

# **CONSTRUCTION SECTOR**

**Economic Research Department**

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## **CONSTRUCTION SECTOR**

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## CONSTRUCTION SECTOR

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### I) Executive Summary

Construction is an important sector that contributes significantly to economic growth and generates considerable number of jobs. The global construction industry is forecast to grow at 2.8% while global economy managed to grow by 3.1% in 2016. Construction sector accounted for 10-12% of global output in 2016. Total global construction spending growth has slowed down in compared to previous year, realized as 3.2%, and reached to USD10.03 trillion in 2016.

The growth for the global construction spending is expected to be 4% and reach to USD10.43 trillion in 2017 from USD10.03 trillion in 2016. While construction sector growth rebounded in U.S. and European Union, the growth remained weak in energy exporter countries.

Turkish construction sector continued to perform well in 2016 despite rising geopolitical risks and fragile macroeconomic environment. While construction sector grew by 4.9% in 2015, lower than 5.0% growth rate for 2014 and 14% growth rate for 2013, it managed to post solid growth in 2016 with recording 7.2% growth rate, above the Turkey's 2.9% growth performance. On the other side, construction sector share to GDP has increased in compared to 2015, with reaching 8.8% in 2016. In the same period, the share of the construction expenditures in fixed capital investments realized as 56%.

The value of the Turkish contractors projects in the international market fell to USD12.5 billion in 2016, from USD23.2 billion in 2015. This is the lowest level since 2005 and implied that tightening liquidity conditions and geopolitical risks have undermined the sector performance.

With the completion of Istanbul's third transcontinental bridge, the Istanbul-Izmir Highway Project and the Eurasia and Ilgaz Mountain tunnels, 2016 was Turkey's year of mega projects. We expect public and private sectors mega projects to continue in 2017. In order to finance main projects in the sector, the first issuance of real estate security started this year. The first project that subject to the sale was Park Manevra 3.

Turkish construction sector is expected to grow by 5% in 2017 as increasing projects in the sector, growing population and new regulations for the housing market will improve the sector condition. However, the weakening Turkish lira with increasing FED rate hike expectations, increasing foreign currency repayments, high interest rates and the slowing economy are the main risks that will continue to pressure sector.

We expect public and private sectors mega projects to continue in 2017. The urban transformation projects will also increase the construction activity in Turkey as almost 6 million dwellings are expected to rebuild for the 10-15 year planning period. In addition to the sectoral projects and new regulations, increasing economic activity, rising consumption expenditures and positive outlook for the Turkish economy could attract more investors to the sector.

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### II) Economic Outlook

Global economic uncertainties and geopolitical risks caused a slowdown in Turkey's economy. Following sharp fluctuations in the domestic markets, S&P and Moody's decided to downgrade Turkey's credit rating. The current environment may create pressure on economic activity in the country; however, the economy may return to a rate of growth closer to its true potential once stability is restored. However, this situation resulted in a squeeze on tourism and associated sectors. After temporary third quarter slow down, economic activity recorded moderate growth performance driven by domestic demand in the last quarter of 2016. On the back of quarterly data, Turkish economy grew by 2.9% in 2016, surpassing our expectation of 2.5%. We expect Turkish economic growth to reach to 3.5% in 2017 supported by expansionary fiscal policies. Recovery in domestic demand will be again the main contributor while the contribution of net export to growth will turn to positive in this year.

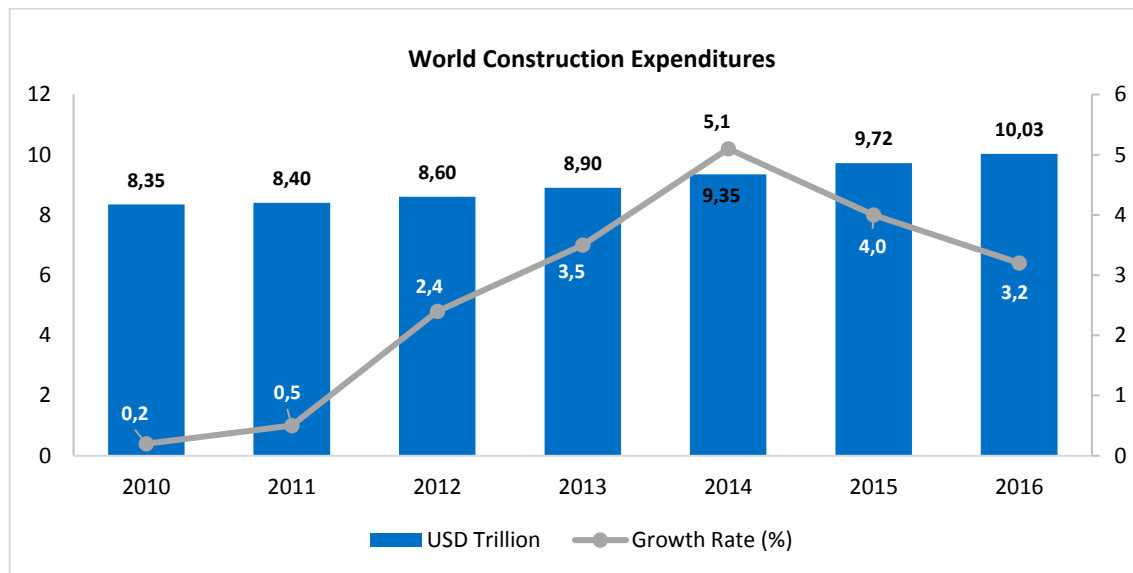
Although record low commodity and energy prices in the first months of the year led to a narrowing of the current account deficit, the fall in tourism revenues started to have a negative impact on the balance of payments from the second half of the year onwards. As a result, the current account deficit amounted to USD 32.6 billion in 2016. Due to the devaluation of the TL in the last quarter of 2016, the exchange rate pass-through effect to inflation increased. In addition to the sharp rise in the TL, the hike in food prices and the recent price increases by public enterprises, inflation for the year 2016 came in at 8.5%. In 2016, the central government's budget performance surpassed the Medium Term Program's targets, which were set with a prudent perspective, and budget discipline was preserved in 2016.

Macroeconomics Estimates								
	2010	2011	2012	2013	2014	2015 T	2016	2017T
GDP (TL bn)	1.105	1.394	1.570	1.810	2.044	2.338	2.591	3.080
GDP (\$ billion)	736	832,0	858	950	935	862	857	821
GDP Growth (real, %, YoY)	9,0	11,1	4,8	8,5	5,2	6,1	2,9	3,5
CPI	6,4	10,5	6,2	7,4	8,2	8,8	8,5	9,5
Unemployment (%)	11,9	9,8	9,2	9,7	9,9	10,3	11,0	11,5
Trade Balance (USD bn)	-72,0	-105,9	-84,0	-99,8	-84,5	-63,3	-56,0	-62,8
Exports-FOB (\$ billion)	114,0	134,9	152,5	151,8	157,7	143,9	142,6	149,7
Imports-CIF (\$ billion)	186,0	240,8	235,0	251,6	242,2	207,2	198,6	212,5
Current Account Balance (\$ billion)	-47,1	-77,1	-48,8	-65,0	-43,6	-32,2	-32,6	-37,8
Current Account Balance (% of GDP)	-6,4	-9,3	-5,7	-6,8	-4,7	-3,7	-3,8	-4,6
Cent. Gov. Cons. Budget Balance (%of GDP)	-3,6	-1,3	-1,9	-1,0	-1,1	-1,0	-1,1	-2,4
Cent. Gov.Cons. Budg Primary Surp (% of GDP)	0,8	1,8	1,2	1,7	1,3	1,3	1,0	-0,4
CBRT policy rate (%)	6,5	5,8	5,5	6,8	8,3	7,5	8,0	9,0
\$/TL exchange rate (year-end)	1,54	1,88	1,78	2,13	2,32	2,92	3,53	3,88
TL/basket (year-end)	1,80	2,16	2,06	2,53	2,58	3,04	3,62	3,92

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### III) Global Construction Sector

The global construction industry is forecast to grow at 2.8% while global economy managed to growth by 3.1% in 2016. Construction sector accounted for 10-12% of global output in 2016. Total global construction spending growth has slowed down in compared to previous year, realized as 3.2%, and reached to USD10.03 trillion in 2016. However, overall, it was not a bad year for construction, particularly in light of the headwinds faced during the year. While growth in developed countries of construction spending has strengthened, developing countries growth of construction spending has decelerated in 2016.



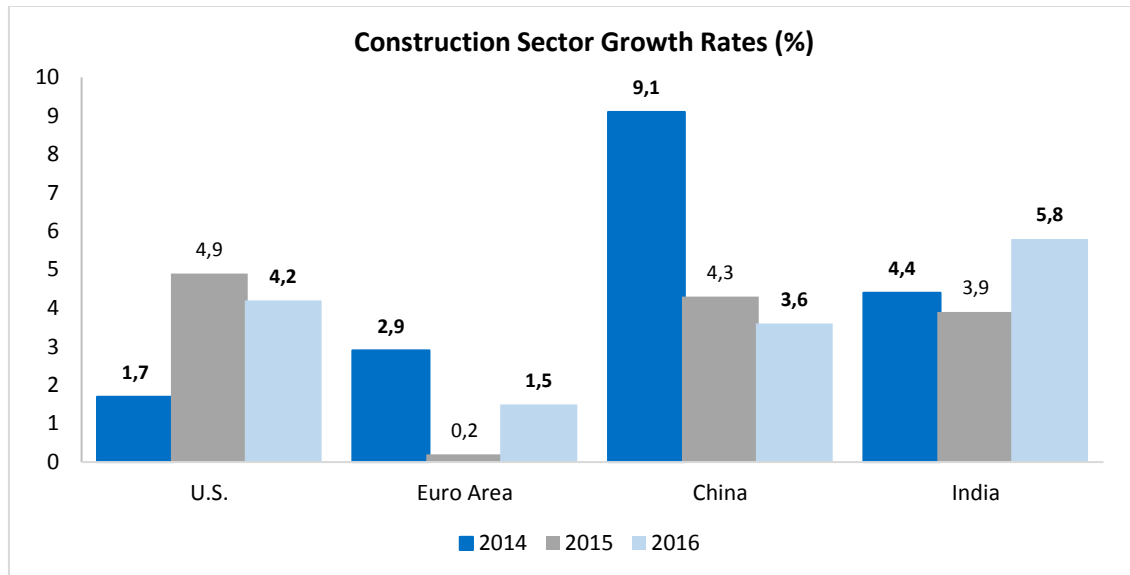
Source : Global Construction Handbook 2016, AECOM OXFORD

#### ***Construction sector growth in selected countries***

The growth in the construction sector spending in U.S. and Europe continued to increase in 2016. The U.S. construction spending dipped to USD796 billion in 2011 but then increased gradually, amounted as USD1.18 trillion in 2016, and almost turned to its 2008 level.

In Europe, especially after prolonged decline in eight quarters, the construction sector started its growth rate in the first quarter of 2014 and growth performance of the sector has continued in 2016. In Asia Pacific region, the growth of construction sector in China decreased to 3.6% in 2016. In India, the growth of construction sector accelerated and realized as 5.8%.

## CONSTRUCTION SECTOR



Source : Global Construction Handbook 2016, AECOM OXFORD

In our close markets, the geopolitical risks and decreasing oil prices have negatively affected the construction sector. In Iraq, the construction sector contracted by 2.6% amid increasing conflicts in the country. At the same time, construction sector in Russia contracted by 1.2% in 2016 mainly due to increasing geopolitical risks and declining energy revenues. Lower oil prices led to the decline of revenues in Azerbaijan and construction sector contracted by 4.5% in the same year.

Construction Sector Growth in Selected Countries (%)					
Countries	2012	2013	2014	2015	2016*
Germany	-1,1	0,2	1,4	-0,2	1,5
United Kingdom	-7,6	1,5	8,0	4,0	1,8
France	-1,7	-1,5	-2,3	-2,9	-0,5
USA	1,4	3,1	1,7	4,9	4,2
Canada	3,9	1,8	1,4	-2,9	-1,8
India	5,6	5,9	4,4	3,9	5,8
China	7,4	7,3	9,1	4,3	3,6
Japan	1,6	5,5	1,9	3,0	2,6
Indonesia	6,6	6,1	7,0	6,6	5,4
Iraq	44,5	44,9	-9,5	-0,8	-2,6
Russia	4,0	0,1	-2,1	-2,0	-1,2
Azerbaijan	18,0	21,3	9,1	-13,4	-4,5
Turkmenistan	9,4	8,4	12,1	5,9	4,4
Saudi Arabia	4,8	7,8	6,7	5,6	1,8

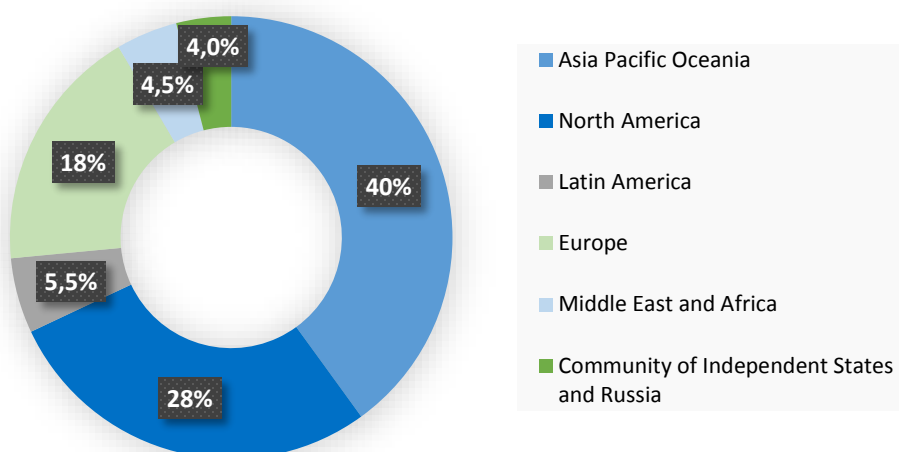
Source: National Statistical Offices, \* estimation

## CONSTRUCTION SECTOR

### *The share of the North America increased in global construction spending*

The distribution of the global construction spending by regions has shown that the share of North America increased to 28% in 2016 driven by recovery in US. Asia Pacific Oceania become the highest region in terms of the construction spending, its share increased by 1 point to 40% in 2016. Share of Europe reached to 18% in 2016 on the back of increasing growth performance since 2014. The share of Latin America edged down to 5.5% whereas the share of Middle East and African countries realized as 4.5% in 2016.

World Construction Expenditures Regional Distribution in 2016

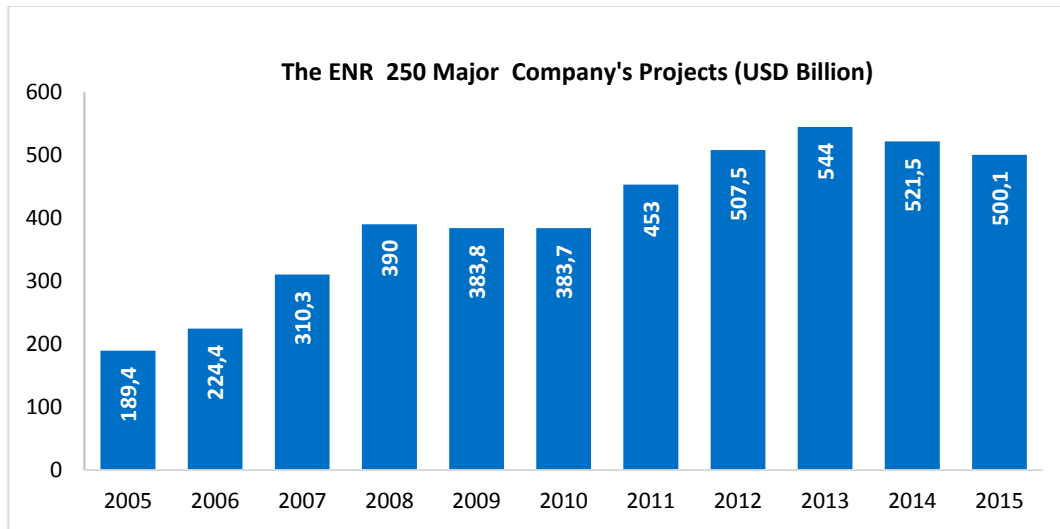


Source: AECOM Company

### *Cross-border contracting services*

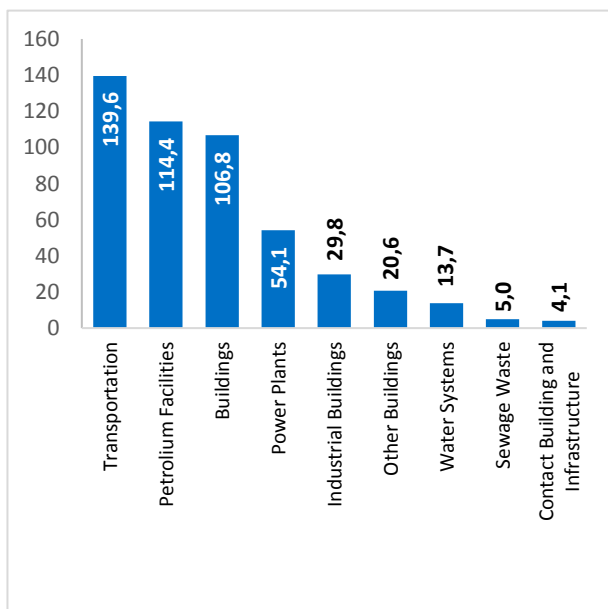
The first 250 major firms (ENR-250 list) cross-border contracting activities fell to USD500.1 billion in 2015. While the highest business volume has recorded in the transportation investments projects (USD139.6 billion), followed by petroleum facilities and buildings, on a regional basis, Asia & Australia, Europe and Middle East regions continued to perform well in 2016.

## CONSTRUCTION SECTOR



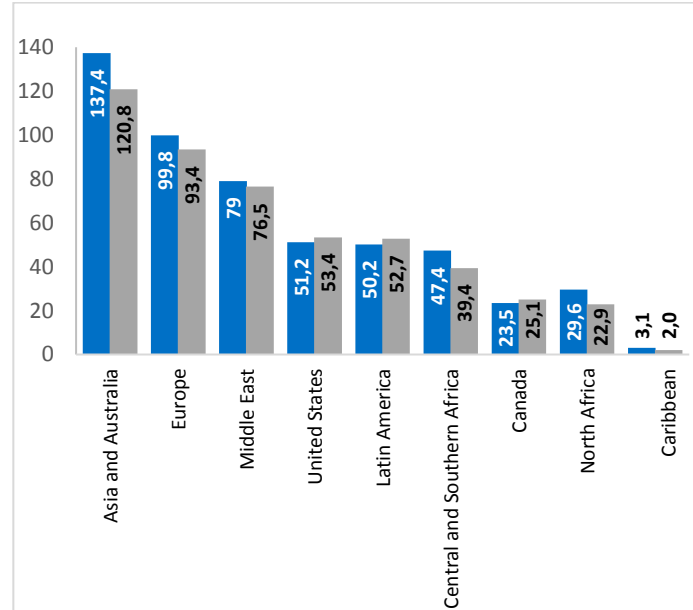
Source: ENR 250, 2016

**ENR 250 Major Company's Project Distribution by Sectors (2016) (USD Billion)**



Source: ENR 250, 2016

**The ENR 250 Major Company's Projects Regional Distribution (2016) (USD Billion)**





## CONSTRUCTION SECTOR

***The growth expectation for the global construction spending is 4% for 2016.***

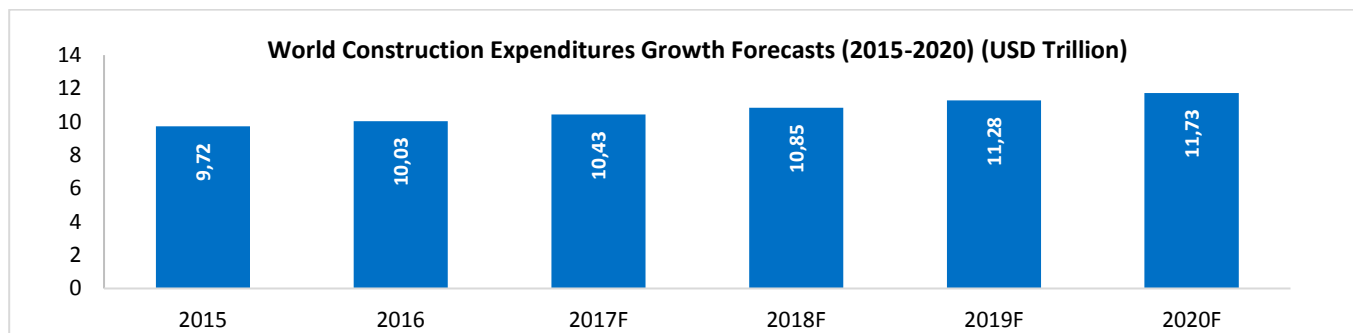
The growth for the global construction spending is expected to be 4% and reach to USD10.43 trillion in 2017 from USD10.03 trillion in 2016. While construction sector growth rebounded in U.S. and European Union, the growth remained weak in energy exporter countries.

Selected Countries Growth Expectations in the Construction Sector (%)		
Countries	2016F	2017F
Germany	1,5	1,5
United Kingdom	1,8	2,9
France	0,5	3,9
USA	4,2	3,6
Canada	-1,8	3,0
India	5,8	5,7
China	3,6	3,5
Russia	-1,2	1,0
Azerbaijan	-4,5	1,0
Turkmenistan	4,4	4,5
Iran	1,5	3,8
Saudi Arabia	1,8	2,2
Qatar	12,0	9,0
UAE	2,8	3,0

In 2017, construction sector is expected to grow by 3.6% in U.S., by 1.5% in Germany and 2.9% in United Kingdom. Canada's expected growth rate for the construction sector is 3.0% for 2017. China's and India's growth rates for the construction sector are expected to be a 3.5% and 5.7% in 2017, respectively. These countries are the biggest countries in the construction sector. Growth is expected to increase in energy exporter countries. The construction sector in Russia is expected to grow by 1.0% in 2017. The construction sectors in Iran, Russia and Saudi Arabia are expected to grow in the coming period helped by the increasing oil revenues. The global market for construction materials is expected to grow in parallel with the improvements in the construction spending. The global market for construction materials grew by 3.2% in 2016 and reached to USD7 trillion. In 2017, the market is expected to grow at 4% and will reach to USD7.28 trillion.

Source: National Statistical Offices

The export of the global construction materials fell by 1.5% to USD795 billion in 2016. This decrease was mainly came from the downward trend in metals and commodity prices. Meanwhile, the export of the global construction materials will increase in 2017 helped by the recovery in European and U.S. markets and the new developments in developing markets.



Source: Global Construction Handbook 2016, AECOM OXFORD, F: Forecast

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### IV) Turkish Construction Sector

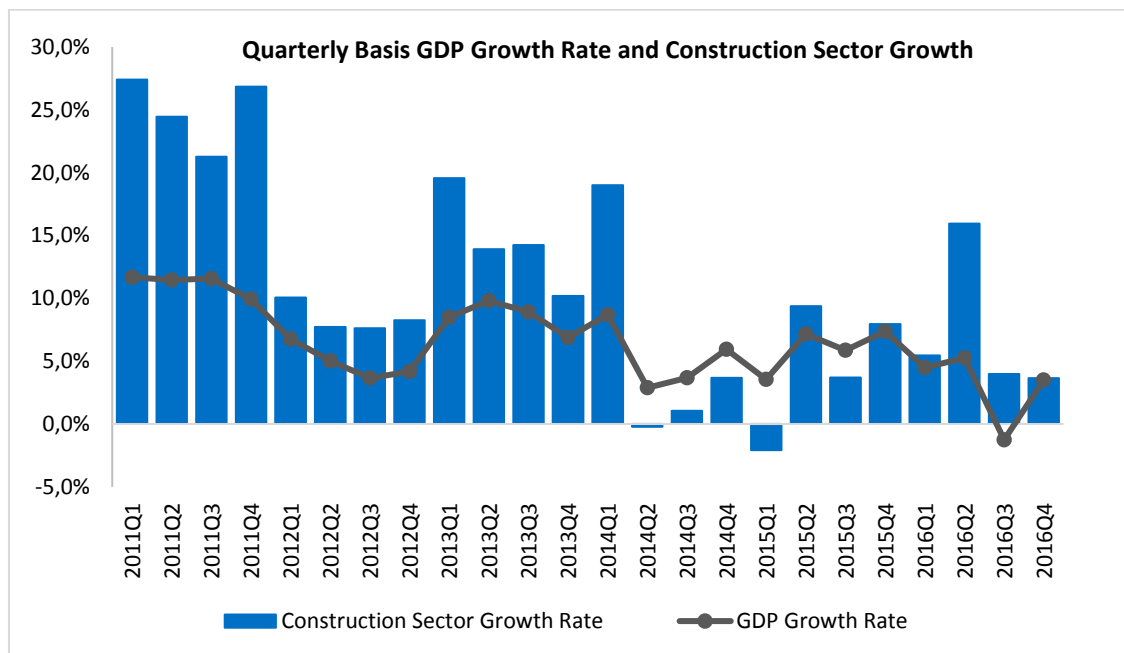
#### A) Turkish Construction Sector By Main Economic Indicators

- **Construction sector and GDP growth**

Directly responsible for a significant share of GDP and with its contractors active right across the globe, Turkey's construction sector has been at the forefront of the country's recent economic development.

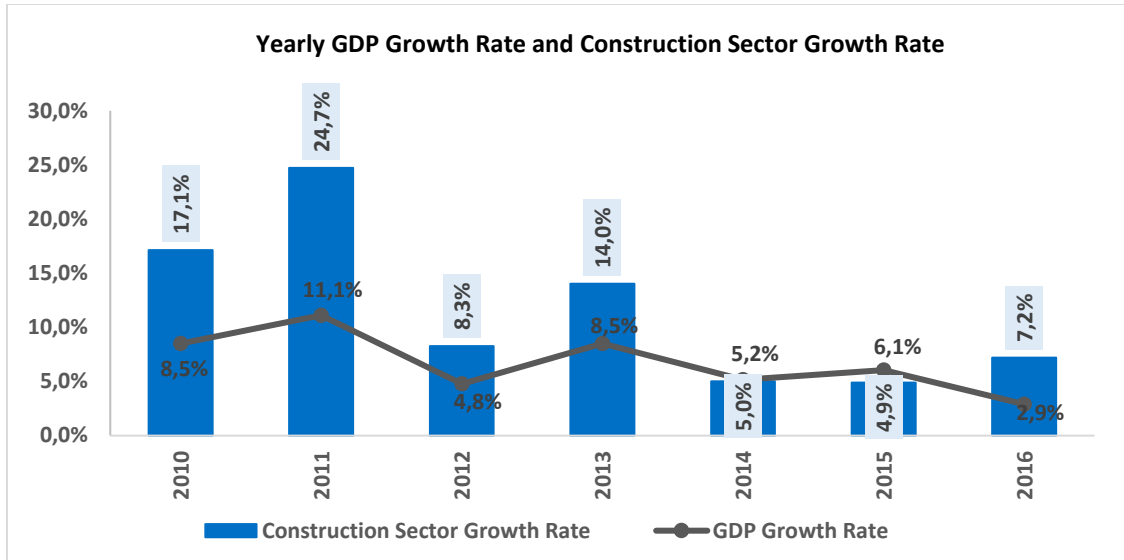
Turkish construction sector continued to perform well in 2016 despite rising geopolitical risks and fragile macroeconomic environment. While Turkish economy grew by 4.5%, 5.3%, -1.3% and 3.5% on a quarterly basis, Turkish construction sector performed well in compared to Turkish economy and recorded 5.4%, 16.0%, 4.0% and 3.7% growth rates on a quarterly basis. The new housing investment projects and credit incentives in the construction sector have supported the sectoral development.

While construction sector grew by 4.9% in 2015, lower than 5.0% growth rate for 2014 and 14% growth rate for 2013, it managed to post solid growth in 2016 with recording 7.2% growth rate, above the Turkey's 2.9% growth performance. On the other side, construction sector share to GDP has increased in compared to 2015, with reaching 8.8% in 2016. In the same period, the share of the construction expenditures in fixed capital investments realized as 56%.

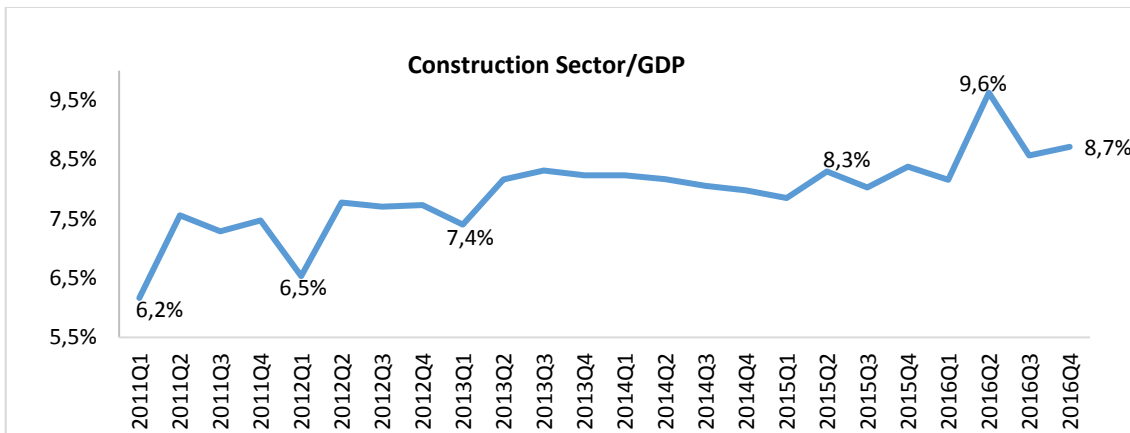


Source: Turkstat

## CONSTRUCTION SECTOR



Source: Turkstat

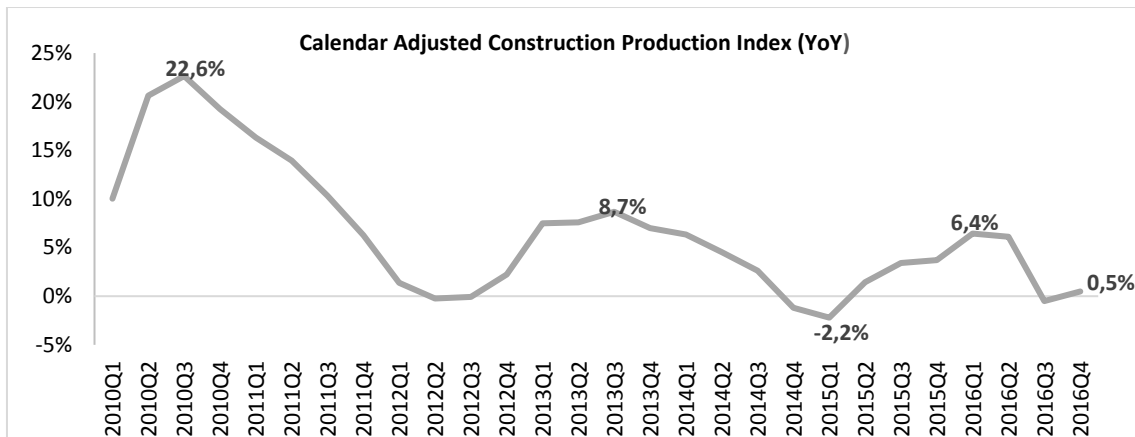
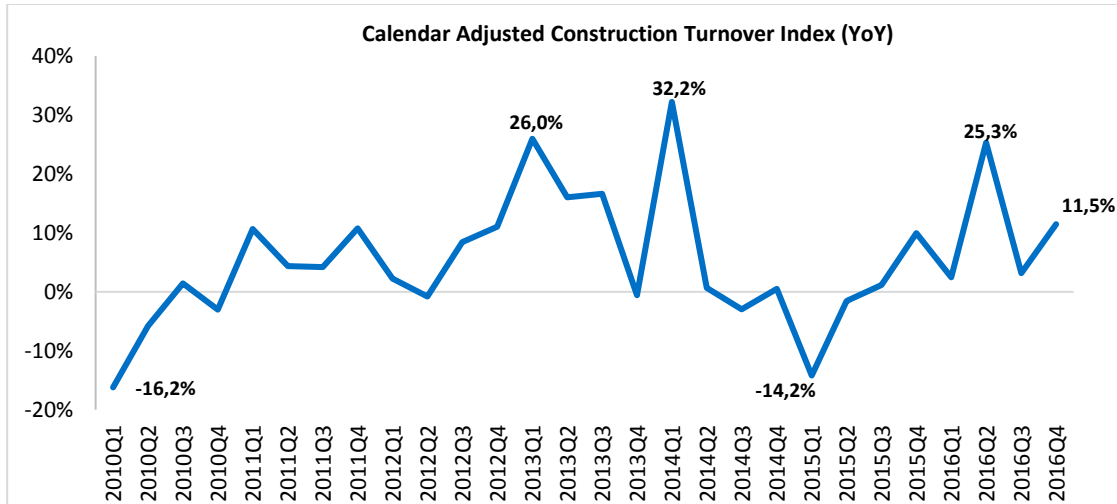


Source: Turkstat

- Construction turnover and production indices**

The construction turnover index is sensitive to the increase in the production index and the production increase leads to increase in turnover index. The recent trends have shown the moderate increase in both indices. In 2016 building construction activities performed well in compared to non-building type construction activities due to continuing geopolitical risks in our close markets. As of 2016, while construction turnover index rose by 10.8% YoY (average), construction production index increased by 2.9% YoY (average).

## CONSTRUCTION SECTOR



Source: Turkstat

- Cost of building construction remained below the inflation**

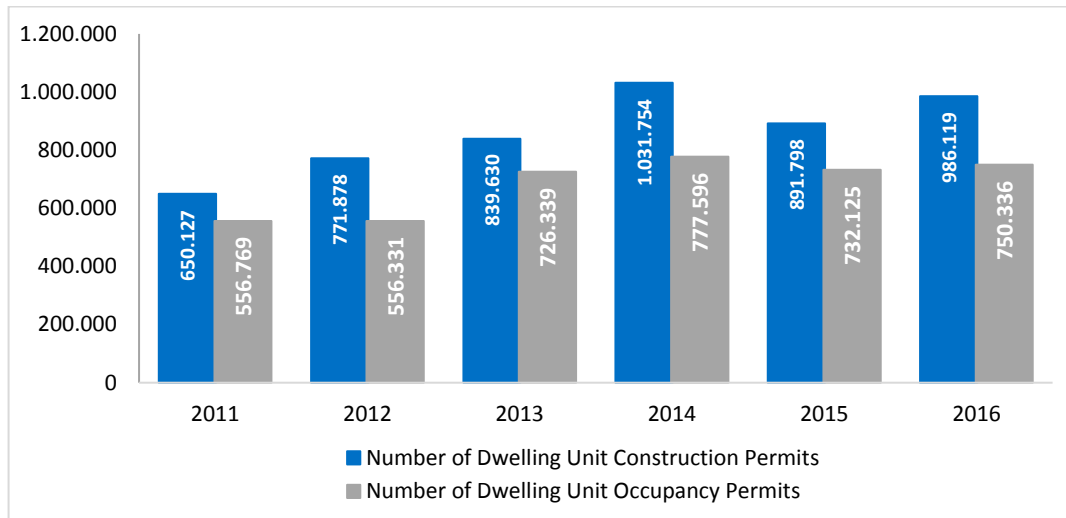
Cost of building construction increased by 7.7% in 2016, well above from 5.9% in 2015. Despite recent increases, the index growth remained below the inflation increase.

- The new construction permits would restrict the sector's growth performance**

The construction permits are leading indicators for the next period construction activities. The latest figures have shown that the gap between the construction permits and the occupancy permits increased in 2016 and construction permits rose more than occupancy permits in the same period. This situation would restrict the sector's growth performance in the coming period.

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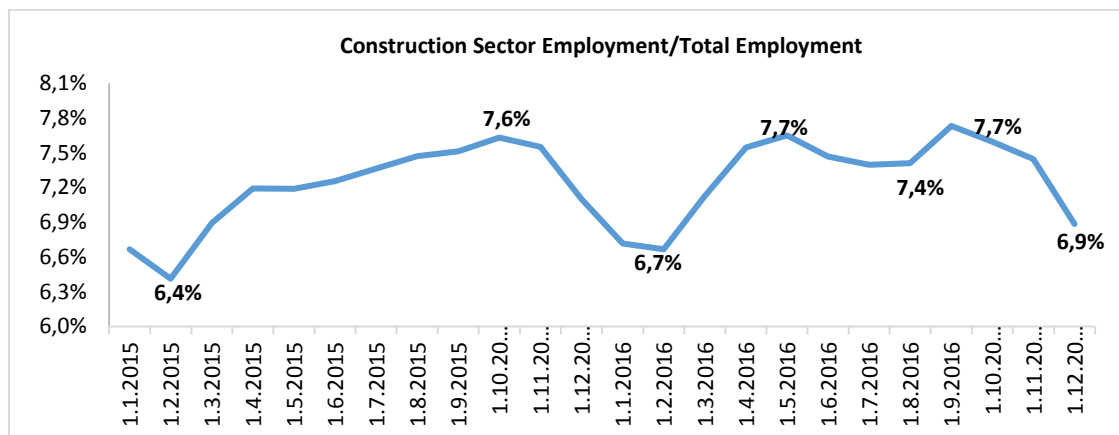
In 2016, given construction permits to the dwelling units rose by 11% to 986.119 level in compared to 2015, meanwhile the number of given occupancy permits to the dwelling units increased by 2.5% to 750.336. The recent numbers have not reached the 2014 level and represented modest growth only if compared to 2014.



Source: Turkstat

- Construction sector continued to support employment market**

Construction is one of the most important sector with creating good employment opportunities for the sub-sectors. Unemployment rate increased to 10.9% in 2016 due to decreasing economic activity and uncertain domestic politic environment. Meanwhile, construction sector continued to support employment market in 2016 and the construction sector employment to total employment realized as 7.3% in 2016 (yearly average), which was the same level in 2015.



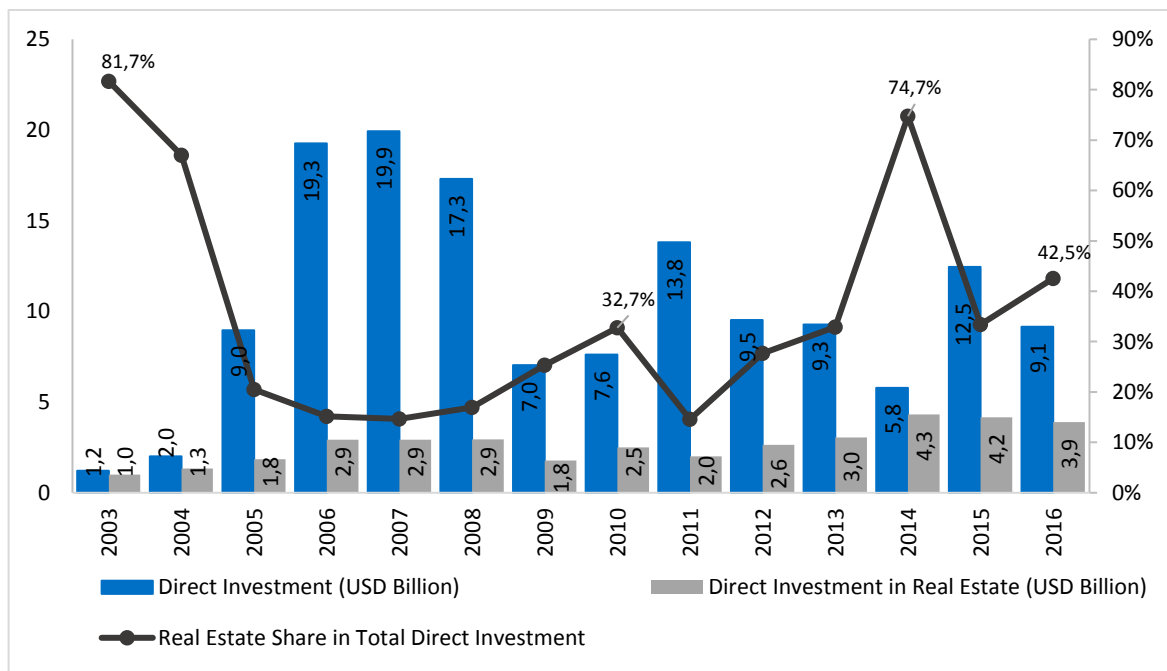
Source: Turkstat

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- Foreign direct investment in real estate**

Foreign direct investment to Turkey fell by 26.6% to USD9.1 billion in 2016 in compared to previous year mainly due to rising geopolitical risks and terrorist attacks. In the same period, foreign direct investment into the real estate market fell by 6.4% to USD3.9 billion. As a result, the real estate's shares in the total foreign direct investment realized as 42.5% in 2016. We expect foreign direct investment to the real estate market to increase in 2017 helped by the latest housing market regulations.

Turkey's property sector has welcomed a new law that allows the introduction of value-added tax (VAT) exemption for foreigners who make real estate investments in the country, speculating that the sales to foreigners would soar. The law, which was passed in parliament late on Feb. 23, will also be applicable to Turks who have been living and working abroad for more than six months.



Source: CBRT

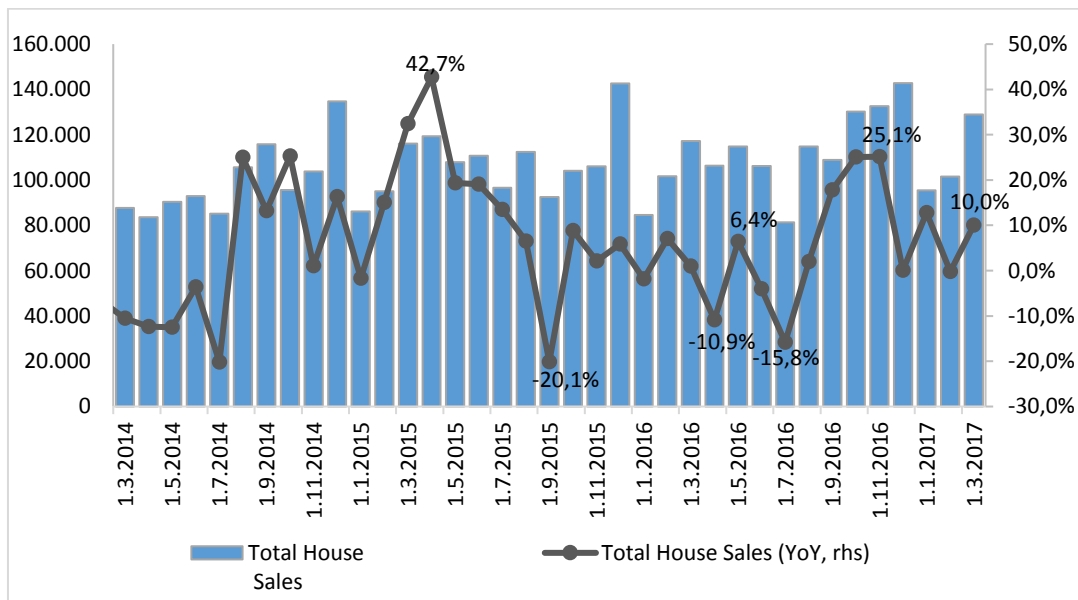
## CONSTRUCTION SECTOR

### B) Construction Sector Analysis By Its Sub Sectors

- Housing Sector Performance**

#### House Sales:

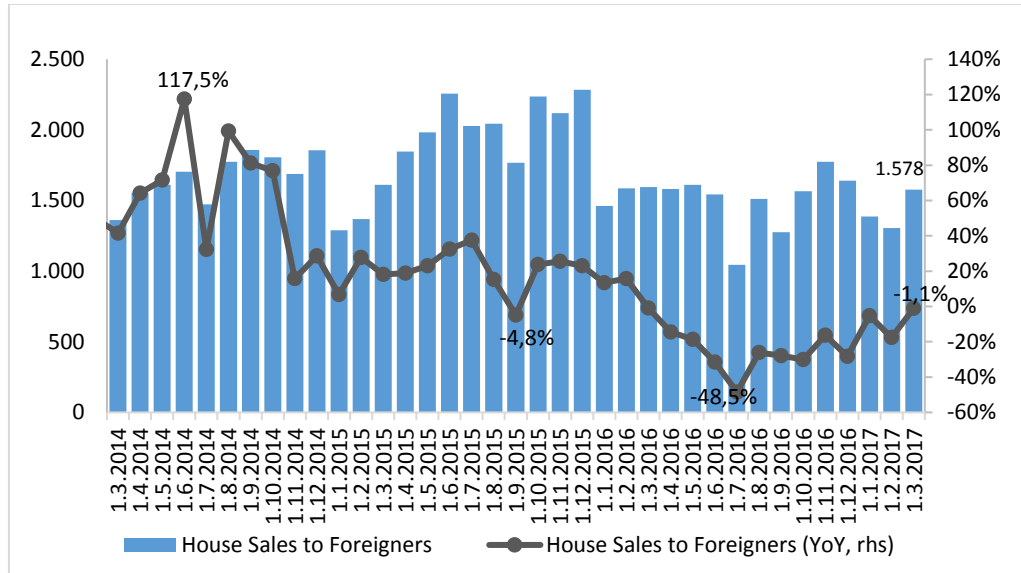
The total number of houses sold in the property market increased by 4.2% to 1.341.453 in 2016 in compared to previous year. While the mortgaged sales rose by 3.5% to 449.508, other sales increased by 4.3% to 891.945 in the same period. Mortgage sales, which has a 30-40% share of all house sales in Turkey, rose considerably in the second half of 2016 helped by the decreasing interest rates on housing loans. The recent campaigns and regulations have supported Turkish housing market in 2016.



Source: Turkstat

The increasing terrorist attacks and security risks in Turkey have negatively affected foreigners buying appetite in real estate market. House sales to foreigners declined sharply by 20.3% in 2016 and fell to 18.189 level in compared to previous year. In 2016, most house sales were made to Iraqi citizens. The followers of Iraq were Saudi Arabia, Kuwait, Russia and Afghanistan. In addition, General Directorate of Land Registry and Cadaster data has shown that the foreigners real estate purchases fell by 0.9% in 2016 to USD3.85 billion in compared to previous year. While foreigners demand for the housing market remained subdued in 2016, the foreigners' appetite to the real estate market is expected to increase in 2017 helped by the new housing sector financing facilities and the regulations, which provide VAT exemption for foreigners.

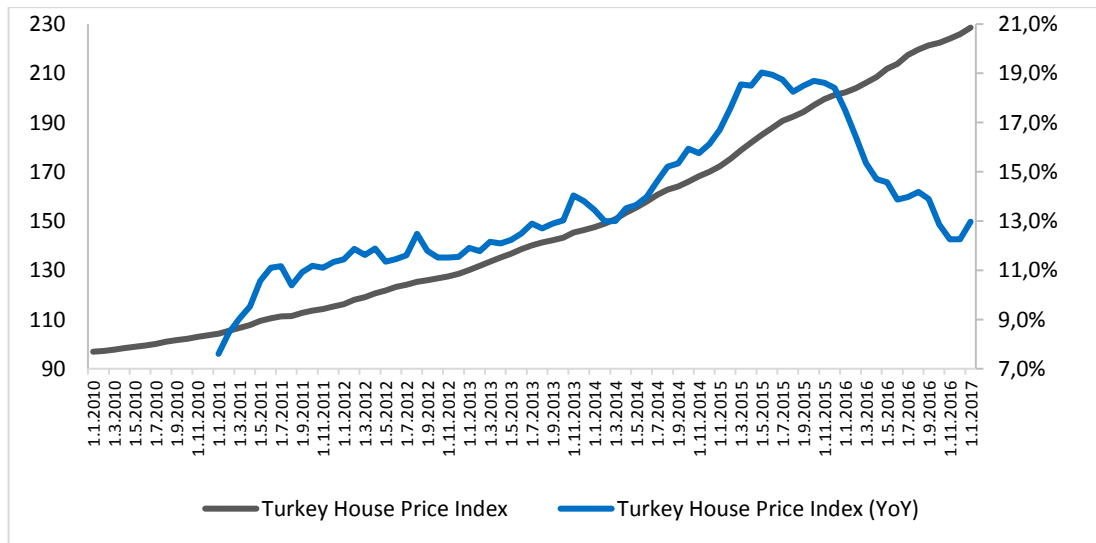
## CONSTRUCTION SECTOR



Source: Turkstat

### House Prices:

House prices continued to increase in 2016 but the growth rate has decelerated in compared to 2015 due to continuing campaigns in the sector. House prices in Turkey went up 13% in December 2016 and has not achieved 18.4% annual growth rate recorded in the same month of 2015. With considering rising interest rates and inflationary pressures, the decreasing disposable income could pressure house prices in the coming period.



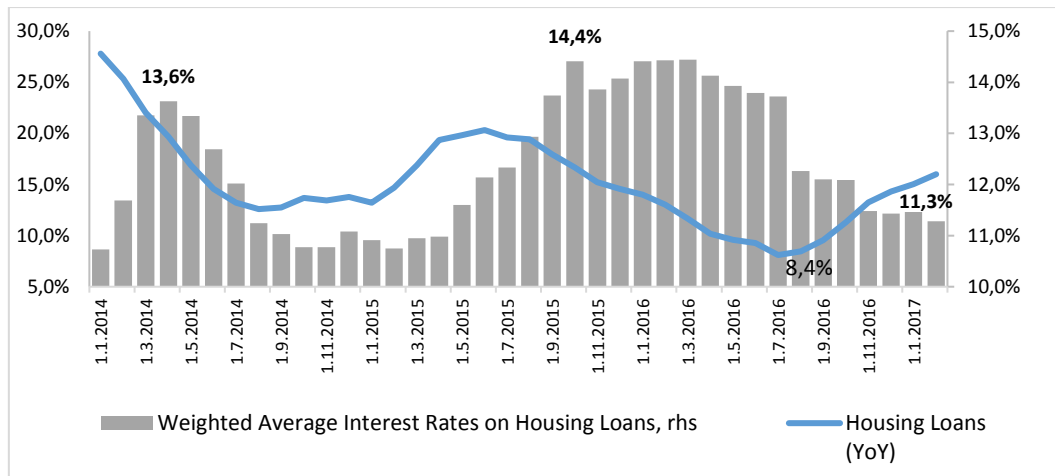
Source: CBRT



## CONSTRUCTION SECTOR

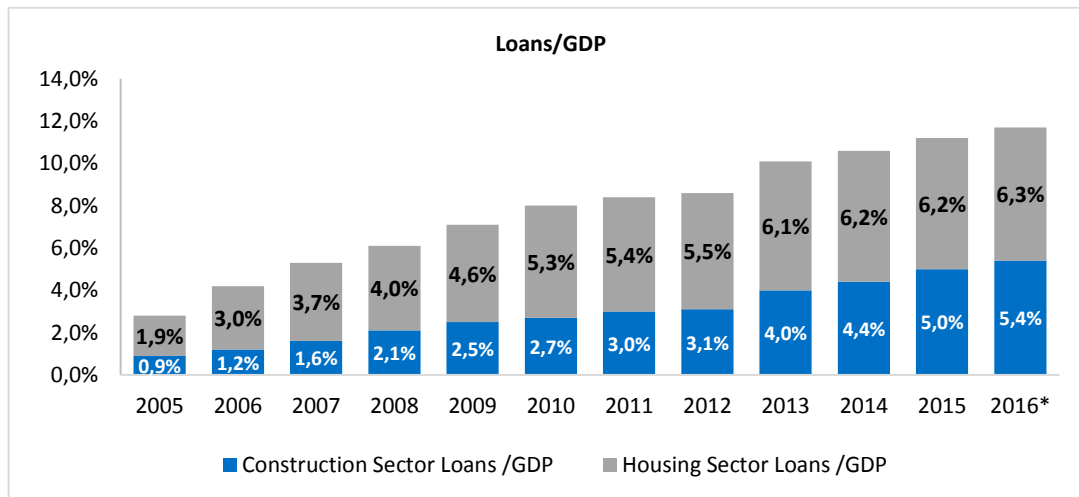
### Housing Market Loan Condition:

While total housing sector loan volume in Turkey reached to TRY163.7 billion, cash loans granted to construction sector realized as TRY146 billion in 2016. The housing sector campaigns, new regulations and the decreasing interest rates have positively affected housing loans in 2016. Housing sector loans annual growth rates reached to 14% and the weighted average interest rates on housing loans decreased to 11% level in 2016 from 14% level in 2015. Despite recent loan recovery, housing loans growth rate decelerated in compared to 2015.



Source: BRSA, CBRT

As of September 2016, while construction sector loans to GDP rose to 5.4%, housing sector loans to GDP ratio remained unchanged at 6.3%.

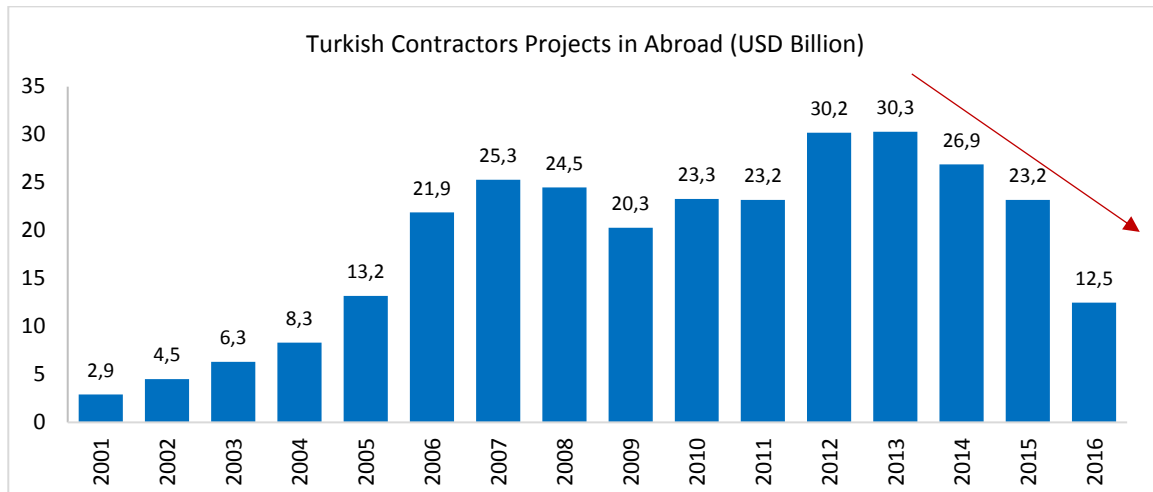


Source: BRSA, Turkstat, \* As of September 2016

## CONSTRUCTION SECTOR

- Turkish Contracting Activities In The International Market**

The value of the Turkish contractors projects in the international market fell to USD12.5 billion in 2016, from USD23.2 billion in 2015. This is the lowest level since 2005 and implied that tightening liquidity conditions and geopolitical risks have undermined the sector performance.



Source: Ministry of Economy

In 2016, Qatar (19.3%) was the number one market for Turkish contractors, followed by Saudi Arabia (6.9%), Uzbekistan (6.9%), Bahrain (6.3%) and UAE (5.1%). On a regional basis, Middle East, Commonwealth of Independent States (CIS) and the Africa are the main regions for the contracting services activities.

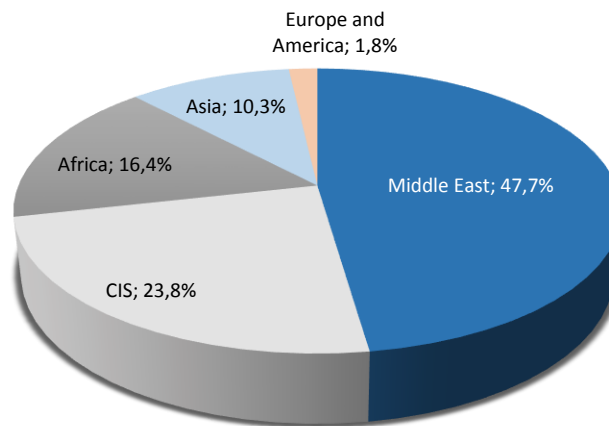
Turkish Contractors Projects in Abroad by Countries (2016)		
Countries	Project Value (USD)	Share (%)
Qatar	2.416.584.536	19,3%
Saudi Arabia	867.563.237	6,9%
Uzbekistan	862.324.741	6,9%
Bahrain	789.234.166	6,3%
UAE	634.453.420	5,1%
Kuwait	626.266.592	5,0%
Senegal	496.655.292	4,0%
Pakistan	465.758.412	3,7%
Ukraine	457.110.851	3,6%
Morocco	452.086.225	3,6%
Other Countries	4.916.679.949	39,2%
<b>Total</b>	<b>12.532.631.196</b>	

Source: Ministry of Economy

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The Middle East countries construction activities fell with the declining oil prices in 2016 and continuing geopolitical risks. Meanwhile, we expect modest recovery in the sector for the coming period with considering rebound in oil prices and the positive relations with Russia. In addition to the Middle East, Turkish contractors would like to develop their contractor ship activities in Sub-Saharan Africa for the coming years.

**Turkish Contractors Projects in Abroad by Regions**



Source: Ministry of Economy

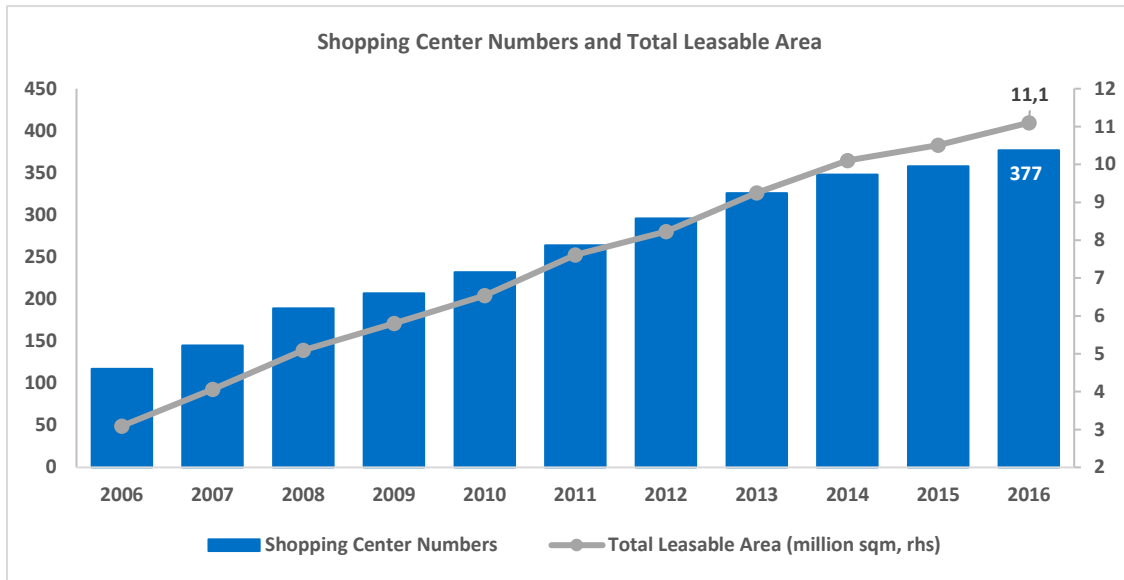
- **Commercial Real Estate Sector**

**Shopping Center Market:** 20 new shopping centers were opened and 600.000sqm. of new space was added during 2016. Some of the shopping center projects were postponed due to great difficulties in 2016. There are 377 shopping centers throughout Turkey, with a total leasable area of 11.1 million sqm.

The depreciation of Turkish lira against dollar has increased the cost of the shopping centers and has lowered investments in the sector. The shopping center turnover index growth decelerated due to rising security risks and continuing geopolitical concerns.

While shopping centers total turnover realized as TRY100 billion in 2016, it is expected to increase TRY110 billion in 2017. 41 new shopping centers are expected to open and 2.9 million sqm leasable area will be added in 2017-2019 period. The cities of Istanbul and Ankara take up 51% of the country's total shopping center leasable area.

## CONSTRUCTION SECTOR



Source: Council of Shopping Centers Turkey

**Hotel Investments:** Data from the Ministry of Culture and Tourism for 2016 indicates a decline in visitor numbers to Turkey compared to the previous year, a year-on-year decline of 30% in overall visitor numbers, with a 26% drop in the number of visitors to Istanbul. Declining visitor numbers to Turkey negatively affected hotel investments in 2016. Year-on-year comparison of data for 5-star hotels in Istanbul in 2016 shows a 29% fall in occupancy rates and a 30% decline in average room rates.

The decline in room rates has been caused by political mega-trends, unfavorable developments in the region, and an increase in geopolitical risks. Official 2016 statistical data shows a total of 20.861 rooms (with 43.464 beds) in 191 facilities licensed by the Ministry of Culture and Tourism in Istanbul. The total room number is expected to increase 52.400 in 2017.

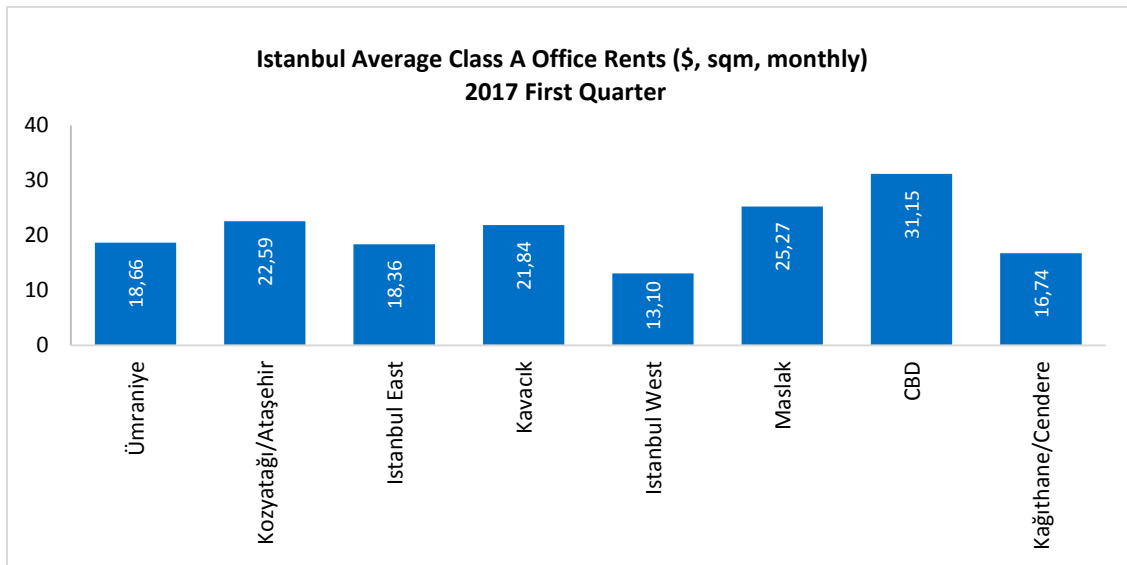
**Office Market:** Office requests and new leases remained subdued in 2016 compared to previous year on the back of increasing volatility in global and domestic markets. While office stocks rose and the prices remained under pressure in 2016, we expect moderate increase in office projects in 2017 thanks to rising economic activity.

In 2016, emerging official areas (include Kağıthane, Bomonti-Piyale Paşa, Kartal-Maltepe and East Ataşehir) grew faster and their share in total office stock increased to 15% from 12% in 2016. At the same time, while the share of Central Business District (CBD) area decreased to 37% from 39%, share of the CBD outside Europe remained at 18%. The share of non-CBD Asia region declined to 30% from 31% in 2016.

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Average Class A office rents on the European side of Istanbul, which stood at \$29.29/sqm/month in the fourth quarter of 2016, declined to \$28.21/ sqm/month in the first quarter of 2017, while average Class A office rents on the Asian side remained unchanged. Region-by-region analysis shows that rents remained stable in the Ümraniye, Istanbul West and Maslak regions, fell in the Kozyatağı/ Ataşehir and CBD regions, and rose in the Kağıthane/Cendere, Istanbul East and Kavacık regions.

Vacancy rates in the first quarter of 2017 have remained more or less stable; the Class A vacancy rate on the European side edged up from 33.34% to 33.77% over the last quarter of 2016, while Class A vacancy rates on the Asian side dipped from 36.73% to 36.67% in the same period. A further 1.083.240 of office space will be added to stock within the coming two years. Of this, 39% will be in the Kozyatağı/Ataşehir region, 25% in CBD, 25% in Kağıthane/Cendere, 6% in Ümraniye, 3% in Maslak, and 3% in Istanbul East.



Source: Colliers Turkey, Real Estate Review

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### V) Conclusion

Turkish construction sector is expected to grow by 5% in 2017 as increasing projects in the sector, growing population and new regulations for the housing market will improve the sector condition. However, the weakening Turkish lira with increasing FED rate hike expectations, increasing foreign currency repayments, high interest rates and the slowing economy are the main risks that will continue to pressure sector.

It is obvious that Turkish housing market will continue to represent new projects in the coming period along with the public and private sector cooperation. As of 2016, total public sector energy and transportation-communication infrastructure investments reached to TRY280.97 billion. With the completion of Istanbul's third transcontinental bridge, the Istanbul-Izmir Highway Project and the Eurasia and Ilgaz Mountain tunnels, 2016 was Turkey's year of mega projects. We expect public and private sectors mega projects to continue in 2017. The urban transformation projects will also increase the construction activity in Turkey as almost 6 million dwellings are expected to rebuild for the 10-15 year planning period and the urban transformation process is expected to contribute construction sector development in the near future. In addition to the sectoral projects and new regulations, increasing economic activity, rising consumption expenditures and positive outlook for the Turkish economy could attract more investors to the sector.

The government has announced a series of measures since the second half of 2016 in order to support construction sector. These are,

- Banks lowered interest rates on housing loans.
- Down payment rate decreased to 20% from 25% for the mortgage based loans.
- Turkish Parliament has approved the versatility law, which provides an exemption of VAT of 18% for foreigners investing in real estate in Turkey. This law will also valid to Turks living and working abroad for longer than six months.
- VAT applied to the construction materials fell to 1% from 18%.
- VAT on properties with the tax value of 500 to 1.000 TRY per square meter, has been declined to 8% for all housing projects, of which the construction permit was received between Jan 1, 2013, and Dec. 31, 2016, and the public tender was made after Jan. 1, 2013. For properties with tax value above 1.000 TRY per square meter, will be 18%. The VAT on properties with a tax value of 1.000 to 2.000 TRY per square meter has been declined to 8% for all housing projects, of which the construction permit was received after January 2017 and the public tender was made after this date. For properties with tax value over 2.000 TRY per square meter, the VAT will be 18%.

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- The contractors have increased housing sector loans maturity to 20 year (240 months) with the leadership of the Emlak Konut REIT. The application aims to include low and medium income group to the system with increasing maturity and decreasing the housing sector interest rates at the same time.
- The stamp duty arising from the execution of a real estate "promise to sell" agreement has been decreased from 0.948 % to 0% by Council of Ministers.

In order to finance main projects in the sector, the first issuance of real estate security started this year. The first Project that subject to the sale was Park Manevra 3 (which was based on the income sharing partnership model of TOKİ and Makro İnşaat). The issuance of real estate security will allow individuals who do not have enough savings to buy a house to buy shares in housing projects. While some will collect their shares and become homeowners, others will sell their shares and benefit from the increase in value. With this model, small investors will be able to take part in big projects. Foreign investors can also buy shares in this system and no upper limits are in place.

### **Construction materials growth expectations:**

Construction materials internal market grew by 6.2% in real prices and reached to TRY290.4 billion. The construction materials market is expected to grow by 6.5-7.0% in real terms and 15% in current prices and will reach to TRY335 billion in 2017.

The export of the construction materials fell by 10.2% to USD15.23 billion in 2016. However, export of the construction materials is expected to increase USD16-16.5 billion in 2017 helped by the increasing demand from the energy exporter countries, and the positive relations with Russia. Increasing construction sector activities in European Union and U.S. will also support export activities in the coming period.

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