

BASICS OF REAL

ESTATE INVESTING

IN TURKEY



**Gayrimenkul İçin
Strateji Platformu**

**Center For Strategic
Thinking in Real Estate**

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FOREWORD

Turkey's real estate development sector has a very promising future. The growing economy, highly favorable demographics, and well-established rules and regulations are few of the key indicators that bear witness to this great optimism. Compared to the emerging economies and some of the more developed economies, Turkey embodies different and distinctive advantages.

Understandably, the favorable future prospects are attracting international investor's interest in the Turkish market. Many well-known investment firms have already invested in Turkey and many more are looking for the 'suitable' opportunity. In addition to understanding the market dynamics, it is also imperative for the prospective investors to become familiar with the rules, regulations, and systems of the country to make the right decisions and to invest in the right development deals.

In order to provide the investment community with some basic and essential information about the Turkish business environment, The Center for Strategic Thinking in Real Estate (GISP) prepared this booklet. The study includes important information on financial, legal and tax aspects of the Turkish real estate industry. All three sections are prepared by prominent professionals in their respective areas. The main contributors hold senior level positions in accounting firms, law offices and financial institutions in Turkey.

As the only independent think-tank organization in the Turkish real estate industry, GISP will continue to generate ideas and reports to improve the real estate investment environment and to provide independent outlook on the future prospects. The organization is also determined to act as a bridge between the investment community and the Turkish real estate market. Therefore, we would like to encourage any organization or individual planning to enter the Turkish market to contact GISP for guidance or references.

Hope you will enjoy and benefit from the material provided in the following pages.

Best regards,

The Center for Strategic Thinking in Real Estate (GISP)
www.gisp.org.tr

Istanbul, March 2013

FINANCE

FINANCIAL ASPECTS

1. **What is the general funding structure of the Turkish real estate market?**

Historically, Turkish real estate industry has been characterized as an equity-driven market, due to the high inflation-high interest rate environment and limited availability of foreign currency based long-term funding. Along with the gradual stabilization of the Turkish economy during the post-2001 era, debt financing has started to become more commonly available from both local and foreign financial institutions and increasingly utilized by the market participants due to favorable interest rates.
2. **Which main financing types are commonly available in the market?**
 - 2.1. **Equity finance**

Historically equity has been the most common source of funding for real estate developments and/or acquisitions in Turkey.
 - 2.2. **Debt finance - bank debt; bond issues**

Bank debt is the most commonly utilized method of debt finance in the Turkish real estate market, which is available, both on a corporate and/or project level. Corporate bonds are relatively underutilized, with only few major corporations and banks having outstanding bond issues. Meanwhile, Islamic finance structures are becoming increasingly more utilized in the market.
 - 2.3. **Mezzanine finance**

Given the traditionally low leverage preference of local investors, historically there has been no real need of local investors for mezzanine finance. Along with the development of the market, mezzanine providers have been monitoring the market for opportunities, but without any transactions yet.
3. **What is the general structure of bank debt market?**
 - 3.1. **Bank debt finance market participants include:**
 - Local savings and deposits banks (state-owned and privately-owned)
 - Foreign banks with Turkish banking subsidiaries, branches, or representative offices in Turkey
 - Local and foreign development and investment banks
 - Participation banks
 - 3.2. **Corporate-finance vs. project-finance:**

Traditionally, financings have been mainly provided on a corporate basis, with recourse into borrowers' assets / businesses. However, along with increased participation of international lenders in the market, project finance also started to be available for real estate

development and/or acquisition projects or as part of a refinancing structure on a non-recourse basis.

3.3. Recourse, non-recourse or limited recourse loans

Entries of international investors and real estate private equity funds have led to the development of non-recourse financing structures that would be secured only with the financed property. There are also “limited recourse” loans especially in development financings, where an additional security/guarantee would be required during the development phase, which is usually revoked following the completion of the development period.

3.4. Development / investment loans

Development financings are mainly available by the local banks at the current market conditions, as from a risk perspective international banks mostly prefer investment loans to operating properties with sufficient performance track records.

4. What are the main terms of project finance in the Turkish real estate market?

4.1. Borrower type

- Local lenders: corporate entities and SPV structures
- International lenders: generally look for SPV structures

4.2. Loan term

- Local lenders: up to 10+ year loan terms
- International lenders: generally around 5 year terms

4.3. Repayment structure

- Local lenders: generally equal amortization; bullet payment structures not preferred
- International lenders: 3-5% p.a. with bullet structures

4.4. Interest rate, margin and interest period

- Interest rate: Libor or Euribor for floating rate loans; USD/EUR swap or fixed-rate for fixed interest loans
- Margin: between 400 bps – 600 bps
- Interest period: 3, 6 or 12 months.

4.5. Fee structure

- Arrangement (Upfront) Fee - between 100 bps to 150 bps on the initial facility amount
- Commitment Fee - 100-150 bps per annum.
- Cancellation Fee - between 200 bps to 300 bps of the facility amount
- Prepayment (Voluntary Repayment) Fee - 50 bps to 100 bps for each full year of prepayment before maturity

4.6. Hedging requirements

- Currency hedging: significantly high hedging costs for Turkish Lira
- Interest hedging: interest rate caps, collars, or forward caps

4.7. Cash flow control mechanism

- Debt repayment reserve accounts
- Cash sweep structures

4.8. Drawdown conditions

- Pre-leasing Requirements
- Project control mechanism
- Technical due-diligence
- Property management

4.9. Main covenants

- Loan to Cost (LTC) - 50-70% of the approved development budgets
- Loan to Value (LTV) - at 50-70% levels
- Debt Service Coverage Ratio (DSCR) - generally set at minimum 110-120% levels
- Interest Cover Ratio (ICR) - levels seen in the market are at around 170-180%
- Net Yield on Debt (YOD) - generally set at above 12% levels depending on property type
- Borrowing Restrictions - Debt-to-Total Assets ratio set at a maximum level of around 60-70%

4.10. Event of Default Conditions - include non-payment, failure to comply with covenants, insolvency / insolvency proceedings, unlawfulness, material litigation or proceedings, cross default mechanisms.

5. What are the main characteristics of the loan documentations and security packages?

5.1. Loan agreements

- Legal structure - LMA standard loan agreements are becoming more common in the market
- Governing Law - generally governed and construed with Turkish Law; however it is also possible to see agreements based on English or German Law

5.2. Security documents

- Mortgage – main requirement
- Pledges/Assignment of Income – silent or active pledges
- Pledge of Accounts – usually silent in nature
- Pledge of Shares – only for SPV type borrowers
- Negative Pledge
- Guarantees – corporate or personal guarantees by the Borrowers or shareholders
- Insurances – lenders defined as “loss payee” under the policies
- Cross Collateralization
- Subordination

LAW

LEGAL ASPECTS

1. Is Turkish Real Estate Market Regulated?

The Turkish real estate market is a regulated market. Turkish Civil Code, Land Registry and Cadaster Law, Lease Law and Zoning Law are the primary resources of legislation governing the real estate matters. Since the primary and secondary legislations have been in place for a long time, there are sufficient court precedents that shed light for the practice.

2. How Secure is Turkish Land Registry System?

The land registry system used in Turkey was initially formed by the Ottoman Empire and then developed throughout the years. It is a very reliable and secure system whereby every piece of real estate transaction is registered.

The land registry records are public; therefore the rights of third parties, which acquire ownership or an interest in any form of real estate on land registry records, are respected.

Beyond the official ledgers, the information regarding the legal status of real properties (ownership rights, rights registered in favor of third parties, encumbrances and etc.) is also kept in a computer system called TAKBIS.

Recently, a new regulation has entered into force that enables the land registry offices to perform transactions for real estate properties that are located in different jurisdictions. This is accepted as a major step for the centralization of the land registry system. For the time being, the system is operational only in certain land registries but will become a standard process for every land registry office in the future.

3. Can Foreign Real Persons and Legal Entities Acquire Real Estate In Turkey?

3.1. Acquisition of Real Estate by Foreign Real Persons

According to the Land Registry Law No 2644, foreign real persons, who are citizens of countries that are announced by the Council of Ministers, can acquire ownership rights and *rights in rem* on real properties in Turkey. However, the total size of land (that is occupied by the ownership rights and/or *rights in rem*) cannot exceed 30,000 square meters for each person. In addition, foreign real persons are entitled to acquire real estate and *rights in rem* up to 10 percent of the total surface area of the relevant district.

3.2. Acquisition of Real Estate by Foreign Legal Entities

Foreign legal entities incorporated abroad cannot acquire real estate in Turkey unless allowed under special laws such as the Petroleum Law, Tourism Law and Industrial Zones Law.

To overcome the legal barrier, investors may choose to establish single-purpose Turkish companies, namely foreign capital Turkish companies in the form of either a Joint Stock Company (A.Ş.) or a Limited Liability Partnership (*Ltd. Şti.*) to invest in real estate in Turkey or alternatively take over an existing Turkish company holding the ownership of a target real estate via share transfer.

3.3. Acquisition of Real Estate by Foreign Capital Companies Incorporated In Turkey

Foreign capital companies incorporated in Turkey, over 50% of the ownership and/or management of which is held by foreign legal or natural persons, may acquire real estate in Turkey subject to an approval procedure. According to the Regulation on the Acquisition of Real Estate and Rights in Rem by Foreign Capital Companies (“**Regulation**”), foreign capital companies are required to apply to the Governorship where the target property is located. Governorship mainly confirms whether the property is in a military forbidden zone, military security zone, strategic zone or private security zone. If the Governorship’s assessment is positive, the approval for the acquisition is granted. The approval process takes 30 days approximately.

The above-mentioned approval is not required for the acquisition of parcels within the borders of organized industrial zones, technology development regions, free zones and similar areas.

3.4. Acquisition of Real Estate via Share Transfer

Share deals are very commonly used in real estate transactions. The transfer of shares of a Turkish company to a foreign real person or legal entity is not subject to any governmental permits or approvals.

4. What are the Main Transaction Agreements?

4.1. Purchase/Sale Agreement (Direct Acquisition)

According to Turkish law, the sale of a real estate can only be completed before the relevant land registry with the attendance of both the seller and purchaser. In order to transfer the ownership, the parties must execute standard transfer deed prepared by the relevant land registry.

Acquisition of the real estate can be accomplished through purchase directly from the existing landlords. Real estate agents, if involved, charge a commission for their involvement in the purchase.

4.2. Promise to Sell Agreement

Prior to the sale of real estate, the seller and purchaser may enter into a preliminary “Promise to Sell Agreement.” This is the only preliminary agreement that can be validly executed between the parties and, in order to be binding, it should be prepared by and signed before a notary public. In order to qualify for protection against the third party claims, the Promise to Sell Agreement should be registered with the land registry. In the event of non-registration of the Promise to Sell Agreement any subsequent purchase of the property by a third party acting in good faith will be valid. If the sale of property is not completed within 5 years commencing from registration of the Promise to Sell Agreement with the land registry, the registration will be automatically removed from the land registry records by the land registry officials.

4.3. Share Purchase and Shareholders Agreement

Share Purchase Agreements are used in property acquisitions by means of share deals. Additionally, Shareholders Agreements are also commonly used in case of joint ventures. Both Share Purchase Agreements and Shareholders Agreements are similar to the ones used by the investors for their international transactions.

The tag along, drag along, call and put options are also commonly regulated in the above mentioned agreements.

5. What Kind of Security Instruments are Used in Transactions?

The most common form of security used in real estate transactions is the mortgage. Additionally, share pledge, commercial enterprise pledge and assignment of receivables are also used in most real estate transactions, especially for real estate finance purposes.

5.1. Establishment of Mortgage

A mortgage can only be established through an agreement in compliance with a certain official form. The official mortgage deed must be executed and registered by the parties before the relevant Land Registry.

The legal scheme concerning establishment of liens on immovable properties, i.e. mortgages, is mainly regulated under the Turkish Civil Code. Pursuant to Turkish Civil Code, a mortgage can be established on an immovable property in order to secure current or future credits. Furthermore, a property that is the subject matter of a mortgage does not have to be in the debtor’s possession. A mortgage can only be established on a real estate that is registered in the title deed registry.

The foreign real persons, foreign legal entities and foreign capital Turkish companies can become mortgage holder without being subject to any approvals.

5.2. Transaction Costs

The parties of a mortgage agreement are obliged to pay 0.455% of the mortgage amount as land registry charge and 0.948% of the mortgage amount as the stamp tax duty¹. However, the mortgage transactions realized in order to secure a loan granted by the banks, private financial institutions and foreign credit institutions are exempted from stamp tax.

6. Is there a Lease Law in Turkey?

As of 1 July 2012 Turkish lease law began to be governed by the new Turkish Code of Obligations Law No 6098 (the “TCO”). The TCO is mostly drafted in line with the current court precedents.

6.1. Can the Parties Freely Determine the Rental?

The freedom of contract is one of the main principles of Lease Law. Therefore, except for the mandatory provisions of Lease Law, the parties can freely determine the contract terms, including the rental amount.

6.2. Is Rental Adjustment Possible?

The parties to the lease agreement can regulate a rental adjustment rate. According to the TCO, adjustment rates for Turkish Lira rents cannot exceed the Producer Price Index. However, the parties may determine a higher adjustment rate in their lease agreement and exercise such rate if they both agree to do so.

6.3. Is Foreign Currency Rental Possible?

The parties may determine foreign currency for rent payments.

6.4. What is the maximum lease duration?

There are no restrictions regarding the term of a lease agreement. Parties are free to determine the term of the lease agreement by mutual agreement. However, the TCO regulates extension and termination of lease agreement.

Under the TCO, unless the lessee gives notice of termination at least 15 days prior to the expiration of the lease agreement’s term, fixed term lease agreements will be deemed renewed for 1 year with the same terms and conditions. This automatic 1-year renewals can be repeated for ten consecutive years.

6.5. Is Sub-lease and transfer of lease agreement possible?

Unless otherwise stipulated in the lease contract, tenants cannot sub-lease the premises or transfer the lease agreement to another party without the consent of the lessor. However, such consent cannot be unreasonably held by the lessor in the case of commercial leases. In such events, the lessee will be jointly liable with the new tenant for a term of two years.

¹ These rates are valid as for 2013.

6.6. Do the lease agreements bind third parties?

Lease contracts can be annotated before the relevant title deed registry. In such a case, the tenants are entitled to claim their rights against third parties such as a new owner. The annotation of a lease agreement prevents eviction of the tenant (during the lease term) from the premises if and when the property is transferred to a third party.

7. Who are Official Authorities Responsible for Zoning and Construction?

Mostly metropolitan municipalities and the local municipalities are the official authorities responsible for the zoning and construction related issues. Depending on the location and specifications of the property other official authorities such as ministry or preservation boards may also be involved.

The main legislation governing zoning plans is the Zoning Law. Zoning plans are categorized as: (i) application plans with 1/1000 scale (evidencing zoning blocks and their densities, roads and other information related to the application of main zoning plans), (ii) main zoning plans with 1/5000 scale (evidencing general facility zones, types of eligible areas, future population density of zones, building densities, directions and size of various construction areas), and (iii) lower detailed zoning plans with 1/25.000, 1/50.000 and 1/100.000 scale.

1/25,000, 1/50,000 and 1/100,000 scale zoning plans are prepared and amended by the ministry whereas the 1/1000 and 1/5000 are prepared and amended by the local and/or metropolitan municipalities.

8. What are the Main Permits Required for Developing a Building?

The following are the main permits that must be obtained from the relevant municipalities in order to construct a new building or carry out alterations to an existing building.

8.1. Construction License

The construction license should be obtained by the land owner over which the building will be constructed. The municipalities are authorized to issue the construction licenses.

The construction must commence in two years and completed in five years starting from the issuance of the construction license.

8.2. Building utilization permit

Following completion of construction in compliance with the terms of the approved plans and the construction permit, a building use permit must be obtained from the municipality to use each building for the purpose for which it was built. Utility contracts may be executed with the relevant administrative offices only after the receipt of the building use permits.

9. Does Real Estate Investment Companies exist in Turkey?

Real Estate Investment Companies (“REICs”) in Turkey are regulated under the Capital Markets Law (“REIC Law”) issued by the Capital Markets Board (“CMB”).

The REIC Law was enacted to regulate the formation, organization and governance of REICs and is regularly amended by the CMB in order to make it compatible with the world REICs markets. The REIC Law also sets forth detailed guidelines as to the permitted activities and investments of REICs.

The REIC Law defines REICs as capital market institutions investing in real estate, real estate based capital market instruments, real estate projects, real estate based rights and capital market instruments, provided that necessary licenses and certain expert approvals are obtained and documentary requirements are satisfied.

The REIC Law lists certain conditions of establishment of a REIC. For instance, the start-up capital of a REIC must not be less than TRY 25,600,000². Furthermore the CMB’s permission for a registered capital system and public offering of at least 25% of REIC’s shares are also required by the legislation.

With respect to the tax advantages, REICs are exempt from (i) corporate income tax arising from portfolio management transactions and (ii) stamp tax arising from sale and purchase agreements and promise to sell agreements executed for the sale and purchase of immovable in their portfolios. Nevertheless they are liable for value added tax and relevant land registry charges.

² This is valid as of March 2013.

TAX

TAX ASPECTS

How are companies taxed in Turkey?

An international investor investing in Turkish property will need to establish a “Turkish Company”, in the form of either a Joint Stock Company (“Anonim Şirket”, “A.Ş.” in Turkish) or a Limited Liability Partnership (“Limited Şirket”, “Ltd. Şti.” in Turkish).

Both companies are subject to **corporate tax** at 20% over their yearly net income regardless of the type of the income (i.e., rental income, interest income, F/X gains, capital gains etc.). During each fiscal year, **advance corporate tax** at a rate of 20% on a quarterly basis is calculated and paid. The advance corporate tax paid during the year is offset against annual corporate tax.

Dividend distributions are subject to withholding tax. **Dividend withholding tax** rate is 15%. However, the withholding tax may be reduced to 10% or even 5% based on the tax treaties between the foreign investors country of origin. No dividend withholding tax is applied over the profits distributed between two resident Turkish companies.

Apart from the above-mentioned taxes that are assessed over the income, investors are as subject to transactional taxes that are part of all real estate activities. Specifically, **VAT** at the rate of 18%, **Title Deed Charge** at the rate of 2% for buyer and seller separately, and **Stamp Tax** calculated over the highest monetary value stated in the every signed original copy of the agreements / documents are the main transactional taxes that are applicable to the real estate transactions.

Real estate ownership also requires a type of wealth tax called **Property Tax** at the rate that may vary from 0,1% to 0,4% depending on the type and location of the property.

What are the taxes during the development stage?

Since all the expenses during development stage have to be capitalized in principle, there will be no **corporate tax** implication during the acquisition/development stage of the real estate.

Acquisition of the land will in principle is subject to **VAT** at the rate of 18%. If the seller of the land/property is an individual whose principle area of work is not

real estate trading or if the seller is not a real estate company holding the land/property for more than 2 years then the VAT will be exempt.

Acquisition of property (transfer of title deed) will be subject to **title deed charge** for buyer and seller separately at the rate of 2% over the acquisition value.

Developer is liable to withhold 3% tax over the **progress payments** made to the construction company including any advance payments.

Land is not subject to **depreciation** before the construction is completed. So, at development stage no depreciation is calculated. After the completion of the project, the total value, including land value, will be subject to depreciation at 2%. However, a 4% rate would be applicable if declining balance method is preferred.

Any signed original agreement/document having or referring to a monetary value will be subject to **stamp tax** at the rate of 0.948%.

Property tax is calculated and paid annually. Property tax is assessed at 0.3% for vacant land, 0.1% for residential buildings and 0.2% for commercial buildings. These rates are doubled if the property is in the borders of metropolitan municipalities. Property tax base is determined by the individual municipalities based on location and market values.

What are the taxes during the operation stage?

All income derived during operation period will be subject to **corporate tax** at the rate of 20%.

All expenses during holding/operation period are in principle recorded as an expense for the calculation of the corporate tax base.

All interest expenses and F/X losses related to the investment loans have to be capitalized during the construction period. A taxpayer has the flexibility to capitalize or not after the construction is completed. If they chose not to capitalize, all the interest expense and F/X loss amounts will be taken into consideration as an expense during the calculation of the corporate tax base.

Rental income is subject to 18% **VAT**.

Conversion of land into a building is subject to a **ratification fee** of TRL 156.55 for each and every residential/office unit.

All signed original agreements/documents having or referring to a monetary value will be subject to **stamp tax** at the rate of 0.948%; while all rental agreements will be subject to stamp tax at the rate of 0.189% over the total rental amount.

Property tax is calculated and paid annually. Property tax is assessed at 0.3% for vacant land, 0.1% for residential buildings and 0.2% for commercial buildings. These rates are doubled if the property is in the borders of metropolitan municipalities. Property tax base is determined by the individual municipalities based on location and market values.

What are the taxes if an asset sale is chosen as an exit route?

Sale of real estate as an asset will be subject to **corporate tax** at 20%. Tax base is the positive difference between the sales value and the net book value minus all expenses related to the sales transaction.

If the main activity of the seller company is not real estate trading and/or leasing, 75% of the profit is exempt from corporate tax if the property has been held for more than 2 years with some additional requirements.

Sale of real estate is also subject to 18% **VAT**. VAT exemption is applicable if the seller company is not dealing with real estate trading and the property has been held for more than 2 years.

Sale of residential properties with a net area less than 150 square-meters is subject to 1% VAT rate. 8% and 18% VAT rates would be applicable for these kinds of residential property sales if the construction permit is obtained after 1.1.2013 with some exemptions.

Transfer of title from seller to buyer is subject to **title deed fee** at 2% for buyer and seller separately.

All signed original agreements/documents having or referring to a monetary value will be subject to **stamp tax** at the rate of 0.948%.

What are the taxes if shares are disposed?

If share disposal of the property holding company is preferred instead of the sale of the property as an asset, a much more favorable tax regime would be applicable.

Share disposals of foreign investors are taxed according to the Double Tax Treaty provisions and most of the 78 Double Tax Treaties of Turkey do not give the right of taxation to Turkey for disposal of the Turkish company shares by a non-resident shareholder after a year of holding period. In other words, foreign investors have the opportunity to exit Turkey without paying any capital gains tax.

Also, share disposals are advantageous from VAT and Title Deed Charge perspectives. Disposal of the Joint Stock Company share certificates are exempt from VAT. And, since there will be no change of the title holder of the property, no Title Deed Charge is applicable in the case of a share deal.

How is the tax environment?

Turkish tax system is very similar to the tax systems of the many European countries. Most of the main tax rules are also applicable in Turkey.

Substance over the form principle is the main driver of the Turkish Tax System and the tax authority always try to understand the “substance” rather than the “form”.

OECD type **Transfer Pricing** rules are also applicable in Turkey. All transactions carried out between “related parties” must be substantiated with the “arm’s length” pricing. Failure to apply market prices to a “related party” transaction requires non deductibility of the expenses for the “buyer” and the amounts are reclassified as “deemed dividend” and taxed accordingly at the seller/payer level.

For tax purposes there is no limitation for the loans obtained from the shareholders or other related parties. But, if the total “related party” loan amount exceeds **three times** of the equity of the company during any time in the year, interest, other related expenses and F/X losses (if any) related to the exceeding

part is deemed as non deductible for the company utilizing loans and that non deductible interest amount is also deemed as profit distributed on a disguised manner to the loan provider and taxed accordingly; this is also known as the **Thin Capitalization Rule**.

Amounts paid by the Turkish resident companies to the corporate and/or individual sellers resident in so called “**tax havens**” that are declared by the Turkish Council of Ministers are subject to withholding tax at the rate of 30%. On the other hand, the withholding tax is currently not applicable since no declaration regarding tax havens has been done by the Turkish Council of Ministers.

Turkish tax legislation also has a **Controlled Foreign Company (CFC)** rule. According to the CFC rule, regardless of the dividend is distributed or not, the income of the foreign subsidiary of a Turkish resident company is taxable in Turkey if the Turkish shareholder has at least 50% share/right in the foreign subsidiary; if at least 25% of the gross revenue of the foreign subsidiary is derived from the activities classified as “passive income generating activities” such as interest or rental income; if the gross revenue of the foreign subsidiary is more than equivalent of TRY 100,000; and if the foreign subsidiary is subject total tax burden equal or less than 10% .

What are the advantages of being an international real estate investor in Turkey?

Turkey’s **Double Tax Treaty (DTT)** network is very good. As of March 2013 there are 78 Double Tax Treaties are in effect. In most of the cases DTT provisions provides much more favorable tax rates for foreign investors. For example, local dividend withholding tax rate of 15% is reduced to 10% (including but not limited of The Netherlands, Luxembourg, Poland, Estonia, Finland, Hungary) and even 5% (including but not limited to Spain, Portugal, Austria, Germany, Ireland, Singapore) for many of the countries.

Also, when an international investor is exiting from Turkey, DTT provisions may provide advantageous tax structures compare to resident investors. In most of the treaties disposal of the shares of the Turkish companies after a holding period of only one year would provide a “capital gains (corporate) tax free” exit opportunities.

Is there a corporate tax free instrument for real estate investments in Turkey?

Turkish Real Estate Investment Companies (**Turkish REICs**) provide a total corporate tax free opportunity for both resident and international real estate investors. Turkish REICs are exempt from 20% corporate tax and profit distributions from REICs are currently subject to 0% dividend withholding tax.

Turkish REICs are Capital Market Board supervised companies in Turkey. At least 25% of the shares of a REIC have to go public at Istanbul Stock Exchange (Borsa Istanbul). Despite strict management, portfolio, activity limitations of Turkish REICs, corporate tax exemption provides a very important advantage compared to the other real estate companies.



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