

EYE ON TURKEY

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In the Aftermath of Islamic Finance Summit –Istanbul

Istanbul hosted the “Leaders in Islamic Finance Summit organized by the IQPC on 26-29 May. More than 175 delegates from all around the world, from the GCC countries, USA, UK, Malaysia, Turkey, Switzerland participated to this global event. The level of discussions was very high. The panelists were composed of eminent and eligible regulators, representatives of governmental and

“Turkey will definitely create a role model in Islamic finance as a Muslim but a secular country”

non-governmental organizations scholars, advisors, and practitioners such as global fund management companies and investment banks.

Geopolitical expansion of Islamic finance, and the implications of this at the global level, identification of the needs of the emerging markets and the opportunities the Islamic

finance provides, were among the topics which were discussed at great length. Almost every panelist stressed the

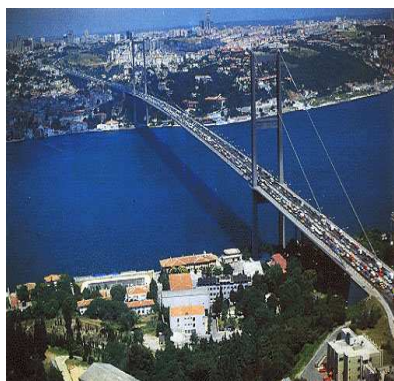


importance of Sukuk, the Islamic bond. Sukuk is one of the most popular financial instruments used especially in infrastructure investments. The sukuk market more than doubled in 2007 to exceed \$60 billion--continuing its explosive growth since 2001 when it totalled less than \$500 million. In this roundup of developments in the sukuk market, Standard & Poor's Ratings Services expects growth of Sukuk to remain on the same impressive trajectory and issues outstanding to top the symbolic \$100 billion mark in the next few years, fuelled by huge investment and financing needs--notably in countries of the Gulf and Asia. London is also preparing to issue a sukuk.

How will the standardization be ensured in Islamic products, the role of Islamic principles, discussion from the legal angle were topics that were challenged. In recent years we witness a growing interest to Islamic structures especially from the non-Islamic countries and entities. Ethical aspects of Islamic finance definitely is among the major driving forces, however the hedging opportunities the Islamic finance provides especially in financial turmoil is extremely valuable too. Because it is not interest driven, there is always a business/asset management underlying the transactions.

Last but not least, it looks Turkey is going to play an important role in Islamic finance once the turmoil in the country is over. Turkey will definitely create a role model in Islamic finance as a Muslim but a secular country. Creation of its own model will be the milestone on the bumpy road of Istanbul, becoming a global financial hub .

**Guler
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Sukuk : Turkey missing out ?

April 9, 2008 held a big moment for Indonesia when the government endorsed – after two years of preparation – the long acclaimed Sukuk Law. Sukuk are also called Islamic bonds or participation certificates.

The Islamic bonds are often used by governments and corporates for big project finance and large scale real estate developments.

The Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI - located in Bahrain - already approved 14 different structures. For the moment, the Islamic bonds most typically are linked to “lease financing” investments (“ijara”) and “profit sharing venture capital” financing varieties (“musharaka”), the market is however constantly probing new structures and getting more sophisticated.

The Sukuk market - fuelled by the petrodollars - forms one of the fast growing asset classes in the financial industry worldwide. It also attracts more and more conventional investors wishing to diversify their portfolio and at to get acquainted with the new financial instruments.

Back in 2001, the market still only accounted for less than US\$ 500 million, but is likely to exceed US\$ 100 billion by the end of 2008.

In an attempt to facilitate the access to both the local and international financial resources, to diversify the locally available debt instruments and to attract more international investments, the Indonesian government will probably issue the instruments both in local Indonesian Rupiah and US\$. A government issue of larger than US\$

Also the local domestic Turkish market has been preparing for some time now for access to better and cheaper finance. Conferences have been organized and several large investor groups from the Gulf area have confirmed – subject to good projects and market timing – to be ready to inject more hard needed financial resources into the Turkish economy .

All have been waiting eagerly for new regulations to be set in place and allow them to enter the market and further economic growth of the country. The question now only rest to know when Turkey will be ready. And whether or not this will be accompanied by sufficient tax incentives granted to both conventional and Islamic bonds.

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Partner
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Issues on Acquiring Immovable Properties in Turkey by Foreigners

As is known, Turkish lawmaker had enacted the Law No. 4916 in July 03, 2003 under the terms of Membership Agreement concluded by and between the EU and Turkey. Within the scope of said law which brings an amendment to the 35th Article of the Title Deed Law, acquiring of immovable properties by the foreigners had been eased.

However, upon the application for cancellation of the main opposition party the Law No. 4916 has been annulled by the Constitutional Court in March 14, 2005. After the annulment, the government drafted a bill and Law No. 5444 was entered into force by attaining ratification from the President of Republic.

The former law was restituted by the latter legislation

with the consideration of the legal ground of said judgment of Constitution Court.

Before the annulment, under the 35th article of the Title Deed Law acquiring immovable properties in Turkey by the foreigners is subject to the principle of reciprocity. In accordance with said principle, in order to acquire immovable property in Turkey by a foreign real or juridical person, a Turkish real or juridical person should have the same right of acquiring immovable property actually and legally in the same foreign state.

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Real Estate Valuation in Turkey

Generally speaking ,Real Estate (RE) Valuation in Turkey were being carried out with unstandardized approach by the member of different professions such as architects, civil engineers, geodesy engineers etc

This general outlook of the RE appraisal profession has been changing recently. The main actor is the Capital Market Board (CMB) of Turkey. After long and careful research, the CMB has decided that standardization and expertize of the profession and valuation process in harmony with the International Valuation Standards to be the key factor for comparison and risk control for public disclosure and asset backed securities.

With the authority given by Capital Market Law No:2499, Article 22(r and t), The CMB has regulated (Communique Serial:VIII, No:35 dated 12.08.2001 amended as of 02.08.2007) both the Real Estate Valuation Companies which will be accepted to be authorized and listed with the CMB and Appraisers who are eligible to carry out the profession . The Board (CMB) has also decided that all valuations related to the capital market regulations should be carried out in harmony with the International Valuation Standards (Communique Serial :VIII No:45 aended as of 25.08.2006).

During the last couple of years, it has been observed that both

qualities of RE valuation companies and their services are comparable to international applications .

It is highly recommended that even should investors commission well-known international appraisal company (almost all of them are not listed on the CMB) one should also ask for the local one in order eliminate errors, omissions and double-check prior to investment decisions in real estate market in Turkey.

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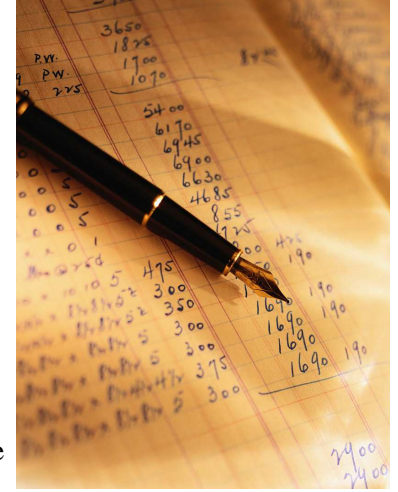
Issues on acquiring immovable... continued from page 3

Nevertheless, there are also some exemptions of said principle of reciprocity. For instance, the stateless persons and the refugees residing for over 3 years in Turkey are exempted from the stipulations of reciprocity. Besides, under the Tourism Encouraging Law No. 2634, the foreigners who make investments issuing tourism, can acquire immovable properties within touristy regions and centers without being subject to the reciprocity principle and restrictions for them. On the other hand, there are some restrictions to acquire immovable properties in Turkey by foreigners. These restrictive provisions are stipulated by the Military Prohibited Zones and Security Regions Law No. 2565, the 35th article of the Title Deed Law and the 87th Article of the Village Law No. 442.

Presently property sales to foreigners have come to a halt. Because the Constitutional Court annulled the legislation governing the authorization of Cabinet to

determine number of real estate purchases by any foreigner and to increase the ratio of real estates purchasable by foreigners to the total surface area of related province. The legal ground of this annulment is that the said authorization is deemed as contrary to the restriction of transferring the legislative power. And the government missed a three-month deadline to alter the legislation before the judgment of the Constitutional Court came into force. However the government has been endeavoring to enact a new legislation on this issue recently.

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In the forthcoming special supplement;

Collaboration opportunities with companies in;

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- ◆ Real Estate
- ◆ Retail Investment
- ◆ Tourism
- ◆ Manufacturing

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Corporate Governance and Sustainability Center is composed of eligible partners, in the field of corporate governance, and related services ranging from assessment to research and from raising awareness to compliance.

Associates of CGSCenter assists Turkish companies active in various fields such as finance, IT, insurance, energy, tourism, real estate development, and construction, that seek finance (equity or debt), open for partnership opportunities, interested in sell-outs, or buy-outs, or mergers and acquisitions.

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The Turkish Capital Markets Board has published a draft by-law regarding Mortgage Finance Corporations for public review

Following the implementation of the Mortgage Law, the Capital Markets Board continues structuring the legislation required to regulate the housing finance market in Turkey. Soon after preparing the primary legislation on housing finance, the Board started the secondary legislations in two stages. The first stage was regulating the mortgage capital market instruments, i.e. mortgage backed securities and mortgage covered bonds. The second stage of the legislation, which is still in draft form, covers Mortgage Finance

Corporations (MFC) that will issue such instruments.

Capital market law defines MFC's as '*joint stock corporations, classified as capital market institutions and established solely for the purpose of taking over, managing and transferring the receivables arising from housing finance and providing financial resource by means of taking receivables arising from housing finance as collateral*'.

The MFC's will complement the role of banks in housing finance

by providing funding from secondary markets through capital market instruments. This is expected to lead to longer terms in housing finance and reduced mortgage interest rates.

In Turkey, the most common way to acquire a property has historically been through inheritance or 100 percent cash payment. As the number of new properties that need to be built exceeds 300,000 a year, the volume of mortgage finance is expected to be as high as 35 percent of current GNP, equalling 150

billion US Dollars in the coming years

**Puren Crawford
Financial Consultant**

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