

21 July 2017

Credit Rating

**Rating**  
**(National): Long Term**

**(TR) AA-**

**Outlook:**

**Stable**

**Rating**  
**(National): Short Term**

**(TR) A1+**

**Outlook:**

**Stable**

**Halk Gayrimenkul Yatırım Ortaklığı A.Ş.**

Şerifali Çiftliği Tatlısu Mah.  
Ertuğrulgazi Sokak No:1  
34774 Yukarı Dudullu  
Ümraniye/İstanbul

**Halk Gayrimenkul Yatırım Ortaklığı A.Ş.**

### **Rating Summary**

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The principle activity of Halk Gayrimenkul Yatırım Ortaklığı AŞ ("the Company") is to operate a portfolio consisting of real estates, real-estate projects, real estate based rights, capital market instruments and other assets and rights to be determined by the Capital Markets Board ("CMB"). The main purpose of the Company is to invest in real estate, capital market instruments, real estate projects, real estate based rights as stated in written objective purposes of CMB Regulations on Real Estate Investment Trusts.

The Company's operating principles regarding portfolio investment policies and governance restraints ground on compliance with CMB regulations and related legislation. The Company's investment property portfolio consists of land and buildings let to banks and head offices. The Company has obtained a certificate of incorporation from the CMB with the letter dated September 24, 2010 and numbered 9546.

The Company's registered capital ceiling is TL 1,500,000,000. The paid-in capital of the Company is TL 790,000,000 and TL 196,217,979 portion of this total is paid in cash, TL 466,282,021 as capital contribution, and TL 127,500,000 is paid with reserves (from internal sources) as capital increase.

### **Outlook**

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The Company had a portfolio size of TL 1.9 billion by the end of 2016. The Company's portfolio includes offices, hotels and housing projects as well as the land of the Istanbul Finance Center. Following the completion of the Reference Bakırköy and Eskişehir Panorama Plus housing projects, the realization of deliveries of the ongoing Sancaktepe Bizimtepe Aydos and Erzurum Şehristan residential projects will contribute to sales income. It is foreseen that the Company's portfolio size will increase with the completion of Istanbul Finance Center. However, this investment plan amounting to approximately TL 1.2 billion is likely to switch the free cash flow to negative in the coming period. The Company carried a net cash position as of the end of 2016. Despite the fact that real estate appreciation funds take an important place in revenues, it has no contribution on cash flow and solvency.

Developments in the exchange rates and interest rates determine the performance of the real estate sector, in which the Company operates. Evaluating the shine out of the real estate investments in savings and investment preferences with the demographic structure of the young population in Turkey, and the demand for additional housing created by the immigration from neighboring countries continue the demand-oriented potential in the construction sector. It is expected that construction will continue to be the leading sector driving the economic growth also in the coming period. However, a rise in construction costs due to the depreciation of the Turkish Lira against exchange rates may affect the performance of the sector.

Considering these factors, the Company's outlook is considered to be Stable.

## Methodology

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SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of company's performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at [www.saharating.com](http://www.saharating.com).

## Rating Definitions

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfill its obligations may weaken due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered “speculative” by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

## Disclaimer

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