

A RAGS TO RICHES STORY TURKEY



Turkey is one of the real success stories in recent history. After securing its independence in 1923, the Republic of Turkey achieved tremendous industrial and economic growth over the course of the next 82 years. This incredible track record of industrialization and financial advancement is probably the best rationale for investing in Turkey.

By Murat Basboga



Turkey is benefiting from a rapidly growing economy.

A bright and lucrative future

Encouraged by the solid steps made towards the EU and the AKP government's viable game plan that aims to implement structural reforms and follow laissez-faire policies, international investors have poured billions of dollars into Turkey in the past few years. Other promising factors include the reduction of high inflation and interest rates – which were once-perennial problems for the country and hindered satisfactory progress in all sectors – as well as the customs tax exemption, investment allowance, other financial incentives and noticeable reductions in corporate taxes. Despite growing pains with regard to the traffic, overcrowded metro and bus stations, and the accelerating income gap between rich and poor, Turkey offers excellent opportunities for all property markets. The rapidly growing economy has triggered great demand for better housing, retail centers and more modern office buildings. The United

Arab Emirates will invest €4.4 billion in the Turkish real estate sector through Dubai International Properties, a large real estate developer, and the UK-based ARC Fund Management Ltd. has included Turkey in its residential property investment plans. Global brands such as IKEA, Sheraton and Wal-Mart are also preparing to position themselves in the Turkish market. UK company Vodafone recently became the successful bidder in the sale tender of one

of Turkey's three GSM operators, TELSİM. One of Europe's largest banking groups, Unicredit of Italy, is making heavy investments in Turkey's banking system with its local partner Kocbank. There is also an accelerating FDI flow into the country, which is a tribute to the bright and lucrative future of the Turkish market. These factors will directly trigger the real estate sector including investments directly destined to go to Istanbul. >>



Dolmabahçe Palace, once the home of the Ottomans, with the Swissotel Istanbul in the background.



Akmerkez was named by the ICSC in 1996 as the best shopping center in the world. Since 2005 Corio has been mid-owner of 46.9% of Akmerkez.

Istanbul: Feel the Midas touch

One of the world's biggest and most prominent cities in terms of its population, economy, trade, shopping malls, wealth accumulation and culture, Istanbul is the most generous contributor to Turkish economy. The city is the commercial, financial and cultural capital of Turkey, located on the crossroads of Europe and Asia. Istanbul recently topped an Urban Land Institute/PWC survey for 'best development prospects', leaving behind 26 significant markets including Moscow, London and Barcelona. It is truly the queen of cities with a mesmerizing natural beauty, abounding mosques, churches, synagogues, palaces, museums,

seaside mansions and the Bosphorus. As the transportation and operational hub not only of Turkey but also the Balkans, the Middle East and other Turkish-speaking states, Istanbul plays host to two international airports. One of these is on the mostly commercial European side, serving multinational companies from all sectors, and the other airport is on the basically residential Asian side.

Business is booming

Strong macroeconomic indicators have awakened this sleeping giant, and the real estate sector – as well as many other sectors – is enjoying a boom. International investors such as BNP Paribas, Novabank, Caja Madrid, Hellenic Banking,

Moody's and the Mortgage Bankers Association of America, knowing in advance that the Turkish banking system lacks the capital and know-how to finance real estate and mortgage business (which is expected to reach €84 billion potential in five years) have begun to include Turkey and Istanbul in their growth potential markets lists. There are currently nine listed REICs (Real Estate Investment Companies), all set up by large established groups whose core business is banking, set up in conformity with the European standards in the ISE (Istanbul Stock Exchange). The total market value of these REICs stands at €725 million, and by law 49% of their shares are required to be floating. National



One of the biggest shopping centers in Istanbul is Kanyon by Eczacibasi.

and international companies are joining the race for a share of the rapidly developing residential property, retail and office markets, as well as the mortgage system which is due to start soon.

Rapid growth in the retail market

The main retail business is concentrated in Istanbul which currently has 27 state-of-the-art shopping malls, of a total of 94 throughout Turkey. Another 47 new shopping centers are planned over the next five years, mainly in the main cities of Istanbul, Ankara, and Izmir. Multi Turkmall, a joint venture between Multi Development and Turkmall, is developing the largest shopping center in Turkey. The project is Forum Istanbul in Istanbul, comprising 150,000 m² of retail space, leisure areas, offices, residential space, a hotel and 5,500 parking places. The shopping center is expected to be completed in 2008.

Akmerkez was named the best shopping mall of Europe and Turkey by ICSC (International Council of Shopping Centers) in 1995 and in 1996 as the best shopping center in the world. It also received the International Design and Development Award. Galleria, Capitol, Metrocity, Nautilus, Olivium and Profilo are also among the top shopping destinations of Istanbul residents. There are also several ongoing shopping center projects, the biggest being Kanyon by

Eczacibasi, Astorya by Astas Real Estate, Celepcioglu by Ustuncelik Celebioglu Group and Dogus Power Center by Garanti GYO. These projects are the biggest in terms of investment costs and leasable area. Altunizade, Kozyatagi, Umraniye and Kavacik are the growing hot spots of investment on the Asian side while Levent, Besiktas, Maslak, Nisantasi, Mecidiyekoy, Bahcesehir, Ulus-Etiler and Zekeriyakoy are the centers of attraction on the European side.>>>



Multi Turkmall is developing Forum Istanbul (150,000 m²), the largest shopping center in Turkey.



Uphill Court by Varyap ve Teknik Yapi is one of the new top residential projects in Istanbul.

Residential

Istanbul also boasts top residential projects which are due for completion over the next few years, including Atasehir MyWorld by Agaoglu Insaat, Maslak Mashattan by Tas Yapi Insaat, Buyukcekmece Tepekent by Tepekent Yapi Coop., Narcity by Tepe Insaat, Incity by Dunder Insaat, Atasehir Konutlari by

Soyak Insaat, Uphill Court by Varyap ve Teknik Yapi, and Atasehir Kentplus by Emay/Ipek Insaat. According to analysts, however, supply is still unable to keep up with demand.

Technoparks and Organized Industrial Zones

Technoparks and Organized Industrial Zones (OIZ) are new

trends in Turkey. They offer great potential since they offer tenants noticeable tax advantages, additional services and a proper infrastructure, as well as the synergy of a 'cluster' of businesses. Last but not least, outlet center trends will continue to rely on the success of the Olivium outlet center and many others that target the middle class consumer market. As the melting pot of Turkey, Istanbul has large demand for these outlet centers.

Elsewhere in Turkey

Although Istanbul accounts for almost half of the economic output of Turkey, it is not the country's only destination for investments. Ankara, the official capital, Izmir, the modern Aegean city, Antalya, the jewel coastal city of the Mediterranean which plays host to millions of tourists every year, and Bursa,



In Maslak Mashattan, construction of residential and office buildings by Tas Yapi Insaat is growing rapidly.

the neighbor of both Istanbul and Ankara, are all most advantageous locations which will become centers of attraction for all kinds of real estate investments. TOKI (the Turkish Housing Development Administration) leads the construction and real estate sector in Turkey, as the current government feels socially responsible for supplying 10% of the country's housing demand annually. Ankara, after Istanbul, is destined to get the lion's share of this real estate boom.

It already hosts many swish European-style shopping centers, and according to the ICSC in 2004, the Armada Shopping and Trade Center in Ankara is the Best Small New Shopping Center.

Forum Etlik, developed by Multi Turkmall, is going to be another significant shopping center in the heart of the country's capital.

Investors in Ankara will enjoy sustainable return on their investments, as it is basically a city of civil servants with sustainable incomes. Moreover, there is a profitable residential market. KC Group is signing some new residential real estate projects which are due to be finished at the beginning of 2006. These are located in the Eryaman district of

Ankara, which is one of the favorite locations of real estate investors – together with Yenikent, where Ceylan Insaat and Oz-kar Insaat are quite active. It is always wise for any investor to have one foot in Ankara and the other in Istanbul as there are intertwined relationships between the economy and politics in all emerging markets. >>



Armada Shopping Center in Ankara.



Forum Etlik in Ankara is another development by Multi Turkmall.



Forum Bornova (66,000 m²), a development of Multi Turkmall in Izmir.

Izmir

Izmir is a natural transportation hub that accounts for 7.7% of Turkish GDP. The fact that 10% of the total exports and imports of Turkey are serviced by Izmir indicates the significant role that Izmir and the Aegean Region play in the Turkish economy. The planned construction of a second port will further facilitate the commercial activities of the city. ESBAS, one of Turkey's foremost modern industrial parks for manufacturing and trade, serves the EU and the fast-growing markets of Eastern Europe, Russia and the Middle East. Izmir and ESBAS are the 'home away from home' for some of the world's most

successful companies like Hugo Boss, Delphi Packard, Eldor Electronics and United Technologies. Izmir, along with Bursa, continues to attract hardware and software investments of multinational companies. Multi Turkmall is also developing Forum Bornova (66,000 m²) in Izmir which has been purchased by Commerz Grundbesitz Investmentgesellschaft CGI, the only German institutional who has invested up to now in Turkey. Forum Bornova will be anchored by a large hypermarket and an IKEA store. IKEA will open its doors in spring 2006 and the shopping center in fall 2006. The project is expected to attract over 10 million visitors each year.

Location	Project	Turkey / Projects 2006 and beyond. Program	Development	Planning
Ankara	Forum Etlik	Shopping center 62,000 m ²	Multi Turkmall	2007
Antalya	Manavgat Golf Resort	Five-star golf resort, 510 rooms	Silkar Turizm	2006
Istanbul	Astoria	Shopping center 130 leasable stores	Astas Gayrimenkul	2007
Istanbul	Atasehir MyWorld	Mixed-use development	Agaoglu Insaat	2009
Istanbul	Celepçioğlu	Shopping center 66,890 m ²	Ustuncelik, Cebecioglu Group	2007
Istanbul	Forum Istanbul	Shopping center 150,000 m ² retail space, leisure areas, offices residential space, a hotel, parking 5,500 cars	Multi Turkmall	2008
Istanbul	Kanyon	Retail, offices	Eczacıbasi	2007
Istanbul	Maslak Mashattan	Retail	Tas Yapi Insaat	2008
Istanbul	Sehr-i Bahce	Retail, shopping center	KC Group	2007
Istanbul	Tepekent	Suburban development residential 1,831 villas	Tepekent Yapi Coop.	2006
Izmir	Mavisehir	Mixed-use development	Soyak Insaat	2008

More information: www.europe-re.com/projects

Antalya

Since the cost of developing hotel land is relatively unaffordable and the supply is insufficient in Spain, Italy, Greece and France, Turkey's coasts have become very attractive for foreign investors.

Turkey is known throughout the world as a leading tourist destination and Antalya alone is visited by close to 10 million tourists every year. These factors make the city an indispensable hotel investment destination. The current top five biggest hotel investments – the projects of Turintas Tourism, Silkar Tourism, Turaclar Yatirim, Ozaltin Insaat Ticaret and Prestij Goynuk Tourism – will further increase the bed capacity and bring approximately €352 million to the region. The 114 existing five-star hotels and 89,113 beds accommodate tourists from Germany, the Russian Federation, the Benelux countries and Austria. All in all, we believe Antalya will remain an extremely popular destination as long as the sun shines. <<

TURKEY IN SHORT

ECONOMIC PROFILE

In 2004 and 2005, economic stabilization has continued along with a better balancing of the sources of growth. During the first half year of 2005, strong investment led to an increase in output by 4.5%. After almost three years of strong growth with almost no job creation, employment started to rise since mid-2004 by roughly 2% year-on-year. The labor force participation rate went slightly up to about 50%. Together these trends led to a small fall in the unemployment rate to below 10%. Public finances remained largely on track, achieving a primary surplus of 6.5% of GDP. This substantial surplus and strong GDP growth led to a sharp reduction in the debt ratio, from 87% of GDP in 2003 to 80% in 2004. The current account deficit widened considerably reflecting accelerating domestic demand and the strength of the currency, from just over 3% of GDP in 2003 to about 5% of GDP in 2004.¹

¹ European Commission: European Economy, Economic Forecasts Autumn 2005.

OUTLOOK

The overall picture for the forecasting period looks favorable. Turkey should be able to maintain strong export growth – in particular in tourism – while the tight fiscal policy stance will support the current disinflation process, in spite of pressures arising from high oil prices and rigidities in services prices. Declining inflation will support disposable income and allow consumers to gradually increase consumption from 4.75% in 2005 to 5.5% in 2007. Fixed investment will continue to benefit from reduced macroeconomic and political uncertainty and declining real interest rates. On the other hand, the build-up of stocks appears to have come to an end in 2005. The strong investment and consumption will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports should benefit from diversification and quality improvements resulting from earlier high investments. However, the relative strength of the Turkish currency might make it more difficult for exporters to benefit from new trade opportunities.¹

MAIN FEATURES ¹ bln TRY	Annual percentage change						
	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	2.7	7.9	5.8	8.9	5.0	5.2	5.1
Private consumption	2.1	1.9	7.2	10.6	4.8	5.0	5.5
Public consumption	4.5	5.4	-2.4	0.5	4.4	5.0	3.5
Gross fixed capital formation	-1.1	-1.1	10.0	32.4	13.3	10.6	8.3
of which : equipment	-0.3	9.1	43.7	61.7	12.2	10.0	8.0
Change in stocks as % of GDP	0.3	4.3	6.4	6.8	7.4	6.7	6.1
Exports (goods and services)	11.1	11.1	16.0	12.5	7.0	7.2	7.6
Final demand	3.7	9.5	10.4	12.8	6.3	6.2	6.1
Imports (goods and services)	8.6	15.8	27.1	24.7	9.0	8.0	8.0
GNI at constant prices (GDP deflator)	2.4	8.1	5.9	9.5	4.8	5.3	5.3
Contrib. to GDP growth : Dom. demand	2.3	1.9	6.0	12.3	6.6	6.3	6.0
Stockbuilding	0.2	5.7	2.4	0.9	-0.4	-0.3	-0.3
Foreign balance	0.3	-0.9	-2.8	-4.2	-1.2	-0.7	-0.6
Employment	0.8	-0.8	-1.0	2.6	2.0	2.1	2.0
Unemployment (a)	7.2	10.3	10.5	10.3	10.0	9.8	9.8
Compensation of employees/head	72.1	37.9	27.9	12.1	13.3	11.6	10.3
Unit labor costs	69.0	26.7	19.7	5.6	10.0	8.2	7.1
Real unit labor costs	0.4	-12.1	-2.3	-3.9	2.3	1.4	0.7
Savings rate of households (b)	-	-	-	-	-	-	-
GDP deflator	68.4	44.1	22.5	9.9	7.6	6.8	6.4
Private consumption deflator	70.1	40.8	21.2	7.4	8.4	7.2	6.4
Index of consumer prices (e)	73.4	45.0	21.6	8.6	8.1	7.4	6.3
Trade balance (c)	-9.7	-7.8	-8.1	-9.0	-8.3	-8.6	-8.1
Current account balance (c)	-3.0	-2.4	-4.1	-6.2	-6.0	-6.2	-5.8
Net lending(+) or borr.(-) v.-à-v. ROW (c)	-	-	-	-	-	-	-
General government balance (c)(d)	-	-12.3	-9.7	-3.9	-3.8	-3.6	-2.9
General government gross debt (c)	-	94.3	87.2	80.8	71.3	66.6	62.8

(a) as % of civilian labor force; (b) gross saving divided by gross disposable income; (c) as a percentage of GDP; (d) Including proceeds relative to UMTS licences.

More info: www.europe.eu.int/comm/economy

FACT SHEET

TURKEY



STATISTICS

POPULATION (2005)	67,803,927
GDP GROWTH (2005)	7.00 %
CONSUMER SPENDING GROWTH	7.00 %
INFLATION (2005)	7.72 %
UNEMPLOYMENT	10.30 %
EMPLOYMENT (2004)	46.10 %
INTEREST RATES	10.25 %

MOST IMPORTANT CITIES INHABITANTS

ISTANBUL	8,803,468
ANKARA	3,203,362
IZMIR	2,232,265
BURSA	1,194,687
ADANA	1,130,710

PRIME OFFICE RENT (Q4 2005)

LOCATION	RENT EURO/ SQ.M/YR	GROWTH % (PA COMPOUND)	
		5 YEARS	1 YEAR
ISTANBUL	179	-22.51	23.45

PRIME OFFICE YIELDS (Q4 2005)

LOCATION	YIELD % CURRENT	10 YEAR RECORD	
		HIGH	LOW
ISTANBUL	10.00	14.00	10.00

NATIONAL INDICES (2004)

BLN TRY	CURR. PRICES	%GDP
GDP AT CONSTANT PRICES	429.7	100.0
PRIVATE CONSUMPTION	287.2	66.8
PUBLIC CONSUMPTION	56.8	13.2
GROSS FIXED CAPITAL FORMATION	76.7	17.9
OF WHICH : EQUIPMENT	-	-
CHANGE IN STOCKS AS % OF GDP	34.0	7.9
EXPORTS (GOODS AND SERVICES)	124.3	28.9
FINAL DEMAND	579.0	134.7
IMPORTS (GOODS AND SERVICES)	149.3	34.7
GNI AT CONSTANT PRICES (GDP DEFL.)	431.4	100.4

FOR MORE INFORMATION: WWW.EUROPE-RE.COM/DATABASE
MARKET STATISTICS BY: CB RICHARD ELLIS