

FITCH AFFIRMS TURKEY'S IS REAL ESTATE AT 'AA+ (TUR)'; OUTLOOK STABLE

Fitch Ratings-London/Istanbul-14 January 2009: Fitch Ratings has today affirmed Turkey-based Is Real Estate Company's (IS REIC) National Long-term rating at 'AA+(tur)'. The Outlook is Stable.

The rating reflects IS REIC's sustained healthy and stable rental revenues despite a contracting domestic economy. This is attributed to a strong tenant base and a debt-free capital structure with only minor development risk and modest tax liabilities, as well as reasonable dividend payments of TRY22.5m in 2008. Fitch expects rental income from the total portfolio to remain stable due to the long-term structure of new lease contracts (five-15 years), but notes that leases corresponding to 46% of annual rental income are up for renewal in 2009-10. The vacancy rate across the office portfolio was 0% during FYE07-9M08, indicating good asset management. However, Fitch notes that the company may be more flexible with tenant contracts to ensure a rollover at lease expiry.

Although IS REIC's ratings are driven by the entity's standalone creditworthiness, they reflect Fitch's view of the strong rating link between the company and its parent due to Isbank's ('AAA(tur)/Outlook Stable') control of the company with a 42% stake (Is Group companies overall have a 58% stake). Fitch notes that approximately 45% of IS REIC's tenants are IS Group companies, including the Sisecam Group. IS REIC also taps Isbank's real estate portfolio for development projects as it has done for the multi-use Izmir project. Any upgrade/downgrade of Isbank's rating would lead to the same in IS REIC's rating, due to the strong linkage between the two companies.

IS REIC is Turkey's largest quoted property company and at end-Q308 had a USD968m investment portfolio. However, the depreciation of TRY versus USD in Q408 may have reduced the portfolio size to approximately USD800m, based on the year-end USD/TRY exchange rate. Offices accounted for 49% of the portfolio by value, followed by retail with 32% and hotels with 5%. Fitch notes that land accounted for 5% of the total portfolio at end-Q308, but development risk will increase due to new mixed-use projects in Altunizade and Izmir (Turkey's third-largest city). Capex increased in 9M08 due to the purchase of two office buildings in Sirkeci and Gunesli for TRY60m. At end-Q308, the lease portfolio's currency segmentation was more balanced, at 48% USD, 13% EUR and 39% TRY versus 63% in USD at FYE05.

Most Turkish REIC companies, including IS REIC, are free of debt on their balance sheets. Projects are financed with upfront payments or pre-sales during the project phase, usually in big cities such as Istanbul. The agency also takes comfort from the Turkish Capital Market Board regulations governing REICs.

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