

KAYA

LAW FIRM

REAL ESTATE INVESTMENT FUNDS





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Real estate investments have been growing significantly in Turkey as well as all over the world. During the recent years, Turkey, where the increase in demand of residence is getting higher and higher, became one of the most important real estate investment districts in the world.

Real Estate Investment Funds (REIFs) were initially regulated in Switzerland in 1938 and Germany in 1959. REIFs have an important market share in Austria, The Czech Republic, Finland, France, Germany, Hungary, Ireland, Luxembourg, Portugal, Slovakia, Spain and the United Kingdom. The value of REIFs which was 110 billion Euros in 2006 arose to 209 billion Euros by the year of 2009. Globally, turnover of REIFs reached 108 billion Dollars in USA, 74 billion Dollars in Europe and 40.3 billion Dollars in Asia-Pacific.

Since 2014, Capital Markets Board of Turkey (CMB) adopted new legislations relating to Real Estate Investment Funds (REIFs) to present and introduce this new investment instrument to the investors. The fundamental legislation setting forth the legal basis of regulatory framework for the establishment and operation of Turkish REIFs is the Communiqué on REIFs published in 2014. Currently, dynamism of Turkish real estate sector renders real estate investments a productive tool for the investors from all over the world. Hence, it is highly estimated that Turkish REIFs are going to attract intensive attention of investors in the upcoming years.

There are various advantages of REIFs for investors. The individual investors (real persons) of REIFs have opportunity to invest their savings in real estate which provides them a cost efficient way for the investments in real estate. For instance; individual investors are only able to make investments with their limited individual purchase power. However; REIFs provide an investor higher purchasing power with the fund units supplying many real estate in the fund portfolio. In other words, individual investors who may not afford to purchase any commercial unit of a shopping center may be able to purchase not only a single commercial unit of shopping centre but also the shopping centre as a whole containing many commercial units. Therefore, individual investors may share the income of many commercial units'.

REIFs may only be established and managed by licensed Portfolio Management Companies (PMCs) or Real Estate Portfolio Management Companies (REPMCs). Sales, purchasing, collection of revenues shall be conducted by the management of REIFs.

One of the biggest advantage of REIFs is the income earned by REIFs is fully exempt from corporate tax. Also, the investors have several tax advantages by investing in REIFs. Moreover, REIFs provide for much more efficient exits for investors through redemptions under the conditions of Internal Regulation.

We, as KAYA Law Firm, have actively participated in legal regulation regarding Real Estate Investment Funds. We have launched the first Real Estate Investment Fund in Turkey worth 600 million Turkish Liras. KAYA Law Firm provides legal services to foreign investors with a highly specialized team in order to provide them making more profitable and productive investments in Turkey benefiting from tax and professional management advantages. Real Estate Investment Fund is the optimum way for foreign investors in order to substantiate the profit in relation to investments they made. KAYA Law Firm assisted foreign investments worth approximately 1 billion Dollars in Turkey and provided our investors gain profit approximately %25 annually. KAYA Law Firm has started to present its investor clients a new instrument, Real Estate Investment Funds, which will increase the profit to be made out of their investments.

REAL ESTATE INVESTMENT FUNDS (REIFs)

REIFs are defined as asset pools, without legal personality, established and managed by portfolio management companies (PMCs) or real estate portfolio management companies (REPMCs) for a definite or an indefinite period of time, pursuant to its Circular approved by the Capital Markets Board (CMB) intending to manage the portfolio of the fund comprising of assets and other means of investment instruments on the basis of fiduciary ownership with the money collected from Qualified Investors (QIs) in consideration for the fund unit sales.”



- Asset pools without legal personality (no legal entity title)
- Unit funds may only be sold to the QIs
- May be established only by PMCs and REPMCs
- May be established for a definite or an indefinite period of time
- Value assessment of the real estates within the portfolio shall be executed by independent licensed Real Estate Appraisal Firms under the certain rules established by the CMB
- Assets of the funds are deposited and kept by the custodians-licensed Portfolio Depository Institutions-under the certain rules established by the CMB
- Minimum 80% of the total value of the fund portfolio shall contain real estate investments

CAPITAL MARKET INSTRUMENTS COMPARISON CHART

	FOUNDER	LEGAL ENTITY	OPEN END	CLOSED END	PUBLIC OFFER	PRIVATE PLACEMENT	QUALIFIED INVESTORS SALE
Mutual Fund	PMC	Unavailable (Asset)	X		X	X	X
Investment Trust	Real/ Legal Entity	Inc.		X	X		
Exchange Traded Fund	PMC	Unavailable (Asset)	X		X		
Hedge Fund	PMC	Unavailable (Asset)	X				X
Pension Fund	Pension Company	Unavailable (Asset)	X		X	X	
Real Estate Investment Trust (REIT)	Real/ Legal Entity	Inc.		X	X		
Real Estate Investment Fund (REIF)	PMC / REPMC	Unavailable (Asset)	X	X			X
Venture-Capital Inv.Trust	Real/ Legal Entity	Inc.		X	X		X
Venture Capital Investment Fund	PMC/ VCPMC	Unavailable (Asset)	X				X



WHO CAN INVEST IN REIFs?

Individuals- Qualified Investors

Any real person who fulfills at least two of the criteria listed below:

- Have financial assets with a total value (cash, bank deposits, capital market instruments) exceeding 1.000.000 TL
- Performed at least 10 transactions in the volume of at least 500.000 TL for each quarter last year
- Have professional experience at least for minimum 5 years in financial sector or minimum 2 years in senior management or holding a CMB license

Legal Entity – Qualified Investors

- Banks, intermediary institutions, etc.
- Companies fulfilling at least two of the criteria listed below:
 - Value of Assets over TL 50.000.000
 - Value of Revenues over TL 90.000.000
 - Value of Equities over TL 5.000.000



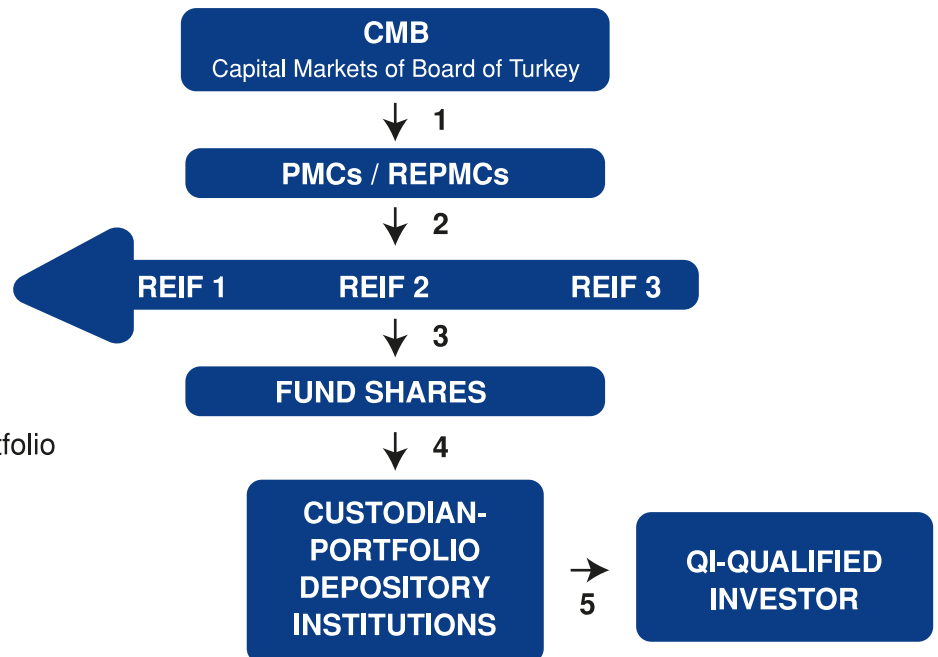
HOW A REIF WORKS?

- Following the approval of the Circular and the Issuance Certificate by the CMB, REIFs will be established and ready to offer fund units. Fund portfolio, planned investment instruments, redemption conditions and other important regulations are set forth under the Circular and Issuance Certificate of the REIF
- Fund portfolio contains the realized investments funded by the money collected in return for fund units. Portfolio may be comprised of different types of investments such as Shopping malls, hotels, hospitals, offices, rental houses etc.
- PMCs, manages and represents the fund by protecting the rights of the fund unit holders.
- Transactions to be executed before the Registry of Deeds on behalf of the REIFs will be issued by the collective signatures of the authorized representatives of both PMCs and the Portfolio Depository Institutions.
- REIFs are subject to audit of Capital Markets Board in the matter of compliance with Capital Markets Law and Communiqué on REIFs.
- Portfolio Depository Institutions engages in tracking the financial assets of the fund and monitoring the transactions and registration process.
- The value assessments of the assets of the fund portfolio shall be executed by independent Real Estate Appraisal Firms.
- The fund assets cannot be disposed to any third parties for any purpose even if the Portfolio Management Company, Portfolio Depository Institutions are transferred to public body; cannot be seized for collection of public receivables; cannot be imposed an interim injunction; cannot be included in bankrupt's assets.

REIF Operation System

Outsourced services:

- A. Independent Financial Audit
- B. Internal Audit
- C. Risk Management
- D. CMB Licensed Independent Real Estate Appraisal Firms
- E. CMB Licensed Independent Portfolio Depository Institutions
- F. Legal Services



1. PMCs and REPMCs are obliged to comply with CMB communiqué, laws and regulations.
2. PMCs and REPMCs may establish unlimited funds (a fund must be at least minimum at 10.000.000 TL)
3. REIF shares are issued with internal regulation, issue document, information letter and investor agreement.
4. Custodian is a safety tool between qualified investors and REIF
5. Investors are entitled to engage in fund management committee.

SALE AND REDEMPTION OF FUND UNITS

- Fund units may be sold in two different ways: sale to third parties or the redemption of fund units to the fund.
- The commission may be imposed for the sale or redemption of the fund units.
- Information in detail concerning the sale and redemption of the fund units, commission rate (if any), the distribution of the profit margin shall be specified in Circular and Issuance Certificate of the respective REIF.
- The redemption of fund units may be restricted or postponed under the terms and conditions of REIFs Circular and Issuance Certificate.
- Portfolio Management Company is entitled to performance fee at the end of the fund period or at the time of redemption provided that such fee was set forth in the Circular and Issuance Certificate.”



**MAKE
PROFIT
WITH
REAL
ESTATE**

REIFs IN TERMS OF ISLAMIC FINANCE

REIFs are considered as one of the best investment instruments compared to other capital market instruments in terms of Islamic Finance. Sukuk is generally established in a hybrid form in Turkey.

In comparison with Sukuk, 80% of REIFs portfolio contains tangible assets which shall be real estates. This structure of REIFs allows the investors to entitle double earnings; consisting of the regular income obtained due to the management of the estates (such as rental income, operational income) in addition to the increased value/profit of the estates in the portfolio.

The value of the fund units may bring profits in two ways:

1. Increase in value of the fund portfolio consisting of real estates thus the profit arising from the difference between sale and purchasing price.
2. The regular income of the real estate managed by PMCs, such as rental income, operating income etc



House price change % change over a year earlier

Turkey's residential property market is now one of Europe's best performers, despite modest economic growth. During the year to end-Q2 2015, Turkey's nationwide house price index surged 18.96% (10.95% inflation-adjusted), according to the Central Bank of the Republic of Turkey. During the latest quarter (Q2 2015), house prices rose 5.08% (3.35% inflation-adjusted).

In Istanbul, Turkey's largest city, house prices skyrocketed 27.6% (19% inflation-adjusted) during the year to end-Q2 2015.

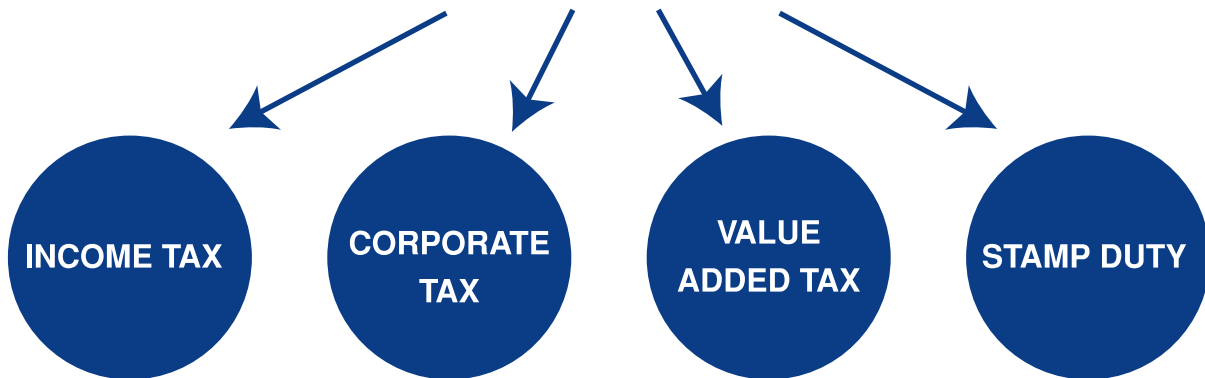
	Q1	Q2	Q3	Q4
2015	3,06	0,00	0,00	-
2014	3,72	3,80	4,56	3,83
2013	1,52	2,91	4,61	3,94
2012	2,60	2,58	6,26	3,32
2011	2,00	0,84	2,02	2,25
2010	0,62	0,29	0,47	0,87
2009	-4,09	1,03	3,41	0,96
2008	0,78	-2,50	-5,77	-5,69

% change over a quarter (QoQ)

Source: REIDIN

TAX

TAX ADVANTAGES



Income earned by a Turkish REIF is fully exempt from corporate tax. Moreover, REIF income benefitting from corporate tax exemption is also subject to 0% withholding tax. There is no further withholding taxation upon dividend distributions/redemptions to/by QIs of REIFs.

Both Cash dividend receipts (e.g. periodic) from REIFs and cash proceeds from returning Units to Founder (redemption) by QIs possess the same characteristics for Turkish tax purposes. Therefore, in our view, income generated by REIF investors by either means should be treated as “dividend income”.

Individual QIs resident in Turkey and participating in REIFs benefit from an income tax exemption in respect of half of the gross dividend amounts received from REIFs. Declared income will be subject to income tax at the progressive rate between 15% and 35%. On the other hand, non-resident individual QIs participating in REIFs are not required to make any tax filing. Thus, 0% withholding is the ultimate Turkish tax burden. For resident corporate QIs (including non-resident corporate taxpayers that have a permanent establishment such as a branch office in Turkey), dividends from REIFs are subject to corporate tax at the rate of 20%. In other words, corporate QIs cannot benefit from the participation exemption with respect to their investment incomes from Turkish REIFs. On the other hand, for non-resident corporate QIs, 0% withholding tax on distributions from REIFs is the final taxation and the non-resident corporate QIs are not required to make any filing.

TAXATION ON SALE OF FUND UNITS

TURKISH INDIVIDUALS	ONLY 10% WITHOLDING TAX NO INCOME TAX
FOREIGN INDIVIDUALS	ONLY 10% WITHOLDING TAX NO INCOME TAX
TURKISH COMPANIES	CORPORATE INCOME TAX (20% CIT), NO WITHOLDING TAX
FOREIGN COMPANIES	NO TAX

TAXATION OF REIFs' DIVIDEND DISTRIBUTIONS

TURKISH INDIVIDUALS	50% OF THE INCOME IS TAXABLE NO WITHOLDING TAX
FOREIGN INDIVIDUALS	NO TAX
TURKISH COMPANIES	CORPORATE INCOME TAX (20% CIT), NO WITHOLDING TAX
FOREIGN COMPANIES	NO TAX



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