



4th COMCEC CAPITAL MARKETS REGULATORS FORUM MEETING

Real Estate Securities in Turkey

19 November 2015

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Capital Markets Board of Turkey



Overview

1) Real Estate Investment Trusts (REITs)

2) SUKUK

3) Other Real Estate Related Instruments

- Real Estate Investment Funds (REIFs)
- Sukuk Participation Funds
- Real Estate Certificates



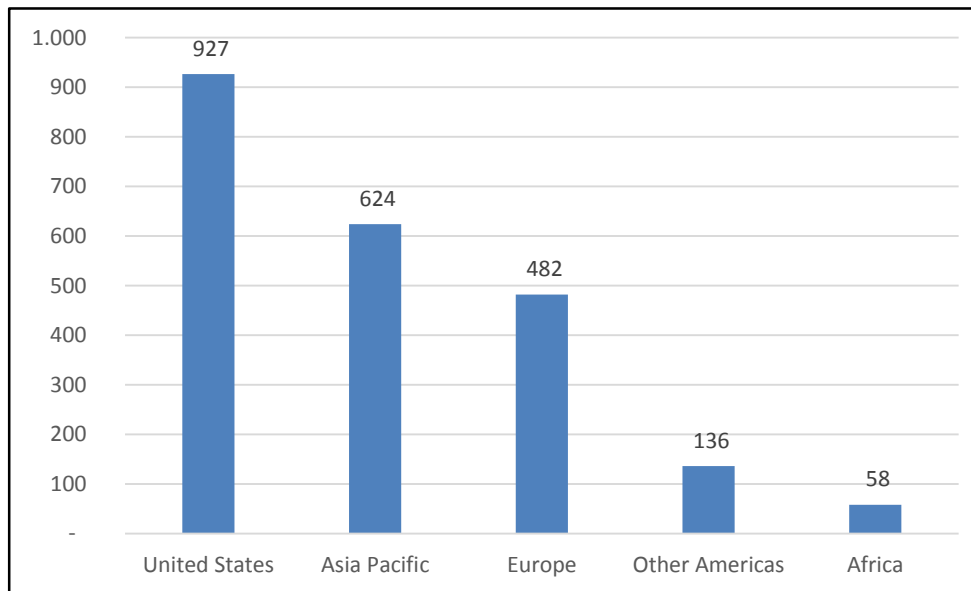
1. Real Estate Investment Trusts (REITs)

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



1. Real Estate Investment Trusts (REITs)

- **REITs, globally:**
REITs globally has a total market capitalization of USD 2.23 trillion.
- **Market capitalisation of the REITs, by regions (USD billion) (*)**

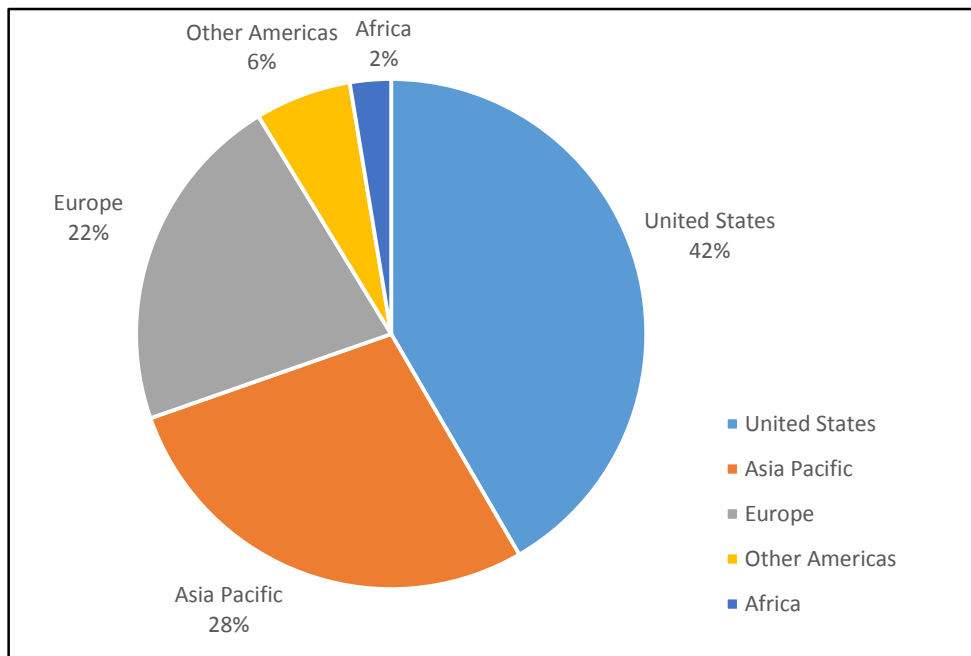


(*) **Source:** Calculated based on the data given at Global REIT Survey 2015, EPRA Reporting.

1. Real Estate Investment Trusts (REITs)

REITs, globally:

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



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1. Real Estate Investment Trusts (REITs)

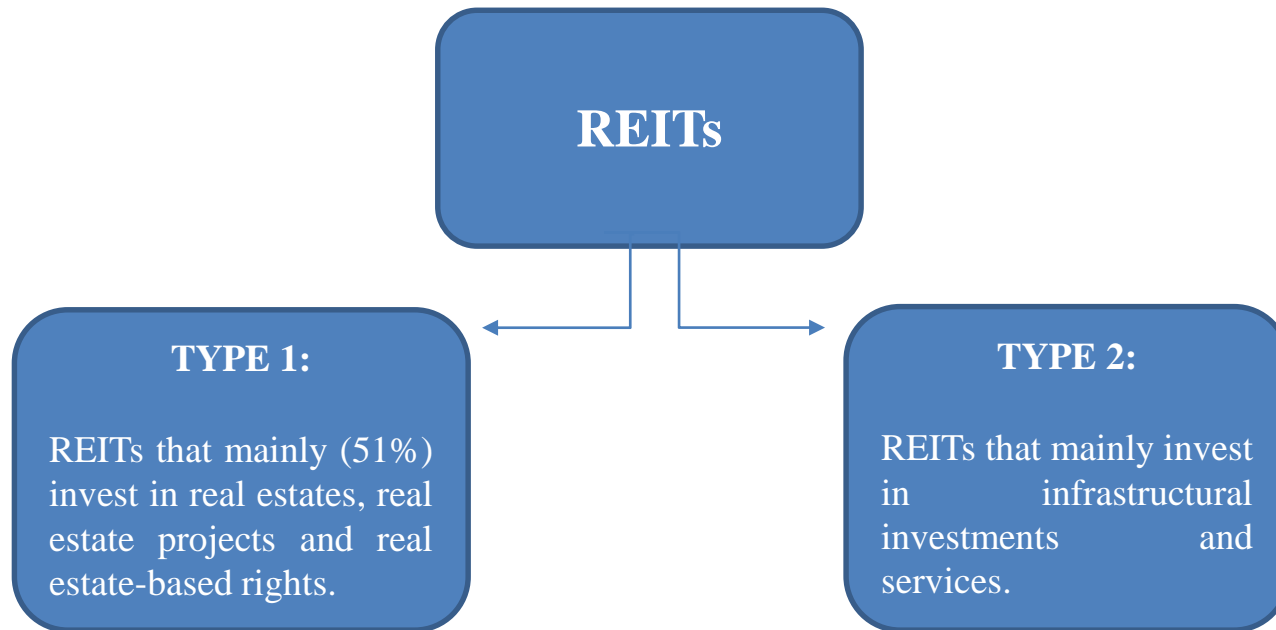
Islamic REITs:

- Islamic REITs differ from conventional REITs mainly due to the requirement to **operate in line with the Shariah rules**.
- **Rentals** must be in line with Shariah rules, hence, **tenants** must operate permissible activities according to the Shariah rules.
- Manufacture/sale of **alcoholic drinks, tobacco products, non-halal foods, gambling activities and conventional banking/insurance services** are some examples to non-permissible activities.
- In Islamic REIT, there is a **Shariah Committee or a Shariah Advisor** that assesses that whether the REIT's operations are Shariah compliant or not.



1. Real Estate Investment Trusts (REITs)

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



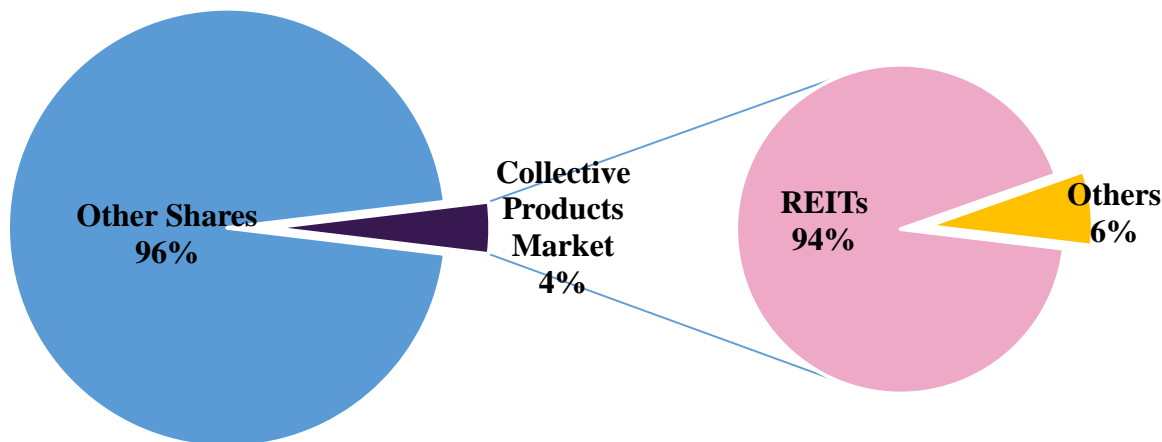
- In Turkey, at present all the REITs outstanding are in the first type, namely, they are the REITs that mainly invest in real estates, real estate projects and real estate-based rights.
- There has not been established any REIT in the second type, yet.



1. Real Estate Investment Trusts (REITs)

Size of REITs in Turkey:

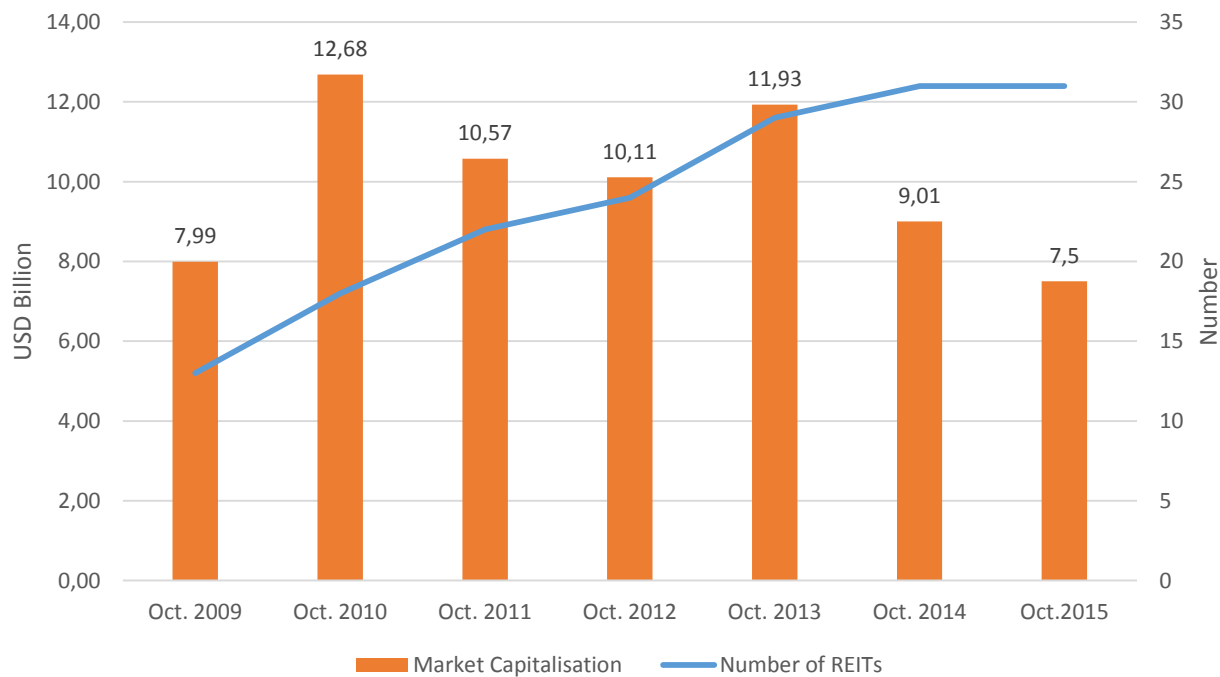
The Market Value of The Stocks Traded at Borsa Istanbul (USD billion)	The Market Value Of The Stocks Traded On The Collective Products Market (USD billion)	The Market Value Of The REIT Stocks (USD billion)
200.6	8	7.5





1. Real Estate Investment Trusts (REITs)

The Number and Market Capitalisation of REITs in Turkey





1. Real Estate Investment Trusts (REITs)

Common Characteristics of Turkish REITs:

- The Turkish REITs generally finance their investments by **equity financing** rather than by debt financing or conventional banking credits.
 - **Total Liabilities / Total Assets < 50%**
(23 REITs among the total 31 REITs)
- There is no classification of REITs on being whether **conventional or Islamic**.
- REITs are free to declare at their **IPO prospectuses and articles of association** that they operate in line with the Islamic rules, hence, they do not invest in interest bearing instruments and in properties in which tenants operate impermissible activities according to the Shariah rules.
- **Build and Sell Approach** - Turkish REITs generally prefer to develop commercial real estate projects to sell the properties once completed rather than to generate rental based income.



Overview

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3) Other Real Estate Related Instruments

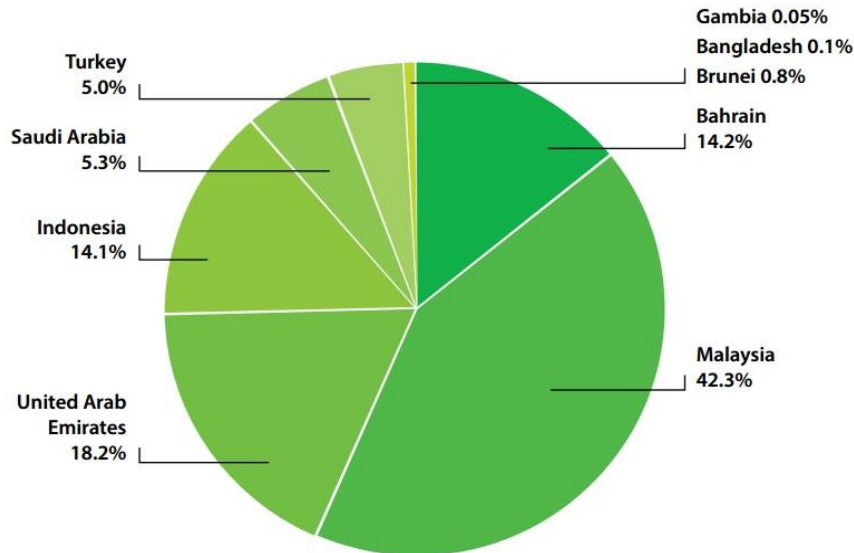
- Real Estate Investment Funds (REIFs)
- Sukuk Participation Funds
- Real Estate Certificates



2. SUKUK

- Certificates representing a **proportional undivided ownership right** in tangible assets, or a pool of predominantly tangible assets, or a business venture (such as *mudarabah* or *musharakah*) (IFSB).

Sukuk Issuances by Country (1Q2015)





2. SUKUK: Turkish Sukuk Regulation

- **The first regulation of Sukuk was made in 2010** in Turkey. In this regulation, only one type of sukuk (sukuk ijarah) was regulated, and hence, «lease certificates» as the name of sukuk was used.
- However, with the enactment of **the new Lease Certificates Communiqué in 2014**, **five types of sukuk** were regulated by the communiqué. But, the name lease certificates is continued to be used.



2. SUKUK: Turkish Sukuk Regulation

Types of Sukuk (Lease Certificates Communiqué, CMB)

1) Ownership based Sukuk (Ijarah/Wakalah)

Asset-backed sukuk, recourse to underlying assets

2) Management Agreement based Sukuk (Ijarah/Wakalah)

Asset-based sukuk, no recourse to underlying assets

} **The majority of the sukuk issued.**

3) Partnership based Sukuk (Mudharabah/Musharakah)

4) Purchase and sale -Trading- based Sukuk (Murabahah)

5) Contractor Agreement based Sukuk (Istisna)

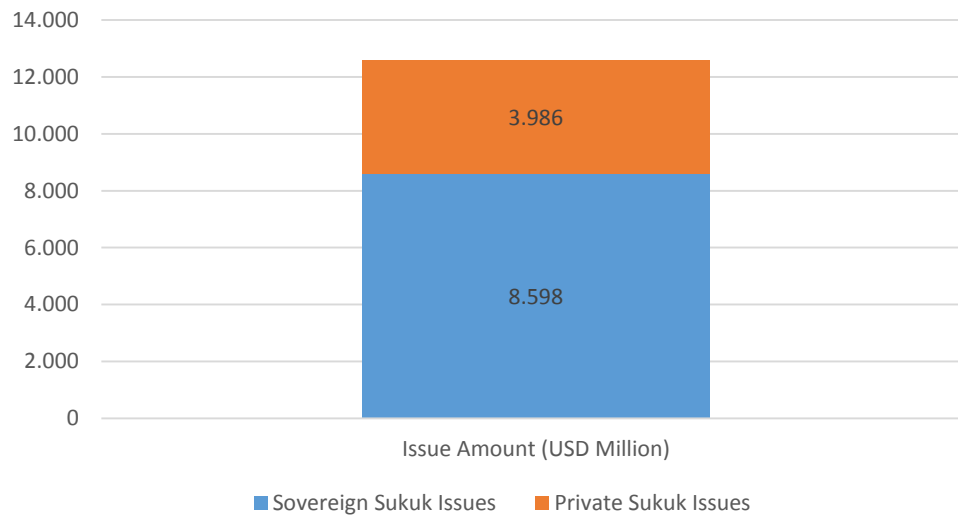
Recourse to underlying assets

Combinations of above are also allowed by the Communiqué

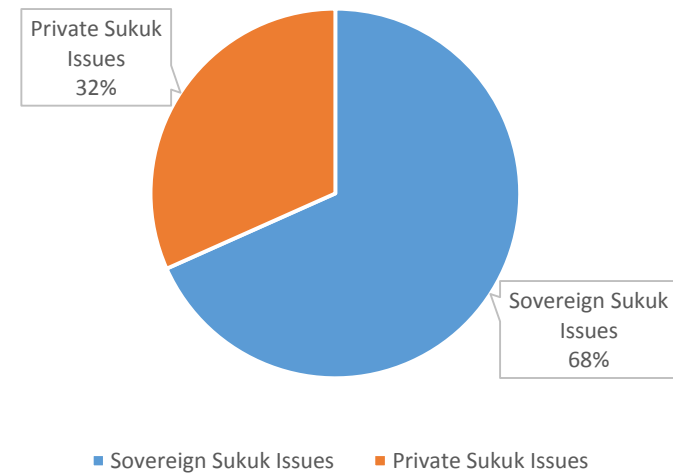


2. SUKUK: Turkish Sukuk Regulation

Total Sukuk Issuances (2011-2015/06)



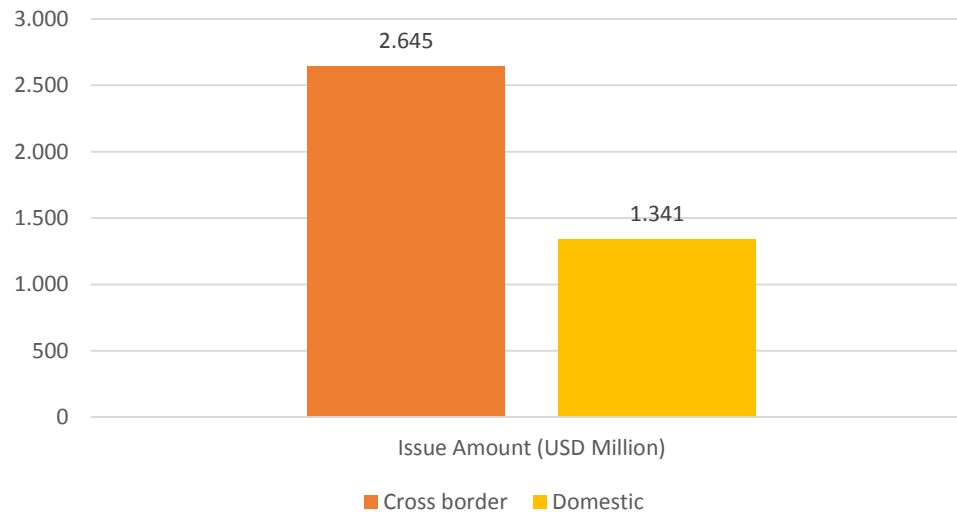
Total Sukuk Issuances (2011-2015/06)



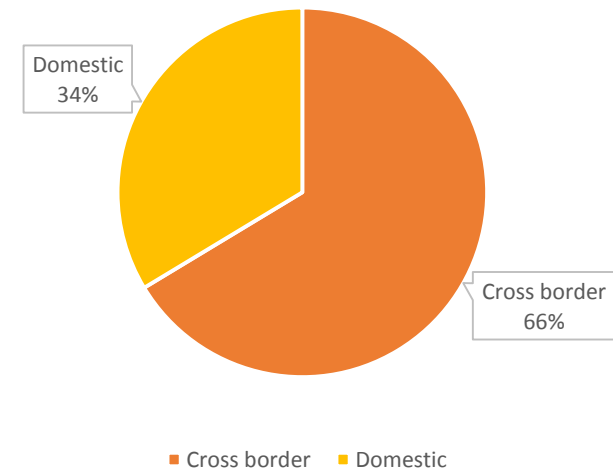


2. SUKUK: Turkish Sukuk Regulation

Private Sukuk Issues (2011-2015/06)



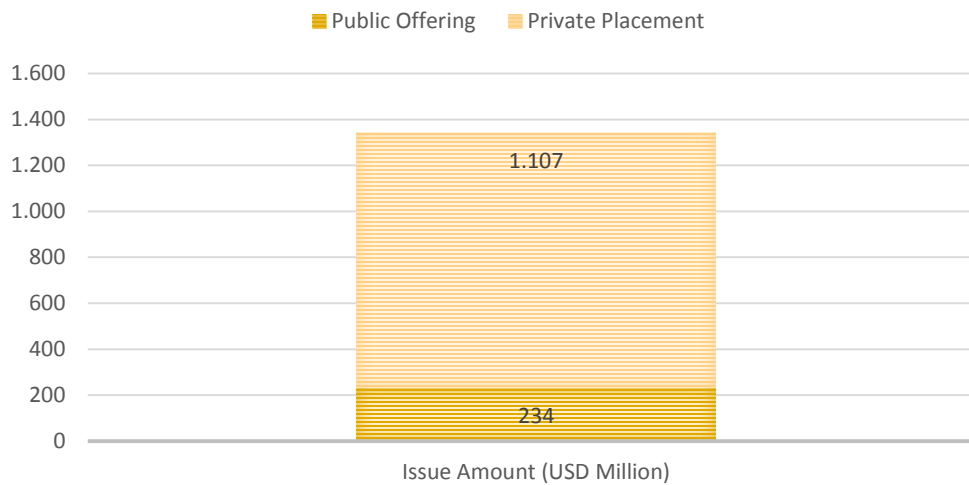
Private Sukuk Issues (2011-2015/06)



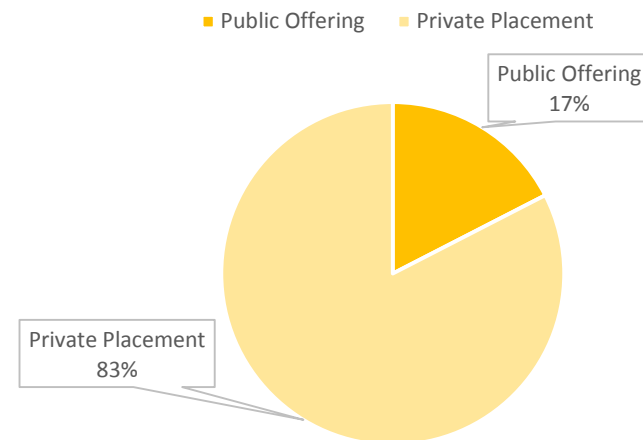


2. SUKUK: Turkish Sukuk Regulation

PRIVATE-DOMESTIC SUKUK ISSUES (2011-2015/06)



PRIVATE-DOMESTIC SUKUK ISSUES (2011-2015/06)





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3. Other Real Estate Related Instruments

REAL ESTATE INVESTMENT FUNDS (REIFs):

- REIFs are the funds that mainly invest in **real estates, real estate rights and real estate securities**.

According to Turkish regulation of REIFs (2014);

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



3. Other Real Estate Related Instruments

SUKUK PARTICIPATION FUNDS: the mutual funds that mainly invest in sukuk.

According to Turkish regulation of Mutual Funds;

- **Participation funds** are the investment funds that **only invest in** sukuk, participation accounts, corporate shares, gold and other precious metals and other non-interest-bearing instruments.
- **Sukuk participation fund** is a type of participation fund that must invest **at least 80% of its total fund value in sukuk**.
- There are currently **7 sukuk participation funds** with the total fund value of **USD 13.7 million** in Turkey.



3. Other Real Estate Related Instruments

REAL ESTATE CERTIFICATES:

- Real estate certificates are securities issued by corporates **for financing real estate projects.**
- Each certificate represents **a particular section or a certain area unit of a section** of a real estate project.
- Real estate **certificate holders may demand** either a particular section physically or monetary value of that section.
- There was **an example of issue in the past (1996)**, however, not issued for a long time.



Thank you...