

Q2 2017

slow recovery, remaining uncertainty

TURKEY REAL ESTATE MARKET



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SUMMARY



Turkey's economy grew higher than expected in the second quarter of 2017, following the 5.2% growth in the first quarter. Due to the 10.5% increase in net exports and robust private consumption, GDP grew by 5.1% in second quarter. The consumer price inflation, which has been on an upward trend since the beginning of 2017, reached 11.87% in April, the highest level since 2008. After declining to 11.72% in May, the annual CPI came down to 10.90% by June. However, cost shocks and food inflation due to exchange rate pass-through are still pushing factors keeping inflation at the high level. In the last meeting of June 2017, the CBRT kept one-week repo rate at 8% which was previously raised from 7.5%. Moreover, tight monetary policy will continue until the inflation improves.



Cumulative supply of A Grade office space in Istanbul reached to 3,36 million sq. m in second quarter of 2017. However, increase in total supply was lower than the previous quarter and the same period of last year. As of second quarter of 2017, 25,847 sq. m take-up was recorded, comprising 52% of overall transactions in Istanbul primary office areas. The take up volume in the quarter doubled in comparison to the previous quarter; however, remained 1.4% below from volume of the same quarter of last year. In the primary office areas of Istanbul, there is around 1.38 million sq. m new office development either under construction or in the planning stages. Total vacancy rate increased from 16.6% to 16.73% with the new supply entry. In European side, total vacancy rate rose to 17.93% by 25,000 sq. m supply entry in Levent-Etiler where the prime rent was recorded as USD 44/ sq. m/ month. In Asian side, due to lack of new supply and increased competition, average rents showed decreasing trend, and vacancy rate declined from 14.67% to 14.30%.



Due to the end of uncertainties about the referendum and celebration of Ramadan Feast in June, household final consumption expenditure increased by 3.2% in second quarter of 2017. According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research, while the visitor index remained the same with second quarter of last year, turnover index rose by 15.8% to 220 points. In June 2017, shopping center's sales per leasable area (sq. m) has occurred as 898 TL/sq. m in Turkey and 984 TL/sq. m in Istanbul. And, the turnover index was recorded as 839 TL, increasing by 15.6% compared to the same quarter of last year. As of second quarter of 2017, Turkey's shopping center supply reached to 11.38 million sq. m with the opening of 9 shopping centers and expansion of M1 Adana Shopping Center. Moreover, GLA/1,000 inhabitants increased to 142.7 sq. m in Turkey.



The retail sector has been evolving with new retail trends impacting the market, including demographic shifts, shifting consumer mindset, technology and the changing purpose and scale of the stores. The size of global middle class will double to 4.9 billion by 2030 and the purchasing power of middle class will grow from US\$21 trillion to US\$56 trillion. By 2020, Gen Z will account for 40% of the population in the US, Europe, Brazil, India and Russia. By 2050, seniors who have high spending power with more demand than youngers will account for 20% of the global population. Moreover, value of loyalty, personalisation and usage of new technologies will be key issues in the retail sector. Thus, directing global middle-class consumption, creating inclusive and innovative retail environment based on generational trends and consumer mindset will gain importance. Despite rising usage of digital channels, the physical store will keep its importance, moreover, its purpose and scale will continue to evolve from power centers and regional malls to pop-up, experiential and thematic shopping areas.

Economic Overview

GDP

The Government's fiscal measures and Credit Guarantee Fund have stimulated recovery process after the last quarter of 2016. Thus, Turkey's economy grew higher than expected in the second quarter of 2017, following the 5.2% growth in the first quarter. Due to the 10.5% increase in net exports and robust private consumption, GDP grew by 5.1% in second quarter.

In the OECD June 2017 Economic Outlook on Turkey, 3.5% growth is projected in 2017 and 2018 because of the geopolitical uncertainties and tensions of 2019 general elections.

Inflation

The consumer price inflation, which has been on an upward trend since the beginning of 2017, reached 11.87% in April, the highest level since 2008. After declining to 11.72% in May, the annual CPI came down to 10.90% by June. However, cost shocks and food inflation due to exchange rate pass-through are still pushing factors keeping inflation at the high level. Therefore, disinflation is expected to be slow.

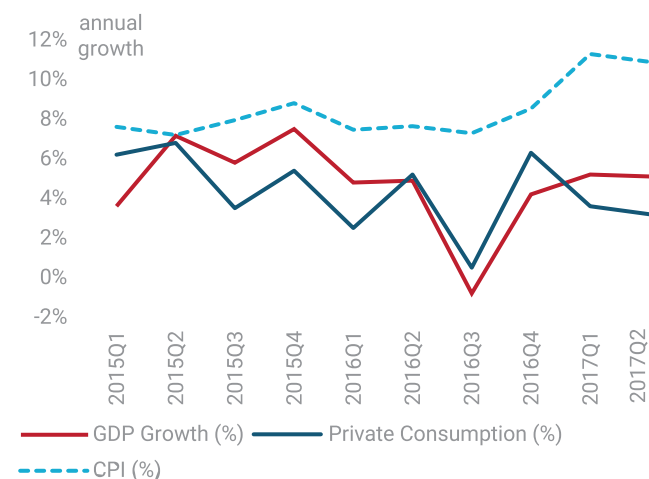
Policy Rate

In the last meeting of June 2017, the CBRT kept one-week repo rate at 8% which was previously raised from 7.5%. And the Committee did not change the upper and the lower limits of the interest corridor.

The Central Bank will continue its tight monetary policy stance by liquidity management until the inflation improves.

Figure 1

Turkey Economy: selected indicators



Source: TURKSTAT

Table 1

Economic indicators

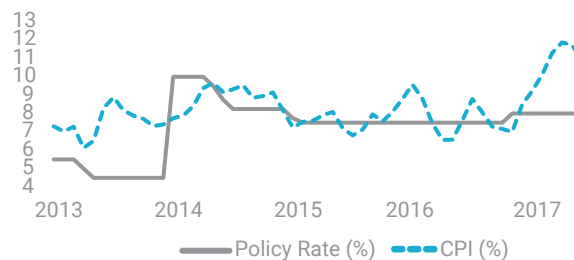
	2015	2016	2017
GDP (%)	7.5	4.2	5.1 Q2
GDP per capita (\$)	11,019	10,883	-
Population (million)	78.74	79.81	79.81
Private expenditure growth (%)	4.5	5.1	5.1 Q1
Consumer prices (%)	8.81	8.53	10.9 Aug.
Unemployment (%)	10.3	11.4	10.2 May.
FDI Inflow (million USD)	6,327 Q2	3,844 Q2	3,604 Jan.-Apr.
FDI inflow growth (%)	-6.4 Q2	-46 Q2	2
Policy rates (%)	7.5	8	8 Jun.
BIST Price index (XU100)	70,518	76,599 Q3	100,440 Jun.
Exchange rate (TRY/EUR)	3.01	3.3458	3.9856
Exchange rate (TRY/USD)	2.71	3.0267	3.6175

Source: TURKSTAT, CBRT, Ministry of Economy

Apr.: April, Aug.: August, Jan.: January, Jun.: June, Q2: 2nd quarter

Figure 2

Policy rate and CPI (%)



Source: TURKSTAT

Istanbul Office Market

Demand and Supply

Cumulative supply of A Grade office space in Istanbul reached to 3,36 million sq. m with Nidakule Levent started to operate in second quarter of 2017. However, increase in total supply was lower than the previous quarter and the same period of last year.

As of second quarter of 2017, 25,847 sq. m take-up was recorded, comprising 52% of overall transactions in Istanbul primary office areas. The take up volume in the quarter doubled in comparison to the previous quarter; however, remained 1.4% below from volume of the same quarter of last year. The noticeable deal in second quarter of 2017 occurred with KPMG, leasing 7,744 sq. m in Levent Is Kule-3.

Pipeline

In the primary office areas of Istanbul, there is around 1.38 million sq. m new office development either under construction or in the planning stages. 43% of new office space supply will be in Asian side, Istanbul Finance Center where the financial regulatory bodies and headquarters of state banks will be located. It is estimated that total supply of A Grade office space in Istanbul primary office areas will be around 4 million sq. m by 2020.

Vacancy and Rental Level

The second quarter of 2017 was more active compared to the previous quarter with declining average rents due to US Dollar appreciation and increase in overall Grade A office supply in Istanbul Primary office areas. Total vacancy rate increased from 16.6% to 16.73% with the new supply entry. In European side, total vacancy rate rose to 17.93% by 25,000 sq. m supply entry in Levent-Etiler where the prime rent was recorded as USD 44/ sq. m/ month. While the vacancy rate in Levent-Etiler rose from 17.49% to 18.99%, vacancy rate in Maslak and Sisli-Zincirlikuyu decreased to 15.67% and 19.36%, respectively. In Asian side, due to lack of new supply and increased competition, average rents showed decreasing trend, and vacancy rate declined from 14.67% to 14.30%. Vacancy rate in Kozyatagi and Umraniye decreased to 19.5% and 9.51%, respectively.

Table 2

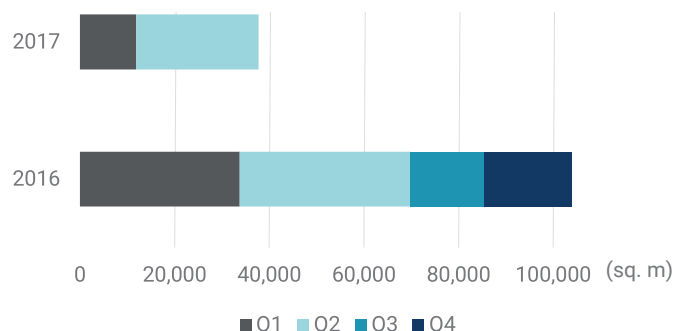
Notable take-up activities, 2017 Q2

Building	District	Tenant	Area (sq. m)
Is Kule 3	Levent-Etiler	KPMG	7,744
Buyuk Ofis Bosphorus	Sisli-Z. kuyu-Besiktas	Ferrero	4,300
Orjin Maslak	Maslak	General Electric	3,195

Source: Pamir & Soyuer

Figure 3

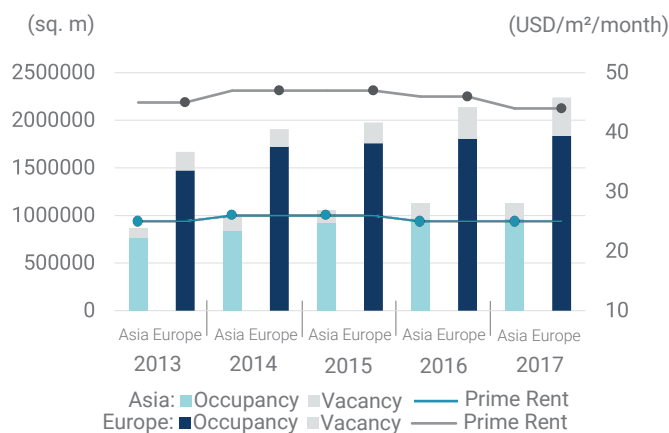
Istanbul grade A office take-up, 2016-2017



Source: Pamir & Soyuer

Figure 4

Istanbul grade A office occupancy, vacancy and prime rent



Source: Pamir & Soyuer

Turkey Retail Market

Demand

Household final consumption expenditure increased by 3.2% in second quarter of 2017 due to the end of uncertainties about the referendum and celebration of Ramadan Feast in June.

According to the Turkish Council of Shopping Centers (AYD) and Akademetre Research, while the visitor index remained the same with second quarter of last year, turnover index rose by 15.8% to 220 points. In June 2017, shopping center's sales per leasable area (sq. m) has occurred as 898 TL/sq. m in Turkey and 984 TL/sq. m in Istanbul. And, the turnover index was recorded as 839 TL, increasing by 15.6% compared to the same quarter of last year.

Supply

As of second quarter of 2017, Turkey's shopping center supply reached to 11.38 million sq. m with the opening of 9 shopping centers and expansion of M1 Adana Shopping Center. GLA/1,000 inhabitants increased to 142.7 sq. m in Turkey; moreover, Bolu still has the highest rate of GLA/1,000 inhabitants as 292 sq. m and followed by Istanbul and Ankara with 287 sq. m per 1,000 inhabitants.

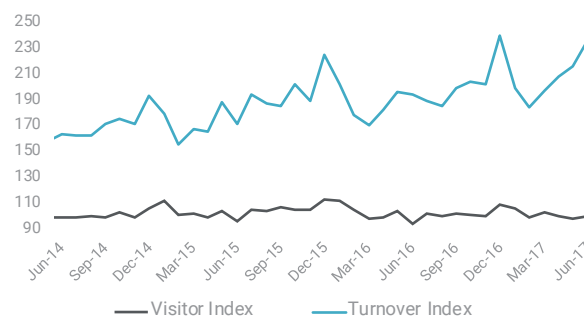
New Supply

In the second quarter of 2017, the new supply recorded a strong increase compared to the first quarter, and 428,400 sq. m new supply entered to the market. There were 9 new openings and one shopping center expansion: Emaar Square in Istanbul (150,000 sq. m), Sur Yapı Marka in Bursa (75,000 sq. m), Park Adana (65,000 sq. m) and M1 Adana's expansion (42,000 sq. m), Novada Menemen in Izmir (20,000 sq. m), Westalife in Zonguldak (18,000 sq. m), NG Sapanca Bedesten in Sakarya (15,000 sq. m), Novada in Ordu (8,400 sq. m) and Erasta Edirne (35,000 sq. m).

Pipeline and Outlook

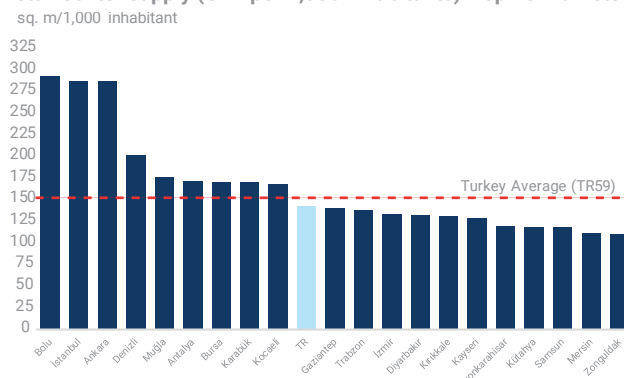
Based on forthcoming retail supply, shopping centers which are under construction in Istanbul, Ankara and Bursa hold approximately 80% of the total pipeline. And Erzurum, Ordu, Izmir are the other cities where pipeline development will take place. The retail supply of Turkey is expected to increase by 30%. And, the total retail supply will be around 14 million sq. m by the end of 2020.

Figure 5
Shopping centers turnover and visitor index



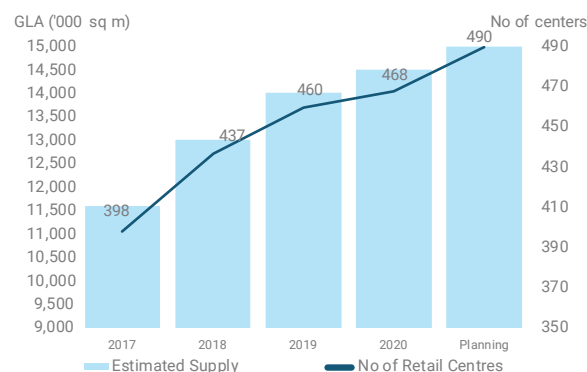
Source: AYD and Akademetre Research

Figure 6
Retail center supply (GLA per 1,000 inhabitants)-Top 20 markets



Source: Pamir & Soyuer

Figure 7
Shopping center pipeline



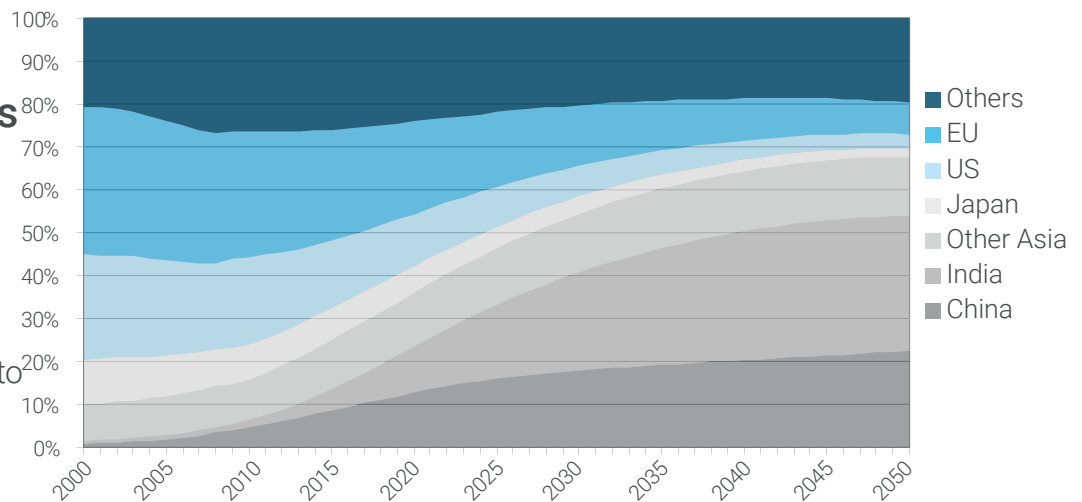
Source: Pamir & Soyuer

Changing Retail Trends Drivers of change

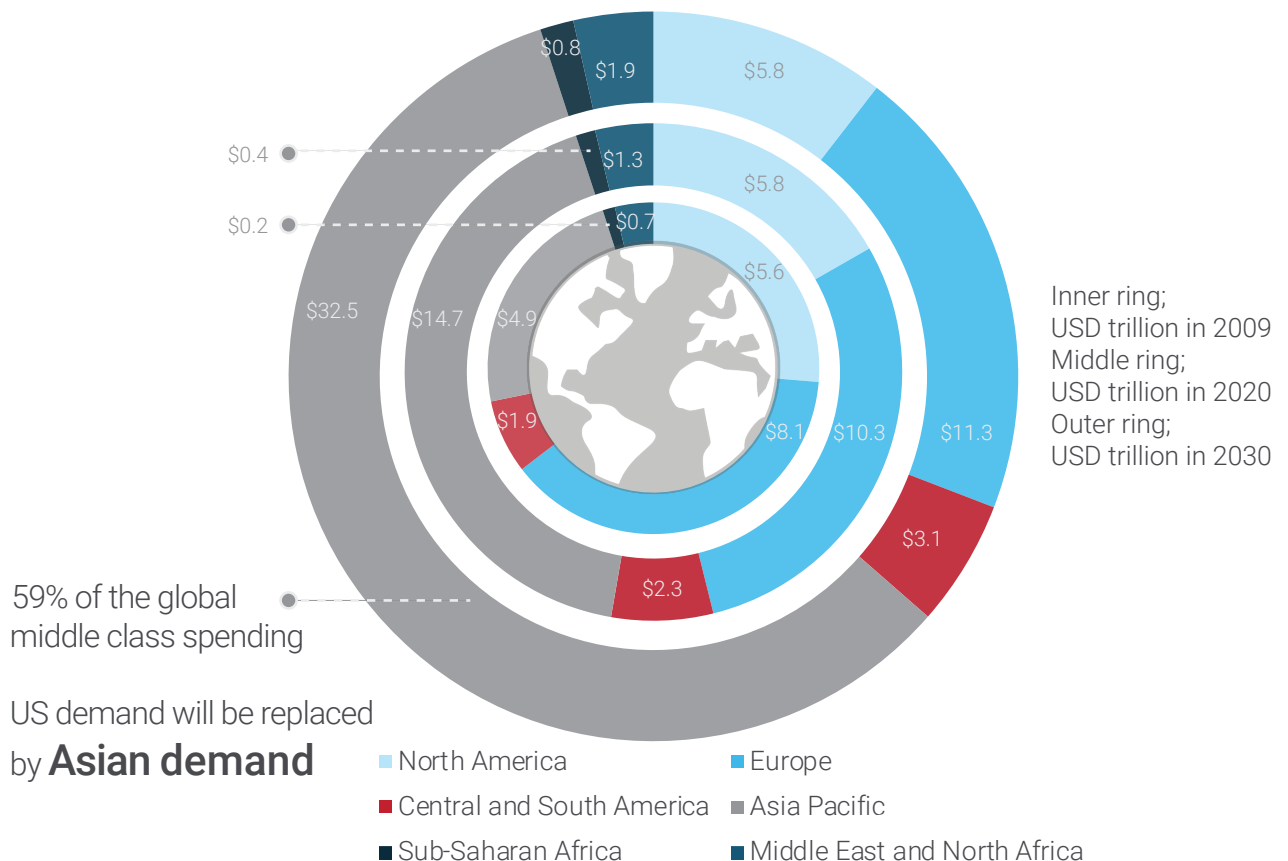
Demographic Shifts: Economic Trends

By 2030, the size of **global middle class** will double to 4.9 billion, **purchasing power of middle class** will grow from US\$21 trillion to US\$56 trillion.

Shares of Global Middle Class Consumption, 2000-2050 ¹



Spending by the Global Middle Class, 2009 to 2030 ¹

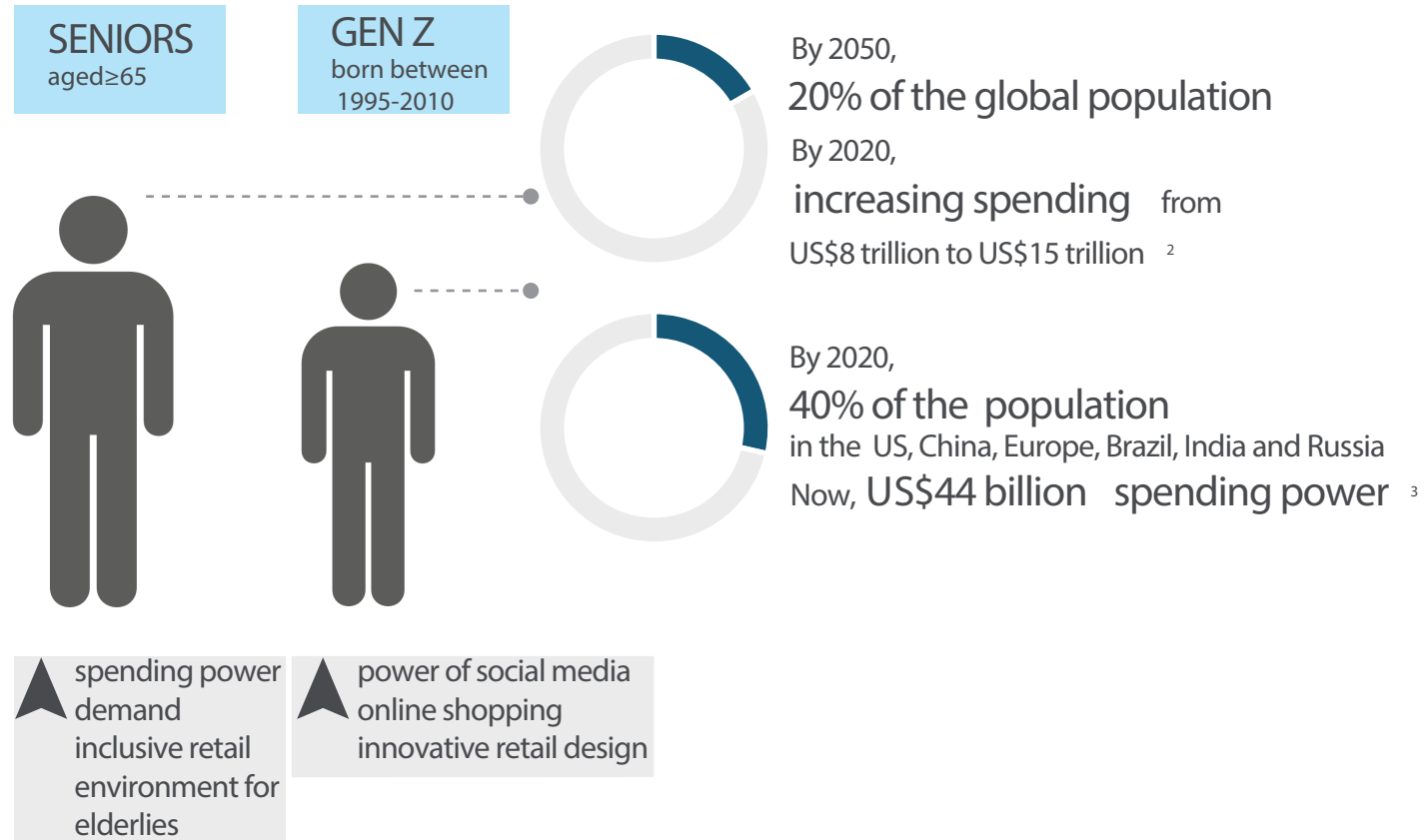


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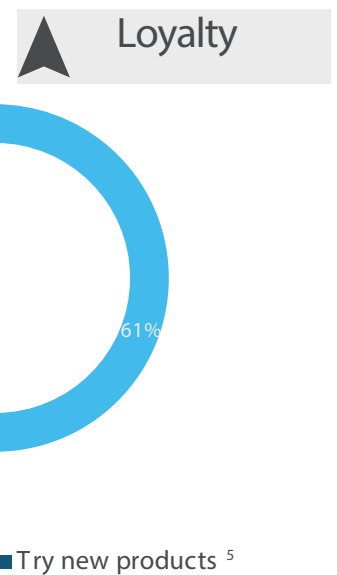
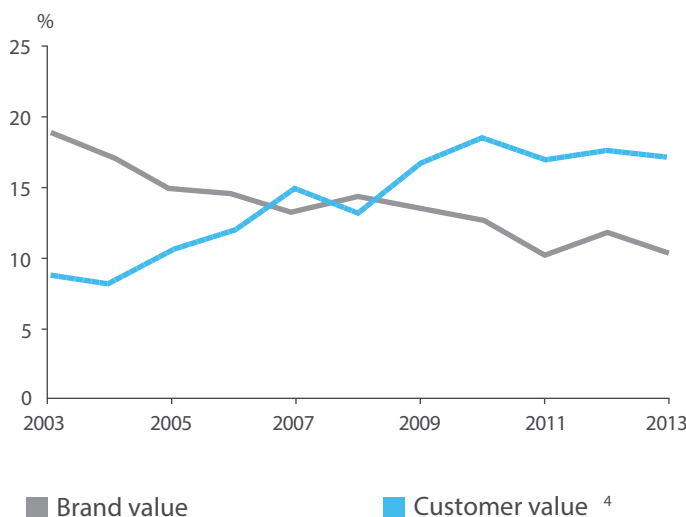
(1) OECD Development Centre (2012). The emerging middle class in developing countries. Working Paper No. 285. <https://www.oecd.org/dev/44457738.pdf>

Changing Retail Trends Drivers of change

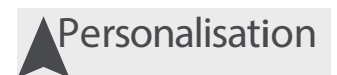
Demographic Shifts: Generational Trends



Shifting Consumer Mindset



1 in 5 retail dollars spent is on a private label brands ⁵



Source:

(2) United Nations Population Division (2015), World Population Prospects, 2015 Revision.

(3) Ryan, J. (2016), Analysis: What is the impact of Generation Z on the shopping experience? Retail Week.

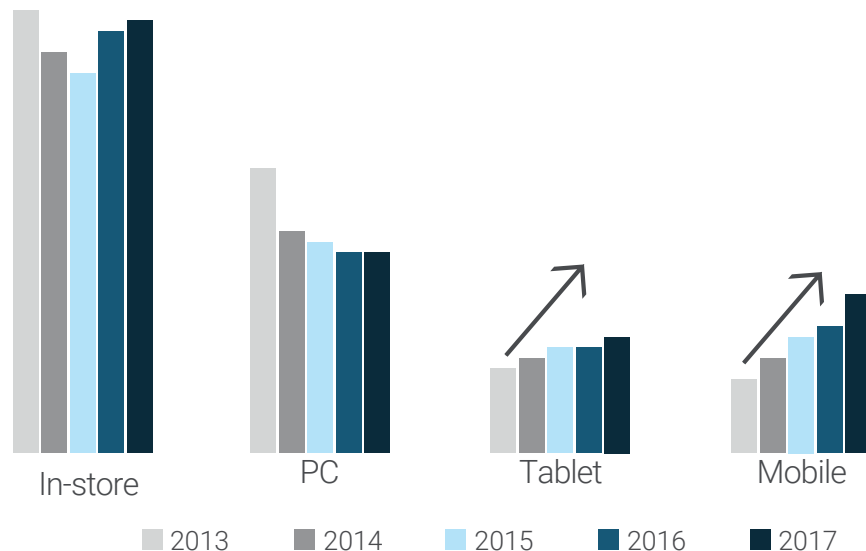
(4) <https://www.arup.com/publications/research/section/the-future-of-retail-2017>

(5) PwC. (2017). Total Retail Survey

Changing Retail Trends Drivers of change

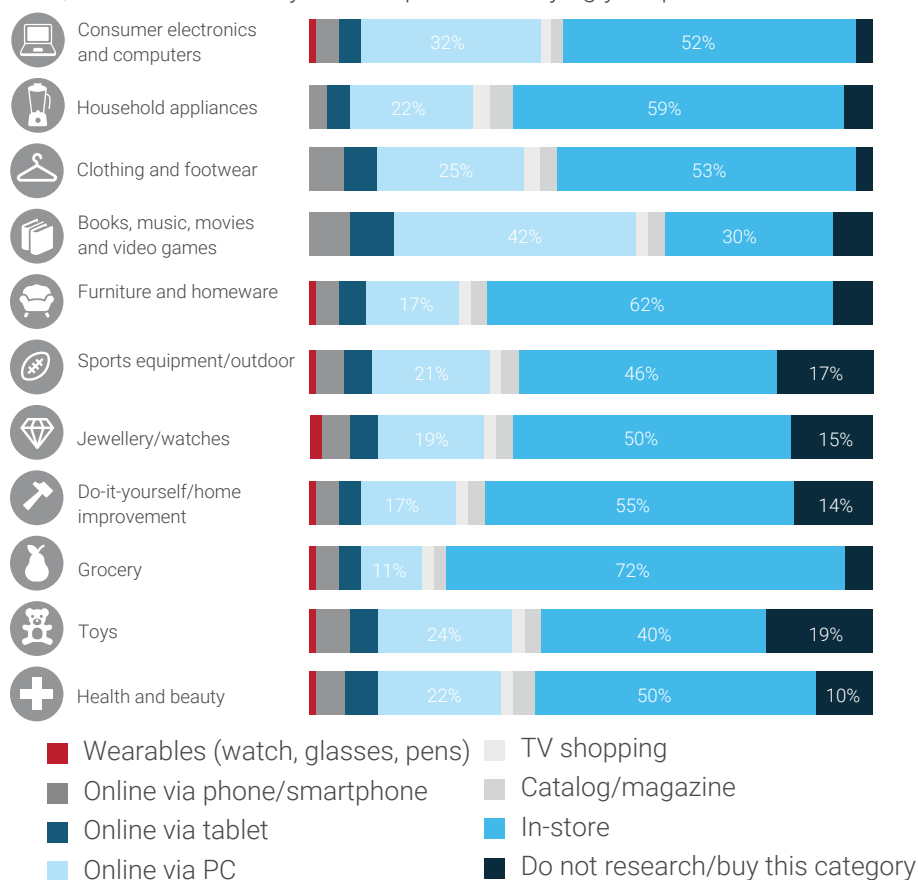
Technology:

Usage of shopping channels over time ⁵



The physical store is still a critical step in the purchase journey ⁵

Q: which method do you most prefer for buying your purchases?



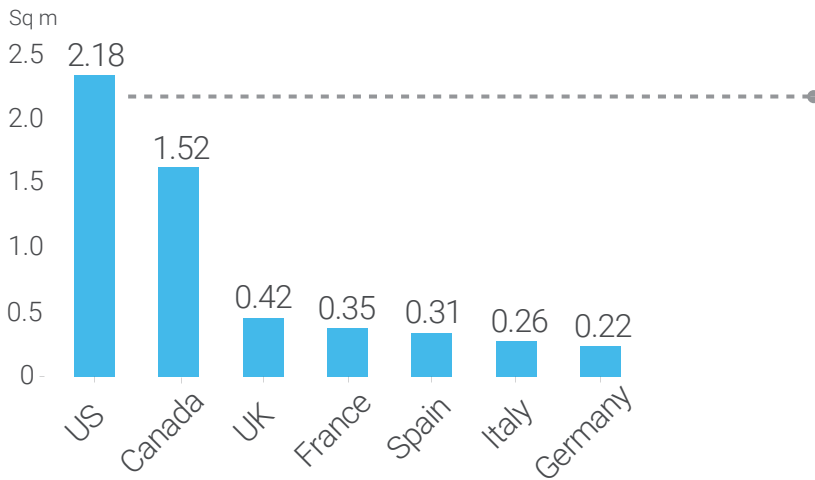
Source:

(5) PwC. (2017). Total Retail Survey

Changing Retail Trends Stores

Stores:

Gross Leasable Area (GLA) per capita ⁴



**9X UK
5X Germany**

too many malls in the US



**9 retail bankruptcies and
hundreds of store closures**
in the first four months of 2017

Temporary Solution for Retail Real Estate ⁶

Pop-up Stores

(open for only a short time)

- ✓ Testing brands
- ✓ Revenue source for landlords
- ✓ Entertaining for consumers



Prada's two floor,
570 square-meter store
in Paris for five months



Godiva's pop-up boutique
for Valentine's Day
on 5th Avenue in New York City.

Derived from <http://www.businessinsider.com/17-most-creative-pop-up-stores>

Source:

(4) <https://www.arup.com/publications/research/section/the-future-of-retail-2017>

(6) <https://www.forbes.com/sites/richardkostenbaum/2017/05/30/this-is-what-will-happen-to-all-the-empty-stores-youre-seeing/#46748814bb78>

Permanent Solution for Retail Real Estate ⁶

Power Centers (away from cities where land was cheap when

Regional Malls they were built; had several anchor tenants,
department stores, big box retailers)

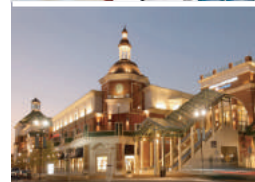
Changing the purpose and scale of the mall

Experiential Retail

- ✓ shops, restaurants,
residences, offices...

Case: Annapolis Towne Centre, MD

Renovated from Parole Plaza



Derived from <https://www.visitatc.com/>

Thematic Shopping Areas

- ✓ small scale
- ✓ based on a specific
purpose

Cases: Saks Wellery, NY
based on wellness
Eataly, Pike Place Market
in Seattle; Union Market in
Washington DC... based
on food

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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