Real Estate Market Diversification Beyond the GCC

Opportunities in Turkey

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IREF 2007; London

Outline

• General conditions

• Investment perspective

• Construction Industry

•Regional potential

•Basic overview of real estate market

•Alternatives

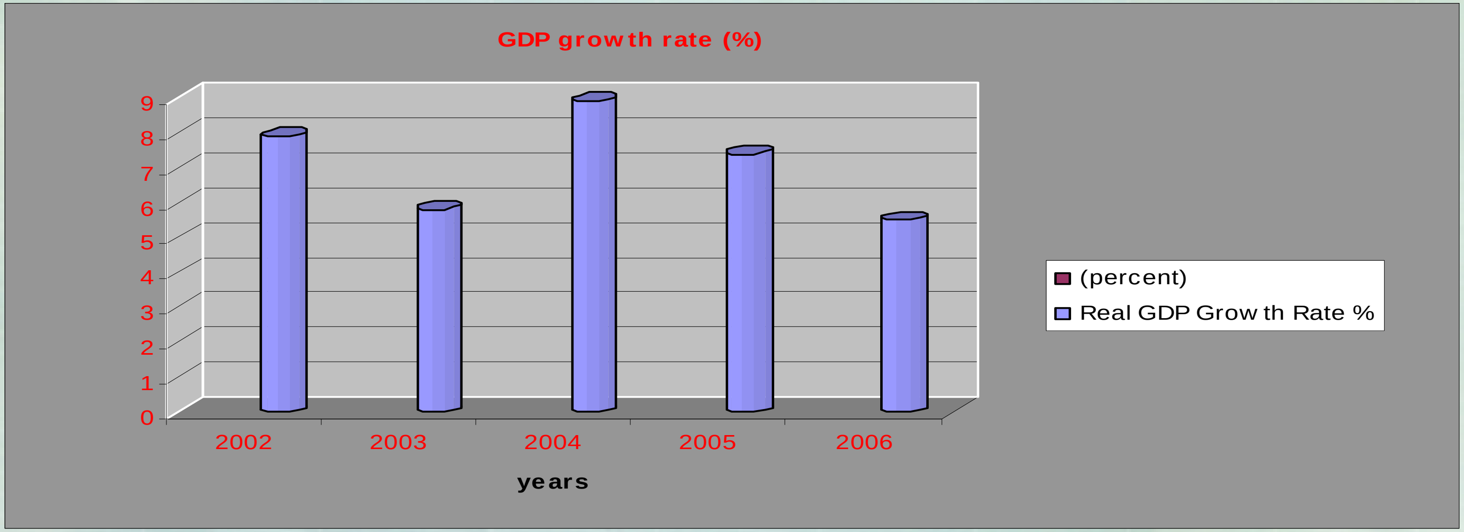
General Conditions

- Increase in growth rate
- Stable economic environment
- Record exports
- Political stability

Growth Rates

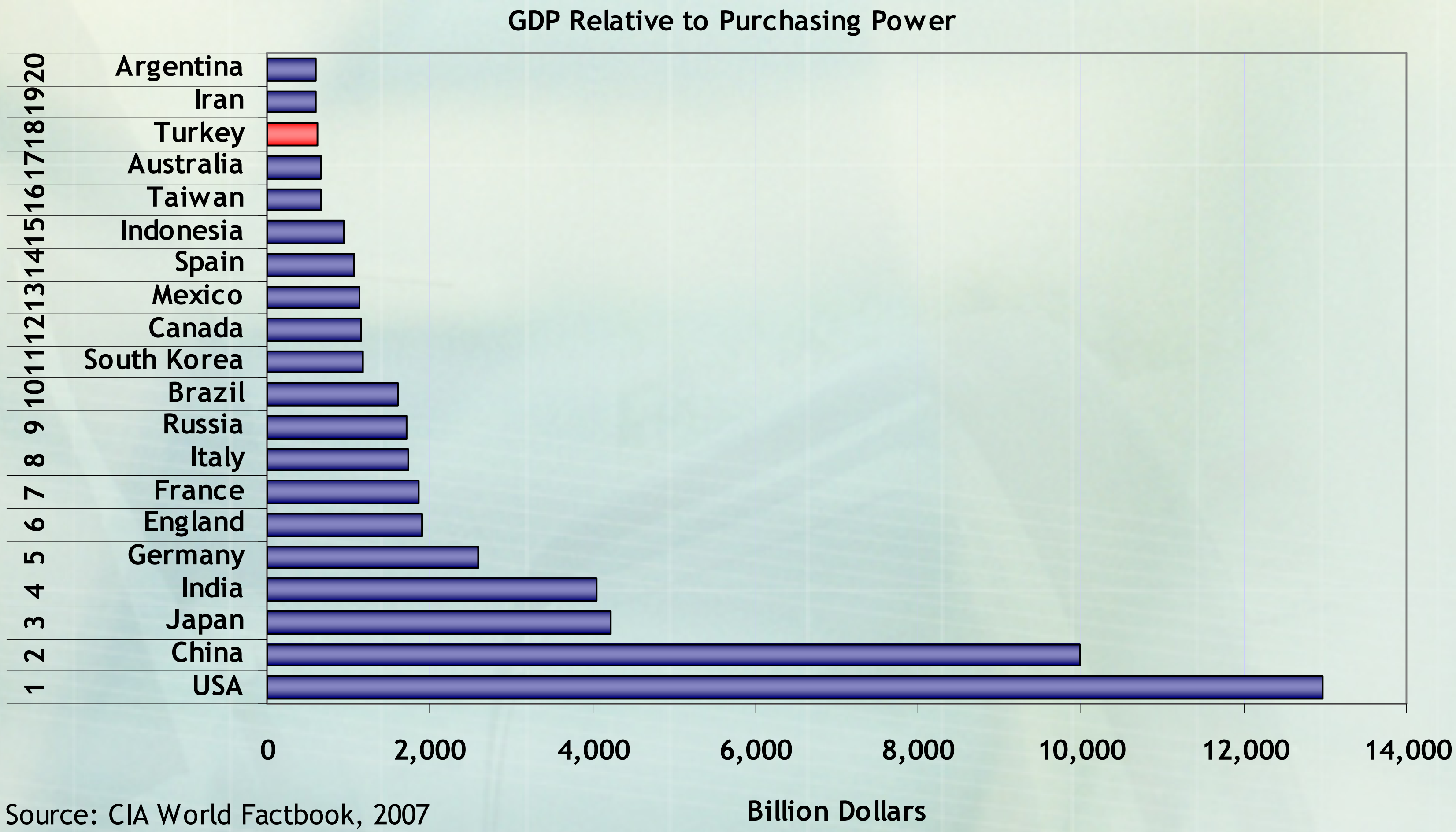
	2002	2003	2004	2005	2006
Real GDP Growth Rate % (percent)	7.9	5.8	8.9	7.4	5.5
Population Growth Rate (percent)	1.226	1.189	1.152	1.113	1.082
Real GDP per capita growth rate (percent)	-13.322	4.995	13.355	12.693	-1.8319

Source:countrywatch, Turkey microeconomic indicators, 2007



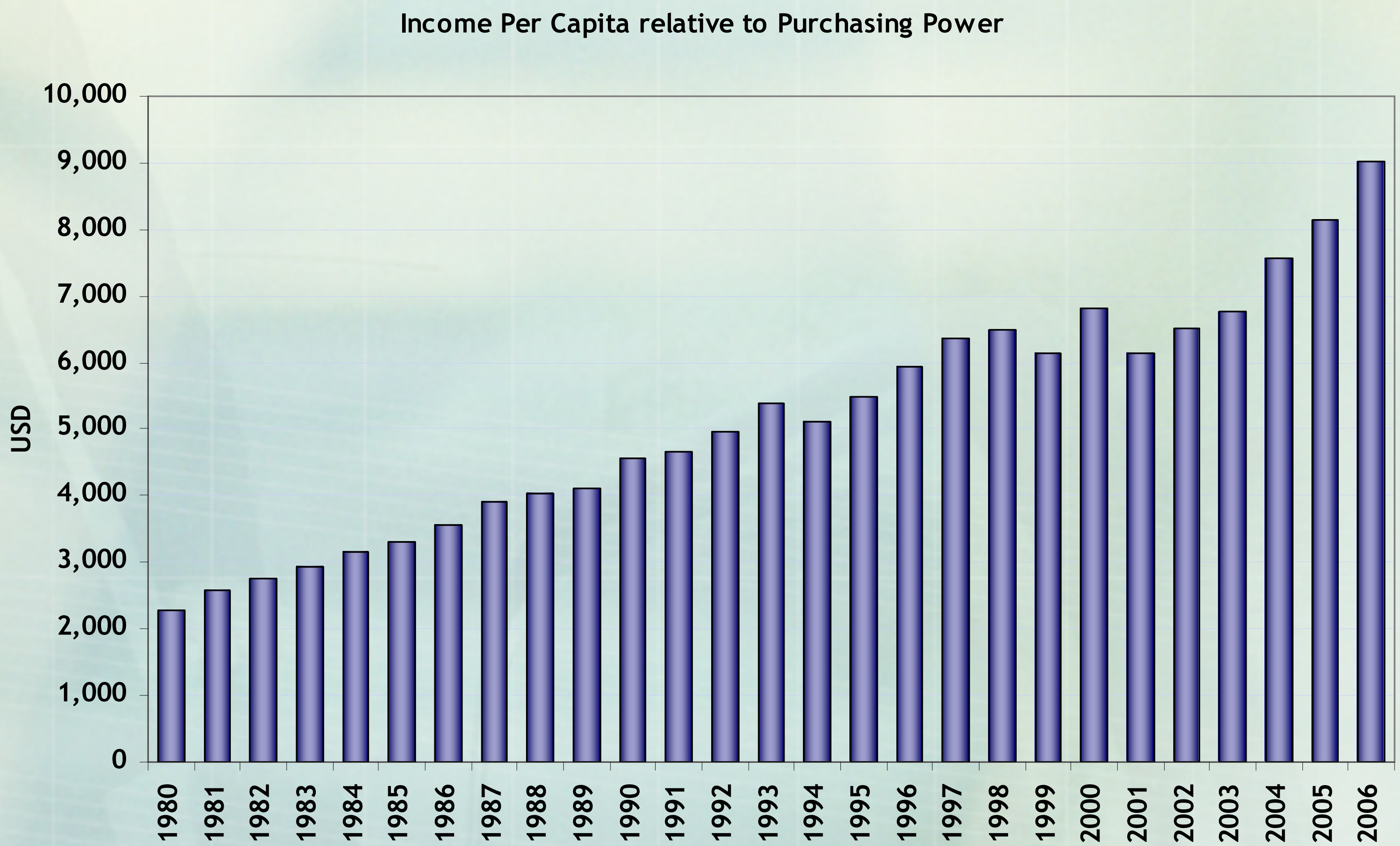
Source:countrywatch, Turkey microeconomic indicators, 2007

Developing Turkey



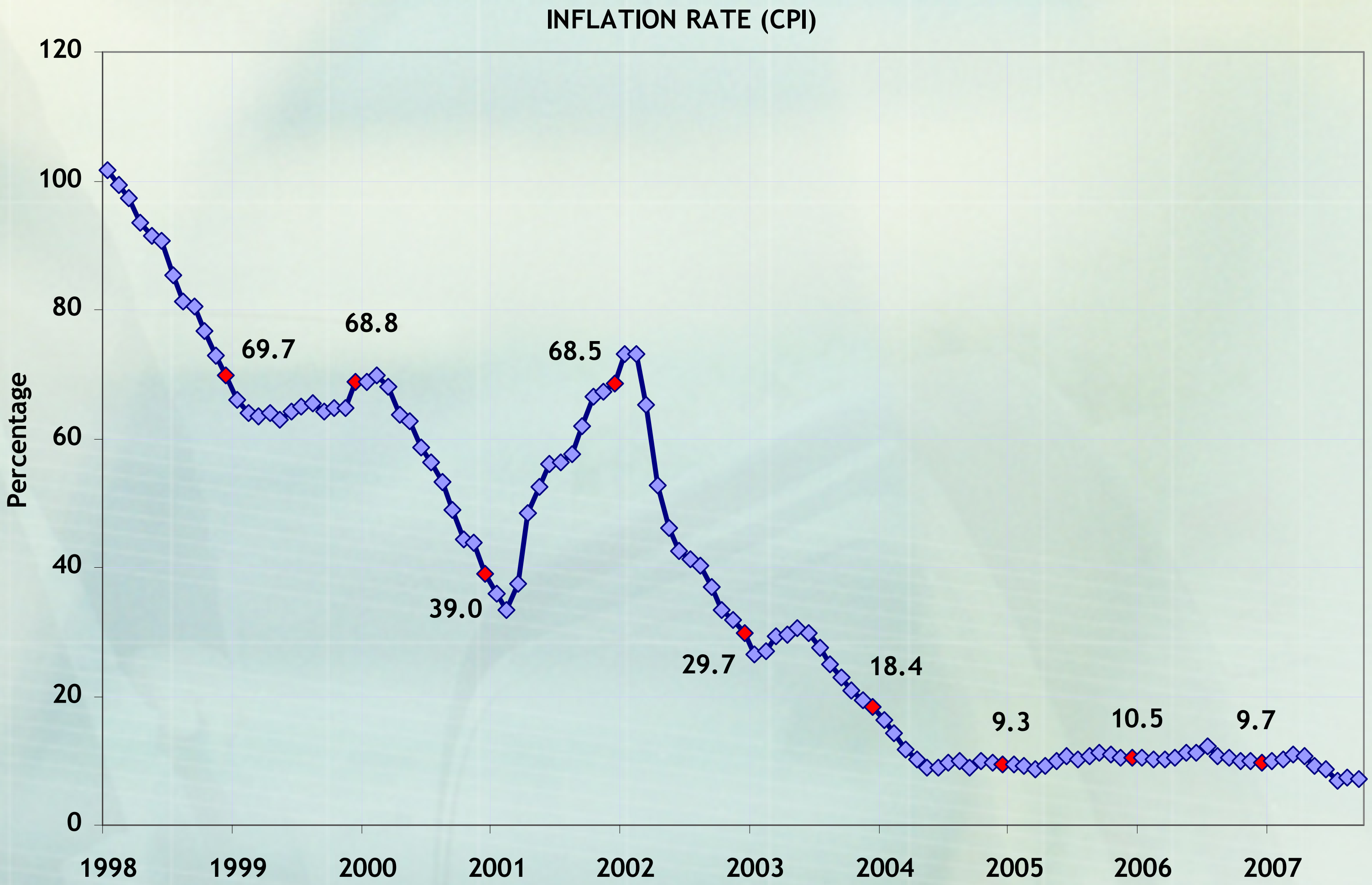
Source: CIA World Factbook, 2007

Income per Capita



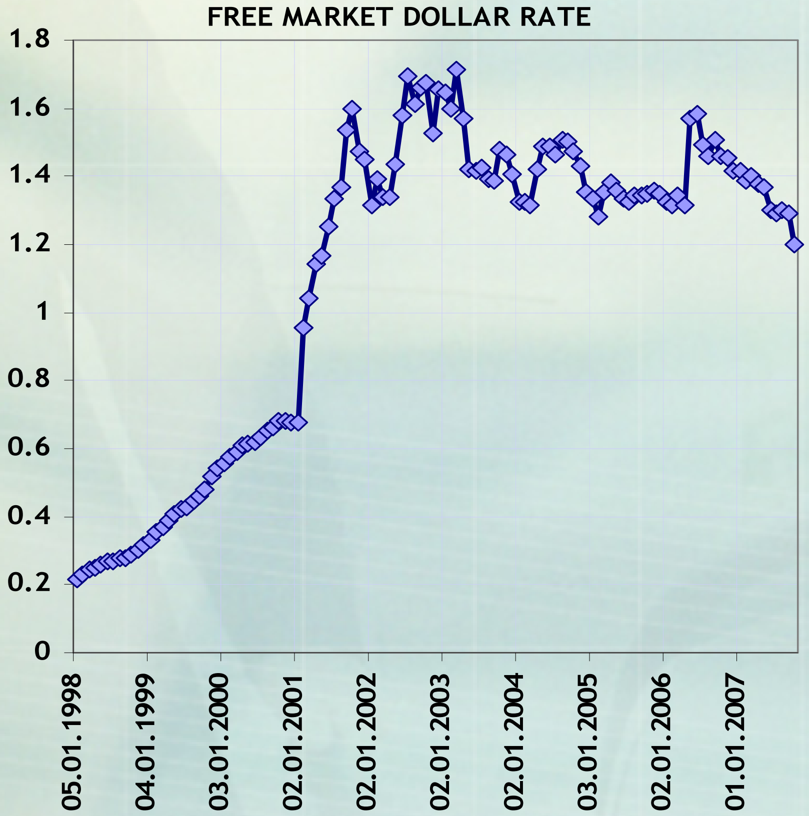
Source: OECD, 2006

Inflation rate



Sourse: TÜİK

$ rate vs. € rate



Source: TCMB

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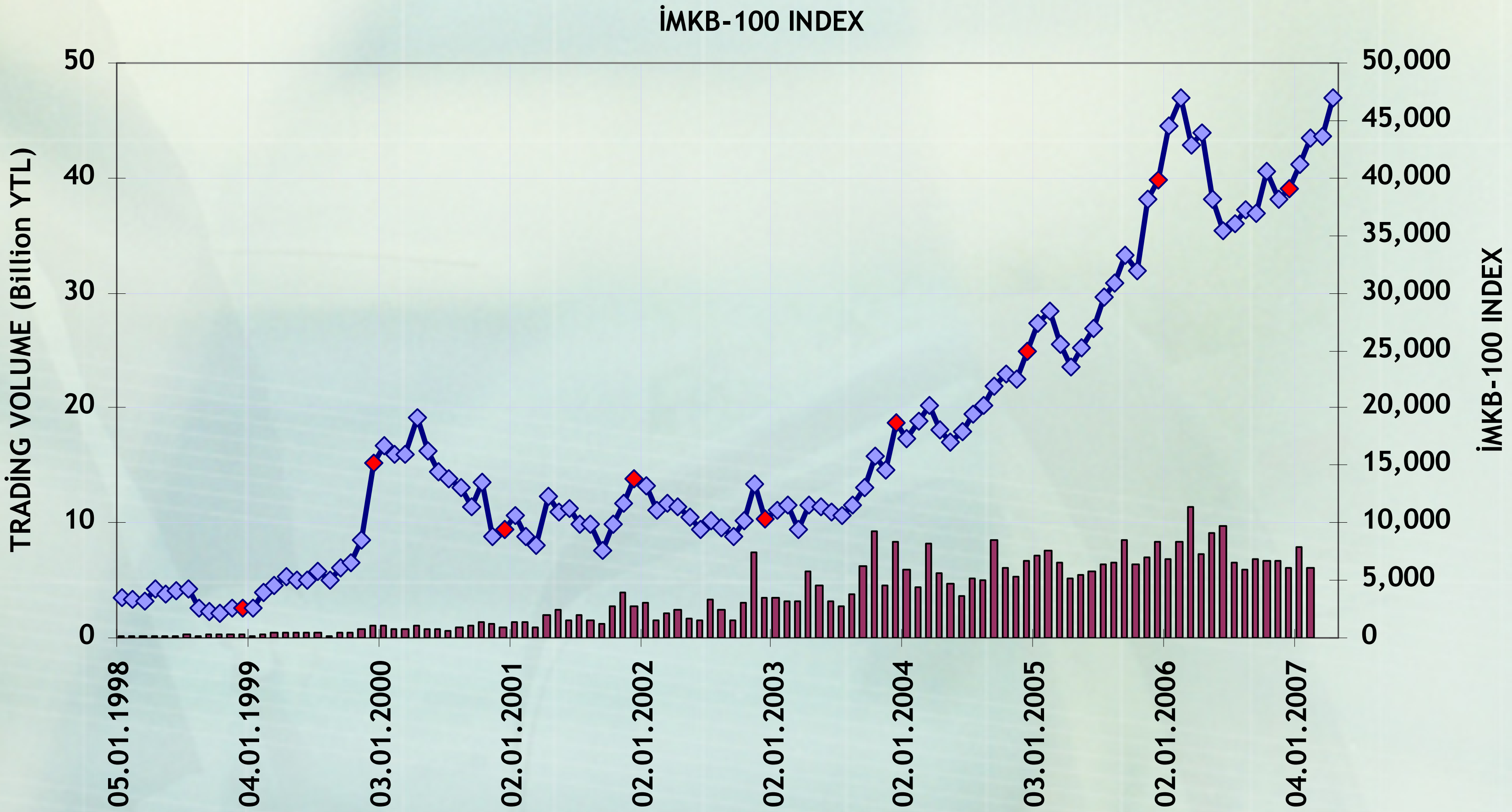
IMKB – 100 INDEX



Source: İMKB

FDI

Foreign Direct Investment in Turkey - Services

YEAR	2000	2001	2002	2003	2004	2005	2006
SERVICES	7,387	6,527	5,498	11,191	16,400	43,050	58,786
Construction	22	338	389	442	57	397	415
Trade and Repairs	2,759	2,288	1,410	4,740	3,068	6,834	9,136
Hotels and Restaurants (Tourism)	352	200	130	124	560	1,039	901
Transports, Storage and Communication	2,487	946	1,360	2,053	7,564	19,556	25,091
Financial Intermediation	1,584	2,604	1,809	3,647	3,527	112,091	17,323
Real Estate, Renting and Business Services	0	0	0	93	1,235	2,255	4,060
Education	0	0	0	14	39	63	56
Health and Social Services	71	138	342	45	231	459	1,018
Other Services	112	13	58	33	119	356	786
TOTAL	19,209	18,047	16,259	30,936	37,169	69,927	86,818

Source: Central Bank of Turkey, 2007

Markets & Suppliers in 2006

Leading markets	% of total	Leading suppliers	% of total
Germany	11.4	Germany	10.6
UK	8	Russia	12.7
Italy	7.9	Italy	6.2
US	5.9	China	7
EU25	51.6	EU25	39.3

Source: The Economist Intelligence Unit Limited, 2007

FDI by Country 1995 - 2004

- Italy 24.3 %
- Netherlands 19.9 %
- United Kingdom 10.8 %
- USA 10.2 %
- Germany 8.4 %
- France 4.9 %
- Gulf Arabian countries 4.1 %
- Japan 3.8%
- Other countries 13.6%

Source: SEE Investment GuideTurkey, 2006

Turkey Business At Glance

“Policy towards private enterprise and competition

- **2008-09**: Privatization resumes after the election, but legal challenges will continue to delay some sales.
- **2010-12:** The effectiveness of the Competition Board and sectoral authorities improves.

Policy towards foreign investment

- **2008-09**: Removal of administrative and legislative obstacles and a new investment agency help to sustain the recent surge in foreign direct investment (**FDI**) inflows. Intense competition from new EU member states will continue.
- **2010-12:** Gas and electricity liberalization should help to attract further foreign investment and improve energy provision.

Foreign trade and exchange controls

- **2008-09:** Imposition of capital controls in response to financial instability is unlikely.
- **2010-12:** EU accession talks continue to put pressure on Turkey to remove remaining technical barriers to trade with the EU, in line with the 1995 customs union agreement. Commitment to a broadly open trading regime continues.

Taxes

- **2008-09:** Tax system overhaul continues as part of the IMF-backed programme. Consumption tax rates rise further.
- **2010-12:** Further efforts to increase efficiency and transparency of the tax regime to boost tax revenue.

Financing

- **2008-09:** Further banking consolidation and foreign entrants increase competition in the sector. The stock exchange remains volatile. Short-term interest rates ease only gradually.
- **2010-12:** Increased presence of foreign banks. Further diversification in banking activities away from investment in government securities.” *(The Economist Intelligence Unit Limited, 2007)*

From Press

- Turkey among top 20 countries for foreign investors

  “Turkey, one of the most attractive countries among western Asian economies, made the list of the world’s largest cross-border mergers and acquisitions of 2006 with five operations: Telsim’s sale to Vodafone, **Finansbank’s sale to the National Bank of Greece**, **Deniz Bank’s sale to Dexia** and **Petrol Ofisi’s operation with OMV**. **Mey Alcoholic Beverages**, purchased by the **United States-based Texas Pacific Group**, was ranked 30th in the largest 50 investment fund list. Turkey ranked 11th, with operations worth $15.3 billion, on the “mergers and acquisitions” list.” **(Turkish Daily News, October 18th, 2007)**

- Turkey ranked 16th in FDI inflow

“Turkey was 16th among the countries drawing the most foreign direct investment (**FDI**) in 2006 with $20.1 billion, the latest World Investment Report of the United Nations Conference on Trade and Development (UNCTAD) noted .”(*Zaman Gazetesi, October 16, 2007)*

Why to Invest in Turkey?

- 18st largest economy
- Growing turkish economy in a stable political environment
- 70 million population creating strong internal property market
- Young & skilled labor market
- Property prices are still on competitive levels
- Lower cost of living
- 25 mn tourists and growing yearly Long summer season, favorable for tourism investments and second homes

Construction Industry

Low construction cost

- Low labor costs still
- Sustainable construction industry
- Globally experienced construction companies
- Turkish architecture and design firms
- Availability of raw materials domestically

Labor Market*			x1000 Persons			
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Total Population 15+ Age Group	**47.158**	**48.041**	**48.912**	**49.906**	**50.826**	**51.701**
Labor Force	23.491	23.818	23.64	24.289	24.565	25.508
Employment	21.524	21.354	21.147	21.791	22.046	23.257
Agriculture	8.089	7.458	7.165	7.4	6.493	6.854
Industry	3.774	3.954	3.846	3.988	4.28	4.412
Services	9.661	9.942	10.135	10.403	11.273	11.911
Unemployed	1.967	2.464	2.493	2.498	2.52	2.251
Underemployment	1.405	1.297	1.143	997	817	911

Labor Cost and Wages			USD/ Month	
	2002	**2003**	**2004**	**2005**
Labor Cost				
Public Sector	1.179	1.53	1.843	2.196
Private Sector	871	1.075	1.311	1.543
Minimum Wage*	198	286	370	443
Net Wage				
Public Sector	673	825	976	1.173
Private Sector	460	578	695	814
Minimum Wage*	116	151	218	261

Source: investinturkey.gov.tr , 2007

Some news from turkish constructors

- Twenty-two local firms enter Top 225 Global Contractors List.
- Twenty-two Turkish companies are listed on the Engineering News Record's Top 225 Global Contractors List. The US ranked first in the list with 51 contractors, followed by China with 49 companies and Turkey came third with 22 contractors. ENR list is based on construction revenue generated outside home countries.
- In 2006, the total value of Turkish contractors' projects abroad amounted to USD 15.9bn and this year's projection is around USD 17bn.
- Gama Holding wins USD 1bn contract in Jordan.
- Gama Holding's subsidiary Gama Enerji won a USD 1bn contract in Jordan for Disi Mudawarra-Amman water supply project.

(Intellinews, Turkey Construction Report , October 2007)

Regional Potential

- Regions
  - Istanbul becoming new new international centers and hubs
  - New centers, dynamic environment growth
  - Local population demand
  - Quality homes, increase in lifestyle expectations
  - Big demand for affordable housing

- Affordable land price
- Low labor costs
- Demand for shopping places
- Demand for hotel supply
- Demand for office supply
- 25 mn tourists arriving to Turkey creating favorable buy to let opportunities

Basic overview of the market

- Home credits/ GDP ratio is still around 4%.
- Increasing activities of REITs and foreign buyout.
- Retail: Turkey with 27m2. rentable area per 1000 people

is still far below comparing to other developed countries.

- Within 10 years 2.1 mn Istanbul, 8 mn in Turkey new residences needed.
- Mortgage availability will increase the demand drastically
- Financibility of the projects with stable political and economic environment will increase the supply
- Increasing foreign demand (urban areas; summer houses, sharia complaint facilities)

Investment Alternatives

Infrastructure	Hospitality	Residential	Other commercial real estate
Need for energy investment	Business city hotels	Second homes for expatriates	Parking: outlets, logistic centers
Ports: road, sea, air. Renovations and green field	Resorts – aqua parks, golf, skiing, recreational resorts	Residencies in large cities, urban villas, apartment, luxury 5 star living	Retail: retail centers, shopping malls
Roads, railways, dams	Alternative tourism – Rural Tourism	Affordable housing	Mixed used developments – new lifestyle centers

From Press

- **German ECE Group plans USD 1bn real estate investment in Turkey.**

"Germany-based shopping centers and property management company ECE Group plans a total of USD 1bn investment in the Turkish **real estate** market in five years. Chairman of the Group, Alexander Otto, said that currently the company was focused only on the shopping centre projects in Turkey and the Turkish shopping centre market had not been saturated yet. ECE recently opened a shopping center, Espark, in the city of Eskisehir and its next investment will be Tatilya shopping center in Istanbul. ECE will invest around USD 200-250mn in Tatilya project, which is expected to be completed at end-2009. "

(ISI – Intellinews, November 2nd, 2007)

- **Fund manager form USA Rudolph Younes, bought 13.35% of İhlas REIT, and renamed the firm as Y&Y.**

- **By buying 25.5% of Garanti REIT, GE Capital Corporationhas became main shareholder of the company togehter with Doğuş holding.**

From Press

- Union Investment Real Estate earmarks EUR 130mn for shopping centre
- Germany-based Union Investment Real Estate AG will invest a EUR 130mn in a shopping centre in the city of Kayseri
- Capital Partners plans USD 1.5bn real estate investment in Milas.
- Krea Gayrimenkul to invest USD 600mn in three years
- Chairman of real estate developer Krea Gayrimenkul, Hakan Kodal said that the company would invest USD 600mn in five shopping centers in the next three years.
- Australian Meinl to construct EUR 100mn shopping centre in Kahramanmaras

From Press

- Dubai-based Al Ghurair plans USD 200mn investment in cement plant in Kütahya
- YKB sells real estates for EUR 111mn to AIM Consortium.
- Emaar to invest USD700mn in real estate project
- Emaar Properties' subsidiary Emaar Turkey will invest USD 700mn in a real estate project, namely Tuscan Valley Houses, in the Buyukcekmece district of Istanbul.
- Deyaar from Dubai to enter Turkish real estate market.
- Deyaar secured a USD 163.4mn murabaha loan from DIB to finance projects in India, Saudi Arabia, Kazakhstan and Turkey.

(Intellinews: Turkey Construction Report, October2007)

What can you do?

- Country of endless opportunities

- Establishing an asset portfolio (prices still low comparing to other destinations)
- Financing as investor or JV partner
- Land banking
- Constructing
- Development

(there are too many available projects with different sizes from million to billion)

How to do it?

- Define your objective and goals
- Determine expectations of return and time frame (no rush if you are in the game)
- Local info
- Correct strategic partner to save time and money
- Start NOW even just with monitoring

  if you didnt already;)

Thank you for your attention !

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