



Property News

Q2 2023 Turkish Property Market Overview

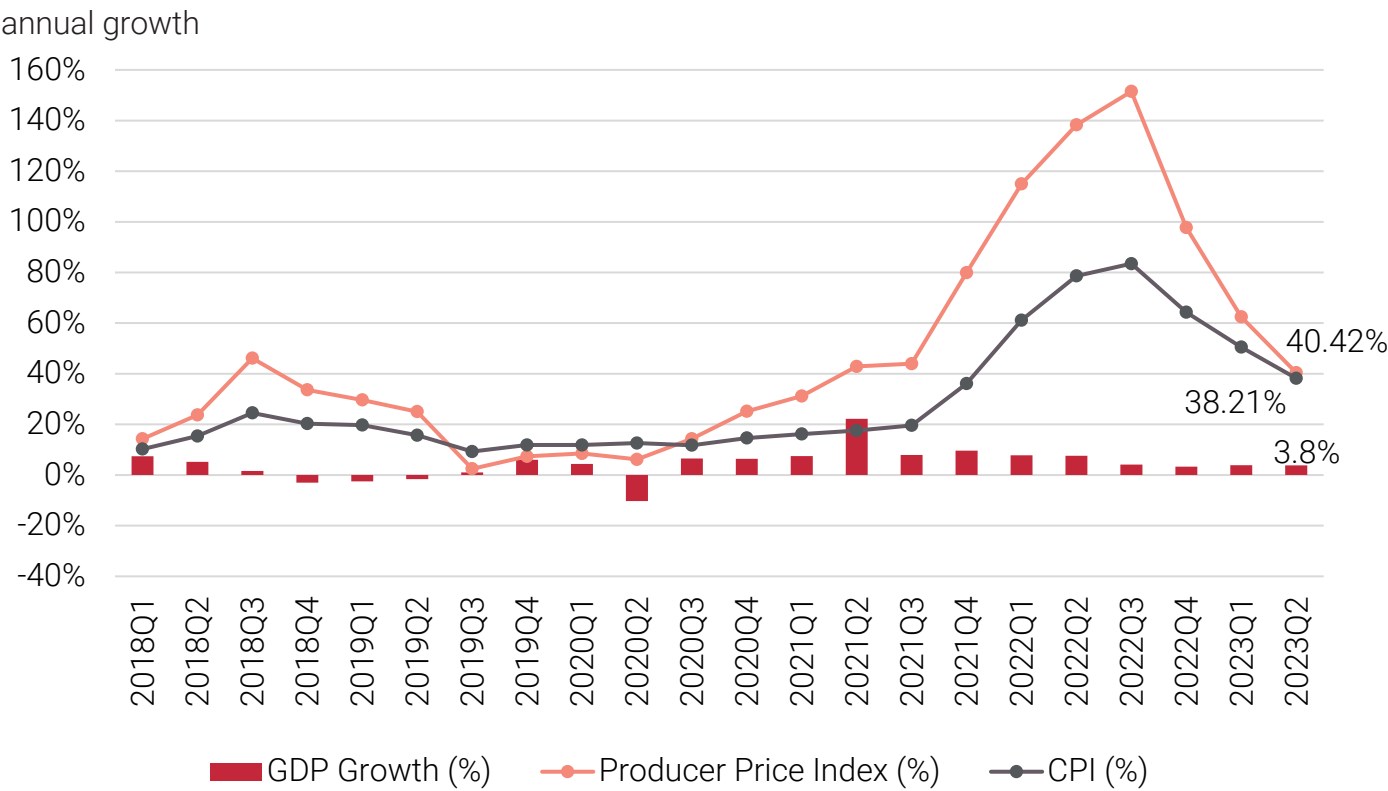
Eystri-Fellsfjara / Diamond Beach, Iceland

Economic Overview

GDP

During the 2nd quarter of 2023, **GDP grew by 3.8 %** compared to the same period in 2022. When examining the activities that constitute GDP, in the first quarter of 2023 compared to the previous year as a chained volume index, the value added **increased by 6.6% in other service activities**, 6.4% in services, 6.2% in construction, 5.1% in public administration, education, human health and social work activities, 4.9% in financial and insurance, **3.2% in real estate activities**, 1.3% in information and communication and 1.2% in agriculture, forestry and fishing, respectively.

Figure 1. Turkish Economy: selected indicators



Source: TURKSTAT

Building Construction Cost Index, June 2023

	Total	Labour	Material
Monthly Change	3.83%	0.80%	5.04%
Annual Change	51.80%	105.53%	37.95%

House Sales Statistics, 2023 Q1

-30.5 %

↓

Total House Sales

-23.5 %

↓

First Sales

-33.2 %

↓

Second Hand

	April	May	June
2022	133 058	122 768	150 509
2023	85 652	113 276	83 636

Change over the same quarter of the previous year

Source: TURKSTAT

Istanbul Office Market

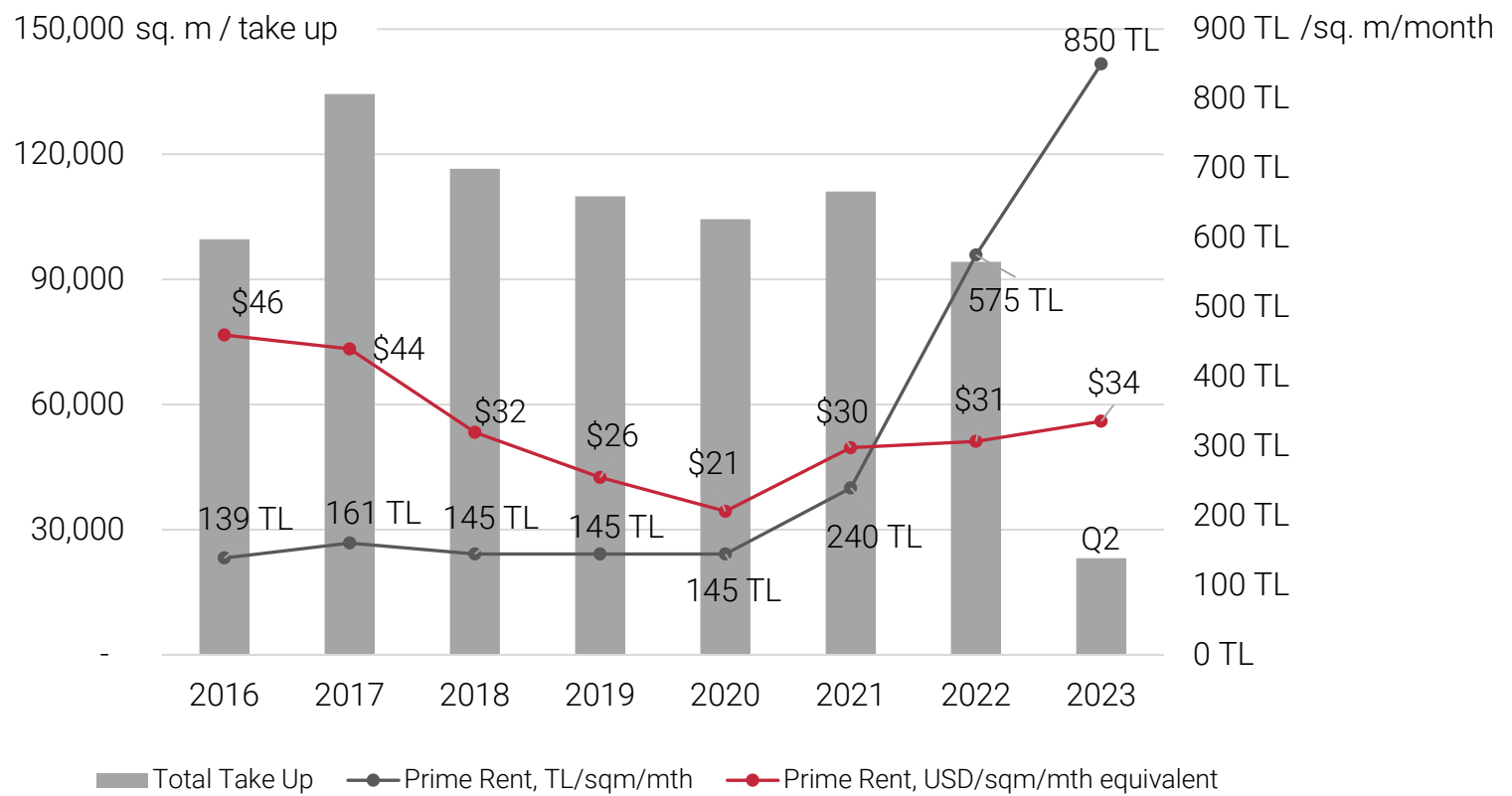
Demand and Supply

In the 2nd quarter of 2023, cumulative supply of **grade A office space** in Istanbul is unchanged at **5.27 million sq m**. During the 2nd quarter of 2023, **13,504 sq m take-up** was recorded in Istanbul primary office areas. 48% of the transactions were recorded in Maltepe-Kartal, 26% in Kozyatağı and 15% in Maslak.

Vacancy and Rental Level

In the 2nd quarter of 2023, average rents in Istanbul grade A office market continued to increase compared to the previous quarter. **The vacancy rate** in Istanbul's **Grade A office spaces fell to 19.0% in total**, decreasing to 18.3% on the European side and 19.1% on the Asian side of Istanbul. Vacancy rates occurred as 21.0% in Maslak, 20.6% in Umraniye, 20.6% in Sisli-Zincirlikuyu-Besiktas, 18.0% in Kozyatağı, and 12.5% in Levent-Etiler. Prime rent recorded in Levent-Etiler increased from **700 TL/sqm/month** to **850 TL/sqm/month**.

Figure 2. Istanbul grade A office take up & prime rent



Source: Pamir & Soyuer

Turkish Retail Market

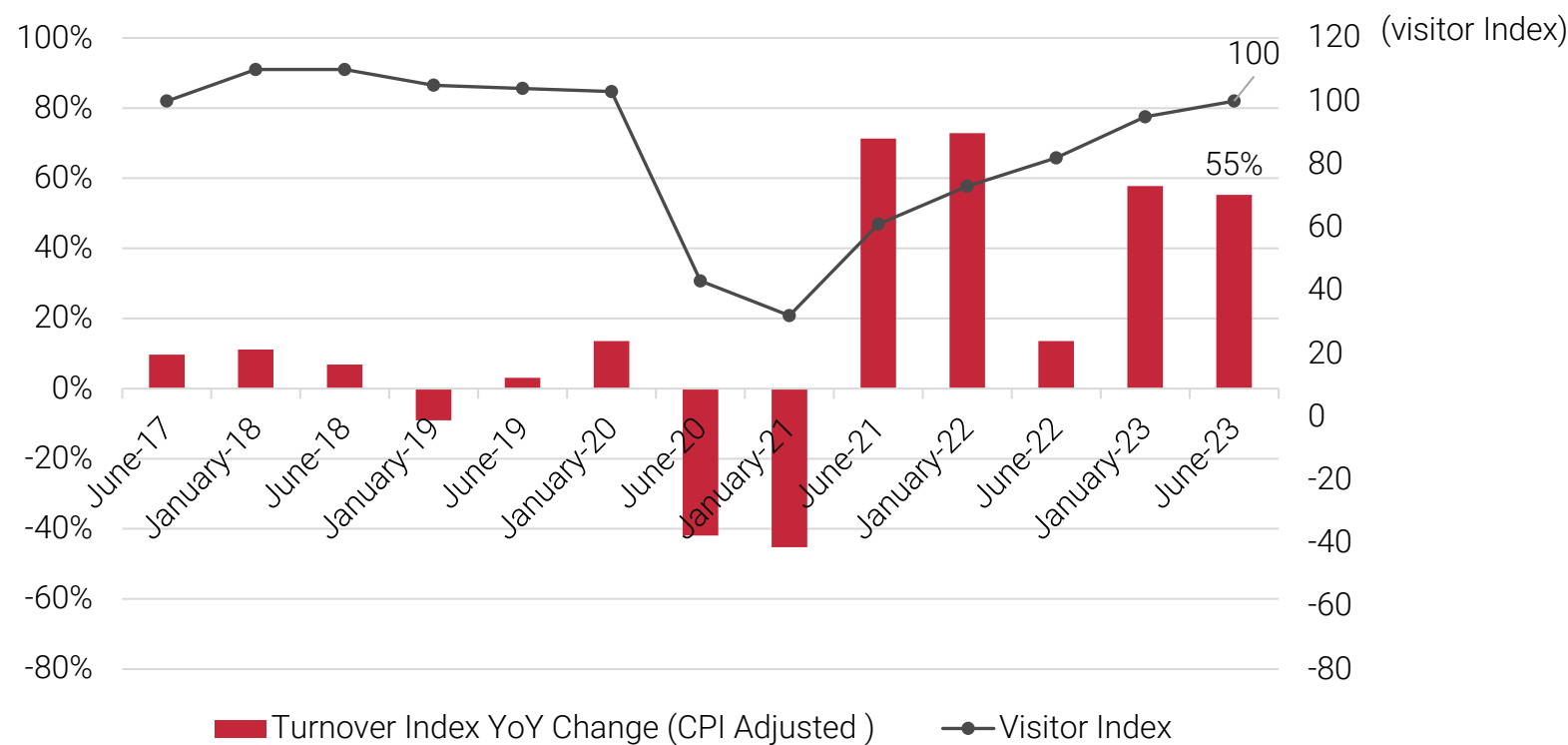
Demand

Based on data released by the Turkish Council of Shopping Centers (AYD) and Akademetre Research, compared to June 2022, the shopping center sales index **increased by 114.6% to 1989 points**, while it is **55% when adjusted for CPI**. During the 2nd quarter of 2023, the **footfall index** in June **increased by 22 % to 100 points**, compared to the same period of last year. In June 2023, shopping centers’ sales per leasable area (sq. m.) occurred as 9,746 TL/sqm in Istanbul, 6,143 TL/sqm in Anatolia, and 7,584 TL/sqm in Turkey.

Supply

During the 2nd quarter of 2023, Turkey’s shopping center supply calculated as **13.64 million sq. m.**, and GLA/1,000 inhabitants were **calculated as 160.03 sq. m** in Turkey. Moreover, Istanbul has the highest rate of GLA/1,000 inhabitants as 333.63 sq. m, which is followed by Ankara and Bolu with 299.60 sq. m and 273.26 sq. m per 1,000 inhabitants, respectively.

Figure 3. Turnover Index & Visitor Index



Source: AYD and Akademetre Research & Pamir & Soyuer

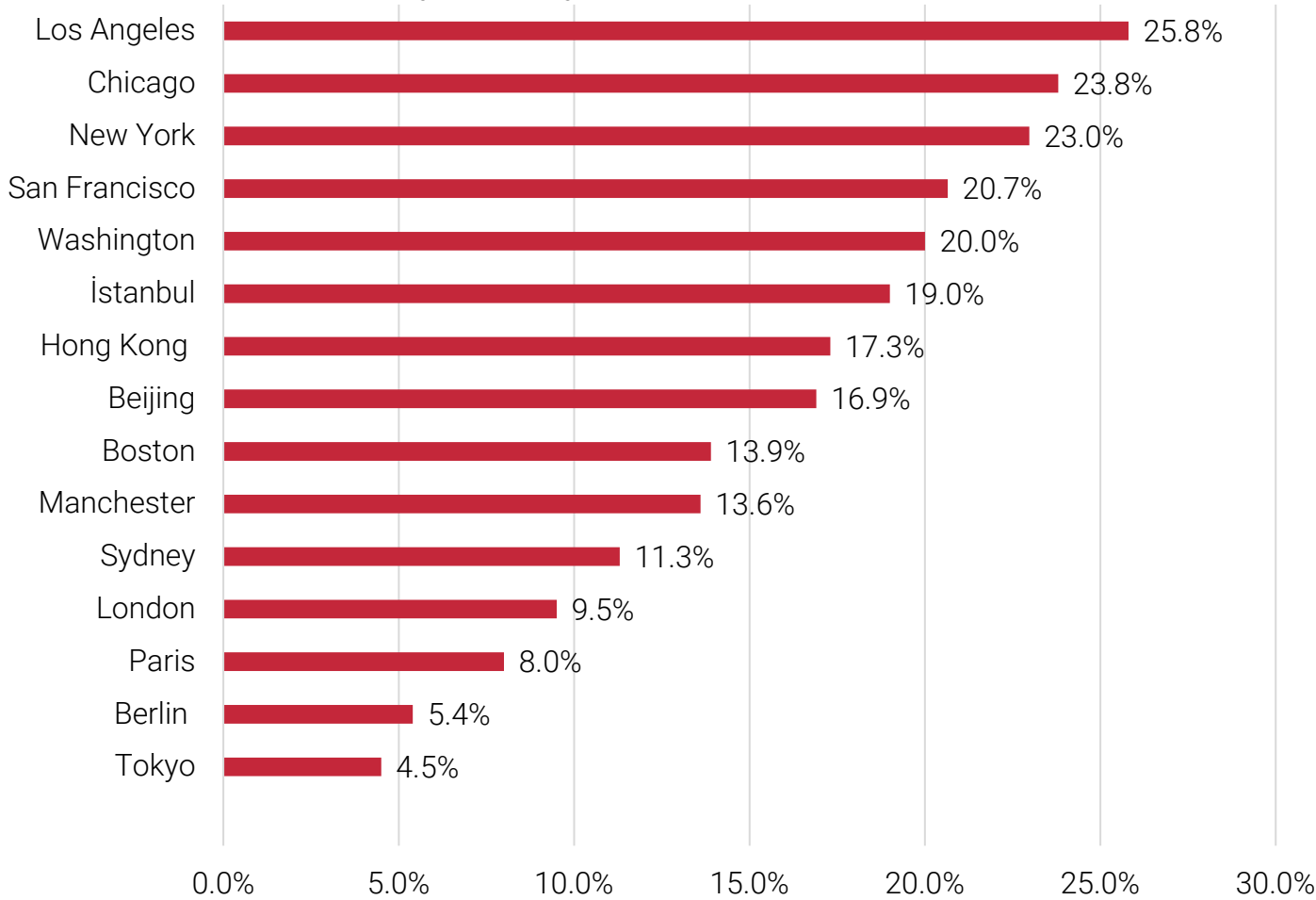
Empty Office Buildings

Office Vacancy in Top Cities

The pandemic brought about a dramatic shift in the nature of work, and nowhere is this more evident than in the office building. Office demand has fallen around the world as more people work from home and businesses accelerate job cuts to cope with slow growth.

In the second quarter of 2023, vacancy rates reached their highest levels since the global financial crisis of 2008. It is not just office space that has seen weak demand, but other commercial facilities are also facing declines in operating rates. Many of those employees, newly freed from their daily commutes, chose to move out of urban cores. And now that fewer of them were working and living near urban stores, fewer of them shopped there. Financial regulators are increasingly worried about the impact of sluggish office demand on the financial system.

Figure 4. Office Vacancy Rate By Cities, 2023 Q2



Source: Cushman & Wakefield and Pamir & Soyuer

Empty Office Buildings

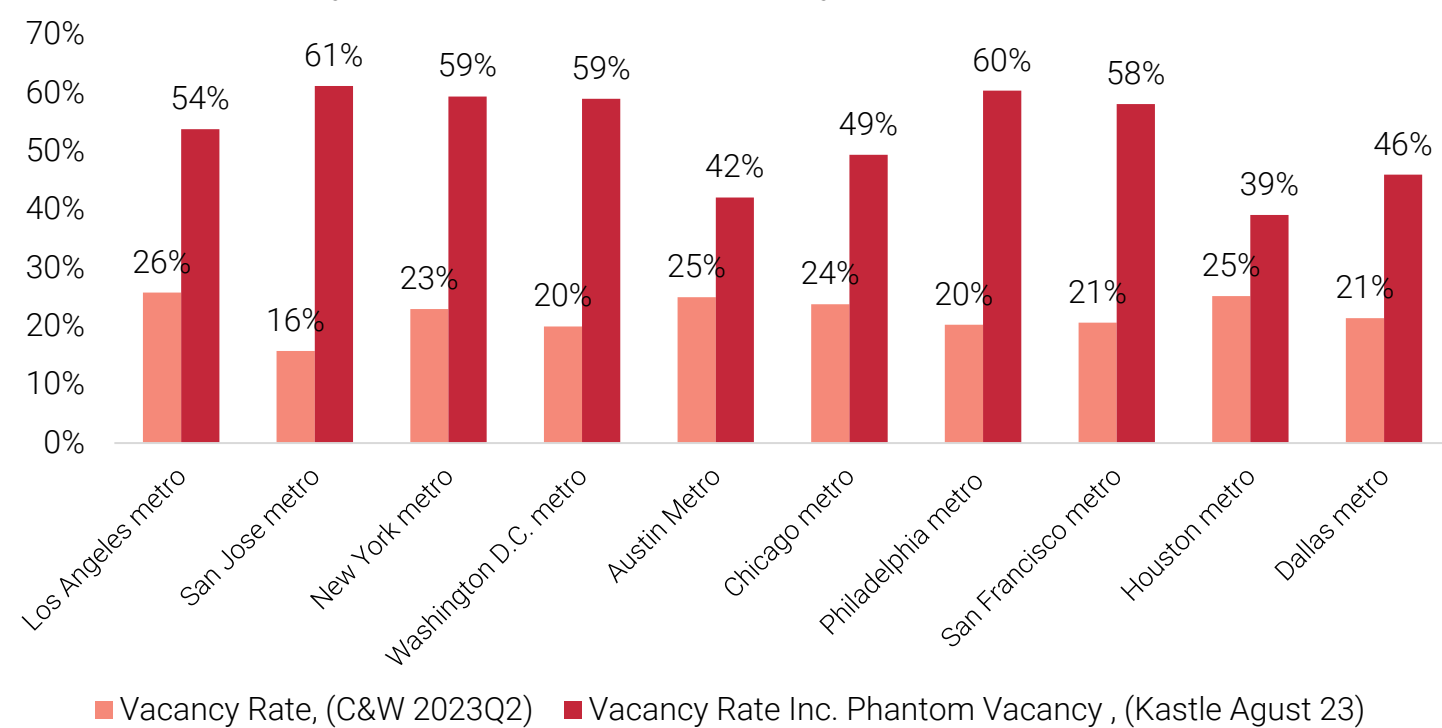
Facing with Phantom Vacancy

Office vacancies in the United States have increased **slightly this year**, but the **official rates do not fully capture** the extent of the challenges that commercial property owners may face in the aftermath of widespread remote work.

Phantom vacancy refers to space that is under lease to a tenant **but not presently occupied**. According to the weekly occupancy report from security firm Kastle, **52% of office space sat unoccupied at top 10 office market** in US. Kastle collects and reviews data from security cards at 2,600 buildings and 41,000 businesses it helps secure across 138 cities and 47 states.

During the height of the Covid-19 pandemic, Kastle's data showed **occupancy in the 10 cities measured plunged as low as 15%**. By late last year, it steadily **rebounded to nearly 50%**, but it has **remained stuck in the 45-50%** range since the beginning of 2023. Next year 11% of all U.S. office space leases will expires, compared with 9% this year. This space is at risk for not being included in a lease renewal.

Figure 5. Vacancy Rate & Phantom Vacancy



Source: Cushman & Wakefield and Kastle

Empty Office Buildings

What Is Next?

According to McKinsey's report titled 'Empty Space and Hybrid Places,' dated July 2023, falling demand is expected to drive down the value.


In the nine U.S. cities they studied, on average the total value of office space is projected to **decline by 26% from 2019 to 2030 in the moderate scenario** and by **42% in the severe one**.

Falling demand will lead to an office space surplus, **especially in older and lower-quality buildings**, referred to as B Grade and C Grade. From 2020 to 2022, in New York City, the average sales price per square foot rose by 3% for A Grade buildings but dropped by 8% for B Grade buildings.

There are two main reasons for this “**flight to quality**”. One is that many employers see high-quality space as a way to **encourage office attendance** among their employees. Another is that B and C Grade office space is **often not suited to hybrid work**; for example, it may have less sophisticated audiovisual equipment.

Office Value Projection from 2019 to 2030

Moderate Scenario	26%
Severe Scenario	42%



Source: <https://www.mckinsey.com/mgi/our-research/empty-spaces-and-hybrid-places>

Empty Office Buildings

Does It Same Entire Continents?



Significant global disparities have arisen in remote work adoption. The US has embraced remote work more than other regions, whereas **Asia and Europe** have seen employees **return to the office at a faster** pace than their American counterparts.

Researchers attribute these **differences to cultural and structural factors**. Asian countries effectively managed COVID-19 in its early stages, reducing the reliance on remote work. Another big **difference is home sizes**; in **the US, they have larger home**, so they don't feel that the office is a better place to work.

Conversely, Hong Kong's compact living spaces and efficient transportation encourage in-person work. Additionally, China's high office attendance rates stem from the **"996" culture, working long hours six days a week**, a practice also found in Japan and South Korea.

In contrast, Europe exhibits diverse work habits, with the UK leading in remote work adoption, while France lags behind. **European cities' walkability and integration of work, life, and leisure** create more vibrant office communities compared to the US, where zoning laws often isolate offices in remote areas.

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 TL/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 TL/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.

Disclaimer

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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 liason 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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