

Istanbul Property Market

OFFICE · INDUSTRIAL · RETAIL · | Q2, 2011

General Elections have been announced in Turkey for 12 June 2011. If, as widely expected, the AK Party is returned to power it would be its third successful win in a row. In the last seven years Turkey has experienced a period of political stability and economic growth unknown in its previous history. During the period GDP has grown by 300% driven largely by record manufacturing exports, increased privatisation, reduced unemployment and low inflation. In 2010 the economy expanded at an impressive 8.9% fuelled by soaring domestic private demand. GDP per capita reached \$10,079, a clear sign that the economy is operating at well above potential.

OVERVIEW

In sharp contrast to the Euro-zone economies Goldman Sachs recently qualified the Turkish economy as the most stable in Europe growing by more than 6.5% this year. Roubini Global Economics characterised Turkey as the cornerstone of European economic activity in 2011 because of the instability of many Middle Eastern countries. The vast liquidity available in the many Gulf countries are targeting Turkey as a destination of choice for investments and particularly in the real estate sector.

In terms of trade Germany is Turkey's largest trading partner worth \$28.9bn or one-tenth of total Turkish Trade of \$299.1bn. Exports to Germany are worth \$11.4bn and Imports \$17.5bn. Trade with Africa totalled only \$5.0bn in 2003 and \$16bn on 2006. This will increase to \$30.0bn in a few years. Total monthly exports rose 22% in Feb 2011 to \$10.1bn and imports surged 49% to \$17.5bn.

In January 2011 inflation was 4.2%, this will rise to 6.67% in a year. According to IMF the Consumer Price Index grew by:

8.6% in 2010
4.5% in 2011 &
6.0% in 2012

A significant monetary tightening is required to reduce inflation and financial risks, so growth will slow sharply to about 3.5% in 2012 from close to 6.5% this year, according to Oxford Economics an English Think Tank.

The cumulative deficit for the 12 months ending Feb 2011 \$54.8bn or 7.0% of GDP.

The yield on benchmark 2-year Lira rose to 8.91% on 28 March 2011.

Turkey's economy grew by 8.9% in 2010, the highest growth of any European country. Carrying GDP per capita to \$10,079. Nominal GDP was \$733bn in 2010 compared \$613bn in 2009. The International Monetary Fund

(IMF) estimates the economy will grow by 4.6% in 2011 & 4.5% in 2012 Foreign direct investment (FDI) was \$497m in Feb 2011, total for year is \$1.0bn compared to \$973m in 2010.

Turkey's economy has proven itself to be stable enough to recover from challenges such as a high level of national debt and a global crisis. With continued commitment to reducing the debt burden, institutional reform and EU accession talks, Turkey's economy is likely to remain on the path of recovery thus achieving its ambition of becoming the tenth largest economy in the world in few years, driven not least by the tourism sector. There were 28m visitors in 2010 and it is expected to grow to 30m in 2011.

2nd QUARTER AT A GLANCE

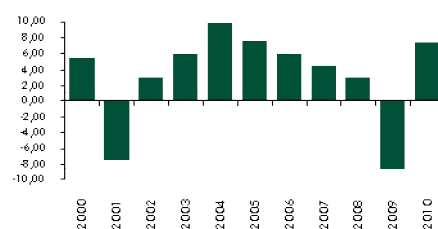
Prime Office Rents →

Prime Office Yields →

Vacancy Rates ↓

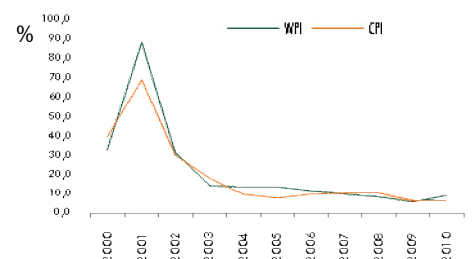
GDP GROWTH IN TURKEY

% per annum growth



Source: CB Richard Ellis

INFLATION RATES



Source: CB Richard Ellis

THE OFFICE MARKET IN ISTANBUL

The Istanbul office market continues to remain active. In the first and second quarters of this year many multinational companies have completed a number of leasing transactions. Many of them involved lease renewals in their existing buildings after of occupation of five years.

The vacancy rate remains low on the European side of Istanbul, where asking rents in prestigious office towers vary between \$30-\$45/sqm/m in Levent, \$25-\$40/sqm/m in Esentepe and \$25-\$40/sqm/m in Nisantasi. Vacancy rate of around 5% persists in Maslak in the northern part of the city and the rents vary between \$18-\$30/sqm/m.

There are available office spaces on the Asian side of Istanbul, which is considered as the secondary location. Asking rents vary between \$15-\$25/sqm/m in Kozyatagi and \$19-\$23/sqm/m in Umraniye and Kavacak.

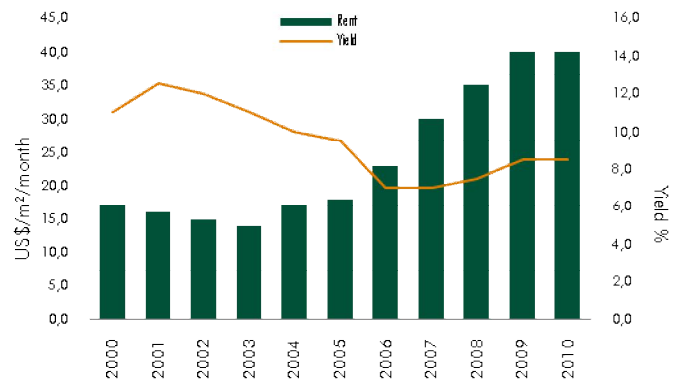
In the first quarter of 2011 CB Richard Ellis completed several leasing transactions as follows;

- 1500sqm in the Akkom Plaza in Umraniye rented at \$19/sqm/m.
- 915sqm in the Is Towers in Levent rented at \$30/sqm/m
- 3000sqm in the Akkom Plaza in Umraniye rented at \$19/sqm/m.

Rental levels now 25% – 30% higher than five years ago. Demand will continue to grow and it is unlikely that the completion of new projects will put downward pressure on rental levels.

Several new developments are still being undertaken in the Levent area, the most notable of which is the Zorlu project, a mixed used project comprising a retail mall, offices, residential, hotel and entertainment cultural centre although completion is some 2 years away. Upon completion the Zorlu project will become a landmark in the city as the Raffles chain of hotels has just been appointed as the operator of their projected hotel in the scheme.

PRIME OFFICE RENTS AND YIELDS



Source: CB Richard Ellis

OFFICE AREAS IN ISTANBUL



ZORLU PROJECT



DEMIROREN SHOPPING CENTRE



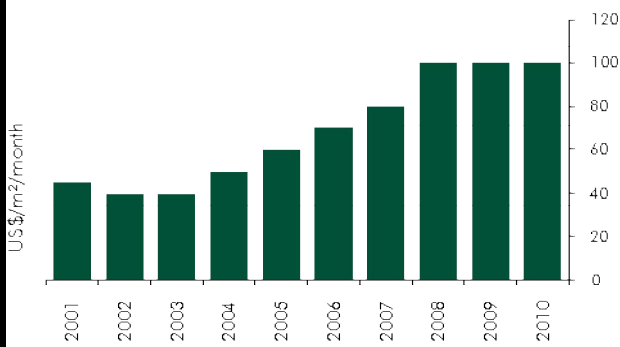
THE RETAIL MARKET

The Demiroren project in Istiklal Caddesi, Istanbul's busiest pedestrian precinct, opened its doors in the beginning of April 2011. By all accounts it is a landmark development with most of the space being leased out by the opening date. The mall is anchored by Saturn Electronics which is one of the branches of Metro Group and sister company of Media Markt.

In Istiklal Caddesi VastNed has acquired their seventh prime-high street shop, half of YKB's premises for €29.5 million where their expectation for rental rate is €43.8 including tax.

Elsewhere in Istanbul the outlet concept has taken a serious foothold as foreign developers continue to investigate other projects.

PRIME RETAIL RENTAL LEVELS



Source: CB Richard Ellis

THE INDUSTRIAL MARKET

There are signs that many European industrial developers are now investigating the market again with a view to invest in large warehousing projects.

Rents continue to remain stable in the industrial sector at around \$6.0 to \$7.0/sqm/m in Hadimkoy and \$5.5 to \$6.5/sqm/m in Gebze.

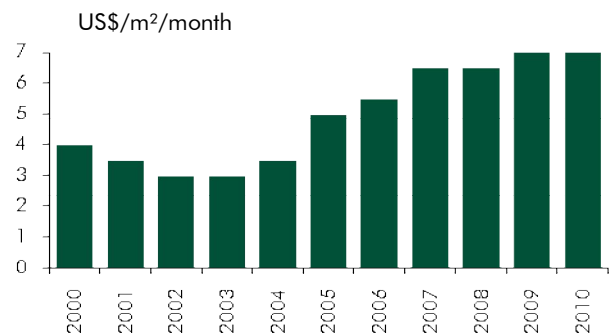
Turkey's improving economy means that the industrial sector would become a target of choice for many foreign investors because yields can still be attractive when compared with other European countries.

For example in Q1 2010 yields were around 11.0% whereas in Q1 2011 Yields have come down below 10%.

INDUSTRIAL AREAS IN ISTANBUL



INDUSTRIAL RENTAL LEVELS



Source: CB Richard Ellis

LEASE TERMS

Occupational leases are generally short, being for periods of up to five years, usually quoted in US dollars or Euros. A form of indexation generally revises rents annually, which may be to a fixed percentage of a variable such as US inflation or treasury bills. Rent is currently subject to VAT @ 18.0% (which is recoverable by corporate tenants) or to a non-recoverable withholding tax of 20.0% with a 10.0% surcharge when landlords are private individuals. Retail rents are generally based on turnover subject to a minimum basic rent. Insurance premiums and property taxes are generally paid by the landlord. New properties are leased on a "shell and core" basis with tenants being responsible for fitting-out costs although landlords can sometimes be persuaded to participate in these costs by granting rent-free periods. Services charges are payable by tenants and currently represent approximately US\$7.00/m²/month to US\$12.00/m²/month in modern air-conditioned offices. They are significantly higher in shopping centers.

PROPERTY FUNDS (REITS)

Turkey's REIT's have largely been unaffected by the crisis. Although many of them were forced to put projects on hold, there was no major damage to their portfolios. The expectation of high demand generated by lower interest rates has played a major role in the success of REIT's portfolios.

YIELDS

Istanbul has traditionally provided many opportunities to the foreign investor prepared to take a long-term view. Many retail projects have been completed in every part of the country and appear to be trading well, retail investment yields of around 8.5 – 9.0% are possible in the long term. Yields of around 8.5% can also be negotiated in the office sector. In the industrial sector, yields are currently around 10.0%. Capital values in the residential sector have more than doubled in the last 12 months.

TURKEY



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