

Istanbul Property Market

OFFICE · INDUSTRIAL · RETAIL · | 2000-2010

REVIEW OF THE DECADE

In the decade ending in December 2010 and in economic terms Turkey has roared ahead.

It is hard to imagine that the Turkish lira was pronounced "the world's most worthless currency," according to the Guinness Book of World Records ten years ago. At the time, the nation was struggling to regain balance after experiencing several traumas, economic, political as well as natural disasters, in succession.

Throughout the 1990s, the Turkish economy was characterized by periods of growth marred by runaway hyperinflation, including financial crises in 1994 and 1997 in which inflation soared and banks failed.

Two earthquakes in 1999 further devastated the economy. There were political elements to the economic troubles as well with coalition governments disagreeing over policies. In 1999, inflation was recorded at 75% and the currency constantly devaluing against the U.S.Dollar to reach TL 1.7m to 1 U.S.Dollar.

Since the advent of a single party government in 2002, however, the economy has stabilized. The currency was reformed in 2003 when six zeros were removed from the Lira. The exchange rate now stands at around TL1.5 to the U.S.Dollar.

Since the introduction of the TL, Turkey's inflation rate has been in the single digits, well within the range of normality.

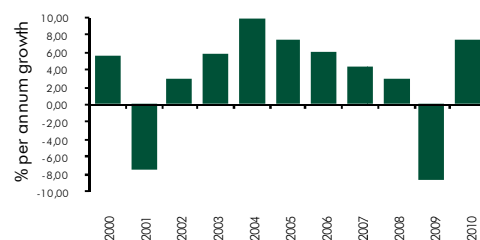
The currency and economic reforms have had positive consequences for the real-estate sector as well with increased foreign direct investment, particularly in the residential and commercial sectors.

Rental and capital values have increased considerably but are still well below European standards. The real-estate sector has performed particularly well in the last decade not least because of the introduction of Real Estate Investment Trust (Reits) towards the end of 1990s which made the market more liquid and therefore more accessible to small investors.

The retail sector has expanded considerably with the construction of many shopping malls particularly in the larger cities. For example the city of Istanbul boasts two of the largest shopping centers in Europe: Cevahir in Mecidiyekoy and Forum Istanbul in Merter. Not surprisingly most high-end retailers are now present in the market place.

Many international investors have also entered the Turkish market particularly in the retail sector: Apollo Real Estate, St. Martins Property Corp, Corio, VastNed, Bainbrigde. Other investors are eyeing the office market as well. The hotel sector has already attracted foreign investors for many years now, particularly in the resorts of the Turkish Riviera in the south.

GDP GROWTH IN TURKEY



Source: CB Richard Ellis

INFLATION RATES



Source: CB Richard Ellis

THE OFFICE MARKET

In the year 2000 the office market favoured mostly tenants when rentals were down by a third. The banking crises of 2001 further compounded the situation with prime investment yields approaching 15%. The situation has continued to improve since with prime rents rising to USD40.0/sqm/m and prime yields down to 8.5% from 12.0% 5 years previously.

Many new developments have taken place throughout Istanbul which means that occupiers have a choice of different types of office accommodation in a number of locations varying from prime (Levent, Esentepe) to secondary (Maslak) and the decentralised (Umraniye, Kozyatagi and Altunizade) where rents are almost half the levels prevailing in the prime areas.

Prime yield is estimated to remain stable. Istanbul ranked seventh in Europe for investment performance after London, Munich, Hamburg, Paris, etc.

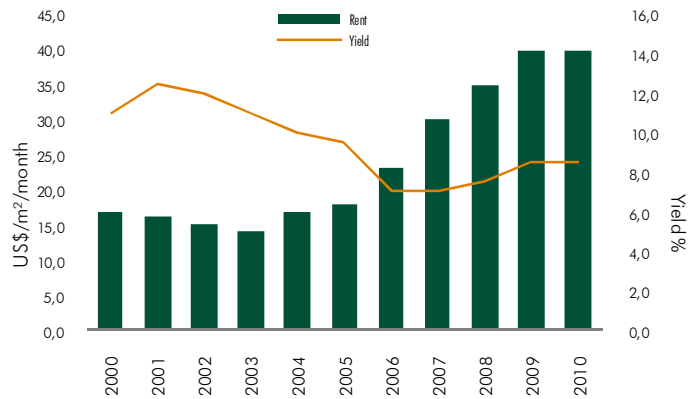
The office market will continue to grow to meet strong corporate demand particularly from overseas. As developments sites have become scarce in prime locations this demand will be directed in the secondary locations on the Asian side. A major development currently under construction is the Zorlu project, which is a mixed use of residential, retail and office. It will not be long before the office market in Istanbul achieves the maturity and sophistication of the developed economies of Europe and elsewhere.

THE RETAIL MARKET

Prime retail yields have strengthened from 20% in 2000 to below 10% now. They continued decreasing and are currently around up to 7.0% now. Rental levels in the retail sector have been increasing steadily to reach US\$100/m2/month in some places. In the last decade retail properties have performed particularly well and early investors have been handsomely compensated.

Most high-end European retailers have entered the market in the last few years to take advantage of the increasing prosperity of the Turkish middle classes.

PRIME OFFICE RENTS AND YIELDS



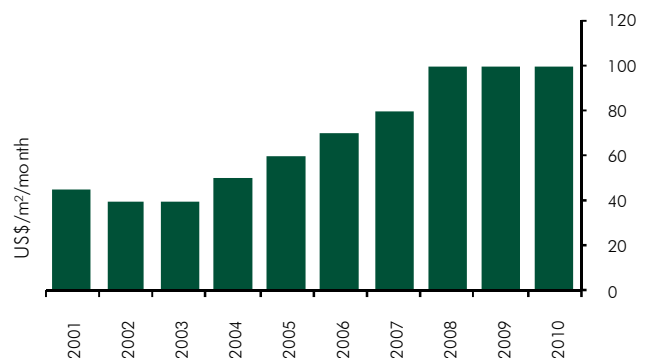
Source: CB Richard Ellis

OFFICE AREAS IN ISTANBUL



Source: CB Richard Ellis

PRIME RETAIL RENTAL LEVELS



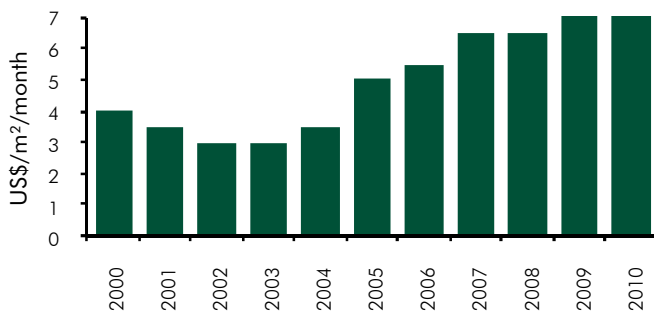
Source: CB Richard Ellis

INDUSTRIAL AREAS IN ISTANBUL



Source: CB Richard Ellis

INDUSTRIAL RENTAL LEVELS



Source: CB Richard Ellis

THE INDUSTRIAL MARKET

Yields in the industrial sector were around 16% at the beginning of the decade, then decreased progressively around 14% in 2004 to below 8% in 2007. Yields were around 10.0% throughout 2009 and as the market has not quite recovered, yields are remain stady around 9.0%.

Rental levels have moved from US\$4/m²/month in 2000 to only US\$7/m²/month in 2010. The market was previously dominated by owner-occupiers whereas international developers have been taking great interest in the Turkish market in the last five years.

THE HOTEL MARKET

The tourist industry is well established in Turkey and contributes approximately 10.0% to Turkey's GDP. Despite the global crisis, tourism numbers increased by 6.82% in the first four months of 2010 and the industry is expected to grow by 4.3% between 2009 and 2019. Istanbul's designation as European city of culture last year further boosted tourism numbers. These have grown by an average of 1.0million every year in the last decade.

Some of the larger 5-star hotel chains are increasing their operations in Turkey, both in and outside of Istanbul. The Hilton chain is planning to open 45 new hotels around the country by 2012. Movenpick is also planning to open 10 new hotels by the end of 2010, and the Akfen Group has signed an agreement with Accor to develop 50 Ibis and Novotel branded hotels before the end of 2015. The market currently provides opportunities for three and four-star hotels, due to the lack of mid-tier hotels in the sector throughout the country. Also, small new operators such as House Hotels are creating smaller (30-40 room) boutique properties in prime Istanbul locations such as Nisantasi, Ortakoy, Tunel in Cihangir, etc. in partnership with Kerten A Private Irish Equity group is partnering the development of the House Café Brand in throughout the country.

YIELDS

Turkey has traditionally provided many opportunities to the foreign investor prepared to take a long-term view. There are still many opportunities available in all sectors.

The prevailing political stability and the continuing economic growth mean that GDP has grown four fold in the last decade and now averages US\$11,000 per capita. This is four times higher than the entire Egyptian economy with the same population numbers.

New general elections are to take place in Turkey in summer 2011 and if projections are any guide the present government will be re-elected. Turkey is increasingly looking towards the East to boost its exports market to the neighbouring countries. It is a safe bet therefore that the economy will continue to grow even if Turkey does not eventually enter the EU.

TURKEY



INVESTMENT, VALUATION and PROJECT MANAGEMENT

Vehbi Cemil Hariri vehbi.hariri@cbre.com.tr

INDUSTRIAL and RETAIL

Birhan Yıldız birhan.yildiz@cbre.com.tr

OFFICE AGENCY

Sedef Aslan sedef.aslan@cbre.com.tr

VALUATION

Müjde Uslan mujde.uslan@cbre.com.tr

RESEARCH

Oğuz Kaan Kalay kaan.kalay@cbre.com.tr

PART OF THE CB RICHARD ELLIS AFFILIATE NETWORK

CBRE
CB RICHARD ELLIS

DISCLAIMER 2010 CB Richard Ellis

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.

EMEA Offices CB Richard Ellis

Aix-en-Provence (33) 4 42 60 01 31	Malaga (34) 95 207 0710
Amsterdam (31) 20 626 2691	Mallorca (34) 97 145 6768
Barcelona (34) 93 444 7700	Manchester (44) 161 455 7666
Berlin (49) 30 72 61 54 0	Marbella (34) 95 2765 130
Birmingham (44) 121 609 7666	Marseille (33) 4 91 29 67 67
Bristol (44) 117 943 5757	Milan (39) 02 655 6701 (39) 02 303 7771
Brussels (32) 2 643 3333	Moscow (7501) 258 3990
Bucharest (40) 21 312 7000	Munich (49) 89 2420 600
Budapest (36) 1 430 2626	Nairobi (254) 20 248 106
Bulawayo (263) 9 630 20	Neuilly sur Seine (33) 1 4624 5346
Copenhagen (45) 70 22 96 01	Paris (33) 1 4562 5132
Dublin (353) 1 618 5500	Poznan (48) 61 855 1931
Durban (27) 31 207 1183	Prague (420) 224 814 060
Edinburgh (44) 131 469 7666	Rome (39) 06 323 2320
Frankfurt (49) 69 17 00 77 0	Stockholm (46) 8 4101 8700
Gaborone (267) 3188 200	Valencia (34) 96 316 2890
Glasgow (44) 141 204 7666	Vienna (43) 1 533 4080
Gothenburg (46) 31 761 8750	Warsaw (48) 22 653 7000
Hamburg (49) 40 80 80 20 0	Zurich (41) 1 226 3000
Harare (263) 4 707 101	
Hoofddorp (31) 23 565 7700	Correspondent Firms:
Jersey (44) 1534 874141	Helsinki, Tallberg Toimitilajohto Oy (358) 207 420 400
Johannesburg (27) 11 444 0462	Istanbul CB Richard Ellis (90) 212 259 36 29
Leeds (44) 113 394 8800	Oslo, Atrium AS (47) 23 01 10 70
Lisbon (351) 21 311 4400	Sofia Elta Consult Ltd (359) 29 87 7647
Liverpool (44) 151 227 4611	Tampere, Tallberg Toimitilajohto Oy (358) 3 235 9033
London (44) 20 7182 2000 (44) 20 7606 6600	Tel Aviv, M.A.N. Properties Real Estate (972) 3 561 6161
Lyon (33) 472 43 48 48	
Madrid (34) 91 598 1900	

For more information please contact:

Feroze Bundhun

feroze.bundhun@cbre.com

CB Richard Ellis
Süleyman Seba Cad. No. 48
BJK Plaza A Blok A1-06
Akaretler 34357

Tel (+90) 212 259 3629

Fax (+90) 212 259 5598

www.cbre.com.tr