

Q3 2016

*lack of office demand, increasing retail vacancy*

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



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## SUMMARY



While annual GDP growth of the first quarter of 2016 realized above the expectations by 4.8% at constant prices and by 3.1% at constant prices in the second quarter of 2016, the primary data of the third quarter gave the signs of a slowing down economy and for the first time after 27 quarters of constant positive growth, economy of Turkey contracted by 1.8% annually. Economic activity had been under considerable pressure during the third quarter of 2016 mainly due to the failed coup attempt on July 15 as well as the weak performance of the tourism sector. Consumer price index increased by 7.3% in September. Lower inflation was mostly driven by prices of core goods and unprocessed food. Uncertainties regarding oil prices and global markets pose an upside risk to inflation. The CBRT maintained its policy stance, which is tight against the inflation outlook, and accordingly one-week repo rate stood at 7.5%.



In the third quarter of 2016, Total Grade A office supply reached to 3.16 million sq. m in the primary office areas in Istanbul. New supply entered the market in Kozyatağı-Ataşehir district. The first quarter grade A office take-up volume which was recorded around 26,000 sq. m in the primary office areas of Istanbul was higher compared to the same quarter of 2015. Yet, almost half of overall take-up activities consisted of lease renewals. By the end of 2018, office supply will be around 4 million sq. m in the primary office areas in Istanbul. Vacancy rate slightly increased to 12.8% in Istanbul primary office areas owing to 42,000 sq. m new supply entry to the market in Ataşehir. Rents continued to a downward trend.



In the third quarter of 2016, after 14 consecutive quarters' growth, household final consumption expenditure decreased by 3.2%. According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the visitor index was 3.8% lower in the 3<sup>rd</sup> quarter of 2016 compared to the 3<sup>rd</sup> quarter of 2015, turnover index was 1.6% higher. The shopping center supply reached to 10.73 million sq. m with the opening of 2 shopping center, increasing the total number to 366 in Turkey. GLA/1,000 inhabitant reached to 136.3 sq m in Turkey. Total retail supply is expected to be around 13.91 million sq. m by 30% increase by the end of 2019.



Student housing has been looked as an alternative asset class to mainstream assets such as office, retail buildings by the sector experts and investors for a long time. However, the perceptions are about the change in a variety of countries such as the USA and UK. High level of institutional investor activity, attractive return rates with low risk profiles are the signs of this change.

- What are drivers behind this trend?
- What does support the rising star of student housing?
- And what is Turkey's position in this game?

## Economic Overview

### GDP

While annual GDP growth of the first quarter of 2016 realized above the expectations by 4.8% at constant prices and by 3.1% at constant prices in the second quarter of 2016, the primary data of the third quarter gave the signs of a slowing down economy and for the first time after 27 quarters of constant positive growth, economy of Turkey contracted by 1.8% annually.\* Economic activity had been under considerable pressure during the third quarter of 2016 mainly due to the failed coup attempt on July 15 as well as the weak performance of the tourism sector.

According to the "World Economic Outlook, October 2016" report of IMF; "In Turkey, growth in 2017 will be held back by the heightened uncertainty in the aftermath of recent terrorist attacks and the failed coup attempt, though macroeconomic policy easing will support economic activity"

After revising the growth expectation downward, IMF expects GDP growth to be 3.3% while inflation to be 8.4% by the end of 2016.

### Inflation

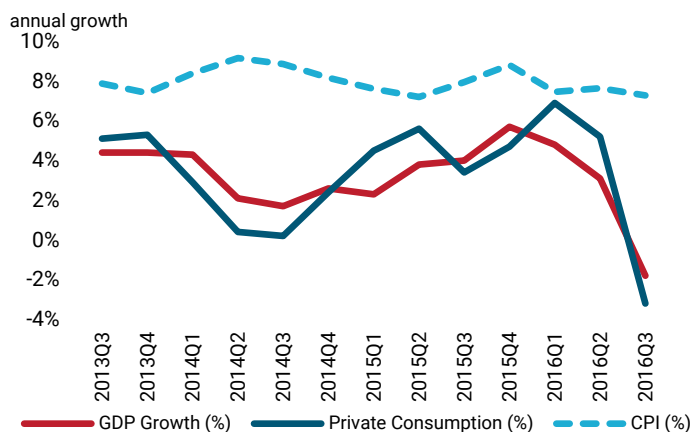
Consumer inflation was broadly in line with the forecasts of the July Inflation Report in the third quarter of 2016, and consumer price index increased by 7.3% in September. Lower inflation was mostly driven by prices of core goods and unprocessed food. Uncertainties regarding oil prices and global markets pose an upside risk to inflation. However, inflation is expected to stabilize around 5% in 2018 after falling to 7.5% in 2016 and 6.5% in 2017.

### 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 3). 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	-1.8 <sup>Q3*</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	-3.2 <sup>Q3</sup>
Consumer prices (%)	8.2	8.8	7.3 <sup>Q3</sup>
Unemployment (%)	10.9	10.3	11.3 <sup>Q3</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	3.27
Exchange rate (TRY/USD)	2.18	2.71	2.93

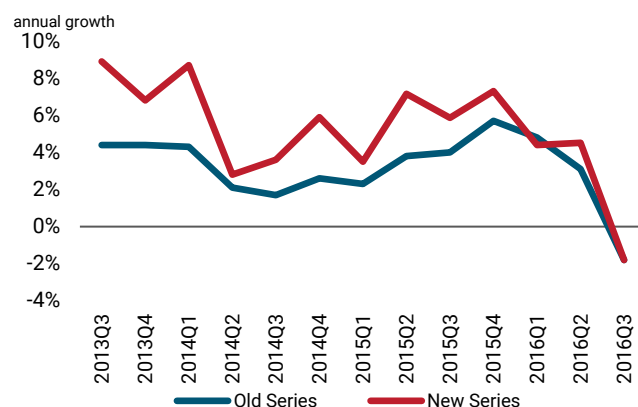
Source: TURKSTAT, CBRT, Ministry of Economy, Oxford Economics f: forecast, Q<sup>2</sup>: 2<sup>nd</sup> quarter, Q<sup>3</sup>: 3<sup>rd</sup> quarter

\*Turkstat has started to calculate GDP figures in accordance with the guidelines of the National Accounts System (SNA-2008) and the European Accounting System (ESA-2010).

Therefore, growth figures which had previously been expressed at constant prices now started to be calculated according to the chain-linked volume index (2009=100).

Figure 2

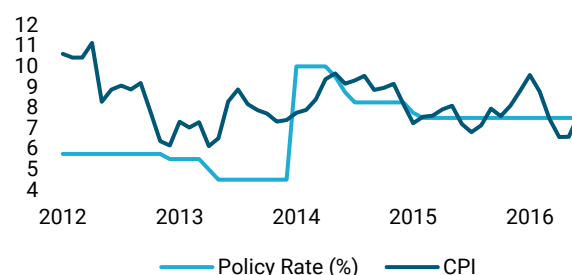
#### GDP growth, old and new series, quarterly



Source: TURKSTAT

Figure 3

#### Policy rate and CPI (%)



Source: CBRT and TURKSTAT

## Istanbul Office Market

### Demand and Supply

In the third quarter of 2016, Total Grade A office supply reached to 3.16 million sq. m in the primary office areas in Istanbul. New supply entered the market in Kozyatağı-Ataşehir 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 26,000 sq. m in the primary office areas of Istanbul was higher compared to the same quarter of 2015. Yet, almost half of overall take-up activities consisted of lease renewals.

### 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.

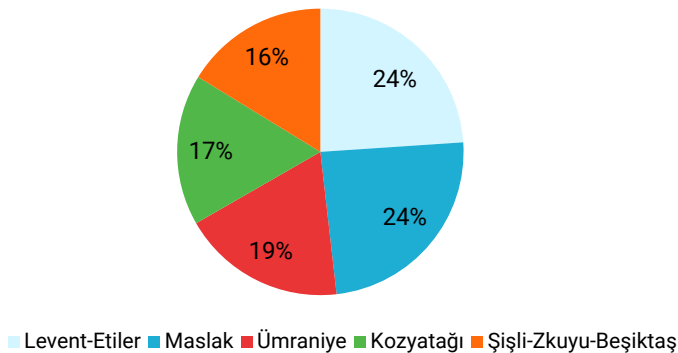
### Vacancy and Rental Level

Vacancy rate slightly increased to 12.8% in Istanbul primary office areas owing to 42,000 sq. m new supply entry to the market in Ataşehir. On the other hand, vacancy rate lightly decreased to 12.28% in primary office areas in European Side. While the prime rent sustained the same rate with the previous quarter as USD 47/ sq. m/ month, rents continued to a downward trend.

In Levent-Etiler, Maslak and Ümraniye vacancy rates decreased to 12.45%, 16.47%, and 9.84% respectively. On the other hand, vacancy rate slightly increased in Kozyatağı-Ataşehir to 21.41% from 16.24% due to new supply entry.

Figure 4

#### Istanbul grade A office supply by areas



Source: Pamir & Soyuer

Table 2

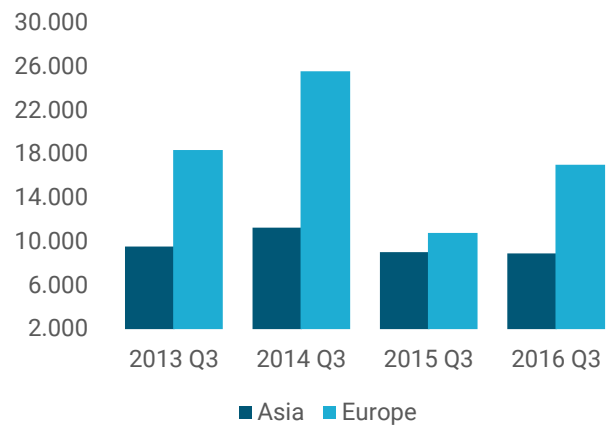
#### Notable office space lease transactions in 2016 Q1

Building	District	Tenant Sector	Area (sq. m)
River Plaza	Levent-Etiler	FMCG	5,818
MOB	Maslak	Pharmaceuticals	1,531
Cessas Plaza	Ümraniye	Logistics	1,498
AND	Kozyatağı	TMC	921
Buyaka	Ümraniye	Pharmaceuticals	845

Source: Pamir & Soyuer

Figure 5

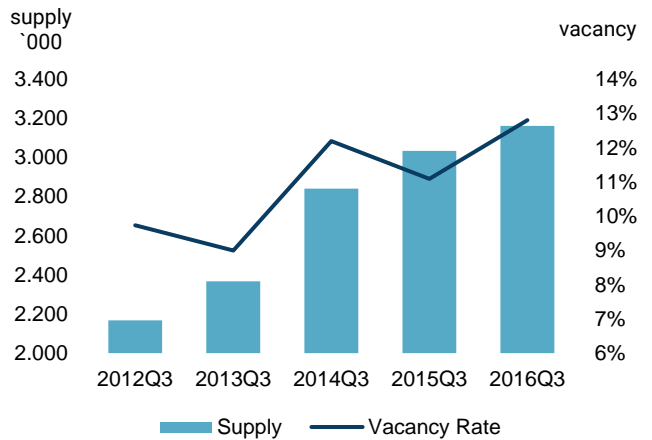
#### Istanbul grade A office take-up by primary areas over years



Source: Pamir & Soyuer, \* primary office areas, includes lease renewals.

Figure 6

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



Source: Pamir & Soyuer

## Turkey Retail Market

### Demand

In the third quarter of 2016, after 14 consecutive quarters' growth, household final consumption expenditure decreased by 3.2%. In the first half of 2016, private demand was more robust compared to the figures of the previous year's first 6 months. However, figures of the 2<sup>nd</sup> half of the year is expected to be quite lower compared to the same term of previous year.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the visitor index was 3.8% lower in the 3<sup>rd</sup> quarter of 2016 compared to the 3<sup>rd</sup> quarter of 2015, turnover index was 1.6% higher. Shopping centers' sales per leasable area has reached to 760 TL /sq. m in Turkey and 819 TL /sq. m in Istanbul in September. Turnover index per sq. m decreased by 4 % and reached to 729 TL by the 3<sup>rd</sup> quarter of 2016 compared to the same quarter of previous year.

### Supply

The shopping center supply reached to 10.73 million sq. m with the opening of 2 shopping center, increasing the total number to 366 in Turkey. GLA/1,000 inhabitant reached to 136.3 sq m in Turkey and currently Bolu secured having the highest GLA per 1,000 inhabitants and followed by Ankara and Istanbul as 301, 286, and 275 respectively (Figure 6).

### New Supply

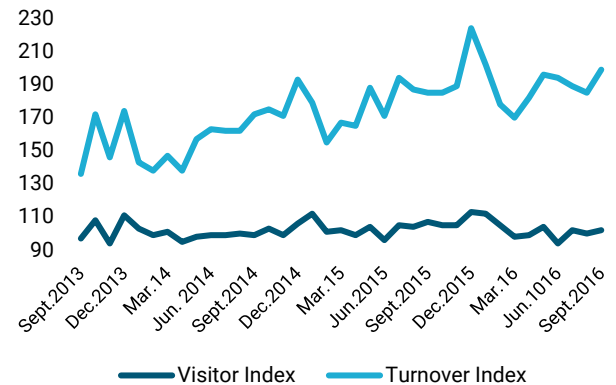
There were 2 openings in Zonguldak (Özdemir Park AVM, 12,000 sq m) and Edirne (Bendis AVM, 12,500 sq m) in the third quarter of 2016; a quite lower new supply entry compared to the same term of 2015 when 195,000 sq m new supply entered to the market.

### Pipeline and Outlook

Total retail supply is expected to be around 13.91 million sq. m by 30% increase by the end of 2019. While shopping center under the construction in Istanbul, 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 7

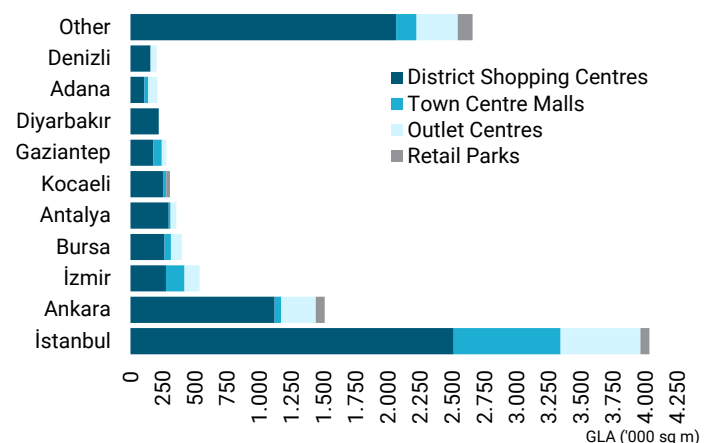
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 8

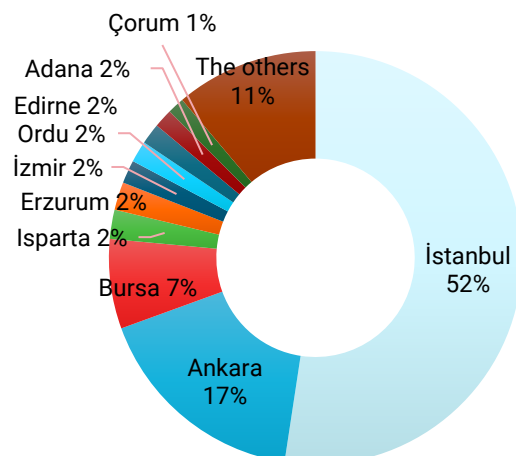
Retail center supply by types (top 10 cities)



Source: Pamir & Soyuer

Figure 9

Shopping center pipeline by cities



Source: Pamir & Soyuer

## student housing coming of age!

from alternative asset class → mainstream asset  
in **USA and UK**

- What are drivers behind this trend?
- What does support the rising star of student housing?
- And what is Turkey's position in this game?

### Student housing options:

- Private rental market (mainly shared housing)
- **Private purpose-built student housing (PBSA)**
  - **Secure, well-managed, high quality accommodation**
- University maintained and affiliated accommodation
- Homestays, hostels and guesthouses

Student housing: a new global asset class, 2012, JLL

- Increasing mobile global student population, courses in English
- Growing demand vs limited level of supply

↓ ↓  
**a secure and appealing investment**  
↓ ↓

- Steady income and solid rental growth
- Resilient, less cyclical performance
- Constant supply and demand imbalance
- High occupancy
- Strong demand drivers (by Asian students desiring a western education)
- Low risk profile
- Shorter lease arrangement vs rent free




Spotlight World Student Housing, 2015/16 Savills




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World's **most mature** student housing market:   
No1 destination for foreign students.  
Higher education population: **20.6 m**   
**2.5 m beds** in purpose-built student housing   
Typical **prime initial yield: 5.75%**  
  
Declining investment volumes since 2012.  
Some core US markets; fully supplied with quality products  
↓ ↓  
limited opportunities for rental growth

After US; **next nature** market:   
1st REIT on LSE in 2014. Empiric Student Property Fund  
Higher education population: **2.3 m**   
**0.5 m beds** in purpose-built student housing   
Typical **prime initial yield: 5.00%**  
Increasing investment activity, limited opportunities → yield compressions

**Maturing market:**   
Higher education population: **0.7 m**   
**100.000 beds** in purpose-built student housing   
Typical **prime initial yield: 5.50%**

**Emerging market:**   
Higher education population: **1.3 m**   
**90.000 beds** in purpose-built student housing   
Typical **prime initial yield: 7.00%**

Spotlight World Student Housing, 2015/16 Savills

student housing  
coming of age!

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	US	UK	Germany	Netherlands	Australia	France	Spain	TURKEY
Number of enrolled higher education students	20.6 m	2.3 m	2.7 m	0.7 m	1.3 m	2.4 m	1.5 m	3.6 m
Number of international students	886,000	388,000	301,000	87,000	348,000	295,000	75,000	87,903
% international students	4%	17%	11%	13%	25%	12%	5%	2.4%
Purpose built student housing beds	2,400,000	524,000	259,000	100,000	90,000	375,000	90,000	650,724
Student housing prime yields	5.75%	5%	5%	5.5%	7%	5.3%	6%	na

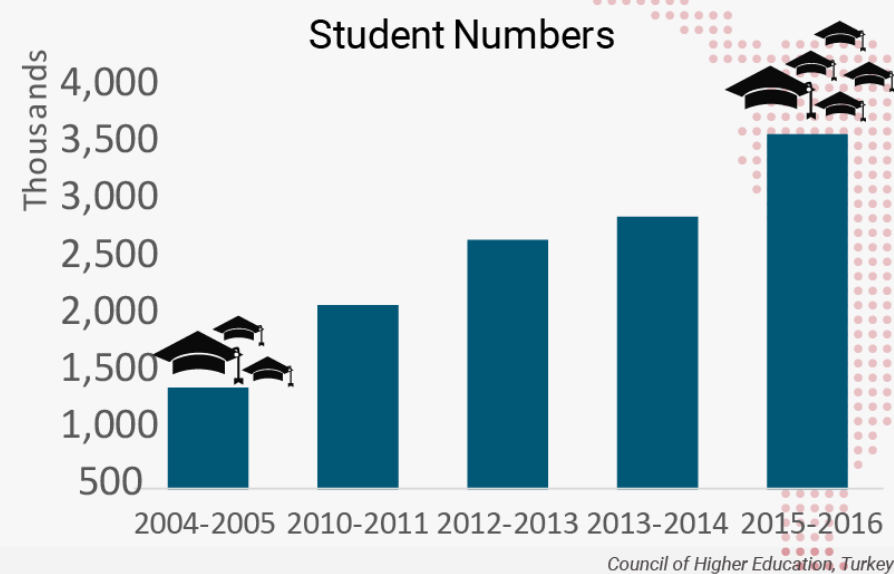
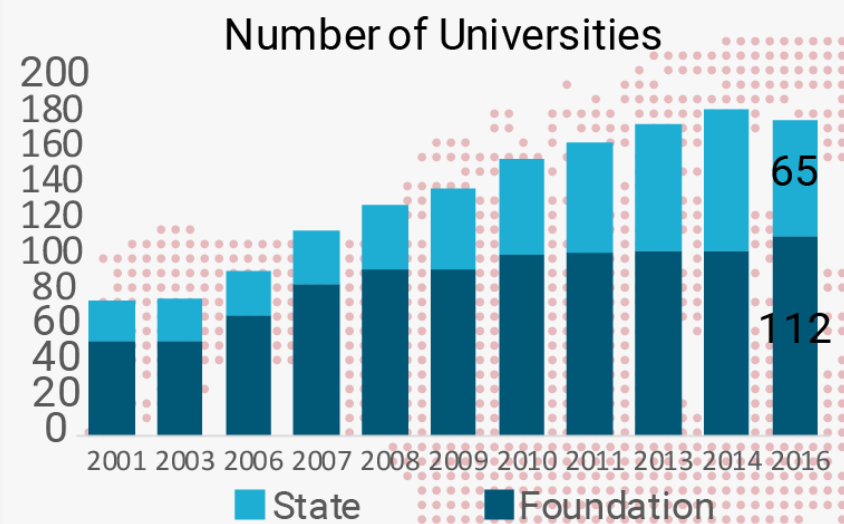
Spotlight World Student Housing, 2015/16 Savills  
Council of Higher Education, Turkey  
TURKSTAT

## student housing coming of age!

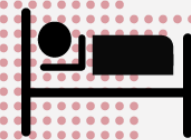
from alternative asset class → mainstream asset  
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**650,724**

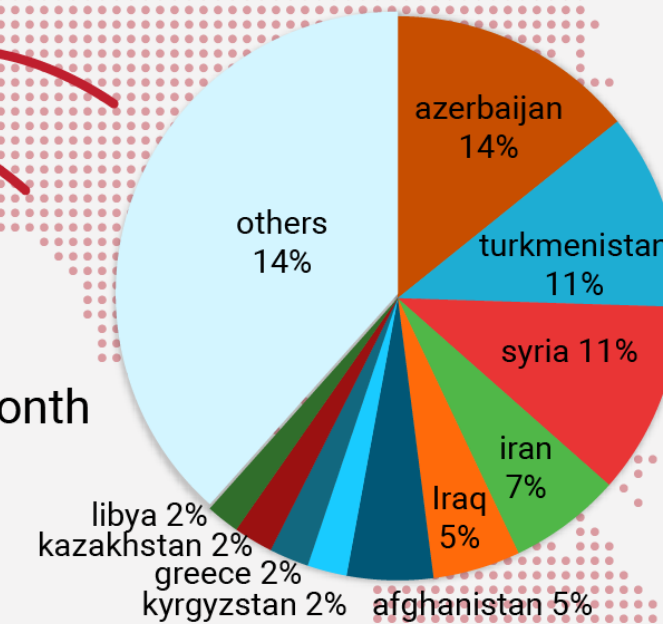


public **454,631** → **86,94%**  
private **196,093** → **59,38%**

National Education Statistics, Ministry of National Education



**Istanbul**  
private student housing  
rents TL 1,600-5,000/bed/month



Number of foreign students by nationality, 2015-2016

Council of Higher Education, Turkey

### 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:	<p>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.</p> <p>Database covers all operating retail centres. The additional or expanded space is considered as a new retail centre floor space.</p> <p>Principal types of retail centres are classified using British Council of Shopping Centre (BCSC) definitions as follows:</p>
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

*Pamir & Soyuer Research Reports are available at*

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