INVEST IN TURKEY

The Real Estate Sector in Turkey

Presented by
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The Real Estate Sector in Turkey

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Preface

"The Real Estate Sector in Turkey", written in collaboration with JLL, aims to assist individuals and companies wishing to invest in Turkey by providing information on the real estate sector in the country. This report consists of information on a variety of topics that investors take into consideration during the real-estate investment process. These topics include the economic outlook, an overview of Turkey's residential, office, retail and logistics markets, mega projects, the property acquisition framework in Turkey, as well as building and occupancy permits.

Turkey is a dynamic and growing G20 economy that links east and west in a unique way. In addition to being one of the world's fastest growing economies, Turkey also supports international investors' growth via a business-friendly agenda and through access to a large domestic market and neighboring international markets.

Strong market fundamentals, such as a young and dynamic population with an average age of 30, a well-educated work force, an increasing employment rate, a growing middle-class, and a unique geographical location, have all helped transform Turkey into the fastest growing OECD member country. As of the end of 2017, Turkey is the 13th largest economy (GDP at PPP) in the world, with an average annual growth rate of 5.6 percent since 2003.

Turkey's location at the crossroads of Europe, Central Asia, and the Middle East, provides easy access to the European, Middle Eastern, North African, Central Asian, and Gulf markets. These markets comprise more than 1.6 billion people and account for a total GDP of USD 28 trillion. More than half of the world's trade takes place within a four-hour flight radius of Turkey – a key reason why multinational companies have chosen Turkey as a strategic regional hub for their operations.

Furthermore, the real estate investment environment in Turkey has progressed in an investor-friendly fashion in recent years thanks to the reforms that have been implemented. With the "Abolishment of Reciprocity Law" that entered into force in 2012, persons with foreign nationality can buy any kind of property (house, business place, land, and field) in Turkey within the legal restrictions. Moreover, some fiscal measures, such as decreasing the value added tax and an annulment of stamp duty taxes, were taken in the housing market.

I would also like to take this opportunity to remind you that the Investment Support and Promotion Agency of Turkey (ISPAT) is not only the official organization for promoting Turkey's investment opportunities to the global business community, but also a top-notch resource center featuring the most in-depth and up-to-date information on every issue related to Turkey. It goes without saying that our dedicated teams are more than willing to do the utmost to provide you customized guidance on a fully confidential basis.

Finally, I would like to extend a special thanks to the team from JLL for sharing their expertise and market insight with us in contributing to this report.

We hope this report will benefit all those corporations, individuals, and business executives who are interested in real estate investment in Turkey. Please feel free to get in touch with us about any of your business-related queries.

Arda Ermut

ISPAT President

shared AMBITION

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of more than 77,000.

This report is exclusively prepared for ISPAT by JLL Turkey.

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Contents

Economic Outlook

The largest economy of CEE and the 5th largest economy in Europe overall

Almost* USD 26,500 *GDP per Capita on PPP

USD 130 billion *FDI over the last 10 years*

80.8 million *population and* 31.8 million *workforce*

a. GDP

According to the World Bank GDP (PPP) Ranking, Turkey is the largest economy of Central and Eastern Europe (CEE) and the fifth largest economy in Europe overall. According to IMF figures, Turkey's PPP-adjusted GDP actualized at USD 1,908 billion as of 2015 and reached USD 1,988 billion as of 2016 year-end. The table below shows that Turkey's GDP figures are higher than many CEE countries' GDP figures. The Ministry of Development's 2018–20 Medium-Term Program (MTP) projects that the growth rate will be maintained at 5.5% for 2017, while the IMF projection indicates a growth rate of 5.1%.

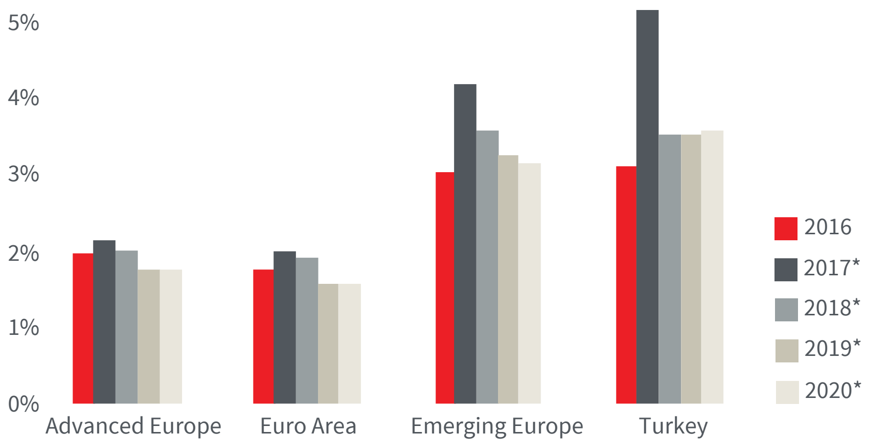
PPP Adjusted GDP (bn USD)

PPP GDP (bio USD)	2014	2017*	2020*
Russia	3,891	4,000	4,451
Turkey	1,780	2,133	2,513
Poland	963	1,111	1,292
Romania	396	474	564
Czech Republic	320	373	425
Bulgaria	132	152	177
Serbia	96	107	126
Croatia	89	100	115
Lithuania	81	91	106
Latvia	47	53	63

Source: World Economic Outlook Report, October 2017, (*) Forecast

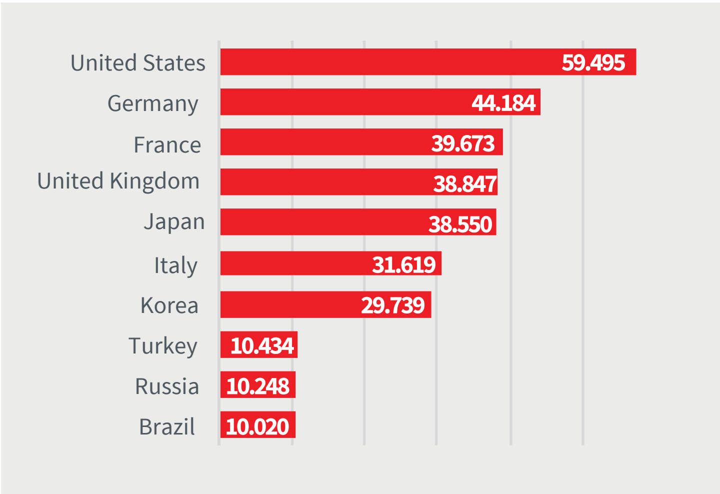
In recent years, the Turkish economy showed a better growth performance compared to Advanced Europe, Euro Area, and Emerging European countries. According to IMF forecasts for the next three years, the Turkish economy will maintain a higher growth rate than Advanced Europe and Euro Area country groups.

GDP Growth Comparison



Source: World Economic Outlook Report, October 2017, (*) Forecast

GDP per Capita 2017* in Countries with Population over 50 Million

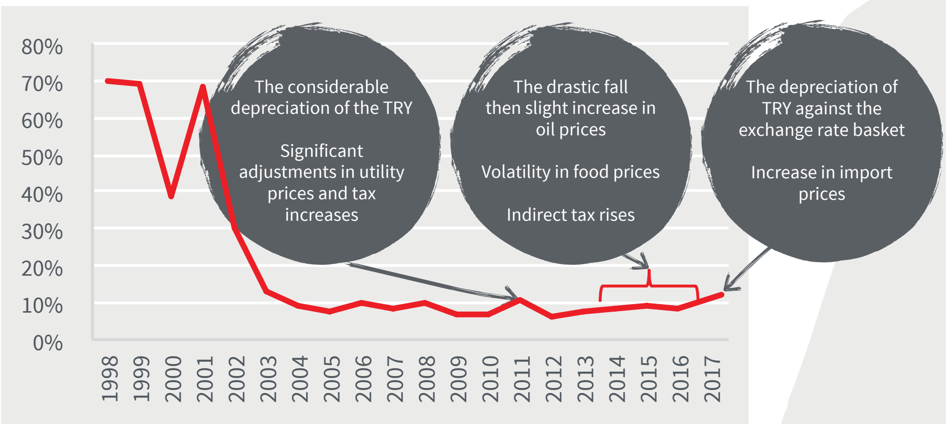


Source: World Economic Outlook Report, October 2017, (*) Forecast

b. Inflation

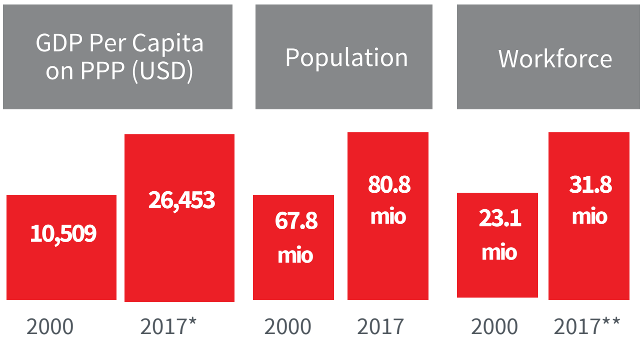
Between 2002 and 2004, Turkey undertook a number of fiscal policies that would set the stage for single digit inflation for much of the ensuing decade.

Inflation



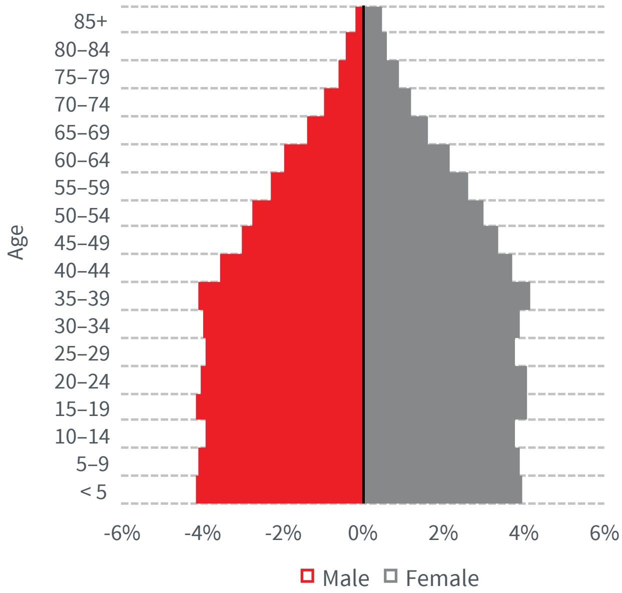
Source: TurkStat, CBRT

c. Socioeconomic Indicators



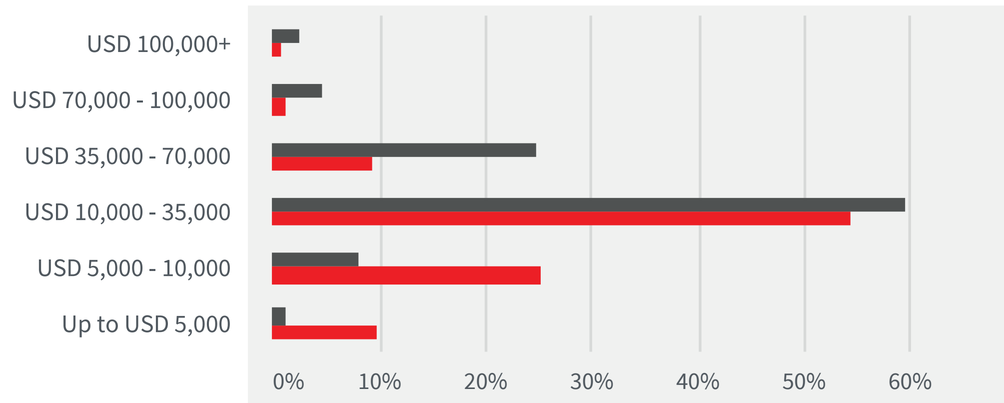
Source: IMF, TurkStat, (*) Forecast. (**) YTD November

Age Distribution, 2017



Source: TurkStat

Households by Income Band

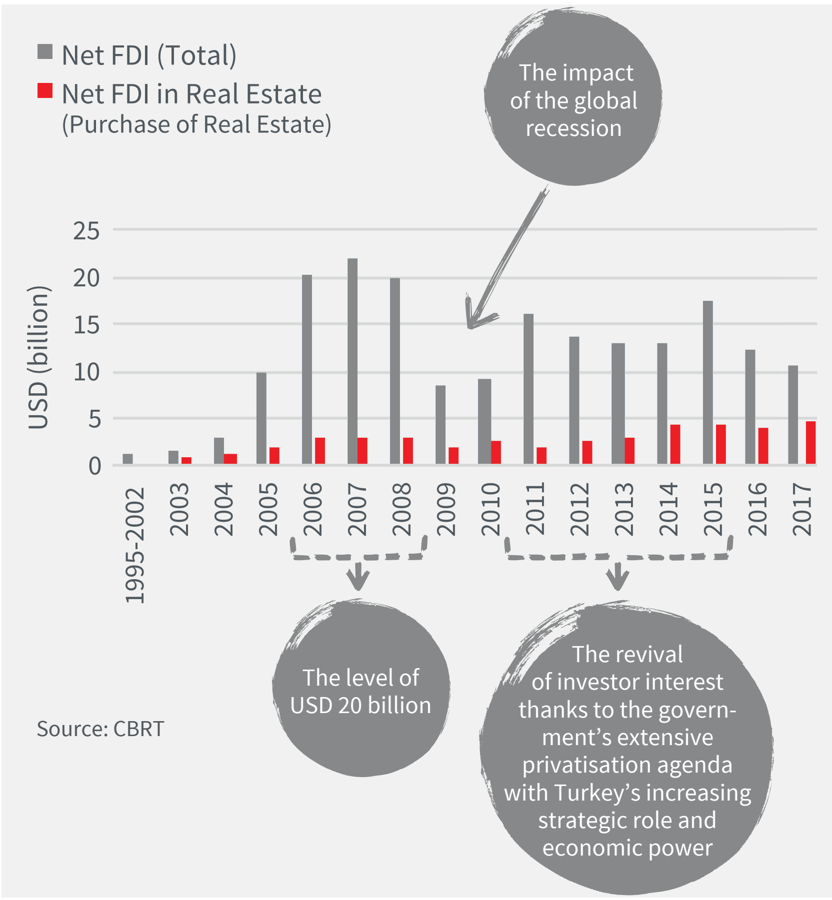


Source: Oxford Economics

d. Foreign Direct Investment

The macro-economic and political stability that has been evident since 2002 has had a positive impact on foreign investment inflows into Turkey. Turkey attracted USD 130 billion of foreign direct investment (FDI) over the last ten years. Part of this can be attributed to adoption of the EU reform agenda, which includes the reduction in red tape bureaucracy concerning company establishment, a reduction in corporate tax rates from 30% to 20%, and liberalisation of the investment environment, enabling foreign companies to be subject to equal rights and conditions as Turkish companies. The educated labour force of Turkey, with lower wage levels than Europe, adds to the country's attractiveness as an investment destination.

Foreign Direct Investment



Source: CBRT

i. Foreign Direct Investment in the Real Estate Sector

Looking at retail investment in terms of commercial real estate, Turkey ranked as the 9th most traded market in Continental Europe in 2006/2007. This indicated the scope of investor interest in the market, which was driven by strong demographic features, growth prospects, the quality of shopping centre supply, and retailer demand. Starting from 2003, the investment climate began to improve due to the “Foreign Direct Investment Law” passed by the Parliament. Article 3/d allowed foreign investors to acquire real estate assets without any limitation. However, Turkey experienced some political and legal changes in 2008, such as the annulment of the regulation by the Supreme Court that enabled foreigners to acquire assets in Turkey. This caused uncertainty in the market and investor appetite decreased. The issue was corrected when the new regulation concerning the Acquisition of Real Estate and Limited Rights in Rem by Companies with Foreign Capital was put into effect in October 2010. The new regulation reduced limitations on foreign investment in real estate and caused the investor appetite to come back. This was supported by further legislation improvements over time, increasing investor confidence in Turkey. When the Reciprocity Law took effect in 2012, real estate acquisitions by foreign investors almost doubled.

The attractiveness of the Turkish real estate market has increased since the 2000s. Initially, this was mostly in the form of individual investors buying residential property in Turkey. Since 2005, we have seen a number of foreign real estate investors entering the Turkish market. Redevco (the complete portfolio of which was acquired by Blackstone in July 2012), Multi Development (the complete portfolio of which was acquired by Blackstone in July 2013), and Corio (acquired by Klepierre in 2014) have heavily invested in the Turkish retail market.

The Government of Singapore Investment Corporation (GIC) first acquired a 50% share of three shopping centres and became partners with Rönesans. GIC then acquired close to a 20% share of Rönesans Real Estate. In addition to sovereign wealth funds, the market witnessed business development activities of foreign property companies such as Amstar Global Partners (APG).

Despite the economic revival in 2010, the investment market remained relatively inactive, except for a few transactions. These included the acquisition of the remaining 35% of Forum Mersin by Union Investment at EUR 68 million from Multi (Union purchased 65% in 2006) and the acquisition by Dutch fund Vastned of two historical buildings on Istiklal Street in Istanbul for EUR 18 million and EUR 29.5 million.

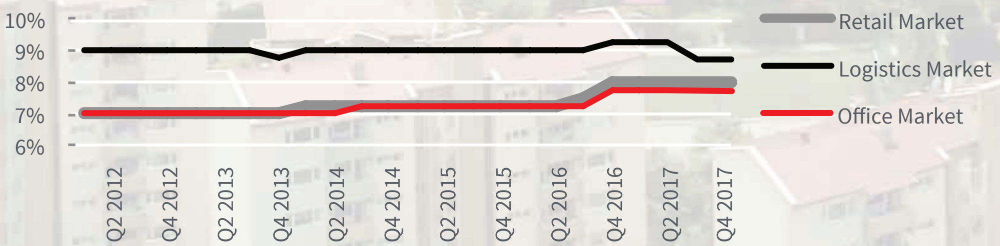
The market gained liquidity in 2012 with the acquisition of the Redevco portfolio by Blackstone, consisting mainly of shopping centres in Ankara and in secondary cities such as Erzurum and Manisa. This was the first strong indication of global investor interest in Turkey. The transaction had a ticket size of approximately EUR 220 million, indicating a blended yield of around 9%.

Blackstone expanded their portfolio by acquiring the European shopping centre portfolio of Multi Development. Turkish assets made up the largest part of that portfolio and included Forum Marmara and Forum Istanbul, two super regional shopping centres in Istanbul, and 6 other centres as well as some projects in the pipeline across the country. The transaction was in the form of acquisition by Blackstone of the debt within Multi Development. These transactions overall provided good evidence for yield levels of non-prime assets in major cities, while the Blackstone transaction provided evidence for yield levels in secondary cities.

Blackstone's transaction in 2012 was followed by GIC's acquisition of 50% of Optimum Istanbul and Optimum Ankara, both of which are owned by Rönesans Group, one of the major retail developers in Turkey. The yield level in these transactions was slightly less than 8% for the Istanbul asset, and greater than 8% for the Ankara asset.

In the office market, major transactions were the acquisition of Kristal Tower in 2013 by Finansbank at an estimated price of EUR 230 million, the acquisition of LEED Platinum-certified Rönesans Tower in 2015 by Allianz for EUR 170 million, and the acquisition of a 19,000 sq m office block in the   mixed-use project in 2015 by the Azerbaijan oil company SOCAR, which invested USD 63.5 million with the intention of moving its new HQ office to Seyrantepe upon completion of the project.

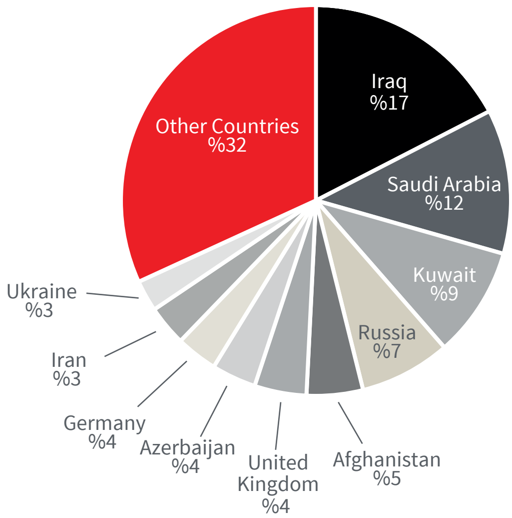
Prime Yield Levels in Corporate Real Estate Property Types



Source: JLL

According to TurkStat, the number of homes in Turkey owned by foreigners surpassed 60,000 in the early part of 2015. The market has witnessed a strong appetite of investors from Gulf Countries such as Iraq, Saudi Arabia, and Kuwait. Investors from Russia, United Kingdom, and Germany have also had a considerable impact on home sales.

First 10 Country Citizens Buying House (2015-2017)



Source: TurkStat

Residential Market

Urban renewal: *6.5 million housing units with a budget of* **USD 400 billion***, in which the* **private sector contribution** *is at the highest level*

Branded residential projects *and* **mixed projects** *incorporating residential areas with retail, office, and hotels are on the rise*

More than **32 million** *total housing stock, a* **23%** *increase since the beginning of 2009*

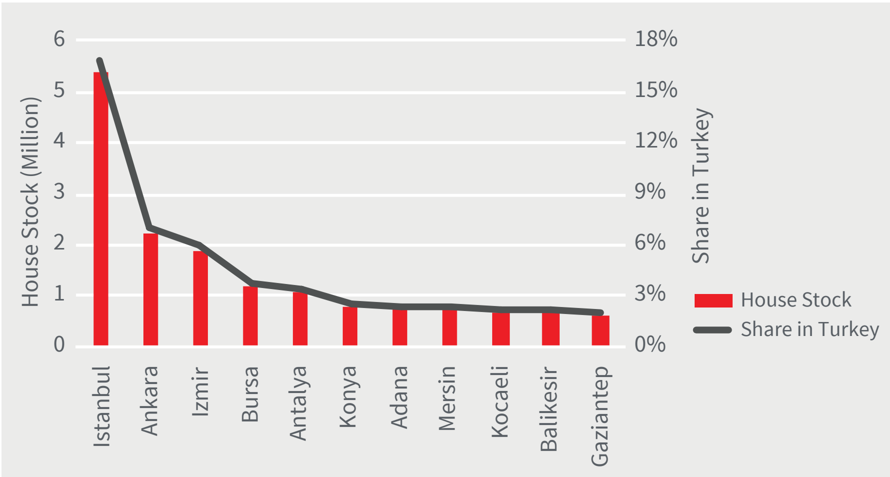
Beşiktaş: the only district whose **average sales prices** *exceeds* **TRY 10,000 per sq m** *in Istanbul.*

Residential Market

a. Market Overview

The Turkish residential market grew significantly over the last 10 years. Contributors to demand included new and modern residential supply in the market, an increasing utilization of affordable mortgages, and the increasing demand for earthquake resistant construction. An increase in housing need due to population growth and urban migration also affected the residential construction market. The number of housing units to be renewed/replaced due to the age

Housing Stock in Top Cities



Source: TurkStat, 2017 year-end

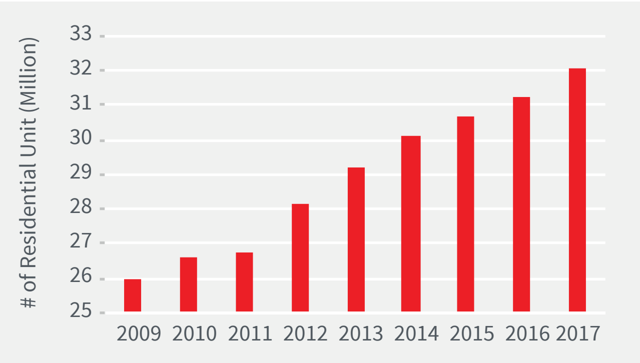
of the housing stock and urban renewal programs are also important factors to be considered in the determination of housing need. In Turkey, all these factors are positive contributors to the demand, and the major cities including Istanbul, Ankara, Bursa, and Izmir stand out as the primary markets to benefit from the new wave of residential demand.

b. Demand & Supply

In many provinces of Turkey - particularly big cities such as Istanbul, Ankara, Izmir, and Bursa - branded residential projects have drawn considerable interest in recent times. Price, size, location, and amenities are now prime factors in determining residential demand. In addition, Turkey only over the last 20 years began to seriously take into consideration that it is a seismically active country, and as such the earthquake resistance of much of the existing residential stock has become a prominent concern in the residential market.

As of 2017 year-end, total housing stock throughout the country surpassed 32 million units, a 23% increase since the beginning of 2009.

Total Housing Stock in Turkey



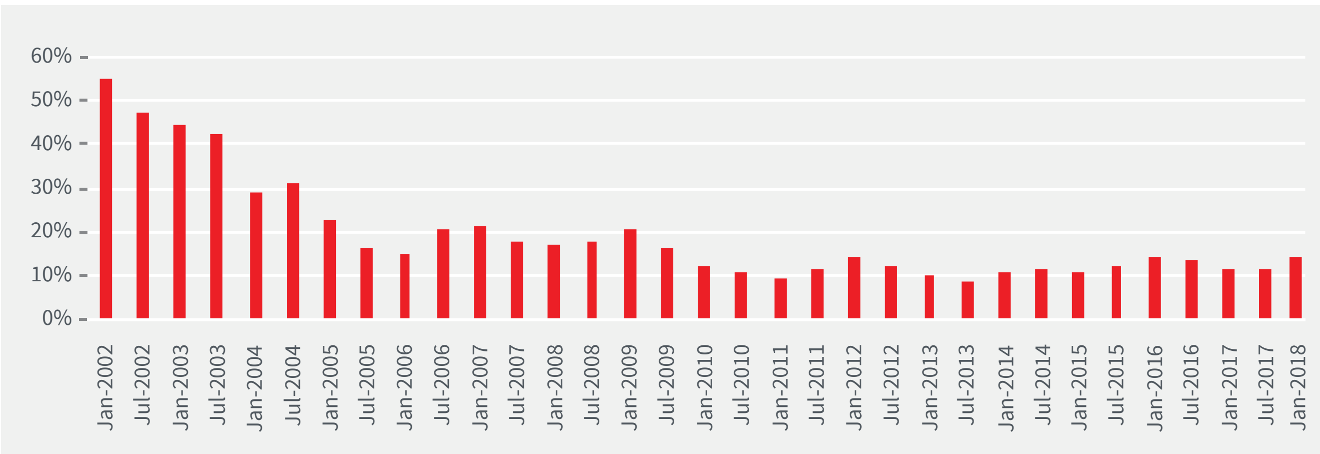
Source: TurkStat

Considering the population of cities, Istanbul stands at the forefront with almost 5.4 million units, accounting for 16.9% of total stock in Turkey. Ankara, Izmir, Bursa, and Antalya are other cities with more than 1 million housing units. Over the last 7 years, we have witnessed an outstanding rise in housing supply around Eastern and South Eastern Anatolian cities such as Şırnak (77%), Van (57%), Batman (49%), Kilis (46%), Mardin (46%), Siirt (44%), and Şanlıurfa (44%).

c. Mortgage Interest Rates

Turkey reined in mortgage interest rates between 2002 and 2005, setting the stage for mortgage rates to hit historic lows over the next decade. The market has witnessed a slight uptick in rates recently due to the Fed’s tightening monetary policy and a depreciation of the Turkish Lira.

Mortgage Interest Rates



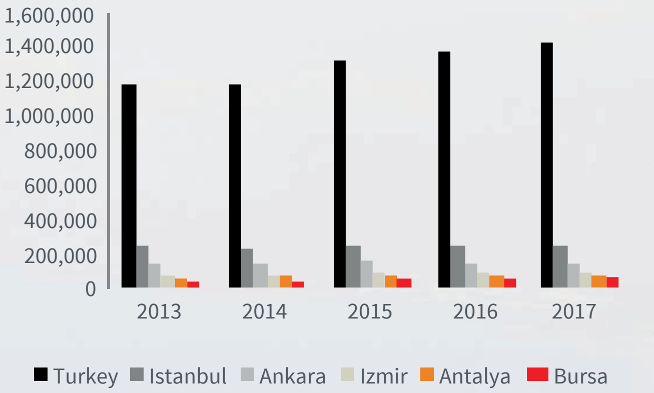
Source: CBRT, *Including weighted average interest rates of the banking sector are calculated by weighting each bank's weighted and compounded average interest rates relating to its weekly amounts

d. Sales Numbers & Prices

According to TurkStat figures, house sales increased gradually between 2013 and 2017. Due to the size of its population, Istanbul holds the lion share (18%) of home sales since the beginning of 2013. Ankara recorded 150,000 units sold in 2017, while Izmir, Antalya, and Bursa have been following Istanbul and Ankara in terms of house sales with shares of 6%, 5% and 4%, respectively.

Aside from Istanbul, Antalya, and Bursa, cities that are famous for their touristic destinations, such as Aydın, Muğla, Sakarya, and Trabzon, have also found favor among foreigners over the last few years.

House Sales in Top 5 Cities



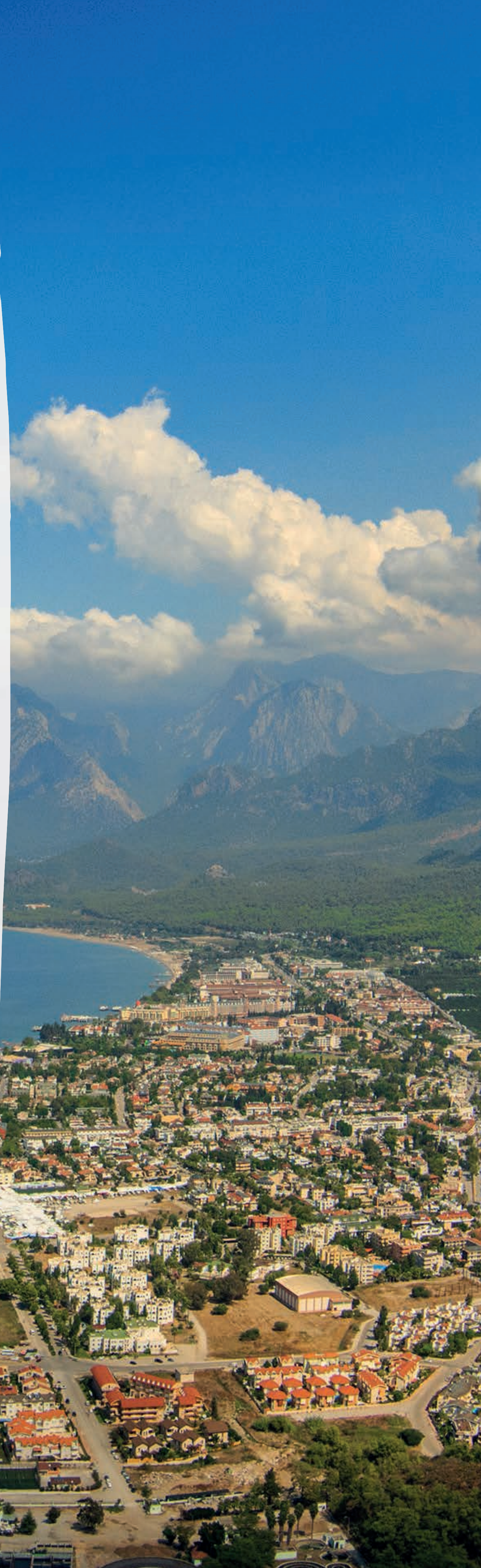
Source: TurkStat

Aside from Istanbul, Antalya, and Bursa, cities that are famous for their touristic destinations, such as Aydın, Muğla, Sakarya, and Mersin, have also found favor among foreigners over the last few years.

House Sales to Foreigners

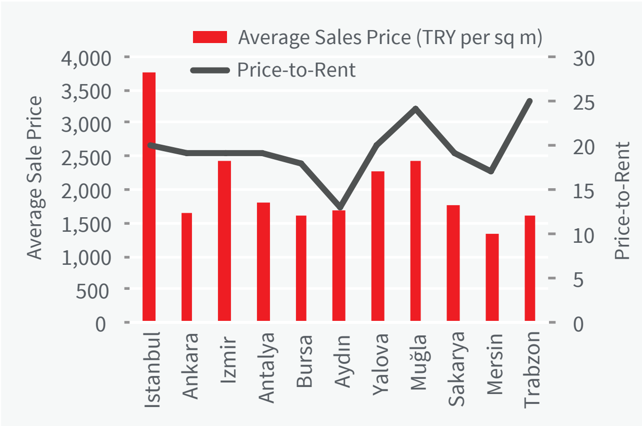
City	2013	2014	2015	2016	2017	Total
Istanbul	2,447	5,580	7,493	5,811	8,182	29,513
Antalya	5,548	6,542	6,072	4,352	4,707	27,221
Bursa	375	954	1,501	1,318	1,474	5,622
Aydın	1,112	1,191	1,107	871	826	5,107
Yalova	284	765	1,425	822	1,079	4,375
Muğla	1,053	1,051	830	632	634	4,200
Mersin	545	783	717	580	600	3,225
Sakarya	103	512	833	657	770	2,875
Ankara	175	369	599	623	817	2,583
Other Cities	539	1,212	2,253	2,523	3,145	9,672
Total	12,181	18,959	22,830	18,189	22,234	94,393

Source: TurkStat



In terms of average house sales prices in these leading cities, Izmir, Antalya, Muğla, Yalova, and Sakarya surprisingly outpace Ankara. Looking at the price-to-rent ratio, which is a measure of the affordability of renting and buying in a given market through calculating the ratio of home prices to annualized rent, Istanbul, Muğla, Yalova, and Trabzon exceed the average over the past 20 years, indicating that renting is a better choice than buying in those housing markets. Ankara, Izmir, Antalya, Bursa, Sakarya, and Mersin have almost the same price-to-rent ratio between 17 and 19 years, while Aydın stands out as a favorable city to homebuyers with lower ratio circa 13 years.

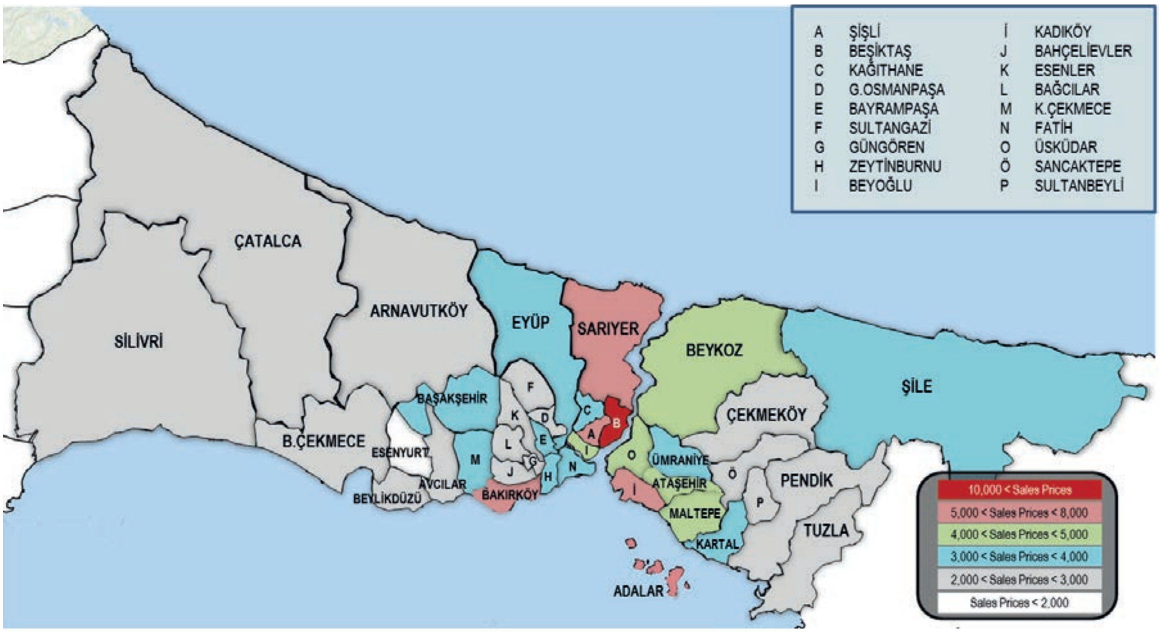
House Sales Prices



Source: REIDIN

To understand the price level in Istanbul, using average sales price metrics would probably be misleading due to the wide range of prices among districts. Beşiktaş is the only district whose average sales prices exceeds TRY 10,000 per sq m around the city, while many other districts see sales in the TRY 2,000 per sq m to TRY 5,000 per sq m range.[1]

House Sales Prices by Districs in Istanbul



Source: REIDIN

[1] Quarterly avg. value of Q4 2017: EUR/TRY=4.48, USD/TRY=3.80

e. Trends & Forecasts

Lack of available land for development in city centres, particularly in Istanbul, has forced residential developers to shift towards the periphery with large-scale projects. In Istanbul, the Municipality supports the emerging residential areas with planned transportation and other urban infrastructure projects such as Yavuz Sultan Selim Bridge, the 3rd Airport, the extension projects of the metro network, and the Eurasia Tunnel.

One of the topics on the agenda recently has been urban renewal. Its essential purpose is the rehabilitation of urban spaces that have decayed and collapsed due to fast urbanization and the uncontrolled growth of cities under industrialization. Urban renewal is also being undertaken because of the emphasis on seismically sound construction, and as such urban renewal projects will see the transformation of regions at elevated risk for earthquakes.

Mass market residential is also growing rapidly. The Housing Development Administration (TOKI) is leading mass housing development and regeneration projects, with a focus on providing social housing for low and middle-income households.

Branded residential projects – not only on the outskirts of cities but also in heart of cities – have been taking the residential market to new heights. Over the last five years, mixed projects incorporating residential areas with retail, office, and hotels are on the rise. Retail areas in the branded residential projects are often designed to answer the needs of the project itself, but in some cases retail areas are designed as shopping centres targeting outside customers.

Looking at typologies in big cities, 3+1 and 4+1 residential units are on the rise, catering to families instead of single professionals. At some locations, such as close to a university, smaller units such as 1+1 and 2+1 are still preferable and have higher absorption rates, but the overall trend is towards larger flats. ('+1' stands for living room.)

The sector is also seeing the transformation of vacant units in large-scale projects into serviced apartments, a fully furnished apartment which is useful for both short-term as well as long-term stays, providing all the hotel-like facilities. This trend is likely to continue, particularly in highly touristic cities, due to the fact that investors are attracted to the serviced apartment sector as they can generate higher profit margins than the average hotel.

f. Urban Transformation Projects

Urban renewal is a public mission supported by the government aimed at replacing the existing building stock of risky and vulnerable structures with modern and durable redevelopment projects. The purpose is to prevent the loss of lives and property in the event of an earthquake.

In order to incorporate a property within urban renewal, the property must either be located in a «risky area» or considered as a «risky structure». Risky areas are locations that have inappropriate ground for old technology buildings and are prone to earthquakes. On the other hand, risky structures are buildings that have exceeded their intended structural life and are at a risk of collapse.

The urban transformation process in Turkey started with the enactment of the Law on Redevelopment of Areas under Disaster Risk numbered 6306 and dated 16th May of 2012. The Urban Renewal and Development initiative will apply to 7.5 million housing units within the scope of the law. The initiative has a budget of USD 400 billion, in which the private sector contribution is at the highest level.

According to Ministry of Environment and Urbanization figures, there are 19 million residential structures in Turkey, and 14 million of these residences are vulnerable to natural disasters. The residences under disaster risk will be in the scope of the Urban Renewal and Development Plan. Construction has begun in several projects with the law in force.

The urban renewal projects will launch in the areas of highest risk first upon the decision of the Ministry of Environment and Urbanization. Cities located on a fault line have the most risk. The major projects will begin in the cities located on a fault line, such as Istanbul, Kocaeli, Sakarya, Bursa, and Izmir.

In 2015, the Strategic Plan was prepared to lay out the strategies and actions for 39 districts in order to provide a basis for the urban transformation studies to be carried out in Istanbul with the cooperation of Istanbul Metropolitan Municipality (IMM) and Istanbul Technical University (ITU). The Urban Transformation Master Plan covers an economic plan, 1/100,000 scale strategic scheme, 1/25,000 scale Istanbul Urban Transformation Master Plan (IUTMP) and master plans for 39 provinces - particularly first-degree seismic zones – and urban transformation opportunity zones with an integrated approach.

The key issues of the IUTMP spatial plan are listed below.

- While maintaining the compact form of the city, allowing it to develop along strategic corridors; reducing the loss of natural areas, and reserving space for future growth (after 2036).
- Promoting the Canal Istanbul project as the main development corridor and maximizing the opportunities for urban growth that will evolve around the Third Airport.
- An additional development area along the Silivri coastal corridor.
- Strengthening the developing office market on the Asian side with the expansion of the financial district as part of the main metropolitan center.
- Rebalancing the employment opportunities in the downtown areas in such a way that it allows access to high quality residences.
- Establishment of a competitive - in an effective and timely manner - public transport network between the region and sub-regional centers.

Fikirtepe, Ataşehir Barbaros Settlement, and Maltepe on the Asian Side, and Tarlabaşı, Gaziosmanpaşa, Zeytinburnu Sümer, Fener-Balat, and Ayazağa on the European Side of Istanbul are prominent ongoing regeneration areas with significant projects. There are also large-scale mobilization projects coordinated by the IMM in cooperation with Ministry of Environment and Urbanization. The number of residents who will be moved is expected to exceed 700,000, mainly driven by the Esenler Reserve Area project, which is envisaged to relocate 650,000 residents. Here are some examples of planned urban transformation projects:

Eyüp Çırçır Urban Transformation Project

Project Zone: 338.59 Ha.

Population: 65,828

# of building: 4,945

# of Independent Unit: 18,881

Source: IMM

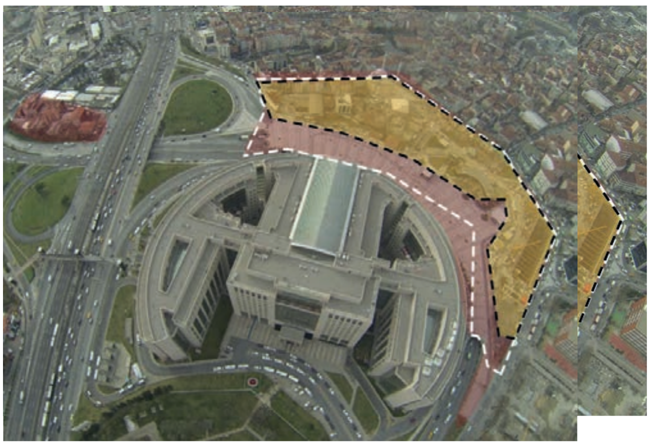
Çağlayan Square Urban Transformation Project

Project Zone: 1.2 **Ha.**

Total Footprint: 8,121 sq m (Existing)

# of Building: 40 (Existing)

Total Construction Space: 16.000 sq m (Existing)



Source: IMM

Bayrampaşa Old Prison Urban Transformation Project

Project Zone: 25 Ha.

Residance & Retail: %40 Amenity: 60%

# of Independent Unit: 40

Source: IMM

A regional service hub for large parts of the **Middle East, South-East Europe, Central Asia,** *and* **Africa**

A broad range of **global firms** *from sectors such as financial services, IT, media, pharmaceuticals, and FMCG*

More than **5.3 million sq m** *across* **249 Grade A office buildings;** *in 2020,* **7.1 million sq m** *stock with more than* **1.7 million sq m pipeline** *projects*

Istanbul International Financial Center: **4.2 million sq m** *of office, residential, retail, conference, and hotel*

Almost **1.2 million sq m take-up transactions** *since 2012*

Office Market

a. Market Overview

Istanbul has become a key player in the global services economy in the past two decades and has clearly picked up the pace since the mid-2000s. A broad range of global firms from sectors such as financial services, IT, media, pharmaceuticals, and FMCG use Istanbul as a regional service hub for large parts of the Middle East, South-East Europe, Central Asia, and increasingly Africa, embracing up to 90 countries. This has boosted the requirement for international-standard office space.

Istanbul Office Market

Source: JLL

> *Central Business District (CBD), particularly in the Levent-Etiler, Gayrettepe-Şişli and Zincirlikuyu-Maslak areas, along Büyükdere Avenue on the European side*

> *The Airport region and Kağıthane are the main secondary office areas on the European side*

> *Kozyatağı, Altunizade, Ümraniye, Kavacık and Ataşehir as secondary office areas on the Asian side*

b. Demand & Supply

In recent years, companies' office demand toward Grade A offices has centered upon two main evaluation criteria - location and physical attributes – in order to attract top talents for their workforce and increase workplace efficiency.

Location

- Office buildings, being located in the vicinity of metro route on the back of increasing metro usage instead of shuttles so as to avoid traffic congestion during rush hours
- Prestigious office buildings, aiming to serve their occupiers with facilities such as retail areas, restaurants, cultural facilities and sports clubs

Physical Attributes

- Horizontal offices with broader podium floors, promoting the efficient use of office space that serves many employees in the same area compared with vertically designed offices
- Flexible and collaborative workplace solutions such as serviced offices and co-working offices so as to improve efficiency and reach high comfort standards
- The concepts of sustainability and environmental policies through certifications such as LEED and BREEAM

As of 2017 year-end, the existing Grade A office stock in Istanbul surpassed 5.3 million sq m across 249 office buildings. Annual GLA growth in the office market was around 12% on average between 2010 and 2017.

Grade A Office Supply by Years

2010	2017	2020
2.4 million sq m	5.3 million sq m	7.1 million sq m

Source: JLL, Q4 2017

There is more than 1.2 million sq m office supply under construction and it is expected that the total grade A office supply will reach almost 7.1 million sq m GLA by the end of 2020. Asia sub-market became a prominent sub-market with 77% of new office projects, mainly driven by the Istanbul International Finance Center that is expected to provide more than 1 million sq m office space.

Existing and Pipeline Grade A Office Supply

Sub Market			Active	Under Construction*	Total
Europe	CBD	Unit	93	2	95
		GLA (sq m)	1,991,862	124,400	2,116,262
	Non CBD	Unit	53	4	57
		GLA (sq m)	1,515,935	269,500	1,785,435
Asia		Unit	103	14	117
		GLA (sq m)	1,816,304	1,344,031	3,160,335
Total		Unit	249	20	269
		GLA (sq m)	5,324,101	1,737,931	7,062,032

Source: JLL, Q4 2017, *To be completed by end-2020

c. Major Completed & Pipeline Projects

Completed Projects	Location	GLA(sq m)	Completion Year
42 Maslak	Maslak	48,000	2015
Allianz Tower	Ataşehir	45,000	2015
Şeker Tower	Levent	43,000	2015
Tuzla Iş GYO	Pendik	184,500	2016
Premier Kampüs Ofis	Kağıthane	58,000	2016
Maslak Office Building	Maslak	55,500	2016
Vadistanbul	Seyrantepe	182,000	2017
Torun Center	Mecidiyeköy	77,300	2017
Seba Office Boulevard	Ayazağa	66,750	2017
Ferko Signature	Levent	57,400	2017
Nidakule Ataşehir Kuzey	Ataşehir	55,000	2017
Emaar Square	Altunizade	47,800	2017

Pipeline Projects	Location	GLA(sq m)	Opening Year
Business Istanbul	Kadıköy	136,000	2018
Istanbul Tower 205	Levent	114,000	2018
Ferko Line	Kağıthane	105,000	2018
Skyland Istanbul	Şişli	90,000	2018
Meeting Point Kartal	Kartal	42,000	2018
Istanbul Financial Center	Ataşehir	1,056,250	2019
Nidapark Bomonti	Şişli	60,000	2020

Source: JLL

Despite a hard landing in the Z/Yen Global Financial Centers Index over the last two years, Istanbul has made significant strides towards becoming a major financial centre according to the well-respected index, surging to 47th position in 2015. The government has implemented a plan to designate Istanbul as the financial centre of the region, for which Istanbul is competing mainly with Dubai and Moscow. Istanbul, which has the status of the natural finance centre of Turkey, will be a regional centre in the first stage and then it will be a global finance centre within the objectives of the plan. As one of the main drivers of the objective, Istanbul International Financial Center is strategically located between the Ataşehir and Ümraniye districts on the Asian side, where it is highly accessible by highways. The project consists of 4.2 million sq m of office, residential, retail, conference, and hotel and was announced in 2009. It has a budget of approximately USD 1.5 billion and will be opened in 2019.

d. Vacancy Rate & Prime Rent

The vacancy rate in the CBD had historically been the lowest in Istanbul and had generally remained below 10% although the trend had been volatile from time to time. However, the market experienced dramatic changes in terms of vacancy rate in 2014 and 2017. While approximately 680,000 sq m of office supply was delivered in the CBD during 2014, existing Grade A office stock in Istanbul showed an increase of 506,600 sq m throughout 2017. What's more, many occupiers showed interest in the sub markets of Asia and Non-CBD Europe rather than the CBD, mainly driven by lower rent levels and improving accessibility to these regions.

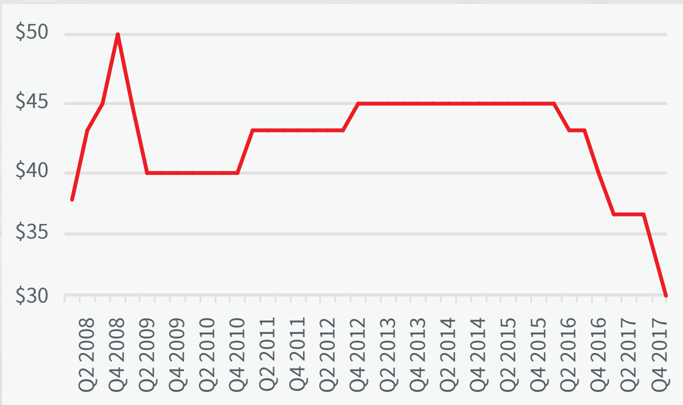
CBD Office Vacancy Rates

2011-2013	2014-2016	2017
2% - 5%	15%-17%	22.7%

Source: JLL

Despite new office supply entering the market over the past three years, prime rent had remained at the level of USD 45 per sq m/month due to high occupier demand toward premium buildings. However, in Q2 2016, the office market began to deal with a sharp contraction in demand, which was driven by the completed relocation process of many occupiers to new buildings over the previous two years, a downturn in global companies' investments to Turkey since 2015, and a 'wait-and-see policy' in occupiers' expansion or relocation plans due current market conditions. Along with all these issues, the depreciation of TRY against USD and EUR since the second half of 2016 has led to strong downward pressure on rent levels. As of 2017 year-end, the prime rents decreased to the level of USD 30 per sq m/month.

Istanbul Prime Rent (USD / sq m / month)

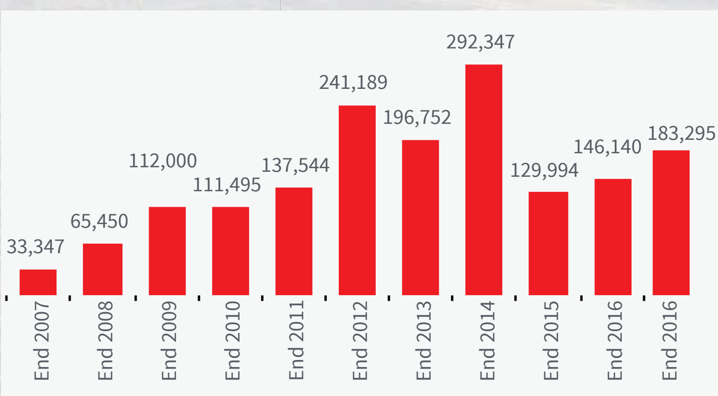


Source: JLL

e. Take-Up & Major Leasing Transactions

2014 witnessed the highest take-up transaction volume in the Istanbul office market. However, there was a significant drop-off in 2015 due to political uncertainty, economic issues, and the relocation of a large number companies to new offices in 2014. In 2016, companies' relocation decisions were primarily driven by concerns about optimizing lease contracts instead of by broader space requirements due to corporate growth. Many firms have followed a trend of moving to more efficient newer office buildings with greater floor space at lower rent levels.Aside from relocation and end-of-contract renewal processes in recent years, lease regearing came to prominence in 2017. Existing tenants started to demand new contracts with lower rent levels before their contract end date.

Istanbul Office Take-Up Volumes, (sq m)



Source: JLL

Istanbul is the most developed office market in Turkey, serving many national and multinational companies. The office market has witnessed a considerable number of leasing transactions above 3,000 sq m since the beginning of 2014. Looking at the regions of major take-up transactions, the CBD comes to the forefront as the most desirable office sub-market, followed by Asia and Non CBD Europe.

Major Leasing Transactions

Company	Sector	Region	Location	Time	Size (sq m)
Denizbank	Banking	CBD	Esentepe	2014	60,000
Vakıfbank	Banking	Asia	Umraniye	2017	50,000
Turkcell	Computing & Technology	Asia	Küçükyalı	2014	25,000
Deloitte	Consultancy	CBD	Maslak	2014	12,500
EY	Consultancy	CBD	Maslak	2014	10,700
Yemeksepeti	Computing & Technology	CBD	Levent	2017	9,300
Odeabank	Banking	CBD	Levent	2014	8,200
KPMG	Consultancy	CBD	Levent	2017	7,700
Setur	Tourism	Asia	Umraniye	2017	7,400
Teknosa	Consumer Goods & Retail	Asia	Ataşehir	2016	6,200
UNDP	Association	CBD	Şişli	2014	6,000
L'oreal	Healthcare	Asia	Ümraniye	2013	5,900
Mey İcki	F&B	CBD	Levent	2016	5,800
Procter & Gamble	Consumer Goods & Retail	Asia	Ataşehir	2015	5,800
Groupama	Insurance	CBD	Maslak	2017	5,800
BASF	Chemistry	Asia	Ataşehir	2017	5,600
Roche	Biomed / Biotech / Pharmaceuticals	CBD	Maslak	2014	5,400
Yargıcı	Consumer Goods & Retail	Non CBD Europe	Dolapdere	2016	4,500
BAT	Manufacturing	CBD	Maslak	2016	4,300
Ferrero	Consumer Goods & Retail	CBD	Balmumcu	2017	4,300
Borusan Lojistik	Logistics	Non CBD Europe	Kağıthane	2017	4,200
Abank	Banking	Asia	Ataşehir	2016	4,100
MSD	Biomed / Biotech / Pharmaceuticals	CBD	Levent	2014	3,900
Anadolu Insurance	Insurance	Asia	Kavacık	2015	3,900
DB Schenker Arkas	Logistics	Non CBD Europe	Kağıthane	2017	3,800
Nielsen	Research	Asia	Kozyatağı	2016	3,700
GE	Computing & Technology	CBD	Maslak	2017	3,200
Itelligence	Computing & Technology	Asia	Umraniye	2017	3,200

Source: JLL

The office market hosts a substantial number of global companies from various sectors. Considering the number of companies and their sectoral diversity, the CBD hosts a number of global companies across various important sectors, including banking (Goldman Sachs, Bank of China, European Investment Bank), insurance (AIG, Zurich Insurance), consultancy (Deloitte, Ernst & Young, KPMG), computing & technology (Adobe, Google, Apple), Biomed, biotech and pharmacy (GSK, MSD, Roche, Baxter, Actavis). On the other hand, we have witnessed that some industry-leading companies, such as Coca Cola and Avon, prefer office buildings in Non CBD Europe. The Asia sub-market also hosts a number of global companies, such as Allianz, Cigna, Axa, P&G, Nielsen, and Honeywell.

Retail Market

Strong growth over the past decade on the back of a substantial increase in the country's middle-class population and purchasing power as well as sustained long-term growth in both international and domestic tourism

Total GLA increasing **from 2.2 million sq m** *in 2005 to* **12.2 million sq m***; in 2020,* **13.9 million sq m in 445 centres** *with* **1.7 million sq m pipeline** *projects*

151 sq m *retail density (GLA per 1,000 capita), noticeably below the* **European average of 220 sq m**

The **projected retail sales growth** *between 2018 and 2020 in Turkey:* **2.5%***, significantly higher than Russia and mature European markets*

Retail Market

a. Market Overview

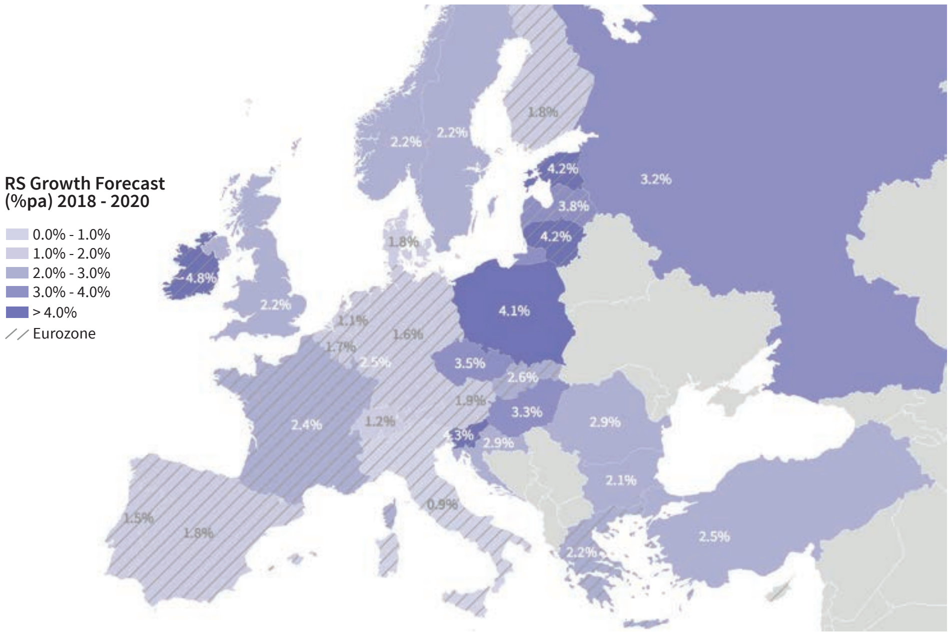
The retail market in Turkey has shown strong growth over the past decade on the back of a substantial increase in the country's middle-class population and purchasing power as well as sustained long-term growth in both international and domestic tourism.

i. Retail Demand

Along with the total GLA increasing from 2.2 million sq m in 2005 to 12.2 million sq m as of 2017 year-end, cross-border retailers' presence has grown significantly, particularly in Istanbul, which ranked 30th globally in JLL's Cross-Border Retailer Attractiveness Index 2016. What's more, momentum is continuing to build and there is considerable room for growth, with international brand presence still well below many of Istanbul's global and regional peer cities.

Amongst major European countries, the projected retail sales growth in Turkey significantly outpaces mature European markets between 2018 and 2020.

Retail Sales Growth Forecast 2018-2020



Source: Oxford Economics, January 2018

According to the JLL Cross Border Retailer Attractiveness Index 2016, Istanbul was the 6th most attractive market in Europe after London, Paris, Moscow, Milan, and Madrid in the 2016 edition of the Index. Moreover, JLL's Cross Border Luxury Retailer Attractiveness Index 2016 denotes Istanbul as the 7th most attractive market in Europe after London, Paris, Moscow, Milan, Rome, and Munich. A number of international retailers including Chanel, Louis Vuitton, Victoria's Secret, and H&M have been attracted by the city's modern shopping centre stock - such as Zorlu Center, Istinye Park, Kanyon and Akasya - landmark schemes and favorable demographics.

ii. Retail Supply

The organized retail market in Turkey has shown striking development in terms of shopping center supply, with the total GLA increasing from 6.5 million sq m in 2010 to 12.2 million sq m as of 2017 year-end. The development market in Turkish retail is also expected to be strong during 2018-2020. By the end of 2020, the shopping center stock is expected to reach almost 14 million sq m in 445 centers with 1.7 million sq m leasable space under construction.

Shopping Centre Supply & Development

		Active	Under Construction*	Total
Istanbul	Unit	114	22	136
	GLA (sq m)	4,226,265	875,194	5,301,459
Ankara	Unit	39	8	47
	GLA (sq m)	1,572,629	218,128	1,790,757
Rest of Turkey	Unit	248	14	262
	GLA (sq m)	6,220,095	640,071	6,860,166
Total	Unit	401	44	445
	GLA (sq m)	12,218,989	1,733,393	13,952,382

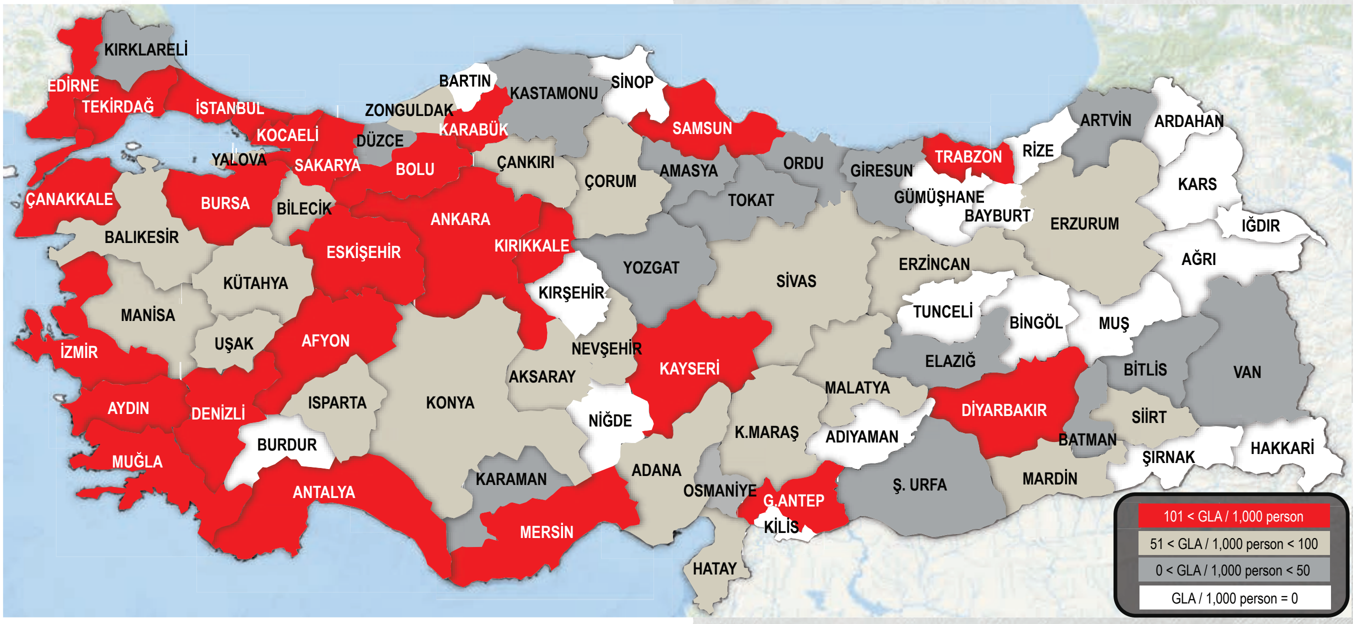
Source: JLL, Q4 2017

iii. Retail Density

Compared to other European countries, in terms of the GLA per 1,000 capita, which is the key criteria to measure the market density, Turkey remains at the lower end of the European ranking. As of 2017 year-end, Turkey's GLA per 1,000 capita at 151 sq m was noticeably below the European average of 220 sq m. The retail density of Turkey is estimated to reach 165 sq m by the end of 2020 with completion of projects currently in the pipeline. However, it will remain below the average GLA per 1,000 capita in Europe.

In early 2005 only 21 cities had a modern shopping centre, currently 62 cities accommodate at least one modern centre. Istanbul and Ankara are the densest markets – with 299 sq m and 294 sq m - owing to their significant population and purchasing power compared to the rest of the country. However, due to high land prices and increasing retail density in Istanbul and Ankara, there is an obvious shift in development towards the secondary cities with strong economic prospects. Bolu, Karabük, Edirne, Antalya, and Bursa constitute the densest parts of the Turkish retail market after Istanbul and Ankara.

Retail Density, GLA (sq m) per 1,000 Capita in Turkey

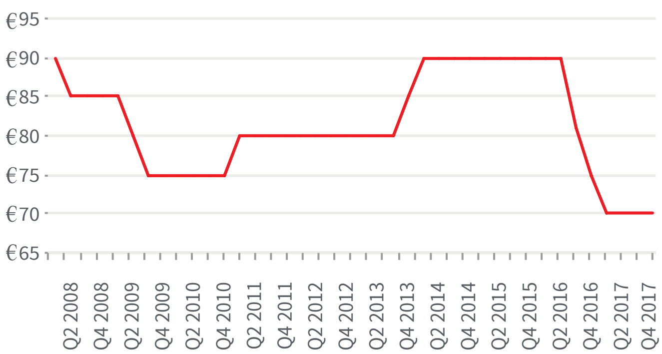


Source: JLL, Q4 2017

iv. Prime Rent

Prime rent is defined as the highest rent achievable for a typical store of approximately 200 sq m on the ground floor or the first floor of a good quality shopping centre in a prime location in Istanbul.

Retail Prime Rent (EUR / sq m / month)

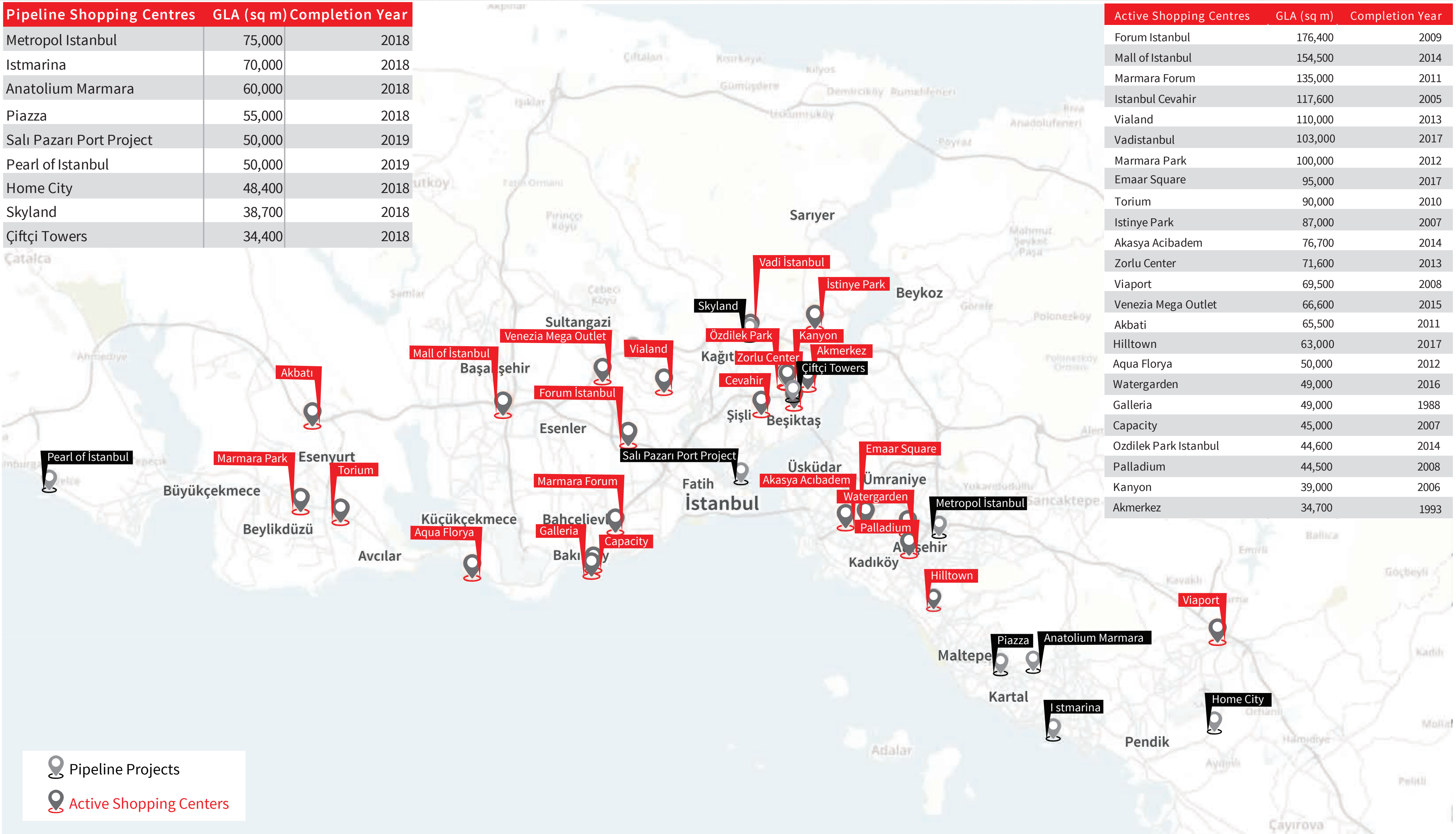


Source: JLL, Q4 2017

v. Major Completed & Pipeline Shopping Centre Projects

Istanbul leads the way with 36% of existing stock and 61% of pipeline shopping centre projects in terms of GLA. Other notable shopping centers around Turkey include Ankamall (120,000 sq m) in Ankara, Anatolium Bursa (84,400 sq m) in Bursa, Optimum Adana (70,000 sq m) in Adana, Piazza Samsun (63,500 sq m) in Samsun, and Sanko Park (56,000 sq m) in Gaziantep. Projects in the pipeline include Agora (74,300 sq m) in Antalya, Westpark Outlet Center (65,000 sq m) in Izmir, and (63,200 sq m) in Konya.

Pipeline Shopping Centres	GLA (sq m)	Completion Year
Metropol Istanbul	75,000	2018
Istmarina	70,000	2018
Anatolium Marmara	60,000	2018
Piazza	55,000	2018
Salı Pazarı Port Project	50,000	2019
Pearl of Istanbul	50,000	2019
Home City	48,400	2018
Skyland	38,700	2018
Çiftçi Towers	34,400	2018



Active Shopping Centres	GLA (sq m)	Completion Year
Forum Istanbul	176,400	2009
Mall of Istanbul	154,500	2014
Marmara Forum	135,000	2011
Istanbul Cevahir	117,600	2005
Vialand	110,000	2013
Vadistanbul	103,000	2017
Marmara Park	100,000	2012
Emaar Square	95,000	2017
Torium	90,000	2010
Istinye Park	87,000	2007
Akasya Acibadem	76,700	2014
Zorlu Center	71,600	2013
Viaport	69,500	2008
Venezia Mega Outlet	66,600	2015
Akbati	65,500	2011
Hilltown	63,000	2017
Aqua Florya	50,000	2012
Watergarden	49,000	2016
Galleria	49,000	1988
Capacity	45,000	2007
Ozdilek Park Istanbul	44,600	2014
Palladium	44,500	2008
Kanyon	39,000	2006
Akmerkez	34,700	1993

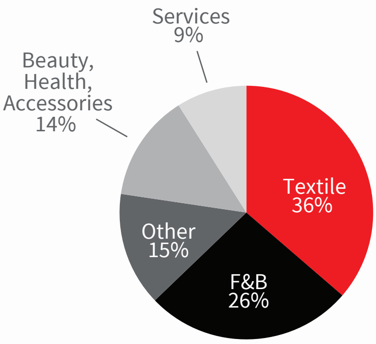
b. Istanbul High Street Retail Market Overview

The main high street retail districts in Istanbul are İstiklal Street in Beyoğlu and Nişantaşı Area on the European side and Bağdat Street on the Asian side.

i. Supply & Demand

Istiklal Street is regarded as the preferred retail high street by foreign visitors in Istanbul. On Istiklal Street, ready wear, leather goods, shoes, and handbag retailers take up the lion's share of space. This is alongside banks, restaurants, and patisseries selling dried fruits, candy, and chocolate.

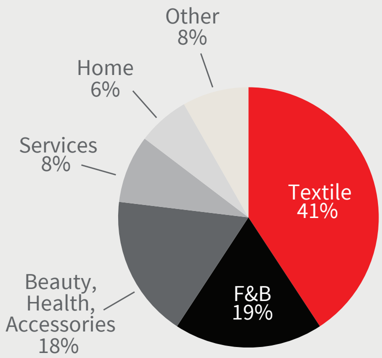
Sectorial Overview on Istiklal Street



Source: JLL, Q1 2017, *Including ready wear, women's-men's wear, sportswear, kid's wear, underwear, luxury, leather, shoes, bags

Nişantaşı District plays host to high end global – such as Gucci, Burberry, Louis Vuitton, and Chanel - and domestic brands in Istanbul. Despite an increase in the number of vacant and under construction units since Q3 2016, the street has still maintained its balanced brand mix. Retailers in the women's wear sector are dominating Nişantaşı, accounting for 19% of all units. Other textile brands selling leather goods, shoes, handbags, and ready wear, as well as restaurants, also have a high presence in the street.

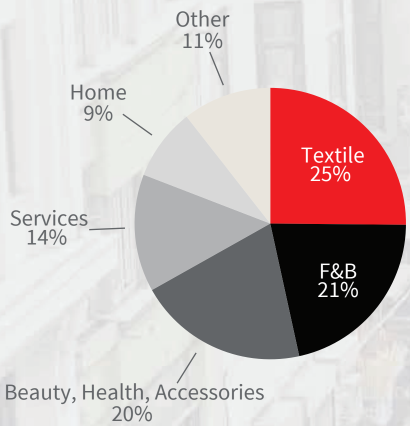
Sectorial Overview in Nişantaşı



Source: JLL, Q1 2017, *Including ready wear, women's-men's wear, sportswear, kid's wear, underwear, luxury, leather, shoes, bags

Bağdat Street is the most well-known and popular area on the Asian side, featuring a range of local and international brands. The street has seen a significant change driven by the urban renewal process in the recent years. Old building stock has been replaced with new stock that serves the needs of retailers. Aside from banks, women's clothing, shoes, bags, and cosmetics brands are the largest group of retailers on Bağdat Street.

Sectorial Overview on Bağdat Street

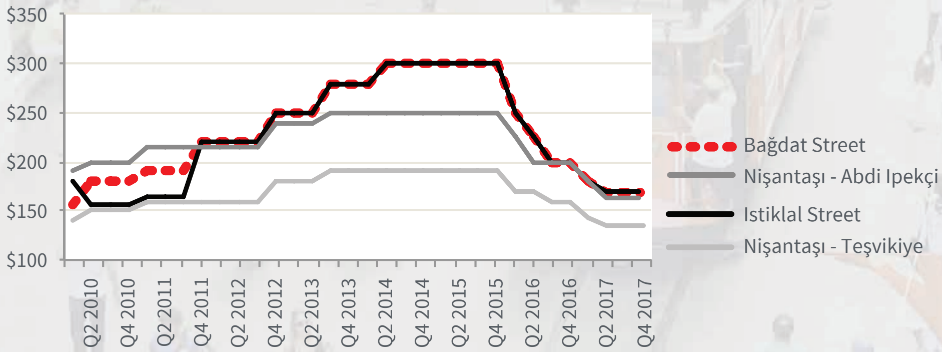


Source: JLL, Q1 2017, *Including ready wear, women's-men's wear, sportswear, kid's wear, underwear, luxury, leather, shoes, bags

ii. Prime Rent

The high street prime rents rose rapidly from 2010 to the end of 2015. However, this strong upward trend has reversed due to the economic slowdown and a decrease in foreign visitor numbers.

Prime Rent (USD / sq m / month)



Source: JLL, Q4 2017

c. High Streets in Ankara & Izmir

Kızılay district, Tunalı Hilmi Street, Arjantin Street, and Anafartalar Street are important thoroughfares for street retailing in Ankara.

Tunalı Hilmi Street, which lies between Karum Shopping Centre and Küçükesat, is a significant retail street, hosting many international and domestic brands such as Mango, Benetton, Marks & Spencer, Ipekyol, Teknosa, Polaris, Matraş, and Aysira.

While Anafartalar Street addresses the low-income profile, the Kızılay district appeals to the middle-income customer group with its central location.

Arjantin Street – and even Filistin Street - stand out with a more modern retail scheme compared to Tunalı Hilmi Street. In recent years, these streets have come to the forefront as entertainment and F&B centres of the city.

Arjantin Street is also a prominent retail centre through luxury brands such as Pronovias, Mont Blanc, Vakko Wedding House, and Barbour.

Izmir's retail market has largely been characterised by street retail up until the early 2000's as in the rest of the country. In line with the transformation process of the retail market, major retail streets in Izmir are Karşıyaka, Kemeraltı Bazaar, and Alsancak area.

Alsancak is the only high-end retail area of Izmir lying along Kordonboyu. This area hosts well-known local luxury brands such as Vakko and Beymen and international brands Topshop, Mango, Zara, and Benetton targeting the high and middle-income groups. Although the street lacks any significant international luxury brands, it is the most popular retail street in Izmir.

Kemeraltı Bazaar is the traditional bazaar in the old city, which is a good example of mass retail targeting lower middle and middle-income groups. As of today, Kemeraltı Bazaar hosts modern business centres, shops, cafeterias, and cinemas. Besides, there are also ceramics, tile art, wood works, metal artefacts, and shops selling carpets and rugs, which reflect the examples of Turkish handicrafts.

Kıbrıs Şehitleri Street is one of the symbolic streets of the city, located in Konak district of Izmir. The street is closed to traffic, and hosts restaurants, cafes, bars, bookshops, and shops such as Yves Rocher, Kervan, Teknosa, Özsüt, Edirne Kırkpınar, Mango, Colin's, and Bargello.

logistics Market

10th Development Plan *aims to achieve a ranking of* **15th** *for Turkey in the* **LPI** *published by the World Bank, by 2018*

In-house logistics, outsource, *the rise of* **e-commerce,** *and the* **consolidation** *of logistics supply, supported by institutionalism, were the major trends in recent years*

9.6 million sq m existing *logistics supply as well as* **877,000 sq m pipeline** *and* **2.3 million sq m planned** *in the Marmara region*

2,500,000 sq m take-up transactions *between 2014 and 2017*

Logistics Market

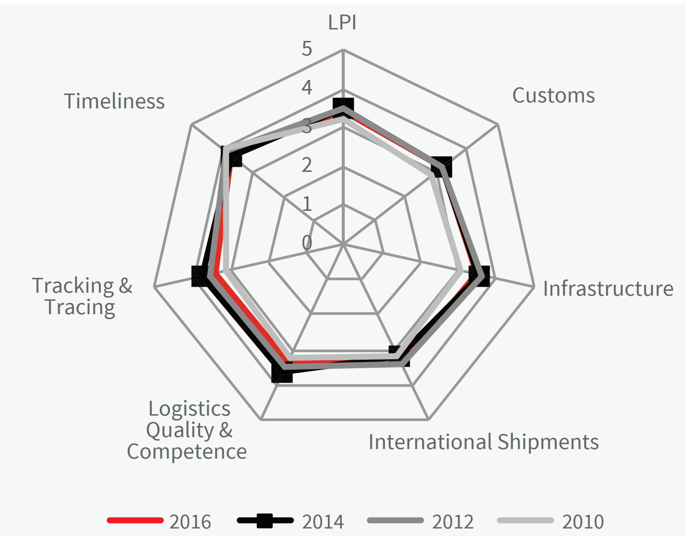
a. Market Overview

The Turkish logistics sector is recognized as one of the world’s fastest-growing logistics markets as well as being the second fastest growing logistics and industrial market in the EMEA region after Russia , and excluding the established Western European markets, according to JLL’s ‘Occupier Survey on European Logistics and Industrial Trends’ report published in April 2014.

The biennial Logistics Performance Index (LPI) published by the World Bank measures the on-the-ground efficiency of trade supply chains. In 2016, the LPI covering 160 countries was released, with Turkey classified as an upper-middle-income economy, in the same category as China, Mexico, Malaysia, Romania, Panama, Thailand, Brazil, Botswana, and South Africa. According to the index, Turkey ranks as the 34th largest logistics market.

In November 2014, the Logistics Development Plan (2014–18) was published by the Ministry of Development and Ministry of Transport, Maritime Affairs, and Communications, as a sub-section of the 10th Development Plan. The plan aims to increase the logistics supply, improve the efficiency of the market, and decrease costs. The implementation of the plan is directed at achieving a ranking of 15th for Turkey in the World Bank’s Logistics Performance Index (LPI) by 2018, following a sustainable development strategy.

Logistics Performance Index (LPI), Turkey



Source: The World Bank

The primary logistics market is located in Turkey’s Marmara region, which includes the Istanbul and Kocaeli provinces. Hadımköy and Esenyurt on the European Side, Tuzla on the Asian Side in Istanbul, and Gebze and Çayırova in Kocaeli remain the primary logistics markets of the Marmara region.

Major Logistics Sub-Markets

Source: JLL

Tekirdağ is also an emerging industrial and logistics market with two prominent sub-markets, Çorlu and Çerkezköy. Çorlu is home to many international companies in organized industrial zones, and Çerkezköy was accepted as an alternative manufacturing region by leading the establishment of organized industrial zones in the district within the scope of the Istanbul Metropolitan Plan. In Çerkezköy, industrial establishments are concentrated in the textile, rubber plastics, paint-chemicals, metal-machinery, food, health, mining, wood, electronics & white goods, construction materials, stationery, and automotive sectors.

b. Demand & Supply

The logistics market has seen a significant revival since the beginning of 2010, in line with the economic conditions and increased activity in the retail sector. Due to the changing requirements of retailers from logistics and service providers, new trends in the logistics space have been observed.

In-house logistics, the rise of e-commerce, and the consolidation of logistics supply, supported by institutionalism, were the major trends in recent years.

Inefficiency of dispersed medium-scale warehouses and cost increase expectations have driven the consolidation trend.

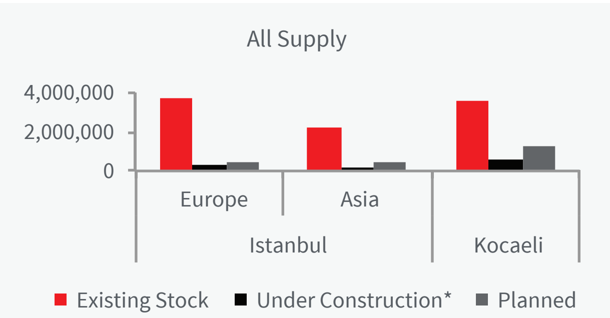
- In-house: Operational service by third-party logistics under the umbrella of the company
- Outsource: Undertaking warehouse contract and the warehouse rent by third-party logistics.

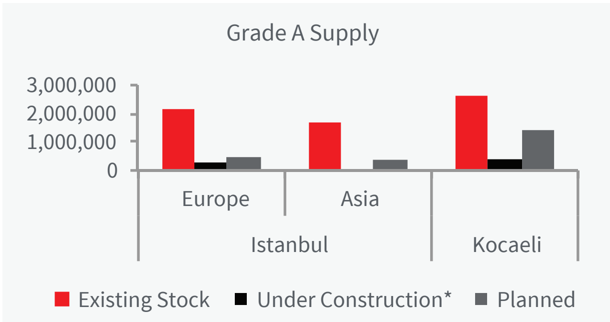
Second wave consolidation, which sees a holding company's integrate of its subsidiaries' supply chain processes into a single warehouse in order to optimise the performance of all distribution networks.

'Built to suit' – projects developed according to a tenant's exact specifications – has started to be observed as a market practice in recent years. Developers with land stock favour finding the customer first, and then investing in warehouses. Tenants are tending to shape projects according to their specific requirements, and Turkish developers favour securing demand before embarking on new development projects.

As of Q4 2017, the total logistics supply in the Marmara region, including the Istanbul and Kocaeli sub-markets, is recorded as 9.6 million sq m, while stock under construction and planned have been calculated as approximately 877,000 and 2.3 million sq m respectively.

Supply Analysis of Sub-Markets in Istanbul-Kocaeli



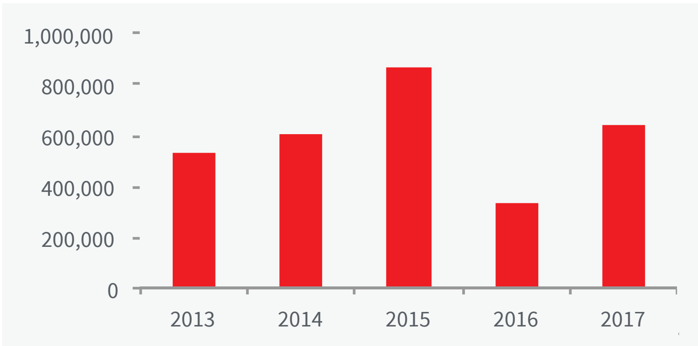


Source: JLL, Q4 2017

c. Take-Up & Major Leasing Transactions

The logistics market had witnessed a considerable increase in terms of take-up – from 530,000 sq m to 870,000 sq m - between 2013 and 2015. However, stagnation in the industrial and logistics markets, which has been directly influenced by the political and economic conditions, started in mid-2015 and continued throughout 2016. Many foreign and domestic companies have adopted a wait-and-see policy and they have avoided making mid to longterm plans. In 2016, logistics leasing transactions fell by 57% compared to 2015; however, a considerable increase (73%) in leasing transactions during 2017 - compared to 2016 – represents a strong recovery in the market.

Take-Up (sq m)



Source: JLL

The most active industries in terms of leasing transactions were third-party logistics companies and retail companies since the beginning of 2016. Furniture, aluminum, chemistry, metal, paper, packaging, IT, and e-commerce were the other sectors that saw a share of leasing transactions.

Major Leasing Transactions in Istanbul-Kocaeli

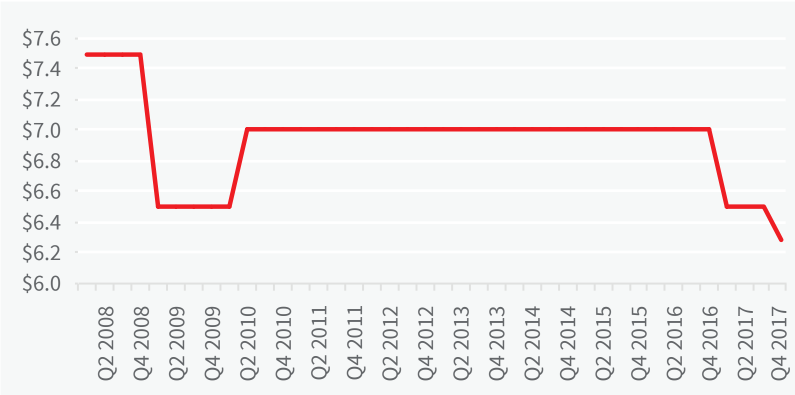
Occupier	Sector	City	District	Leased Area (sq m)	Transaction Date
Boyner	Retail	Kocaeli	Gebze	110,600	2017
Ceva Logistics	Logistics	Kocaeli	Gebze	110,000	2016
Borusan	Logistics	Istanbul	Tuzla	63,000	2017
LC Waikiki	Retail	Istanbul	Esenyurt	33,200	2017
Trendyol - DSM Group	E-Commerce	Kocaeli	Çayırova	29,600	2016
Ceva Logistics	Logistics	Kocaeli	Gebze	29,000	2017
Bilin Logistics	Logistics	Kocaeli	Çayırova	28,700	2017
Ceva Logistics	Logistics	Istanbul	Tuzla	23,000	2017
Netlog	Logistics	Istanbul	Esenyurt	22,300	2016
Zara	Retail	Istanbul	Esenyurt	20,000	2016
Omsan Logistics	Logistics	Istanbul	Tuzla	20,000	2016
Erport	Logistics	Istanbul	Esenyurt	20,000	2017
LC Waikiki	Retail	Istanbul	Silivri	19,100	2017
Gratis	Cosmetics	Istanbul	Tuzla	17,600	2016
Cengizhan Logistics	Logistics	Istanbul	Esenyurt	17,000	2016
Borusan Logistics	Logistics	Kocaeli	Çayırova	16,000	2017
BIM	Retail	Istanbul	Tuzla	15,000	2016
Çekok	F&B	Istanbul	Tuzla	15,000	2016
DHL	Logistics	Istanbul	Esenyurt	15,000	2017
Watsons	Cosmetics	Istanbul	Tuzla	15,000	2017

Source: JLL, *Covering leasing transactions more than 15,000 sq m since the beginning of 2016

d. Prime Rent

The logistics market is USD denominated. As seen from the following graph, the prime rent has remained the same since Q2 2010 to Q4 2016. However, prime rents declined at USD 6.25 per GLA per month as of 2017 year-end. Landlords prefer to quote in USD to avoid unforeseeable depreciation of TRY.

Prime Rent (USD / sq m / month)



Source: JLL, Q4 2017

Hotel Market

A major **global hub** on the back of its strategic intercontinental position and the continued success of the national flag carrier - Turkish Airlines, flying to 300 destinations in 120 countries

28% increase in international visitor arrivals to Turkey compared to 2016

11% increase in domestic and international passenger traffic compared to the previous year.

3,641 graded hotels with a total of 427,000 rooms

18% rise in occupancy rates to **60%**

Health tourism related income increased by 16% to reach approximately USD 830 million in 2017

Turkey ranks 3rd in terms of the best developed ecosystem for **halal travel** among other countries

Hotel Market

a. Market Overview

The tourism and hotel market in Turkey has witnessed unfortunate geopolitical turmoil in the last two years. In 2017, it has managed to slightly turn the trend upward compared to 2016 thanks to relatively more settled geopolitical and economic circumstances. The current state of the key performance indicators implies a stagnant period during 2017. However, the market is likely to prove resilient in the long-term, boosted by improved relations with Russia and hopefully by the absence of geopolitical turmoil and terror incidents, unlike previous years.

Istanbul has become a major global hub, boosted by its strategic intercontinental position and the continued success of the national flag carrier, Turkish Airlines. Turkish Airlines had been chosen as 'Europe's Best Airline' for six consecutive years in the Skytrax World Airlines Awards. The airline currently flies to 300 destinations in 120 countries across the globe.

i. Tourism

In 2017, international visitor arrivals to Turkey increased 28% to 32.4 million compared to the previous year. In terms of source markets, arrivals from Georgia secured first place with an 11% share, followed by Iran (11%), Bulgaria (10%), Germany (8%), and Georgia (8%) and the Russian Federation (4%).

ii. Demand

Airport arrivals have increased consistently over the past decade. In 2017, total passenger arrivals in Turkey increased by 11% compared to 2016, with total passengers c. 193 million.

iii. Supply

According to the Ministry of Culture and Tourism Directorate, Turkey has 3,641 graded hotels with a total of 426,981 rooms as of 2016 year-end. 5-star hotels account for 42.7% of hotel stock, while 4-star hotels secure a 24.8% share, and the 3-star segment makes up 12.6% of the market share.

iv. Performance

The Turkish hotel market has shown increase in all key performance indicators except average rate during 2017. RevPAR rise 3% to EUR 40 compared to 2016 year-end. This was due to a decline in ADR, down 12.4% to EUR 67. However, occupancy rates increased by 18% to 60% as of 2017 year-end.

Quick Facts

▲ 28 % 32.4 million International Arrivals

▲ 11 % 193 million Passengers

▲ 18 % 60% Occupancy

▼ 12.4 % EUR 67 Average Rate

▲ 3 % EUR 40 RevPAR

▲▼ *% change compared to the prior year*

v. Investment

Turkey has produced some quality stock of sellable properties. However, given the downturn conditions the country is currently facing, the risk factors for potential investment firms do not pass the necessary thresholds. That said, there are a few highly opportunistic firms that continue believing in and watching the Turkish market, although they have not yet concluded any notable investments.

b. Recent Openings & Pipeline Projects

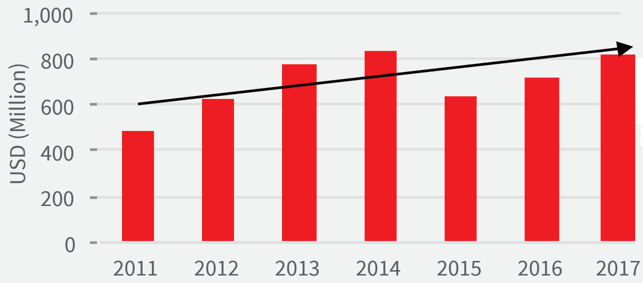
Recent Openings	Upcoming Supply
Warwick Ankara 32 rooms, Q1 2017	Swissotel Resort Bodrum Hill 100 rooms, Q2 2018
Fairmont Quasar Istanbul 207 rooms, Q1 2017	Clarion Hotel Istanbul Bakırköy 160 rooms, Q2 2018
The Bodrum by Paramount Hotels & Resorts 135 rooms, Q2 2017	Hilton Istanbul Bakırköy 300 rooms, Q2 2018

c. Health/ Medical Tourism

Health tourism in Turkey will significantly evolve in the coming years and will propel Turkey to become a global player in the industry. According to TurkStat, health tourism related income increased by 16% to reach approximately USD 830 million in 2017. Annual growth rate between 2011 and 2017 was observed to be an impressive 9%, which secured Turkey's place as a major player in the region.

Turkey recently became a hub within the EU countries for hair transplant, eye surgery, plastic surgery, and physiotherapy services. The country has welcomed diverse patients from the Middle Eastern, Arabic, and European countries as well as African countries in the recent years. Turkey competitive advantages lie in its well-designed medical curriculum, qualified health services, short waiting time, and discounted costs that are up to 20-30% cheaper compared to many European countries. Turkey boasts of more than 45 medical facilities that are accredited by the Joint Commission International which may enable it to claim a larger share of global healthcare tourism in the future.

Healthcare Tourism Receipts



Source:TurkStat

d. Halal Tourism

Halal tourism is a subcategory of leisure tourism that abides by the rules of Islam. The subcategory is observed to be one of the prospective trends in the last couple of years within Middle Eastern countries, as many Muslim travelers prefer to stay at halal hotels during their journeys.

According to Pew Research Center, Muslims remained the second largest religious group, with 1.8 billion people, in the world in 2015, making up nearly a fourth (24%) of Earth's 7.3 billion people. Muslims experienced the greatest natural increase among all religious groups, and births to Muslims between 2010 and 2015 outnumbered deaths by 152 million. What's more, the number of Muslims – the major religious group with the youngest population and the highest fertility – is projected to increase by 70% between 2015 and 2060, while the world's population is expected to increase by 32%, to 9.6 billion.

"Global Muslim Travel Index (GMTI) 2017" released by Mastercard and Crescentrating estimates that 121 million Muslims have travelled around the world with an expenditure of about USD 155 billion in 2016. 156 million Muslim international travelers are envisaged to globally spend a total of USD 220 billion on travel by 2020. While Turkey ranks 4th overall in the index, it is the top destination in terms ease of access, which is depend on the scores of Air Connectivity and Visa Free Travel.

"The State of the Global Islamic Economy Report 2016" released by Thomson Reuters points out Turkey ranks 3rd in terms of the best developed ecosystem for halal travel among other countries. Turkey also comes to the forefront as the most established market for Muslim-friendly beach resorts, which are emerging as a high growth segment.

Mega Projects

Marmaray
Yavuz Sultan Selim Bridge
Northern Marmara Highway
Eurasia Tunnel
Osmangazi Bridge
Dardanelles Strait Bridge
Highway Project
3rd Airport
Airport City
Canal Istanbul and the
3-Storey Grand Istanbul Tunnel

Mega Projects

a. Vision 2023

Vision 2023 sets ambitious targets for Turkey, such as being among the world's ten strongest economies, with a GDP of USD 2 trillion and exports of USD 500 billion by 2023.

It is important for Turkey to actualize structural reforms in the economy, including improvement in R&D, innovation, and higher technology production. In this regard, the government is pursuing a string of measures to address these challenges, ranging from reforms in the judicial and educational systems to investments in key industries and the country's infrastructure.

Crucial investment projects to support and facilitate further growth are currently under way, particularly in the domains of transportation, energy, and communication. Investments in public infrastructure are some of the more visible measures the government is taking to feed Turkey's burgeoning economy and to ready the country for further growth. The private sector is also involved and is sharing the responsibility in mega projects that are implemented in the form of public-private partnerships (PPPs) such as build-operate-transfer (BOT) agreements. This is seen as a way to make projects more efficient.

As Turkey shifts its FDI promotion policy to a more sector-specific approach, aimed at high-value-added, high-tech, and export-oriented projects, investors are likely to find new opportunities in industries ranging from the automotive and petrochemical sectors to information and communications and environmental technologies.

Turkey may have some challenges in meeting growing energy needs, effecting change toward high-added-value production, and creating greater internal cohesion, especially as it works to bring the underdeveloped areas of eastern and south-eastern Turkey into the fold. Nevertheless, rigorous reforms and a program of stabilization have secured Turkey's place as the one of the largest economies by gross domestic product (GDP). What's more, with its ambitions reach further, and with a clear vision for growth and development, Turkey steadily asserts itself as a global economic power. [2]

b. Completed & Ongoing Mega Projects

Turkey hosts a number of large-scale infrastructure investments that have a huge impact on its transportation and socio-economic profile, particularly in the Marmara Region. The significant increase in accessibility as well as time and money savings on transportation has had a positive impact on business activities.

The Turkish real estate sector is also expected to benefit from mega projects such as Marmaray, Yavuz Sultan Selim Bridge & Northern Marmara Highway, Eurasia Tunnel, Osmangazi Bridge, Dardanelles Strait Bridge & Highway Project, 3rd Airport & Airport City, Canal Istanbul, and the 3-Storey Grand Istanbul Tunnel.

[2] IIFC (HOK), Turkey: A Landmark Decade Vision 2023

Project	Regarding Real Estate Markets	Notes
Marmaray	Primary: Residential Secondary-High: Office, Hotel Secondary-Low: Retail	• Connecting European and Asian parts of Istanbul with a 76 km-long railway • Including 1.4 km undersea rail tunnel that crosses the Bosphorus • Total budget: USD 3.75 billion • Completed in 2014 • Estimation for contributing to the decrease in greenhouse emissions is 130,335 tons, and reducing carbon monoxide, nitrous oxide, and non-methane hydrocarbon gases by 29,000 tons • Estimation for TRY 387 million overall economic benefits per year
Yavuz Sultan Selim Bridge& Northern Marmara Highway	Primary: Logistics Secondary-High: Residential Secondary-Low: Office, Retail	• Connecting Asia and Europe by motorway and railway (to date, railway is not ready) • Consisting of three sections: 88 km Kınalı-Odayeri on the European Side and 169 km Kurtköy-Akyazı on the Asian side in addition to 95 km Odayeri-Kurtköy, which includes Yavuz Sultan Selim Bridge the longest suspension bridge including railway system with the main span of 1,408 m (8 lane highways and 2 lane railways), the widest bridge (59 m), and has globally assumed the title of "the suspension bridge with the tallest tower" (322 m) • Total budget: USD 6 billion • Completed (YSS Bridge) in 2016 Time saving in import and export by the removal of the transportation restriction for loaded vehicles as it has become the mandatory bridge to cross continents for these vehicles • Improvement of integration of neighbouring cities by the completion of highways and railway system • Better urban public transportation through integration with Marmaray and the metro network of Istanbul
Eurasia Tunnel	Secondary-High: Residential Secondary-Low: Office, Logistics	• Connecting Europe and Asia as a 5 km motorway between Kazlıçeşme and Göztepe that runs under the Bosphorus in order to take the load off bridges over the Bosphorus • Decreasing the travel time between the Asian and European sides of Istanbul from 100 minutes to 15 minutes. • Total budget: USD 1.25 billion • Completed in 2016n

Project	Regarding Real Estate Markets	Notes
Osmangazi Bridge	Primary: Logistics Secondary-High: Residential	• The symbolic part of Istanbul-Izmir Highway, connecting Kocaeli and Yalova • One of the longest suspension bridges (almost 2.7 km) in the world • Significantly decreasing the travel time between Istanbul and Bursa • Triggering the demand toward logistics and industrial sub-markets in Yalova
Dardanelles Strait Bridge & Highway Project	Primary: Logistics Secondary-High: Residential	• Connecting Europe with Asia by crossing the Dardanellas • Two construction phases: Kınalı-Tekirdağ-Çanakkale (300 km) & Çanakkale-Balıkesir (incl. the bridge) (52 km) • The longest bridge that includes railway at 2,023 meters main span
Istanbul Grand Airport	Primary: Logistics, Residential Secondary-High: Retail	• Being built on a 76.5 million sq m tract in the northern part of the city's European side, between the villages of Tayakadın and Akpınar on the Black Sea coast • Planned to become one of the busiest airports in the world, with a passenger capacity of 200 million annually • Consisting of a terminal area of 1.5 million sq m, 165 passenger boarding bridges, 3 control towers, 4 terminal buildings, 6 independent runways, 16 taxi routes and aprons of 6.5 million sq m having capacity for 500 airplanes • Including various amenities such as a state palace, a 70,000-vehicle capacity indoor and outdoor parking, an aviation medical centre, hotels, convention centres and garage buildings • Planned to completed in four phases by 2025, being estimated to make 4.89% contribution to national income per capita • Direct access to YSS Bridge and city centre by metro and high-speed train routes • Total budget: EUR 10 billion • As the winner of 2016 International Architecture Awards, 90 m tall 17-floor tulip-shaped Air Traffic Control Tower

Project	Regarding Real Estate Markets	Notes
Airport City	Primary: Office, Retail, Residential Secondary-High: Logistics	• Being built on 10.5 million sq m, including Istanbul Grand Airport • Featuring hotels, offices, shopping centres, social facilities, hospitals, training campus and exhibition facilities • The Core Zone: Being constructed on 420,000 sq m at the first stage of the project - simultaneously with the Terminal Building - including office buildings, serviced apartments, cultural centre, shopping centre, mosque, 3 hotels and Turkish Airlines Headquarter (450,000 sq m GLA) • The East Zone: Being constructed on 775,000 sq m, including specialized commercial buildings such as Designer Outlet, EXPO Centre, and the Healthcare Campus (750,000 sq m GLA) • T2 Zone: Being constructed on 315,000 sq m, including hotel and office district, office and apartment district and mosque (350,000 sq m GLA)
Canal Istanbul	Primary: Logistics, Residential Secondary-High: Office, Retail	• Connecting Black Sea to Marmara Sea with 43 km water channel • Planned to be built on the outskirts of the European side of the city • Estimated budget: USD 7-10 billion
3-Storey Grand Istanbul Tunnel	Secondary-High: Residential, Logistics Secondary-Low: Office, Retail	• Connecting European and Asian Sides of the city under the Bosphorus with a 3-storey tunnel • Consisting of a railway sandwiched between two motorways • 6.5 km tunnel, sitting 110 m below sea level, as the first of its kind around the world
Istanbul-Izmir Highway	Primary: Logistics Secondary-High: Retail, Residential	• Reducing the travel time between Istanbul and Izmir to 3.5 hours with 384 km highway and 43 km linking road from Gebze to Izmir • Including 7 different zones: Gebze-Orhangazi, Orhangazi-Bursa, Bursa-Susurluk, Susurluk-Balıkesir, Balıkesir-Kırkağaç, Kırkağaç-Manisa and Manisa-Izmir • Two construction phases: Gebze - Iznik South Intersection (358 km) and Iznik South Intersection - Izmir • Completed Altınova-Gemlik (40 km) section in 2016 • Total budget: USD 6.5 billion

Source: ISPAT

AirportCity
3-Storey Grand Istanbul Tunnel
Dardanelles Strait Bridge & Highway Project
Çatalca
Hadımköy
Arnavutköy
Silivri
Kıraç
Esenyurt
Ikitelli
Haramidere
Büyükçekmece
ISTANBUL
Maslak
Zekeriyaköy
Kumköy
Rumelifeneri
Riva
Dudullu
Sancaktepe
Samandıra
Ataşehir
Sultanbeyli
Tepeören
Pendik
Tuzla
Orhanlı
Balçık
Pelitli
Şekerpınar
Çayırova
Gebze
Dilovası
Darıca
KOCAELI
Kocaeli Kent Ormanı
Izmit
Tepecik
Kartepe
Aslanbey
Gölcük
Altınova
Çiftlikköy
Şile
Ahmetli
Ömerli
Adalar
Durusu
Botaş
Ambarlı
Zeyport
Haydarpaşa
Tuzla
Yalova
Yarımca
Derince
İzmit
July 15 Martyrs Bridge
FSM Bridge
Osmangazi Bridge
Yavuz Sultan Selim Bridge
Istanbul Grand Airport
Atatürk Airport
Sabiha Gökçen Airport
Roads Under Construction
Northern Marmara Highway
E5 Highway
TEM Highway
Istanbul-Izmir Highway
Marmaray
Eurasia Tunnel
Ports
Pipeline Projects

a. REICs

A Real Estate Investment Company (REIC) is a type of capital market institution founded in order to issue its shares for the purpose of operating and managing a portfolio. The portfolio can be composed of real estate; real estate projects; real estate-based rights; infrastructural investments and services; capital market instruments; clearing bank money market and reverse repurchase transactions; time deposits or participation accounts in Turkish Lira; demand and time deposits or special current and participation accounts in foreign currency; subsidiaries and affiliates; and other assets, rights, and instruments to be determined by Capital Markets Board of Turkey (CMB) within the limits of activities delineated in Article 48 of the Law.

REICs are established in the form of joint-stock corporations and they have a legal personality. Their capital is registered and they issue shares. Their shares have to be issued in return for cash and quoted, traded, and priced at a stock exchange. The legal structure in Turkey enables two main types of REICs: Traditional REICs – which are under obligation to invest at least 51% of their total assets in real estate, real estate projects, and real estate-based rights - and infrastructure REICs, where at least 75% of total assets should be composed of infrastructure investments and services.

While the minimum capital requirement is TRY 30 million, REICs are obliged to sell at least 25% of their shares to public. Some additional requirements are listed below.

- REICs can invest in time deposits or demand deposits with, at most, 10% of their portfolio value.

- Investments in foreign real estate and capital market instruments cannot be more than 49% of their portfolio value.

- The vacant land and lots, which have not been subject to any development over the last 5 years following acquisition, cannot exceed 20% of their portfolio value.

- REICs cannot engage in capital market activities other than its portfolio management in the limited investment areas; engage in the deposit business, or conduct business and operations resulting in deposit collection; engage in commercial, industrial, or agricultural activities other than permitted transactions.

- REICs cannot carry out the construction of real estate as developers.

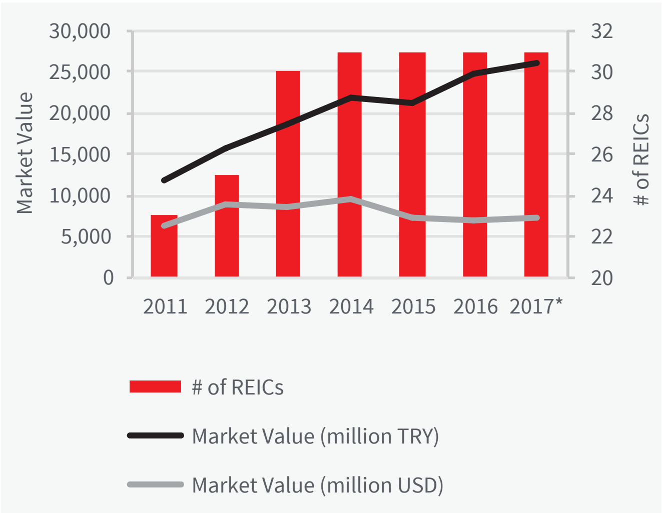
- REICs cannot commercially operate any shopping centre, residential projects, commercial warehouse, hotel, hospital or similar type of real estate nor employ any personnel for this purpose.

Looking at taxation structure regarding REICs, there are exemptions from the corporate income tax, capital gains tax, and withholding tax. REICs have a number of registration duties, including title deed fee of 3% and stamp duty of 0.75%. On the shareholder side, corporate shareholders and individual shareholders are treated separately. While corporate dividends and capital gains from share disposal are subject to a 20% corporate tax for corporate shareholders, individual shareholders' tax rate applied on income obtained from dividends varies from 15% to 35% according to income level with 50% of their income being exempted from the income tax. Individuals' capital gains are also not subject to a withholding tax.

Foreign REICs deriving rental income in Turkey are subject to a 20% withholding tax, while foreign shareholders are treated as domestic shareholders with 0% withholding tax.

According to a June 2017 bulletin from the CMB, the number of REICs registered with the Board and with shares quoted on the Istanbul Stock Exchange increased from 23 to 31 since 2011. While the TRY-based market value has shown a significant increase at the level of 123%, this upward trend has resulted with only a 19% rise in USD-based market value due to the considerable depreciation of TRY against USD and EUR over the last few years.

Real Estate Certificate Time Schedule Template



Source: CMB, *June 2017

b. REIFs

A Real Estate Investment Fund (REIF) is a fund established and managed by the portfolio management companies authorized by CMB. REIFs mainly invest in real estate, real estate rights, and real estate securities.

REIFs are under obligation – just as REICs - to invest at least 80% of their total fund value in real estate investments, including real estate, real estate rights, and real estate securities. The shares of REIFs are allowed to be sold only to qualified investors.

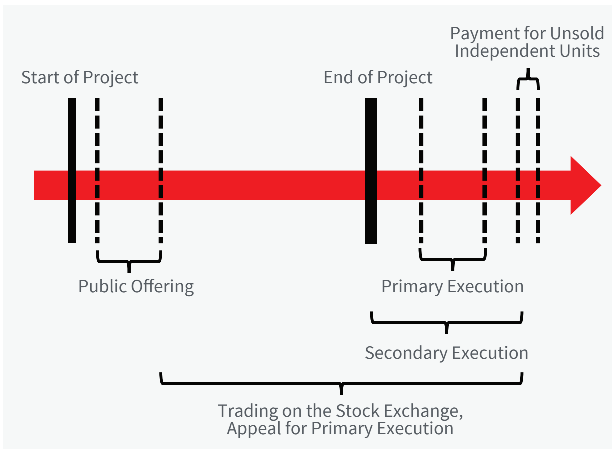
The taxation framework of REIFs shows a striking similarity with REICs. While both of their incomes are fully exempted from corporate tax, the corporate tax-exempt income of REIFs is also not subject to withholding tax. In addition, corporate investors and individual investors benefit from tax incentives. Domestic – or resident – corporate investors' dividends are subject to corporate tax and 0% withholding tax. Resident individual investors see half of their dividend income exempted from income tax. Foreign – or non-resident – investors, both corporate and individuals, do not have a withholding tax burden on their dividends from REIFs.

c. Real Estate Certificate

As a capital market instrument traded on Borsa Istanbul, it enables companies with a real estate project that is about to start or is in progress to sell independent residential and commercial units by dividing them into smaller units – including certain area units (such as sq m or other space units) or monetary unit (such as TRY 1, TRY 10 and so on). On the investor side, the certificate gives the opportunity to investors to acquire real estate by buying adequate certificates or to benefit from probable appreciation in cases where they lack an adequate number of certificates to claim a unit.
Real Estate Certificates holders have three options as listed below.

- **Primary Execution:** Number of certificates for independent units in proportion to their goodwill is declared prior to issuance of certificates, and investors who have bought adequate certificates may purchase an independent unit of the real estate. Independent units sold by the issuer as a result of the primary execution, and those that have not been sold yet, are declared at the public disclosure platform.
- **Secondary Execution:** Investors not demanding primary execution are deemed to demand secondary execution upon completion of the project. Indepen dent units that are not subject to primary execution are sold via auction within a certain time frame and proceeds thereof are distributed to certificate holders demanding secondary execution. For those independent units not sold during the secondary execution, certificate prices are paid to investors in proportion to their shares over the price forming on the exchange over the last quarter or, if such price is not sound, the price set forth in the real estate value assessment report
- **Sales of Certificates at the Exchange:** Investors not demanding primary execution and wishing to convert into cash their certificates prior to completion of the project may sell their certificates to other investors on the stock exchange.

Real Estate Certificate Time Schedule Template



Source: Borsa Istanbul

a. Legal Structure

i. Abolishment of Reciprocity Law in 2012

In accordance with Article 35 of the Land Registry Law No. 2644, which is in effect in the country since 1934, and amended by Law No. 6302 on 18 May 2012, the condition of reciprocity for foreigners who wish to buy real property in Turkey was abolished in line with EU principles. With this important amendment on the article of Land Registry Law, regulation of the acquisition of real properties and rights in rem in Turkey by foreign real persons and legal persons was rearranged to attract the foreign capital and to boost the influx of foreign direct investments into the Turkish economy.

At this point, persons with foreign nationality can buy any kind of property (house, business place, land, and field) within the legal restrictions. Persons with foreign nationality who buy property without construction (land, field) also have to submit the project that they will construct on the property to the relevant Ministry within 2 years.

According to the Turkish laws and regulations in force, transfer of ownership of a property is only possible with an official deed and registry that is signed at the Land Registry Directorates. It is possible to sign a “sales commitment agreement” before a notary; however, legal ownership to the property does not pass with a “sales commitment agreement” or other kind of sales agreements signed before the notary.

ii. Acquisition by non-Turkish nationals

• Legal Structure for Foreign Real Persons

There are some points to be noticed by foreigners who wish to buy a property in Turkey

- The foreigner has to inquire with the Land Registry Directorate if there is any limitation on the property, such as mortgage, arrestment, or any obstacle which prevents the sale of the property.
- If the application by the foreigner for buying a property is rejected, the act can be appealed to the relevant Regional Office of the Land Registry Directorate.
- It is advised that foreigners should work with persons/companies who/which are expert and reliable.
- Having a residence permit is not a condition for the foreigner who wishes to buy a property in Turkey. Likewise, buying a property does not automatically grant the foreigner a residence permit in Turkey.
- If there is a disagreement between the sides on the sale of the property, the case has to be brought before the Turkish courts by referring to judicial authorities.

A number of legal restrictions for foreigners in buying property are also considerable points to be emphasized.

- Persons with foreign nationality can buy a maximum of 30 hectares of property in Turkey in total and can acquire limited in rem right.
- Foreigners cannot acquire or rent property within military forbidden zones and security zones.
- Persons with foreign nationality can acquire property or limited in rem right in a district/town up to 10 % of the total area of the said district/town.

- Legal restrictions do not apply in setting mortgages for real persons and commercial companies having legal personality that are established in foreign countries.
- The properties are subject to winding up provisions in following cases:
    - If the properties are acquired in violation of laws
    - If the relevant ministries and administrations identify that the properties are used in violation of purpose of purchase
    - If the foreigner does not apply to the relevant ministry within time in case the property is acquired with a project commitment
    - If the projects are not materialized within time

• Legal Structure for Foreign Legal Persons

a) Acquisitions by Foreign Companies

- Acquisition of property by companies that are registered in Turkey is governed by Article 35 of the Land Registry Law No 2644.
- Foreign commercial corporations that are establis hed according to the relevant laws of their count ries of origin, can acquire property and limited in rem rights within the provisions of special laws. These special laws are:
    - Petroleum Law No. 6326
    - Law on Encouragement of Tourism No. 2634
    - Law on Industrial Zones No. 4737
- No restriction is implemented in favour of the said commercial companies in establishing mortgage.
- Other foreign corporations (i.e. foundation, association) cannot buy property nor acquire limited in rem right.

b) Acquisitions by Companies with Foreign Capital

The companies with foreign capital,

- If the foreign investors hold, individually or collectively, 50 % or more shares of the said company,
- If the foreign investors do not hold any share of the said company, but have a right to assign or remove the managers of the said companies on the condition that the said company has a legal personality in Turkey,

- They could buy property in Turkey in accordance with Article 36 of Land Registry Law No. 2644 and the “Decree on Acquisition of Property and Limited in Rem Rights by Companies and Corporations within the Context of Article 36 of Land Registry Law No. 2644”, dated 16.08.2012.
- The Land Registry General Directorate has published a circular No. 2012/13 (1735) on “acquisition of property and limited in rem rights by companies with foreign capitals”

b. Taxation on Acquisition, Utilization and Sales of a Property

Acquiring, holding, and selling property in Turkey is subject to a number of taxes, duties, and charges.

Acquisition

- Declared purchase price cannot be lower than the registered value of the property determined by the relevant municipality.
- **Title Deed Fee:** 2% over the sales price for buyer and seller separately.
- **Value Added Tax (VAT):** Applicable to all property sales including office, residential properties, and land acquisitions. It is 18% and calculated over the sales price. Specific VAT rates such as 1% and 8% are also applicable for residential units with less than 150 sq m net area. (Not applicable for the seller/owner of the property, which is an individual (not dealing with any commercial activity) or a company (not dealing with real estate trading on a regular basis and holding the said property for more than two years)).
- **Stamp Tax:** Applicable over the highest monetary value stated or referred in the agreement at 0.948%. (Not applicable for a transaction between individuals who are not dealing with any commercial activity.

Utilization & Leasing

- **Property Tax:** Various rates - according to property type and location – calculated by municipalities.
- **Surcharge for the Protection of Immovable Cultural Assets:** Collected together with the property tax at 10% of the annually collected property tax.
- **Compulsory Earthquake Insurance (DASK):** A compulsory insurance - according to the Law on Natural Disaster Insurance - for the land registry and utility services such as electricity, water and sewage system connection).
- For the subscription of utility services, new owner or tenant of the property has to apply relevant institution and execute and utilization agreement.
- **Leasing Property**
    - **Rental Income Tax:** Applicable to gross rental income throughout the calendar year, and stands between 15% and 35% (gradually increasing according to the total income).
    - **Withholding Tax:** Applicable to landlord whose gross rental income exceeds TRY 30,000 in 2016.

Sales

- **Capital Gain:** Property Tax: Applicable to the positive difference between the sales price and the cost of the property (incl. the acquisition value, expenses incurred due to disposal and remaining under the responsibility of the seller, and taxesand charges paid)
- **Value Added Tax (VAT):** 18% and calculated over the sales price. Specific VAT rates such as 1% and 8% are also applicable for residential units with less than 150 sq m net area. (Please see ‘acquisiti on’ for further details)

c. Ownership Models for Developers

Single Ownership Model

- Land acquisition is the major issue for this practice due to high land costs and lack of land availability in the city centre
- The developer covers all costs single-handedly, thus it could lead to some financial bottleneck in development process.
- It offers highest yield during disposal transaction thanks to property rights, which are held 100% by owner.

Flat for Land Model

- The common practice in the office and residential market.
- Title deed of the estate, which is the final product of the process, is shared between developers and landowners in terms of independent units.
- It has negative effect on the office buildings, impairing the quality because of strata sale transactions, particularly in disposal process.

Revenue Sharing Model

- The most preferred development model especially in the retail market.
- In general, the model is put into practice by joint venture between landlords and developers.
- Like the flat for land model, this practice offers low yield rate during disposal process.

Building Permits & Occupancy Permits

Obtain Zoning Plan

Agency: Zoning and Planning Department

Time to Complete: 4 days / Associated Cost: TRY 200

BuildCo applies to the District Municipality - Planning Department for a 1:1000 scaled zoning plan which is already prepared and approved by the greater municipality. The plan shows the construction conditions of land such as the gross floor area ratio, footprint area ratio, and the function (e.g. commercial, residential, office, etc.)

Obtain Cadastral Plan

Agency: District Cadastral Office

Time to Complete: 3 days / Associated Cost: TRY 143 to 1,720

BuildCo submits an application to the Cadastral Plan Branch of the relevant municipality, along with the lot plan, and obtains the Cadastral Plan Document. The cadastral plan states the corner coordination of the plot, the status of adjacent plots, and the surface area of the plot.

Obtain Construction Direction Plan & Elevation of Cross Section

Agency: The Planning and Zoning Department of District Municipality

Time to Complete: 5 days / Associated Cost: TRY 0.6 to 1 / sq m

Hire an Independent Building Inspector*

Agency: Private Building Inspection Agency

Time to Complete: 4 days / Associated Cost: TRY 19,000

The company must select an independent building inspector and sign a service contract with this inspector. The inspector must check and approve all the project's plans before they are submitted to the municipality.

The building inspector charges a fee representing a percentage of the total cost of construction, according to the amendment of Article 5 of the Law on Building Inspection No. 4708 of August 17, 2011. This fee is paid in six instalments.

The inspector receives the following payments at the following stages:

• 20% when the building permit is obtained

• 40% when the foundation is completed

• 20% when the shell & core structure is initiated

• 15% when the installation is initiated

• 5% when the construction is completed

Obtain Approval of Architectural Drawings*

Agency: District Municipality

Time to Complete: 30 days

The cost estimated for this procedure ranges from TRY 3,000.00 to TRY 3,500.00. The fees found on one district municipality's Web site show the cost breakdown to include fees for examination, approval, and various other taxes (e.g., sign posts, trees).

Obtain Proof of Payment and Clearance of Water and Sewerage Infrastructure*

Agency: Water and Sewerage Department

Time to Complete: 7 days / Associated Cost: TRY 5,200

Register with Social Security Institute before the Commencement of Construction Works*

Agency: Social Security Institution

Time to Complete: 1 day / Associated Cost: No charge

Obtain Building Permit

Agency: District Municipality, Licensing Branch

Time to Complete: 30 days / Associated Cost: TRY 10,275

The company requests a building permit from the licensing branch of the municipality. The approved design, engineering drawings, and other necessary documents (described in the previous procedures) must be attached to this request. The company must pay the fees before receiving the building permit and starting foundation work.

For a warehouse, the official fee schedule is TRY 4.07 per sq m.

Building permits are usually issued 1 -- 2 months after submission of the application. Following the building permit issuance, the municipal building control authority will randomly conduct inspections during the construction on site, in addition to private inspection.

Obtain Excavation Permit

Agency: Department of Environment of the Municipality

Time to Complete: 1 day / Associated Cost: TRY 1,600

Obtain Proof of "No Outstanding Taxes" Clearance Certificate

Agency: Tax Department

Time to Complete: 1 day / Associated Cost: No charge

Request and Obtain “No Outstanding Social Security Premium” Clearance upon Completion of Construction Works

Agency: Social Security Institute

Time to Complete: 1 day / Associated Cost: No charge

Receive Final Inspection (Fire Department)

Agency: Fire Department

Time to Complete: 1 day / Associated Cost: TRY 0.58 to 5.06 per sq m

Submit Final Inspection Report and Receive Final Inspection

Agency: District Municipality

Time to Complete: 5 days / Associated Cost: No charge

Upon completion of construction, the private inspector must submit his final inspection report to the municipality before the municipality conducts its final inspection

Obtain Occupancy Permit

Agency: District Municipality

Time to Complete: 15 days / Associated Cost: No charge

Land Development Law No. 3194 requires an occupancy permit for all new constructions. An authorized commission from the municipality inspects the building and verifies that it complies with the project. This commission then issues the occupancy permit.

The law specifies a statutory time limit of 30 days for the municipality to issue an occupancy permit. Practitioners observe that this statutory time limit is not frequently observed, and so, this process can take on average 2 months.

Change the Title Deed from a Land Title Deed to a Building Title Deed*

Agency: Title Deed Department

Time to Complete: 10 days

The fee is based on the area of the immovable property:

1-1,000 sq m: TRY 235 / 1,000 – 3,000 sq m: TRY 332.50 / 3,000 sq m and up: TRY 32.5 will be added to 332.50 for each 1,000 sq m

Obtain Operation Permit*

Agency: District Municipality

Time to Complete: 15 days / Associated Cost: TRY 2,500

Receive Inspection and Obtain Water and Sewage Connection

Agency: Istanbul Water Supply and Sewerage General Directorate (ISKI)

Time to Complete: 9 days / Associated Cost: TRY 250

Source: The World Bank, * Takes place simultaneously with previous procedure.

Quarterly avg. value of Q4 2017: EUR/TRY=4.48, USD/TRY=3.80

Notes

Contacts

ISPAT Head Office:

Kavaklıdere Mahallesi, Akay Caddesi No: 5
06640 Çankaya / ANKARA

Phone : (+90 312) 413 89 00

Fax : (+90 312) 413 89 01

ISPAT Office:

Muallim Naci Caddesi No: 73
34347 Beşiktaş / İSTANBUL

Phone : (+90 212) 468 69 00

Fax : (+90 212) 468 69 69

JLL Turkey:

Maslak Link Plaza, Ayazağa Mah. Eski Büyükdere Cad.
No.3/5 34398 Maslak - İstanbul, Türkiye

Phone : (+90 212) 350 08 00

Fax : (+90 212) 350 08 06

www.jll.com.tr