YAPI KREDİ KORAY
GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

# 2007 AND BEYOND UNDER THE NEW MANAGEMENT

**January 2007**

## Agenda

- Our view of risks and our response
- Real estate market in Turkey, our strategy in each sector
  - Residential
  - Commercial
  - Office
  - Industrial
  - Tourism
- Partnership: What we have to offer and what we expect

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# Our view of the Turkish macroeconomic picture

- Current account deficit is at a record high being financed by foreign investors lured by high interest rates.

- High interest rates are discouraging real sector investors. As a result:
  - Rate of unemployment is still relatively high.
  - Growth of demand is stunted by assymmetry in income distribution.
  - Government’s tax income is not growing dramatically.
  - Government may start sucking major chunk of funds in the money market as was the case before the 2001 crisis.

- High interest rates are not sustainable. Foreign funds not in direct investments can flee away quickly causing soaring FX and interest rates.

- General elections impose the risk of populist policies deteriorating public sector finances even worse.

## Our strategy in response to market conditions

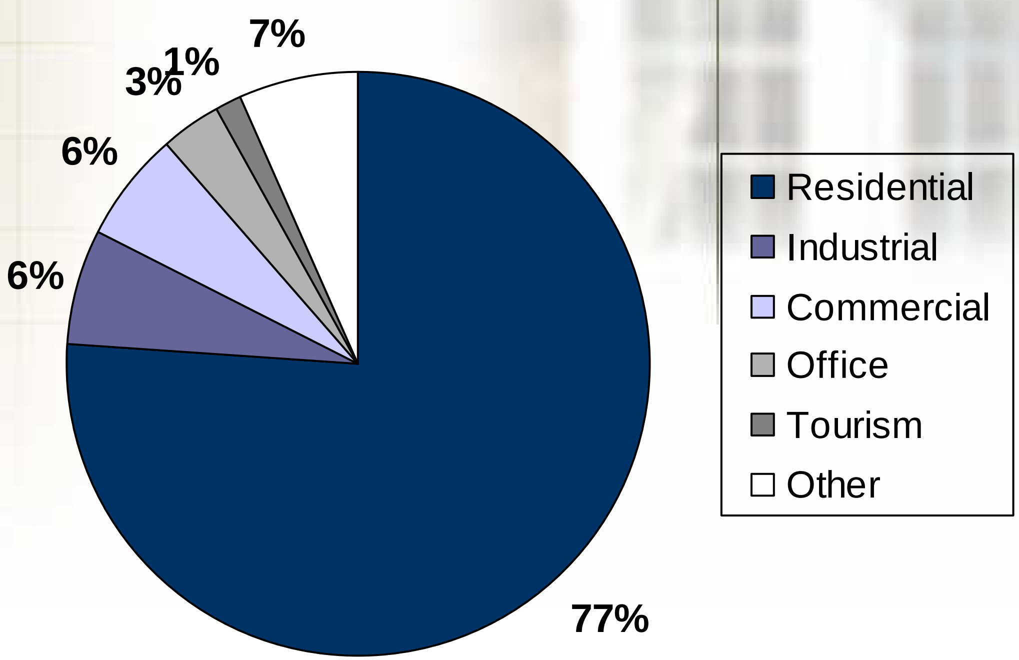
- We will concentrate on not only the Turkish customer, but also foreign customers in residential as well as other sectors.
- Our target is to build a well balanced portfolio with steady income generating assets as well as one off projects with good margins.
    - We will not concentrate only on residential market as we did in the past.
    - We will focus on build-to-rent projects as well as build-to-sell projects.
- With strong financial partners we will be competing for large scale projects where competition will be less stiff and yields are higher.
- We will be producing projects that are difficult to replicate for our competition by concentrating on operational excellence.
- We will look for the best timing in launching our new projects.

Yapı Kredi Koray
Gayrimenkul Yatırım Ortaklığı A.Ş.

# Residential market is the heart of Turkish real estate sector

## Construction permits issued in 2006 Q1 through Q3

100% = 84.5 million square meters






*Source: Türkiye İstatistik Kurumu (TÜİK) website*

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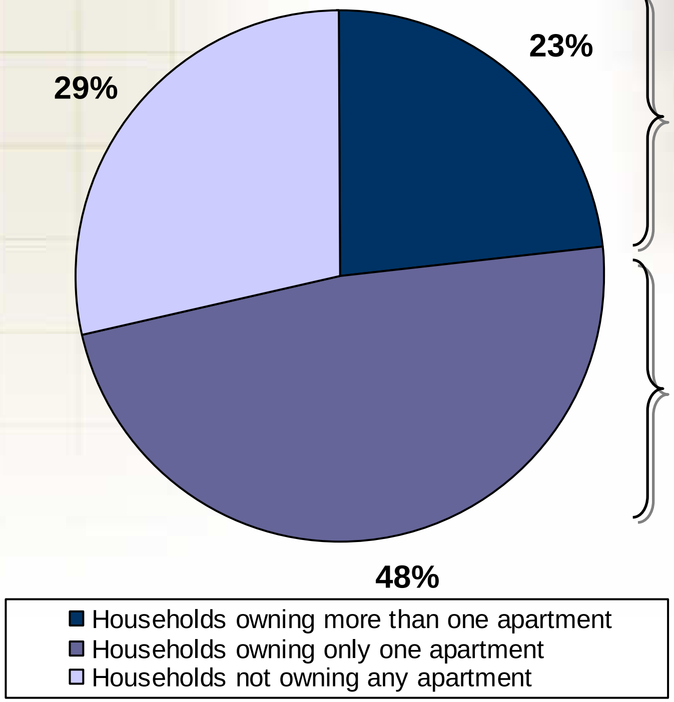
# Why prices are sticky in the residential market

## Apartment ownership in İstanbul

100% = 2.9 million households in İstanbul




- This group owns 2.3 million apartments.
- They hold 1.6 million apartments as investments.
- An order of magnitude estimate for the value of their investment is 110 to 150 billion US Dollars.
- A sizeable chunk within this group lives on rent income.
- They are unlikely to sell unless the price is right.

- Home ownership is extremely important in Turkey.
- Therefore, this group is unlikely to part with their apartments unless:
    - They are suffocated by debt
    - They move to a bigger and better apartment



*Source: GYODER report titled “Real Estate Sector and Projections For İstanbul”*

# What to expect in the residental market

## Second hand market

- Prices in the second hand market are unlikely to fall.
- Number of apartments changing hands in the second hand market may fall because of landlords' ability to wait for better days to sell.

## Ongoing development projects

- Financing with presales will be increasingly more difficult.
- Real estate developers will be unwilling to sell at lower prices for three reasons:
    - Appreciation of apartments in the second hand market is an important differentiator.
    - Lowered prices will instigate potential buyers to wait longer.
    - Sticky prices in the second hand market will be a psychological barrier for land owners and developers in their negotiations.
- Developers will continue to resort to interest rate subsidization, a hidden discount.

## Economics of new development projects

- Landowners, typicall with no intention to strike a deal unless they got top dollar, will continue to demand much higher prices than they did in the not too distant past.
- Construction prices may remain stagnant at their already high levels.
- Inflated land acquisition and construction costs will reduce the appeal of typical residential development projects.

The impact of the turmoil in May 2006

## Interest rates vs volume of housing loans

- The surge in outstanding housing loans have come to a sudden halt as a result of the increase in interest rates.


*Source: Central Bank of Turkey, State Planning Organasation*

# Why interest rates matter

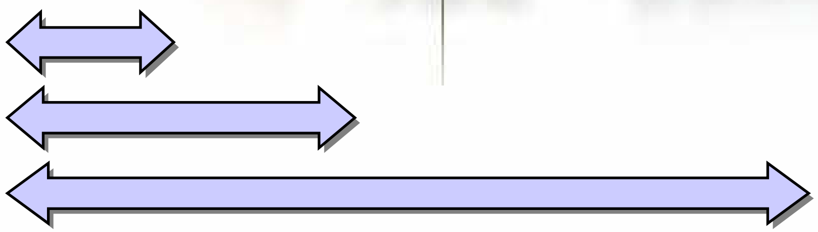
## Interest rates, disposable income, and housing loan affordability

| | Income groups | | | |
|---|---|---|---|---|
| | **A** | **B** | **C1** | **C2** |
| • Number of households | 302,000 | 990,000 | 2,210,000 | 2,700,000 |
| • Home ownership | 70% | 64% | 61% | 61% |
| • Annual income (USD) | 42,000 | 19,000 | 11,600 | 8,200 |
| • Income for investment | 18,000 | 9,200 | 4,800 | 3,000 |
| • Monthly income for investment | 1,500 | 770 | 400 | 250 |

Can afford 1.50% interest rate

Can afford 1.00% interest rate

Can afford 0.75% interest rate



- Residential development will need to embrace the middle income group for sustainability.
- Expectations of landowners and construction prices are the potential difficulties in addressing this group.



*Source: Deutsche Bank Bender Securities Turkish REITs report dated February 9, 2006*

## The long awaited mortgage law: A saviour?

- Consumer law in Turkey does not permit interest rate increases in housing loans.
- Home buyers who got loand before May 2006 are paying a much lower interest rate than market rates.
- A prospective home buyer can always reduce the interest rate through refinancing.
- Mortgage law will help reduce interest rates, but put the rate risk back on the consumer.
- If the law is passed without tax benefits to both the lenders and borrowers, its effect will be diluted.
    - Consumer demand for housing loans may suffer.
    - Investors may shy away from investing in mortgage instruments and limit banks's ability to issue greater volume of loans.

**Consumers may quickly be disillusioned when the law passes unless the macro-economic situation is favorable and tax benefits are provided to both sides.**

# Our strategy in the residential market (1/2)

| Action planned | Rationale |
|---|---|
| • Launch Bahçeşehir Project after the two elections are completed. | • The uncertainty in financial markets, particularly in interest rates, will clear out.<br>• There is too much competition at the moment. We have the choice of waiting and seeing. |
| • Launch Çankaya Project in Ankara within 2007 Q1. | • The project will produce the most prestigious residences in the heart of Ankara.<br>• Very high income group in Ankara will be the target segment. They are much less sensitive to interest rates in purhacse decisions.<br>• There is already strong demand. The project has made its mark through the grapevine. |
| • Make it a priority to resolve zoning issues in Riva and launch Riva Batı in early 2008.<br>• Follow up with Riva Doğu once prices are pulled up and zoning issues are resolved. | • Riva is the next Kemerburgaz of İstanbul with very strong appreaciation potential.<br>• With 1.500.000 square meters, Riva Batı is one of the largest plots in the region.<br>• We already have very favorable terms with the landowner.<br>• Mixed use development planned for Riva Batı will help appreciate the value of our plot in Riva Doğu. |

# Our strategy in the residential market (2/2)

| Action planned | Rationale |
|---|---|
| • Look for refurbishment and urban transformation projects, particularly in İstanbul. | • Land is very limited in İstanbul to meet the demand for downtown living.<br>• There are a large number of derelict buildings owned by landlords with limited financial clout.<br>• Cost to refurbish will be very low as compared to value created boosted by YKK brand name.<br>• Such properties will provide regular revenues. |
| • Target middle to high income European customers with projects along the Aegean Mediterranean coasts. | • Relatively low real estate prices as compared to other Mediterranean countries has created demand.<br>• Targeting only the Turkish customer is risky. This will help us put egss in different baskets.<br>• Closed communities with high standards of living will be alluring to foreign customers even when not in the center of town.<br>• In contrast Turkish customers do not prefer suburban living. Land acuqisition costs are much higher in projects delivered to Turks. |

## Why we think we are in a good position in residential

- Almost all units have been sold before May 2006.
- The two of the three upcoming projects, Narmanlı and Çankaya, are boutique and very prestigious projects.
- These two are likely to sell out quite quickly at very good unit prices.
- We have the option to wait and see in the third project, Bahçeşehir İnan Makina. Our agreement with the landowner provides a time span of five years to complete sales.
- We are well positioned in the next up and coming region in İstanbul for higher income segments.
  - We have a favorable deal with the landowner for a very large plot in Riva Batı.
  - We have the ownership of Riva Doğu land.
- Bahçeşehir Hoşdere, Bursa, İzmir projects are in the pipeline.
- Many landowners come to us for safety in project completion and higher unit prices achieved historically.

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# Drivers of commercial development in Turkey, expectations

- Growth of population and urbanization

- Increasing disposable income per capita for non-food expenditures
  - Non-food expenditures constitute 50% of retail expenditures
  - This ratio is expected to increase to 60% by 2015

- Shift in shopping habits combined with relatively low few shopping centers
  - 20% of non-food expenses are incurred in organized shopping centers
  - This ratio is expected to increase to 30% by 2015

**Forecasts* (Billions of USD)**

| | 2005 | 2015 |
|---|---|---|
| • Retail expenditures | 70 | 151 |
| • Non-food retail expenditures | 35 | 91 |
| • Shopping center revenues | 7 | 27 |

** In terms of end of 2005 prices*

*Source: GYODER report titled "Real Estate Sector and Projections For İstanbul"*

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# Highlights of commercial real estate in Turkey*

## Number of shopping malls

| | Turkey | İstanbul | Other |
|---|---|---|---|
| • In operation | 103 | 36 | 67 |
| • Construction stage | 51 | 30 | 21 |
| • Planning stage | 83 | 36 | 47 |

## Gross leasable area (GLA) in square meters

| | 2005 | 2015 |
|---|---|---|
| • GLA per 1000 persons | 26.8 | 92.4 |
| • Total GLA (millions of sq.m) | 1.94 | 7.54 |

- GLA per 1000 persons is 71 sq.m. in İstanbul.
- Total GLA in İstanbul is 815.000 sq.m.

| GLA per 1000 persons in Europe | |
|---|---|
| • Norway | 734 sq.m. |
| • England: | 230 sq.m. |
| • Italy: | 121 sq.m. |
| • Poland: | 100 sq.m. |
| • Czech Republic: | 80 sq.m. |

** Figures reflect end of 2005.*



*Source: GYODER report titled “Real Estate Sector and Projections For İstanbul”*

## Up and coming cities in commercial development

Group 1:
- Bursa
- Eskişehir
- İzmit
- Antalya
- Muğla
- Denizli
- Adana
- Mersin

Group 2:
- Gaziantep
- Kayseri
- Malatya
- Konya
- Diyarbakır
- Trabzon
- Samsun

Group 3:
- Erzurum
- Erzincan
- Elazığ
- Aydın
- Manisa

- İstanbul, Ankara, İzmir are in the premium group in terms of purchasing power of consumers and population
- Competition and already shifted shopping habits of consumers will drive investors to loook for opportunities in other cities

# Our strategy in commercial real estate market (1/2)

| Action planned | Rationale |
|---|---|
| • Place more emphasis on commercial development than we did in the past. | • Residential market is wavering at the moment.<br>• It will always be too risky to put our eggs only in this basket in Turkey.<br>• Commercial development is less prone to macroeconomic situation.<br>• Commercial projects help stabilize our earnings.<br>• Build to rent projects will also strengthen our asset portfolio. Traditionally we had either cash or buildings only. We need a more balanced portfolio. |
| • Invest in only large scale shopping mall projects in the three big cities, preferably with 40,000 sq.m or larger. | • Despite the overcrowded competitive picture, population growth and improvement in disoposable income per capita will fuel the market in these cities.<br>• Urban living in the three big cities has encouraged the consumer to look for one stop shopping.<br>• Small shopping centers in these cities are unlikely to enjoy good returns unless they are specialists. |

## Our strategy in commercial real estate market (2/2)

| Action planned | Rationale |
|---|---|
| • Develop alliances with strong anchors, i.e. Carrefour, who do not wish to be involved in development on their own. | • Anchors like Carrefour are critical for the success of a shopping mall.<br>• There are few strong anchors most of the developers will be chasing.<br>• Prelet anchors help leasing process tremendously. |
| • Look for opportunities in cities other than the big three. Prefer large scale projects. | • There is too much competition in the big three, particularly in districts with strong purchasing power.<br>• Shopping habits have not yet shifted in the other cities to the same extent as they did in the big three.<br>• Our experience in Eskişehir underlines the importance of scale even in smaller cities. |

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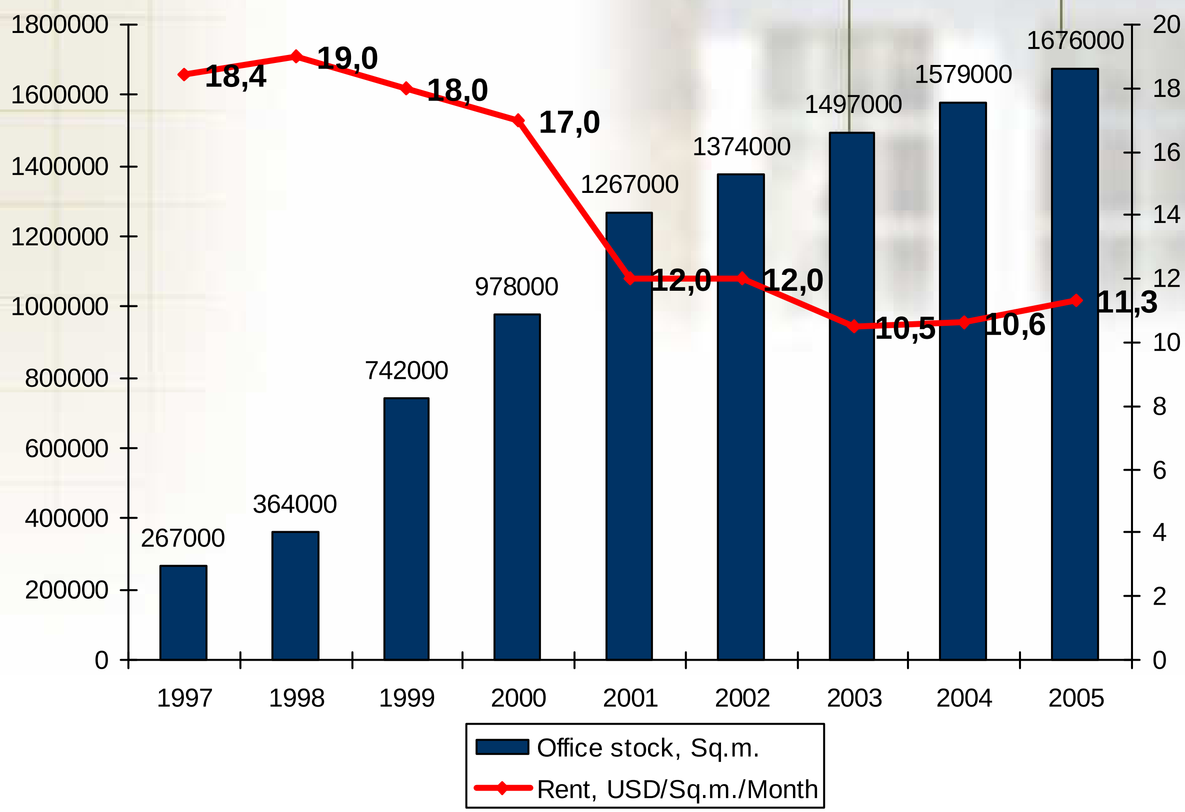
# Office market in İstanbul, the heart of Turkish economy

## Existing office stock vs average rent






*Source: PEGA*

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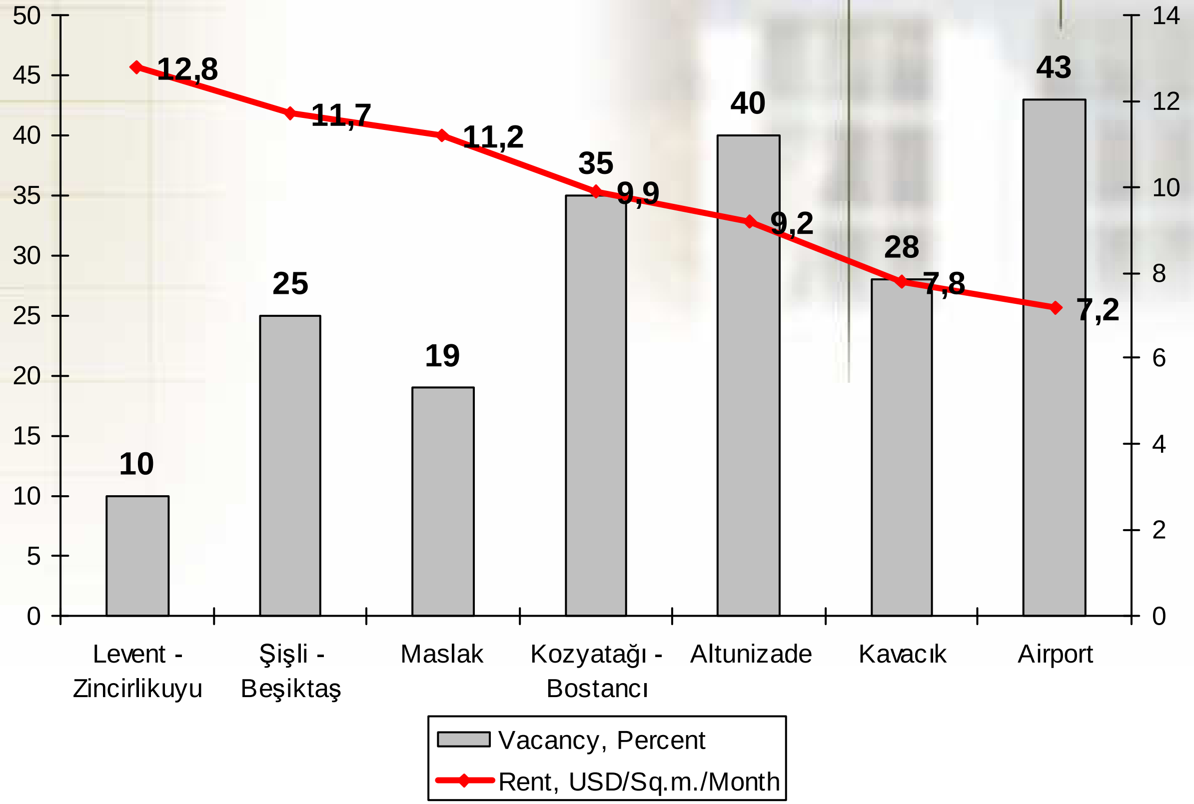
# Discouraging vacancy rates in İstanbul

Vacancy vs average rent in major office districts




*Source: PEGA*

## Our evaluation of the office market

- Vacancy rates despite reduced rents is discouraging.
- Economic growth is not well reflected in demand for office space. Possible underlying reasons are:
  - There are few start up companies.
  - Existing companies are cautious about their overhead expenses.
- Landowners’ expectations continue to be rather high lowering yields to 6 – 7% levels.
- Office building investments are not highly liquid. There are few institutional investors looking to buy office buildings.

## Our strategy in office development

| Action planned | Rationale |
| --- | --- |
| • Act only opportunistically in the office development market. | • Vacancy rates are too high.<br>• Companies will seek to limit their real estate related expenses. |
| • Look for opportunities to prelet office space to multinationals starting up operations in Turkey or moving their headquarters. | • Preletting will reduce risk.<br>• Multinationals may be more willing to procure a turnkey solution for their offices if provided by s trong brand name in real estate. |
| • Look for lucrative deals with financially strained property owners. | • Property owners with few options will have less expectations and bargaining power.<br>• Refurbishment of their property may increase its value significantly.<br>• Such property owners may not have enough power for refurbishment and may accept favorable terms. |

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## Trends in industrial real estate market and our position

**Trends**

- Industrial facilities are concentrated around İstanbul with not too few facilities within İstanbul’s office and residential development districts.
- Increasing land value puts increasing pressure on industrialists is to move these facilities to new industrial development areas.
- Increasing volume of trade activity in Marmara Region is necessitating larger storage facilities meeting better standards.
- Technoparks and organized industrial zones with better standards in infrastructure (OSB) are increasing in numbers.

**Our position**

- We have no experience in industrial real estate.
- In the short term we will concentrate on studying the economics and looking for tactical opportunities in land investments around İstanbul.
- In the medium to long term we will look for opportunities to prelet investments to multinationals.

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# Tourism: New concepts we will be testing

| Concentration area | Rationale |
|---|---|
| • Spa and wellness tourism<br>• Golf tourism | • There is a growing trend in higher income groups for wellness.<br>• Natural resources in Turkey are not well exploited and well marketed.<br>• Well managed facilities marketed abroad will attract top European spenders.<br>• Such facilities can be developed in areas with relatively low land costs.<br>• Excellence in operations with top notch operators will be very difficult for competition in Turkey to replicate. |
| • Marinas and yacht tourism | • Turkey is way behind other Mediterranean countries in attracting yacht tourism despite the length and beauty of the coastline.<br>• Excellence in operations can be a differentiating factor.<br>• This can be complemented by wellness and golf facilities. |

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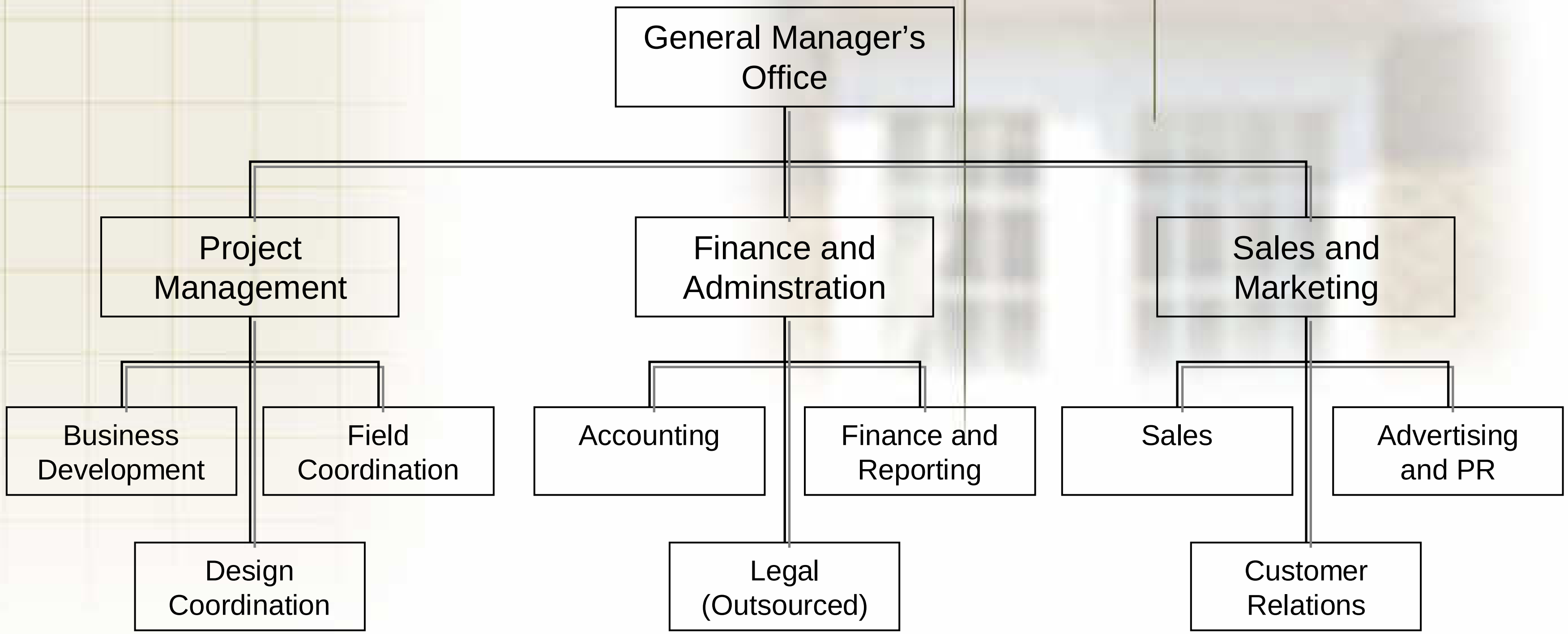
# Our organization




**COMMITTEES**

- HR Committee: Made up of general managers and assistant general managers
- Business Development Committee: Made up of a team drawn from the three departments

## Why joining forces with a financial partner makes sense

- We can pursue bigger projects with better profit margins. Many real estate companies in Turkey do not have the financial power to do so.
- It will be possible to invest in land for long term positioning in areas with significant upside potential like Riva.
- Investing in commercial real estate and build-to-rent residential projects will stabilise income streams reducing vulnerability to the tides in Turkish economy.
- Operational excellence can be achieved in areas that are new to us such as running touristic facilites exploiting our partner’s expertise.
- We do not want to cater to the Turkish customer only. Marketing abroad can be facilititated via alliances of our partner in Europe.

## What we have to offer our partner (1/2)

- Knowhow and diligence in business development
  - Systematic approach in market research
  - Robust methodology in feasibility studies
- Turnkey project delivery from zoning to after sales
- Expertise in project and contract management
- Ability to create value in new projects (Example: Neo project)
- Local knowhow in identifying the best designers, contractors, and suppliers
- Very strong brand name providing the following advantages:
  - Higher unit prices than in similar projects delivered by competition (Examples: Ankara Ankara, İstanbul Bis projects)
  - Landowners preference to work with us at times for lower revenues in return for completion and quality guarantee

## What we have to offer our partner (2/2)

- Much better ability to generate and deliver new projects as compared to competition – other REITs have produced a lot fewer projects than we did
- Strategy based on sound analysis of the market and vision to produce difficult-to-replicate projects
- Vision for a well balanced portfolio with well managed risks
- Ability to work well with top notch operators in operating facilities and with other alliances of the partner
- Ability to speak an investor’s language in investment decisions and operations