

This Investment Report is part of Ithmaar Banks' client communication initiative. The report is issued every six-months or whenever deemed necessary by Ithmaar Bank B.S.C. For more information, please contact your Private Banking client representative.



## SBM's Investments ("Underlying Assets")

Ithmaar Bank B.S.C. (the "Modareb") has invested SBM's capital in four well-diversified real estate development projects that meet the requirements of SBM's investment objective. The projects have been undertaken by Special Purpose Vehicles ("SPVs") established for each project. Updates on each underlying asset are given hereinafter.

## Turkish Economy

In the initial stages of the worldwide financial crisis, banks in Turkey were reluctant to lend to businesses and individuals and had a greater motive to raise interest rates and shorten terms due to their inability to meet financial commitments, and the increased economic uncertainty. However, in the latter half of 2009, this cautious approach to lending eased. The competition between banks caused home loan interest rates to drop below 1% per month. However, terms of these loans became more restrictive, with shorter periods and lower loan to value ratios.

In international financial markets; the deficits in the national budgets of Greece, Portugal and Spain, and concerns regarding these countries' ability to pay back debt have led to a temporary sharp drop in the Euro/Dollar parity. These money market developments also play a negative role in real estate demand as most commercial and residential real estate in Turkey are denominated in foreign currency.

Investment activity in the commercial sector (offices, retail and industrial) in Turkey was almost non-existent in 2009, caused mainly by high asking prices by sellers, who were mostly developers with very low or no leverage, and the expectations of rents dropping even further by buyers, who were trying to adjust return expectations accordingly. The carry-on effect of this resulted in a lack of transactions during the first half of 2010.

However, in the upcoming term of 6 months to a year, the interest rates are not expected to drop any further and this could boost demand for real estate purchases. The domestic forces such as strong consumer spending, improving bank lending and normalizing capacity utilization will drive the economy forward in the second half of 2010, and longer term outlook remains positive. However, the anticipated growth may take some time to materialize.

## Real Estate in Turkey

**Office Space:** While 2009 was slow in terms of real estate investments, towards the end of that year, the office market began to show signs of recovery. Developments initially planned for retail uses, which were either left incomplete or postponed to later dates, were repositioned towards the office real estate segment.

**Retail Market:** Due to economic slowdown and the oversupply of shopping malls in Istanbul, there was a decrease in rents, which began at the end of 2008 and continued into 2009. On average, shopping centers provided a 25% discount in rents; however, these discounts were not reflected in the lease contracts, but provided as temporary financial incentive and promotion to tenants. Most of the shopping centers that are under construction have put a hold on construction or postponed their openings. This slowdown in supply, together with the expected recovery in the economy, is expected to lead to a steady increase in rents by 2012.

**Residential Market:** In the current economic climate, project financing has been very difficult or almost impossible to obtain. Despite these limitations, most developers continued with their planned projects in Turkey's larger cities. This observation signals that developers are able to still finance residential developments from pre-sales revenue. The same cannot be said for commercial developments, as almost all projects in the planning phase were cancelled or postponed due to a lack of financing.

## **Net Asset Value of the SBM**

According to the Private Placement Memorandum of the SBM, the valuations of the underlying assets of the SBM are performed at the end of each year throughout the Modaraba term. Therefore, the next valuation of the underlying assets would be due in end December 2010. As a reminder, the quoted NAV for 31 December 2009 was 101.27%.

## **Return on Investment ("ROI")**

The financial crisis had a ripple effect around the world causing failure of businesses, declines in consumer wealth, and substantial financial commitments incurred by governments. As a result of this, Turkey's real estate sector has faced significant declines in the real estate activities, declines in credit availability, and damaged investor confidence. Due to these adverse trends, which also had their effect on the underlying investments of the SBM, we are actively working with our Turkish Partners on the revised calculations of the projected ROIs of the investments, which will be communicated to the Investors as soon as finalized, before the end of 2010.

## **SBM Projects' Updates**

### **1. Autopia Auto Shopping Center**

*SPV: Beylikduzu Insaat Emlak ve Ticaret ("Beylikduzu")*

#### Project Description

Autopia Auto Shopping Center ("Autopia") will be the largest auto shopping center in Turkey and Europe, with approximately 470 showrooms/stores being constructed on a total built-up area of 170,651 smq. Autopia will consist of auto showrooms, auto spare parts and accessories shops, authorized auto services, insurance companies, auto dealers, banks, an auction room, food court and parking areas. Besides classical, antique, private auto exhibitions and collections; motorcycles, bicycles, sea vehicles, battery cars, model and real airplanes exhibitions will also take place in Autopia. Moreover, a driving track for auto testing will be built over the roof of this shopping center.



### Project Updates

The construction permit for Autopia Auto Shopping Center was obtained in April 2010. The construction has commenced and is expected to be completed in 22 months. Due to the demand from potential buyers, the Developer has revised the architectural plan and has submitted the plan to the municipality for approval, which is expected by end of July 2010. Credit facilities are also being arranged by the Developer with a Turkish bank to provide financing facilities to potential buyers.

As of the date of this report, 81 potential buyers have paid deposits for a total space of 21,000 sqm, which would generate approximately US\$ 30 million in sales revenues. The financing facility arrangement is pending approval from the relevant bank. Further commitments have been received from the auto agents of Citroen, Nissan, Daihatsu, and Ssayong, while Mercedes and Renault are considering taking space.

The marketing of the project continues at full throttle with one-minute spots on 5 top news channels, three airplane magazines, digi-boards at major airports, newspapers, websites, and interviews with major TV channels not only in Turkey, but in Europe as well.





**Next Steps:** Follow-up on the revised architectural plan, follow-up on the approval on the credit facility, and monitor sales progress with the Developer.

## **2. Istinye Luxury Villas Project**

*SPV: Bektu Insaat Emlak ve Ticaret ("Bektu")*

### Project Description

The project consists of proposed 11 luxury villa development on a prime development site of 10,721 sqm in Istinye, a very prestigious residential area on the European side of Istanbul, on a hill overlooking the Bosphorus. Each villa will enjoy a commanding Bosphorus view. The land is in the vicinity of the Istanbul Stock Exchange, the American Consulate and Istinye Park, Istanbul's most exclusive shopping center.





### Project Updates

According to the existing legal proceedings, the court hearing which was scheduled in March 2010 was postponed and has been scheduled for November 2010. However, as part of our continuous efforts to resolve the legal issues faced by Bektu as early as possible, Bektu has approached a new law firm for consultation on these issues. Their opinion was that, in a jointly owned deed, the owners of a portion of the deed have the right to put the property up for auction and the highest bidder would pay out the other owner and take over the property. In our case, the only other owner of record is the Turkish Treasury.

Bektu is now thoroughly studying the possible consequences on the project in case it pursued with the above opinion which would require a new legal approach, and the opinion of the existing legal counsel. Whichever legal course is decided by Bektu, the SBM would have the option of selling its shares at the pre-development stage, depending on the market price, in order to meet its exit date.

**Next Steps:** *To decide on the legal course.*

### **3. Orhanli Budget Housing Project**

*SPV: Orhanli Insaat Emlak ve Ticaret ("Orhanli")*

#### Project Description

The project is a gated community consisting of 159 residential units in 11 residential blocks with 1 to 3 bedrooms per residential unit on the Asian side of Istanbul on a land area of 28,077 sqm. The residential units vary in size between 34 sqm and 107 sqm. The community contains a social center, community pool and recreation area.



### Project Updates

As of end June 2010, 85 units out of 159 units have been sold. This brings the total percentage of units sold to 53%.

ReMax, the new marketing agent for the Project replaced by Orhanli in February 2010 conducted a survey of comparable developments in the area and recommended new prices with a discount ranging between 20% and 30%. ReMax pursued a heavy marketing campaign on the Project by publishing commercials on websites, newspapers, magazines, brochures and mails, in addition to arranging for a tour to real estate agents to attract their customers. With the new sales team and realistic pricing based on competition in the surrounding market, sales picked-up substantially.

Although summer is a very slow season for real estate sales in Turkey, ReMax is planning to visit major business centers, universities and the companies in July and August 2010. Sales are expected to pick-up again in September onwards.

Demand in the area is expected to rise with the announcement of a new project named 'Teknopark' in the region with approximately 30,000 people working at this project, most of them scientists and technicians. Turkish Airlines has also started their flights at Sabiha Gokcen Airport and will soon carry its technical personnel to this area. Additionally, four major companies, Akbank, Mudocity, UPS, and TNT, are expected to move their headquarters to Kurtkoy.



**Next Steps:** Continue marketing of the units to individuals as well as corporate buyers, in addition to selling the apartments in one single sale as whole blocks.

#### 4. Belek Golf Resort and Holiday Homes Project SPV: Belek Emlak Insaat ve Ticaret ("Belek")

##### Project Description

The project, Olivion Golf Resort consists of two parts; Leisure & Commercial, and Residential. The residential portion will be developed by Belek while the Leisure & Commercial will be developed by Olivion Tourism Holding, an SPV established by the Turkish Partners.

##### Residential:

- 330 apartments.
- 295 town houses.
- 170 villas.

##### Leisure & Commercial:

- 5-star international hotel.
- 18 hole signature golf course.
- Golf & country club.
- Sports club.
- Kinder garden.
- Beach club.
- Shops.



## Project Updates

The project has passed a very important milestone with the master plan, and the marketing and financial feasibility studies prepared by KPMG being finalized. Following the completion of the master plan, the initial concept design work has been started and drawings were presented to the local authorities, which are currently under review.

Belek was able to purchase additional land worth of USD 5 million based on a revenue sharing agreement. The project now requires additional USD 4 million for the purchase of the required land. Belek managed to reduce the additional funds required for the purchase of additional land reported in the previous report totaling USD 20 million to USD 9 million. This was as a result of redesigning the project according to the revised master plan, which was done by WATG and European Golf Associates.

Work continues with the Municipality on design and on the overall configuration of the site including roads, infrastructure, and swapped lands. The next phase of the planning which includes designs and infrastructure planning has started. The planning phase, including architectural designs and construction specifications, will continue until September 2010 when construction of the project is expected to commence.

On the marketing aspect of the project, KPMG's seventh annual Golf Business Forum was held in Belek, Turkey in May 2010. More than 250 industry professionals from around the world attended the three-day international event. The Golf Business Forum is a unique business platform for professionals involved in the golf business industry. Our Turkish Partners were one of the sponsors of the event. The project was very visible and extensive publicity was obtained in the international media and in specialized golf publications broadcasted on the CNN. An interview with our Turkish Partner was broadcasted on the CNN as well.

Leading figures from the golf business world, including former World Number One golfer, entrepreneur and golf course designer Greg Norman, attended the event. The course design of the Project has been finalized and an agreement has been reached with the famous woman golf professional Annika Sorrensen to put her name on the course.

The project has reached a stage where the shareholders may begin to seek off-takers for a fully matured project. Accordingly, Ithmaar Bank, as the Modareb is considering entering into a Commission Sales Agreement with the Asset Managers of the SBM for the promotion and sale of SBM's investment in the project.

***Next Steps:*** *Finalize the Sales Commission Agreement, raise funds required for the project and continue efforts to purchase the additional land, and follow-up on the planning phase of the project.*

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