

Q2 2016

*falling office rents, increasing retail vacancy*

**TURKEY**  
**REAL ESTATE MARKET**



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## SUMMARY



In the second quarter of 2016, the current account deficit continued to narrow, and the economy remained on a moderate and steady growth track, increasing 3.1% at constant prices compared to the same quarter of 2015. The growth rate of the 2<sup>nd</sup> quarter of 2016 driven mainly by domestic demand was slower than the 1<sup>st</sup> quarter, though. Growth trend of the second half of 2016 should be upward to be consistent with the year-end 4.5% growth target of mid-term program. However, economy of Turkey may witness a slowdown in third quarter in which tourism revenues have a high share within economic activity. On the other hand, consumer inflation was broadly in line with the forecasts and CPI increased by 7.6% in June and the CBRT maintained its policy stance keeping one-week repo rate at 7.5%



In the second quarter of 2016, Total Grade A office supply reached to 3.12 million sq. m in the primary office areas in Istanbul. New supply entered the market in Levent-Etiler district. The first quarter grade A office take-up volume which was recorded around 31,000 sq. m in the primary office areas of Istanbul was also lower compared to the same quarter of 2015. Vacancy rate lightly decreased to 12.78% in overall Istanbul primary office areas. While the prime rent sustained the same rate with the previous quarter as USD 47/ sq. m/ month, market showed the signs of an upcoming downward trend in the rent rates. By the end of 2018, office supply will be around 4 million sq. m in the primary office areas in Istanbul.



Within the scope of our quarterly report, we compared the performance of residential market over the 39 districts of Istanbul;

- House prices across 39 districts around Istanbul increased by 70% at nominal prices over a three-year period (between 2013 Q2 and 2016 Q2) according to the data compiled from Zingat.com.\*
- The highest increases were observed in periphery districts such as Maltepe, Ataşehir, Pendik by average yearly rates around 30%.
- The lowest average annual price increase was recorded in Beyoğlu as low as 6% and as -2.3% at constant prices.
- Over 2013 Q2 and 2016 Q2 period, the ranking of districts such as Beşiktaş, Sarıyer, Bakırköy, Kadıköy which have occupied the top positions in terms of asking sales prices did not change.

However, some considerable changes in the asking sales prices occurred for the other districts as following:

- Tuzla, Esenler, Sultanbeyli and Avcılar are pushed down in the asking sales price ranking,
- Çekmeköy and Şile went up in the ranking.

*\*median housing price for 100 sq m houses.*

## Economic Overview

### GDP

The current account deficit continued to narrow, and the economy remained on a moderate and steady growth track, increasing 3.1% at constant prices compared to the same quarter of 2015 (Figure 1). The growth rate of the 2<sup>nd</sup> quarter of 2016 driven mainly by domestic demand was slower than the 1<sup>st</sup> quarter, though. While the domestic demand growth is expected to be catalysed mostly by increased consumption spending, growth trend of the second half of 2016 should be upward to be consistent with the year-end 4.5% growth target of mid-term program. However, the economy may witness a slowdown in third quarter in which tourism revenues have a high share within economic activity.

### Inflation

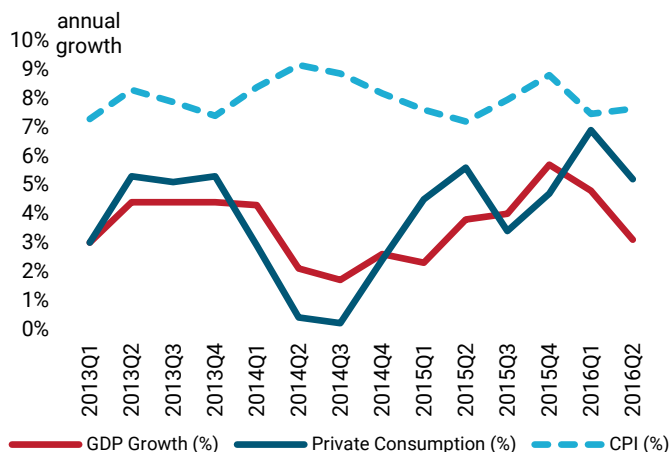
Consumer inflation was broadly in line with the forecasts of the April Inflation Report in the second quarter of 2016, and consumer price index increased by 7.6% in June. The rise in inflation was mostly attributed by unprocessed food and energy prices. The upward movement in food prices will push inflation upwards in July, as well. However, inflation is expected to fall to 7.5% by the end of 2016, to 6% in 2017 and likely to stabilize around 5% as of 2018.

### Policy Rate

The CBRT maintained its policy stance, which is tight against the inflation outlook, and accordingly one-week repo rate stood at 7.5% (Figure 2). However, despite high lira volatility, committee cut the overnight lending rate by 50bp to 10.0%, 9.5%, and 9%, in April, May and June, respectively during the March meeting after observing a slight decrease in the inflation. However, CBRT seems to have difficulty in holding the interest rate constant at 7.5% due to still lasting weak currency and high inflation.

Figure 1

### Turkey Economy: selected indicators



Source: TURKSTAT

Table 1

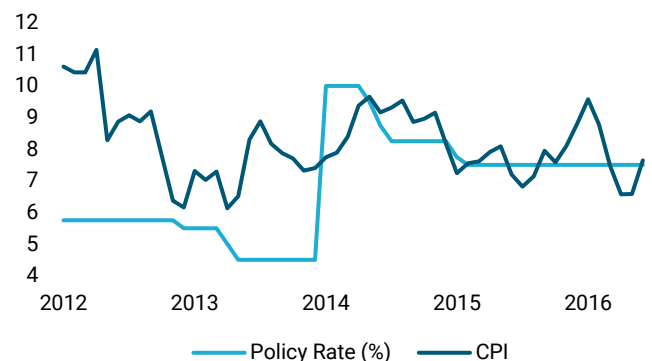
### Economic indicators

	2014	2015	2016
GDP (%)	2.9	4	3.1 <sup>Q2</sup>
GDP per capita	10,404	9,261	
Population (million)	77.69	78.74	78.96 <sup>f</sup>
Private expenditure growth (%)	1.3	4.5	5.2 <sup>Q2</sup>
Consumer prices (%)	8.2	8.8	7.6 <sup>Q2</sup>
Unemployment (%)	10.9	10.3	10.2 <sup>Q2</sup>
FDI Inflow (million USD)	6,763 <sup>Q2</sup>	6,327 <sup>Q2</sup>	3,844 <sup>Q2</sup>
FDI inflow growth (%)	28 <sup>Q2</sup>	-6.4 <sup>Q2</sup>	-46 <sup>Q2</sup>
Policy rates (%)	8.25	7.5	7.5
BIST Price index (XU100)	85,721	70,518	79,817
Exchange rate (TRY/EUR)	2.90	3.01	3.26
Exchange rate (TRY/USD)	2.18	2.71	2.91

Source: TURKSTAT, CBRT, Ministry of Economy, Oxford Economics f: forecast, Q2:2<sup>nd</sup> quarter,

Figure 2

### Policy rate and CPI (%)



Source: CBRT and TURKSTAT



## Istanbul Office Market

### Demand and Supply

In the second quarter of 2016, Total Grade A office supply reached to 3.12 million sq. m in the primary office areas in Istanbul. New supply entered the market in Levent-Etiler district. Compared to the same quarter of previous year, new supply entry was lower.

The first quarter grade A office take-up volume which was recorded around 31,000 sq. m in the primary office areas of Istanbul was also lower compared to the same quarter of 2015. Yet, overall take-up including the secondary office areas was around 40,000 sq. m in Istanbul.

### Pipeline

There is approximately 1.28 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 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 slightly increased in the primary office areas in European Side owing to 25,000 sq. m new supply entry to the market in Levent-Etiler. On the other hand, vacancy rate lightly decreased to 12.78% in overall Istanbul primary office areas. While the prime rent sustained the same rate with the previous quarter as USD 47/ sq. m/ month, rental market showed the signs of an upcoming downward trend in the rent rates.

In Kozyatağı, Ümraniye, Maslak, and Şişli-Zincirlikuyu-Beşiktaş vacancy rates decreased to 16.24%, 9.99%, 16.73%, and 5.77%, respectively. On the other hand, vacancy rate slightly increased in Levent-Etiler to 13.42% from 10.93% due to new supply entry.

Table 2

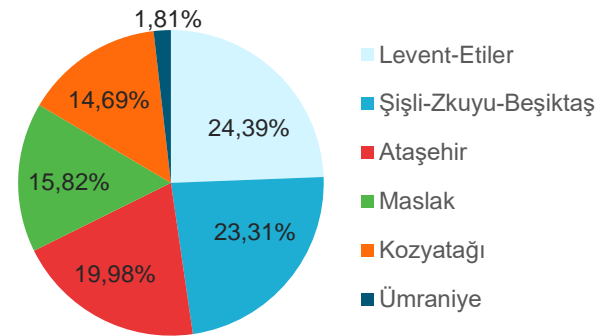
### Notable office space lease transactions in 2016 Q2

Building	District	Tenant Sector	Area (sq. m)
Nida Kule Güney	Ataşehir	TMT	6,231
AND Tower	Kozyatağı	TMT	3,738
MOB	Maslak	Pharmaceuticals	2,490
River Plaza	Levent	Automotive	1,369

Source: Pamir & Soyuer

Figure 3

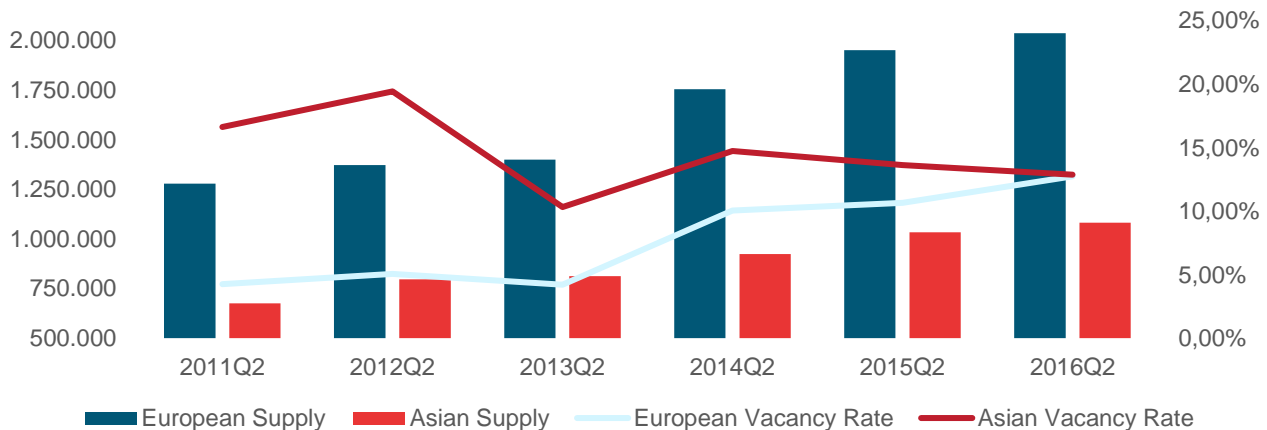
### Istanbul grade A office take-up by areas, 2016 Q2



Source: Pamir & Soyuer

Figure 4

### Istanbul grade A office supply and vacancy over years



Source: Pamir & Soyuer

## Turkey Retail Market

### Demand

In the second quarter of 2016, household final consumption expenditure increased by 5.2% at constant prices. In the first half of 2016, private demand was more robust compared to the figures of the previous year's first 6 months. The consumer confidence has also been showing the signs of recovery strengthening the purchasing power of consumer.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the visitor index was slightly lower in the 2nd quarter of 2016 compared to the 2nd quarter of 2015, turnover index was higher. Shopping centers' sales per leasable area has reached to 738 TL /sq. m in Turkey and 843 TL /sq. m in Istanbul in June. Turnover index per sq. m increased by 9 % and reached to 726 TL by the 2nd quarter of 2016 compared to the same quarter of previous year. Besides, rising vacancy was observed in the high-street retail.

### Supply

The shopping center supply reached to 10.7 million sq. m with the opening of 5 shopping center, increasing the total number to 364 in Turkey. GLA/1,000 inhabitant reached to 136 sq m in Turkey and currently Bolu has the highest GLA per 1,000 inhabitants followed by Ankara and Istanbul as 301, 286, and 275 respectively (Figure 6).

### New Supply

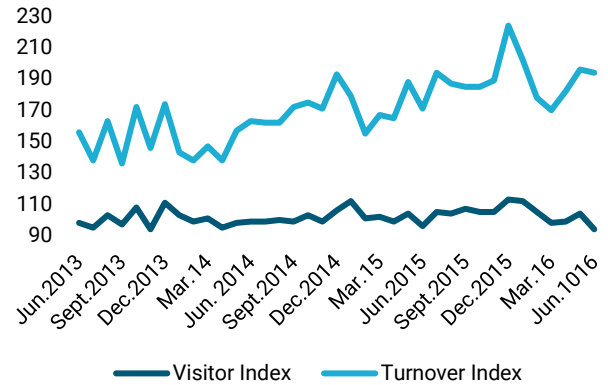
There were 5 openings and 1 expansion in this quarter. Axis Eyüp with 40,000 sq. m GLA, and Modern East with (60,000 sq m) opened in İstanbul in the second quarter of 2016. The other three openings were in the Anatolian cities; Denizli (Aquamall, 20,000 sq m), Antalya (Novada Manavgat, 27,500 sq m) and Hatay (Park Forbes, 32,000 sq m) and expansion of Novada Balıkesir Edremit.

### Pipeline and Outlook

Total retail supply is expected to be around 13.75 million sq. m by 30% increase by the end of 2019. While shopping center under the construction in İstanbul, Ankara, Bursa generate approximately 80% of the total pipeline. Erzurum, Izmir, Ordu are the other cities where there is a considerable amount of pipeline development.

Figure 5

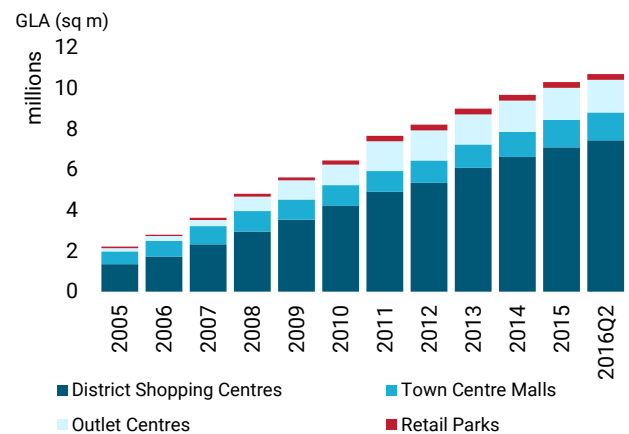
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 6

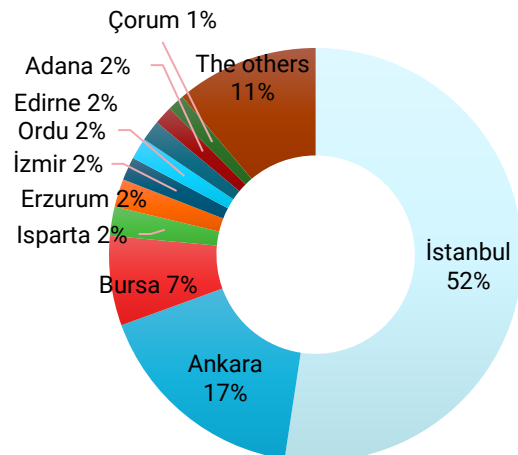
Retail center supply by types (2005-2016 Q2)



Source: Pamir & Soyuer

Figure 7

Shopping center pipeline by cities



Source: Pamir & Soyuer

### Istanbul Residential Market

House prices across 39 districts around Istanbul increased by 70% at nominal prices over a three-year period (between 2013 Q2 and 2016 Q2) according to the data compiled from Zingat.com.\* The highest increases were observed in periphery districts such as Şile, Silivri, Maltepe, Ataşehir, Pendik by average yearly rates around 30% owing to partly limited supply and transportation projects such as metro lines, 3<sup>rd</sup> Bridge and North Marmara Motorway. 30 districts saw average yearly price growth exceed 20%. The lowest average annual price increase was recorded in Beyoğlu as low as 6% at nominal prices and as -2.3% at constant prices (Figure 8).

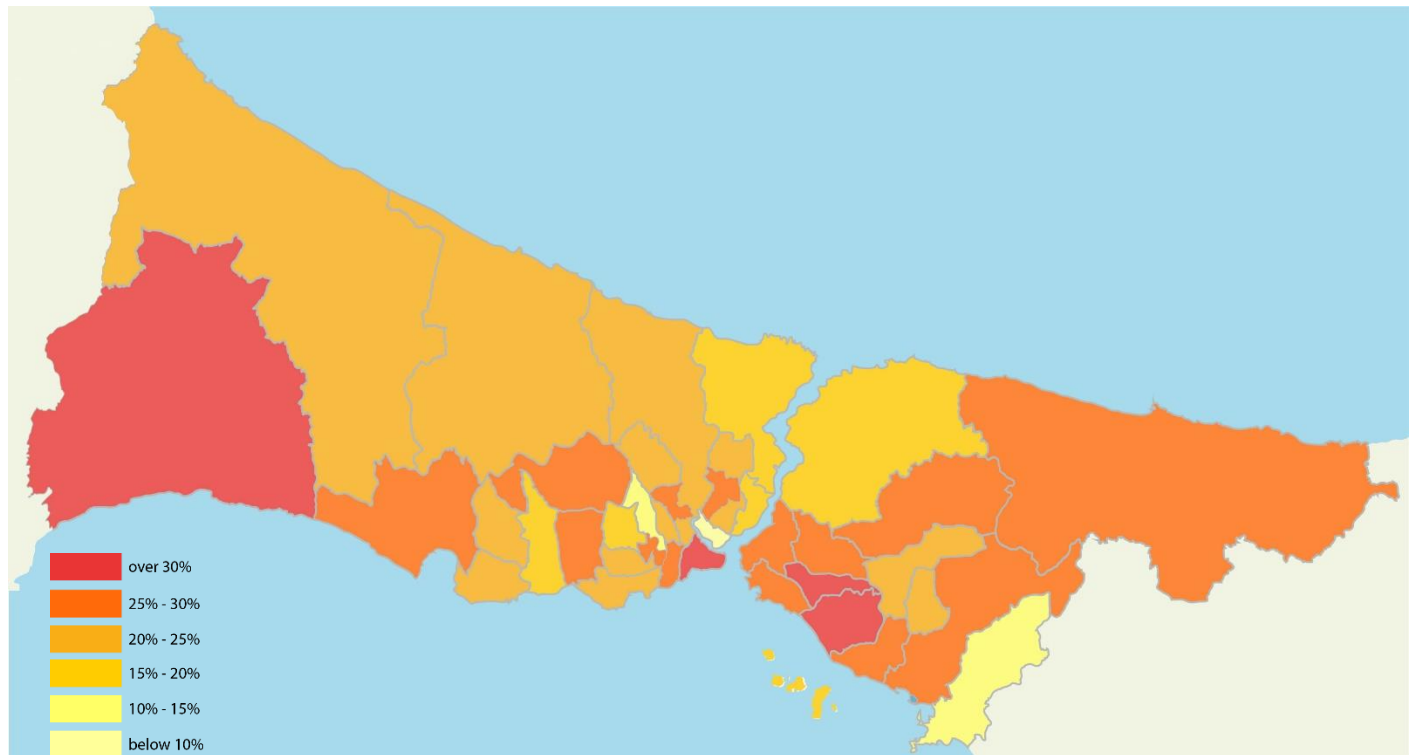
Over 2013 Q2 and 2016 Q2 period, the ranking of districts such as Beşiktaş, Sarıyer, Bakırköy, Kadıköy which have occupied the top positions in terms of asking sales prices did not change. However, some considerable changes in the asking sales prices occurred for the other districts as following:

- Tuzla, Esenler, Sultanbeyli and Avcılar are pushed down in the asking sales price ranking,
- Çekmeköy and Şile went up in the ranking.

\*median housing price for 100 sq m houses.

Figure 8

Average annual change in house prices, (2013 Q2-2016 Q2)



Source: Data compiled from Zingat.com. Map adapted from [https://commons.wikimedia.org/wiki/File:Istanbul\\_location\\_districts.svg#](https://commons.wikimedia.org/wiki/File:Istanbul_location_districts.svg#).

Table 3

Price growth by districts (% change at nominal and constant prices, Q2 2013 – Q2 2016)

Rank	District	36 month % change (Q2 2013-Q2 2016)	
		nominal prices	constant prices
1	Ataşehir	97.38%	71.41%
2	Fatih	97.31%	71.34%
3	Silivri	91.26%	65.29%
4	Maltepe	90.68%	64.71%
5	Güngören	88.78%	62.81%
6	Başakşehir	87.23%	61.26%
7	Pendik	86.12%	60.15%
8	Ümraniye	84.42%	58.45%
9	Şile	83.95%	57.98%
10	Üsküdar	82.23%	56.26%
11	Küçükçekmece	81.81%	55.84%
12	Kartal	79.22%	53.25%
13	Kadıköy	78.20%	52.23%
14	Çekmeköy	77.94%	51.97%
15	Zeytinburnu	77.24%	51.27%
16	Büyükçekmece	76.86%	50.89%
17	Gaziosmanpaşa	76.67%	50.70%
18	Kağıthane	75.69%	49.72%
19	Arnavutköy	74.73%	48.76%
20	Beylikdüzü	74.64%	48.67%
21	Bahçelievler	74.04%	48.07%
22	Eyüp	73.87%	47.90%
23	Sultangazi	73.09%	47.12%
24	Çatalca	71.33%	45.36%
25	Sancaktepe	70.54%	44.57%
26	Esenyurt	68.59%	42.62%
27	Şişli	67.75%	41.78%
28	Bakırköy	63.62%	37.65%
29	Bayrampaşa	62.36%	36.39%
30	Sultanbeyli	60.48%	34.51%
31	Sarıyer	59.04%	33.07%
32	Beşiktaş	54.35%	28.38%
33	Bağcılar	54.29%	28.32%
34	Beykoz	53.80%	27.83%
35	Avcılar	49.47%	23.50%
36	Adalar	49.33%	23.36%
37	Tuzla	44.02%	18.05%
38	Esenler	43.23%	17.26%
39	Beyoğlu	19.02%	-6.95%

Source: Data compiled from Zingat.com, TUKRSTAT

## 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 liaison 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

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