

# Opportunities and Obstacles for Foreign Investors in Turkish Real Estate

by

Hasan Halkali

M.Eng, Construction Engineering and Management, 1997

University of Michigan

Submitted to the Department of Urban Studies and Planning  
in Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

September, 2006

©2006 Hasan Halkali  
All rights reserved

The author hereby grants to MIT permission to reproduce and to distribute publicly paper and electronic copies of this thesis document in whole or in part in any medium now known or hereafter created.

Signature of Author \_\_\_\_\_

Hasan Halkali  
Department of Urban Studies and Planning  
July 28, 2006

Certified by \_\_\_\_\_

David M. Geltner  
Professor of Real Estate Finance,  
Department of Urban Studies and Planning  
Thesis Supervisor

Accepted by \_\_\_\_\_

David Geltner  
Chairman, Interdepartmental Degree Program in  
Real Estate Development

Opportunities and Obstacles for Foreign Investors in Turkish Real Estate  
by  
Hasan Halkali

Submitted to the Department of Urban Studies and Planning on July 28, 2006  
in Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Real Estate Development

Massachusetts Institute of Technology

## **ABSTRACT**

This paper examines the Turkish real estate market from the viewpoint of foreign investors contemplating entering into that market.

Since 2002, the government of Turkey has been implementing an aggressive economic reform program within which, foreign direct investment (FDI) plays a crucial role. To attract foreign investments, the government has instituted major reforms in tax and finance laws and has provided incentives to develop many industries including real estate.

The underlying question this paper seeks to answer is: What factors make Turkey attractive for foreign commercial real estate investors?

To answer this question, I examined the following factors: geopolitical situation, key economic indicators, current state of and forecasts for Turkey's real estate markets, applicable laws, and requirements for establishing a business in Turkey.

The research method I utilized for this paper mainly involved literature review. Analysis of government documents, industry reports, law journals, and audio recordings of papers delivered at conferences revealed several factors that could affect the country's real estate markets.

Turkey's political stability, favorable demographics, established financial structure, increasing economic power, tight monetary and fiscal policies, favorable foreign and domestic investment laws, and prospects for joining the EU make it an attractive target for foreign investors. In contrast, Turkey's large government debt, large external debt repayments, growing current account deficit, and the possible devaluation of its currency present possible threats to the country's future economic prospects.

All things considered, Turkey is and should remain an attractive destination for foreign investors in the next several years provided that the Government of Turkey continues to implement the IMF-backed economic program and the process of structural reform necessary for EU accession negotiations.

Thesis Advisor: David Geltner  
Title: Professor of Real Estate Finance, MIT Center for Real Estate

## TABLE OF CONTENTS

ABSTRACT.....	2
ACKNOWLEDGEMENTS.....	5
CHAPTER 1 – OVERVIEW.....	6
INTRODUCTION.....	6
GEOPOLITICAL CONDITIONS.....	8
OVERVIEW OF THE ECONOMY.....	9
KEY ECONOMIC INDICATORS.....	11
Gross Domestic Product (GDP).....	11
Inflation.....	13
Unemployment.....	13
Foreign Direct Investment (FDI).....	14
CHAPTER 2 – REAL ESTATE MARKETS.....	18
OFFICE MARKET.....	20
Forecast.....	25
RETAIL MARKET.....	27
Forecast.....	32
RESIDENTIAL MARKET.....	35
Forecast.....	39
INDUSTRIAL MARKET.....	41
Forecast.....	45
CHAPTER 3 – CORPORATE TAX SYSTEM IN TURKEY.....	46
Corporate Income Tax.....	46
Advance Corporate Income Tax.....	47
Legal Reserves.....	47
First Level Legal Reserves.....	48
Second Level Legal Reserves.....	48
Calculation of Corporate Income Tax Base.....	48
Deductible Expenses.....	48
Depreciation Methods.....	48
Transaction Taxes.....	49
VAT.....	49
Special consumption tax.....	50
Banking and Insurance Transactions Tax (BITT).....	50
Property Taxes.....	51
Stamp Tax.....	51
Withholding Tax.....	52
Resource Utilization Support Fund (RUSF).....	52
Environmental Tax.....	52
Effects of Bilateral Tax Treaties.....	53
Calculation of treaty benefit on dividends.....	53
Elimination of double taxation.....	53
CHAPTER 4 – STRUCTURING AN INVESTMENT.....	54
Basic Investment Approvals.....	54
Establishing a Local Company.....	54

Joint Stock Company .....	55
Limited Liability Company.....	56
Branch Offices .....	56
Liaison Offices.....	56
Establishment Process.....	57
Business Associations.....	57
Building & Related Permits.....	58
Acquisition of Real Estate .....	58
Environmental Issues .....	59
Investment Incentives .....	61
Market Entry Strategies .....	61
CHAPTER 5 – SUMMARY & CONCLUSIONS .....	65
BIBLIOGRAPHY.....	68

## **ACKNOWLEDGEMENTS**

First and foremost, I would like to thank my thesis advisor, David Geltner, for his guidance in writing this paper.

In addition, I would extend my thanks to Maria Vieira for her support throughout the year.

Finally, I would like to thank and acknowledge Lee Timmins of Hines for his insight on the Turkish real estate markets.

## **CHAPTER 1 – OVERVIEW**

### ***INTRODUCTION***

Turkey occupies a unique position, both physically and figuratively, in the international community. It is advantageously located on the crossroads between Europe and Asia which benefit Turkey as international commerce increases and the energy resources of the Caspian region extend into Europe. In addition, among the countries with a predominantly Muslim population, Turkey is the only secular nation.

Since 2002 Turkey has been through a period of remarkable economic performance. The rapid growth of the economy and the rising purchasing power levels have created significantly increased demand for new housing, retail centers, office buildings, and industrial /logistics facilities.

During the same period, the foreign direct investment flow into the country has reached unprecedented levels. With the improved investment climate and the beginning of the EU accession talks, Turkey's real estate market has experienced an influx of foreign investment. This is evidenced by the fact FDI investments in the real estate sector went from zero in 2002 to \$1.8 billion in 2005. (Turkey - Turkish-U.S. Business Council)

The following list includes some of the key factors contributing to Turkey's ongoing success.

- Political stability
- Structural reforms aimed at:
  - Reducing inflation

- Stabilizing the currency
  - Reducing government expenditures
  - Increasing efficiency and confidence in public markets
  - Increasing foreign direct investment (FDI)
- 
- Making the Central Bank autonomous
  - Tight monetary and fiscal policies
  - EU accession talks and Pre-accession Economic Program
  - A new stand-by agreement with the International Monetary Fund (IMF)
  - Strict financial discipline
  - Crack down in corruption in the banking sector
  - Privatization of state-owned institutions

Turkey has a dynamic emerging market economy. As one of the fastest growing economies in the world, the Turkish economy ranks among the 20 biggest economies in the world. On purchasing power parity basis, Turkey's GDP is now above \$580 billion. (Economist Intelligence Unit)

With its dynamic capital markets, free trade policies, and attractive incentives for foreign investors, Turkey's economy has tremendous potential for further development. In fact, the US Department of Commerce has identified Turkey as one of the ten most promising emerging economies. Similarly, the World Bank has declared Turkey as one of the ten countries most likely to enter the top tier of the world economy.

## ***GEOPOLITICAL CONDITIONS***

Turkey possesses several geographic and demographic factors that help its economy in various ways and position it as an attractive investment market. Some of these factors include:

- Strategic location between Europe and Asia bordering the Mediterranean, Aegean and Black Seas
- Largest landmass in Western Europe
- Second largest population in Western Europe after Germany
- Young and growing population

Over the past four years, Turkey has implemented significant economic, structural, legal, and financial reforms that have resulted in unusual levels of stability. For the first time in over 35 years, the rate of inflation has dropped to single digits despite high rates of growth in the economy.

The hopeful situation today contrasts sharply with the dismal situation in the ninety's which was characterized by chronic instability. Just a few years ago the Turkish economy was on the brink of disintegration. A combination of several factors led Turkey to economic and financial crises at least 3 times in the last 12 years (1994, 1999, and 2001). Among these were political instability, weak regulations, and poor macroeconomic management. Many experts argue that political fragmentation was at the heart of the problem. This fragmentation often led to not only weak and "incoherent" macroeconomic policies and also prevented timely structural reforms<sup>1</sup>.

---

<sup>1</sup> Empirical studies show that the more fragmented (both numerically and ideologically) a coalition government, the less stability-oriented the economic policies will be.

During the nineties Turkey was ruled by coalition governments that were ideologically split. As a result, the parliament was fragmented and structural reform laws were difficult to pass and when they did, took too long to put into practice. In addition, reforms were often short-lived and not far-reaching enough. Investors lost confidence in the Turkish economy and FDI only trickled in.

However, the election of the Justice and Development Party (AKP) in 2002 ended Turkey's decade-long experiment with coalition governments. Commanding a 2/3 majority in the Grand Assembly, the AKP government has proven that has the votes and the commitment needed to push through important reforms and stabilize the macro economy. (Deutsche Bank Research) Given the unprecedented economic growth rates and financial stability Turkey has been experiencing and the widespread political support for EU accession, AKP is unlikely to make any significant changes to its policies before the 2007 general elections. This will ensure a continuity and commitment that inspires confidence in investors.

It should be noted however, the global economic and political conditions since AKP came to power have been favorable, making the economic reforms easier for the Turkish Government to implement. AKP will have to demonstrate that it can continue to be effective if the global conditions become adverse.

## ***OVERVIEW OF THE ECONOMY***

The Turkish economy can be described as a dynamic mix of modern industry and commerce along with a traditional agriculture sector. It has a strong and rapidly growing private sector, but the state still plays a role in basic industry, banking, transportation, and communication. (United States - CIA) Turkey's service industry accounts for 60% of its GDP, and industry and agriculture industries accounting for 24% and 16% respectively. (Turkey -

London Embassy) Turkey's economy is one of 20 largest in the world with a GDP of about \$582 billion, on purchasing power parity basis. (Economist Intelligence Unit)

Only a few years ago however, the picture of the Turkish economy was completely different. In fact, it was at the point of near economic collapse. After suffering from a decade of high inflation, weak economic policies, and boom-and-bust cycles in the 1990s, the Turkish economy hit rock bottom in 2001 in the face of a severe banking and economic crisis, a deep economic downturn (GNP fell 9.5% in 2001) and an increase in unemployment. (United States - Department of State) It was safe to say that the prospect of recovering from the crisis and achieving economic stability seemed uncertain at best.

However, since the crisis, Turkey has achieved remarkable macroeconomic stability in a short time by adhering to a multi-pronged strategy that includes a commitment to tight monetary and fiscal policies; substantial structural reforms; privatization of several large state-owned institutions; strict financial discipline; efficient budgetary expenditures; autonomy of the Central Bank; and a crack down on corruption in the banking sector. These reforms have been made with the support of the International Monetary Fund and the World Bank

Through these efforts, Turkey's economy grew an average of 7.8% per year from 2002 through 2005. (Turkey - Economic Indicators: GDP) In addition, since the crisis, the inflation and interest rates have fallen significantly and the currency has been stabilized. The strict monetary policy has also helped the Turkish government reduce its debt to manageable levels.

The rapid growth of the economy however, has also played a part in the increase of the current account deficit. "Though Turkey's vulnerabilities have been greatly reduced, the economy could still face problems in the event there is a sudden change in investor sentiment that leads to a sharp fall in the exchange rate. Continued implementation of reforms, including

tight fiscal policy, is essential to sustain growth and stability.” (United States - Department of State)

After receiving little foreign direct investment (FDI) for several years, Turkey attracted \$9.6 billion in FDI in 2005, increasing nearly ten fold since turn of the century. Turkey is expected to receive another \$18 billion in 2006 and 2007. Turkey has managed to improve its investment climate through several important measures such as streamlining its administrative process, abolishing foreign investment screening, and improving intellectual property legislation. Turkey has also signed several bilateral investment and tax treaties that guarantee free repatriation of capital in convertible currencies and eliminate double taxation. (United States - Department of State)

On the political front, the election of the Justice and Development Party (AKP) in 2002 has helped ensure Turkey’s commitment to economic reform. Unlike previous coalition governments, the AKP has made swift progress in implementing the structural reforms that were badly needed. With its 2/3 majority in the Grand Assembly, the AKP government has pushed through structural reforms that are in line with the stabilization program and the EU benchmarks. Since the elections, the Central Bank has been made independent from the government; the budget deficit has been reduced; and a floating exchange rate system has been put in place. In addition, significant reforms in the financial, energy, telecom, and real estate industries have been made and the privatization of several large state-owned businesses has been executed.

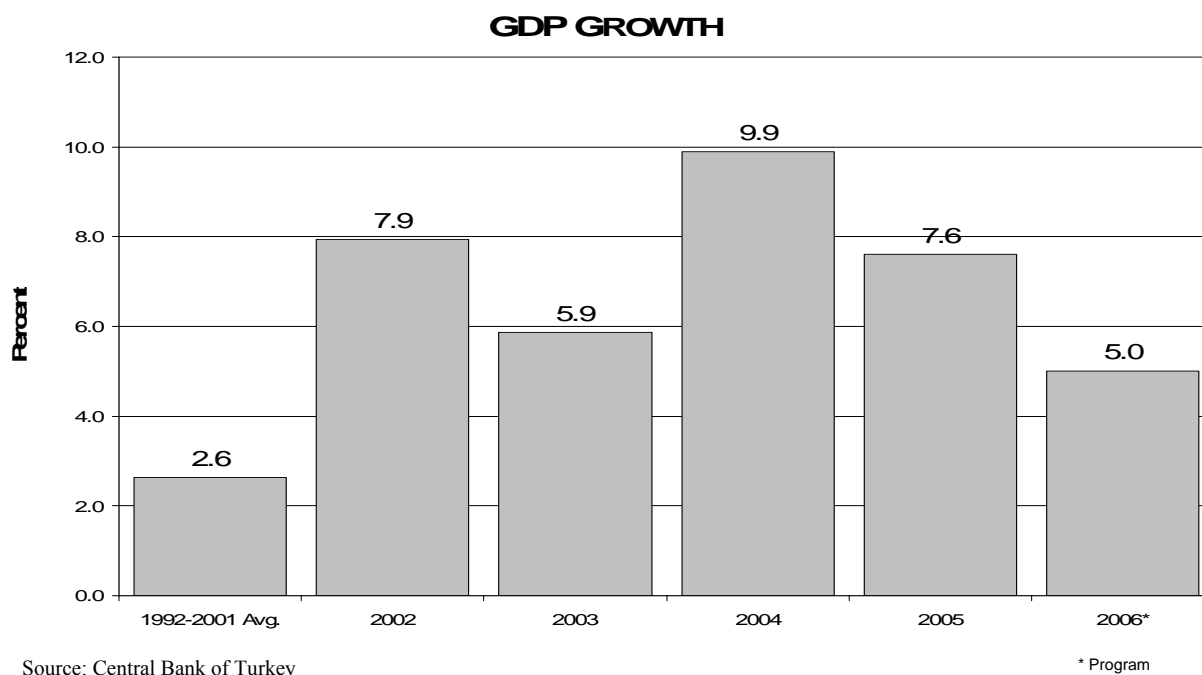
## ***KEY ECONOMIC INDICATORS***

### **Gross Domestic Product (GDP)**

With a GDP of over \$580 billion, on purchasing parity basis, Turkey’s economy is one of the 20 largest in the world. (Economist Intelligence Unit) During the four-year period between

2002 and 2005, Turkey's real GDP grew by more than 30% on a cumulative basis. (Turkey - Economic Indicators: GDP)

The following graph illustrates the annual growth rate of Turkey's GDP in last few years.



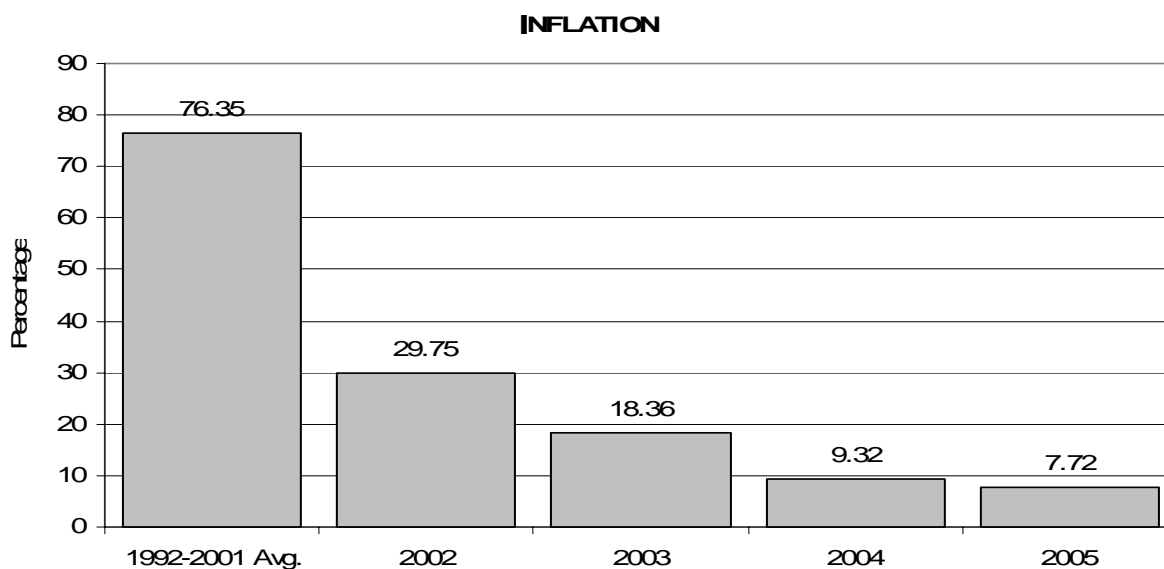
It is important to point out that Turkey has a very large invisible economy. If the Government of Turkey succeeds in its efforts to quantify and record the invisible economy, the country's GDP will be ranked higher.

The recent decline of the lira against the US dollar and the Euro, and the Central Bank's corresponding response raising the interest rates is likely to cause a moderate increase in inflation. As a result, the rate of growth in the economy should slow down in the second half of 2006. However, several factors could counterbalance the slowdown; first, rising investor confidence stemming from adherence to strict fiscal and monetary policies and second, an increased income from exports, boosted by the weaker lira. According to the Economist Intelligence Unit's forecasts, Turkey's economy will grow, on average, slightly over 5% per year between 2007 and 2010. (Economist Intelligence Unit)

## Inflation

For the first time in over 35 years, Turkey's inflation fell to single digits in 2004. Compared to the average inflation rate of nearly 80% in the 1990's, the 7.7% inflation rate at the end of 2005 is remarkable, especially in the context of robust growth of the economy since 2002.

The graph below illustrates the steep decline of inflation in Turkey.



Source: Central Bank of Turkey

The Central Bank's recent interest rate increase is expected to cause a moderate increase in inflation during the second half of 2006. However, the Economist Intelligence Unit expects the general downward trend to continue and predicts the rate of inflation to fall below the 5% mark by 2008. (Economist Intelligence Unit)

## Unemployment

Turkey's population growth has traditionally outpaced its job creation. (World Bank)  
 Turkey's unemployment rate in March of 2006 was estimated at 10.9%. (Turkey - TURKSTAT)  
 Based on its relatively young workforce and improving economy, Turkey's rate of

unemployment is expected to decrease in the coming years. The Economist Intelligence Unit estimates the unemployment rate to be below 9% by 2010.

### **Foreign Direct Investment (FDI)**

Over the past few years there has been unprecedented increase in foreign investment in Turkey. Most analysts point to several factors that are contributing to attracting foreign investors to Turkey. Among the most important are the start of accession talks with the EU, political stability achieved by a coherent single-party government, structural reforms in banking; legislative reforms, the implementation of macro-economic policies geared to achieving growth and stability, a reduction in taxes, and full equality between domestic and foreign capital.

(Ansay, Engin)

According to Turkish Treasury data, the number of foreign capital firms operating in Turkey increased from 6,000 in 1992 to 12,436 at the end of first quarter of 2006. The majority of the companies with foreign capital are in the wholesale and retail trade sectors followed by manufacturing and real estate leasing. According to the data, 6,610 out of 12,436 companies are of EU origin, with Germany in the lead with 2,175 companies followed by the United Kingdom with 1,007 companies. (Turkey - FDI Information Bulletin) Ibrahim H. Canakci, the Undersecretary of the Treasury of Turkey, noted that Foreign Direct Investment inflows, which averaged around 1 billion dollars in the past, increased to 9.6 billion dollars last year. He credits this dramatic increase to progress in privatization, acquisitions in private sector, and acceleration in Greenfield investments. Like most experts, he expects this increasing trend to continue in coming years as Turkey continues to foster efforts to improve investment environment and make headway in EU accession. (4)

The Turkish government realizes that FDI inflows have not achieved their potential and is therefore making efforts to improve the investment climate a key political agenda. After receiving feedback from international investment groups which identified cumbersome, informal, and time consuming administrative procedures that created an unclear and uncertain business environment, the government decided to develop an effective structure to attract investors who might otherwise invest elsewhere. As a result, the government embarked upon a massive reform program aimed at attracting both private domestic and foreign investment. In order to accomplish this task the government established the Coordination Board for Improving the Investment Climate (YOIKK). The Board identified ten major areas where obstacles had to be removed and processes had to be streamlined: Company Establishment; Employment; Sectoral Licenses; Location of Investment; Taxes and Incentives; Customs and Standards; Intellectual Property Rights; Small and Medium Sized Enterprises, Promotion of Investment, and Foreign Direct Investment regulation. Next, the Board assigned a taskforce to each one of these areas that would be responsible for creating a proposal to remove all obstacles impeding the development of Turkey's market economy. Furthermore, in order to address private sector concerns and to ensure the collaboration of the public sector, the Board assigned public and private sector representatives to each one of the taskforce teams. Upon compilation of the taskforce reports, the Board presented its specific recommendations to the Council of Ministers.

In order to benefit from the experience of the international community, the Turkish government established an Investment Advisory Council (IAC) whose members include high-level executives of multinational companies. The IAC has identified a number of priority issues that need to be worked on and significant progress has been accomplished on many of them. According to the IAC Progress Report, legislative changes have been introduced in the following

areas: improvement of the efficiency and transparency of government services, streamlining bureaucratic procedures facing investors (e.g. for permits and approvals), and provision of greater incentives for investment, research and development. (Turkey - Progress Report) In addition, the recommendations of the IAC to provide improvements in areas such as education and infrastructure have been taken into account in formulating relevant policies.

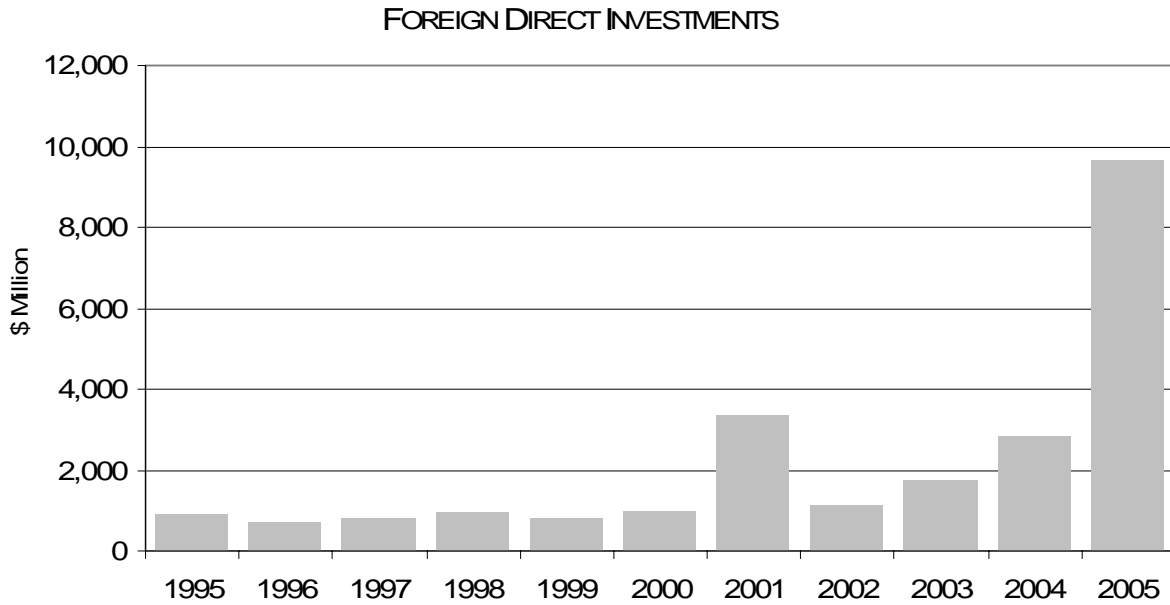
In the past decade, Turkey has passed substantial legislation aimed at creating a favorable climate for foreign investors. The 2003 Foreign Direct Investment Law (Law No: 4875) went a long way in leveling the playing field between domestic and foreign investors and in eliminating the complex and time-consuming bureaucratic procedure involved in establishing a company. Most significantly for our purposes, it authorized foreign persons and companies to acquire real estate in Turkey.

In addition, the new FDI law eliminated the minimum capital requirement for foreign companies. The new law also abolished the strict limitations on the form of a company that was acceptable. In the past only joint-stock companies and limited liability companies were permitted.

Turkey has created a more secure, transparent, and predictable climate for foreign investors by joining several new international organizations and signing many bilateral and multilateral agreements. Turkey has been a member of the leading international economic and trade organizations including the IMF, the World Bank, OECD, and WTO for many years. More recently, Turkey also became a member of several organizations established to settle investment disputes and facilitate high standards in investment including ICSID (International Centre for the Settlement of Investment Disputes) and MIGA (Multilateral Investment Guarantee Agency) of the World Bank, and WAIPA (World Association of Investment Promotion Agencies). Finally,

Turkey has signed Avoidance of Double Taxation Agreements with 60 countries. (Turkey - FDI in Turkey)

The following chart reflects the dramatic increase in the flow of foreign direct investments into Turkey since 1995.



Source: Central Bank of Turkey

## **CHAPTER 2 – REAL ESTATE MARKETS**

The Turkish real estate market is accustomed to frequent booms and busts. As in most countries, the Turkish real estate market is very sensitive to outside sources (e.g. political, economic, and natural disasters). Just looking at the past few years, several striking examples of this come to mind. For example, Turkey suffered a severe earthquake in 1999, which halted construction for three years. In addition, the financial crisis in 2001 caused a turmoil all sectors of the real estate market.

However, much progress in the real estate sector has been accomplished in a short time with all sectors showing recovery to varying degrees. With the improved investment climate and the commencement of the EU accession talks in October 2005, Turkey's real estate market has experienced an influx of foreign investment.

The key factors that play a role in the growth potential and real estate opportunities include:

- Increasing population
- Migration from rural to urban areas
- Unsaturated housing market
- Low prices compared to other countries
- Annual demand of 600,000 dwellings
- Increased public sensitivity to quality & reliability
- Renewal & reinforcement requirements
- Need for urban regeneration (Sur, Haluk)

Istanbul is Turkey's largest city and the main hub of the country's economy.

Approximately 15% of Turkey's population lives in Istanbul contributing about 21% of the country's GDP<sup>2</sup> (DTZ, Istanbul Office Market Overview 2006).

One of the most crowded cities in the world, Istanbul is comprised of 32 counties and one greater city municipality. Istanbul is located on two continents, separated by the Bosphorus, one of world's busiest straights, which provides the only passageway between the Mediterranean and the Black Sea. The European side of Istanbul is primarily commercial while the Asian side is mostly residential.

---

<sup>2</sup> Although Istanbul accounts for almost half of the economic output of Turkey, it is not the country's only destination for real estate 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, 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. (Europe Real Estate Yearbook: Turkey)

## ***OFFICE MARKET***

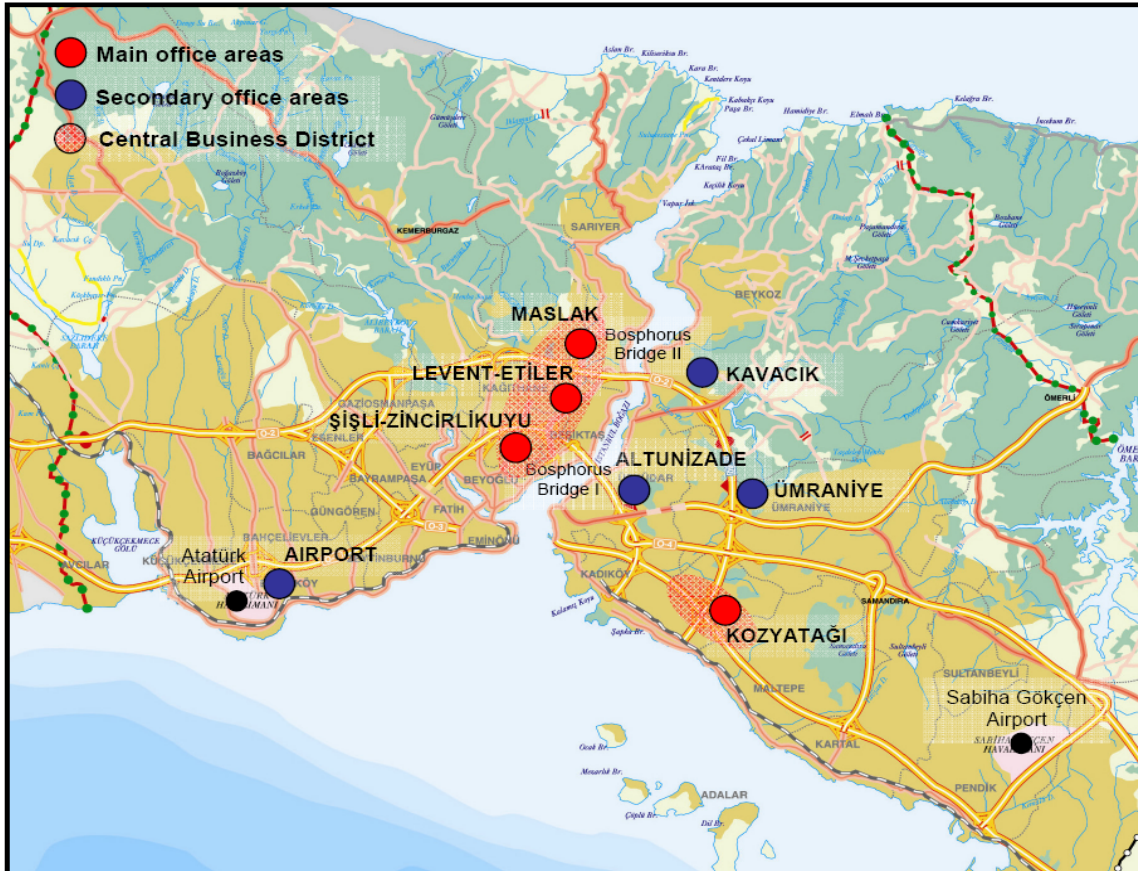
The office sector of the Turkish real estate market continued its recovery in 2005. Key factors reflecting this growth include:

- Vacancy rates falling towards pre-2001 crisis levels
- Rents rising
- Decreasing demand for old offices converted from apartments
- Strong demand for modern office space

As the economic capital of the country, Istanbul accounts for the vast majority of the office sector in Turkey. Nearly 60% of the employment force in Istanbul is in the service sector accommodating 30% of banks and 36% of all insurance companies in the country. Also, in 2005, Istanbul accommodated 78% of all foreign direct investment firms in Turkey (DTZ, Istanbul Office Market Overview 2006). Accordingly, Istanbul is a prime indicator for Turkey's office market and will be analyzed in the following paragraphs.

There are ten primary business districts in Istanbul: six on the European side of the city and three on the Asian side, totaling 1.7 million sq m (DTZ, Istanbul Office Market Overview 2006). Each one of Istanbul's business districts has unique characteristics that lead to significant variations in rents, stock, vacancy rates, and new supply.

The six business districts on the European side, Airport, Taksim/Besiktas, Gayrettepe/Zincirlikuyu/Sisli, Levent, Etiler, and Maslak account for about 81% of Istanbul's total office supply. The four major districts on the Asian side, Kozyatagi, Altunizade, Kavacik, and Umraniye account for the remaining 19%. (DTZ, Istanbul Office Market Overview 2006)



Source: DTZ Pamir & Soyuer

Of all the business districts in Istanbul, Levent, on the European side, is the prime CBD in the city. Neighboring Levent, the Etiler and Maslak districts are also considered among the city's top CBDs.

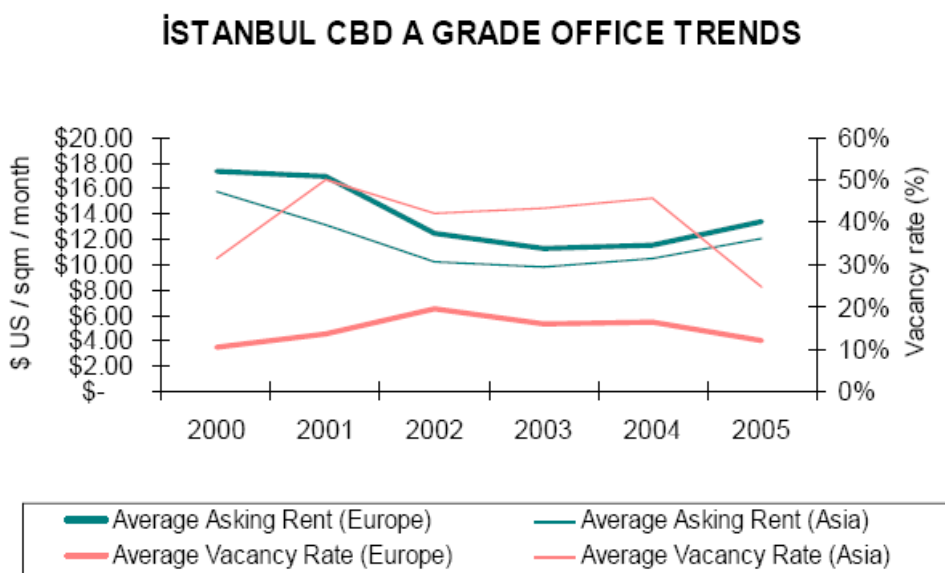
Immediately to the southwest of Levent is the Gayrettepe/Sisli/Zincirlikuyu triangle. This area used to be one of Istanbul's most important business districts. Today, most of the stock in this area consists of Class B office buildings.

Taksim is Istanbul's oldest CBD and city center. Similar to the Gayrettepe/Sisli/Zincirlikuyu area, what remains in Taksim today are primarily Class B and Class C office buildings.

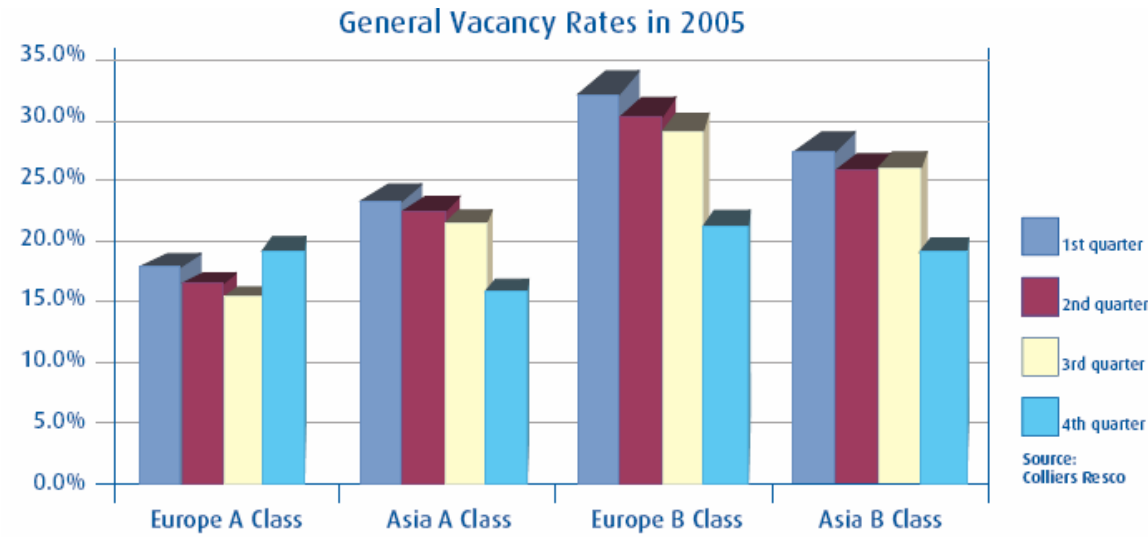
Although a significant portion of Istanbul's Class A office buildings are in the Airport district, this area has the highest vacancy rates in the city.

Even though the Asian side of Istanbul has been known as the residential part of the city, districts such as Kozyatagi, Altunizade, and Kavacik have become alternative locations for office buildings in the last few years. More recently, Umraniye, with its close proximity to transportation, available land for development, and favorable zoning rules has also emerged as a business district on the Asian side of the city.

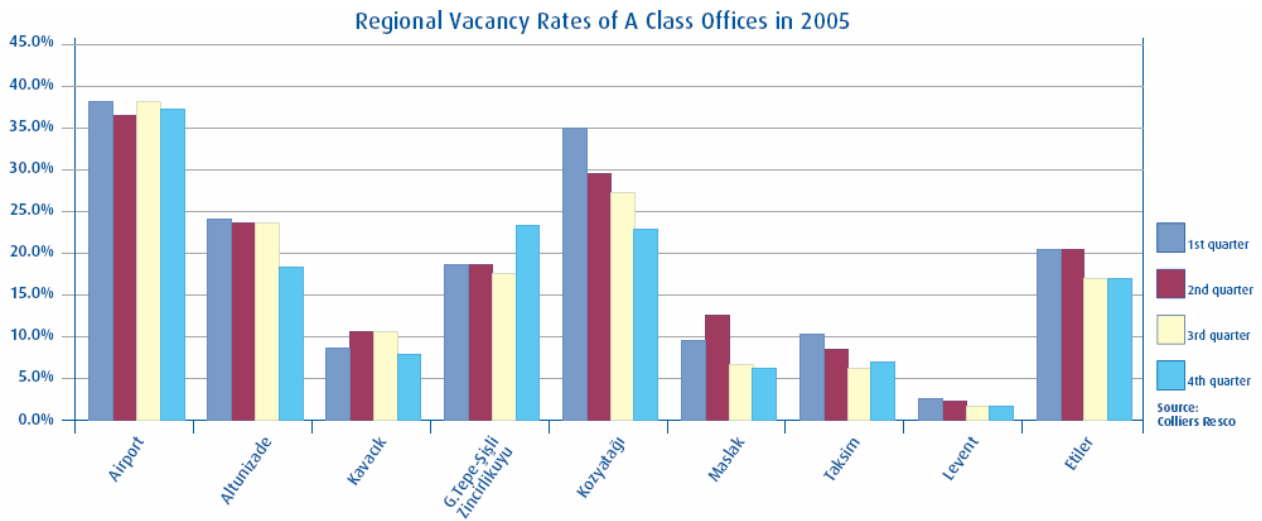
On both European and Asian sides of the city class A vacancy rates continued to decline towards the pre 2001 crisis levels. The graph below summarizes the class A office trends in Istanbul's central business districts between 2000 and 2005.

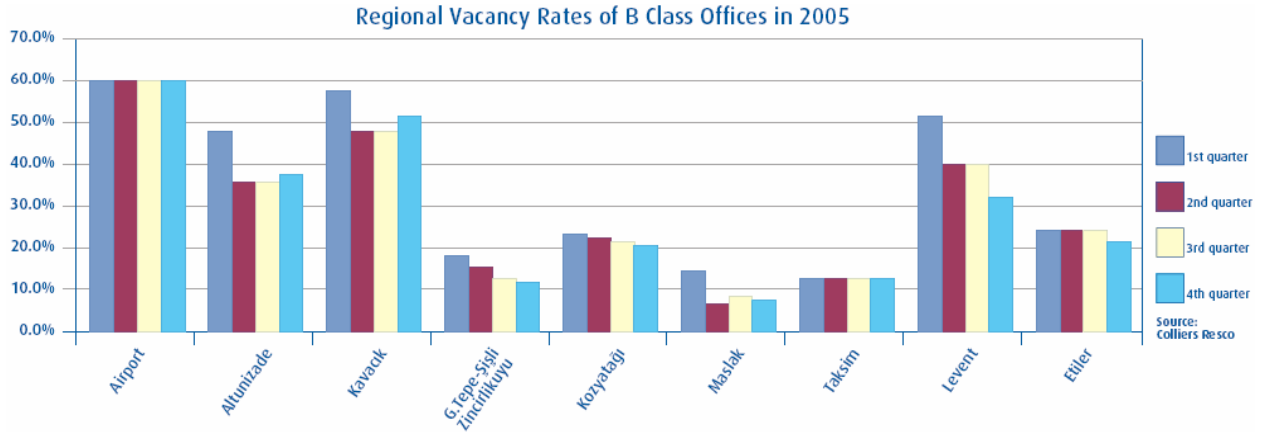


In 2005, the increased number of transactions led to a decline in vacancy rates. According to Colliers Resco, the declining vacancy was a result of increased demand for qualified office space as well as the large amount of new office space introduced in the previous year. The general vacancy rates for Class A and Class B office space for the European and Asian sides of the city are summarized below:



The following two graphs break down the quarterly vacancy rates by business district for Class A and Class B offices, respectively:



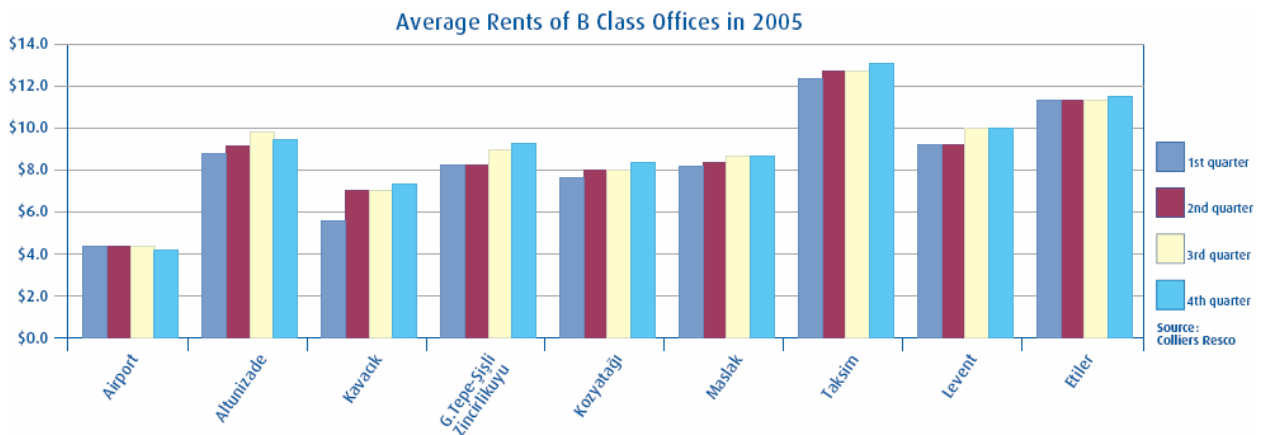
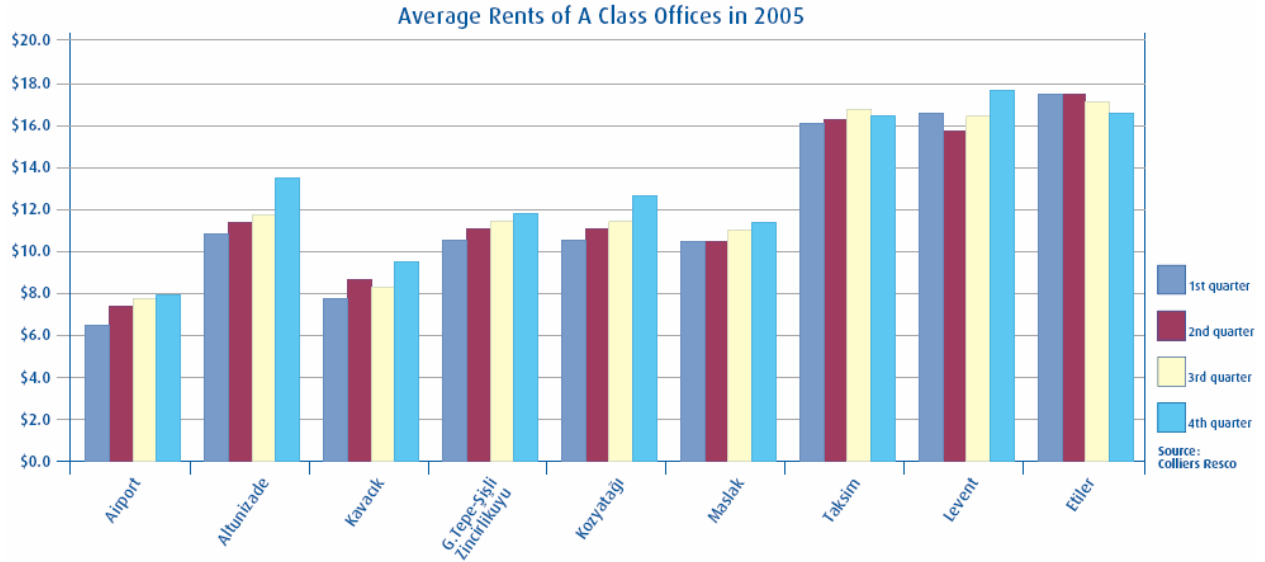


According to CB Richard Ellis, Istanbul was among the cheapest major cities in the world in 2004 for rental offices. The survey reported that the average rent paid by multinational corporations in Istanbul were at \$22 per square meter per month. (Oxford Business Group) The rental prices in other major cities in Turkey are considerably lower than those in Istanbul.

In Turkey, most local firms traditionally have rented converted apartments as offices. This trend still continues for many small local companies. Without a doubt, rental costs for converted apartment offices are much cheaper than those for modern office buildings. Nonetheless, rents in these conversion offices continued to decline in 2005 to balance out the decreasing demand.

Demand for high quality office space, on the other hand, was strong. Since the supply of high quality office space is still limited, the rents continued their upward trend during 2005.

The average rents for Class A and Class B offices in Istanbul's major business districts in 2005 are summarized below:



## Forecast

Large users continue to face shortages for quality office space. As a result, the built-to-suit model is becoming popular, increasing the demand for office park projects. Ümraniye and Kemerburgaz are the preferred locations for built-to-suit and office park projects. These locations offer adequate land stock as well as close proximity to CBDs. The office park projects planned for these areas are expected to become favored solutions for future location demands of large companies.

The increasing demand for class A office space on the European side is likely to decrease the amount of supply further, causing an increase in the rents. Levent and Maslak will continue to be the favored districts for high-quality office buildings.

Similarly, the increasing demand for the Asian side is likely to continue in 2006, resulting in an increase in positive absorption in rents. Kavcik and Kozyatagi are believed to be the most popular locations on the Asian side in 2006 due to the upcoming class A projects in these districts. (Colliers International)

## ***RETAIL MARKET***

The retail market is the most promising sectors in the Turkish real estate market. Compared to other sectors, retail has made the quickest recovery from the economic crisis of 2001. Key factors affecting recovery of the retail market include:

- Rents rising
- General improvements in the economy
- Decrease in inflation and interest rates
- Successful promotion campaigns by retailers
- Consumeristic behavior of Turkey's young population

The retail market, with its annual volume of \$50 billion, is the most promising sectors in the Turkish real estate market. Compared to other sectors of the real estate market, retail has made the quickest recovery from the economic crisis of 2001.

As consumer spending increases, it continues to boost the retail sector, which in turn sparks the development of retail facilities and shopping centers. Today the retail market has an annual volume of \$50 billion, Within the Turkish real estate market, the retail sector is the most attractive to international investors.

Both American-style shopping centers and those with a continental European format are popular in Turkey. Today, there are 27 modern shopping centers in Istanbul alone and a total of 94 shopping centers throughout the whole country. This number is expected to increase to 130 by the end of 2006. An additional 47 new shopping centers are in the planning stages and should be completed in the next five years. They will be located primarily in Istanbul, Ankara, and Izmir. (Europe Real Estate Yearbook: Turkey)

Two unique shopping centers deserve mentioning. Akmerkez, which opened in central Istanbul in 1994, is Turkey's leading upscale fashion mall. Built by the joint venture of the Akkok, TEKFEN and Istikbal groups, Akmerkez represents the direction of Turkish shopping styles. Having won several prestigious awards, (e.g. the best shopping center in the world in 1996 by the International Shopping Council, ICSC) Akmerkez is a model of upscale shopping environments. The Akmerkez complex sits on 180,000 square meters and includes a four-storey shopping area, with two towers offering 31 floors of office space, and 24 floors of residential areas. The shopping area is spread over a triangular area connected to the surrounding main roads through 3 atriums. Turkey's first themed mall, the 52,000-square-meter Tepe Nautilus Shopping Center opened in Istanbul in 2002. It is the biggest modern shopping mall in Turkey. Built by Tepe Group, it is in the Acıbadem quarter of Kadiköy district in the Asian part of Istanbul. Only a short walk from Kadiköy port at the Sea of Marmara, Tepe Nautilus is the first thematic shopping mall in Turkey. With its aquatic flair, all of the decorations and architectural features are related to the sea and navigation. Tepe Nautilus covers an area of 170,000 m<sup>2</sup> and houses 130 stores on 3 floors, a department store and Carrefour supermarket. There are Cinemaxx movie theaters, a bowling alley and entertainment center. In addition, the mall is often a venue for concerts and exhibitions.

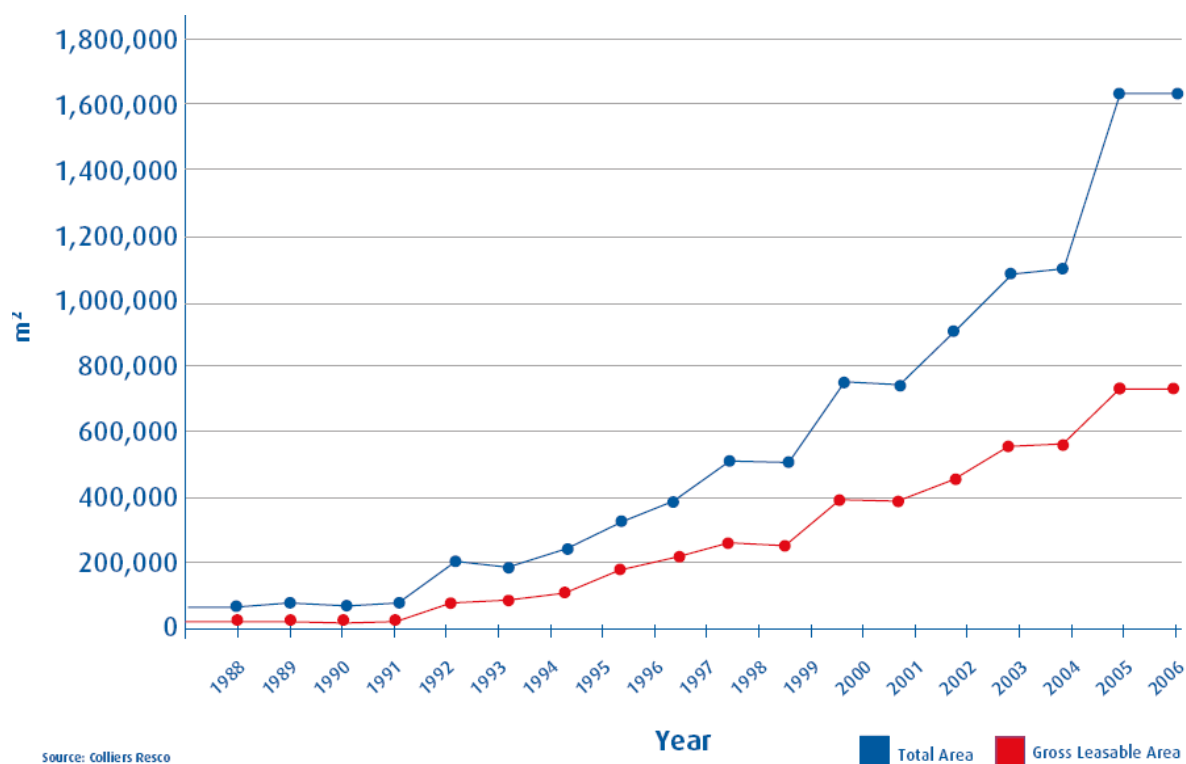
The map below shows Istanbul's existing shopping centers and retail areas.



The following map shows the construction pipeline projects in Istanbul's retail market.



The graph below reflects the increase in the number of shopping centers in Turkey between 1988 and 2006.



As noted earlier, Turkey has a young population (half the people are under 25) who are eager consumers. In addition, there is an extensive national retail base already in place, which is supported by local manufacturers looking new outlets for their products. (Thorne, Susan) At present, the demand for retail real estate far exceeds supply. Specifically, there is a big demand for up-scale shopping centers with well-known international tenants. Many foreign retailers are now expressing a growing interest in Turkey. Ikea opened a 52,920-square-foot unit in Istanbul, and it plans to open four more stores over the next four years in Turkey. German do-it-yourself retailer Bauhaus is also active in Turkey, and Starbucks, which entered in early 2003, has 17 stores at present. Fashion retailers including Hugo Boss, Lacoste, Ralph Lauren and Tommy Hilfiger are in-line tenants at hypermarket centers and downtown enclosed malls.

Although the retail market is growing rapidly, Turkey still has a shortage of high-quality retail space compared to other countries. According to Cushman & Wakefield Healey & Baker, Turkey has about 0.21 square feet of shopping center space per capita, less than a tenth of Britain's 2.5 square feet and France's 2.3 square feet. The comparison is even more striking when compared to the U.S. shopping center supply: about 21 square feet per capita. (Thorne, Susan)

Five of the seven largest shopping centers in Turkey are hypermarket-anchored centers. These were developed by conglomerates, such as Germany's Metro Group; the Istanbul-based Koç Group (owners of the Migros brand); and France's Carrefour, which operates in Turkey through a joint venture with The Sabanci Group, also based in Istanbul. There is an enormous potential for the construction of more hypermarkets. (Thorne, Susan)

Partly because development costs are lower than in other parts of Europe, Turkey is an attractive destination for international retail developers. In fact, foreign investors are assuming an ever-expanding role in the development of retail centers. For example, the Netherlands-based development firm AM-Amstelland MDC, entered into a partnership with Istanbul-based development and management firm Turkmall in 2004 to form MDCTurkmall. The new company is building a shopping center in Izmir in cooperation with The Tepe Group.

Another exciting example is the new 30-acre mixed-use project (400 apartments and 300 retail stores) project called Istinye Park, which broke ground recently in Istanbul. The 775,000-square-foot retail center will have both indoor and outdoor components, including an open-air lifestyle center with a central park, curbside parking, high-fashion retail and premier food service. The Orjin Group is building the shopping center on the land of Dogus Holding at Istinye

and Design and Development Group (designer of Akmerkez) is responsible for the architectural plan.

In addition, Multi Turkmall, a joint venture between Multi Development and Turkmall, is developing what will be the largest shopping center in Turkey. The project, called Forum Istanbul comprises 150,000 m<sup>2</sup> of retail space, leisure areas, offices, residential space, a hotel and 5,500 parking places. The projected completion date is 2008. (Europe Real Estate Yearbook: Turkey)

Finally, shopping center developers General Growth Properties' and German ECE Projekt management have created a joint venture called CURA GGP Gayrimenkul Gelistrime to buy and develop shopping centers in Turkey. General Growth will provide experience in design and operations, and ECE will offer local knowledge. The first joint venture will be Espark, a 430,000 square-foot retail-entertainment center in Eskisehir, one of Turkey's most prosperous cities. Construction on the project began in March of 2006 and it will open in fall 2007 with 150 shops and a multi-plex movie theater. (Housing Ambition)

## **Forecast**

As foreign investors are becoming more and more interested in the Turkish retail sector, prospects for the future of the market look very good. With the Turkish economy growing steadily, a new middle class with strong purchasing power is emerging. As a result, the amount spent on retail shopping is increasing by 10 to 12% a year and the demand for retail space is rising accordingly. At present, the European side of Istanbul remains more attractive for shopping center investments with Ümraniye being the only area boasting new shopping center projects on the Asian side of the city. However, industry experts predict that the newly

developing residential suburban regions, such as Tepeören-Kurtköy, will soon become alternative locations for shopping center investments. (Colliers International)

The graph below shows the shopping center development in Istanbul between 1988 and 2006:

<b>Shopping Center (Under Construction)</b>	<b>Location</b>	<b>Expected Opening Date</b>	<b>Gross Leasable Area (m<sup>2</sup>)</b>
<b>Super-Regional Center</b>			
İstinye Park	İstinye	April, 2007	82,000
<b>Sub Total</b>			<b>82,000</b>
<b>Regional Center</b>			
Kanyon Project	Levent	April, 2006	37,500
Bakırköy Shopping Center	Bakırköy	2006	35,000
M1 Meydan	Ümraniye	2007	70,000
Metroport	Bahçelievler	Not announced	30,000
CarrefourSA	Merter	June, 2007	63,768
<b>Sub Total</b>			<b>236,268</b>
<b>Community Center</b>			
EGS Business Park	Yeşilköy	Not announced	24,000
Markt Platz	Esenyurt	2007	18,505
Kempinski Astoria	Esentepe	February, 2007	16,000
Levent Mall	1.Levent	2008	7,751
Kaya Millenium	Beylikdüzü	March, 2006	15,000
<b>Sub Total</b>			<b>81,256</b>
<b>Power Center</b>			
Doğuş Power Center	Maslak	2007	43,000
<b>Sub Total</b>			<b>43,000</b>
<b>Total</b>			<b>399,524</b>

Source: Colliers Resco

Shopping centers that are still under construction in Istanbul have a total closed area of approximately 845,000 m<sup>2</sup> and a total gross leasable area of approximately 400,000 m<sup>2</sup>.

The shopping centers that are currently under planning process are presented below:

<b>Shopping Center (Planned)</b>	<b>Location</b>
CarrefourSA	Merter
Carousel	Beylikdüzü
Bayındır Tic. Mer.	Beylikdüzü
Çiftçiler Center	Zincirlikuyu
Diamond Project	Maslak
Dubai Towers	Levent
Forum Istanbul	Bayrampaşa
Olivium	Beylikdüzü
Olivium	Ümraniye
* (Artell&Koytur)	Ümraniye
* (Gülaylar Group)	Nişantaşı
* (Yimpaş)	Eyüp
* (Doğuş Group)	Kartal
TEM (Turkmall)	Gaziosmanpaşa

\* The name is not announced yet  
Source: Colliers Resco

## ***RESIDENTIAL MARKET***

The Turkish residential market has performed remarkably since the most recent economic crisis of 2001. Key factors affecting the strong performance of the residential property market include:

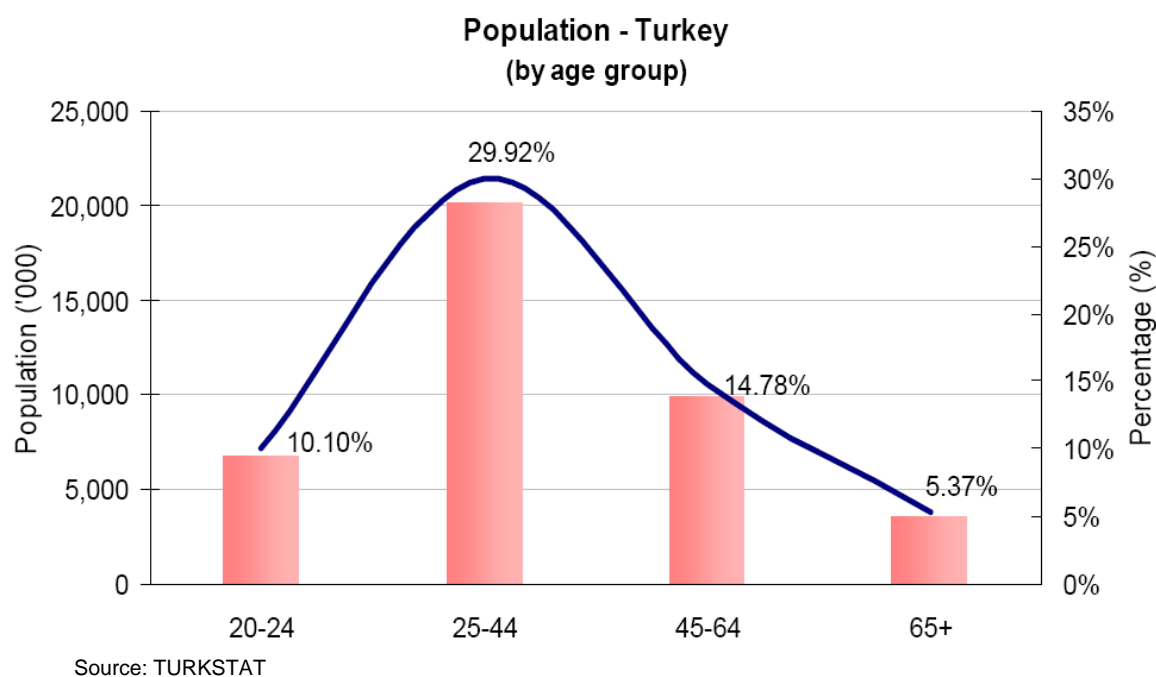
- Political stability
- Relatively low inflation and interest rates
- Robust growth of the economy
- New law allowing foreigners to acquire real estate
- The anticipated new mortgage law
- Hopes of Turkey's accession to the EU

The Turkish residential market has performed remarkably since the most recent economic crisis of 2001. The improved performance of the housing market is due to the recovery of the economy and a trend toward political stability. In fact, Istanbul was named the best real estate market according to the ULI/Price Waterhouse Coopers Emerging Trends in Real Estate Europe – 2005 survey for the best development prospects as compared with other developing markets.

High inflation, combined with high interest rates, which had plagued Turkey in the 90s, eroded the personal savings of millions of Turks for a generation and greatly curtailed the housing market. But in the past four years, there has been an economic turn around with GDP growth and an increase in private consumption expenditure. These factors, combined with EU accession talks have had a positive impact on the housing market. Major Turkish banks are now offering low-interest, extended consumer loans and there is the expectation of the eagerly awaited passage of the mortgage bill, both of which contribute to the upturn in the housing market.

The most common form of residential development is multi-housing/apartments with upscale condos in some areas. Looking to the future, the trend in housing is moving toward master planned communities. There are already over 100 of these communities and experts expect this type of housing option to continue to play a major role in the residential market.

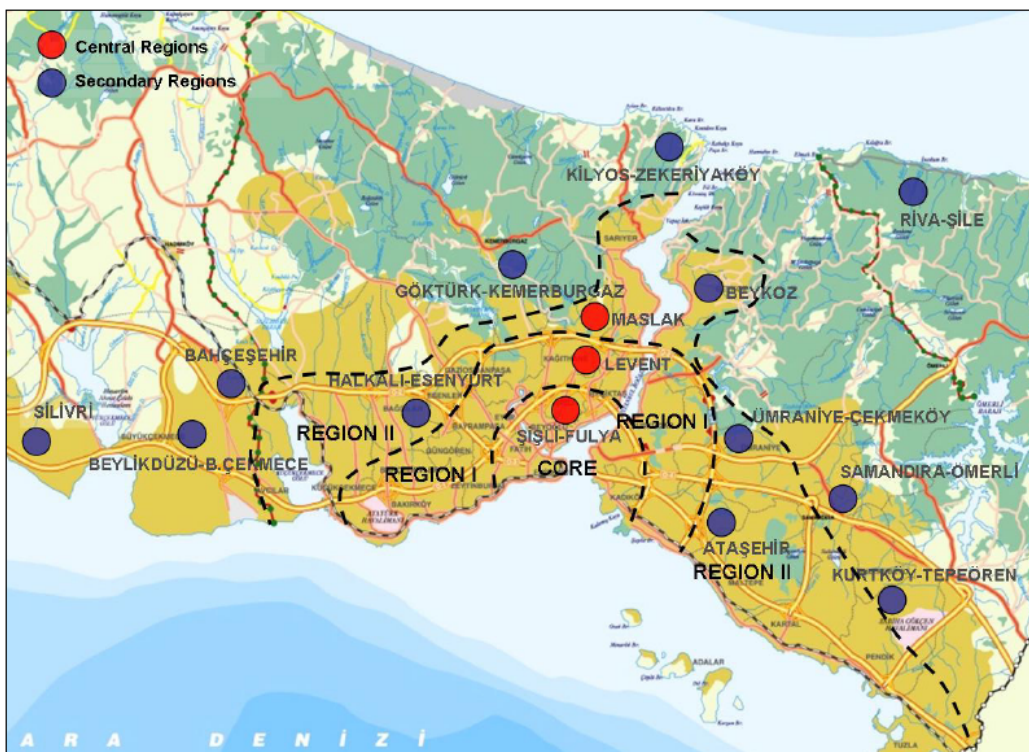
Finally, demographics play an important role in residential real estate development in Turkey. The population growth and the high percentage of young people looking for suitable housing all bode well for the residential sector. “Urbanization is the key component of the Turkish demographic transition. The rapid urbanization of the Turkish population has been among forces driving the demand for organized retail infrastructure and housing investments.”  
(Sectors in Focus)



Although Turkey covers 770,000 square kilometers (297,000 square miles) 45 percent of the residential real estate market is in Istanbul. Local analysts report a chronic shortage of housing around Istanbul. In 2004, estimates were that Turkey's population needed 581,000 more

housing units than actually existed. And, according to Tezcan at Raymond James, that gap was estimated to still be 370,000 units in 2010. (Corbin, Brett)

The map below indicates the residential development regions in Istanbul.



Note: Core (Beşiktaş Şişli, Beyoğlu, Kadıköy); Region I (Eminönü, Fatih, Zeytinburnu, Bakırköy, Kağıthane, Bahçelievler on European side and Üsküdar on Asian side); Region II (Sarıyer, Eyüp, Bayrampaşa, Gaziosmanpaşa, Güngören, Esenler, Bağcılar, Küçükçekmece on European side and Beykoz, Ümraniye, Maltepe, Kartal, Pendik Tuzla on Asian side)

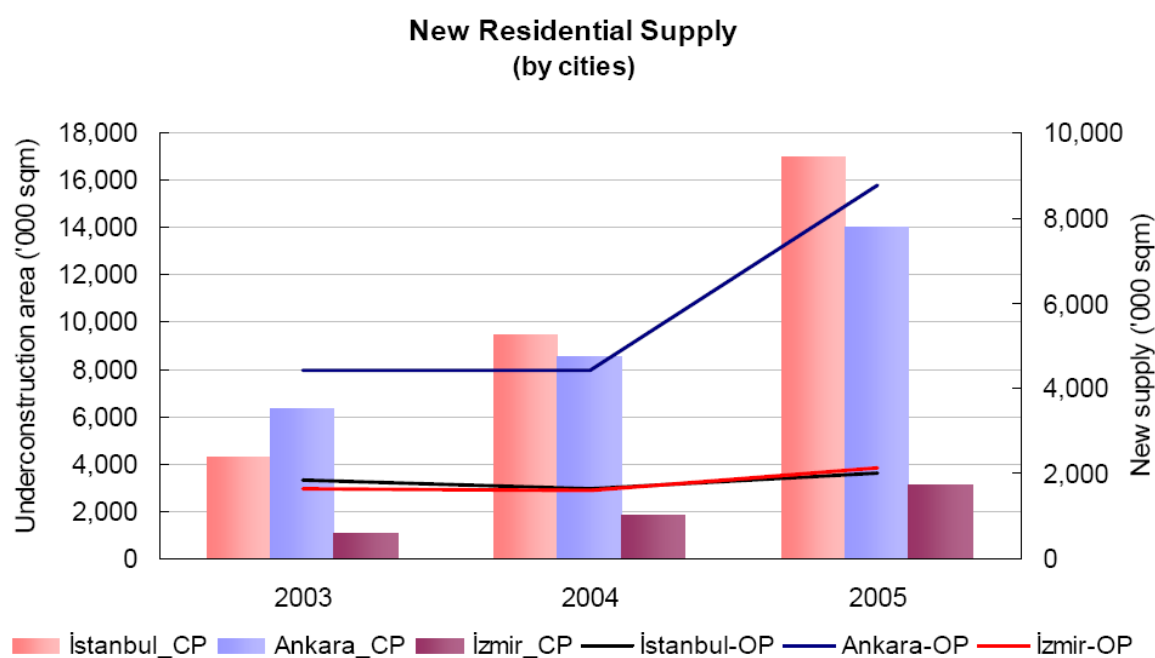
Source: DTZ Pamir & Soyuer

The passage of a legalized mortgage system should stimulate the construction industry and property market, allow middle and low-income families to become home owners, fuel economic growth across the country, and attract foreign investment. (Housing Ambition) The new system will allow mortgage terms up to 30 years, a significant increase in the short five to ten-year terms that has made owning a house extremely difficult for the average person.

Another feature of the residential market is the many homes in Turkey that are considered slum dwellings (55% of all homes.) These dwellings are not recorded by authorities and are therefore not able to be taxed. According to Haluk Sur, chairman of GYODER, the Association

of Real Estate Investment Companies in Turkey “Vast neighborhoods of slum houses, known as ‘gece kondu’ (‘night landings’ – literally built overnight on private property or state lands by an influx of Anatolian peasantry), encircle the cities, mar the urban landscape and make up to 70% of the dwellings in the metropolitan areas of western Turkey. These shoddily built housing units are unsafe in earthquake-prone Turkey.” (Housing Ambition)

The graph below shows the increase in new residential supply between 2003 and 2005 in Turkey’s three largest cities:

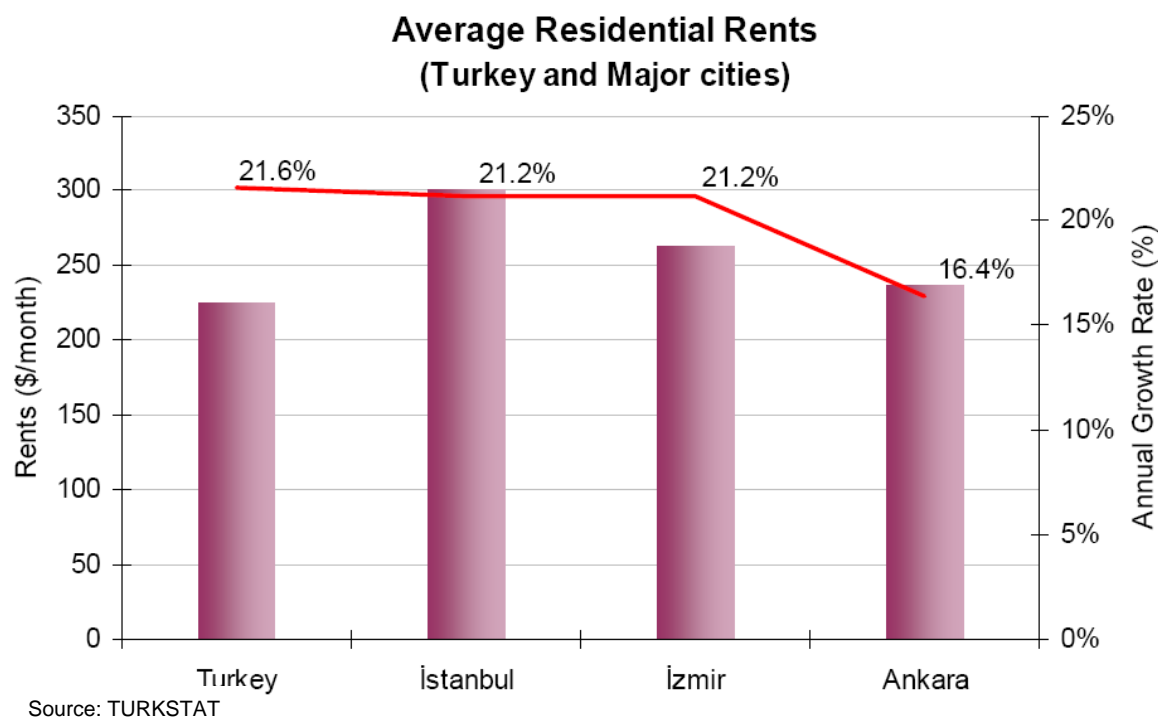


Source: TURKSTAT

The increased demand for housing is reflected in the rapidly climbing prices and housing loans. In some of Istanbul’s neighborhoods, housing prices have more than doubled since 1999. Between 2002 and 2005 housing loans have increased 27-fold, reaching approximately \$9.5 billion. (DTZ, Turkish Residential Market Overview 2006) This amount is still quite low, on a per capita basis, compared to EU countries and is expected to rise strongly over the next decade.

Demand for high-end residential developments has been particularly strong in the last four years. In addition, quality housing in Turkey has been in high demand, especially since the 1999 Marmara earthquake.

The graph below show the current average rents in Istanbul, Ankara, and Izmir:



### Forecast

In the short term, as result of the recent currency and interest increases, there may be a slowdown in the residential market. In the long term however, the new mortgage system, which is expected to be in place by 2008, should reenergize the market. The anticipation has already caused a significant increase in demand for new quality housing. Once in place, the mortgage system will provide buyers the opportunity to purchase homes on long term credit with installments near the existing the rental rates. Consequently, Turkey's young population is more than likely to help sustain high levels of demand for new housing for several years.

Middle-to-high income level customers in urban regions continue to demand high quality 'residence' type apartments. In addition to the ongoing project of this type, it is likely that new projects in Istanbul as well as other major cities will be executed in response to the continuing demand.

The demand for high quality suburban housing has been on the rise. Suburbs with existing infrastructure such as Göktürk-Kemerburgaz, Bahçeşehir-Bahçeşehir-Büyükdere, Çekmeköy, Beykoz-Riva, Çatalca and Tepeören-Kurtköy are the likely regions where the new development projects will take place.

Turkey expects to attract considerable foreign investment into the residential real estate sector with the passage of the mortgage law. For example, Dubai International Properties plans to spend \$5 billion on property development in Turkey, including construction of Europe's two tallest buildings in Istanbul, the twin 350-metre Dubai Towers. (Housing Ambition)

According to DTZ's 2006 report, the initial yields for residential projects are between 5% and 6%. DTZ expects the yields to remain at these levels since primary capital growth is the focus of most residential investors in the Turkish market. (DTZ, Turkish Residential Market Overview 2006)

## ***INDUSTRIAL MARKET***

The industrial sector is showing tentative steps toward recovery. Key factors affecting Turkey's industrial markets include:

- Turkey is the 22<sup>nd</sup> largest exporter and 14<sup>th</sup> largest importer country in the world.
- Turkey's volume of foreign trade reached approximately \$190 billion in 2005. The government's forecast for 2008 is \$253 billion.
- Turkey has one of the highest export growth rates in the world. The average growth rate between 2001 and 2004 was 30% per year.
- The World Bank estimates the Turkish logistics market to become a \$46 billion industry. Currently the market transactions amount to only about \$12 billion per year. (Sectors in Focus)

The industrial market was the sector that suffered the most during the most recent economic crisis but has slowly began to recover. During the economic downturn, rents decreased by as much as 40%. New construction was almost nonexistent. However, in the beginning of 2004, the market began to pick up as the effects of improving economic climate are finally beginning to be felt in the industrial sector too. The occupancy rates and development of new facilities are on the rise.

In light of these developments, the industrial real estate market in Turkey offers great potential for growth and modernization. Turkey's unique geographic location makes it destined to become a hub of logistics. Companies doing production in Turkey can distribute their products in just three days to places such as the Turkic Republics, Russia, the Middle East, Eastern Europe and the Balkans.

Turkey's largest port and industrial real estate market is Istanbul. Majority of the industrial properties in the city are warehouses. Heavy industries have been moved away from Istanbul due to higher labor and real estate costs to other cities throughout the country. Most of the industrial stock in and around the city consists of low quality owner occupied facilities.

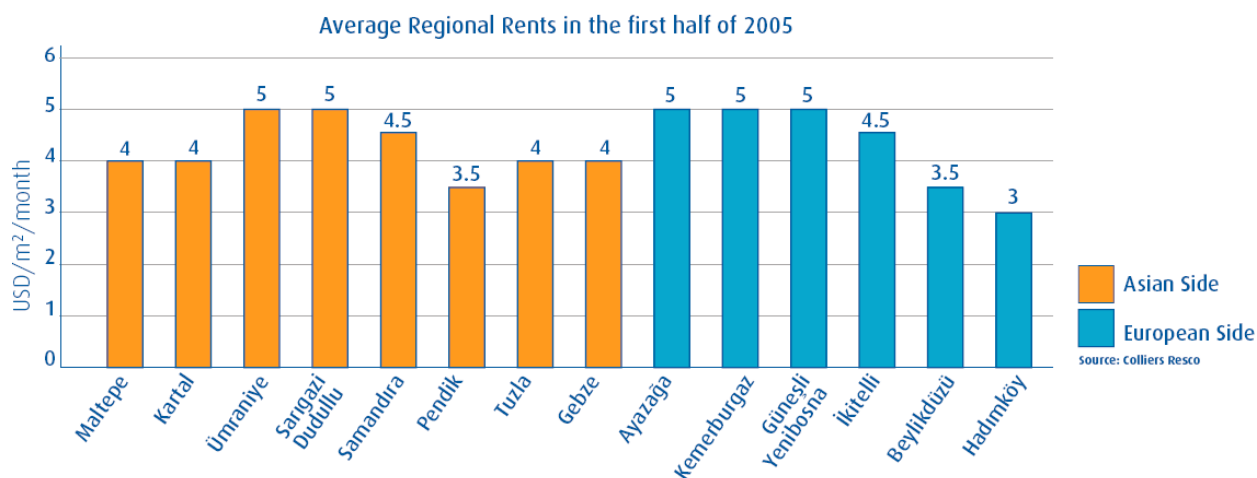
Istanbul has several major industrial zones both on the European and the Asian sides of the city, providing approximately one million square meters of industrial space. On the European side, the industrial stock is distributed across Beylikduzu, Hadimkoy, Yenibosna, Gunesli, Ikitelli, Ayazaga, and Cerkezkoy areas. Maltepe, Kartal, Pendik, Tuzla, Gebze Umraniye, Dudullu, Samandira and Kurtkoy house most of the industrial space on the Asian side of Istanbul.

The following map shows Istanbul's industrial development areas.



Source: Colliers Resco

The industrial rents in Istanbul, in the beginning of 2006, were by and large between \$5 and \$6 per square meter per month. Before settling at these rates during the second half of 2005, regional rents across Istanbul's industrial markets were as follows:



Kocaeli, Izmir, Bursa, Adana, Mersin, and Iskenderun are Turkey's other major industrial cities. Kocaeli is located only 45 km east of Istanbul and has long been a key logistic center in Turkey. With five ports and 35 industrial docks, Kocaeli provides an attractive alternative to Istanbul. "Eighteen of the country's 100 largest enterprises are based in Kocaeli" (The City That Lives and Nurtures). Also, approximately 18% of Turkey's national tax revenues are collected from this province. (The City That Lives and Nurtures)

Izmir is also one of the major ports and largest industrial property markets in Turkey. About 10% of the country's total foreign trade is serviced through Izmir. Izmir's transportation hub accounts for 7.7% of Turkish GDP. (Europe Real Estate Yearbook: Turkey) The planned construction of a second port is expected to further expand the commercial activities of the city.

Izmir and ESBAS, one of Turkey's foremost modern industrial parks for manufacturing and trade, host several international firms such as United Technologies and Hugo Boss. In

addition, Izmir, along with Bursa, continues to attract hardware and software investments of multinational firms. (Europe Real Estate Yearbook: Turkey)

Most of the industrial space in Turkey is occupied by owners who have typically bought vacant land and developed for their specific needs. Because of this practice, most of the existing facilities do not conform to international standards and tend to lack the adequate ceiling height, column spacing, or floor loading capacity required by today's occupiers. Consequently, users seeking modern facilities typically either develop their own facilities by utilizing the built-to-suit method or outsource their warehouse needs to third party logistics companies.

The high demand for logistics services in Turkey has produced a new wave of foreign and domestic companies to enter this market. At present, about 1,000 local firms (mostly small scale) operate as service providers for transporting and courier service providers. Some of the local companies however, have established large partnerships with international firms. Larger logistics firms are estimated to have about a 75% market share in terms of revenues. Despite the growing demand, outsourcing rate remains low. Manufacturing companies provide seventy percent of the logistics services. However, foreign companies with technological know-how are expected to enter the market and make a significant contribution to the development of the industrial sector. Still, industry experts believe this sector needs, "a further injection of expertise, application experience and the establishment of suitable partnerships to be able to provide logistics services in the real sense." (Sectors in Focus)

Organized Industrial Zones (OIZ) & Technoparks are also gaining momentum in the Turkish industrial market. These areas provide many advantages including tax incentives, effective infrastructure, and the benefits of industry clusters. Accordingly, properties in OIZs and Technoparks command higher rents than other areas.

**Forecast**

Supply of high quality warehouse facilities in the market is still significantly inadequate. As a result, many users seeking quality space will opt to build their own facilities. Also, in view of this shortage gap, some developers are likely to develop some speculative warehouses that will conform to international standards.

According to the World Bank, Turkey's logistics market has the potential to grow to be a \$46 billion industry. Given its current estimated size of \$12 billion, this market should continue its rapid development. The growth potential of the Turkish logistics market will continue to attract foreign investors. Accordingly, extensive consolidation in this sector can be expected.

Considering the above situation, rent values of new and high-quality industrial facilities, which increased above their previous levels in the past year, are expected to continue to increase in the future. (Colliers International)

## **CHAPTER 3 – CORPORATE TAX SYSTEM IN TURKEY**

*NOTE: A new Corporate Income Tax Law, 5520, was approved by the Turkish General Assembly on 13 June 2006 and published in the official gazette dated 21 June 2006. The information in this chapter is largely based on Price Waterhouse Coopers' 2006 edition of "Turkey – A General Tax Guide for Foreign Investors" report and published notices in the Official Gazette.*

The Government of Turkey realizes the importance of corporate tax obligations and incentives given to investors. Accordingly, it has made considerable efforts and progress in the last few years in the taxation system. The new tax law (5520) goes a long way toward making Turkey more investor-friendly. The new law simplifies the tax structure, broadens the tax base and aligns Turkish tax policy more closely with those of western countries. For example, amendments to the tax system reduce the corporate tax rate by 10 percent, and phase out many exemptions and allowances. These should have the effect of reducing high labor costs, controlling the informal economy, and stimulating foreign direct investment. This section will present information on corporate tax laws and incentives.

### ***Corporate Income Tax***

Notably, there has been a broadening of the corporate income tax base and a 10 percentage point reduction in the corporate income tax rate, from 30% to 20%, which is competitive by international standards.

The dividend withholding tax rate is 10%. This tax is applicable to dividends distributed to individual and foreign corporate shareholders. In case of non-residents working in Turkey

(i.e. branches, etc.) the withholding tax is applicable to only the portion of the profits transferred back to the headquarters.

The table below is can be used to calculate the corporate income tax liability of a company in Turkey.

	Liability on Income (10% WHT)*
Taxable Corporate Income	100
Corporate income tax	20.0
* Dividend withholding tax base	80.0
Dividend withholding tax	8.0
Effective Corporate Tax	28.0

*\* Based on the assumption that 100% of the profit after corporation tax will be distributed to individual or foreign corporate shareholders.*

### ***Advance Corporate Income Tax***

Based on quarterly earnings, corporations are required to pay advance corporate income tax. The corporate income tax rate is 20%. Taxes paid in advance are offset against the true tax liability, determined at the end of the year.

### ***Legal Reserves***

Under the Turkish Commercial Code, joint stock (A.S.) and limited liability (L.S.) companies established in Turkey are required to set aside first and second level legal reserves out of their profits. The purpose of this requirement is to protect the rights of third parties by increasing the amount of owners' equity. Legal reserves may not be repatriated. (YASED)

**First Level Legal Reserves**

Allocation of 5% of corporate profits each year until 20% of the company's paid-up capital has been reached.

**Second Level Legal Reserves**

After the deduction of the first level legal reserves and the minimum obligatory dividend pay-out (5% of the paid up capital), companies are also required to set aside 10% of profits actually distributed as second level legal reserves.

There is no maximum limit for second level reserves which are accumulated every year. "The second level legal reserves amount to approximately 1/11 of the profit to be distributed."

(Price Waterhouse Coopers)

"According to the Turkish Commercial Code, if the legal reserves exceed 50% of the paid-up capital, they shall be used to cover losses, maintain business activities in the case of bad business conditions, prevent unemployment or offset the negative effects of unemployment."

(Price Waterhouse Coopers)

***Calculation of Corporate Income Tax Base*****Deductible Expenses**

For corporate income tax purposes, general expenses incurred for the generation and maintenance of commercial income are, in general, allowed as deductions.

**Depreciation Methods**

Fixed assets, acquired after January 1, 2004, are subject to depreciation, between 2% to 33%, based their useful life. Useful life of buildings is 50; office furniture, office equipment, and automobiles is 5; and computers is 4 years.

Fixed assets acquired before Jan 1, 2004 continue to be depreciated over the former application, in which the maximum rate applicable is 20% per year. Depreciation may be calculated by applying either the straight-line or declining-balance method, at the discretion of the taxpayer. All tangibles, except for land, and intangible assets are depreciable over a minimum of five years. Under the previous application, buildings are an exception and are depreciated at a rate of between 2% and 10% per year, over a minimum of 10 or 50 years depending on the type of building.

Generally, assets are considered to be placed in service when they are capitalized and ready for use. The applicable rate for declining-balance method is twice the rate of straight-line method. However, maximum applicable rate for declining-balance method is 50 %.

On the other hand the declining balance method cannot be used for some items. For example, goodwill is depreciated within 5 years in equal installments and leasehold improvements are depreciated over the rental period at a flat rate.

## ***Transaction Taxes***

### **VAT**

Deliveries of goods and services are subject to VAT at rates varying from 1% to 18%. The general rate applied is 18%. VAT payable on local purchases and on imports is regarded as “input VAT” and VAT calculated and collected on sales is considered as “output VAT”. Input VAT is offset against output VAT in the VAT return filed at the related tax office by the 20th of the following month. If output VAT is in excess of input VAT, the excess amount is paid to the related tax office. On the contrary, if input VAT exceeds the output VAT, the balance is carried forward to the following months to be offset against future output VAT. With the exception of a

few situations such as exportation and sales to an investment incentive holder there is no cash refund to recover excess input VAT.

There is also a so-called “reverse charge VAT mechanism”, which requires the calculation of VAT by resident companies on payments to abroad. Under this mechanism, VAT is calculated and paid to the related tax office by the Turkish company. The local company treats this VAT as input VAT and offsets it in the same month. This VAT does not create a tax burden for the Turkish and the non-resident company, except for its cash flow effect for the former, if there is no sufficient output VAT to offset there-from.

### **Special consumption tax**

Four different product groups are subject to special consumption tax at different tax rates:

- Petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents
- Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- Tobacco and tobacco products, alcoholic beverages
- Luxury products

Unlike VAT, which is applied on each delivery, special consumption tax is charged only once.

### ***Banking and Insurance Transactions Tax (BITT)***

Banks and insurance companies are exempt from VAT but are subject to BITT at a rate of 5%, which is due on the gains of such companies from their transactions. The purchase of goods and services by banks and insurance companies are subject to VAT but is considered as an expense or cost for recovery purposes.

## ***Property Taxes***

Buildings and lands owned in Turkey are subject to annual real estate taxes at the following rates:

- Residences 0.1%
- Other buildings 0.2%
- Vacant land\* 0.3%
- Land 0.1%

*\* Allocated for construction purposes*

The rates are applied twice for property located in the metropolitan municipality areas.

## ***Stamp Tax***

Stamp tax applies to a wide range of documents, including but not limited to agreements, financial statements and payrolls. Stamp tax is levied as a percentage of the monetary value stated on the agreements at rates ranging from 0.15% to 0.75%. Please note that salary payments are subject to stamp duty at the rate of 0.6% over the gross amounts paid, whereas a lump sum stamp tax is calculated for financial statements.

Stamp tax is payable by the parties who sign a document. Parties to a taxable document are jointly responsible for the payment of stamp tax. On the other hand, stamp tax arising from documents signed between official departments and real persons/legal entities are paid by the real persons/legal entities. Note that each and every signed copy of the agreement is separately subject to stamp tax. The stamp tax per document shall not exceed YTL 878,400.

### ***Withholding Tax***

Under the Turkish tax system, certain taxes are collected through withholding by the payers in order to secure the collection of taxes. These include income tax on salaries of employees, lease payments to individual landlords, independent professional service fee payments to resident individuals; and royalty, license and service fee payments to non-residents. Companies in Turkey are responsible to withhold such taxes on their payments and declare them through their withholding tax returns.

However, please note that local withholding tax rates may be reduced based on the available bilateral tax treaty provisions.

### ***Resource Utilization Support Fund (RUSF)***

RUSF is applied on importation on credit basis and loans obtained locally or from abroad (except for foreign loans with an average maturity of more than one year). The rate of RUSF changes between 0-15 percent. This fund is not applicable where there is an incentive certificate or in the case of re-export credits.

### ***Environmental Tax***

Municipalities are authorized to collect an environmental tax as a contribution toward the financing of certain services, such as garbage collection. This tax is levied at scheduled fixed amounts that vary according to the location of the office for which the environmental services are being provided. For houses the environmental tax is levied according to the water consumption of the domiciles. The taxpayer is considered to be the occupant of the premises, whether as owner or tenant.

## ***Effects of Bilateral Tax Treaties***

Turkey currently has a bilateral tax treaty network with 61 countries including the US.

### **Calculation of treaty benefit on dividends**

Currently, the local dividend withholding tax rate is generally less than or the same as the treaty rate. In order to apply the lower withholding tax rate stipulated by the treaty, the dividends should be distributed either actually or on an account basis. The benefit provided by the tax treaty will vary based on the ratio of the foreign shareholding, the maximum withholding tax rate specified by the treaty and the amount of dividend distributed.

### ***Elimination of double taxation***

Under the provisions of Turkey's tax treaties, two methods are stipulated for the elimination of double taxation: the exemption method and the credit method. Fundamentally, the difference between the two methods is that the exemption method looks at income, while the credit method looks at the tax paid in the source country.

Under the principles of the exemption method, the country of residence does not tax the income, which according to a treaty may be taxed in the source country. In other words, income derived by a resident from a foreign country where it has already been subject to tax is exempted in the country of residence.

According to the principles of the credit method, credit is granted for the foreign taxes paid. However, the credit is generally limited to the amount of domestic tax that would be imposed on that foreign-source income if no credit for foreign tax were given.

## **CHAPTER 4 – STRUCTURING AN INVESTMENT**

The following sections will present an overview of approval procedures for commercial real estate investors, describe the process of establishing the various types of companies, and explain the various modes of entry into the Turkish real estate market.

### ***Basic Investment Approvals***

Under the Turkish law foreign investors can engage in commercial operations, private partnerships, and establish branches and offices. Transfer of profits, fees, royalties, and capital abroad are allowed. The FDI Law (No. 4875) of June 2003 removed the need for investors to obtain a foreign investment permit to simplify the process. Although foreign investment procedures have become much easier, bureaucracy is still the principal source of frustration for foreign investors. Consequently, most foreign companies rely on local representatives or partners to take advantage of their know how of how business is done in Turkey.

The same laws, rights, and obligations apply to domestic and foreign investors. Similarly, foreign investors can benefit from the same incentives that apply to domestically owned companies.

### ***Establishing a Local Company***

Since the enactment of the FDI Law (No. 4875) in 2003, foreign investors in Turkey have had the same rights and obligations as their domestic counterparts. Accordingly, foreign investors in Turkey may establish any one of the business enterprise structures available. The Turkish Commercial Code (TCC) recognizes two forms of companies:

- Partnerships

- Corporations

The main difference between these two forms of companies is that corporations exist as separate legal entities and provide their shareholders limited liability.

In Turkey, virtually all foreign business establishments are either corporations or branch offices. Under the TCC, a corporation may be set up in one of the two following forms:

- Joint Stock Company (Anonim Şirketi, A. Ş., or L.S.)
- Limited Liability Company (Limited Şirketi, Ltd. Şti., or L.S.)

The A.S. form is typically used for larger ventures such banking and manufacturing. The With the exception of banking or insurance, L.S. companies may engage in all other type of business activities provided that they are in line with the company's Articles of Association. The L.S. form is generally used by sales and distribution companies. Comparatively, the L.S. companies have lower administrative fees and face fewer restrictions.

### ***Joint Stock Company***

In order to form an A.S. company a minimum of five shareholders is required. The shareholders may be real persons or legal entities. The liability of an A.S. shareholder is limited to the real person's or legal entity's capital in the company. The minimum required overall share capital is 50,000 YTL and the capital is equally divided between the shareholders. Under the Turkish Commercial Code, the shares of an A.S. company are treated as negotiable commercial paper and can be issued in either registered or bearer form.

Decisions in an A.S. company are made by majority vote. To form a board of directors, shareholders appoint at least three members. Minority shareholders, whose interests are protected under the Turkish Commercial Code, may also appoint a special auditor on their behalf. The members of the board are individually responsible for the company's tax liabilities.

### ***Limited Liability Company***

The L.S. structure may also be composed of shareholders that are real persons or legal entities. An L.S. company may have as little as two and as many as fifty shareholders. The minimum required capital for an L.S. is 5,000 YTL. In addition to the company's tax liabilities, the shareholders are also personally liable for the debts of the company up to a maximum of their contribution. However, shareholders are not held liable for the unpaid portions of others' contributions.

Shares of a limited liability company are non-negotiable. They may be transferred only with the approval of the other shareholders' 75% majority vote, with at least 75% of the total capital represented. One of the differences between a limited liability company and the joint stock company is that the capital in a limited liability company is not divided into shares of stock nor represented by share certificates. Also, limited liability companies do not have a board of directors and the appointed manager has authority to run the company.

### ***Branch Offices***

To set up a branch office, companies have to follow similar procedures to those for setting up an A.S. and L.S. The income tax rules applicable to branch offices are the same as those applicable to the domestic companies. The manager of the branch must reside in Turkey and he/she must be a fully authorized employee of the company.

### ***Liaison Offices***

Liaison offices are used for establishing presence in Turkey for foreign parent companies. Liaison offices are not allowed to carry commercial activity. Even though the funding of a

liaison office comes from the foreign parent company, the liaison office has to keep an official set of books.

### ***Establishment Process***

Establishing a joint stock or a limited company in Turkey involves several steps: the preparation and notarization of the Articles of Association, the registration of the company with the Trade Registry Office, and the announcement at the Trade Registry Gazette. With the institution of the new FDI law this process has been streamlined and the duration it takes to establish a company has been reduced to one business day.

Once the company is incorporated, statutory documents must be obtained, the company has to be registered with the Tax Office and the Social Security Institution. Also, for certain cases, the company may be required to be registered with other state offices and/or the municipality. (Price Waterhouse Coopers)

### ***Business Associations***

All firms must become members in the local chamber of commerce or industry. Membership fees and dues are established by the chambers themselves but are subject to maximum limits set by the government. In addition to membership fees, companies are assessed 0.08% of their recorded annual profits. For example, Istanbul Chamber of Commerce calculates the initial fee for a new member as a proportion of the company's capital. The maximum amount set by the government is 225 YTL and applies to companies with capital of more than one million YTL.

A wide range of professional associations and business groups are available in Turkey. These include industry specific groups (i.e. Automobile Manufacturers Assn.) and interest-based

groups, including the Association for Foreign Capital Co-ordination (YASED), in which membership is recommended.

### ***Building & Related Permits***

In order to build a plant or expand an existing one, a foreign owned company has to satisfy a few requirements. First of all, the company has to be officially registered. Second, the project has to be approved for zoning by the local authorities. The zoning approval requirements are fairly reasonable and the process is usually unproblematic. The infrastructure requirements have to be reviewed and approved by the local municipality. In industrial and free zones, the authorization of the administering body is also required. Once the zoning approval is in place, construction permit must be issued for the project. Finally, specific approvals for occupancy and operation need to be obtained. The construction permit and specific approval processes can be complicated and should be handled by a local architect.

### ***Acquisition of Real Estate***

Since foreign and domestic investors in Turkey are subject to equal treatment, foreign capital companies that are duly established in Turkey are considered as Turkish companies. Consequently, foreign capital companies established in Turkey may freely acquire real property. (Kurt and Koçakli)

Commercial foreign companies established in countries with which Turkey has a reciprocity agreement may also acquire property in Turkey. However, the procedure for these companies is longer and more cumbersome.<sup>3</sup>

---

<sup>3</sup> “Real estate acquisition of foreign real and legal persons has been regulated in the article 35 of the Land Registry Law numbered 2644 with law numbered 5444 and dated December 12, 2005 which was established in the Official Gazette of 26046 numbered and dated January 7, 2006. New fundamental principles was regulate with this new law

“Real estate acquisition of foreign companies is regulated in the article 35 of the Land Registry Law numbered 2644. According to the article, foreign companies can acquire real estate and limited real rights on real estate in Turkey according to the provisions of special laws.”

(Doing Business in Turkey: Real Estate)

### ***Environmental Issues***

Environmental protection related issues have only recently gained importance in Turkey. Nonetheless, public awareness is increasing rapidly and the authorities are striving to bring Turkey’s laws up to the EU standards. Investments in environmentally-sensitive areas require a special permit from the Ministry of the Environment.

In all phases of production, the importance of quality and control is continuously increasing in Turkey. Measurement and control equipment is diversified and its technology is developing. As a candidate for membership to the European Union, Turkey has proceeded to reorganize its laws and regulations. As a result, environmental technologies steadily appear as an emerging field with steady growth and increased imports. Environmental protection oriented refining and recycling equipment and systems are beginning to be used on a large scale.

---

for acquisition real estate of foreign real persons and trade companies having legal personality and established in foreign countries according to the laws of these countries in Turkey.

New form of the article 35 of the Land registry Law is as follows:

“With the reservation of reciprocity and compliance with legal restrictions, foreign real person can acquire real estates for the purposes of using as residence or business aims in Turkey that are separated and registered for these purposes in the implemented development plans or localized development plans. The same conditions shall be stipulated in the establishment of limited real rights on real estates. The total area of the real estates and limited real rights on real estates that a real person of foreign nationality can acquire all over the country can not exceed 25.000 m<sup>2</sup>. Within the same conditions set out in this paragraph Council of Ministers is authorized to increase the area up to 30 hectares.

Companies having legal personality established in foreign countries according to the laws of these countries can acquire real estates and limited real rights on real estates in Turkey according to the provisions of special laws.”

Turkish companies are doing their part by conforming to international conventions and becoming ISO-14000 certified. Turkey's industry associations are signing environmental protection protocols with the Ministry of Environment, and major companies are signing similar protocols with their suppliers. The chemicals, textile and leather industries have been especially proactive in their environmentally friendly business approach—including eco-labels for companies compliant with environmental protection protocols.

Municipal and regional government authorities and private companies are the primary customers for pollution control equipment in the Turkish market. Most of the large projects are supported by foreign financing, mainly through the World Bank, the European Investment Bank (EIB), individual country export credit institutions, and foreign commercial lenders. U.S. companies can be more competitive when they include trade and investment finance as part of their business proposal.

Turkey offers good opportunities for U.S. engineering and consulting firms specializing in environmental projects. While many Turkish contractors supply basic pollution control equipment, Turkey must import advanced equipment. Best sales prospects for air pollution control are filtering and purifying machinery, dust collectors, scrubbers, and process control equipment. For water pollution control, high capacity pumps, measuring and filtering/purifying equipment and other high tech equipment is in demand. For solid waste management, Turkey needs transportation, handling, and transfer equipment, incinerators, and special treatment facilities for hazardous/bio-hazardous waste. At present, Western European suppliers dominate the pollution control market, with the U.S. currently holding about a 15 percent of the import market share.

### ***Investment Incentives***

Investment incentives in Turkey are typically a mix of tax and non-tax incentives. Tax incentives include customs duties and fees exemptions, investment allowance, VAT exemption for machinery and equipment, and exemption from certain taxes, duties and fees. Non-tax incentives include provision of land and credit allocations from the Investment Incentives Fund. Investors may qualify for any one of the following three incentives based on the location, scale, and other qualifications of the investment.

1. The “developed” regions (the cities of Istanbul and Kocaeli, where most Turkish manufacturing is located, as well as the municipalities of Ankara, Izmir, Bursa, Adana and Antalya). An investment must meet a minimum equity ratio of 20% and minimum value of 600,000 YTL for the developed regions in order to be eligible for incentive benefits in this category.
2. The “first priority regions,” which constitute the next fifty largest cities in Turkey (the exact list is determined by the Turkish Council of Ministers). Here, the minimum investment is 400,000 YTL.
3. The “normal regions” which comprise all the remaining (the more sparsely populated) areas. The minimum investment requirement here is 200 billion TL. (USD140K)

### ***Market Entry Strategies***

The choice of appropriate mode of entry into a new RE market is an important strategic decision, especially for an international business entering into an EM. Typically investors choose among three modes of entry: acquisition, greenfield (start-up), and joint venture (JV). When a company enters a new country there are bound to be cultural, legal, resource, and

regulatory differences to deal with. All of these must be considered when choosing the most appropriate mode of entry.

Some of the major differences among the three entry modes are the degree of control retained by the investor, the time it takes to enter the market, and the related resource commitment involved in establishing a company.

**Acquisitions** are ‘purchase of stock in an already existing company in an amount sufficient to confer control’ (Kogut and Singh). The new affiliate is integrated into the investing company as a going concern that usually possesses production facilities, sales force, and market share. One benefit of acquisitions is that they assure speedy entry into the market. Acquisitions also help the investor reduce transaction costs of operating in the emerging market context by providing immediate access to local resources, such as local networks and business licenses. On the other hand, acquisitions are not without their drawbacks., An acquired company often requires extensive restructuring especially if it has different goals and methods of operation,

In a **greenfield investment**, a company starts from the ground up, establishing a new wholly owned subsidiary in the target country. A greenfield project entails building a subsidiary from bottom up. Real estate is purchased locally and employees are hired and trained using the investor’s management, technology, know-how and capital. In this mode, the firm’s ownership is 100 percent. The greenfield investment process is often a complex one, requiring several stages of negotiations and a major time commitment. However, a greenfield project gives an investor the opportunity to create an entirely new entity which can be specified to its own requirements, focusing on its particular objectives, and operating within its own corporate culture. In the past, greenfield investments have often been the first choice for foreign market entry in situations where there are no appropriate take-over possibilities in the target country. For

example, greenfield investment has been the dominant form of market entry in countries with a less developed industrial structure, such as in Central and Eastern European countries.

Sometimes, companies may choose greenfield investment even when there are takeover projects available if the costs of adapting the existing firm to fit their specifications are too high, or if it will take too much time to complete the process.

The third major mode of entry is a **joint venture**, where two or more organizations join together in a cooperative effort to further their business goals. The parent organizations share strategic and operational control of the firm. Joint ventures have aspects in common with both greenfield and acquisition modes. Both greenfields and joint ventures are created as new legal entities, but greenfields are jointly owned by two or more firms that contribute resources. Like acquisitions, JVs provide foreign investors with immediate access to the resources of local firms, whereas greenfields do not. Joint ventures are a flexible mode and can be structured in a variety of ways depending on the resource availability, concerns for control, and bargaining power. Since a joint equity venture involves the constant sharing of equity and risks and participation in management between the partners, before a company enters into a JV, it needs to analyze several key issues. Among the most important are percent of ownership, amount of control of the company, length of the agreement, pricing structure, transfer of technology, and capabilities and resources local firm. Joint venture arrangements are often favorable when both firms' strategic goals converge but their competitive goals diverge; the partners' size, market power, and resources are small compared to the industry leaders; and partners can learn from each other while limiting access to their own proprietary skills. Some control is lost in a JV; however, this mode involves fewer resource commitments.

One last alternative, partial acquisitions, is worth mentioning. Partial acquisitions are gaining popularity. These share some characteristics with both acquisitions and joint ventures. In a partial acquisition, investors become involved with an existing firm rather than a newly created one, share control with other shareholders.

The following table summarizes the pros and cons of the three major methods of market entry.

<b>Method</b>	<b>Pros</b>	<b>Cons</b>
<b>Acquisition</b>	<ul style="list-style-type: none"> <li>▪ Fastest way to market entry</li> <li>▪ Established customer base</li> <li>▪ Suppliers in place</li> <li>▪ Full reward if successful</li> <li>▪ Work force in place</li> <li>▪ Eliminate potential competitor</li> </ul>	<ul style="list-style-type: none"> <li>▪ Exiting can be difficult</li> <li>▪ Financial health not always apparent</li> <li>▪ Company may be in decline</li> <li>▪ Inherit labor situation and ethics</li> <li>▪ Facilities may need upgrading</li> <li>▪ Paying for goodwill</li> <li>▪ Difficulties importing corporate culture</li> </ul>
<b>Greenfield</b>	<ul style="list-style-type: none"> <li>▪ Establish own corporate culture</li> <li>▪ Choose best location</li> <li>▪ Pay only for fixed assets, not new building and equipment</li> <li>▪ Incentives, grants, tax holidays</li> <li>▪ New labor force, lower wages</li> </ul>	<ul style="list-style-type: none"> <li>▪ Exiting may be difficult</li> <li>▪ Full share of risk</li> <li>▪ Full labor force to recruit, hire and train</li> <li>▪ Takes longer to establish presence</li> <li>▪ Revenues take longer to build</li> <li>▪ Slowest entry method</li> </ul>
<b>Joint Venture</b>	<ul style="list-style-type: none"> <li>▪ Existing market knowledge</li> <li>▪ Customer base in place</li> <li>▪ Supplier chain established</li> <li>▪ Share the risk</li> <li>▪ Partner familiar with government</li> </ul>	<ul style="list-style-type: none"> <li>▪ High failure rate</li> <li>▪ Takes time to negotiate</li> <li>▪ Corporate cultural differences</li> <li>▪ Differing operating procedures</li> <li>▪ Overcoming language barriers</li> <li>▪ Conflicting management styles</li> </ul>

Source: (Heft, Gordon L.)

## **CHAPTER 5 – SUMMARY & CONCLUSIONS**

The Turkish economy has become more stable and robust than ever before. The Government of Turkey has instituted structural reforms and stabilization programs that have greatly improved the investment environment since 2001. Specifically, these reforms have cut bureaucratic red tape, improved the court system, privatized several large government institutions, and brought business standards in line with western business standards. Today, the business environment in Turkey is more transparent and treats both foreign and domestic investors equally.

Despite the inherent obstacles in such an extensive reform environment, the Government of Turkey has proven its commitment to the implementation of its fiscal and structural reform policies. In addition, the newly established autonomy of the Central Bank of Turkey has quickly proven to be both effective.

As a result of these efforts, Turkey's prospects for becoming a top-tier economy have significantly improved. In addition, through strict adherence to the program for achieving the EU benchmarks, Turkey has begun the accession talks with the Union.

Although Turkey's economy is still burdened by its large government debt, sharply rising tax revenues and economic growth are likely to help the Government of Turkey achieve its debt reduction goals in line with the stand-by agreement it has with the IMF. It is important to note however, that the weakening of the lira may slow down the growth of the economy in the near term. Furthermore, depending on the level where the lira stabilizes, the Turkish economy could experience a rise in inflation and interest rates.

In any case, as evidenced by the transformation in its fiscal and monetary policy making and setting sustainable goals, Turkey has reached a new level of sophistication and succeeded in

making its economy become more resilient to shocks. Thanks to these efforts, investor confidence in Turkey's financial markets and real estate industry has soared. The challenge for Turkey now is to further its economic and financial accomplishments and realize its true potential.

Stimulated by the country's young population and with their increasing purchasing power, the real estate market in Turkey has been on a path of rapid growth. Realizing the growth opportunities, many foreign investors have been entering the Turkish real estate market. Large institutions such as GE, HSBC, and Bank Europa have been investing in Turkey not only as investors but also as development partners.

Turkey's retail and residential markets have been especially strong. Developers have been building modern shopping centers and mixed-use projects all over the country. A vast majority of these projects have been very successful and have been providing investors with generous returns. More recently, the industrial and warehouse markets have begun to improve and the rents been on the rise. Finally, following the absorption of most of the space that remained vacant following the economic crisis of 2001, the office market has once again become quite active. Overall, Turkey's real estate industry remains strong.

In the next several years, Turkey's real estate markets should continue to perform very well as long as the Government of Turkey manages to keep the country on its new path described above. Turkey has favorable demographics that are suitable for enhancing the real estate industry. Its population is young and increasing. Migration from rural to urban areas continues. With their increasing purchasing power, Turkish citizens are vacating old dwellings and occupying new ones. The anticipated institution of the new mortgage law continues to fuel the residential market and accelerate the urban renewal process. New laws allowing foreigners to

purchase property are attracting buyers from all over the world. In addition, as the only secular country with a predominantly Muslim population, the opportunities provided by Turkey's free business environment attracts many companies from other Muslim nations to establish headquarters in Turkey.

Although the Turkish real estate investments still rank relative low based on risk adjusted returns, in terms of total returns, Turkey has emerged as one of the top places among foreign investors. All things considered, Turkey is and should remain an attractive destination for foreign investors in the next several years.

## BIBLIOGRAPHY

- Ansary, Engin. Milken Institute Global Conference. "Building a Prosperous Future". April 18-20, 2005. Los Angeles. June 2, 2006 < <http://www.milkeninstitute.org/events/events.taf?function=show&cat=allconf&EventID=GC05&SPID=1826&level1=speakers&level2=bio&ID=>>.
- Canakci, Ibrahim H. "Promoting Sustained Growth and Convergence with the European Union". Turkey – Country Economic Memorandum. March 9, 2006. Brussels. June 16, 2006. <<http://www.ceps.be/files/SpeechCanakciWBTurkey090306.doc>>.
- Colliers International. "2006 Real Estate Market Review – Issue 1". Turkey 2006. June 4, 2006. < [http://www.colliers.com/Content/Repositories/Base/Markets/Istanbul/English/Market\\_Report/PDFs/Review\\_06\\_Issue\\_1.pdf](http://www.colliers.com/Content/Repositories/Base/Markets/Istanbul/English/Market_Report/PDFs/Review_06_Issue_1.pdf)>.
- Corbin, Brett. "Turkey's hot property market can reward risk-takers". International Herald Tribune. (July 6, 2006). July 11, 2006. <<http://www.iht.com/articles/2006/07/06/news/returkey.php>>.
- Deutsche Bank Research. "Turkey 2020: on course for convergence", Current Issues. January 12, 2005. June 26 2006. <[http://www.dbresearch.com/PROD/DBR\\_INTERNET\\_EN-PROD/PROD0000000000182762.pdf](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000182762.pdf)>.
- "Doing Business in Turkey: Real Estate". Real Estate Acquisition of Foreign Companies. June 22 2006. <<http://www.investinturkey.gov.tr/cms/index.php?c=184>>.
- DTZ. Pamir & Soyuer. "Istanbul Office Market Overview 2006". Office Market Research. (2006).
- DTZ. Pamir & Soyuer. "Turkish Residential Market Overview 2006". Residential Market Research. (2006).

Economist Intelligence Unit. "Turkey". Country Forecast Updater. March 2006.

"Europe Real Estate Yearbook: Turkey". Europe Real Estate. (2006). June 19, 2006. < [http://www.europe-re.com/articlebrowser/books/ere2006/492-501\\_c\\_turkey/492-501\\_C\\_Turkey.pdf](http://www.europe-re.com/articlebrowser/books/ere2006/492-501_c_turkey/492-501_C_Turkey.pdf) >.

Heft, Gordon L. "Which Door to Enter Europe". Expansion Management. (January 1, 1998). June 23, 2006. < <http://www.expansionmanagement.com/cmd/articledetail/articleid/15212/default.asp>>

"Housing Ambition". FDI Magazine. (December 12, 2005). June 28, 2006. <[http://www.fdimagazine.com/news/fullstory.php/aid/1495/Housing\\_ambition.html](http://www.fdimagazine.com/news/fullstory.php/aid/1495/Housing_ambition.html)>.

Kogut, Bruce, and Singh, Harbir. "The Effect of National Culture on the Choice of Entry Mode". Journal of International Business Studies Vol. 19, No. 3 (Autumn1988): 412.

Kurt, Nazim Olcay and Koçakli, Serhan "Turkey: Real Property in Turkey – Is It Real?" Mondaq. 6 April 2006. 12 June 2006. <<http://www.mondaq.com/article.asp?articleid=36154&searchresults=1>>.

Oxford Business Group. "Bosphoration. EU hopes rouse the housing market". Real Estate Review: Emerging Turkey. (2005): 148.

Price Waterhouse Coopers. "Turkey – A General Tax Guide for Foreign Investors". 2006 Edition. June 28 2006. <<http://www.vergiportali.com/doc/yayinlar/taxguide.pdf>>.

"Sectors in Focus". DEIK (Foreign Economic Relations Board). June 13, 2006. <[http://www.turkey-now.com/db/docs/abd-tr%20ekonomikrapor-ing2006\\_2.doc](http://www.turkey-now.com/db/docs/abd-tr%20ekonomikrapor-ing2006_2.doc)>.

Sur, Haluk. "Foreign Investment in Real Estate Industry". ULI Europe Trends Conference. (June 1, 2005). Sponsored by GYODER. June 17, 2006. <[http://www.gyoder.org.tr/images/content/Haluk\\_Sur\\_GYODER\\_en.pdf](http://www.gyoder.org.tr/images/content/Haluk_Sur_GYODER_en.pdf)>.

“The City That Lives and Nurtures”. FDI Magazine. (February 6, 2006). July 9, 2006.

<[http://www.fdimagazine.com/news/fullstory.php/aid/1551/The\\_city\\_that\\_lives\\_and\\_nurtures.html](http://www.fdimagazine.com/news/fullstory.php/aid/1551/The_city_that_lives_and_nurtures.html)>.

Thorne, Susan. “Turkey Greet’s World’s Retail Execs with Vibrant Industry”. International

Council of Shopping Centers. April 2005. June 25, 2006. <[http://www.icsc.org/srch/sct/sct0405/cover\\_3.php](http://www.icsc.org/srch/sct/sct0405/cover_3.php)>.

Turkey, Republic of. Embassy of the Republic of Turkey – London. Office of the First Economic

Counsellor. Investment in Turkey. June 25, 2006. <<http://www.turkisheconomy.org.uk/investment.html>>.

Turkey, Republic of. Prime Ministry. Turkish Statistical Institute (TURKSTAT). Household

Labor Force Survey for the Period of March 2006 (February, March, April 2006). Press Release No: 100. June 10, 2006. <<http://www.die.gov.tr/ENGLISH/SONIST/ISGUCU/200606.doc>>.

Turkey, Republic of. Prime Ministry. Undersecretariat of Treasury. General Directorate of

Foreign Investment. Investment Advisory Council for Turkey. Progress Report. January 2005. <[http://www.hazine.gov.tr/ybs/ydk\\_rapor\\_eng.pdf](http://www.hazine.gov.tr/ybs/ydk_rapor_eng.pdf)>.

Turkey, Republic of. Prime Ministry. Undersecretariat of Treasury. Economic Indicators: GDP.

(July 19, 2006) July 24, 2006. <<http://www.hazine.gov.tr/stat/e-gostergeeng.htm>>.

Turkey, Republic of. Prime Ministry. Undersecretariat of Treasury. General Directorate of

Foreign Investment. Foreign Direct Investment Information Bulletin. March 2006. June 14, 2006. <[http://www.hazine.gov.tr/stat/yabser/dyy\\_mart2006.pdf](http://www.hazine.gov.tr/stat/yabser/dyy_mart2006.pdf)>.

- Turkey, Republic of. Undersecretariat of The Prime Ministry for Foreign Trade. Foreign Investment in Turkey. June 8 2006 <<http://www.igeme.org.tr/eng/turkey/investment.pdf>>.
- Turkish-U.S. Business Council. Economic Partnership between Turkey and the USA Recent Dynamics. March 2006: 22. June 12, 2006. < [www.turkey-now.com/db/docs/abd-tr%20ekonomikrapor-ing2006\\_1.doc](http://www.turkey-now.com/db/docs/abd-tr%20ekonomikrapor-ing2006_1.doc)>.
- United States. Central Intelligence Agency. The World Fact Book: Turkey. (2006). June 24, 2006. <<http://www.cia.gov/cia/publications/factbook/geos/tu.html#Econ>>.
- United States. Department of State. Bureau of European and Eurasian Affairs. Background Note: Turkey. April 2006. June 10 2006. <<http://www.state.gov/r/pa/ei/bgn/3432.htm>>.
- World Bank. “Turkey Labor Market Study (2006)”. Poverty Reduction and Economic Management Unit. Report No. 33254-TR. April 14, 2006. June 6, 2006. < [http://siteresources.worldbank.org/INTTURKEY/Resources/361616-1144320150009/Labor\\_Study.pdf](http://siteresources.worldbank.org/INTTURKEY/Resources/361616-1144320150009/Labor_Study.pdf)>.
- YASED. (International Investors Association of Turkey). The New Turkish Investment Environment. 10 July 2006. < <http://www.yased.org.tr/page.asp?PageID=1102>>.