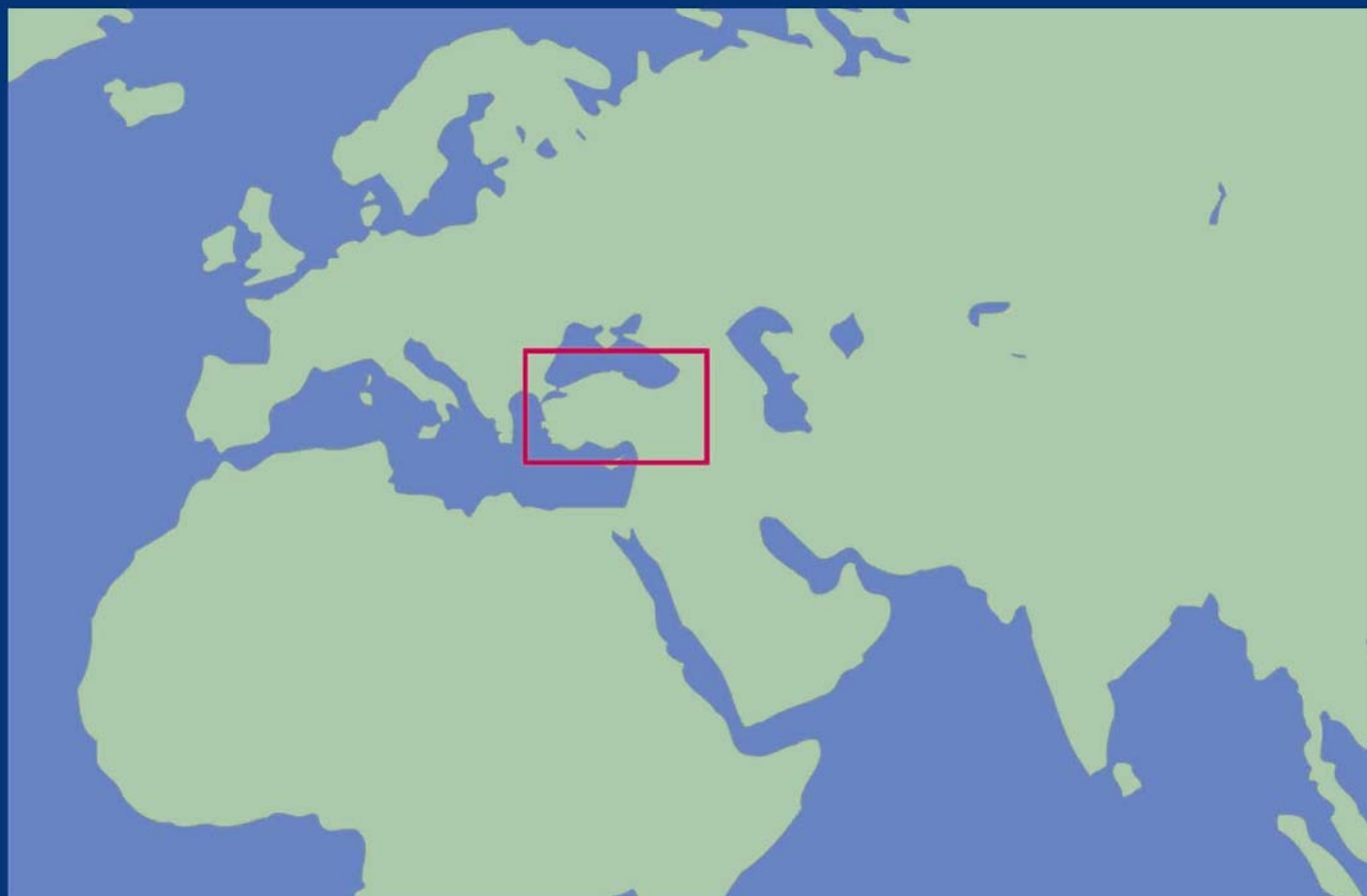


ISTANBUL MARKET REPORT

MAY 2009



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THE CRISIS

The effects of global economic crisis, that began to hit in the second half of 2007, continue being felt across various sectors. Initially hitting the finance world, we witnessed the demise of some banks outside of Turkey. The automotive sector was next to feel the crunch, with the dire situation of the world's leading automakers having a ripple effect on many levels. Factories laid off workers and companies shrunk considerably.

Despite of all this negative news, it is expected that 2010 will bring a significant recovery. Positive signals are beginning to be seen. While production figures still fall short of those of previous years' output, month-to-month statistics reveal a slowdown in the recession. Investment bank, Merrill Lynch, rates Turkey more likely to recover at a faster pace than similar emerging economies in the region. While they forecast a 2.5% loss for 2009, they expect 2010 to show a growth of 3.2% in Turkey.

THE REAL ESTATE SECTOR DURING THE CRISIS

The government affected a short-term recovery package, designed to minimize the damage and to stimulate the local economy. For the three-month period, ending June 15, 2009, value added tax was reduced from 18% to 8% on automobiles, appliances and residential property. While this program had a positive impact on automotive sales, it did little to motivate the sale of residential property because the tax reduction was limited to the sale of units of 150m² and larger. As many of the residential projects in the large cities consist mostly of smaller units, the reduction was largely ineffective in the residential market.

Accordingly, developers offered additional incentives to home buyers, including fixed payment guarantees, extended payment terms and discounts for cash, etc.

In the retail sector, shopping center managers were faced with requests from retailers such as fixed exchange rates and rental rate reductions. Those retail tenants whose requests were honored, stayed, while those whose requests were ignored, vacated shopping centers. The recent and rapid development of shopping centers, some neighboring existing centers, may force some developers to re-evaluate their plans, with some shopping center developers considering altering the mix or even scrapping shopping center development for other uses.

Some shopping centers and the concessions they granted:

- Ankara Antares Shopping Center offered a 50% discount.
- Ankara Carousel fixed the USD exchange rate at 1.250 TL
- Ankara CEPA fixed the USD exchange rate at 1.250 TL
- Ankara Panora Shopping Center offered a 20% discount.
- Bursa Korupark fixed the Euro exchange rate at 1.800 TL and reduced rental rates 20-25%.
- Denizli Forum Camlik gave a 35% discount.
- Istanbul Istinye Park contributed to tenants' advertising expenses
- Istanbul Nişantaşı Citys offered a 25% discount.
- Istanbul Kale Outlet Center fixed the USD exchange rate at 1.250 TL and gave a 10% discount.
- Istanbul Nautilus fixed the USD exchange rate at 1.400 TL
- Kayseri Kayseri Park fixed the USD exchange rate
- Mersin Forum Mersin gave a 35% discount.

Although somewhat late, the crisis has begun to affect the office sector as well. Initially, rental rates for vacant offices began to fall as vacancy rates began to slowly rise. Buildings in some districts of Istanbul that had commanded inflated rental rates are now starting to return to a more reasonable level. Part of the increase in vacancy rates is due to the shrinking of companies. Many firms, that had previously decided to move to new premises, have reconsidered their relocations and are staying put for the time being.

In 2008, the relatively low vacancy rates in Istanbul's Class A office market caused some project owners to reconsider their mixes in favor of more office space. One example is the Bellevue project, a high-end residential development in Istanbul with an original plan for a small shopping center, which was ultimately leased for office use. Another project, an office building that was to be converted into a hotel was finally renovated for office use. Some residential projects, despite having announced their projects, have reverted to the home-office concept.

There have been instances of Class A+ office developers who responded to the second half of 2008 by temporarily putting their projects on hold. Seeing new projects on the horizon, however, is cause for hope in this market.

KAĞITHANE: A RISING STAR

While the crisis forced some to take a step back and take a hard look in the mirror, it also resulted in an opportunity to identify new investment opportunities. Kağıthane is one of those locations that promises future potential, with several new developments on the horizon.

- Touted as the solution to Istanbul's traffic problems is the "7 Hills, 7 Tunnels Project", that, with its Dolmabahçe-Piyalepaşa-Kağıthane tunnel, promises to increase the area's desirability. The Piyalepaşa – Kağıthane portion of the tunnel was opened in March 2009, with the Piyalepaşa – Dolmabahçe section scheduled to be open in the very near future.
- Though only in the planning stages at the moment, Beşiktaş-Mecidiyeköy-Kağıthane-Alibeyköy and Gaziosmanpaşa-Giyimkent metro lines are being examined.
- Cendere Valley Project: According to the project prepared by the Kağıthane Municipality, the Cendere Valley is slated to become a new economic socio-cultural center. The project covers an area of nearly 215,000m² and is to include a 74,000m² cultural center. This facility will contain galleries, handicraft market, indoor and outdoor movie screens, auditorium, conference and meeting rooms and film studios.
- Kağıthane Historical Railway Project: The railway, built following World War I that stretched from Kağıthane to the Black Sea is going to be revitalized. The Greater Istanbul Municipality plans to offer riders a 62 kilometer-long nostalgic journey using historical railway cars. The approximately 10km stretch of forest that lies between Kurtkemerli - Çiftalan is to be turned into a zoo.

With the exception of the Tekfen-Oz project, which appears in the Projects section, following are the (non-office) projects that are currently being developed in Kağıthane.

Blox Haliç

A residential project consisting of 154 units in 7 buildings, Blox Haliç is being developed by Efektif Real Estate, with award-winning architect, Han Tümertekin. The first phase of the project was delivered in May with the second phase scheduled to begin in June of 2009.

Sur Yapı / Shopping Center Project

Sur Yapı plans to build a 43,000m² shopping center on the 13,152m² parcel previously used as a detergent warehouse by Hayat Chemicals. In addition, a 3,500m² supermarket and nearly 32,000m² of parking completes the project that will offer 29,697m² of GLA on 3 above-ground and 4 under-ground floors.

Enyapı / Shopping Center

Enkay Group subsidiary, Enyapı is making plans to build a shopping center on a 10,000m² parcel in Kağıthane.

DESPITE THE CRISIS, NEW PROJECTS

EUROPEAN SIDE OF ISTANBUL

Polat Plaza Mecidiyeköy

Polat Construction plans to build a 11,220m² office building with underground parking garage on a 4,620m² parcel in Mecidiyeköy.



Tekfen-OZ / Kağıthane Office Park Project

The 55,000m² project will include 9 Class A office buildings, ranging in height from 4 to 7 stories above ground. Built on an area of 15,000m², the buildings will offer floorplate sizes of 550 – 1,500m². The project is scheduled to begin in 2009 and is slated for completion by the end of 2010.

Eczacıbaşı

The Levent project that began at the end of 2008 is expected to be completed in 2010. Total project area of 21,500m² will include offices and shopping center.



Tekfen Levent Office Building

The automated parking garage on a parcel of 2,600m² in Levent that was sold by Milli Reasürans to Tefken-OZ Real Estate Investors in 2007 is being converted into an 8-story Class A office building.



Trump Towers Istanbul

Trump Towers, along with Doğan Holding, Taşyapı and Yeşil Construction are developing Trump's first project outside the US in Şişli. Consisting of 39-storey residential and a 37-storey office buildings, it will also include a 5-storey shopping center. Scheduled for completion in 2011, office floorplate sizes will range from 400 – 1,200m².

Terrace Fulya

Terrace Fulya, developed by Inanlar Construction, consists of 83,000m² of covered area built on a 10,000m² parcel of land. Fulya Terrace has two phases, the two residential Center Buildings will be 16 & 17 storeys each and the five Life Buildings will be 8 storeys each. In addition, there are office and home-office options available.



Loca Istanbul

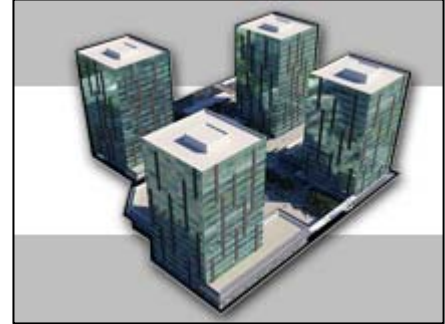
Loca Istanbul, under construction in Bahçeşehir by Gül Construction will consist of 276 residential and home-office units, 84 retail units, club facilities and bars and restaurants. Retail units are to be delivered in October, 2009 with residential and home-office units are scheduled for completion in October 2010.

Rönesans Construction

Optimum Outlet center developer, Rönesans Construction had originally planned to build a second shopping center in Kozyatağı but later revised their plans to develop a 35-storey, 40,000m² office building instead.

Nishistanbul

Scheduled for completion in July, 2010, Nishistanbul is being developed in the Çobançeşme neighborhood of Yenibosna by Torunlar REIT and Özyazıcı Construction. The 4-building project consists of 2 residential and 2 office buildings. Office buildings will offer a gross floorplate size of 1,150m².



Dumankaya Flex

Ataşehir's 15-story, 90-unit Dumankaya Flex, developed by Dumankaya is designed as a home-office building.

Uphill Court

The 100,000m² largely-residential development built in Ataşehir by Varyap and Teknik Yapı, includes 5,000m² shopping center, 90,000m² dedicated to parking and 75,000m² devoted to outdoor and social activities. Uphill Towers consists of twin 31-storey buildings, with 159 units each, which are connected by a skyway. Some units in Uphill Towers are being leased for home-office use. The entire project encompasses 17 additional buildings, with 1744 residential units ranging from 60 – 400m².



The above-referenced projects are in addition to those that were referenced in Pega's previous market report, dated October, 2008.



Class A buildings are concentrated in the Levent-Zincirlikuyu-Maslak region (in red), which is considered Istanbul's Central Business District (CBD). The primary suburban office markets are the Gunesli-Ikitelli and Merter districts (in blue) in the west on the European side, and Altunizade (in purple), Kozyatagi (in green), Kavacik (in yellow) and Ümraniye (in black) on the Asian side.

According to international standards and SIOR (The Society of Industrial and Office Realtors), offices in Istanbul are classified as CBD, Class A and Class B; and out of CBD, Class A and Class B; and can be identified as follows:

- **CBD:** the area of greatest concentration of office space and business services. Istanbul's CBD consists of the Beşiktaş – Maslak axis, including Beşiktaş, Fulya, Balmumcu, Zincirlikuyu, Esentepe, Şişli, Etiler, Akatlar, Levent and Maslak.
- **Out of CBD:** secondary concentrations of office space consisting of Kozyatagi, Altunizade, Kavacik, Merter and the airport region.
- **Class A:** Buildings purpose-built for office use that offer the highest technical standards available and amenities including, but not limited to: professional security, open office space, indoor parking, central HVAC, sprinklers and generator are considered Class A. While International Standards call for minimum floor plate size of 500m² for Class A consideration, in Turkey, some buildings with slightly smaller floor plates may be considered Class A if they meet the other criteria.
- **Class A+:** The buildings that have somewhat higher standards than A class office buildings. The developers, aware of state of the art technology and taking the suggestions of the end users into consideration, make the difference in their buildings. Therefore, Pega has assigned these kinds of buildings as A+ Class.

All A+ class buildings are located in the CBD. Office leases in Istanbul are triple-net, with the tenant responsible for monthly common charges (currently between \$2.00 and \$8.00 per m² per month), and applicable taxes (VAT of 18% if the landlord is a corporate entity or withholding tax of approximately 20% if the landlord is a private individual).

No organized database of properties exists in the market and all Pega's data is obtained by phone and face-to-face interviews and does not include owner-occupied space, for which limited information available.

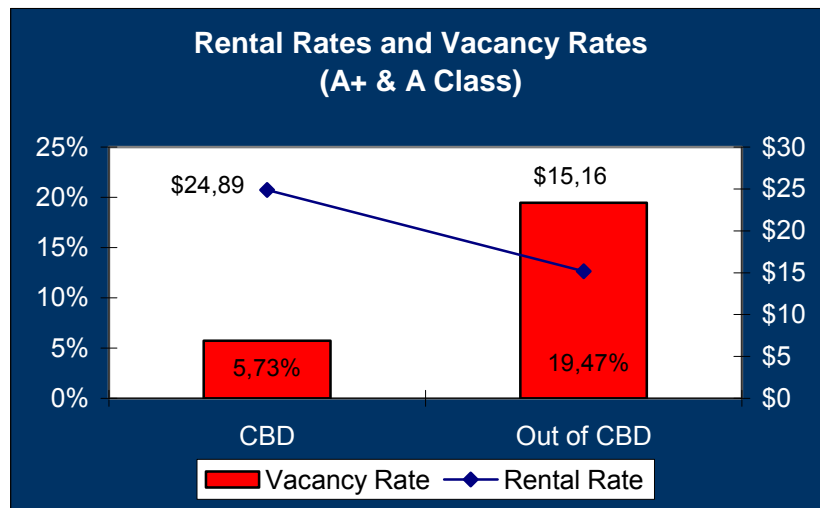
RENTAL RATES AND VACANCY RATES

Approximately 66 buildings in the CBD and 164 suburban buildings qualify as Class A+, Class A and Class B.

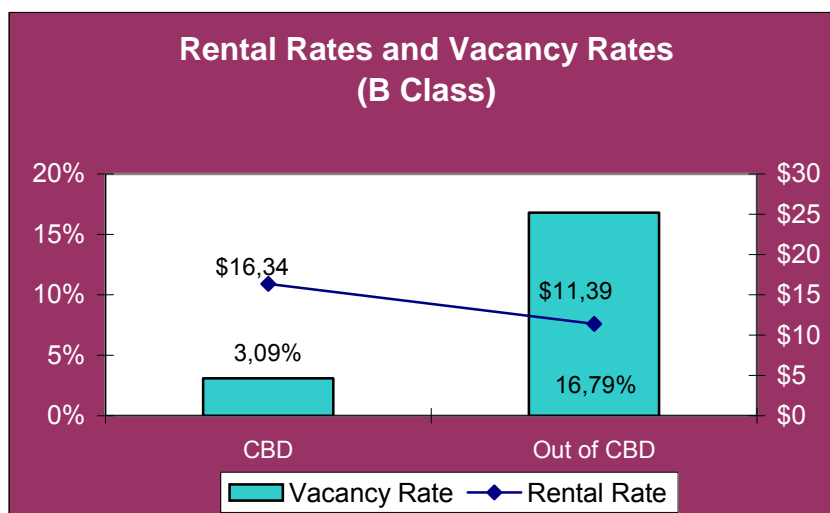
OFFICE STOCK			
A+ Class total m ²	A Class total m ²	B Class total m ²	TOTAL
248.827	1.639.502	552.584	2.440.913

As most of the space in Istanbul's best buildings is leased and rarely turns over, the below tables outline average rental rates, including existing leases, many of which were signed during the peak of Turkey's 2001 Crisis.

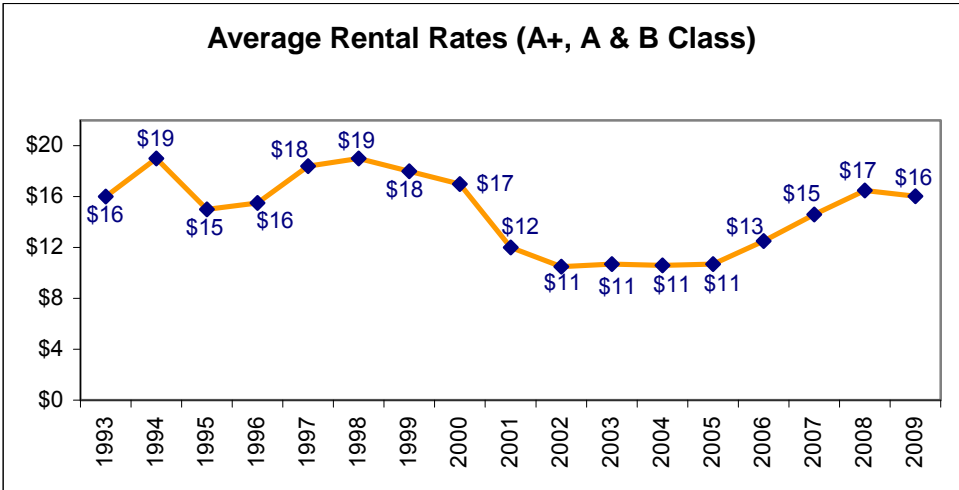
Vacancy rates and rental rates (including existing leases) of A+ and A class buildings within the CBD and outside the CBD are shown in the table below.



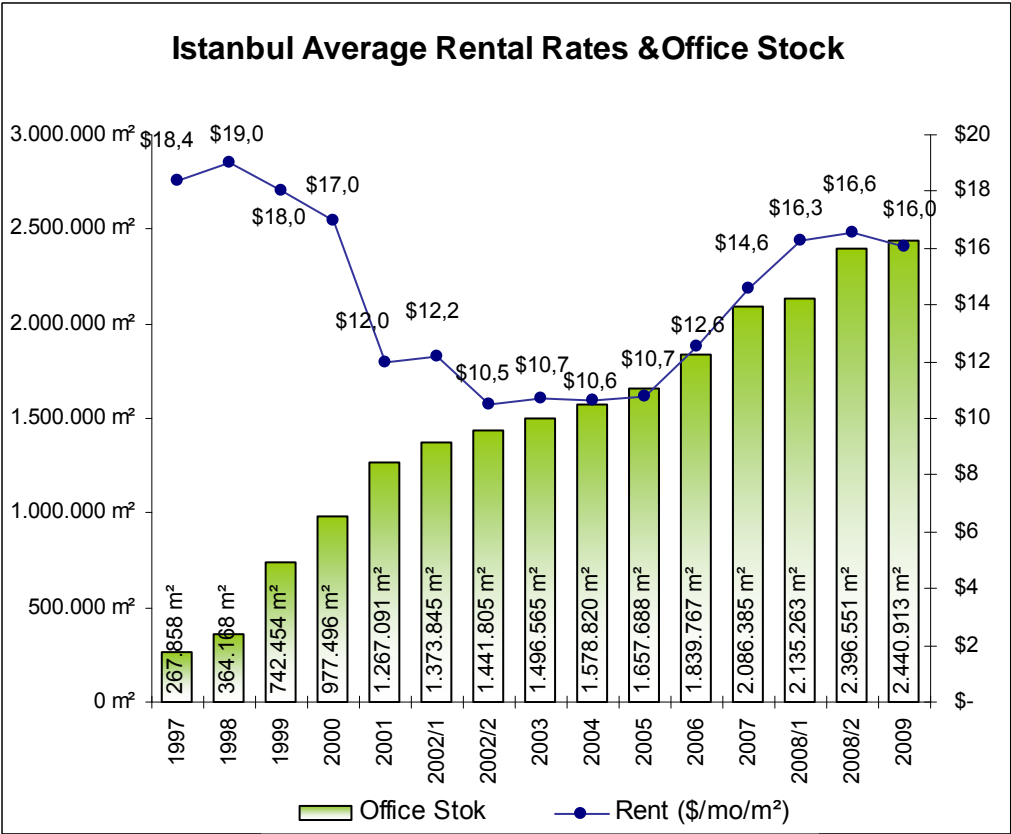
Vacancy rates and rental rates (including existing leases) of B class buildings within the CBD and outside the CBD are shown in the table below.



The following table gives a historical reference to the trend in the office market since 1993. It represents average prices for all classes of property throughout the city, both in the CBD and outside the CBD. While dips and peaks have been common over the 15-year period, they can clearly be linked to major issues that affected Turkey such as the economic crisis of 1994, when average prices dropped from \$19 to \$15; and the 1999 Marmara Earthquake, which had a minor, though noticeable impact on rental rates. Fluctuations were never more than \$4/m² until 2001 however, when prices dropped to previously-unseen lows and remained low until the second half of 2006. From 2006 to 2008, we witnessed a slow climb nearly to pre-2001-crisis levels. Rental rates reached another peak in 2008, a rise which was ultimately halted by the recent global economic crisis.

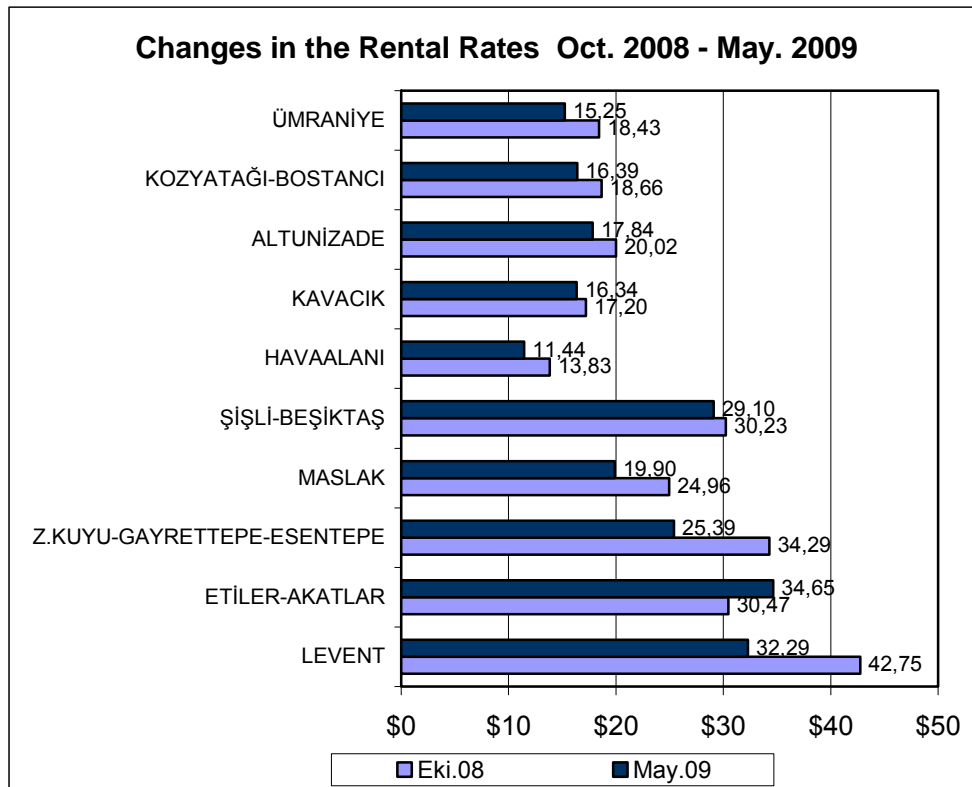


A more detailed version of the period from 1997 shows the correlating relationship between rental rates and office stock. The impact of the economic crisis is dramatically clear in 2001 and prices remained low even as stock entered the market. As the economy picked up in 2006 however, the increase in office stock seems to have less of an impact on rental rates and prices begin to rise. The Turkish economy remained healthy until October 2008, with the Turkish Lira (TL) remaining strong against the US Dollar.



District	May 09 Ave. / m ² / mo	May 09 Ave. Vacancy Rate
LEVENT	\$ 32.29	7.48 %
ETİLER-AKATLAR	\$ 34.65	8.19 %
Z.KUYU-GAYRETTEPE-ESENTEPE	\$ 25.39	13.34 %
MASLAK	\$ 19.90	6.89 %
ŞİŞLİ-BEŞİKTAŞ	\$ 29.10	38.43 %
AIRPORT	\$ 11.44	16.45 %
KAVACIK	\$ 16.34	41.12 %
ALTUNİZADE	\$ 17.84	16.80 %
KOZYATAĞI-BOSTANCI	\$ 16.39	24.03 %
ÜMRANIYE	\$ 15.25	86.03 %

The following table was prepared for the purpose of examining the effects of the crisis on rental rates by region. The table shows a drop in rental rates in all regions, except the Etiler-Akatlar area. As opposed to a drop, the Etiler-Akatlar area showed an increase of 4% from October, 2008 to May, 2009. This increase can be attributed to a number of offices that were not on the market in October, but have since become available at above-average asking prices. This factor has naturally had an impact on the average rental rates in the area.



METHODOLOGY AND REFERENCES

Pega used the following techniques for data collection:

- Pega office stock database, which includes 230 A+, A and B Class office buildings
- Face-to-face interviews with the landlords of main plaza buildings,
- Regular evaluation of periodicals, newspapers, real estate magazines and internet postings
- Periodic meetings with the most prominent real estate companies of Istanbul, Cold Calling.

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