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**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

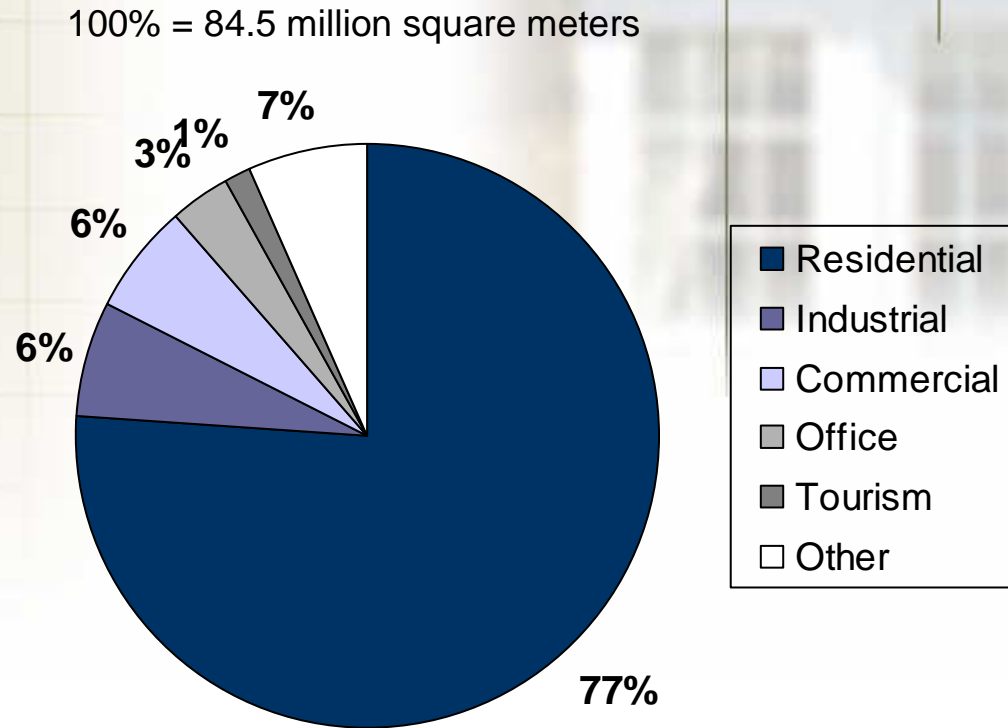
- Current account deficit is at a record high being financed by foreign investors lured by high interest rates.
- High interest rates are discouraging real sector investors. As a result:
 - Rate of unemployment is still relatively high.
 - Growth of demand is stunted by assymetry in income distribution.
 - 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.

Residential market is the heart of Turkish real estate sector

Construction permits issued in 2006 Q1 through Q3



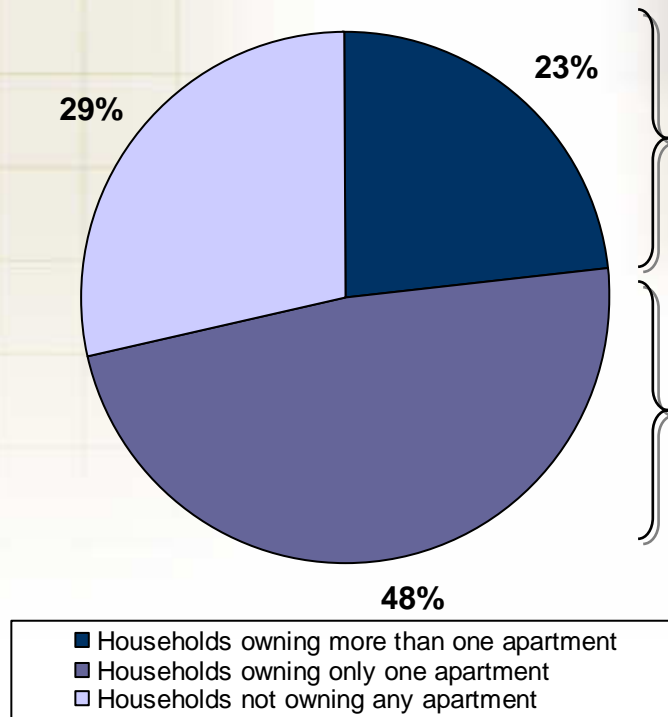
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Why prices are sticky in the residential market

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

What to expect in the residential 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, typically 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.



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.

The long awaited mortgage law: A saviour?

- Consumer law in Turkey does not permit interest rate increases in housing loans.
- Home buyers who got loaned 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

- Launch Bahçeşehir Project after the two elections are completed.
- Launch Çankaya Project in Ankara within 2007 Q1.
- Make it a priority to resolve zoning issues in Riva and launch Riva Batı in early 2008.
- Follow up with Riva Doğu once prices are pulled up and zoning issues are resolved.

Rationale

- The uncertainty in financial markets, particularly in interest rates, will clear out.
- There is too much competition at the moment. We have the choice of waiting and seeing.
- The project will produce the most prestigious residences in the heart of Ankara.
- Very high income group in Ankara will be the target segment. They are much less sensitive to interest rates in purchase decisions.
- There is already strong demand. The project has made its mark through the grapevine.
- Riva is the next Kemerburgaz of İstanbul with very strong appreciation potential.
- With 1.500.000 square meters, Riva Batı is one of the largest plots in the region.
- We already have very favorable terms with the landowner.
- 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

- Look for refurbishment and urban transformation projects, particularly in İstanbul.
- Target middle to high income European customers with projects along the Aegean Mediterranean coasts.

Rationale

- Land is very limited in İstanbul to meet the demand for downtown living.
- There are a large number of derelict buildings owned by landlords with limited financial clout.
- Cost to refurbish will be very low as compared to value created boosted by YKK brand name.
- Such properties will provide regular revenues.
- Relatively low real estate prices as compared to other Mediterranean countries has created demand.
- Targeting only the Turkish customer is risky. This will help us put eggs in different baskets.
- Closed communities with high standards of living will be alluring to foreign customers even when not in the center of town.
- In contrast Turkish customers do not prefer suburban living. Land acquisition 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)

	<u>2005</u>	<u>2015</u>
• 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"

Highlights of commercial real estate in Turkey*

Number of shopping malls

	<u>Turkey</u>	<u>İstanbul</u>	<u>Other</u>
• In operation	103	36	67
• Construction stage	51	30	21
• Planning stage	83	36	47

Gross leasable area (GLA) in square meters

	<u>2005</u>	<u>2015</u>
• 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 look for opportunities in other cities

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

Action planned

- Place more emphasis on commercial development than we did in the past.
- Invest in only large scale shopping mall projects in the three big cities, preferably with 40,000 sq.m or larger.

Rationale

- Residential market is wavering at the moment.
- It will always be too risky to put our eggs only in this basket in Turkey.
- Commercial development is less prone to macroeconomic situation.
- Commercial projects help stabilize our earnings.
- Build to rent projects will also strengthen our asset portfolio. Traditionally we had either cash or buildings only. We need a more balanced portfolio.
- Despite the overcrowded competitive picture, population growth and improvement in disposable income per capita will fuel the market in these cities.
- Urban living in the three big cities has encouraged the consumer to look for one stop shopping.
- 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

- Develop alliances with strong anchors, i.e. Carrefour, who do not wish to be involved in development on their own.
- Look for opportunities in cities other than the big three. Prefer large scale projects.

Rationale

- Anchors like Carrefour are critical for the success of a shopping mall.
- There are few strong anchors most of the developers will be chasing.
- Prelet anchors help leasing process tremendously.
- There is too much competition in the big three, particularly in districts with strong purchasing power.
- Shopping habits have not yet shifted in the other cities to the same extent as they did in the big three.
- Our experience in Eskişehir underlines the importance of scale even in smaller cities.

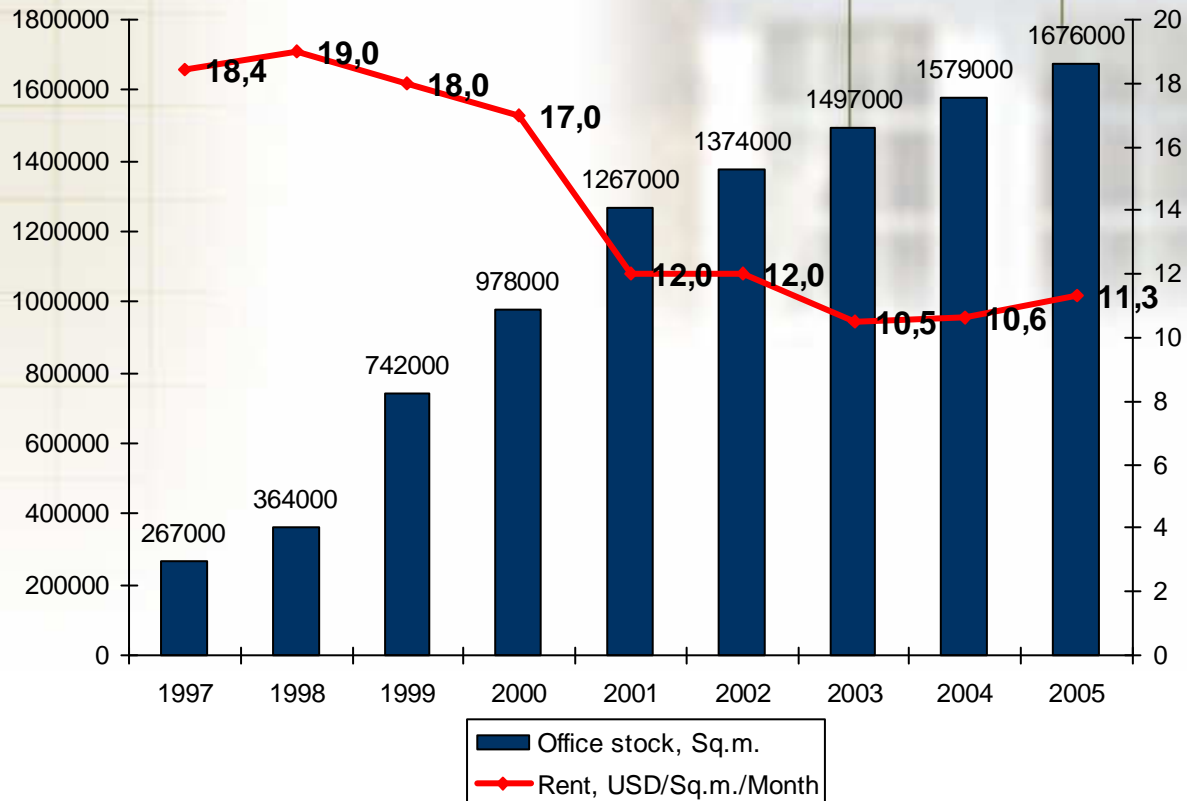
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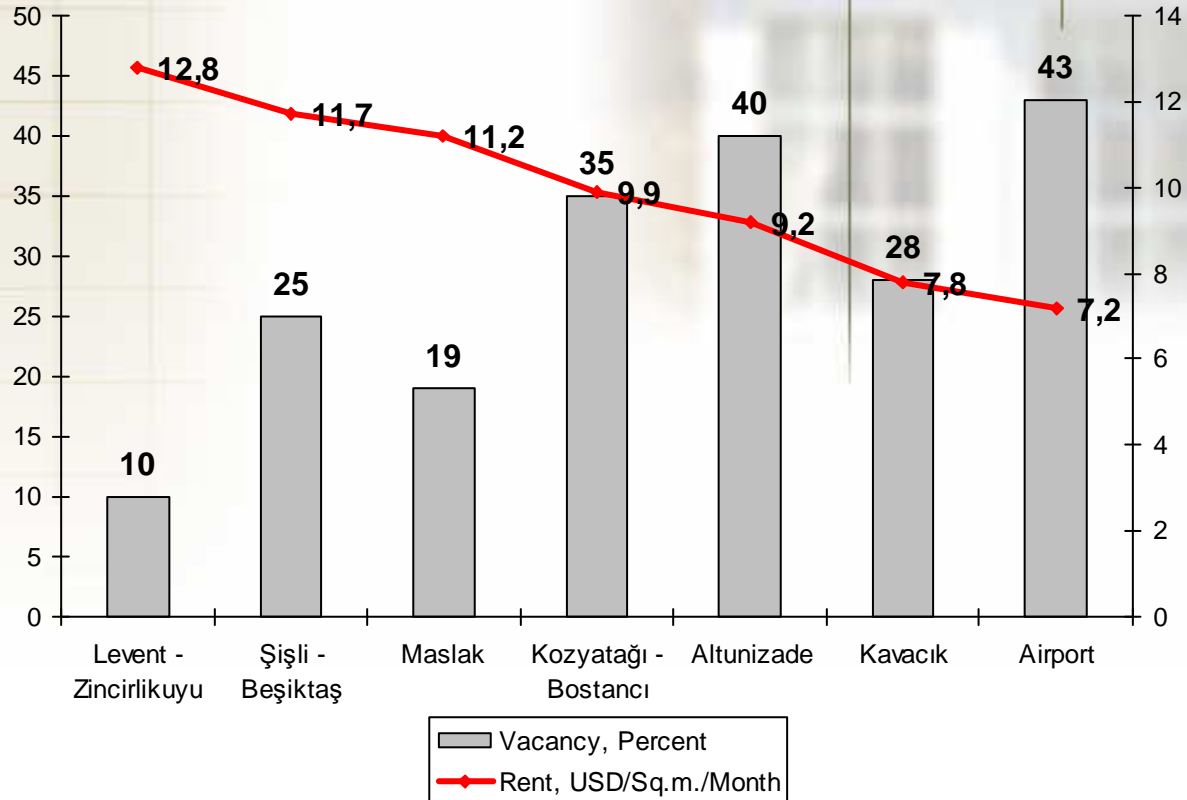
Office market in İstanbul, the heart of Turkish economy

Existing office stock vs average rent



Discouraging vacancy rates in İstanbul

Vacancy vs average rent in major office districts



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

- Act only opportunistically in the office development market.
- Look for opportunities to prelet office space to multinationals starting up operations in Turkey or moving their headquarters.
- Look for lucrative deals with financially strained property owners.

Rationale

- Vacancy rates are too high.
- Companies will seek to limit their real estate related expenses.
- Preletting will reduce risk.
- Multinationals may be more willing to procure a turnkey solution for their offices if provided by a strong brand name in real estate.
- Property owners with few options will have less expectations and bargaining power.
- Refurbishment of their property may increase its value significantly.
- 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 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

- Spa and wellness tourism
- Golf tourism

- Marinas and yacht tourism

Rationale

- There is a growing trend in higher income groups for wellness.
- Natural resources in Turkey are not well exploited and well marketed.
- Well managed facilities marketed abroad will attract top European spenders.
- Such facilities can be developed in areas with relatively low land costs.
- Excellence in operations with top notch operators will be very difficult for competition in Turkey to replicate.

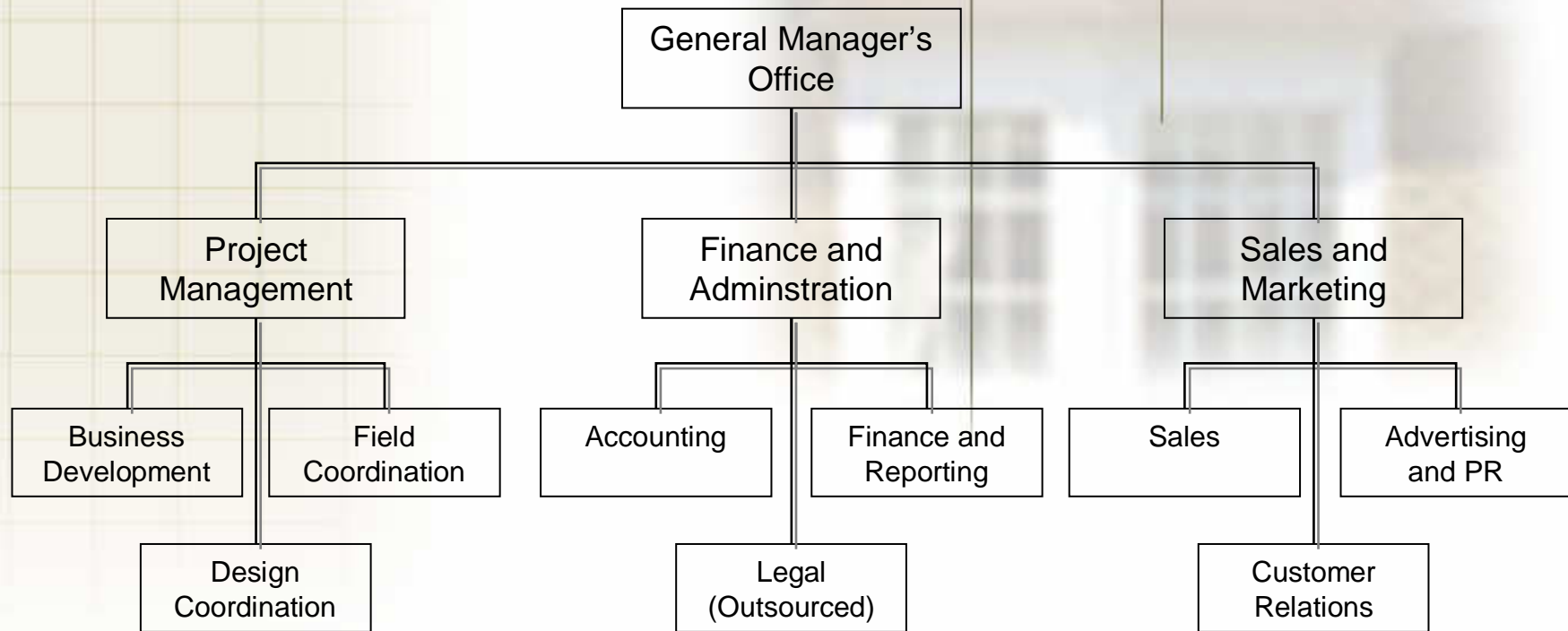
- Turkey is way behind other Mediterranean countries in attracting yacht tourism despite the length and beauty of the coastline.
- Excellence in operations can be a differentiating factor.
- This can be complemented by wellness and golf facilities.

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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 facilities exploiting our partner's expertise.
- We do not want to cater to the Turkish customer only. Marketing abroad can be facilitated 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