2011	113.0	110.0
2012	129.8	123.3
2013	152.7	138.1
CAGR 2010-2013	15.2%	11.4%

Source: Central Bank of Turkish Republic

With the increasing interest rates the house sales may be impacted negatively. However, over the long term strong domestic demand for housing, residential real estate market will protect its position as a good investment asset going forward.

Tenants generally evaluate the office costs considering efficiency, space cost per person, space cost per revenue generated and its public transportation access.

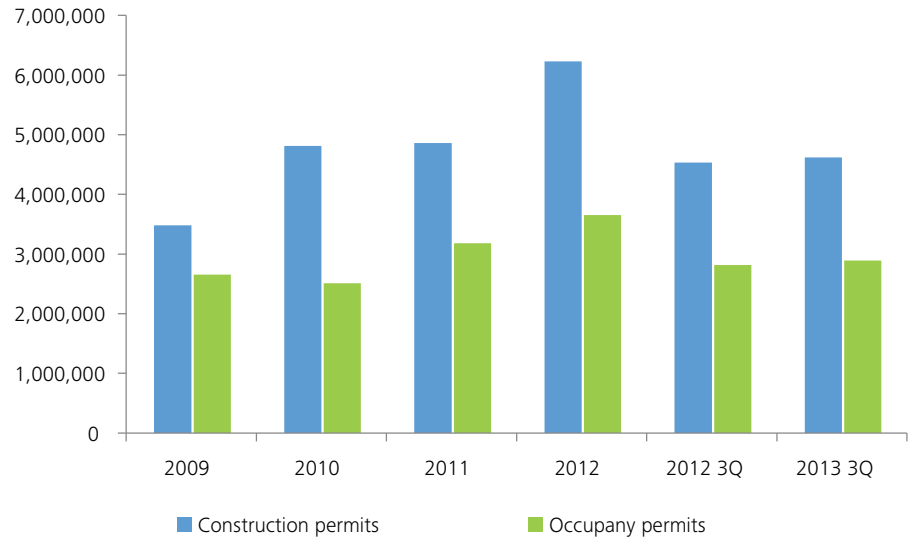
Offices

The Turkish office market continues to experience strong performance, especially in the central business districts of major markets where vacancy rates are in the 6.5%-17% range for A and B class offices.

Consequent to multinational companies establishing their regional management and operational centers in İstanbul, as well as increasing growth and institutionalizing trends of national companies, the office demand continues to increase. This strong demand and requirement for office space continues to trigger office investments. Tenants generally evaluate the office costs considering efficiency, space cost per person, space cost per revenue and its public transportation access.

Office construction licenses obtained throughout Turkey in the first three quarters of 2013 have increased by 1.9% compared to the same time previous year and realized at 4.6 million m^2 in Turkey. Office building occupancy permits increased by 2.7% compared to the first three quarters of 2012 and realized as 2.8 million m^2 resulting in increase of office supply.

Graph 14: Office (workplace) construction licenses and occupancy permits (floor area m²)

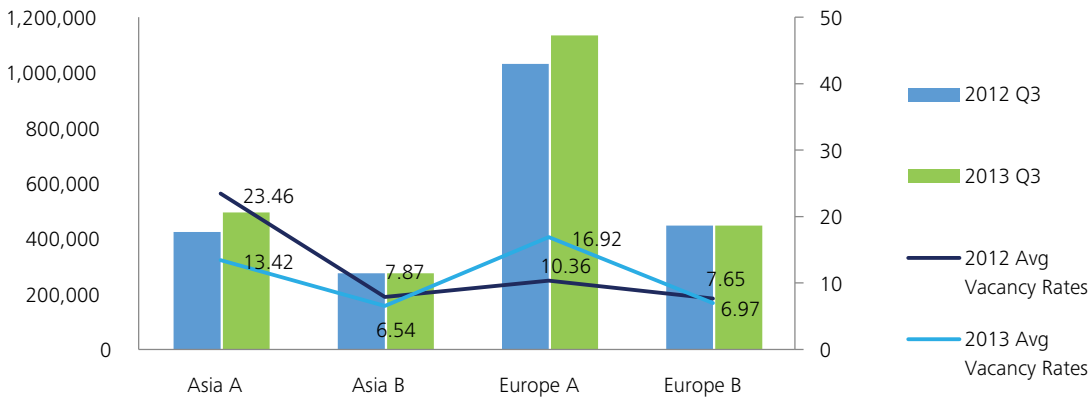


Source: Turkstat

İstanbul

The total office space for B Class offices almost remained the same between the first three quarters of 2012 and 2013, while A Class office space increased both in the Asian side and European side by 16.7% and 10%, respectively.

Graph 15: Total office area for A and B Class (m²) and average vacancy rates (%) (2012 - 2013)

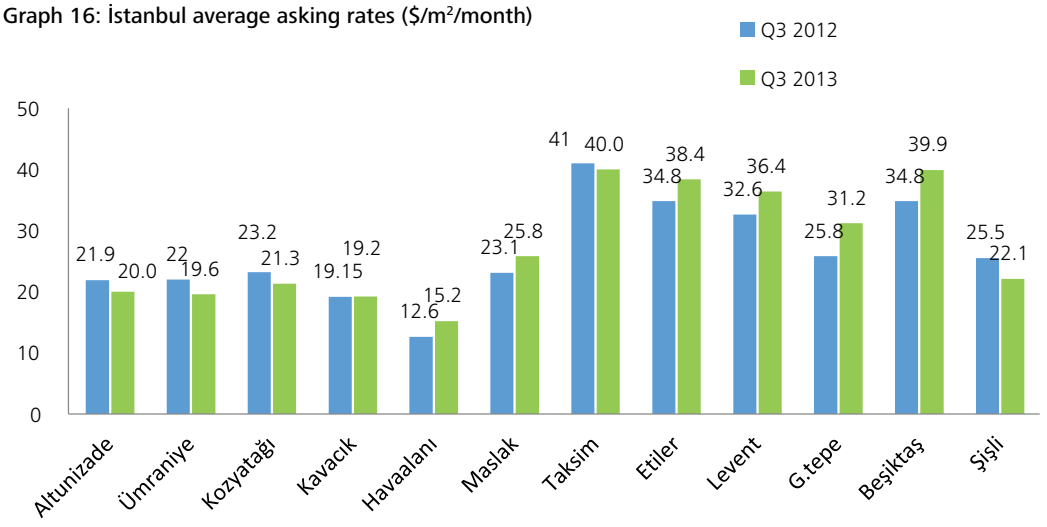


Source: Colliers International

In order to accommodate the companies which are seeking for larger office areas with low rental prices, A class office asking rates slightly decreased in the Asian part in the third quarter of 2013, while the rates increased per m²/month in the European side. Although new office projects continue to be constructed in the Asian side, still the vacancy rates have fallen in the Asian part especially in Ümraniye, Kozyatağı, due to the demand shift from the Europe to the Asian side. In recent years, new metro lines were opened and connected to the European side with the Marmaray underwater railway.

There are many growth opportunities for retail market in the cities with more than 1 million population.

Graph 16: İstanbul average asking rates ($/m²/month)



Source: Colliers International

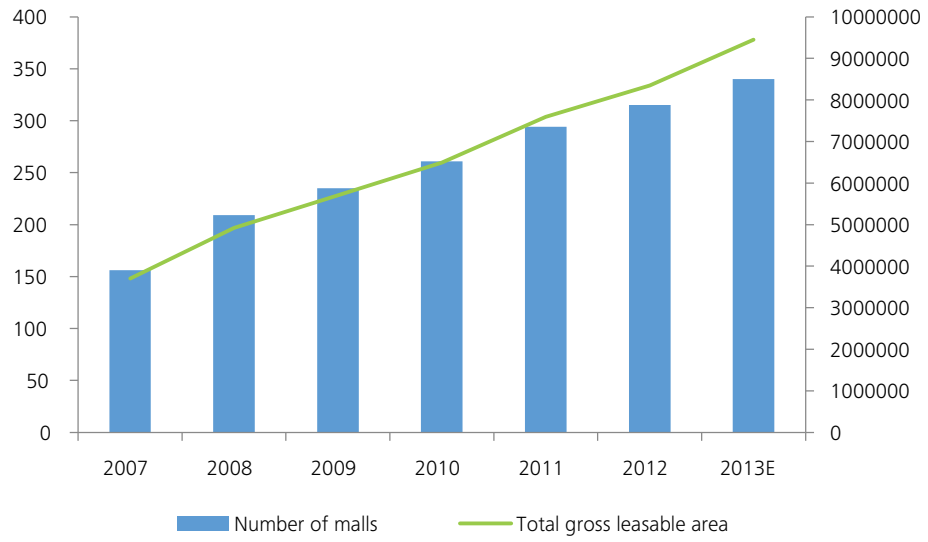
Retail

Organized retail continues to grow with the increasing number of shopping centers around the country. In 2013, the number of malls increased to 340 in 2013 and gross leasable area also increased by 13% compared to 2012. There are 54 cities out of 81 with shopping malls and new investments are in the pipeline[2]. Total gross leasable area (GLA) reached 9.4 million m² at the end of 2013 and GLA per 1,000 people exceeded 120 m². This is higher for Ankara, İstanbul, Karabük, Bolu, Eskişehir, which have over 150 m² density as of the first quarter of 2013 according to Council of Shopping Center Investors of Turkey.

This ratio is still low compared to the levels of most developed markets (EU-27 average is 259.9 in 2013[3]), which indicates room for growth as currently there are 17 cities with more than 1 million population in addition to the 3 main cities (GLA per 1.000 inhabitants in between 101-150 m² in Bursa, Gaziantep, Antalya, Kayseri Kocaeli, Aydın; 51-100 m² in Adana Konya, Mersin, Diyarbakır, Balıkesir, Samsun; 0-50 m² Hatay, Şanlıurfa, Manisa and no malls in Kahramanmaraş, Van) (Graph 18).

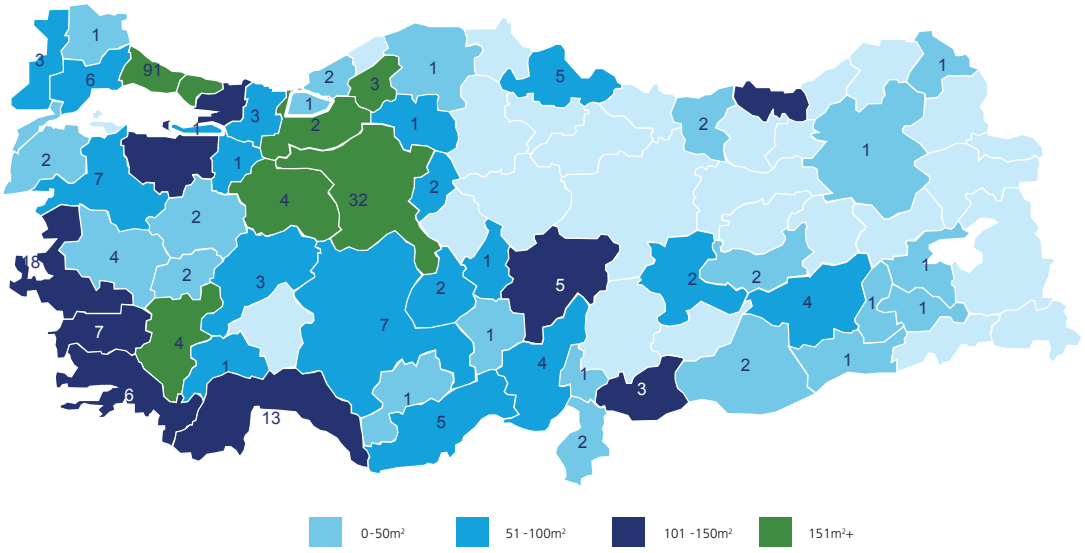
Although the three large cities have reached a certain saturation level in terms of gross leasable area, there are many opportunities for growth in cities with more than 1 million population across Turkey apart from the top 3.

Graph 17: Number of malls and gross leasable area



Source: Council of Shopping Center Investors (AYD) & Akademetre, ICSC Country Factsheet, March 2013

Graph 18: Number of malls across Turkey and density of gross leasable area

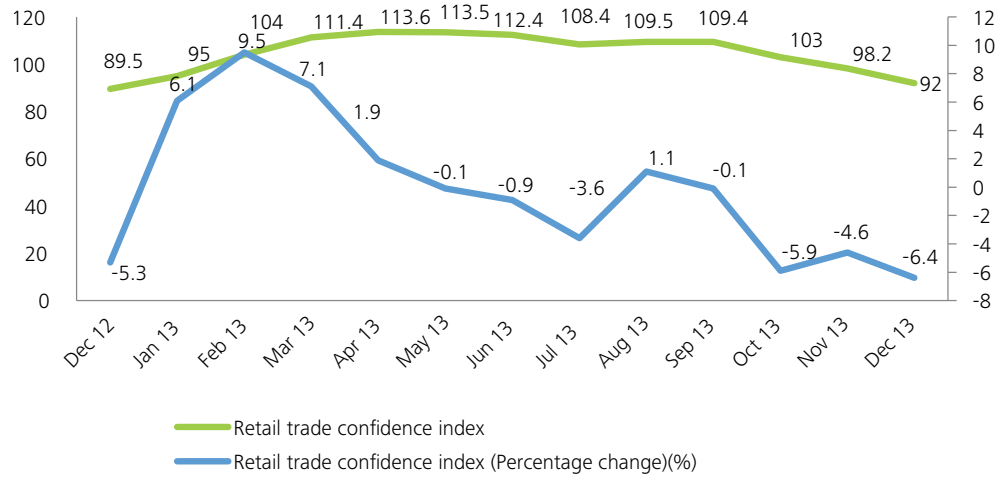


Source: Council of Shopping Center Investors (AYD) & Akademetre, ICSC Country Factsheet, March 2013.
Density: gross leasable area per 1,000 inhabitants

According to the Council of Shopping Center Investors' data, the leasable area per 1000 people is 246 m² in Ankara, 227 m² in İstanbul whereas it is less than 100 m² in eastern part of Turkey, indicating that large cities have reached a saturation point and shopping centers already began to cannibalize each other. The potential is moving towards the eastern part of Turkey.

The global economic uncertainty pushed the retail confidence index slightly downwards and retail trade confidence index decreased by 6.4% in the last month of 2013 compared to the previous month.

Graph 19: Retail Confidence Index



Source: Turkstat

Although economic recessions have an impact over the retail sector, increasing disposable income and discretionary spending are the main drivers of the evolution of the retail market in the long term. Organized retail share will increase and the market will become more concentrated and competitive due to the local and new global players, leading to increasing real estate costs and scarce store locations.

Hotels

Turkey is amongst the top tourism destinations and ranked at 6th place in terms of the number of tourist arrivals, just behind Spain and Italy.

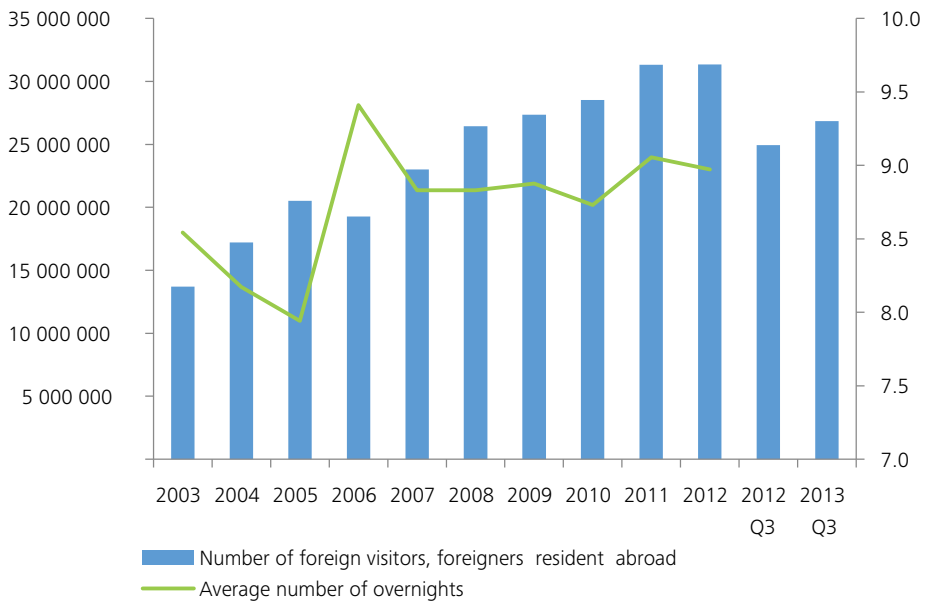
Table 3: International tourist arrivals (million)

		Number of Tourists (2011)	Number of Tourists (2012)
1	France	81.6	83.0
2	United States	62.7	67.0
3	China	57.6	57.7
4	Spain	56.2	57.7
5	Italy	46.1	46.4
6	Turkey	31.3	31.3
7	Germany	28.4	30.4
8	United Kingdom	29.3	29.3
9	Russian Federation	22.7	25.7
10	Malaysia	24.7	25.0

Source: World Tourism Organisation (UNWTO)

The number of foreign tourists have increased with a CAGR of 9.6% between 2003 and 2012. Furthermore, the average length of stay has also been gradually increasing.

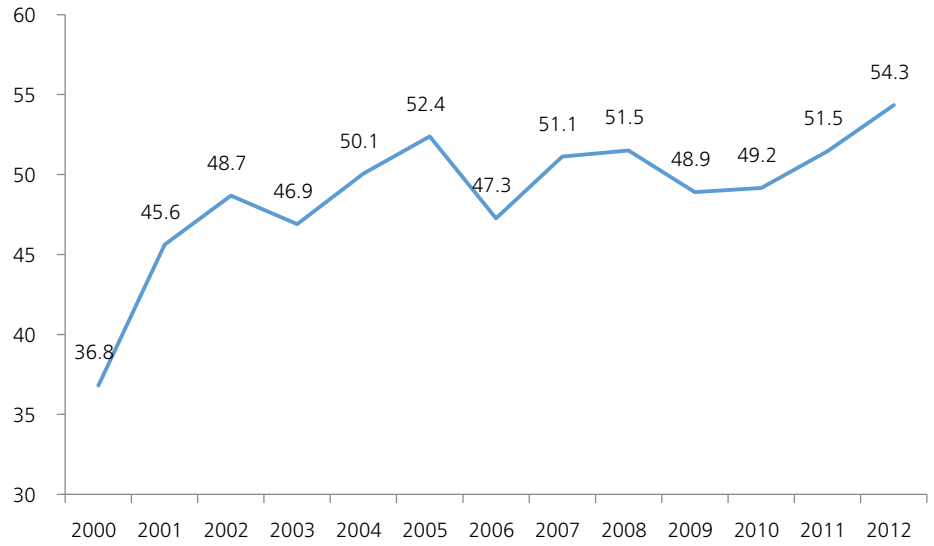
Graph 20: Number of foreign visitors who resident abroad vs. average number of overnight stays



Source: The Ministry of Tourism, Turkstat

In Turkey, the hotel occupancy rates have also been in an upright trend at 54.3% in 2012 (Graph 21). In France, the occupancy rates were 60.3%[4] in 2012, which is the number one tourist destination in the world.

Graph 21: Occupancy rates of operation licensed establishments



Source: The Ministry of Tourism

Considering Turkey's high attractiveness as a tourism destination and 2023 goals, the tourism industry will continue to grow driving the need for better facilities.

Based on an analysis of seven regions of Turkey and İstanbul, the number of nights spent has seen a double digit growth in the Mediterranean; İstanbul followed by the Southeastern Anatolia, Black Sea and Marmara regions. The number of operation licensed hotel beds have increased most in the Southeastern Anatolia, Mediterranean, Eastern Anatolia, Marmara and the Black Sea in the last four years.

Table 4: Number of nights spent and number of beds in the operation licensed tourism facilities

	Number of nights spent 2009	Number of nights spent 2012	Number of nights spent CAGR 2009-2012	Number of beds 2009	Number of beds 2012	Number of beds CAGR 2009-2012	Occupancy Rate* 2012
İstanbul	9,093,489	13,929,713	15.3%	61,239	70,246	4.7%	54%
Marmara	3,542,916	4,876,094	11.2%	33,726	39,617	5.5%	34%
Aegan	17,339,920	21,896,639	8.1%	143,977	154,686	2.4%	39%
Mediterreanian	45,214,622	69,819,548	15.6%	303,508	362,880	6.1%	53%
Cental Anatolia	4,524,761	5,936,038	9.5%	35,226	40,430	4.7%	40%
Black Sea	1,314,318	2,001,735	15.1%	13,501	15,806	5.4%	35%
Eastern Anatolia	894,780	1,180,113	9.7%	8,475	9,981	5.6%	32%
Southeastern Anatolia	991,669	1,514,297	15.2%	9,113	12,373	10.7%	34%

Source: The Ministry of Tourism. Includes tourism operation licensed facilities *Occupany rate= nights spent / (365 x number of beds)

Based on Turkey's 2023 Tourism Strategy, it is aimed to reach 63 million visitors with USD 86 billion foreign tourism revenue and USD 1,350 revenue per foreign visitor. Turkey aims to be amongst the top 5 tourism destinations in terms of number of visitors and tourism revenues generated.

Considering Turkey's high attractiveness as a tourism destination and the government's efforts, the tourism industry will continue its growth driving the need for better facilities. With more businesses establishing manufacturing facilities in the Anatolian cities, there will be a need for more facilities oriented towards business travelers. Furthermore, the number of tourists visiting the Southeastern part of Anatolia will further drive the need for tourism facilities especially in these regions.

In addition, Turkey aims to be amongst the top 5 medical tourism destinations in the world. With the initiatives to improve infrastructure of public health facilities, the establishment of health free zones (provided that the related law is enacted as part of the Healthcare Transformation program) and the opening of new private hospitals, the number of international patients coming to Turkey to receive medical treatments will further increase. The developments in foreign direct investments, tourism and medical tourism in turn will further drive the demand for better tourism facilities.

Industrial Buildings and Warehouses

The World's 16th largest economy[5], Turkey aims to increase its export volume to USD 500 billion and become the manufacturing base of Eurasia region in the mid to high technology products by 2023.

Turkey's large domestic demand of 76.6 million[6] coupled with its strategic location with access to multiple markets with 1.5 billion people, GDP of USD 25 trillion and more than USD 8 trillion of foreign trade[7] makes it an attractive market for foreign investors to establish manufacturing facilities or warehouses to serve the Turkish and nearby markets.

The strong retail growth over the past years in Turkey has led to the need to develop the supply chain systems. As a result, the warehousing and distribution market has boomed with most of the major retailers acquiring or developing new logistic centers. This contributed to an increase in market activity utilising the opportunity to secure these long term anchor tenants and space users.

Over the last decade, there has been much discussion about changes in the composition of employment and declines in the manufacturing sector. New and expanded organized trade zones in manufacturing is another important economic opportunity for the real estate sector.
One of the major factors driving this trend has been the relocation of companies to Eastern Anatolia to take advantage of lower cost structures, particularly with respect to labour. It has been most difficult for those cities and towns particularly in the eastern part of Turkey that witnessed the high unemployment rates due to lack of industrial areas. In recent years, some Telecom companies took the first step to move their call centers to eastern cities such as Erzurum and Diyarbakır. Cheaper labour is not the only driver. Companies are also particularly interested in the eastern and southeastern cities due to economic opportunities associated with the growing demand from Iraq as well as a new opportunity that will boost trading with Iran as the country improves its relations with the West.

In order to support the growth objectives, the government has introduced a new investment scheme in 2012 to incentivize investments in different regions of Turkey (please see appendix).

In line with the incentive schemes for investments, there are also plans for increasing the number of organized industrial zones (OIZ) across Turkey, with this aim new OIZs are planned for 2014. Upon completion of the planned OIZs, Marmara Region will leave its first position to Southeastern Anatolia and Central Anatolia. OIZs provide severals benefits both to the legal entity of the OIZs as well as to the companies operating within (i.e. some tax exemptions and fees).

In addition to cheaper labour, economic opportunities in the nearby countries also drive companies' interests in the eastern part of Turkey.

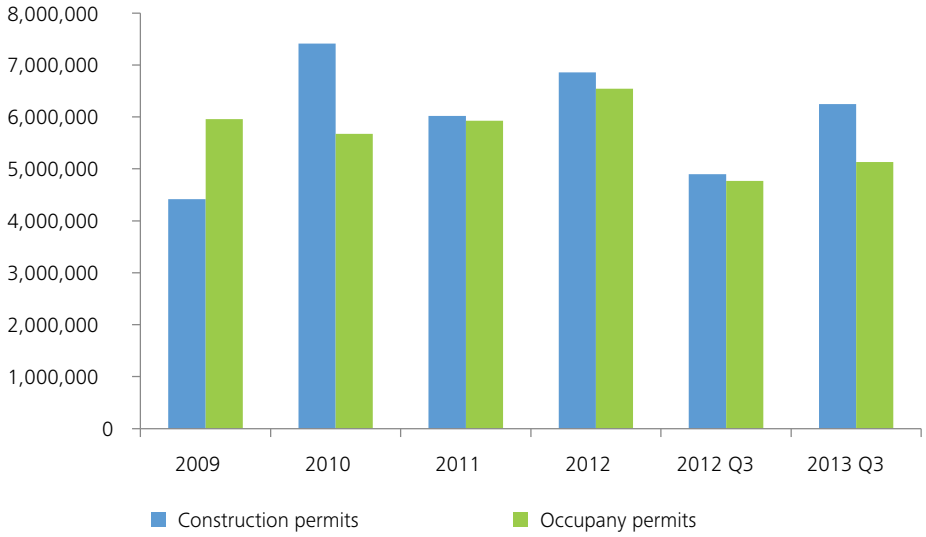
Table 5: Organized Industrial Zones in Turkey

	2013	2014 Planned	2013 + 2014 Planned
Regions	Area (Hectars)	Area (Hectars)	Area (Hectars)
Southeastern Anatolia	4,224	3,798	8,022
Central Anatolia	5,531	1,849	7,380
Marmara	5,438	870	6,308
Aegan	4,290	1,236	5,526
Mediterenean	3,456	486	3,942
Black Sea	3,242	1,719	4,961
Eastern Anatolia	2,358	1,936	4,294
Total	28,539	11,894	40,433

Source: The Ministry of Science, Industry and Technology

There has been a growing demand for new industrial buildings and warehouse buildings. The construction permits for the industrial buildings and warehouses have seen a 27.5% increase in the first 3 quarters of 2013 compared to the same period last year reaching to 6 million m^2.

Graph 22: Industrial buildings and warehouses construction and occupany permits (m^2)



Source: Turkstat

Increased manufacturing activity and trade volume drives a need for better logistics infrastructure. Many logistics infrastructure projects are taking place such as new airport projects, dual carriage ways, high speed train network and capacity enhancement projects in Turkish ports. Furthermore, in the past years new logistics centers/villages have been constructed with the aim of lowering the costs of transportation by offering different modes of transportation, storages and offices for rent and access to services (i.e. custom consultancy, packaging, import-export companies, etc.) in a single location. With this aim, Turkish State Railways has initiated 18 logistics centers. Turkish State Railways is responsible for the construction of connections to the railways and related storage areas while the private sector will be constructing the warehouses and other structures. The first private sector international logistics base (Ankara Logistics Base) was established in 2004. In addition to the ones initiated by the Turkish State Railways, more private sector logistics centers/villages are also expected to be constructed.

Table 6: Logistics centers / villages initiated by the Turkish State Railways

Location	Capacity	Area	Status
İstanbul (Halkalı)			In operation
Samsun (Gelemen)	1.1 million tonnes capacity		In operation
Uşak	246 thousand tonnes capacity	140 thousand square meters	In operation
Denizli (Kaklık)	500 thousand tonnes capacity	120 thousand square meters	1. Phase completed
Eskişehir (Hasanbey)	1.4 million tonnes capacity		1. Phase completed
İzmit (Köseköy)	2 million tonnes capacity		1. Phase completed
Kayseri (Boğazköprü)	1.8 million tonnes capacity		1. Phase completed
Balıkesir	1 million tonnes capacity	211 thousand square meters	Construction and project development
Bilecik (Bozüyük)	1.9 million tonnes capacity	400 thousand square meters	Construction and project development
Erzurum (Palandöken)	437 thousand tonnes capacity	276 thousand square meters	Construction and project development
Konya (Kayacık)	1.7 million tonnes capacity	1 million square meters	Construction and project development
Mardin (GAP)	1.5 million tonnes capacity	316 thousand square meters	Construction and project development
İstanbul (Yeşilbayır)	6 million tonnes capacity	1 million square meters	Construction and project development
Kahramanmaraş (Türkoğlu)	1.9 million tonnes capacity	797 thousand square meters	Construction and project development
Kars Lojistik Merkezi	412 thousand tonnes	316 thousand square meters	Construction and project development
Sivas Lojistik Merkezi	1 million tonnes capacity	500 thousand square meters	Construction and project development
Mersin (Yenice)	896 thousand tonnes capacity	398 thousand square meters	Construction and project development
Habur (Şırnak)			Construction and project development

Source: The Turkish State Railways (TCDD), dunya.com

Considering the strategic position of Turkey as a manufacturing and export base connecting Europe and Asia whose attractiveness will further be enhanced by the construction of the logistics projects, demand for high quality industrial buildings and warehouses will continue. With the government's new incentive schemes, the improvement of the logistics infrastructure with the construction of logistics centers and infrastructure projects, construction of additional organized trade zones, the demand may shift toward the eastern part of Turkey. Thus Eastern regions may become attractive destinations especially for those companies interested in access to the MENA region. This will drive the demand for high quality industrial buildings and warehouses in these regions.

4. Real Estate Hot Topics in the Next 3 Years

Urban Regeneration

Urban Renewal and Development officially started in Turkey after the enactment of law no. 6306 "Renewal of Regions under Disaster Risks" in 2012. According to the Ministry of Environment and Urbanism, 6.5 million residences are planned to be demolished and reconstructed within a 20 years time within the scope of the Urban Renewal Project. A budget of USD 400 billion is estimated to be required for this initiative where the private sector is expected to play the largest role.

Housing Development Administration of Turkey (TOKİ) was established in 1984 to create solutions to the problems of distorted urbanization and housing. Until 2003, limited projects have been completed by TOKI; however the restructuring of TOKI as an autonomous entity directly linked to the Prime Ministry combined with the development of TOKI's land portfolio enabled the faster execution of such projects. Between the years 2003 – 2013, working with the local authorities, TOKI housing projects reached a total of 609,440 units in 800 different towns, 88,170 of which have been constructed as part of the Urban Renewal Program. As a part of its 2023 goals, which is the Turkish Republic's 100th anniversary, TOKI plans to reach a total of 1 million housing.

Apart from TOKI's initiatives, the government also provides "lease" support and "loan" support to residents that are living in the "risky" areas. The amount of the loan support is as follows:

Table 7: The breakdown of TOKI housing projects

Type of housing	Number of houses	Percentage
Medium and Low Income Groups	245,659	40.3%
Low Income and Poor Groups	144,851	23.7%
Urban Transformation (Urban Renewal)	88,170	14.4%
Disaster Applications	37,708	6.2%
Agriculture Village Projects	5,694	0.9%
Total social housing	**522,082**	**85.6%**
Income-Sharing Model (by TOKI)	22,974	3.8%
Income-Sharing Model (by TOKI's Affiliates)	64,384	10.6%
Total income sharing	**87,358**	**14.3%**
Total	**609,440**	**100.0%**
Under evaluation	6,209	
Tenders with a set date	5,153	
Total	**620,802**	

Source: TOKI, March 2014

A budget of 400 billion USD is estimated to be required for the urban renewal initiative, where the private sector is expected to play the largest role.

Table 8: Loan supports provided within the scope of Urban Regeneration

Loan type	Interest support	Max. years before payback (years)	Max. instalments (years)
Reinforcement of buildings	4%	2	10
Construction of housing	4%	2	10
Construction of offices	3%	2	7

Source: The Ministry of Environment and Urbanism

The government also provides temporary housing or office spaces. When this is not possible, the government covers a certain amount of the monthly "rent" (as determined by the Ministry of Environment and Urbanism), which the residents in regeneration areas or in risky buildings need to pay after they evacuate their housing/office space, until the housing is complete or for a predetermined time[8].

With the implementation of Urban Regeneration initiatives many banks have also developed loans specific to urban regeneration. Under the Urban Regeneration initiative, the cities that are on the seismic belt such as İstanbul, Kocaeli, Sakarya, Bursa and İzmir have priority. However, the urban regeneration is spreading to Anatolian cities.

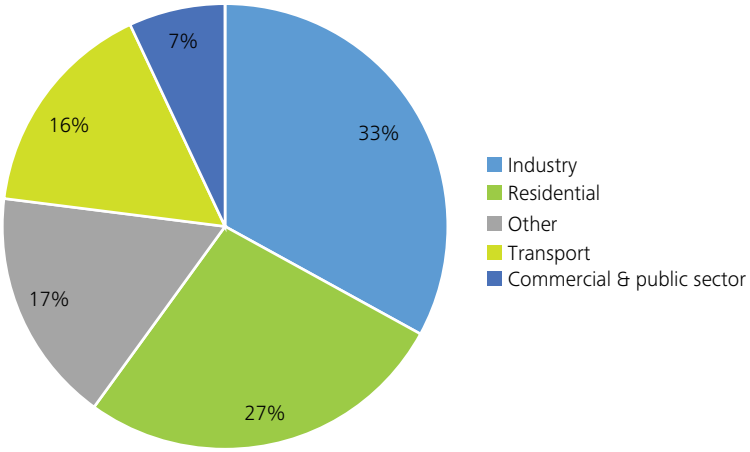
Green Buildings

The residential sector with a 27% share comes second after the industrial sector in total energy consumption of Turkey. To promote energy efficiency measures in buildings, several regulations have been enacted over the years. In 2008, "Energy performance of buildings" regulation was declared. This regulation covers the principles and procedures regarding effective and efficient use of energy and energy resources in buildings. In 2012, "Energy Efficiency Strategy Paper" was published defining the energy efficiency targets for the period of 2012-2023. This paper aims to decrease the energy demand and carbon emission of buildings: promoting sustainable environment-friendly buildings using renewable energy sources.

From an energy efficieny perspective, Urban Regeneration Initiative is a good opportunity to construct new buildings with better energy efficiency standards. With this purpose, the initiative supports government's objectives and the new buildings are designed and constructed according to the new building/energy efficiency standards as part of the initiative. By March 2014, approximately 61,000 buildings were completed under these new standards. The target is to increase this number to 400,000 by the end of 2014 according to the Housing Devolepment Administration of Turkey.

The green buildings take the concept of energy efficiency and sustainability to a higher level. The green buildings are environmentally responsible and resource efficient throughout a building's complete life-cycle: from site selection to design, construction, operation, maintenance, renovation and destruction. There are systems that assess buildings according to their impacts on environment. The main green building certification systems around the world are BREEAM, LEED, IISBE, CASBEE and DGNB. In general, certification systems have a scoring methodology by looking criterias such as efficient energy usage, water consumption efficiency, waste management, pollution, health and well-being (noise, light, air quality), smart location, usage of sustainable building materials, etc. As of February 2014, there are 81 certified green buildings in Turkey. Among these buildings, the majority are the office buildings followed by shopping centers and schools. According to the US Green Building Council ranking, in terms of total number of both registered and certified LEED projects as of May 2013, Turkey is in the ninth place globally.

Graph 23: Energy consumption by sectors, 2012



Source: EIU Estimates

From investment point of view, green buildings offer diverse benefits to asset owners.

Table 9: Country rankings based on LEED certified projects and gross m²

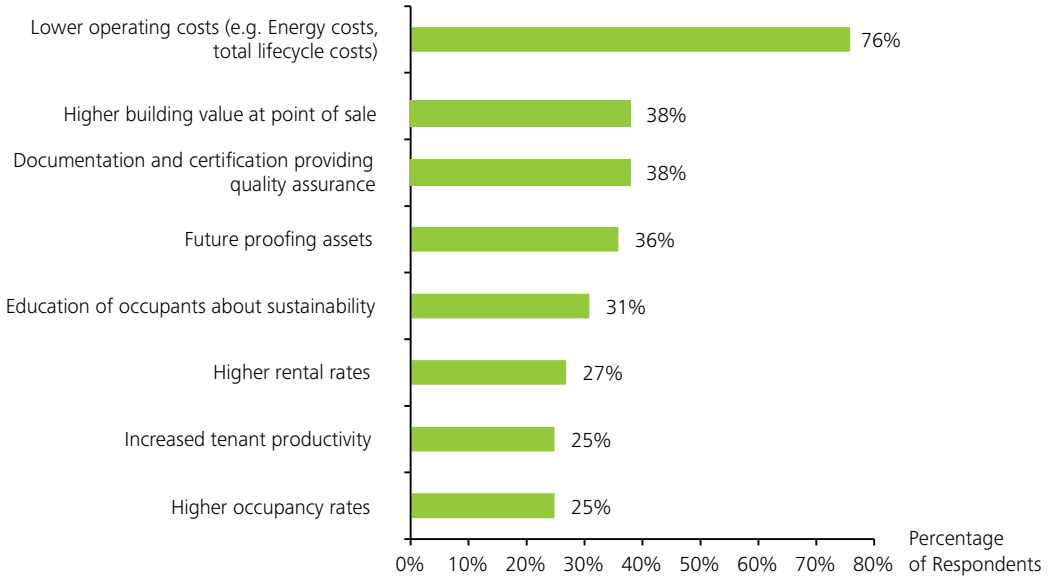
Countries	# of projects	Gross Square Meters in millions
United States	44,220	595.8
Canada	4,212	62.3
China	1,156	66.5
United Arab Emirates	808	46.1
Brazil	638	18.1
India	405	6.9
Mexico	322	7.9
Germany	299	6.1
Turkey	**194**	**8.9**
Republic of Korea	188	15

Source: The US Green Building Council- includes projects registered through the US, GBC, GBCI, Canada GBC, and Indian GBC Note: Different countries use different certifications (BREEAM, IISBE, CASBEE, DGNB). However, this table only indicates ranking based on LEED certifications.

From the investment point of view, green buildings offer diverse benefits to asset owners. According to a study conducted by McGraw Hill in 2013, higher building value at point of sale, higher rental and occupancy rates can be seen amongst the significant benefits of green buildings for investers.

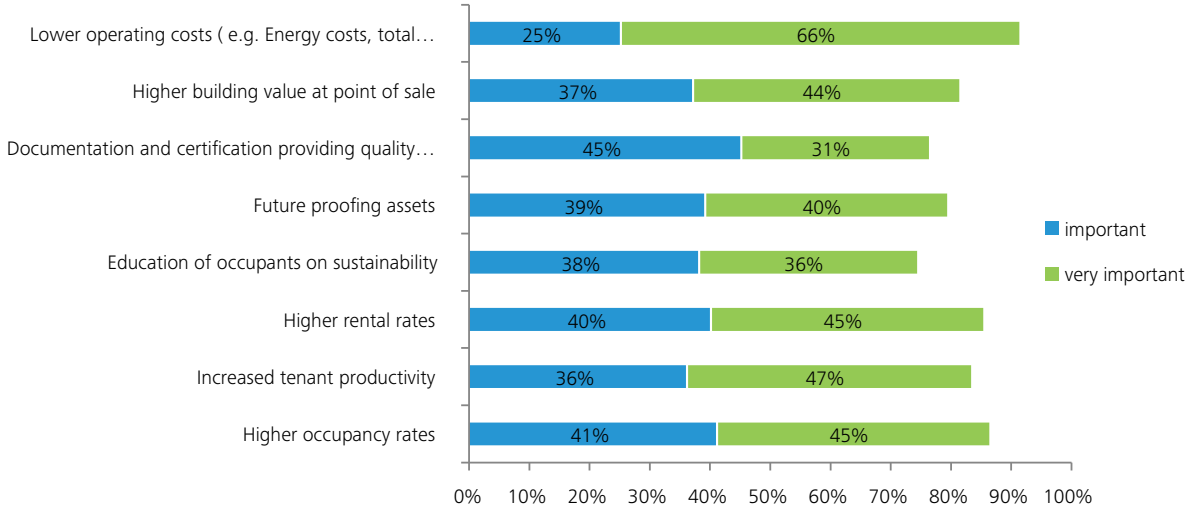
Higher building volume at point of sale is particularly important to commercial building owners who more frequently sell their assets. According to the study, 41% of the owners expect more than 6% increase in asset value.

Graph 24: Benefits of green buildings



Source: McGraw Hill Construction, 2013

Graph 25: Level of importance of benefits of green buildings



Source: McGraw Hill Construction, 2013

The green buildings have several benefits to the homeowners- providing better durability, energy savings, water savings and improved air quality. With stricter regulations as well as increasing awareness of the population about the benefits of the green buildings, the popularity of the green buildings will increase over the long-term. This increasing demand combined with the resulting impact on asset values, "green investments" will be a key trend to watch for the real estate industry in the long run.

Third Bridge, Third Airport and Highway Projects

There have been significant improvements in the logistics infrastructure of Turkey in the past years. New airports have been built in many cities of Anatolia and capacity of ports are increased. Many dual carriageways are ongoing and the high-speed train network construction has commenced connecting major cities impacting the increase of freight and passenger transportation volume. The improvement of the logistics infrastructure and the better connection between multi-modes of transport will improve accessibility of many regions and attract new businesses along these corridors. However, there are several critical infrastructure projects that are worth mentioning since they will have an impact on the real estate market development when completed.

Third Bridge

Amongst these infrastructure projects, the third bridge which will be the world's widest suspension bridge (59 meters) and longest spanning one (1.4 kms) with a rail system commenced in 2013 within the Northern Marmara Highway project located at the Odayeri – Paşaköy section. The project is planned to be completed by 2015. It will consist of 8 highway lanes and 2 railway lanes, which will connect Edirne to İzmit linked with the Marmaray and İstanbul Subway[9].

Third Airport

The airport is planned to be amongst the largest airports in the world, with a yearly capacity of 150 million passengers.

The airport is planned to be integrated to the North Marmara Highway and The Third Bosphorus Bridge as well as the high-speed train network. The airport is expected to be constructed on an area of 3,500 hectars close to the Black Sea shore and Terkos Lake close to Arnavutköy – Göktürk - Çatalca intersection on the European side of İstanbul.

Highway Projects

Currently, there are more than 2,100 km of operating highways in Turkey and 535 km of new projects are ongoing[10]. Upon completion of these ongoing and planned projects, the Turkish operational highway network will be extended by approximately 5,500 km. The government further aims to build an additional 4,000 kms through public private partnership model with a target to reach approximately 12,000 km highways by 2035[11].

The three key ongoing projects will have significant impact on the transportation and logistics network with potential to effect the real estate investments as well.

> The better connection between multi-modes of transport will improve the accessibility of many regions and attract new businesses along these corridors.

Table 10: Ongoing highway projects

	Ongoing Projects (Build – Operate - Transfer)	KM
1	Gebze Orhangazi İzmir Highway (İstanbul – İzmir Highway)	433
2	North Marmara Highway/ Odayeri- Paşaköy (Third Bosphorus Bridge)	95
3	Sabuncubeli Tunnel (being constructed on Manisa – İzmir highway which is a major tourism, trade, mining and logistics route)	7

Source: The Ministry of Transport, Maritime Affairs and Communications

İstanbul - İzmir Highway will significantly shorten the duration of transportation between İstanbul and major cities in Turkey such as İzmir, Bursa and Eskişehir compared to the existing road structure.

Table 11: Impact of İstanbul - İzmir Highway

Transportation between….	Current duration	Expected duration
İstanbul - İzmir	8.0 - 10 hours	3.5 - 4.0 hours
İstanbul - Bursa	2.5 - 3.0 hours	1.0 hour
İstanbul - Eskisehir	3.0 - 3.5 hours	2.0 - 2.5 hours

Upon the completion of this project, distance between two major commercial and industrial cities in Turkey- İstanbul and Bursa - will be reduced from 2.5-3 hours to 1 hour. With the construction of the bridge over the İzmit bay, the bay will be travelled (12 km) within 6 minutes compared to the current alternative of crossing by ferry which lasts for 45 – 60 minutes. This will ease the working and living conditions in two cities.

The new highway construction will have a positive impact on the Balıkesir and Manisa's (which are on the planned routes) attractiveness as potential destinations for new industrial investments. Furthermore, Eskişehir–Bozüyük–Bilecik region is also expected to benefit from new investments.

Upon the completion of these projects, accessibility will be improved impacting the enhancement of current industrial zones. New residential and commercial zones will emerge around the highways impacting the value of the lands surrounded by these highways.

Hospitals

With the Turkish Ministry of Health's adoption of the Health Transformation Program in 2003, the Turkish health industry has gone through a series of reforms. As part of this transformation program, the Ministry also aims the construction and renovation of health facilities in Turkey through the Public Private Partnership ("PPP") financing model.

The Ministry tenders the construction/renovation of hospitals in Turkey to the private sector; the contractors winning the bids are responsible for the construction of these facilities. Once the health facilities are constructed, the government will pay a rent in return and provides health services to the public. The preferred contractor of the tender, in addition to rents, will be able to generate revenue by providing other services such as cleaning, security, etc. or management of commercial zones in these facilities. This model enables faster construction/renovation of health facilities which otherwise would take longer to complete due to the governmental budget constraints.

However, some NGOs and individuals have challenged these PPP projects which resulted in the suspension of some project implementations. However, a new law- Law No. 6428 "Construction of Facilities, Renovation of Existing Facilities and Purchasing Service by the Ministry of Health by Public Private Partnership Model" was enacted as effective from 9 March 2013, with the aim of enabling continuation of the pending health PPP projects by improving the issues determined by the Council of State.

Although oppositions with regards to the application of Partner Private Partnership model for the public hospitals are not still resolved completely, the need for renovation and reconstruction of public hospitals is still valid and represents a good opportunity for the real estate industry.

Table 12: List of hospital projects

Stage	Name of Hospital	Capacity
Projects on Construction	Ankara Bilkent Integrated Health Campus	A total capacity of 3,662 beds
	Ankara Etlik Integrated Health Campus	A total capacity of 3,566 beds
	Kayseri Integrated Health Campus	A total capacity of 1,583 beds
Projects on the Contract Phase	Adana Integrated Health Campus	A total capacity of 1,539 beds
	Elaziğ Integrated Health Campus	A total capacity of 1,038 beds
	Gaziantep Integrated Health Campus	A total capacity of 1,867 beds
	Konya Karatay Integrated Health Campus	A total capacity of 838 beds
	Manisa Education and Research Hospital	A total capacity of 558 beds
	Mersin Integrated Health Campus	A total capacity of 1,253 beds
	PTR, Psychiatry and High Security Forensic Psychiatry Hospitals	A total capacity of 2,400 beds in 8 cities
	Yozgat Education and Research Hospital	A total capacity of 475 beds
	İstanbul Ikitelli Integrated Health Campus	A total capacity of 2,682 beds
Projects on the final bid phase	Kocaeli Integrated Health Campus	A total capacity of 1,355 beds Rehabilitation Hospital,
	Isparta City Hospital	A total capacity of 755 beds
	Izmir Bayrakli Integrated Health Campus	A total capacity of 2,000 beds
Projects on the bid phase	Bursa Integrated Health Campus	A total capacity of 1,180 beds
	TPHA+TPMDA Campus	
Projects on the pre-qualification phase	Eskisehir City Hospital	A total capacity of 1,060 beds
Projects on the pre-qualification tender announcement phase	İstanbul Bakirkoy Integrated Health Campus	A total capacity of 1,043 beds
	İstanbul Uskudar Public	A total capacity of 425 beds

Source: The Ministry of Health, March 2014

Medical Tourism

The number of patients who received medical services in Turkey has grown at a CAGR of 37% between 2008-2012 reaching approximately 270,000 patients in 2012. Libya, Germany, Iraq are the top countries where patients come from. Antalya, İstanbul, Ankara and Kocaeli are amongst the top medical tourism destinations where international patients visit. The Ministry of Health has set a target to reach 500,000 foreign patients with USD 7 billion revenue in 2015, and 2 million foreign patients and USD 20 billion revenue by 2023. The share of private hospitals is expected to be approximately 90 percent.

With the construction of city hospitals and plans for implementing medical free zones as part of the Healthcare Transformation Program, the government aims to make Turkey amongst the leading countries in medical tourism destinations.

In order to increase foreign investments, the government is working on changes to law no. 3218 on free zones to include regulations with regards to establishment of healthcare free zones. Although the law has not been enacted yet, the healthcare free zones are planned to be established around cities where international tourists can easily access. Medical hospitals, thermal and elderly tourism facilities, rehabilitation centers, R&D centers, etc. are planned to be constructed within the scope of the free zones. The free zones are expected to provide several tax incentives (i.e. corporate tax, social security, VAT, etc.) and some investment support. Foreign medical personnel (60% international doctors and nurses) will be working and 85% of the total patients will be foreigners[12].

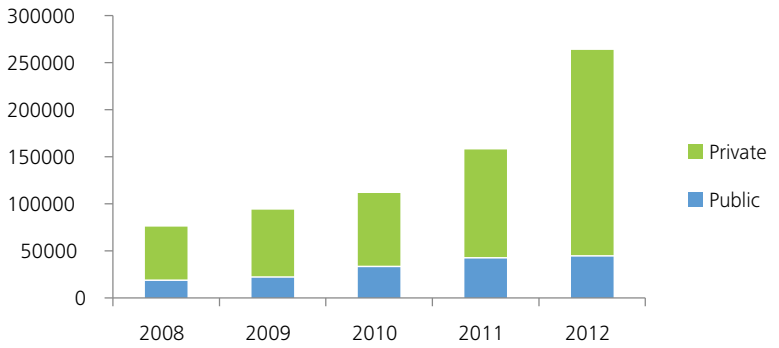
Considering the government's intentions to make Turkey amongst the top medical tourism destinations and the initiatives as part of the Healthcare Transformation Program such as the need for renovation/reconstruction of public hospitals and the introduction of the healthcare free zones, many investment opportunities may arise in the healthcare industry. It is indicated that public hospitals will only cover 10% of the medical tourism demand, the rest will need to be served by the private sector. Cities that are easily accessible by international patients and at the same time provide touristic attractions will be the hot spots for the new hospital investments.

Table 13: Top 10 Provinces visited by international patients, 2012

Cities	Number of International Patients
Antalya	87,167
İstanbul	68,842
Ankara	18,926
Kocaeli	14,101
İzmir	13,925
Muğla	13,183
Aydın	7,128
Karaman	4,590
Adana	4,031
Sakarya	3,493

Source: Evaluation Report On Medical Tourism In Turkey 2013, Turkish Ministry of Health

Graph 26: Number of foreign patients who received medical services in Turkey



Source: Evaluation Report On Medical Tourism In Turkey 2013, Turkish Ministry of Health

The Turkish Real Estate Sector from Foreign Investors' Perspective

Foreign investors have shown interest in the Turkish real estate and construction market in the past years. In 2013, all M&A transaction volume totaled to USD 17.5 billion with 217 deals in Turkey. Out of these deals, 12 of them were categorized under infrastructure, real estate and construction sectors at an amount of more than USD 1.5 billion (exluding the 5 deals whose deal values are not disclosed). There were 5 transactions that involved acquirers of foreign origin in 2013 with a deal size of more than USD 800 million. In 2012, there were 15 deals in this category with 8 transactions that involved acquirers of foreign origin with more than USD 1 billion deal value (excluding the 7 deals whose deal values are not disclosed).

Table 14: M&A activities in the Turkish real estate, construction and infrastructure sectors 2012 - 2013

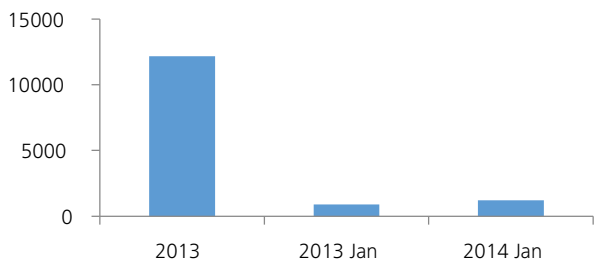
Acquirer	Origin	Target	Sector	Year	Stake	Deal Value (US $Million)
Doguş Holding A.Ş.	Turkey	Galataport	Infrastructure	2013	100.0%	702
Malaysia Airports Holdings	Malaysia	İstanbul Sabiha Gökçen Airport	Infrastructure	2013	40.0%	308
GIC Real Estate	Singapore	Feriköy Gayrimenkul Yatırım (Optimum İstanbul Shopping Mall)	Real Estate	2013	50.0%	236
GIC Real Estate	Singapore	Kurtköy Gayrimenkul (Ankara Optimum Shopping Mall)	Real Estate	2013	50.0%	165
Jadwa Investment Company	Saudi Arabia	Cemre İnşaat	Construction	2013	37.0%	100
Alarko Holding	Turkey	Alarko Deyaar Gayrimenkul Geliştirme	Real Estate	2013	50.0%	21
Private Investor (Kenan Onak, Ayten Onak)	Turkey	KRC Gayrimenkul Yatırım	Real Estate	2013	36.0%	13
Setur	Turkey	Çelebi Marina ve Yat İşletmeciliği	Infrastructure	2013	100.0%	N/D
Garanti-Koza İnşaat	Turkey	Garanti-Koza Akiş; Akfil Holding	Construction	2013	100.0%	N/D
Yılport Yarımca Yatırım	Turkey	Rota Liman Hizmetleri	Infrastructure	2013	100.0%	N/D
The Abraaj Group	UAE	Republika Academic Apartments	Real Estate	2013	N/D	N/D
Altındağ Gayrimenkul	Turkey	Multi Yirmisekiz Emlak	Real Estate	2013	50.0%	N/D
Koç Holding; UEM Group Berhad; Gözde Girişim	Turkey	Highways and Bridges	Infrastructure	2012	100.0%	5.720
Aeroports de Paris Group	France	TAV Havalimanları Holding	Infrastructure	2012	38%	874
Borova Yapı	Singapore	Yeşil İnşaat	Construction	2012	100%	136
Aeroports de Paris Group	France	TAV Yatırım Holding	Infrastructure	2012	49%	49
Mehmet Güneş İnşaat	Turkey	Kemerköy Port	Infrastructure	2012	100%	31
Eser Holding	Turkey	EGS Park	Real Estate	2012	100%	28
Ozak Gayrimenkul	Turkey	Artstate	Real Estate	2012	100%	17
Fervonia Holding	Netherlands	Mel 4 Gayrimenkul	Real Estate	2012	50%	10
Yıldırım Group	Turkey	Gemport	Infrastructure	2012	54%	N/D
Blackstone	USA	Redevco Turkey Operations	Real Estate	2012	100.0%	N/D
Inframinervois Holding	France	Iskenderun Port	Infrastructure	2012	20%	N/D
Global Yatırım	Turkey	Global Liman	Infrastructure	2012	22.1%	N/D
Government of Singapore Inv. Corp.	Singapore	Feriköy Gayrimenkul	Real Estate	2012	50%	N/D
Turkuaz Turizm	Turkey	Sireo Gayrimenkul	Real Estate	2012	100%	N/D
CBRE Group	USA	CBRE Turkey	Real Estate	2012	100%	N/D

Source: Deloitte Annual Turkish M&A 2012 - 2013

Furthermore, there are developments in the residential market with respect to sales to individuals with foreign origin. These developments may also have a potential positive impact on the residential and hotel industry in the touristic regions of Turkey. After the elimination of reciprocity principle in 2012 with regards to the sale of real estate to foreigners, the real estate industry has witnessed an increase in housing sales to foreign individuals. In addition, with government's introduction of a new law to supplement the existing law to extend residence permits of foreigners from three months to one year and allowing the renewal of the residence permits as long as the foreigners continue to own a property in Turkey (which is expected to be in effect in April 2014), sales to foreigners may see a further increase.

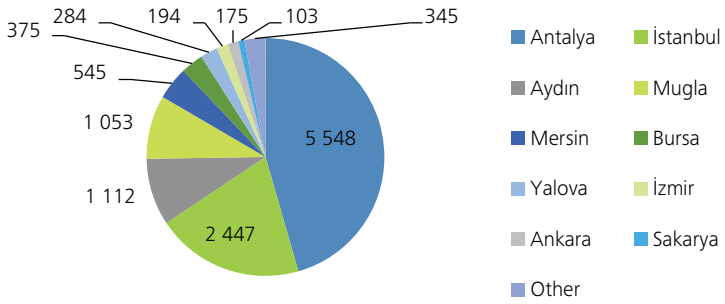
In January 2014, 1,207 houses were sold which is a 35% increase compared to the same month of the last year. The top three cities that are popular amongst the foreigners to be considered for real estate purchase are Antalya, İstanbul and Aydın. The investors may focus on these rich touristic destinations on the southern and western coast of Turkey for construction and management of properties that are designed for the needs of the foreigners as foreigners may prefer to own their estate rather than staying at a hotel, more affordably for an extended period of time.

Graph 27: House sales to foreigners



Source: Turkstat, General Directorate of Land Registry and Cadastre (GDLRC)

Graph 28: Breakdown of house sales to foreigners



Source: Turkstat, General Directorate of Land Registry and Cadastre (GDLRC)

Appendix

Regional Investment Schemes

	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
General incentives	• Min. investment: 1 million TL • VAT Exemption • Customs duty exemption	• Min. investment: 1 million TL • VAT Exemption • Customs duty exemption	• Min. investment 500.000 TL • VAT Exemption • Customs duty exemption	• Min. investment: 500.000 TL • VAT Exemption • Customs duty exemption	• Min. investment: 500.000 TL • VAT Exemption • Customs duty exemption	• Min. investment: 500.000 TL • VAT Exemption • Customs duty exemption
Regional incentives*	• Lowest investment: 1 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Lowest investment: 1 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Lowest investment: 500.000 TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support • Land Allocation	• Lowest investment: 500.000 TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support • Land Allocation	• Lowest investment: 500.000 TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support • Land Allocation	• Lowest investment: 500.000 TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Income Tax Withholding Allowance • Social Security Premium Support (Employee’s Share) • Interest Rate Support • Land Allocation
Large scale investment incentives	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation	• Min. investment varies depending on the industry) • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Income Tax Withholding Allowance • Social Security Premium Support (Employee’s Share) • Land Allocation
Strategic investment incentives	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation • VAT Refund**	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Land Allocation • VAT Refund**	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support* • Land Allocation • VAT Refund**	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support* • Land Allocation • VAT Refund**	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Interest Rate Support* • Land Allocation • VAT Refund**	• Min. investment: 50 million TL • VAT Exemption • Customs duty exemption • Tax reduction • Social Security Premium Support (Employer’s Share) • Income Tax Withholding Allowance • Social Security Premium Support (Employee’s Share) • Interest Rate Support* • Land Allocation • VAT Refund**

* Minimum fixed investment amount is defined separately for each sector.

** For strategic investments with a minimum fixed investment amount of TRY 500 million.

Source: ISPAT


EDIRNE
KIRKLARELİ
TEKIRDAĞ
İSTANBUL
KOCAELİ
YALOVA
SAKARYA
DÜZCE
BOLU
ZONGULDAK
KARABÜK
BARTIN
KASTAMONU
SİNOP
SAMSUN
ÇANKIRI
ÇORUM
AMASYA
ORDU
GİRESUN
TRABZON
RİZE
ARTVIN
ARDAHAN
KARS
IĞDIR
AĞRI
ÇANAKKALE
BURSA
BİLECİK
BALIKESİR
ESKİŞEHİR
ANKARA
KIRIKKALE
YOZGAT
TOKAT
GÜMÜŞHANE
BAYBURT
ERZURUM
ERZİNCAN
SİVAS
KÜTAHYA
KIRŞEHİR
TUNCELİ
BİNGÖL
MUŞ
MANİSA
UŞAK
AFYONKARAHİSAR
NEVŞEHİR
KAYSERİ
MALATYA
ELAZIĞ
BİTLİS
VAN
İZMİR
AKSARAY
KONYA
NİĞDE
KAHRAMANMARAŞ
ADIYAMAN
DİYARBAKIR
BATMAN
SİİRT
AYDIN
DENİZLİ
ISPARTA
BURDUR
MUĞLA
KARAMAN
OSMANİYE
GAZİANTEP
ŞANLIURFA
MARDİN
ŞIRNAK
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ADANA
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ANTAKYA
Regions
1
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6

Municiptality Tax	Real Estate (Property) Tax Real Estate Tax is annually levied by the relevant Municipality. It is to be paid in two installments during the year (end of May/November) at the following rates: • Buildings used for housing : 0.1% (0.2% for those located in greater municipalities) • Other Buildings (i.e. those used as factory, office): 0.2% (0.4% for those located in greater municipalities) • Land ("Arazi"): 0.1% (0.2% for those located in greater municipalities) • Plots of land ("Arsa"): 0.3% (0.6% for those located in greater municipalities) These rates are applied twice as much if the relevant real estate is located within the boundaries of large cities like Istanbul, Izmir, Ankara etc.
	Municipality Tax for Environment Cleaning: • Levied for the purpose of environment cleaning if buildings are used for housing, as a place of business, as well as other purposes. Tax is levied at certain fixed amounts which change every year based on certain defined categories.
	Compulsory Contribution for Protection of Immovable Cultural Monuments: • 10 % of the annually accrued real estate tax (paid to the Municipality together with the real estate tax). • Real Estate Tax base is the taxable value determined according to the Article 29 of Real Estate Tax Law.
Stamp Tax	• If a sales agreement is concluded between buyer and seller which includes a certain monetary amount, the agreement is subject to 0.948% stamp duty. There is cap of YTL 1,487,397.70 TL for stamp duty which sets the maximum amount payable for per original document. • Both parties to the agreement are jointly liable for stamp tax.
VAT	• Sale or rental of immovables by a resident company: subject to 18% VAT • The delivery of materials (e.g. Cement, roofing materials etc.) used for construction of buildings is subject to 18% VAT. • Delivery of flats with a net area of up to 150 m^2 is subject to 1% VAT. Others subject to 18 % standard VAT. • Construction work delivered to cooperatives established for the purpose of housing is subject to 1% VAT. • Sale of real estate that is not held as inventory is exempt from VAT if the holding period exceeds 2 years. • Tax value of houses calculated between 500 TL and 1,000 TL are subjected to %8 VAT, more than 1,000 TL those are subjected to %18 VAT for the sale of houses in metropolitan municipal.
Deed Charges in Case of Sale	• 2% of the real estate value: Payable by both the seller and buyer. Total Burden: 4% of the Real Estate Value • Base for Title Deed Charge Calculation: Acquisition value of the immovable. • There is also a compulsory contribution to be paid to the Title Deed Office (the amount changes every year depending on geographical location).
Other Information	Sell and Lease Back • The New Law (No. 6361) has enabled financial leasing of the assets not only from third parties but also from the lessee. By this way, sell - lease back system which is a widely preferred financing method in many countries has been adopted. • A cash-strapped company can sell its real estate to a financial company and lease it back afterwards.
	• Under the Law transactions (sell, lease and passage of title) are made by lease, factoring and financing companies are exemption from VAT, stamp duty. • Gains on sale of assets is exempted from corporate tax. • In the end of leasing period, transfering ownership to renter is not subject to title of deed fees.

Endnotes

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25. General Directorate of Land Registry and Cadastre (GDLRC)
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Notes

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