

Q1 2016

shifting trends, developing retail sector

TURKEY REAL ESTATE MARKET



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SUMMARY



Despite the unexpected annual growth which was succeeded as 4% at constant prices by the end of 2015, Turkey's GDP decreased to USD 719.96 billion, 10% lower compared to the previous year. However, annual GDP growth of the first quarter of 2016 realized above the expectations by %4.8 at constant prices. After completing 2015 with 8.8%, inflation rate increased to 9.58% by January 2016. However, in the subsequent months a downward trend was observed where CPI was recorded as 7.46% in March. Monetary Policy Committee has not changed the one week repo rate and kept it at 7.5% since February 2015 but cut the overnight lending rate by 25bp to 10.5 after observing a slight decrease in the inflation. IMF expects GDP growth to be between 3.5% and 4% while inflation to be higher than the government target of 5%.



In the first quarter of 2016, Total Grade A office supply increased to 3.1 million sq. m in the primary office areas in Istanbul. Levent-Etiler, Maslak and Kozyatagi-Atasehir were the districts where new supply entered the market. The first quarter grade A office take-up volume which was recorded around 27,000 sq. m in the primary office areas of Istanbul was slightly higher compared to the same quarter of 2015. By the end of 2018, office supply will be around 4 million sq. m in the primary office areas in Istanbul. While vacancy rate increased to 12.8% in the primary office areas in Istanbul owing to 60,500 sq. m new supply entry to the market, prime rent sustained the same rate with the previous quarter as USD 47/ sq. m/ month.



Within the scope of our quarterly report, we outlined the recent trends and investment patterns in retail sector in Europe and Turkey overviewing the reports published by institutions such as International Council of Shopping Centers (ICSC), British Council of Shopping Centers (BCSC), CBRE, PWC and Real Capital Analytics. We also analyzed the development of shopping centers across Turkey within the last five years.

In terms of investment;

- While retail properties outstood as a crucial part of real estate investments with a 22.4% share out of total commercial investments, shopping centers comprised the 9.5 % of all commercial investments in Europe by the end of 2014 (Real Capital Analytics, 2014).

In terms of retail sector trends;

- Shopping centers tend to be consumer destinations varying their services such as F & B, leisure occupiers, a wide array of educational, cultural, entertainment facilities.
- According to the "Food and Beverage in a Shopping Center" 2015 CBRE report, any center that allocates less than 10% of GLA to food and beverage will not be sustainable, any more.

Shopping center development in Turkey;

- Within the last 5 years, shopping center supply increased by 4 million sq. m and reached to 10.5 million sq. m with the opening of 110 shopping center increasing the total number to 356 in Turkey in 56 cities. There were 9 cities majority of which were Anatolian cities experienced first openings. Among the cities Total retail supply is expected to be around 13.5 million sq. m by the end of 2019.

Economic Overview

GDP

Despite the unexpected annual growth which was succeeded as 4% at constant prices by the end of 2015, Turkey's GDP decreased to USD 719.96 billion, 10% lower compared to the previous year. This fall was caused due to the suffering of Turkish Lira against USD in the current political and economic environment Turkey has been experiencing. However, annual GDP growth of the first quarter of 2016 realized above the expectations by %4.8 at constant prices.

While consumption is expected be the main driver of the growth owing to the higher minimum wage and lower oil prices within the following quarters, increasingly polarized political environment could still pressure the consumer confidence and investment. IMF expects GDP growth to be between 3.5% and 4% while inflation to be higher than the government target of 5%.

Inflation

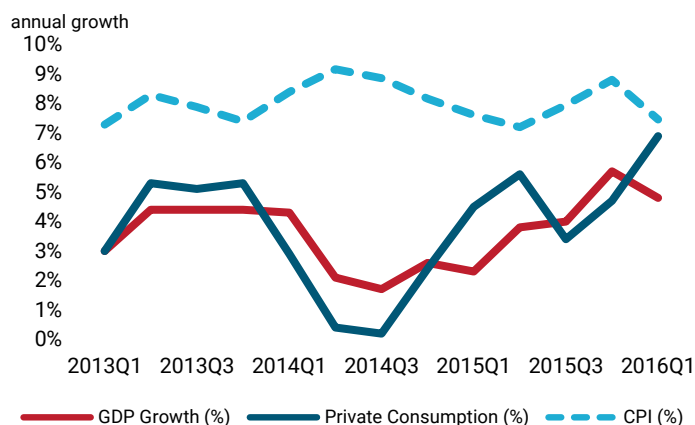
After completing 2015 with 8.8%, inflation rate increased to 9.58% by January 2016. However, in the subsequent months a downward trend was observed where CPI was recorded as 7.46% in March. The fall in inflation was mainly driven by the recovery in the unprocessed food prices. Yet, the likelihood, minimum wage hike will boost consumer spending and lasting Turkish lira weakness will continue pressuring on the inflation throughout 2016.

Policy Rate

Due to the long-lasting high inflation, Monetary Policy Committee has not changed the one week repo rate and kept it at 7.5% since February 2015 (Figure 2). However, despite high lira volatility, committee cut the overnight lending rate by 25bp to 10.5% during the March meeting after observing a slight decrease in the inflation. However, increasing pressure on TL and high inflation may force the CBRT to take tightening actions within the following terms.

Figure 1

Turkey Economy: selected indicators



Source: TURKSTAT

Table 1

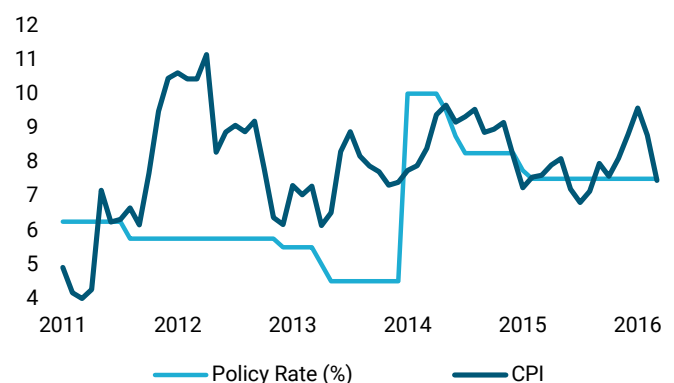
Economic indicators

	2014	2015	2016
GDP (%)	2.9	4	4.8 ^{Q1}
GDP per capita	10,404	9,261	
Population (million)	77.69	78.74	78.96 ^f
Private expenditure growth (%)	1.3	4.5	6.9 ^{Q1}
Consumer prices (%)	8.2	8.8	7.5 ^{Q1}
Unemployment (%)	10.9	10.3	10.9 ^{feb.}
FDI Inflow (million USD)	4,261 ^{Q1}	4,236 ^{Q1}	2,006
FDI inflow growth (%)	52.34 ^{Q1}	-0.58 ^{Q1}	-52.6 ^{Q1}
Policy rates (%)	8.25	7.5	7.5
BIST Price index (XU100)	85,721	70,518	82,729
Exchange rate (TRY/EUR)	2.90	3.01	3.24

Source: TURKSTAT, CBRT, Ministry of Economy, Oxford Economics
f:forecast, Q¹:1st quarter, feb: February

Figure 2

Policy rate and CPI (%)



Source: CBRT and TURKSTAT



Istanbul Office Market

Demand and Supply

In the first quarter of 2016, Total Grade A office supply increased to 3.1 million sq. m in the primary office areas in Istanbul. Levent-Etiler, Maslak and Kozyatağı-Ataşehir were the districts where new supply entered the market. These districts were also more active than Ümraniye and Şişli-Zincirlikuyu-Beşiktaş districts in terms of new supply entry during 2015.

The first quarter grade A office take-up volume which was recorded around 27,000 sq. m in the primary office areas of Istanbul was slightly higher compared to the same quarter of 2015. However, overall take-up including the secondary office areas was close to 50,000 sq. m including a sole lease of 20,000 sq. m.

Pipeline

There is approximately 1.3 million sq. m office space development either under construction or at planning stage in the primary office areas. Majority of the pipeline developments (around 600,000 sq. m) in the Asian Side is located in Ataşehir, Istanbul Finance Center. By the end of 2018, office supply will be around 4 million sq. m in the primary office areas in Istanbul.

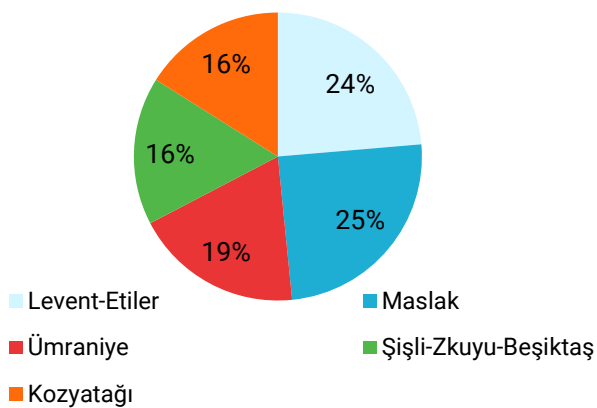
Vacancy and Rental Level

Vacancy rate increased to 12.8% in the primary office areas in Istanbul owing to 60,500 sq. m new supply entry to the market. However the prime rent sustained the same rate with the previous quarter as USD 47/ sq. m/ month.

In Kozyatağı, Levent-Etiler and Maslak vacancy rates increased to 18.42%, 10.93%, and 17.32% respectively. On the other hand, vacancy rate slightly decreased in Ümraniye to 10.08% from 10.25%.

Figure 3

Istanbul grade A office supply by areas



Source: Pamir & Soyuer

Table 2

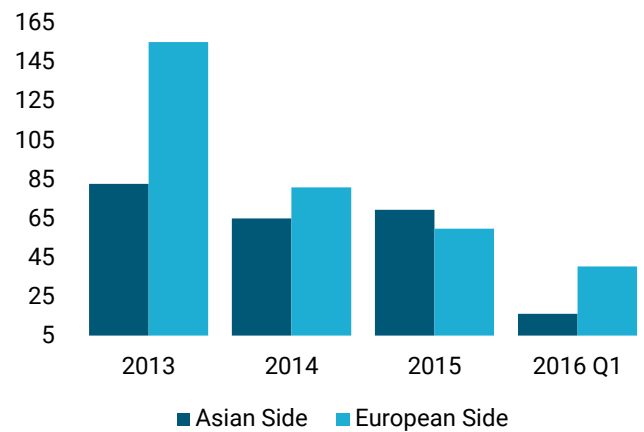
Notable office space lease transactions in 2016 Q1

Building	District	Tenant Sector	Area (sq. m)
AND Tower	Kozyatağı	FIRE	4,118
Şişli Plaza	Şişli	B2B	3,200
Link Plaza	Maslak	FIRE	2,585
Astoria C Block	Şişli	FMCG	1,445
Astellas Pharma	Maslak	Health Care and Pharmaceuticals	1,415

Source: Pamir & Soyuer

Figure 4

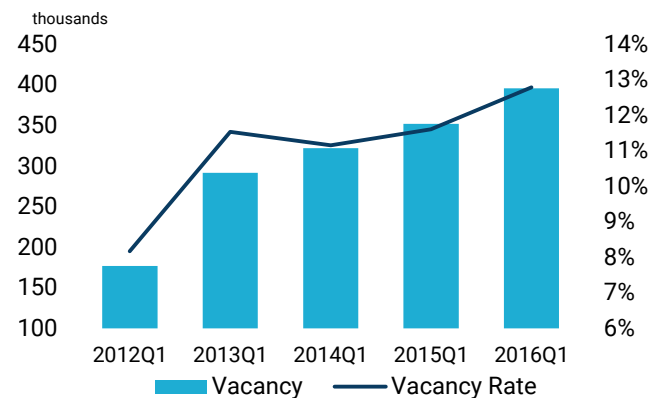
Istanbul grade A office take-up by areas over years, (000 sq. m)*



Source: Pamir & Soyuer, *includes primary, secondary and emerging office areas.

Figure 5

Istanbul grade A office vacancy over years



Source: Pamir & Soyuer

Turkey Retail Market

Demand

In the last quarter of 2015, household final consumption expenditure increased by 4.7% at constant prices. Overall private demand during 2015 was more robust compared to the figures of the previous year. According to the initial data of the first quarter of 2016, consistent increase in economic activity will continue.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the visitor index was lower in the first quarter of 2016 compared to the first quarter of 2015, turnover index was slightly higher (Figure 6). Shopping centers' sales per leasable area has reached to 646 TL /sq. m in Turkey and 733 TL /sq. m in Istanbul in March. Turnover index per sq. m increased by 9.7% by the first quarter of 2016 compared to the same quarter of previous year.

Supply

The shopping center supply reached to 10.5 million sq. m with the opening of 1 shopping center, increasing the total number to 356 in Turkey. With the release of 2015 population statistics, GLA/1,000 inhabitant data revised accordingly. Thus, currently Bolu has the highest GLA per 1,000 inhabitant followed by Ankara and Istanbul, 301, 286, and 269 respectively.

New Supply

41 Burda with 61,000 sq. m GLA opened in Kocaeli in the first quarter of 2016. An outlet center, Novada Akhisar (21,000 sq. m) and 14 Burda (35,000 sq. m) opened in the last quarter of 2015 in Manisa and Bolu, respectively.

Pipeline and Outlook

Total retail supply is expected to be around 13.5 million sq. m by the end of 2019. While shopping center under the construction in Istanbul, Ankara, Bursa and Izmir generate approximately 80% of the total pipeline, Kocaeli, Isparta and Erzurum are the other cities where there is a considerable amount of pipeline development.

Figure 6

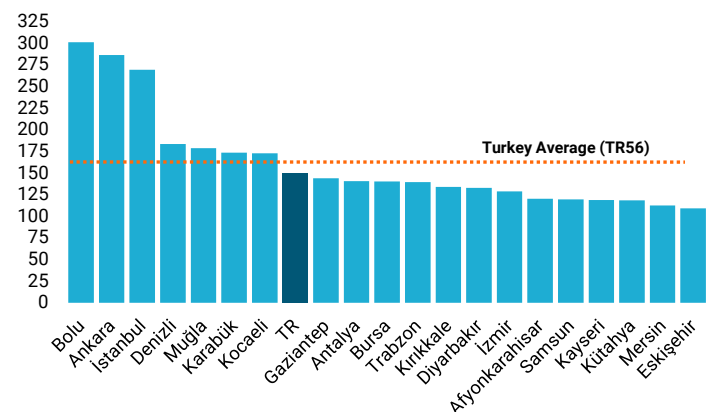
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 7

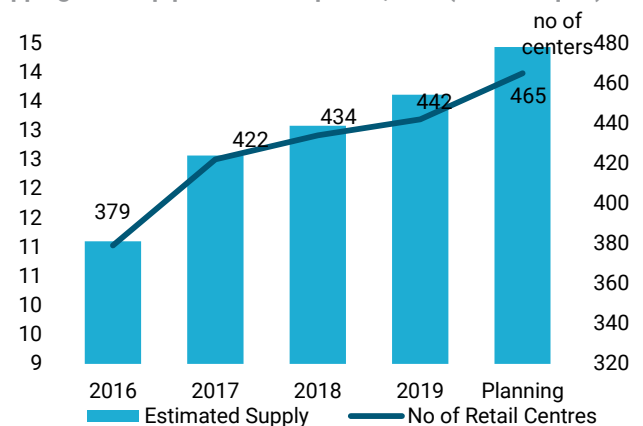
Retail center supply (GLA per 1,000 inhabitants)-Top 20 markets



Source: Pamir & Soyuer

Figure 8

Shopping center pipeline development, GLA (million sq. m)



Source: Pamir & Soyuer



Firuz Soyuer



- overview of retail/SCs trends
- retail property as an investment vehicle



Turkey & Europe

consumer engagement
face-to-face interaction



Social Inclusion and flexible working

90% of all retail sales are transacted in stores and 95% of all retail sales are captured by retailers with a brick-and-mortar presence.

Online moving to physical locations

Consumer destination services;

F & B, leisure occupiers,
medical and dental services,
fitness and spa amenities

a wide array of educational, cultural entertainment facilities.



Omni-channel retailing
Enhanced tenant mix



the socio-economic contribution of european SCs, 2015 ICSC report
2014 A.T. Kearney survey of 2,500 U.S. shoppers

“Any centre that allocates less than
10% of GLA to food and beverage is not sustainable.

We will see 25% becoming more normal in many centres.”

food and beverage in a shopping centre,
2015 CBRE report

Average spend per visit per person
average of 22 countries*

in total



41.9



shopping + F&B

on food and beverage



12.0



only F&B

Average spend per visit per person in
TURKEY

€ 41.6

€ 11.7

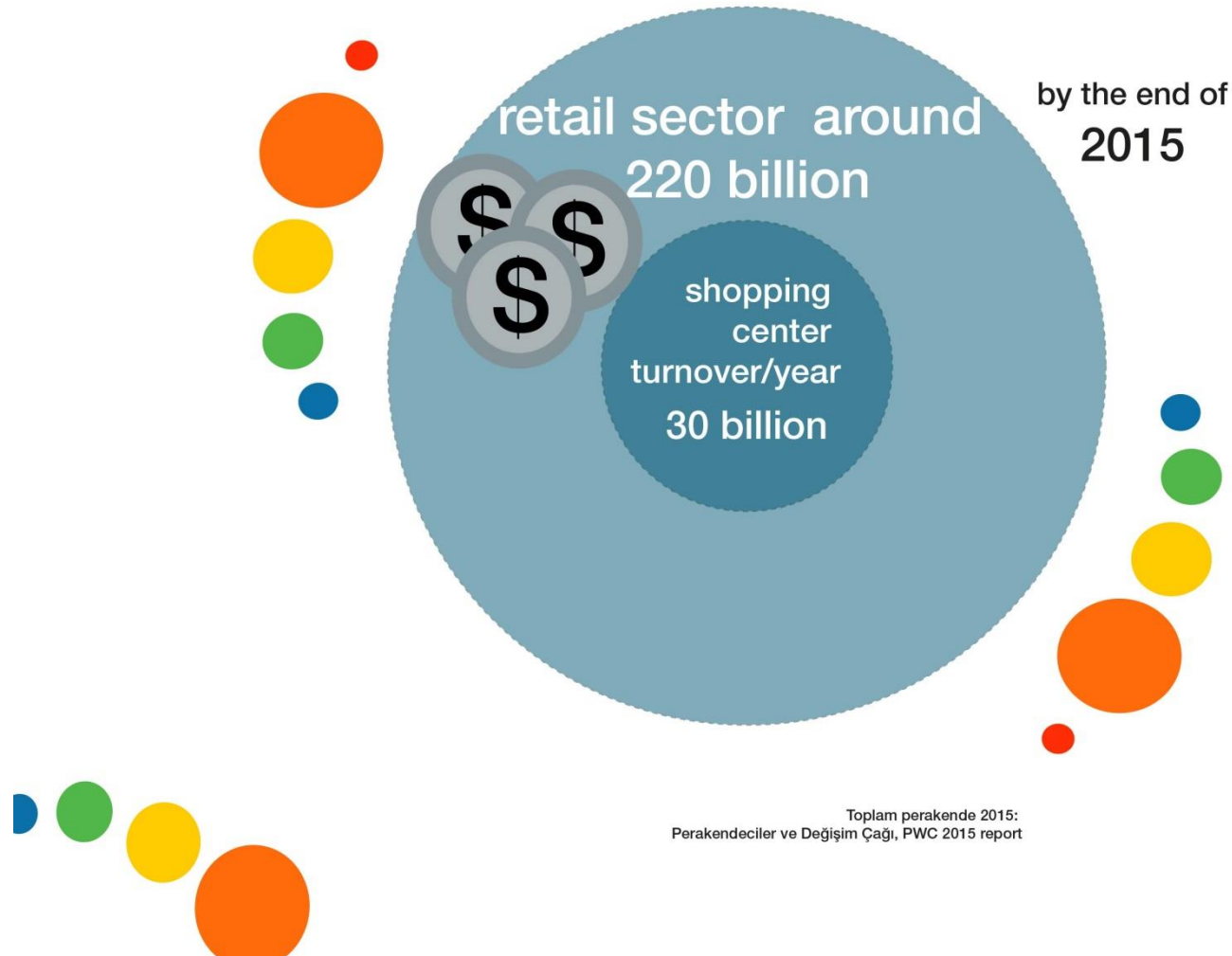
average of 22 countries including: Austria, Belgium, Czech Republic, France, Germany, UK, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Romania, Russia, South Africa, Spain, Sweden, Switzerland, Turkey, UAE, Latvia
food and beverage in a shopping centre,
2015 CBRE report



- overview of retail/SCs trends
- retail property as an investment vehicle



Turkey





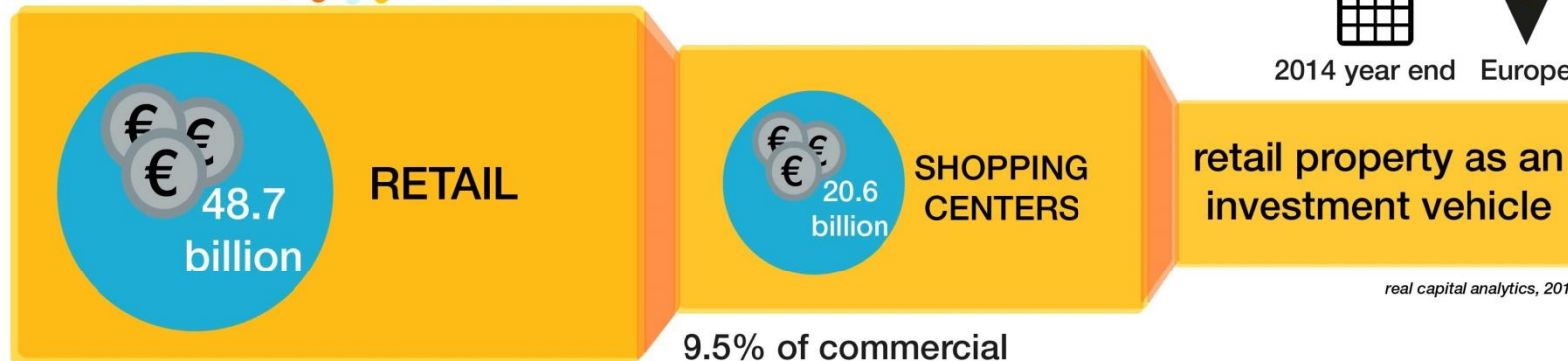
- overview of retail/SCs trends
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Turkey & Europe



2014 year end Europe



22.4% of commercial property investments

9.5% of commercial property investments





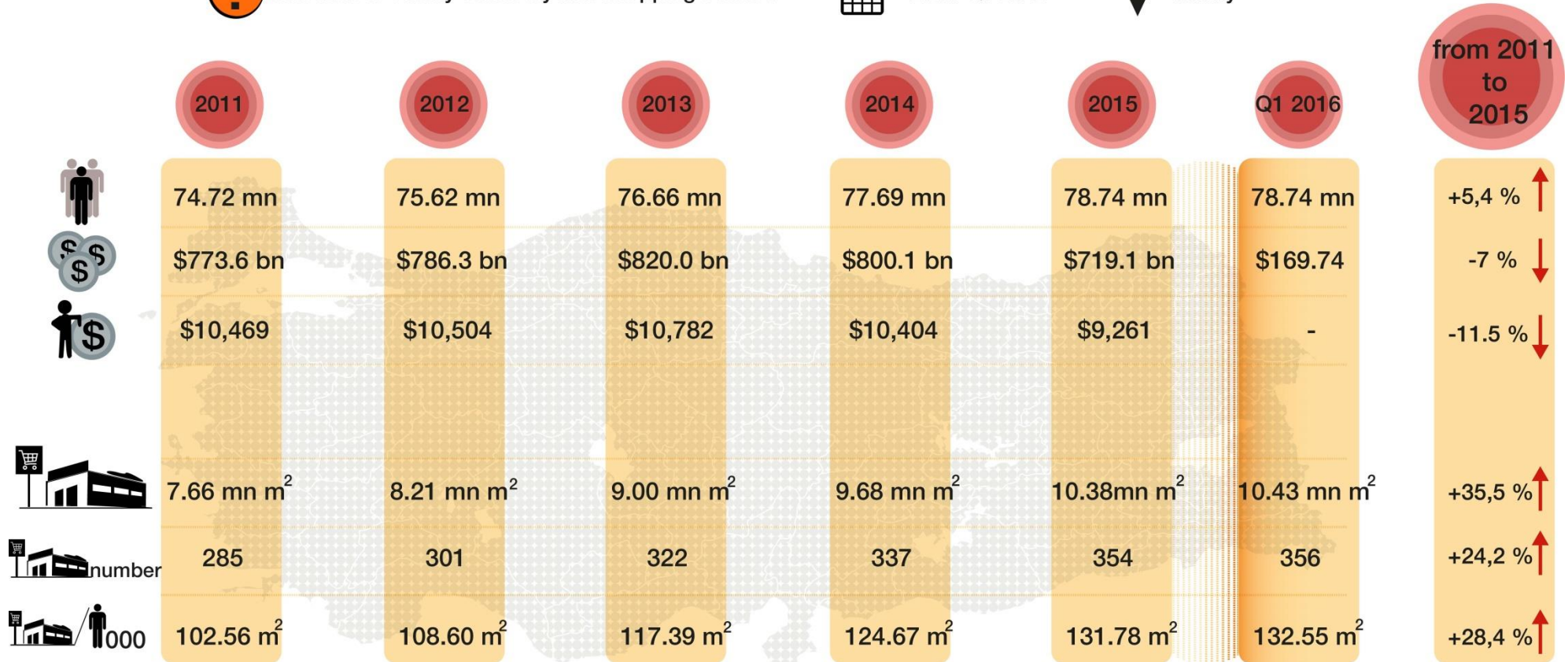
overview of Turkey economy and shopping centers



2011-Q1 2016



Turkey



population
 GDP
 GDP per capita

SC GLA
 SC number
 GLA/1,000 inh.

? GLA/1,000 inhabitants

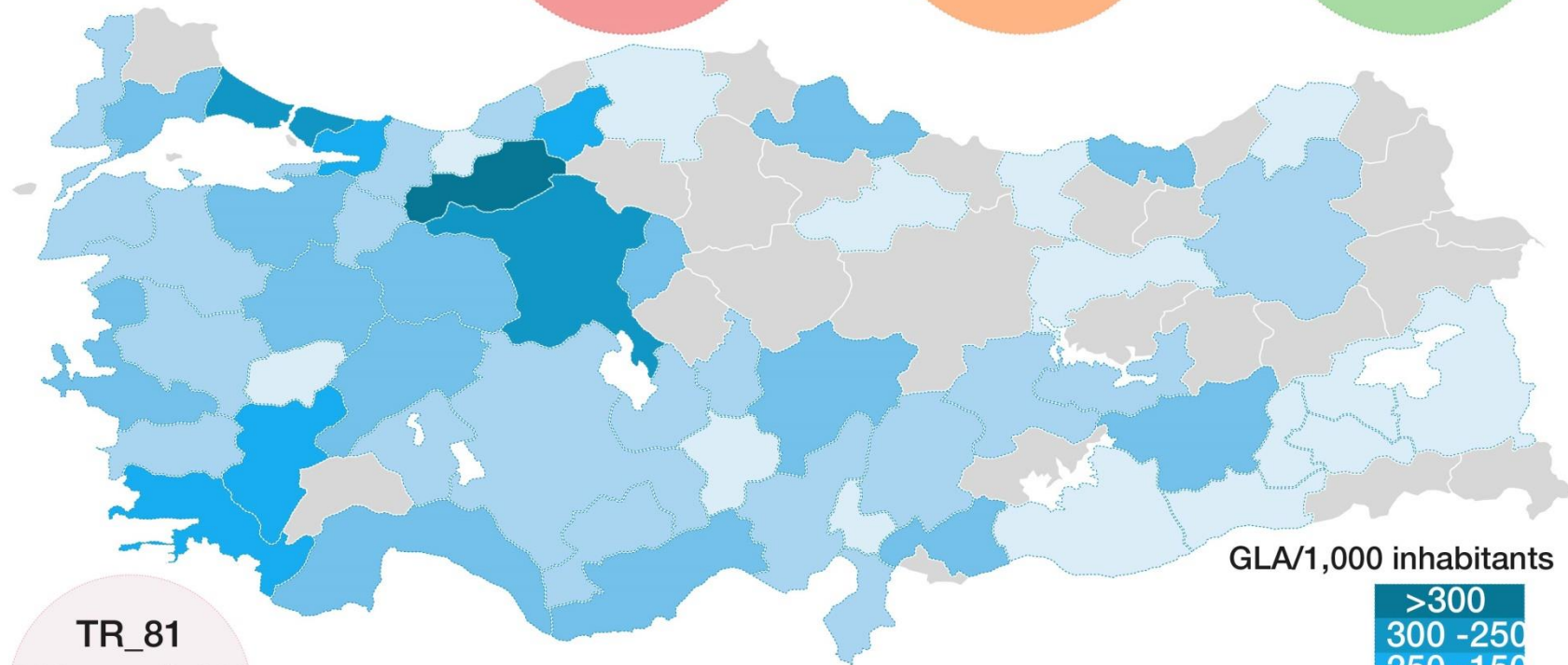
Q1 2016

Turkey

App.
10.5mn sq m
GLA @

356
shopping
centers @

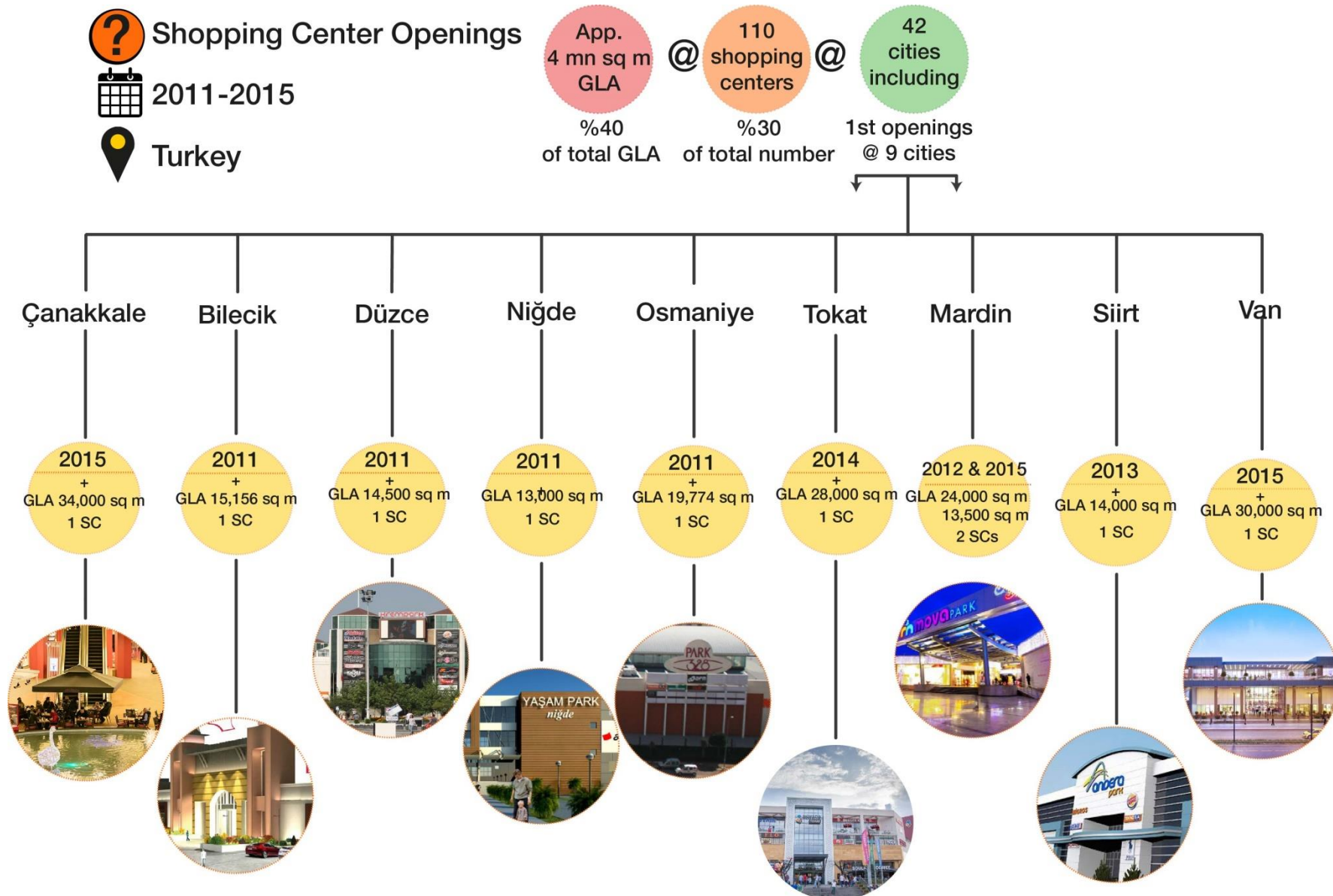
56
cities

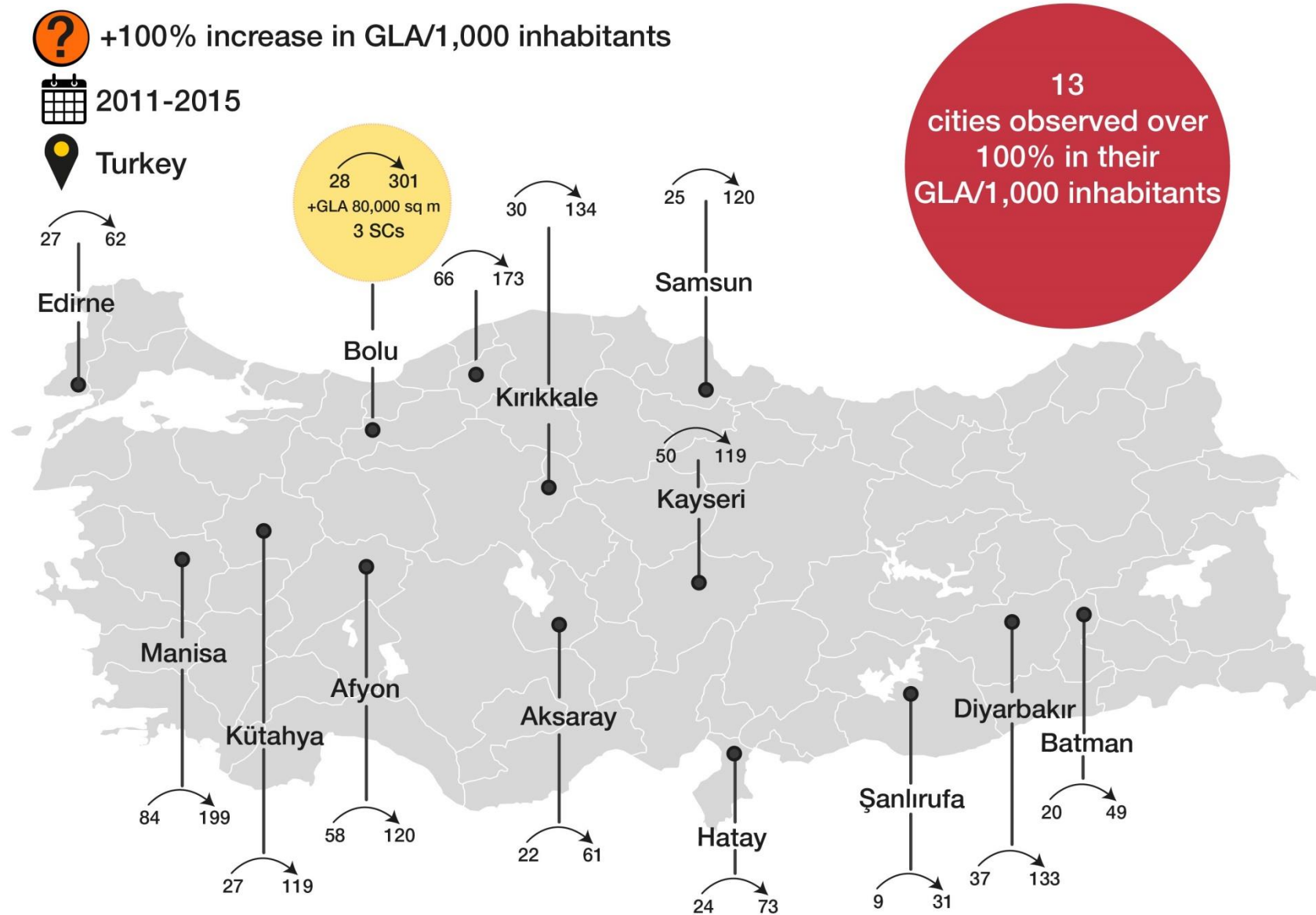


TR_81
133 sq m/1,000
inhabitants

GLA/1,000 inhabitants







Definitions

Office	
Istanbul Primary Office Regions:	Pamir & Soyuer office database covers only Grade A office buildings which have total floor area larger than 3,500 sq m and located in the primary office areas (Maslak, Levent-Etiler, Şişli – Zincirlikuyu - Beşiktaş in the European side and Kozyatağı, Ümraniye and Ataşehir in the Asian side).
Net Absorption:	The amount occupied at the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period.
New supply:	Total level of new office space to be built or under construction, with construction permit.
Average rent:	Expressed in USD/sq m/month excluding tax and charges. The average rent represents the average rents of all deals, weighted by their total surface area.
Prime rent:	Expressed in USD/sq m/month excluding tax and charges. The prime rent represents the average value in the first quartile of all deals, and excludes extreme values.
Prime yields:	Expressed as a percentage, between rents and the capital value of assets. The prime yield represents the lowest yield observed in a given period of time, and excludes extreme values.
Vacancy rate:	Represents the immediately available supply over the existing office stock.
Retail	
Definition and Classification of Retail Centres:	Retail centres are defined as purpose built, shopping developments with over 5,000 sq m gross leasable area (GLA) excluding supermarket area, and comprising of 30 or more retail units. Database covers all operating retail centres. The additional or expanded space is considered as a new retail centre floor space. Principal types of retail centres are classified using British Council of Shopping Centre (BCSC) definitions as follows:
Town Centre Malls:	are shopping centres located in a town centre or the central business district of a city.
District Shopping Centres:	are located outside of the town centre proper but still within the urban area.
Outlet Centres:	are defined as centres where the majority of retailers sell branded merchandise at a substantial discount to the recommended retail price.
Retail Parks:	are purpose built centres solely comprised of at least three retail warehouses of not less than 1,000 sq. m and have common parking.
Average retail rents:	are calculated taking into consideration small to medium-size units' (MSU) rents, excluding anchor tenants.

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Who We Are

Pamir & Soyuer was established in 1993 by Ali Pamir and Firuz Soyuer to provide real estate advisory services to corporate clients and HNWI.

Mr. Pamir and Mr. Soyuer both started their careers in investment banking and have been active in Turkish real estate since 1986 primarily through Pamir & Soyuer or related entities. Collectively they have over 50 years of residential and commercial real estate experience, and have transacted over USD 1 billion in real estate investment sales.

Headquarters of Pamir & Soyuer is located in Istanbul with a liason office in Bodrum.

What We Do

Pamir & Soyuer is active in both residential and commercial real estate, and provides the following services:

- Investment Advisory & Sales
- Development Advisory & Management
- Project Marketing
- Tenant Representation
- Agency/Owner Representation
- Marketing & Feasibility Studies
- Valuation

Pamir & Soyuer Research Reports are available at

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REAL ESTATE

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