Corporate Governance and Credit Rating Services Inc.

30 March 2016

Credit Rating

Rating (National): Long Term

(TR) A+

Outlook:

Stable

Rating (National): Short Term

(TR) A1

Outlook:

Stable

REYSAŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.
Abdurrahmangazi Mah.
Bahriye Sok. No:8
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REYSAŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. (RYGYO)

Rating Summary

Reysaş Gayrimenkul Yatırım Ortaklığı A.Ş. ("Reysaş GYO") ("the Company", "Reysaş") was founded on 2008 and went public on 2010 under the equity ownership of Reysaş Lojistik ve Taşımacılık Tic. A.Ş. Reysaş GYO is a real estate investment trust established to invest in real estate and real estate projects in warehousing, developing and long-term rental of these premises. Reysaş GYO is the first real estate investment trust in Turkey who focused on developing warehousing market.

Reysaş GYO's portfolio value has increased by 55% to reach TL 1,053,241,000 as of end 2015. The Company has a market share of 0.6% with a total market capitalization of TL 125,460,000.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, REYSAŞ GYO received a (National) long term rating of A+.

Strengths and Risks

Strengths

- The Company specializes in renting warehouses.
- The parent Company, Reysaş Lojistik, has brand recognition in the sector it operates.
- The tenant portfolio is composed of internationally recognized companies.

Risks

- The real estate (warehousing) sector in which the Company is engaged in is sensitive to macroeconomic instabilities.
- There is a possibility of abolition or lowering of the 20% tax exemption granted to REITs.
- The Company has net foreign currency liability position as of end 2015.

Outlook

The main factors that may affect the overall appearance of the Company in the short-term period are as follows:

• A change in tax exemption for REITs may affect the Company.
• Financing costs which may occur with the continuation of the upward trend in foreign exchange rates may affect the Company outlook.
• Inexistence of another storage rental company offering services in such a scale in the Marmara region where Reysaş GYO has intensive investments is an advantage for the Company.
• Brands such as Koton, CarrefourSA, Arçelik, Ekol Lojistik, Netlog Lojistik, Adel, DHL, Toyota, Mudo, Sony, e-bebek, Sumitomo, Philip Morris and Gefco are the Company’s tenants. The Company's top ten tenants generate 90.77% of the fixed rental income.

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

Economic Outlook and Analysis of the Sector

The decline in commodity prices in 2015, the US Federal Reserve's interest rate increase of 0.25 percentage points, trend of the economic activity witnessed in the Euro Zone and concerns on impact of the slowdown in China’s economy on the developing countries has shaped the agenda of the global economy. Prominent developments in 2015 led to the tightening of global liquidity conditions and growth in the global economy has experienced a loss of momentum compared with the previous year. The International Monetary Fund (IMF) has estimated a global economic growth of 3.1% in 2015 following a 3.4% growth in 2014. This slowdown is caused by the provision of a less favorable environment for the developing countries by the global conjuncture, as well as growth below expectations in developed countries due to temporary factors.

Turkey's economic growth increased by a flat rate of 4% in the third quarter of 2015 compared to the same quarter of the previous year. Thus, the GDP reached the fastest annual increase since the first quarter of 2014. Accordingly, Turkey's economy recorded a 3.4% growth in the first nine months of last year compared to the same period of 2014. Looking at the details of data on the economic growth in Turkey; growth mainly resulted from the rise in household consumption expenditure, the increase in public spending, the harvesting period in the agricultural sector and the increase of activities in the service sector, particularly finance and insurance. The volume of imports has decreased significantly with the positive effect of the low level of energy prices in the third quarter of the year. In this context, imports provided a 0.3 percentage point contribution to growth in the third quarter. Although exports have adversely affected growth, a diminishing effect was noted compared to the previous quarter. Thence, net exports bringing down growth in the last three quarters has contributed to a rise in GDP again as of the third quarter of 2015. When we look at the share of the basic economic activities in the economic growth over the years, it is seen that the service sector grabbed the highest share. The observed increase in share of the industry in economic growth during the last period is remarkable.

These data show that growth in 2015 is based on consumption and imports. The low rate of growth has decreased Turkey's foreign trade deficit and the current account deficit. Issues such as reduction in exports in Dollar terms to Euro Zone countries which are Turkey’s major export markets and problems in other major markets such as Russia and Iraq have played a significant role on a contraction trend in the export volume of Turkey. In parallel with the decline in energy and commodity prices, the foreign trade deficit has decreased with the decrease in imports and the current account deficit continued its downward trend. As a result, the current account deficit has declined by 26% in 2015 compared to 2014 and decreased to 32 billion dollars.

Growth performance of developing countries in 2015 remained in low levels compared to pre and post global crisis era. In particular, loss of growth momentum in China, the world's second largest economy, has been a factor which increased concerns about the global economy. Turkey's industrial production, adjusted for the calendar effect, increased by 4.5% in 2015 compared to the previous year. Considering the close relationship between industrial production and GDP data in Turkey, this shows us that the medium-term program goals are accessible. According to the revised medium-term program revealed in January 2016, forecast for 2015 is raised from 3.0% to 4.0% and the growth forecast for 2016 is 4.5%. Growth for 2017 and 2018 is estimated to be 5% in the medium-term program.

Company Overview

Reysaş GYO was founded on 2008 and became a publicly-traded company on 2010 as a subsidiary of Reysaş Lojistik ve Taşımacılık A.Ş.

The Company shares are traded under "RYGYO" code at BIST Collective Investment Products & Structured Products Market. Reysaş GYO is a constituent of BIST All Shares (XUTUM), BIST All Shares-100 (XTUMY), BIST Real Estate Investment Trusts (XGMYO) and BIST Financials (XUMAL) indices.

The capital structure of REYSAŞ GYO is as follows:

Capital Structure		
Shareholder	**Share Amount (TL)**	**Share (%)**
REYSAŞ Taşımacılık ve Lojistik Ticaret A.Ş.	152,381,689.67	61.94
Templeton Global Investment Trust - Templeton Emerging Markets Small Cap Fund	24,575,397.00	9.99
Other	69,042,914.33	28.07
	246,000,001.00	**100.00**

The division of tasks in the Reysaş GYO Board is as follows:

RYGYO Board of Directors	
Name	**Title**
Durmuş DÖVEN	Chairman
Egemen DÖVEN	Vice-chairman / CEO
Ali Ergin ŞAHİN	Board Member
Ekrem BURCU	Board Member Early Detection of the Risk Committee Member
Cem AKGÜN	Board Member (Independent) Audit Committee Chairman Early Detection of the Risk Committee Chairman
Erem ERSOY	Board Member (Independent Corporate Governance Committee Chairman Audit Committee Member

As of fiscal year 2015, real estate rental income derived mainly consisted of warehouse investments and breakdown of the fair value of these investments is; Buildings 68.17%, Land and Plots 31.83%, and other real estate projects 0.85%. Three of the Company's warehouses contain solar panels and electricity generation facilities on their roofs within the scope of green energy concept. The Company and its affiliate is also the owner of one Hilton Hotel each.

RYGYO's projects under construction as of the date of our report are as follows:
Izmir Menderes Görece Lot 522-Parcel 12: warehouse construction, 85% completed.
Izmir Menderes Lot 526-Parcel 1, Lot 527-Parcel 5-9: at excavation stage.
Kocaeli Çayırova Access 11-Lot 2087-Parcel 5: at excavation stage.
Istanbul Orhanlı Tuzla Warehouse 6 Parcel 1586: at construction permit stage.
Istanbul Esenyurt Lot 2642-Parcel 1: at construction permit stage.
Kocaeli Çayırova Access 12-Lot 2085-Parcel 4: at project stage.
Ankara Gölbaşı Lot 98-Parcel 1, 2-4: at project stage.

REYSAŞ GYO Consolidated Balance Sheet and Income Statements (TL)

Main Balance Sheet Items		
TL	**Dec. 31, 2014**	**Dec. 31, 2015**
Current Assets	122,725,382	185,907,602
Fixed Assets	558,532,793	728,272,543
Total Assets	681,258,175	914,180,145
Short-Term Liabilities	72,397,438	155,351,976
Long-Term Liabilities	260,875,382	456,131,780
Equity	347,985,355	302,696,389
Total Liabilities	681,258,175	914,180,145
Main Income Statement Items		
TL Million	**Dec. 31, 2014**	**Dec. 31, 2015**
Revenues	47.17	69.09
Cost of Sales	-14.70	-27.74
Operating Profit (EBIT)	26.77	41.25
EBITDA	39.03	57.12
EBIT Margin	57%	60%
EBITDA Margin	83%	83%
Net Profit-Loss	7.39	-43.05
Net Profitability	16%	-
Basic Ratios		
	Dec. 31, 2014	**Dec. 31, 2015**
Total Debt / Total Assets	0.49	0.67
Total Debt / Equity	0.96	2.02
Financial Indebtedness	0.48	0.64

Overall Reysaş GYO's financial statements show a total asset increase by 34% compared to the previous period, reaching to TL 914,000,000. The net loss for the period was registered as TL 43 million. Portfolio value of the Company increased by 55% as of the end of 2015, and reached to TL 1,053,241,000. As of 2015, the portfolio growth rate was higher than the rate of increase in foreign exchange rates.

Reysaş GYO’s earnings before interest, tax and depreciation (EBITDA) has increased from TL 39 million to TL 57 million in 2015. Despite the improvement in operating profitability, the Company's net profit was adversely affected by the rise in exchange rates due to high foreign exchange obligations. Reysaş GYO’s portfolio consists of storage facilities with rental income, land planned for development projects and subsidiaries operating in various fields. The Company’s shareholders’ equity as of December 31, 2015 was TL 302 million.

	2012	2013	2014	2015
Rental Income (TL)	22,105,088	32,605,072	38,100,224	56,533,546
Indoor Area Portfolio Value (TL)	370,000,000	350,595,000	429,442,000	651,500,000
Indoor Area (m^2)	245,000	235,000	300,000	425,000
Rate of Rental Return %	6	9.3	8.9	8.7

Ratio Analysis

Profitability Ratios	2015	2014
Return on Equity	-0.14	0.02
Net Profit / Total Assets	-0.05	0.01
Return on Assets	0.05	0.04
Economic Profitability	0.07	0.09
Gross Profit / Assets	0.05	0.05
Operating Profit / Net Sales	0.60	0.57
Gross Profit	0.60	0.69
EBIT / Sales	0.64	0.62
Net Profit / Net Sales	-0.62	0.16
Cost of Sales / Net Sales	0.40	0.31
General and Administrative Expenses / Net Sales	0.08	0.13

Liquidity Ratios	2015	2014
Liquid Assets / Assets	0.13	0.08
Liquid Assets / Liabilities	0.19	0.16
Liquid Assets / Equity	0.38	0.16
Liquidity Size	0.03	0.07
Current Ratio	1.20	1.70
Acid Test Ratio	1.09	1.58
Cash Ratio	0.74	0.76
Short-term Receivables / Current Assets	0.25	0.48
Short-term Receivables / Total Assets	0.05	0.09
Interest Coverage Ratio	0.51	1.34
Financial Expense / Total Assets	0.10	0.03

Operating Ratios	2015	2014
Revenue Capacity Competitiveness	0.08	0.07
Equity Turnover Rate	0.23	0.14
Profit Growth	-6.82	-0.70
Total Assets Growth	0.34	0.34
Equity Growth	-0.13	0.02
Accounts Payable Turnover Rate	1.67	2.28
Receivables Turnover Rate	1.49	0.57
Working Capital Turnover Rate	0.37	0.38
Net Working Capital Turnover Rate	2.26	0.94
Fixed Assets Turnover Rate	0.09	0.08

Net Foreign Currency Position	2015	2014
Net Foreign Currency Position / Total Assets	-0.08	-0.04
Net Foreign Currency Position / Equity	-0.73	-0.15

Financial Structure Ratios	2015	2014
Financial Leverage (Equity / Total Debt)	0.50	1.04
Short Term Liabilities / Total Liabilities	0.17	0.11
Long Term Liabilities / Total Liabilities	0.50	0.38
Long Term Liabilities / Continuous Capital	0.60	0.43
Fixed Assets / Total Debt	1.19	1.68
Fixed Assets / Continuous Capital	0.96	0.92
Short Term Liabilities / Total Debt	0.25	0.22
Total Financial Debt / Total Assets	0.59	0.40
Market Value Leverage	0.22	0.42
Short Term Bank Loans / Total Short Term Borrowings	0.53	0.89
Investment Properties + TFA / Long Term Liabilities	1.50	1.96
Total Financial Liabilities / Liabilities	0.88	0.83
Reserves / Total Assets	0.01	0.02
Tangible Fixed Assets + investment Properties / Total Assets	0.75	0.75

On the basis of 2015 year-end data, the ratio of short-term liabilities to total assets rose compared to the same period last year. Reysaş GYO was able to self-finance through long term borrowing during the same period and the extension of debt maturities is considered positive by us. The financial leverage ratio of the Company, calculated as the rate of shareholders’ equity to total debt, has decreased compared to the previous period, which is an indication of increase in total debt. Keeping this ratio at the optimum balance is important for the Company's solvency and sustainable profitability. Finally, 75% share of tangible fixed assets and investment property in total assets is another positive aspect.

Strengths

Unlike other REITs the Company invests in real estate and real estate projects in the field of warehousing. Reysaş GYO is a real estate investment trust focusing primarily on development of warehousing and it has grown particularly through land acquired during the collaboration with the parent company Reysaş Lojistik. Reysaş Lojistik is engaged in land, sea and rail freight through all means of transportation.

The Company focuses on logistics centers rather than traditional construction activities and also has a student dormitory project. Land prices are the highest cost item in the sector. The limited supply of warehouses in the Marmara region is an advantage for the Company. Another advantage is that together with the growth of city of Istanbul in size, warehouses in the portfolio of RYGYO will be included in the city boundaries.

In general credit risk is the situation faced by the Company in cases when the counterparty fails to comply with contractual requirements and its obligations in part or as a whole and on time. The Company's customers are renowned both in logistics and warehousing sectors. Providing services to such customers reduces the credit risk.

Risks

The possibility of abolishment or reduction of the 20% tax exemption granted to REITs and being exposed to foreign currency risk due to the presence of a net foreign currency liability position as of the end of 2015 constitute the main risks for the Company.

There is a high sensitivity to macroeconomic instability in the real estate (warehousing) sector in which the Company operates. Although the Company is engaged in the warehouse rental sector with regular revenues through long term leasing contracts, construction and related sub-sectors are among the sectors most affected by the general economic conditions. The high sensitivity of this sector to economic conditions exist in every country in variety of levels. The construction sector also plays an important role in economic growth and has a significant relationship (correlation) with the GDP (growth) rates. Also the national growth is inversely proportional with interest rates. Fluctuations in interest rates which may occur in this context can affect the demand for new investments and leasing.

According to the Corporate Tax Law (CTL) Art. 5/1-d-4, REIT profits are exempt from corporate tax. Also the witholding tax on such profits is 0% as per the CTL Art. 15/3. Any increase of this rate will adversely affect the sector.

Despite the rise in revenues of Reysaş GYO in 2015 compared to the previous year, financial expenses stemming from increased foreign exchange losses caused a switch from profit to loss in 2015. TL 221 million of the Company's net debt position at the end of 2014 has increased to TL 421 million as of end 2015. Again as end of 2015 the Company carried a short position of TL 258 million (EUR 37 million / USD 48 million).

Corporate Governance

The Company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented most of the necessary policies and measures. Even though a small number of improvements are needed, management and internal control mechanisms have been created effectively and are in operation. The rights of shareholders and stakeholders are respected in a fair manner, public disclosure and transparency is at high levels and structure and operation of the board of directors is built on sound basis. Though it does not pose a great risk, certain improvements in one or more of these areas might be required.

Methodology

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 the 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. The 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.

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

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Reysaş GYO A.Ş. and is based on information disclosed to public by Reysaş GYO A.Ş.

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SAHA A,Ş, has embraced and published on its web site (www,saharating,com) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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