



PROPERTY TIMES

Economic resilience despite rising uncertainty

Turkey Q4 2015

21 March 2016

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- Despite the rise in geopolitical tensions and two election cycles, in the third quarter of 2015, Turkey's GDP increased by 4.0% compared to the same quarter of previous year at constant prices. Consumption has been the main driver of the growth. For the last 4 years, consumer price index has been rising and annual inflation was recorded as 8.8% by the end of 2015 slightly higher than year-end 2014. Despite rising inflation, there has not been any change during the last meeting of the Monetary Policy Committee and the committee has kept the rate at 7.5% since February 2015.
- Total Grade A office supply slightly exceeded 3 million sq m in the primary office areas in Istanbul by the end of 2015. The last quarter grade A office take-up volume has been more or less same with the other quarters of 2015. However, 30% decrease in the take-up volume was observed when compared to the same quarter of 2014. There is approximately 1.4 million sq m office space development in pipeline in the primary office areas. While vacancy rate slightly increased to 11.6% in the primary office areas in Istanbul, the prime rent sustained the same rate with the previous quarter as USD 47/ sq m/ month.
- In the third quarter of 2015, household final consumption expenditure increased by 3.4% at constant prices. Compared to the previous year, consumption figures were more robust within the last 9 months. The shopping center supply reached to 10.38 million sq m in 354 centers in Turkey. Total retail supply is expected to be around 13.5 million sq m by the end of 2018.
- Within the scope of our quarterly report, we analyzed the role of REICs as an indirect real estate investment vehicle. We presented the overall view of Turkish REICs making also comparisons with the other countries in terms of
 - investor profile;
 - while total foreign ownership of the Turkish REICs was around 43%, it was 64% in Istanbul Stock Exchange (ISE) market and the share of institutional investors was 70% and 82% for REICs and overall ISE market, respectively in 2014.
 - discounts/premiums and return rates,
 - while a 10-year average of discount rates to net asset value of Turkish REICs is 22%, 20-year average of discount rates to net asset value is around 11% in overall Europe REIT market.
 - 10 year average return rate of Turkish REICs was 20.5%.

At the end, after giving the profile of the Turkish REICs, to see the difference between indirect and direct investments we compared the return rate trend of Turkish REICs and residential real estates. A lower but more stable trend was observed at the total return rates of direct residential investments than Turkish REICs.

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Economic Overview

GDP

Despite the rise in geopolitical tensions and two election cycles, consumption has been the main driver of the growth. In the third quarter of 2015, Turkey's GDP increased by 4.0% compared to the same quarter of previous year at constant prices (Figure 1). While the nine months growth rate of GDP increased by 3.4% at constant prices, the end year GDP target still stands at 4%. This target could only be achieved by a 5.7% growth rate in the last quarter of 2015. On the other hand, GDP growth estimations of IMF, OECD for 2015 stand at 3.0%, 3.1%, respectively. While low oil prices and domestic demand will sustain supporting growth, increasingly polarized political environment seem to pressure confidence and investment.

Inflation

For the last 4 years, consumer price index has been rising and annual inflation was recorded as 8.8% by the end of 2015 slightly higher than year-end 2014. Depreciation of TL and rising food costs rocket the consumer prices, outweighing the downward pressure from lower oil prices. The year-end 2017 5% inflation target seems to be far from the current figures.

Policy Rate

Despite rising inflation, there has not been any change during the last meeting of the fourth quarter and the Monetary Policy Committee has kept the rate at 7.5% since February 2015 (Figure 2). However, increasing pressure on TL and high inflation may force the CBRT to take tightening actions within the following terms.

Table 1

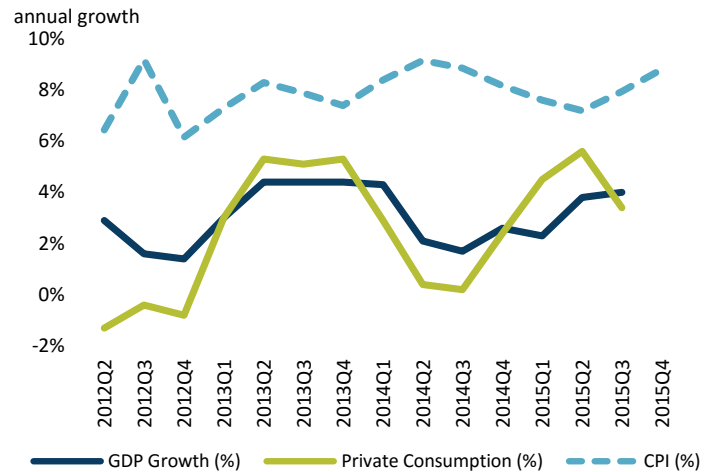
Economic indicators

	2013	2014	2015
GDP (%)	4	2.9	4 ^e
GDP per capita	10,822	10,404	10,936 ^e
Population (million)	76.6	77.69	78.74
Private expenditure growth (%)	4.6	1.3	3.4 ^{Q3}
Consumer prices (%)	7.4	8.2	8.8
Unemployment (%)	9.7	10.9	10.8
FDI Inflow (million USD)	12,384	12,523	16,583
FDI inflow growth (%)	-6.8	1.1	32
Policy rates (%)	4.5	8.25	7.5
BIST Price index (XU100)	67,801	85,721	70,518
Exchange rate (TRY/EUR)	2.52	2.90	3.01
Exchange rate (TRY/USD)	1.90	2.18	2.71

Source: TURKSTAT, CBRT, Ministry of Economy, e:expected, Q³: 3rd quarter

Figure 1

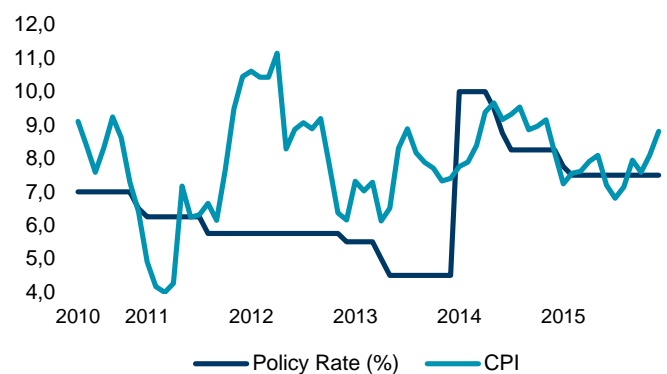
Turkey Economy: selected indicators



Source: TURKSTAT

Figure 2

Policy rate and CPI (%)



Source: CBRT and TURKSTAT

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Istanbul Office Market

Demand and Supply

Total Grade A office supply slightly exceeded 3 million sq m in the primary office areas in Istanbul by the end of 2015. Levent-Etiler and Maslak districts are supply leaders followed by Ümraniye, Şişli-Zincirlikuyu-Beşiktaş and Kozyatağı districts, respectively. The share of European Side office supply has been around 65% for the last 5 years (Figure 3).

The last quarter grade A office take-up volume which was recorded around 23,000 sq m has been more or less same with the other quarters of 2015 except for the 2nd quarter. However, 30% decrease in the take-up volume was observed when compared to the same quarter of 2014.

Pipeline

There is approximately 1.4 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.

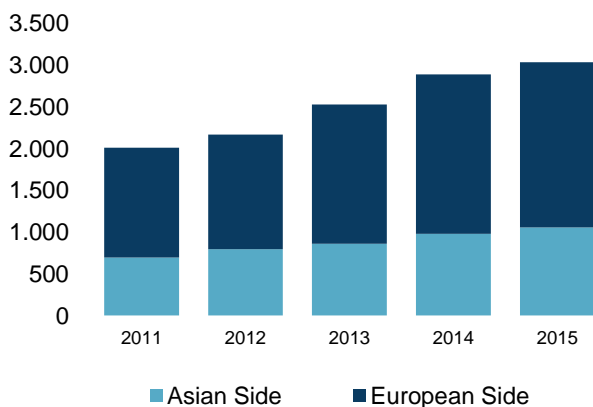
Vacancy and Rental Level

While vacancy rate slightly increased to 11.6% in the primary office areas in Istanbul, the prime rent sustained the same rate with the previous quarter as USD 47/ sq m/ month (Figure 5).

In Levent-Etiler, Kozyatağı, and Ümraniye vacancy rates lightly decreased to 10.17%, 15.53%, and 10.25% respectively. On the other hand, vacancy rate increased in Maslak to 15.27% due to the current additional supply.

Figure 3

Istanbul grade A office supply by areas over years, (000 sq m)



Source: DTZ Pamir & Soyuer

Table 2

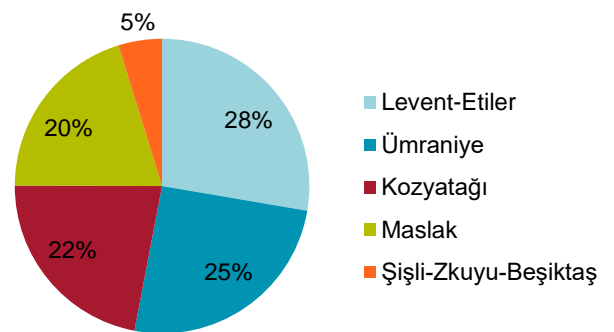
Notable office space lease transactions in 2015 Q4

Building	District	Tenant Sector	Area (sq m)
KAR Gayrimenkul	Maslak	Healthcare-TMT	2,150
SUN Plaza	Maslak	Healthcare	1,560
River Plaza	Levent-Etiler	FIRE	1,369
Apa Giz	Levent-Etiler	Professional Services	1,140
AND Tower	Kozyatağı	Professional Services	922

Source: DTZ Pamir & Soyuer

Figure 4

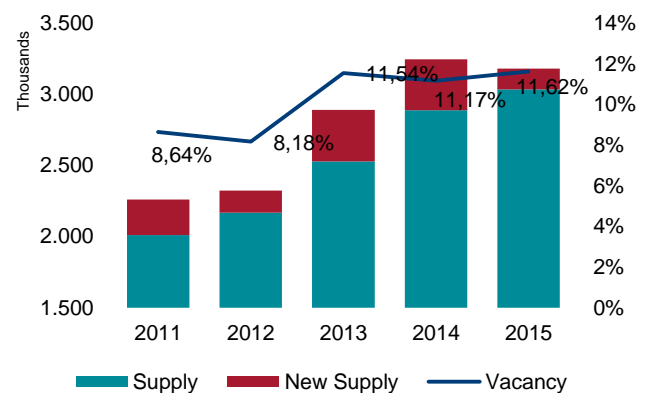
Take-up activities, grade A office supply, 2015



Source: DTZ Pamir & Soyuer

Figure 5

Istanbul grade A office vacancy



Source: DTZ Pamir & Soyuer

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Turkey Retail Market Demand

In the third quarter of 2015, household final consumption expenditure increased by 3.4% at constant prices and private demand made lesser contribution than public demand. Compared to the previous year, consumption figures were more robust within the last 9 months.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, both the visitor index and turnover index were higher compared to the fourth quarter of 2014 (Figure 6). Shopping centers' sales per leasable area has reached to 853 TL /sq m in Turkey and 998 TL /sq m in Istanbul in December. Turnover index per sq m increased by 13.18% by the fourth quarter of 2015 compared to the same quarter of previous year.

Supply

The shopping center supply reached to 10.38 million sq m with the opening of 6 shopping centers, increasing the total number to 354 in Turkey. While GLA did not change in Istanbul, it increased to 299 sq m/1,000 inhabitants and 136 sq m/1,000 inhabitants in Ankara and Turkey, respectively (Figure 7).

New Supply

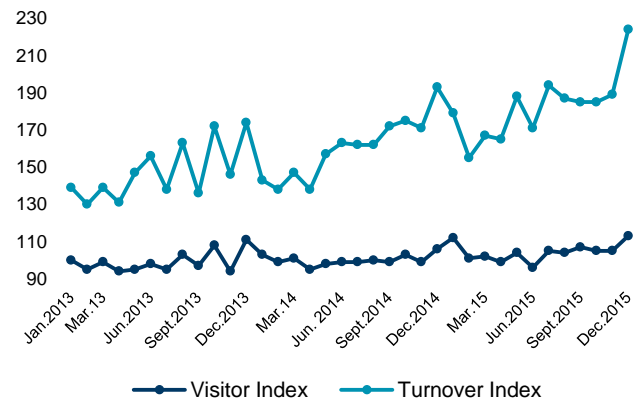
Ankara witnessed a total of 100,000 sq m GLA shopping center opening; Podium Ankara (70,000 sq m), and One Tower (30,000 sq m). Two shopping centers with an area of 110,000 sq m also opened in Izmir. The first shopping center of Van was the other opening with approximately 30,000 sq m.

Pipeline and Outlook

Total retail supply is expected to be around 13.5 million sq m by the end of 2018. 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

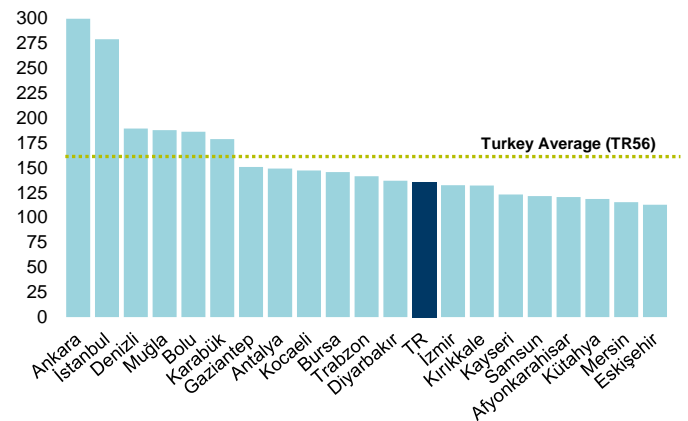
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 7

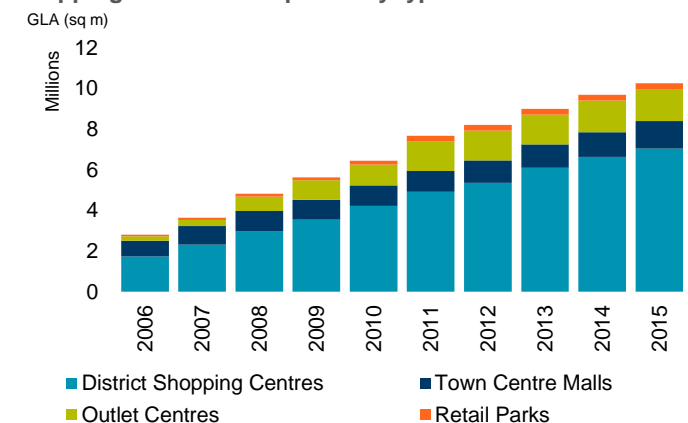
Retail center supply (GLA per 1,000 inhabitants)-Top 20 markets



Source: DTZ Pamir & Soyuer

Figure 8

Shopping center development by types



Source: DTZ Pamir & Soyuer

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REICs AND REAL ESTATE INVESTMENTS

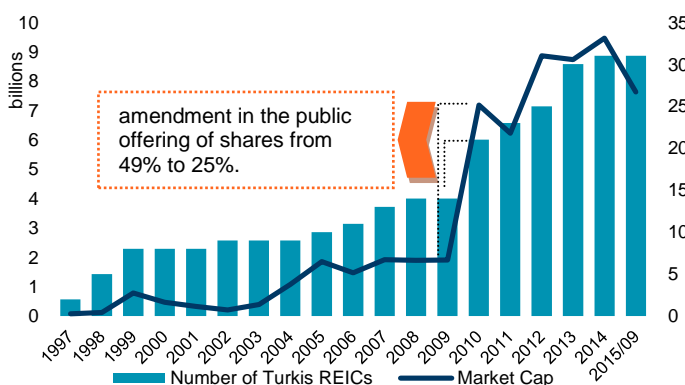
Investment is the act of putting money aside that would be consumed any other way. Among the investment products and vehicles; stocks, corporate bonds, call options and various mutual funds can be counted. These products and vehicles all depend on the underlying assets as in the case of real estate investments. Since the development of the real estate investment companies (REICs) at the end of 1990s in Turkey, publicly traded REIC shares have been an alternative to directly traded physical assets. As Q3 2015, there are 31 REICs listed in the ISE with a total market capitalization of 7.67 billion USD (Figure 9). According to the Global REIT Survey 2015 of European Public Real Estate Association (EPRA), USA has the largest share with %40.55 (922 billion USD) followed by Japan and United Kingdom, respectively in the global REIT market (Table 3).

What are the characteristics of REICs?

REITs are one of the real estate investment vehicles that appeal to small or large investors since their shares are small enough to provide opportunity for a wide variety of investors such as individuals, institutions etc. Another specification of REITs is having shares which are publicly traded. In Turkey, at least %25 of REICs' shares is required to be offered to the public¹. As Q3 2015, Turkish REICs are publicly offered at 43,45% on average, slightly higher than overall ISE average of 40.74% (Figure 10). Being publicly traded provides more liquidity for the investors than the direct investment in privately traded underlying real estate assets.

Figure 9

Turkish REICs: Number and Market Value (USD billion)

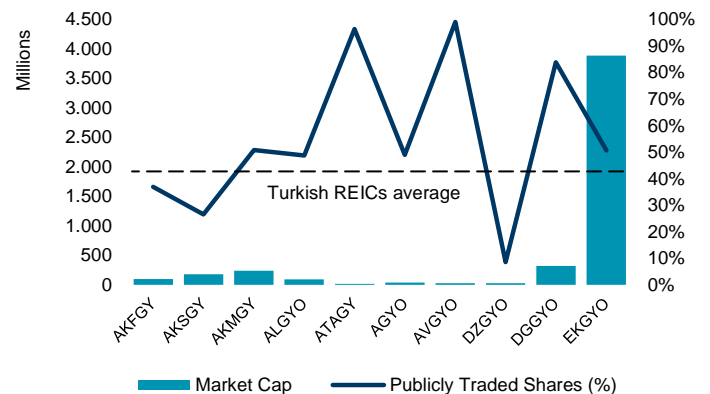


Source: Capital Markets Board of Turkey

¹ This rate was 49% until the change done by Capital Markets Board in 31 December 2009.

Figure 10

Turkish REICs: Top ten REICs, publicly traded share rates



Source: Data is compiled from companies' reports.

Table 3

Global REIC numbers and market caps

	Number of REICs	Sector Mkt Cap (USD m)	Global Market Share
USA	409	922,068	41.07%
Japan	46	309,147	13.77%
United Kingdom	33	201,959	8.99%
France	20	125,874	5.61%
Singapore	37	116,509	5.19%
Australia	43	111,776	4.98%
Mexico	12	69,483	3.09%
Canada		65,455	2.92%
South Africa	33	57,197	2.55%
Spain	10	51,558	2.30%
Germany	4	42,294	1.88%
New Zealand	4	37,105	1.65%
Malaysia	16	35,949	1.60%
Netherlands	5	31,317	1.39%
Hong Kong	12	29,001	1.29%
Belgium	8	8,962	0.40%
Thailand	50	8,079	0.36%
Turkey	32	7,452	0.33%
Italy	2	6,142	0.27%
Taiwan	6	2,615	0.12%
Greece	3	2,084	0.09%
Ireland	1	1,448	0.06%
South Korea	5	1,364	0.06%
Bulgaria	18	400	0.02%
Total	809	2,245,237	100.00%

Source: EPRA Global REIT Survey, 2015

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One another crucial feature of the REICs is that they omit the management burden for the investors since they have a full-time professional management team. Thus, the risk and return characteristics of the REITs reflect;

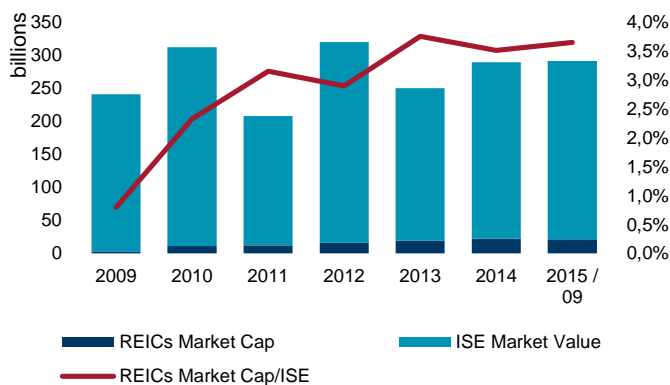
- the risk and return characteristics of the REICs' management
- the stock market's perception of their abilities
- and the nature of their existing portfolio of properties.

Actually, all these characteristics of REICs such as liquidity, omitting the management burden are supposed to make REICs more attractive for both domestic and foreign investors.

According to the EPRA Monthly Statistical Bulletin (August, 2015), the share of listed Real Estate Industry in the stock market is 9.62 % in Turkey, 7.2% in China, 3.13% in UK and 3.77% in USA². On the other hand, the share of total market capitalization of Turkish REICs in total ISE value has increased from 0.8% in 2009 to 3.65 % by the end of 3rd quarter of 2015 (Figure 11). In the USA, REITs have 3.71% share of USA stock market (USA REITs and stock market have the largest share from the world market cap), this rate stands at 5.34% and 22.28% for UK and Singapore markets (Table 4)

Figure 11

Turkish REICs in ISE



Source: ISE, Capital Markets Board of Turkey

According to the Central Securities Depository 2014 year end data, total foreign ownership of the Turkish REICs and ISE market is around 43% and 64% and the share of institutional investors is 70% and 82% for Turkish REICs and overall ISE market, respectively. Institutional investors have crucial importance for developing and maturing financial markets.

² Listed Real Estate Industry includes Heavy Construction, Home Construction, Real Estate Investment & Services, Real Estate Investment Trusts, Real Estate Services, Real Estate Holding and Development; Industrial & Office, Retail, Residential, Diversified, Speciality, Mortgage, Hotel & Lodging REITS.

Table 4

Global REIC and stock market caps comparison

	REITs Market Cap (USD m)	Stock Market Cap(USD m)	REIT/Stock Market
New Zealand	37,105	62,000	59.85%
Singapore	116,509	523,000	22.28%
Australia	111,776	1,155,000	9.68%
Malaysia	35,949	422,000	8.52%
Netherlands	31,317	433,000	7.23%
Japan	309,147	5,067,000	6.10%
France	125,874	2,113,000	5.96%
United Kingdom	201,959	3,784,000	5.34%
Greece	2,084	42,000	4.96%
USA	922,068	24,826,000	3.71%
Turkey	7,452	209,000	3.57%
Canada	65,455	1,862,000	3.52%
Belgium	8,962	401,000	2.23%
Germany	42,294	1,901,000	2.22%
Thailand	8,079	380,000	2.13%
Italy	6,142	647,000	0.95%
Ireland	1,448	158,000	0.92%
Hong Kong	29,001	4,476,000	0.65%

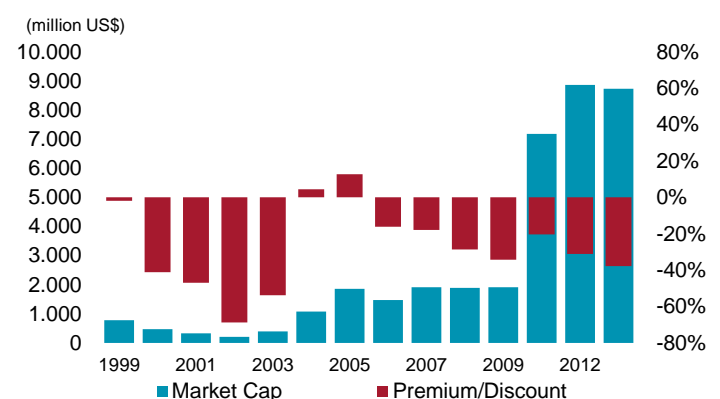
Source: Data compiled from EPRA Global REIT Survey, 2015 and EPRA Monthly Statistical Bulletin, August 2015

What about the discounts/premiums and returns of REICs?

While the aggregate net asset value of Turkish REICs has increased from USD 796 million to USD 845 million between 1999 and 2003, the aggregate market value has decreased from USD 780 million to USD 390 million resulting in a 50% discount to net asset value. Currently, 10-year average of discount rates to net asset value of Turkish REICs is 22% (Figure 12).

Figure 12

Market Cap and Premium/Discount Rates of Turkish REICs



Source: Data compiled from companies' reports, Capital Markets Board of Turkey, securities firms.

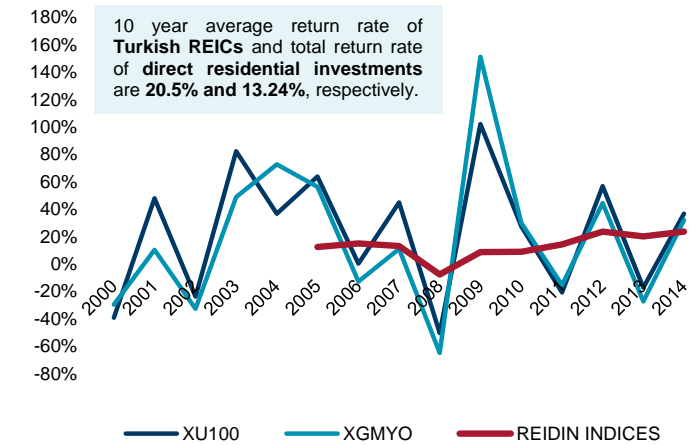
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On the other hand, 20-year average of discount rates to net asset value is around 11% in overall Europe REIT market, (EPRA Monthly Market Review Report, January 2016).

Yearly returns for listed Turkish REICs and the BIST 100 show that there is a positive correlation between the stock market and REICs performance except for the 2004 crisis time. It is obvious that yearly returns of the Turkish REICs are quite volatile whereas we see a more stable yearly return pattern in the direct real estate investments. While ten year average return rate of Turkish REICs (2005-2014) is 20.5%, average total return rates³ of direct residential investments is 13.24% for the same period (Figure 13). On the other hand, according to Turkey Composite House Sales Price Index and Gross Rental Yields provided by Reidin, a more stable pattern is observed at the total return rates of direct residential investments.

Figure 13

XU100, XGMYO and Reidin residential return indices performances



Source: ISE, REIDIN

³ Total yearly return for residential properties is calculated by the total of the initial yield and capital value growth according to the data provided by monthly Reidin Real Estate Indices reports. However, return values might be slightly different from the aggregation of actual sales price growth and yields due to the assumptions made over the graphs.

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Definitions

Office	
Istanbul Primary Office Regions:	DTZ 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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