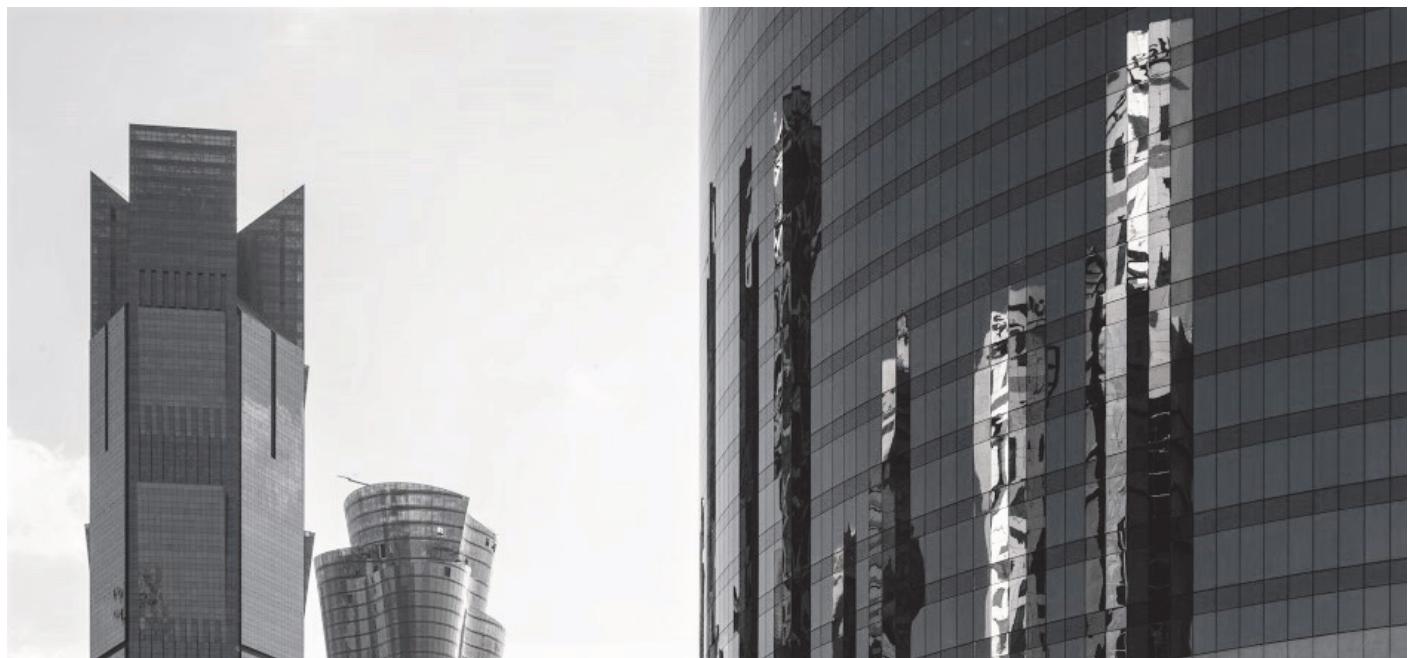


Q1 2017

signs of recovery, increasing inflation

TURKEY REAL ESTATE MARKET



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SUMMARY



Compared to the same quarter of 2016, Turkey's economy grew by 5%, higher than expected in the first quarter of 2017. Government expenditures and household spending were major contributors of the growth rather than a strong investment climate. Consumer price index rose by 11.29% in March, the worst since 2008 as the economy battles with a weakening lira and soaring global energy prices. After rising inflation for four consecutive months, year-end inflation forecasts for 2017 and 2018 were revised upwards. After deciding to increase one-week repo rate to 8% from 7.5%, due to the exchange rates and inflation outlook, in the last meeting of November 2016 after 21 months, committee did not change the rate since then.



In the first quarter of 2017, Total Grade A office supply reached to 3.33 million sq. m in the primary office areas in Istanbul. New supply entry was higher compared to the same quarter of 2016 but lower in comparison to the previous quarter. The first quarter grade A office take-up volume which was recorded around 26,000 sq. m including 6,333 sq m lease renewals in the primary and secondary office areas of Istanbul was considerably lower compared to the same quarter of 2016. Vacancy rate increased to 16.6% from 15.4% 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 recorded as USD 44/ sq. m/ month.



Household final consumption expenditure increased by 5.1% fueling economic growth. According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the turnover index annually increased by 5.5% in the first quarter of 2017, visitor index was 2.9% lower compared to the same quarter of the previous year. Shopping centers' sales per leasable area has reached to 751 TL /sq. m in Turkey. The shopping center supply reached to 10.97 million sq. m with the opening of 3 shopping center, increasing the total number to 376 in Turkey. GLA/1,000 inhabitant reached to 138 sq m in Turkey with 3 openings in 3 different cities.



Big data in real estate sector;

- what does it mean?
- what are the advantages for the sector?
- what are the areas of use and who use them?

Economic Overview

GDP

Compared to the same quarter of 2016, Turkey's economy grew by 5%, higher than expected in the first quarter of 2017. Government expenditures and household spending were major contributors of the growth rather than a strong investment climate. However, the recovery in European economy seem to be boosting exports and contributing the growth positively in the upcoming quarters.

Inflation

Consumer price index rose by 11.29% in March, the worst since 2008 as the economy battles with a weakening lira and soaring global energy prices. The relative recovery in demand conditions and the high inflation expectations also led to price hikes over this period.

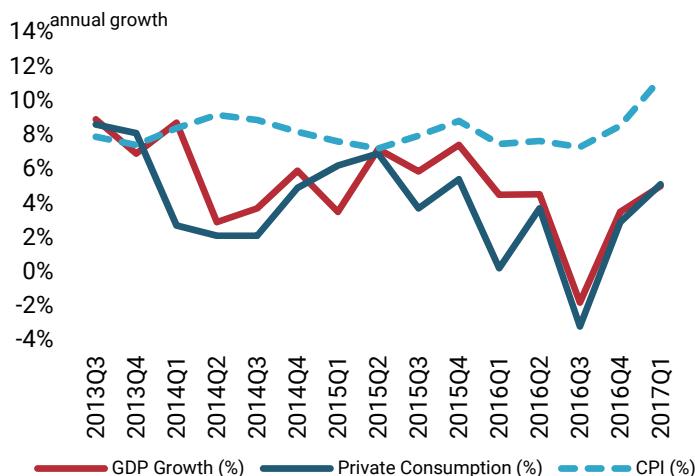
After rising inflation for four consecutive months, year-end inflation forecasts for 2017 and 2018 were revised and accordingly, inflation is likely to be 8.5% (revised from 8%) percent at end-2017, and stabilize around 5% percent in the medium term after falling to 6.4% (revised from 6%) percent at end-2018.

Policy Rate

After deciding to increase one-week repo rate to 8% from 7.5%, due to the exchange rates and inflation outlook, in the last meeting of November 2016 after 21 months, committee did not change the rate since then. With the supportive measures and incentives provided recently, the recovery in the economic activity is expected to continue at a moderate pace. The Committee assesses that the implementation of the structural reforms would contribute to the potential growth significantly.

Figure 1

Turkey Economy: selected indicators



Source: TURKSTAT

Table 1

Economic indicators

	2015	2016	2017
GDP (%)	6.1	3.5	5 ^{Q1}
GDP per capita	9,261	10,807	N/A
Population (million)	78.74	79.81	N/A
Private expenditure growth (%)	5.4	2.3	5.1
Consumer prices (%)	8.8	8.5	11.29 ^{March}
Unemployment (%)	10.3	11.9	11.7 ^{March}
FDI Inflow (million USD)	4,236 ^{Q1}	2,752 ^{Q1}	2,803 ^{Q1}
FDI inflow growth (%)	-18.9.	-52.6	1.9
Policy rates (%)	7.5	8	8
BIST Price index (XU100)	70,518	77,836	89,037
Exchange rate (TRY/EUR)	3.02	3.34	3.93 ^{Q1}
Exchange rate (TRY/USD)	2.72	3.02	3.69 ^{Q1}

Source: TURKSTAT, CBRT, Ministry of Economy, Oxford Economics

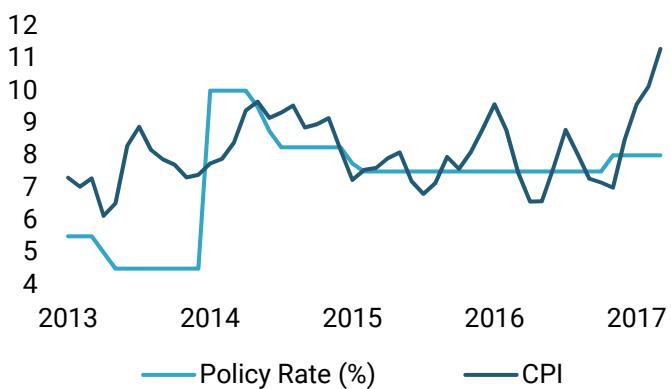
Q¹: 1st quarter

*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 first quarter of 2017, Total Grade A office supply reached to 3.33 million sq. m in the primary office areas in Istanbul. New supply entered the market in Levent-Etiler district. New supply entry was higher compared to the same quarter of 2016 but lower in comparison to the previous quarter.

The first quarter grade A office take-up volume which was recorded around 26,000 sq. m including 6,333 sq m lease renewals in the primary and secondary office areas of Istanbul was considerably lower compared to the same quarter of 2016.

Pipeline

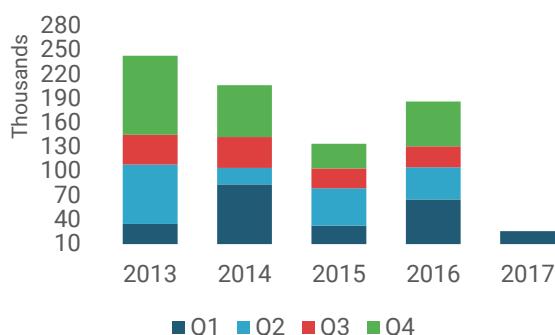
There is approximately 1.38 million sq. m office space development either under construction or at planning stage in the primary office areas. Majority of the pipeline developments (around 600,000 sq. m) in the Asian Side is in Ataşehir, Istanbul Finance Center. Regulatory bodies governing the financial 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 2020, office supply will be around 4 million sq. m in the primary office areas in Istanbul.

Vacancy and Rental Level

Vacancy rate increased to 16.6% from 15.4% 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 recorded as USD 44/ sq. m/ month. In Kozyatağı and Ümraniye vacancy rates decreased to 19.99%, and 9.77% respectively. On the other hand, vacancy rate increased in Levent-Etiler to 17.49% due to new supply entry.

Figure 3

Take-up activities over quarters



Source: Pamir & Soyuer

Table 2

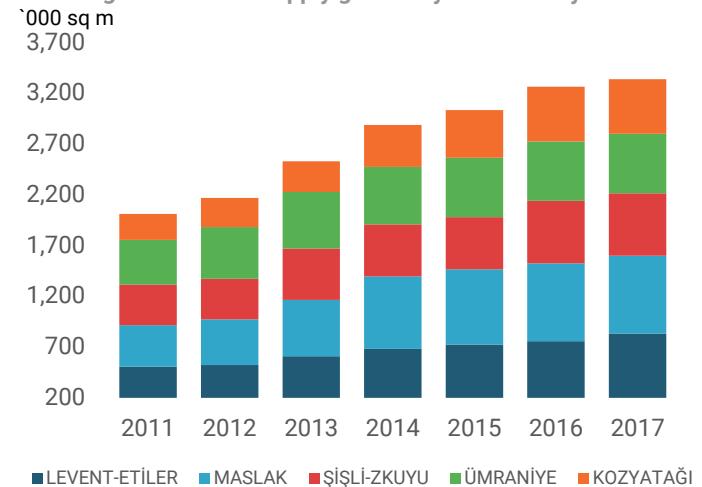
Notable office space lease transactions in 2017 Q1

Building	District	Tenant Sector	Area (sq. m)
Premier Kampüs Ofis	Kağıthane	Logistics	4,200
Nidakule Ataşehir Kuzey	Ataşehir	ICT	3,189
Akkom Cessas Plaza	Ümraniye	FIRE	2,998
Premier Kampüs Ofis	Kağıthane	Logistics	2,020

Source: Pamir & Soyuer

Figure 4

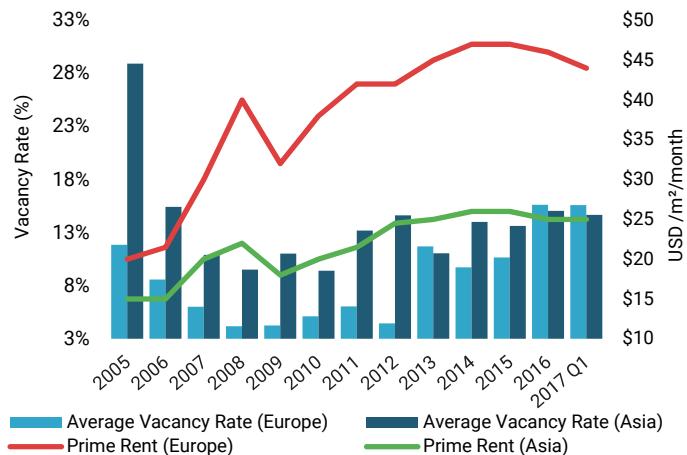
Istanbul grade A office supply growth by areas over years



Source: Pamir & Soyuer

Figure 5

Istanbul grade A office vacancy and prime rent



Source: Pamir & Soyuer

Turkey Retail Market

Demand

Household final consumption expenditure increased by 5.1% fueling economic growth. Private demand in the first quarter of 2017 was more robust compared to the same quarter of 2016 when the annual household consumption growth was recorded as low as 0.2%.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research and Strategic Planning, while the turnover index annually increased by 5.5% in the first quarter of 2017, visitor index was 2.9% lower compared to the same quarter of the previous year. Shopping centers' sales per leasable area has reached to 751 TL /sq. m in Turkey and 867 TL /sq. m in Istanbul in March. Turnover index per sq. m increased by 5.4% compared to first quarter of 2016 and reached to 737 TL by the end of first quarter of 2017.

Supply

The shopping center supply reached to 10.97 million sq. m with the opening of 3 shopping center, increasing the total number to 376 in Turkey. GLA/1,000 inhabitant reached to 138 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.

New Supply

There were 3 openings in 3 different cities in the first quarter of 2017. A total of 46,000 sq m new supply entered to the market. ÖzdilekPark (20,000 sq m), İldem Park (16,000 sq m), and Artrium (10,000 sq m) were opened in Bursa, Kayseri, and Artvin respectively.

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 6

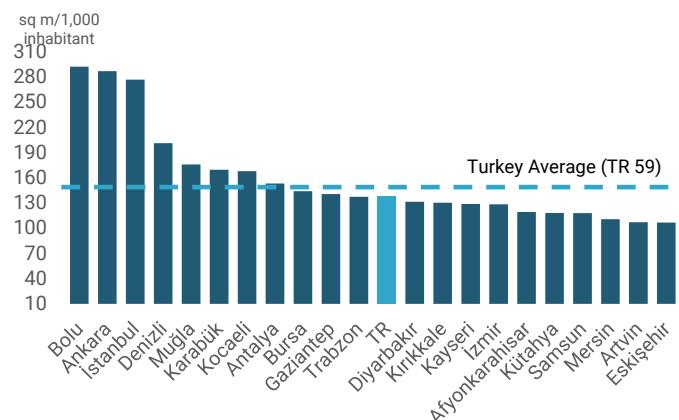
Shopping centers turnover and visitor index



Source: AYD and Akademetre Research

Figure 7

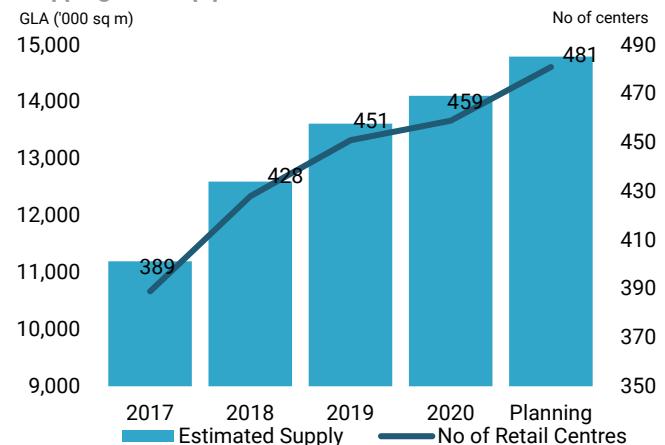
Retail center supply (GLA per 1,000 inhabitants)-Top 20 markets



Source: Pamir & Soyuer

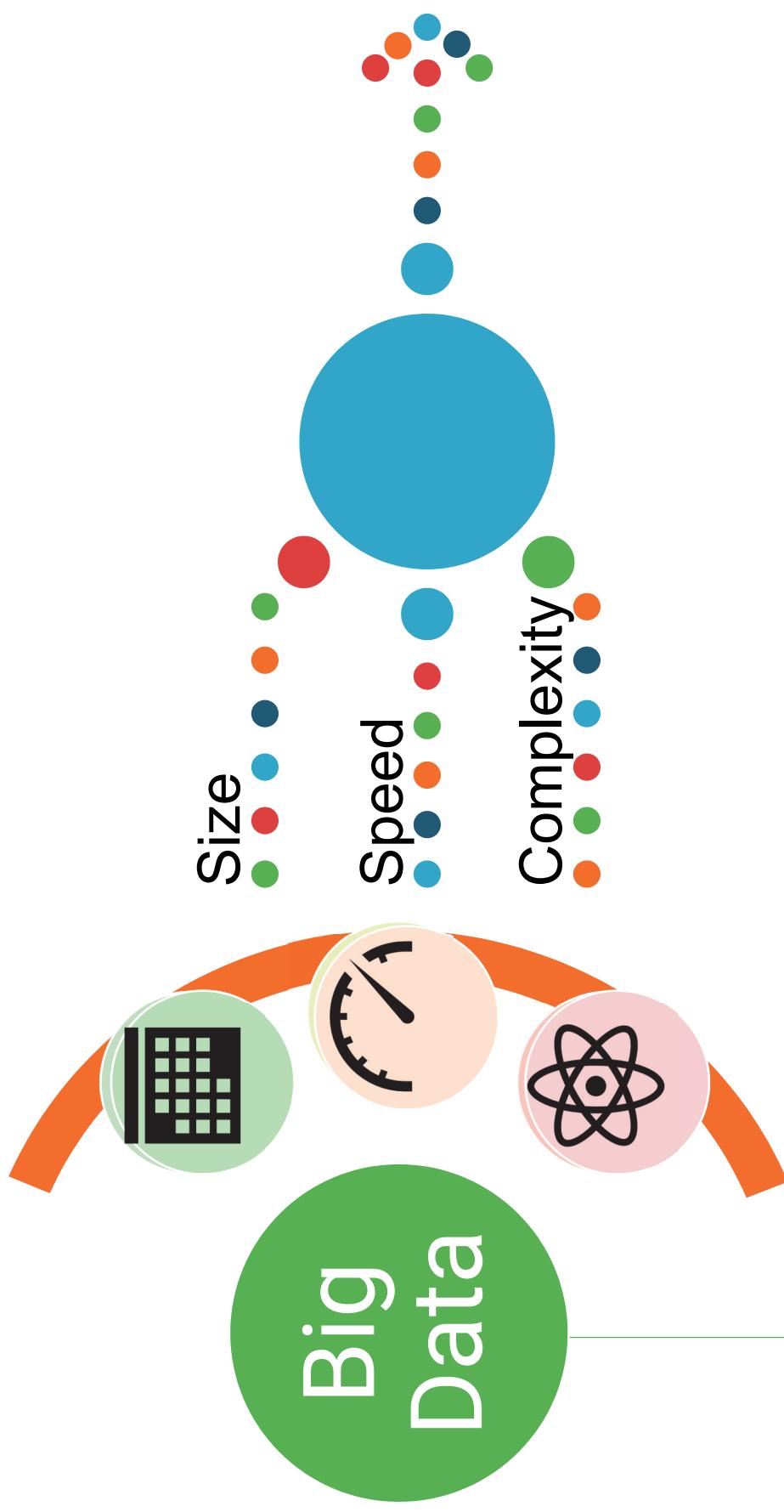
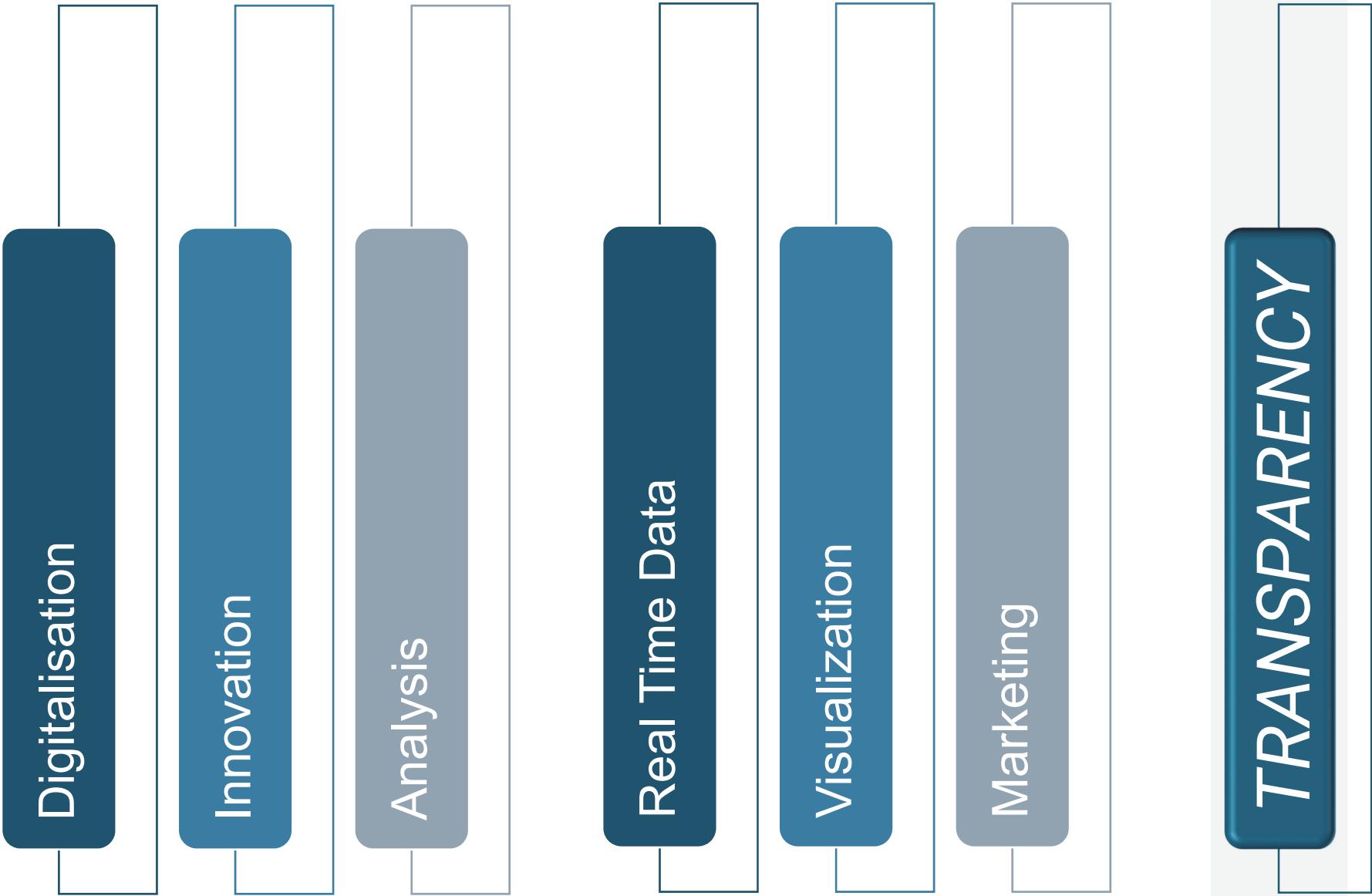
Figure 8

Shopping center pipeline



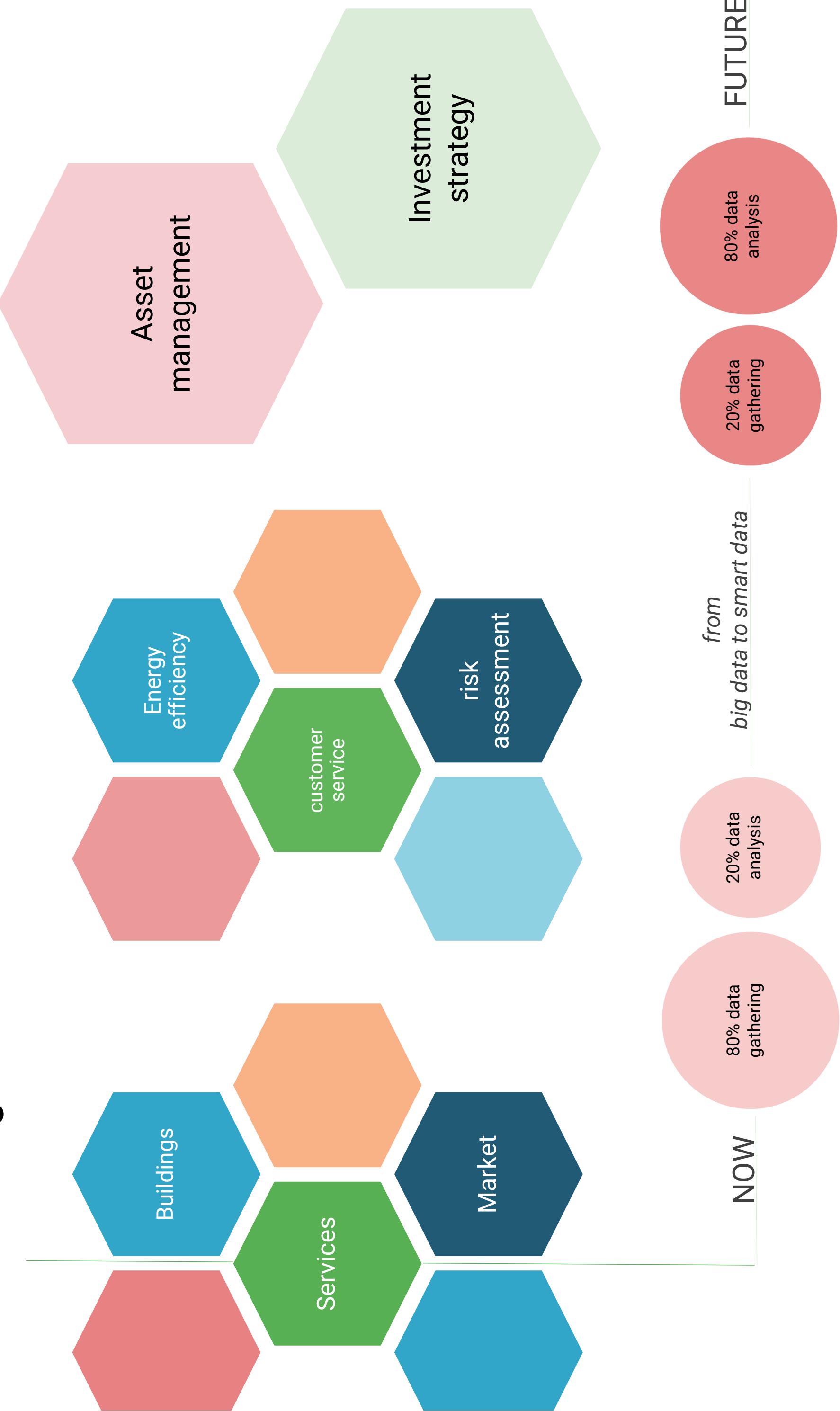
Source: Pamir & Soyuer

What does “big data” mean for real estate?



- More accurate forecasts/predictions
- Identifying previously unknown potential
- Faster and more comprehensive analyses
- Faster reactions by management
- Improved customer service

Where is “big data” used in real estate?



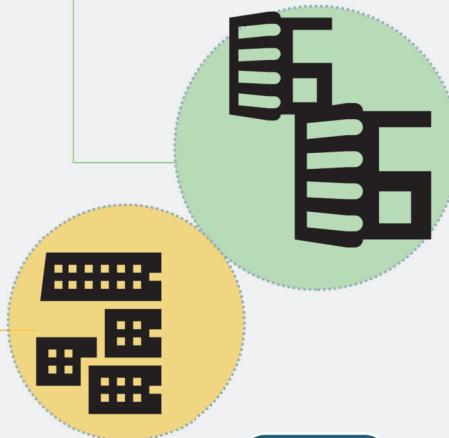
Who uses “big data” in real estate?



value estimates of properties

prices of comparable real estates

Real Estate Database Companies



buyers

sellers

renters

real estate professionals

researchers

age

education

ownership

income

-/- Crime Statistics

Commuting Statistics

Nearby facilities

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

Pamir & Soyuer Research Reports are available at

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