

Q4 2016

delayed demand, increasing uncertainty

TURKEY
REAL ESTATE MARKET



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SUMMARY



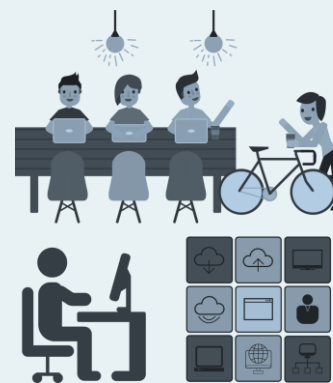
After contracting by 1.8% annually for the first time after 27 consecutive quarters in the third quarter of 2016, economic activity is expected to recover starting from the final quarter with the supportive measures and incentives provided recently. After revising the growth expectation downward, OECD expects GDP growth to be 2.9% (revised from 3.9%) and 3.3% (revised from 3.7%) by the end of 2016 and 2017, respectively. The slowdown in aggregate demand contributes to the fall in inflation. Yet, exchange rate movements due to recently heightened global uncertainty and volatility pose upside risks on the inflation outlook. Consumer inflation increased by 8.53% annually exceeding expectations by the end of 2016. While interest rates in advanced economies increased in the fourth quarter and exchange rate movements put upside risks on the inflation outlook, the CBRT decided to implement monetary tightening to contain adverse impact of these developments and increased one-week repo rate from 7.5% to 8% in the last meeting of November after 21 months.



In the last quarter of 2016, Total Grade A office supply reached to 3.26 million sq. m in the primary office areas in Istanbul. Compared to the same quarter of previous year, new supply entry was higher. The last quarter grade A office take-up volume which was recorded around 40,601 sq. m (more than half consists of renewals) in the primary office areas of Istanbul was higher compared to the same quarter of 2015. There is approximately 1.43 million sq. m office space development either under construction or at planning stage in the primary office areas. Vacancy rate increased to 15.4% from 13.4% in Istanbul primary office areas owing to new supply entry and rather low level of new lease activity in the market. While rents continued to sustain the downward trend, prime rent stood at USD 46/ sq. m/ month.



Despite the 3.2% decrease in the household final consumption expenditure in the third quarter of 2016 and the lack of a signal for improvement in tourism forecasts, a mild recovery in economic activity is expected as a result of the current incentives and measures. According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the turnover index annually increased by 6.7% at the end of 2016, visitor index was 1.9% lower compared to the same quarter of the previous year. The shopping center supply reached to 10.92 million sq. m with the opening of 6 shopping center and 1 expansion, increasing the total number to 373 in Turkey.



The world of serviced offices has been thriving globally and after the first player entered Turkey market in 1999, the number of operators and the share of floorspace dedicated to serviced office has been rising for the last 18 years. Today, there are

- 18 operators that offer serviced office, virtual office or co-working space
- In 6 cities at 84 different buildings
- With a total of approximately 100,000 sq m office space.

While the number of operators of serviced office increases, understanding and acceptance of co-working space concept has also been spreading. Thus, for a while we have been seeing a wide range of operators offering unique working environments with innovative flexible workspaces rather than just providing simple desk solutions.

Economic Overview

GDP

After contracting by 1.8% annually for the first time after 27 consecutive quarters in the third quarter of 2016, economic activity is expected to recover starting from the final quarter with the supportive measures and incentives provided recently. Despite the dropping tourism revenues and negative effects of the failed coup attempt in July, the demand from the European Union economies continues to contribute positively to exports. Indicators of the fourth quarter of 2016 sign a mild growth. However, private investment will possibly remain weak due to lack of business confidence.

After revising the growth expectation downward, OECD expects GDP growth to be 2.9% (revised from 3.9%) and 3.3% (revised from 3.7%) by the end of 2016 and 2017, respectively.

Inflation

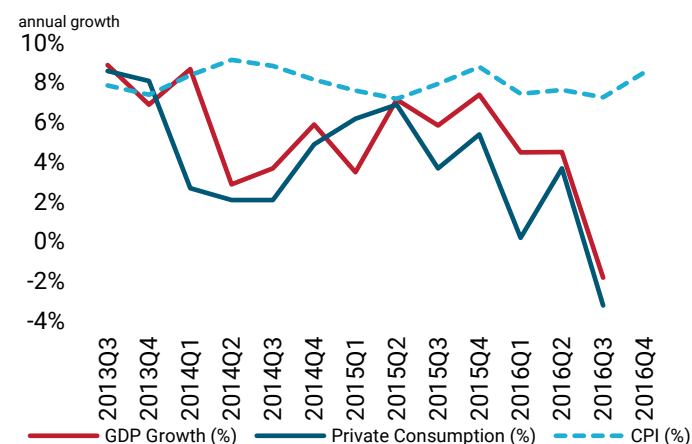
The slowdown in aggregate demand contributes to the fall in inflation. Yet, exchange rate movements due to recently heightened global uncertainty and volatility pose upside risks on the inflation outlook and consumer inflation increased by 8.53% annually exceeding expectations by the end of 2016. Pressures from producer prices were more severe towards the end of the year, with indices signaling a growing tendency to hike prices. Inflation outlook is accordingly revised and expected to stabilize around 5% in 2019 after falling to 8% in 2017 and 6% in 2018.

Policy Rate

While interest rates in advanced economies increased in the fourth quarter and exchange rate movements put upside risks on the inflation outlook, the CBRT decided to implement monetary tightening to contain adverse impact of these developments and increased one-week repo rate from 7.5% to 8% in the last meeting of November after 21 months (Figure 2). Future monetary policy decisions will be conditional on the inflation outlook.

Figure 1

Turkey Economy: selected indicators



Source: TURKSTAT

Table 1

Economic indicators

	2014	2015	2016
GDP (%)	3.6 Q3*	5.9 Q3*	-1.8 Q3*
GDP per capita	10,404	9,261	
Population (million)	77.69	78.74	79.81
Private expenditure growth (%)	1.3	4.5	-3.2 Q3
Consumer prices (%)	8.2	8.8	8.5
Unemployment (%)	10.9	10.3	11.8 Oct.
FDI Inflow (million USD)	11,462 Jan.-Nov.	15,246 Jan.-Nov.	8,765 Jan.-Nov.
FDI inflow growth (%)	-1.5 Jan.-Nov.	23.2 Jan.-Nov.	-42.5 Jan.-Nov.
Policy rates (%)	8.25	7.5	8
BIST Price index (XU100)	85,721	70,518	77,836
Exchange rate (TRY/EUR)	2.90	3.01	3.34
Exchange rate (TRY/USD)	2.18	2.71	3.02

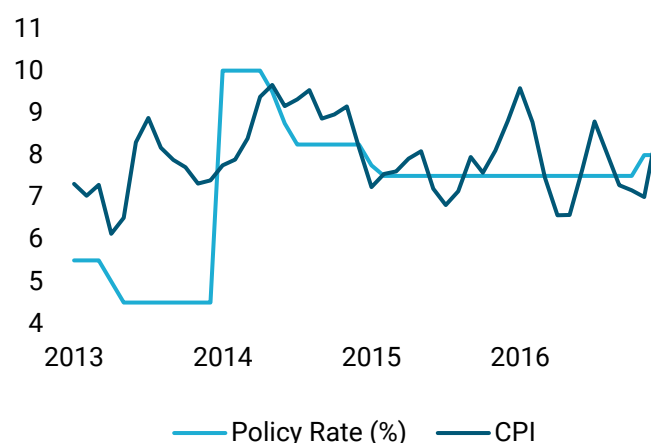
Source: TURKSTAT, CBRT, Ministry of Economy, Oxford Economics
Jan: January, Nov: November, Oct: October, Q3: 3rd quarter

*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

Policy rate and CPI (%)



Source: TURKSTAT

Istanbul Office Market

Demand and Supply

In the last quarter of 2016, Total Grade A office supply reached to 3.26 million sq. m in the primary office areas in Istanbul. New supply entered the market in Şişli-Zincirlikuyu district. Compared to the same quarter of previous year, new supply entry was higher.

The first quarter grade A office take-up volume which was recorded around 40,601 sq. m in the primary office areas of Istanbul was higher compared to the same quarter of 2015. However, more than the half of overall take-up activities (22,536 sq m) consisted of lease renewals.

Pipeline

There is approximately 1.43 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. Regulatory bodies governing the financial sector (Banking Regulation and Supervision Agency-BDDK, Capital Markets of Board Turkey-SPK) as well as the headquarters of state banks (Vakıfbank, Ziraat Bankası, Halkbank) will be relocated to IFC. In addition to the mentioned state entities, some private banks and financial institutions are also expected to relocate to the Istanbul Finance Center. By the end of 2019, office supply will be around 4 million sq. m in the primary office areas in Istanbul.

Vacancy and Rental Level

Vacancy rate increased to 15.4% from 13.4% in Istanbul primary office areas owing to new supply entry and rather low level of new lease activity in the market. While rents continued to sustain the downward trend, prime rent stood at USD 46/ sq. m/ month. In Kozyatağı, Levent-Etiler and Maslak vacancy rates decreased to 20.69%, 11.79%, and 15.82% respectively. On the other hand, vacancy rate increased in Şişli-Zincirlikuyu to 20.06% due to new supply entry.

Table 2

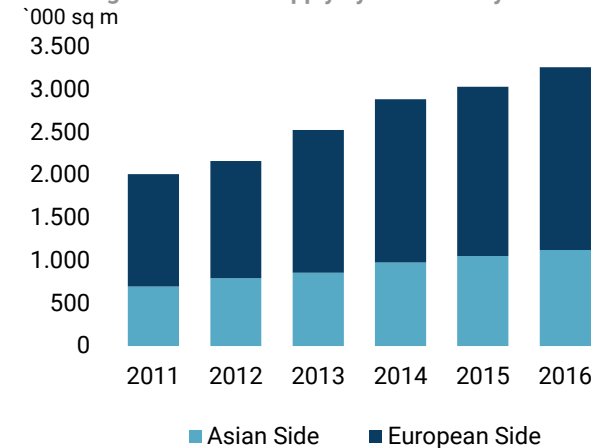
Notable office space lease transactions in 2016 Q4

Building	District	Tenant Sector	Area (sq. m)
Yılmaz Plaza	Ümraniye	FMCG	3,500
MOB	Maslak	Professional Services	2,500
MOB	Maslak	Automotive	1,851
Nidakule Levent	Levent-Etiler	Consumer Goods	1,707
River Plaza	Levent-Etiler	Biotechnology	1,369

Source: Pamir & Soyuer

Figure 3

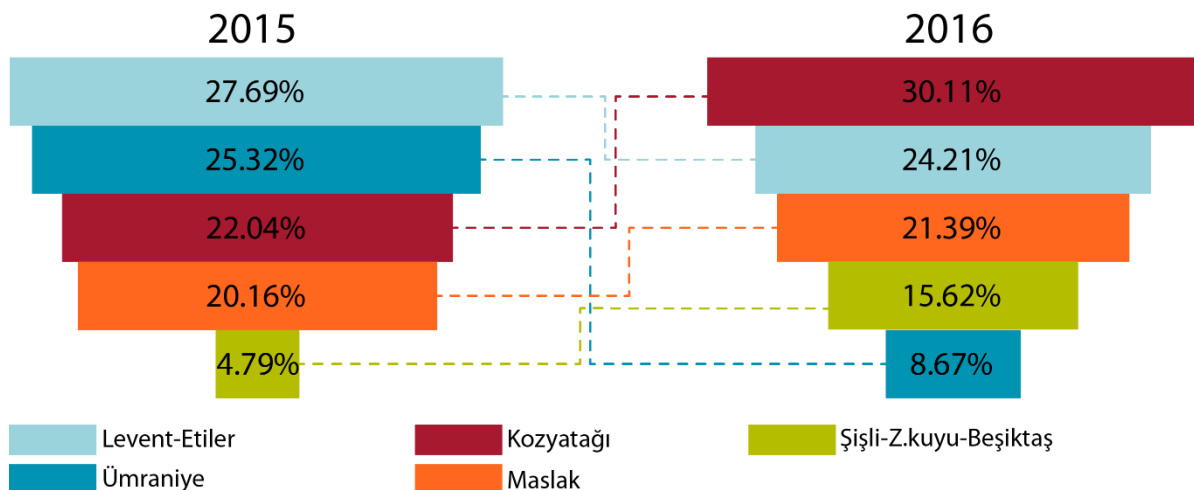
Istanbul grade A office supply by areas over years



Source: Pamir & Soyuer

Figure 4

Take-up activities share, Istanbul grade A office supply, 2015-2016



Source: Pamir & Soyuer

Turkey Retail Market

Demand

Despite the 3.2% decrease in the household final consumption expenditure in the third quarter of 2016 and the lack of a signal for improvement in tourism forecasts, a mild recovery in economic activity is expected as a result of the current incentives and measures.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the turnover index annually increased by 6.7% at the end of 2016, visitor index was 1.9% lower compared to the same quarter of the previous year. Shopping centers' sales per leasable area has reached to 744 TL /sq. m in Turkey and 836 TL /sq. m in Istanbul in December. Turnover index per sq. m increased by 6.7% compared to 2015 year-end and reached to 913 TL by the end of 2016.

Supply

The shopping center supply reached to 10.92 million sq. m with the opening of 6 shopping center and 1 expansion, increasing the total number to 373 in Turkey. After the release of 2016 population statistics, GLA/1,000 inhabitant data was revised accordingly. GLA/1,000 inhabitant reached to 137 sq m in Turkey and currently Bolu has the highest GLA per 1,000 inhabitants as 292 and followed by Ankara and Istanbul as 287, and 277 respectively (Figure 6).

New Supply

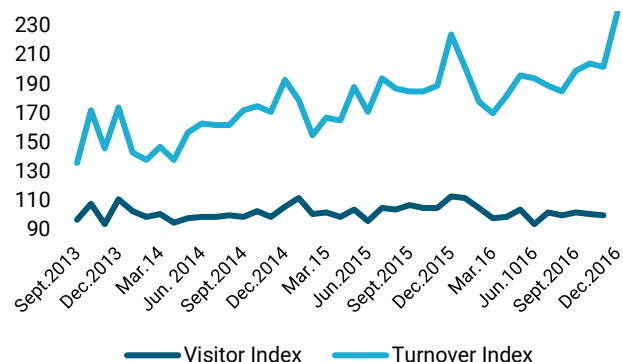
There were 6 openings and 1 shopping center expansion in 6 different cities in the last quarter of 2016. A total of 194,000 sq m new supply entered to the market and the number of cities with shopping centers increased to 59 across Turkey. Primemall Sivas Park (35,000 sq m), Novada Yozgat (16,000 sq m), AHL Park Çorum (50,000 sq m) are the first shopping centers in Sivas, Yozgat and Çorum, respectively. While Istanbul held two openings; Biz Cevahir Haliç (20,000 sq m), Watergarden (48,000 sq m), Ankara had one shopping center opening; ATG Ankara.

Pipeline and Outlook

Total retail supply is expected to be around 14 million sq. m by 30% increase by the end of 2020. 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 5

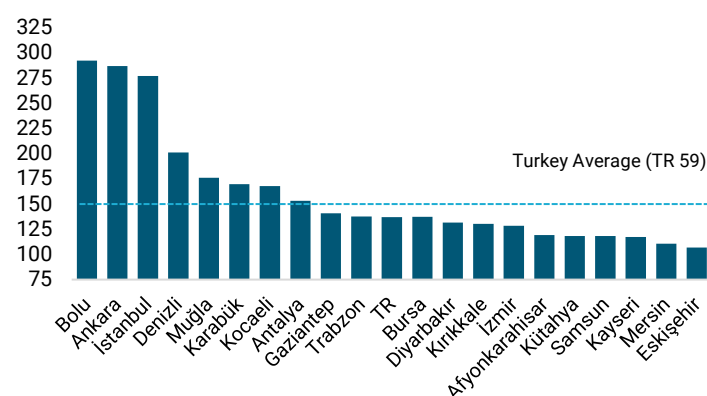
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 6

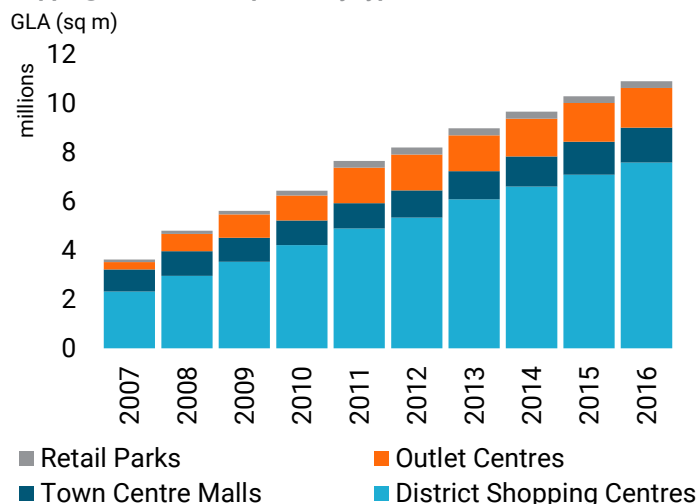
Retail center supply (GLA per 1,000 inhabitants)-Top 20 markets



Source: Pamir & Soyuer

Figure 7

Shopping center development by types



Source: Pamir & Soyuer

serviced office



Fully equipped and managed, office space is taken on a desk-by-desk basis.

Benefits;

use of facilities within the building
from breakout areas to meeting rooms.

space and flexibility for all size businesses

one fee includes rent+costs such as
security
reception area
cleaning
avoiding cap-ex

co-working space



Run on a membership basis with a monthly fee collaborative open plan space

Benefits;

access to the office space
a desk
meeting rooms
W-Fi
networking events with other co-workers.
different office locations
flexibility

Typically used by
freelancers
entrepreneurs
start-ups
small and medium enterprises

virtual office



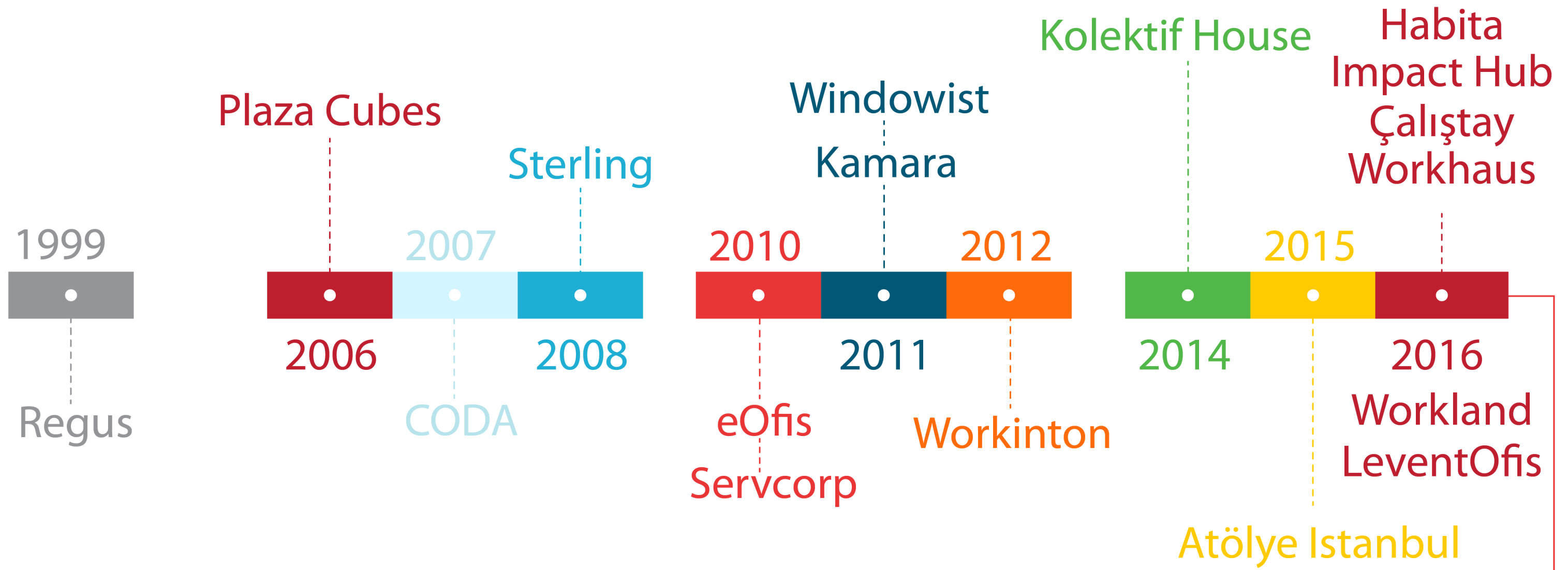
Benefits;

Dedicated phone lines and postal address
image of a working office to users' clients
access to meeting rooms when needed

Typically used by
start-up companies with
few employees

Turkey Market

serviced office | co-working space | virtual office



2017



6 cities, 50 locations

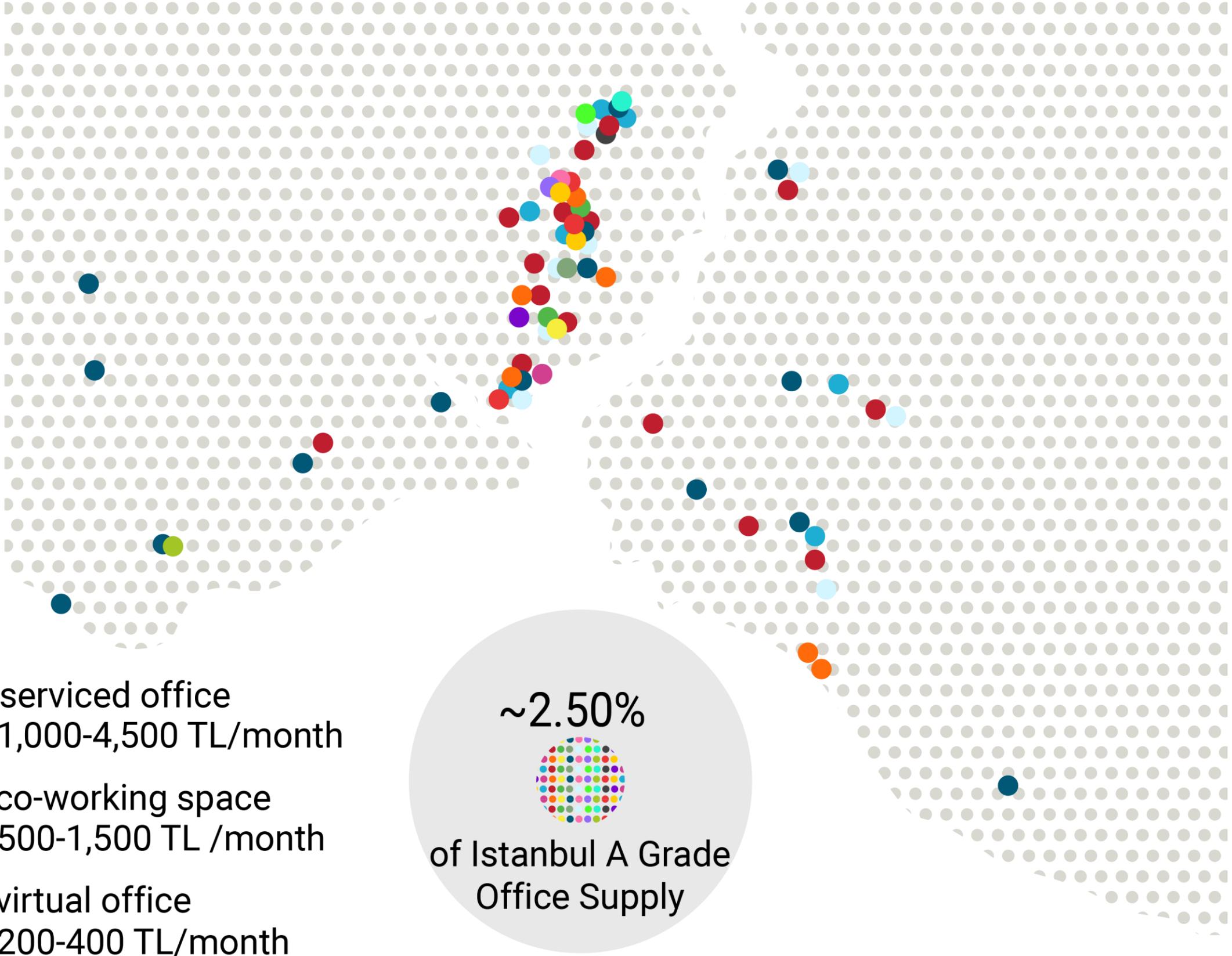
84 different buildings

~100,000 sq m office space

increasing share of floorspace

increasing number of operators
offering serviced office and
co-working space

serviced office | co-working space | virtual office



- Atölye İstanbul
- CODA
- Çalıştay
- Eofis
- Habita
- Impact Hub
- IDTM-WT Club
- Kamara
- Kolektif House
- LeventOfis
- Plaza Cubes
- Regus
- Servcorp
- Sterling İstanbul
- Windowist
- Workhaus
- Workinton
- Workland

Source: Pamir & Soyuer and websites of related firms.

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

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REAL ESTATE

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