



Real Estate Vehicles in Turkish Capital Markets

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March 3, 2016



Direct vs indirect real estate investment

Direct investment requires

- Expertise over real estate market&investment
- Knowledge about regulations regarding real estate transactions

Direct investment leads to

- Less liquidity
- Less diversification
- Higher barriers for investment



Real Estate Investment Companies (REICs/REITs)

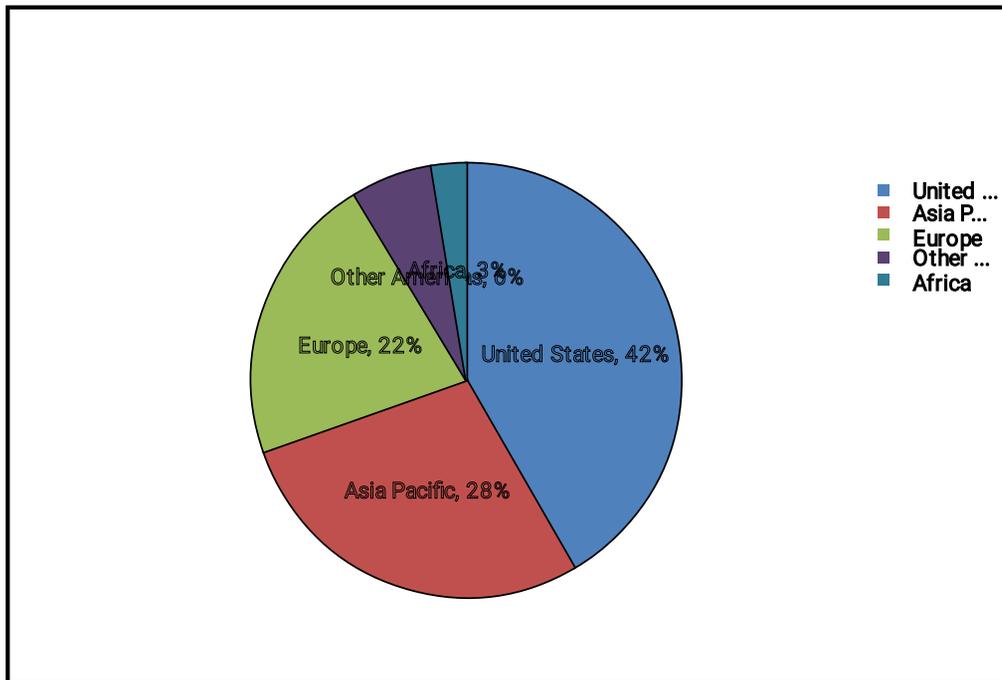
- **REIC** is a type of investment company, which **mainly invests in income-producing real estates** such as offices, flats, shopping malls, car parks, warehouses etc and infrastructure.
- REICs offer investors an **access to huge property investments** by selling a fraction of pool of property.
- Investors benefit from their investments in REITs through **the dividends and the increase share/unit price**.
- Moreover, investors can easily **liquidate** their investments by selling their shares in the stock exchange.

Real Estate Investment Trusts

- **REITs, globally:**

REITs globally has a total market capitalization of USD 2.23 trillion.

- **Market capitalisation of the REITs, market share by regions (%) (*)**

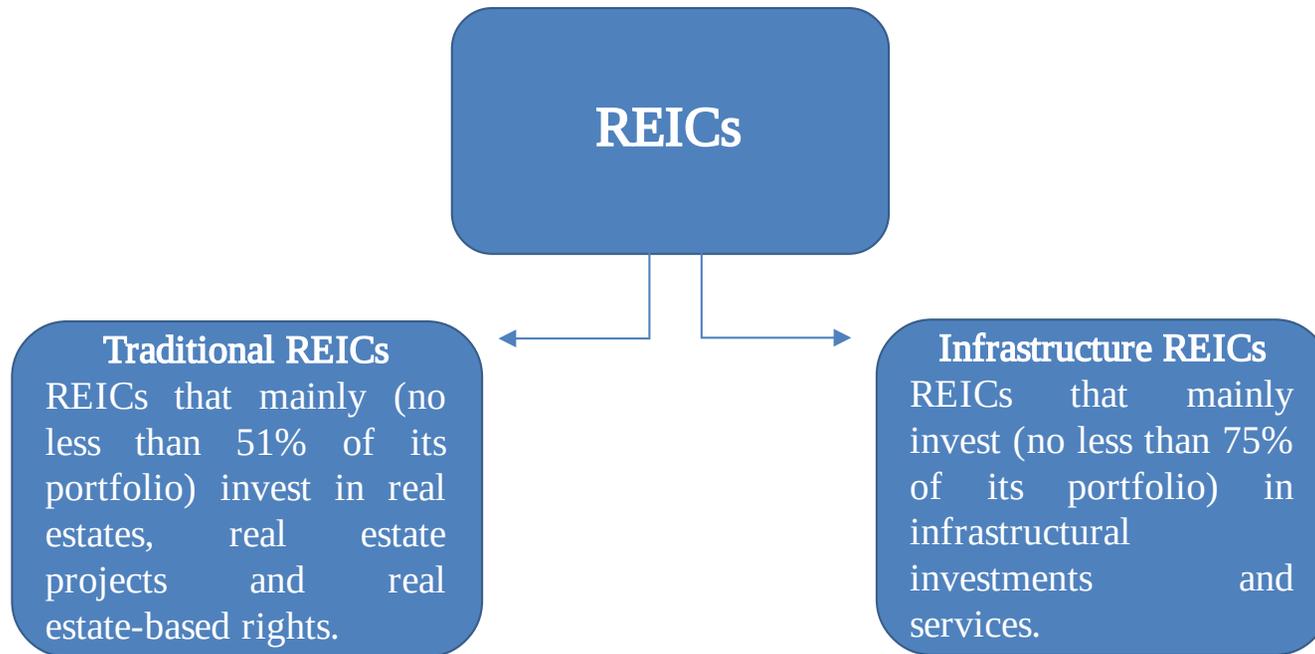


(*) Calculated based on the data given at Global REIT Survey 2015, EPRA Reporting.



Real Estate Investment Companies

REICs Regulation in Turkey: the first regulation was in 1998; the existing communique was issued in 2013.



- In Turkey, at present all the REICs except one are traditional REICs



Real Estate Investment Companies

Size of REICs in Turkey:

Number of Traditional REICs	Total Asset Value	Total Equity	Total Market Capitalization	Discount Level
31	\$18,5 billion	\$10,3 billion	\$7,5 billion	26%

- One infrastructure REIT is established
- Three traditional REITs are in the pipeline
- Four electricity distribution companies' applications are under way to become REIT with infrastructure concentration.



Real Estate Investment Companies

- Minimum capital requirement is 30 million TL/100 million TL (approx. \$11 million/\$35 million)
- Sale requirement of at least 25% of REIC to public
- Sale requirement of at least 25% of REIC to either public or qualified investors in case of REICs with infrastructure concentration
- Portfolio Structure: Retail, residential, office and hotel
- **Build and Sell Approach** - Turkish REICs generally prefer to develop commercial real estate projects to sell the properties once completed rather than to generate rental based income.



Compare&Contrast

Jurisdiction	Starting date	Number of REITs listed	Market Cap (EUR)
USA	1960	409	827 billion
UK	2007	33	190 billion
Hong Kong	2003	12	26 billion
Germany	2007	4	38 billion
Turkey	1998	32	7 billion



Compare&Contrast

Jurisdiction	Legal Form	Min Capital
USA	Form of any legal US entity, which is taxable, such as Corporation, partnership, business trust, limited liability etc	No minimum capital requirement
UK	Closed-end company	GBP 50.000
Hong Kong	Trust	No minimum capital requirement
Germany	Join Stock Company	EUR 15 million
Turkey	Join Stock Company	Approx. \$11 million/\$35 million)



Compare&Contrast

Jurisdiction	Listing Requirement
USA	No listing requirement. Minimum 100 shareholders. Five or fewer individuals cannot have more than %50
UK	Yes (3 years grace period). At least 35% goes to public. One entity cannot have more than 10%
Hong Kong	Yes
Germany	Yes. (3 years grace period). At least 25% goes to public. One entity cannot have more than 10%
Turkey	Yes. At least 25% goes to public.



Compare&Contrast

Jurisdiction	Portfolio Restrictions
USA	75%, %75 and 95% test No leverage restriction
UK	Balance of business test-75% and 75% test Property profits= 1,25* Property financing cost
Hong Kong	At least %75 goes to income generating real estate Up to 10% of NAV can be invested in property developments Min 2 year holding period for real estates Leverage ratio: Max 1.45
Germany	75%, 75% Equity: %45* total property value in portfolio
Turkey	51% Financial debt limit: 5* equity



Compare&Contrast

Jurisdiction	Dividend Payment Obligation
USA	Operative income: 90% of ordinary income Capital Gain: Not included
UK	Operative income: 90% of property rental profits Capital Gain: Not included
Hong Kong	Operative income: 90% of net income after tax Capital Gain: Not included
Germany	Operative income: 90% of net income Capital Gain: Up to 50% can be deferred
Turkey	None



Compare&Contrast

Jurisdiction	Tax Treatment at Level of REIT (Corporate Tax)
USA	Deduction is allowed for dividend payments
UK	Only income from property rental business is exempt from corporate tax (20%)
Hong Kong	Tax exempt
Germany	Tax exempt
Turkey	Tax exempt

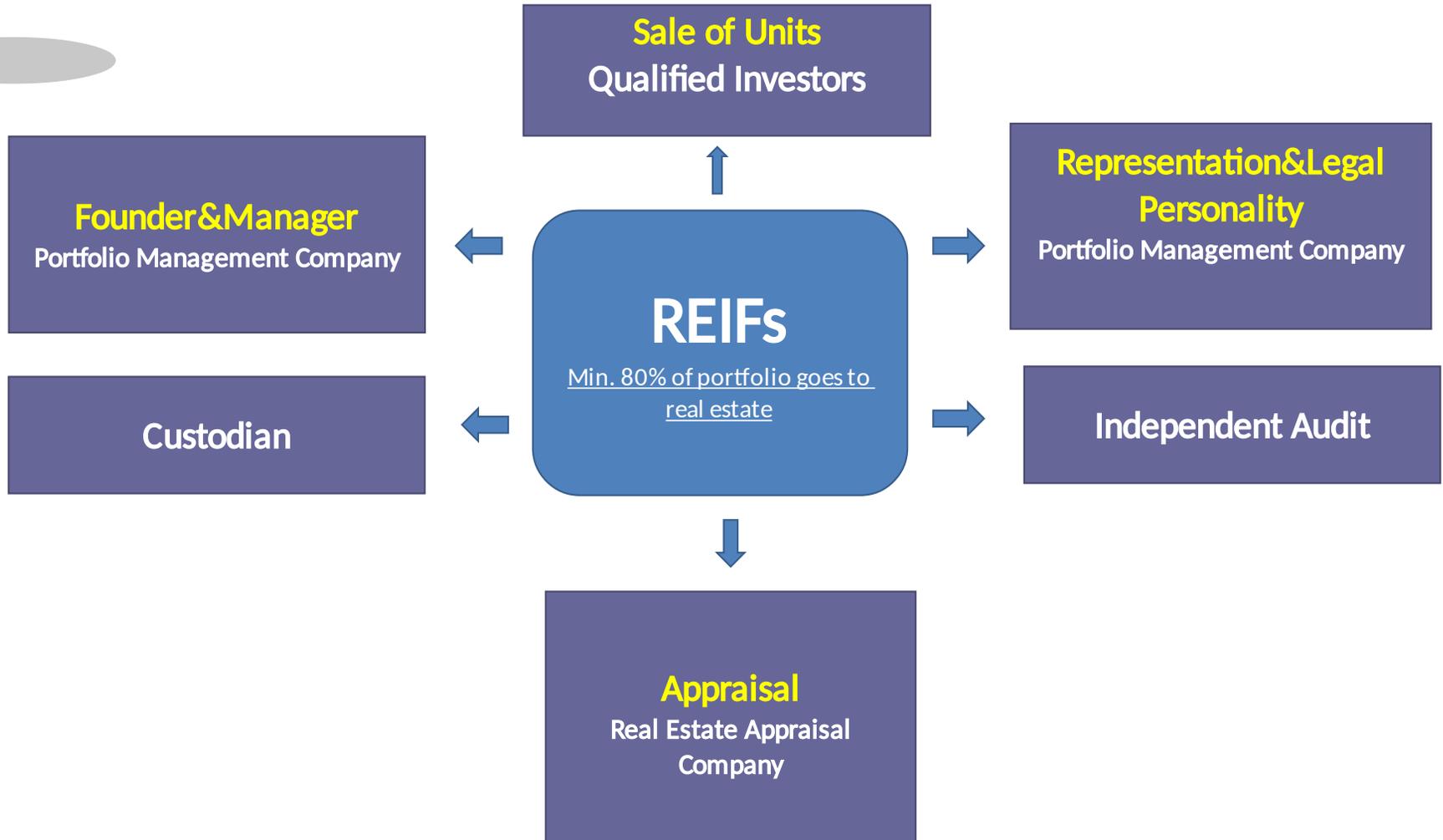


Compare&Contrast

Jurisdiction	Tax Treatment at Level of Investors
USA	Taxable as ordinary income (%35 for corporates; up to 39,6% for individuals)
UK	Taxable as ordinary income (withholding tax: 20%)
Hong Kong	No taxation
Germany	Taxable (fully taxable for corporates and 26,3% for individuals)
Turkey	<p>Capital Gain</p> <p>Resident Individual: 0%</p> <p>Non Resident Individual: 0%</p> <p>Resident Corporation: It depends</p> <p>Non Resident Corporation: 0%</p> <p>Dividend</p> <p>Resident Individual: Half of it is exempt</p> <p>Non Resident Individual: 0%</p> <p>Resident Corporation: Ordinary income (20%)</p> <p>Non Resident Corporation: 0%</p>



General Structure of REIFs





Real Estate Investment Funds

- REIFs are the funds that mainly invest in **real estates, real estate rights and real estate securities**.
- REIFs are established and managed by **the portfolio management companies** that are authorised by the CMB Turkey.
- A REIF must invest **at least 80% of its total fund value** in real estate investments (namely, real estates, real estate rights and real estate securities).
- The units of REIFs are allowed to be sold only to **qualified investors**.
- Since the REIF regulation is a new regulation (2014), by this date, **two REIFs have been established**.



Application Processes



6 months

1 year

Fund raising&investment period
Period between establishment and application for issuance.

Min. Portfolio size:
10 million TL
(approx. \$3,5 million)



Organizational Framework

Board Member



At least one member of the board=more than 5 years of experience

Investment Committee



- General Manager
- Appraisal expert
- Board Member with more than 5 years of experience
- ...

Risk Man.



Financing risk&Liquidity risk&Other risks regarding real estate



Restrictions



Performance Fee



- ➔ No rate restriction for Performance Fee
- ➔ Rate negotiated among PMC and QIs

Base for performance fee = Sales profit + Dividend and interest revenues earned from products



Public Disclosure

- Fund rules
- Issue document
- Key investor information document
- Financial statements shall be prepared on annual and interim basis.
- Annual financial statements shall be audited.
- Appraisal reports attached to financial reports
- Quarterly price reports
- Net Assets Value is to be calculated and notified to QIs at least once a year.



Tax Regulations and Incentives

■ Taxation of REIFs:

- The income of REIFs are **fully exempt** from Corporate Tax.
- The Corporate Tax exempt income of REIFs are subject to **0 % withholding tax**.

■ REIFs' Investors also enjoy tax incentives

- Corporates
- Individuals



Tax Regulations : Back End Incentives

■ Resident Corporates

- Dividends from REIFs are subject to 0 % withholding tax
- Subject to corporate tax

■ Resident Individuals

- Dividend income from REIF units : Half of the total amount is **exempt** from Income Tax

■ Non-Resident Corporates

- Dividends from REIFs are subject to **0 % Withholding tax**
- No further requirement for any filing

■ Non-Resident Individuals

- Dividends from REIFs are subject to **0 % Withholding tax**
- No further requirement for any filing



Thank you...