

SOME BASIC PARAMETERS / INVESTMENT CRITERIA for ACQUISITIONS

LOCATION: We prefer to acquire real estate properties (ideally commercial ones with reputable, reliable and solvent tenants already inside) in Europe with a specific emphasis on German market. However, Germany is not the only market that we would like to expand our activities. We are also interested in Dutch, Spanish, Greek, Belgian, Italian, UK and French markets as well. In Germany, we would like to focus our activities in some Bundesländer like NordRhein-Westfalen and Hessen. But, we are also open to other offers from remaining Bundesländer in case they are much more attractive than the others.

TYPE OF PROPERTIES: We want to underline that we are mainly interested in commercial properties. By saying so, we are not totally excluding mix-use properties or residential units. Ideally, we would like to acquire commercial real estates such as hotels, office buildings, logistic centers, shopping malls, galleries, retail centers, hyper- and supermarkets, department stores, nursing houses for elderly people etc., as long as there are reliable and solvent tenants inside. Since these will be our first investments and ventures outside of Turkey, we generally prefer high levels of occupancies and where available interested in properties with no vacancies. In addition, we expect that the offered properties would have longer contract lease terms. If there are short WAULT (or WALT) figures, it will be quite challenging for us; simply because we think it will be hard to find new tenants and to re-let the vacant spaces and therefore additional efforts and spendings will be needed. Therefore, ideally, we would like to acquire fully occupied properties with relatively higher WALT figures.

PAY-BACK / RENDITE: The key element of our investment decision is the pay-back factor (Kaufpreisfaktor) and annual yield (Rendite) to be derived of that specific property. Although we are quite aware that it is quite difficult to attain these levels, we still expect a pay-back period between 11-15 years at most. That literally means we are interested in opportunities with annual yields at 6,5% - 9% at least. Under certain conditions, we can make some compromises on these expectations but in no way we are interested in something that pay itself more than 17 - 18 years

BUDGETARY CONSIDERATIONS: At the first initial stage, we donot want to risk too much. Therefore, we are mostly interested in small-to-mid size investments. Just an example, currently for the commercial properties that we had already submitted our bids, the range varies between 825.000€ and 46.000.000€.

BASIC PARAMETERS for HOTEL ACQUISITIONS

Location: In fact, we are interested in city hotels in the Premium locations in the city centers of popular destinations in Europe –including but not limited to Italy, Germany, UK, France, Spain, Portugal, Czech Republic, Austria, Switzerland, the Netherlands, Belgium, Russia and Greece. However, it goes without saying that we can also pay attention to resort type hotels by seaside as well.

Size: Actually size does really matter in terms of hospitality and tourism investment. We are mostly looking for 3, 4 or 5 star hotels with over 150 keys (over 150 rooms). This is a matter of management and if some day we need to offer our property to an international chain or wellknown brand, they will prefer such a size –and they will not pay attention to small capacities like 50 – 80 rooms. But still, please feel free to offer us something starting with 75-80 rooms.

Profitability/Pay-back Factor: The most important criteria for any potential investor at hospitality is profitability (in other words the annual yield to be derived from the investment) and pay-back periods. KIZILKAPLAN GROUP is not an exception to this case. We would like to be paid back off our investment in 11-15 years maximum. That literally means the annual yield from the hotel should be equal or over 6,5%-9%.

Management: As you may also know, there are different categories on this topic. There are some hotels being operated and managed by their actual owners. On the other hand, there are some others being managed professionally under a “lease contract” or “management contract”. And another option is “franchising” model. Since these will be our group’s first ventures outside of Turkey, we are not fully confident that we can manage an hotel of our own under a totally different jurisdiction with completely different regulations, laws and practices. Therefore, at the beginning stage, we prefer to acquire properties only. We would like to leave the management to real professionals. The ideal opportunity would be a nice hotel being operated currently by a chain (Accor, Melia, Starwood, Hilton, Kempinski, Vincci vs.) or being managed by an international professional management companies or by institutional tenants/operators inside. We are also cooperating with a couple of hotel chains and some international management companies. If we agree on all other terms and conditions and decide to invest for a particular hospitality asset, we can ask their cooperation and simply instruct them to manage the property. However, our priority is to invest in hotel assets and enjoy a stable and guaranteed rental income from the operator/management company of from the tenant.

Budgetary Concerns: Once again, we would like to stress that the budget is not a very big issue but we do also have our limits and our current commitments. Therefore, for beginning, we would prefer medium sized investments starting from 10 Million € upto 45 Million €. But we dont like to limit ourselves with these figures. Because sometimes some bigger investments might have better figures in terms of the annual yield and pay-back period. For your information, we prefer to use some financial leverage to acquire the property. We can place 20%-30% from our own equity and for the balance we might well use of some loans from local and/or international sources like banks, funds and some other financial institutions. For most cases we prefer “asset deals” –that means we directly buy the property itself. But in order to avoid some real burdensome real estate taxes we might also agree on “share deals” where we do not buy the property directly but we buy the company (SPV – special purpose vehicle) who actually owns that asset.

Operational Data/Figures: Last, we will be needing to have the following details in order to make a quick review of any running hotel and to decide if we will be interested in or not:

- Location
- Number of Rooms and Total Bed Capacity
- Built Year and dates for most recent and significant renovation, restoration & refurbishment
- Required additional investment on refurbishment & renovation in the immediate 1 - 5 years
- Asking price and any possible bargaining/negotiation margin
- Asset deal vs. share deal
- Management/ownership/tenancy details
- The annual lease amount -if the property is under a lease contract
- Additional operational figures if the property will be delivered freehold or under an existing management/franchise contract. Operational data such as...
 - ✓ Occupancy (for past couple years)
 - ✓ ADR (average daily rate for past couple years)
 - ✓ RevPAR (Revenue Per Available Room)
 - ✓ Departmental Revenues (breakdown at Room Revenues, F&B, Banquet, SPA etc.)
 - ✓ Departmental Expenditures
 - ✓ Total Payroll Expenses
 - ✓ Gross Operational Income & Net Operational Income ✓ EBITDA

Real Estate Development, Conversion/Renovation Works and Project Management:

One of the purposes of establishing the MSK Immobilien Invest GmbH is the development of many construction, reconstruction and renovation projects in various regions in Germany, in particular in the Rhine-Main-Neckar and in North Rhine-Westphalia. These projects shall be carried out in close cooperation with local authorities, municipalities, universities and relevant businesses. Amongst our construction and project development projects, we are planning to quickly develop and build apartments, student dormitories, nursing homes, social housing units, refugee centers, department stores, logistic centers and modern business offices.

Through a rapid increase in demand in the German real estate market, -especially in nursing homes, student dormitories, social housing and office buildings- we want to focus our efforts on these areas of

activity. We want to not only construct such buildings, but also to renovate and rehabilitate currently non-habitable buildings or convert them into different usage –as long as it is legally and technically possible.

At the same time, we have seen that an enormous potential exists in terms of new development projects from different municipalities –depending on some preconditions that should be met. Our technical team is currently investigating such development projects in various regions. We invite the relevant departments of municipalities to advise us the investment opportunities in their respective regions – especially the availability of developable land in newly established commercial, industrial and residential areas.

Additionally, we are in continuous contact with Expansion Managers of different supermarket chains and logistics companies and looking forward to develop joint projects.

Consistent with our experience in the construction industry and project management in Turkey, these project development works can be started relatively quickly by bringing together the right components at the right time and by providing the necessary funds to put into action. We are currently setting up a technical team in the field of construction, architecture and project management to facilitate such a rapid growth.

The adequate size of the market (if the growth forecasts in 2015 proves to be true, the total value of the market will amount between 305 - 310 billion euros) allows us to realize our project goals in the market. Since we would like to focus mainly on more niche markets – that are not yet discovered and has a steady expansion potential- and since we strive to work not as a subcontractor, but rather as a project developer and coordinator, we will not be competing with most of the existing companies in the sector -just on the contrary, we will co-operate with them as business or project partners. And therefore, we don't have any reservations or fears due to harsh competition in the market.