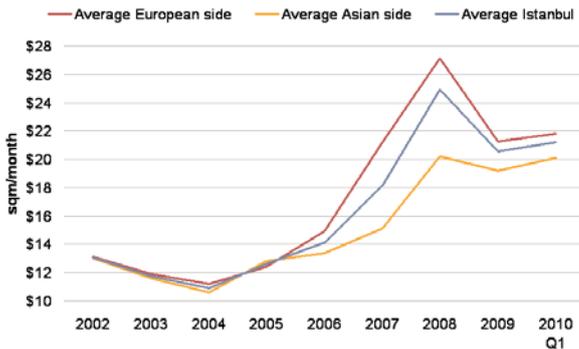


# Istanbul office market

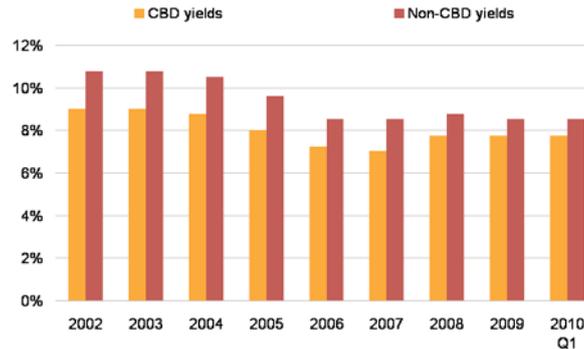
## Spring 2010

### Rental values



Source: Kuzey Bati / Savills Research

### Prime and secondary CBD yields



Source: Kuzey Bati / Savills Research

**“Previous structural reforms in the banking system after the 2001 crisis had put Turkey in a stronger position than other emerging economies. Based on economical recovery, we expect office demand to get stronger in the course of 2010 and rents will benefit from this situation and continue to rise”**



Murat Ergin (Managing Director)

- A gradual recovery in the letting market was noted since the third quarter of 2009 with transacted volume back above the 35,000 sqm threshold. In Q1 2010 take-up was 35,939 sqm, which is 15 times higher than in Q1 2009, however it is 8% down on the previous quarter.
- The total office stock in Istanbul reached 2.8 million sqm at the end of the first quarter of 2010. The average vacancy rate in Istanbul has risen to 9.9% from 9.0% in the previous quarter and 8.7% in Q1 2009.
- There is around 620,000 sqm new office stock under-construction or in the pipeline until 2012.
- The achievable prime rent is currently \$37/sqm/month (€333/sqm/year) in Levent- prime CBD while it was \$32/sqm/month at the bottom of the cycle during the 2nd quarter of 2009.
- Investment product that is fully let and located in prime CBD locations remained difficult to find, therefore, investment volume hardly reached over \$300 million in 2009.
- Due to the competition between investors for the same rare assets prime yields started to decrease in the last quarter of 2009. The prime office CBD yield is currently 7.75%.

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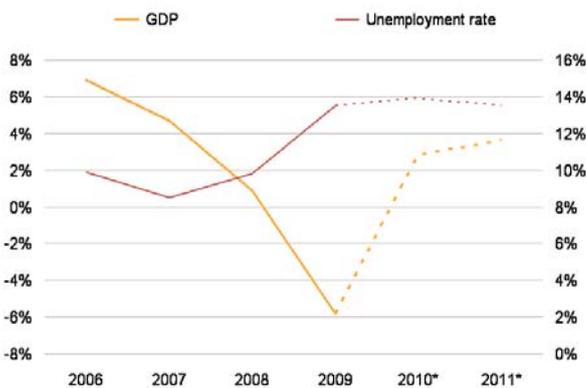


# Economy and letting market

## Economy

Previous structural reforms in the banking system after the 2001 crisis had put Turkey in a stronger position than other emerging economies. Additionally unlike many Western banks, Turkish banks have limited mortgage exposure. Still Turkish economy has been affected by the global financial crisis. Increase in unemployment rate has become one of the major problems affecting private consumption, in spite of the anti crisis measures introduced by the government. Overall, economic output declined by 5.8% according to the European commission but GDP growth is expected to return positive 2.8% in 2010.

### GDP growth and unemployment rate



Source: European Commission \* Forecast

## Letting Market

### Take-up and demand

The economic crisis has had a negative effect on office demand. Fewer deals have been signed and decision making process has become slower. Because of the economic uncertainty, many companies decided to delay their expansion plans. As a result, take-up was relatively low during 2009, totalling 68,000 sqm, 75% down compared to 2008. However a gradual recovery in the letting market was noted since the third quarter of 2009 with some transacted volume back above the 35,000 sqm threshold. In Q1 2010 take-up was 35,939 sqm, which is 15 times higher than in Q1 2009, however it is 8% down on the previous quarter.

Telecommunication, IT, electronic, insurance and pharmaceutical sectors are currently the key drivers of office demand.

## Major letting transactions

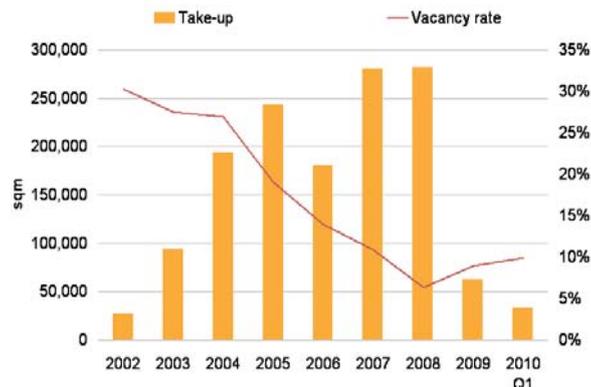
Tenant	Building	Location	Area in sqm
Isik Sigorta	AK Ofis Park	Ümraniye	20,256
Merck Sharp & Dohme	Astoria Kempinski	Esentepe	7,700
Basf Yapi A.S.	Mete Plaza	Kozyatagi	7,672
Huawei	Onur Ofis Park Blok A1	Ümraniye	7,037
Sanofi Synthelabo	Eczacibasi Building 2	Levent	6,650
CMC	Ex Superonline Building	Kavacik	4,500
Dogan Holding	Sisli Plaza	Sisli	3,500
Oriflame	Harmanci Giz Plaza	Levent	2,000

Source: Kuzey Bati / Savills Research

### Supply and vacancy rate

The total office stock in Istanbul reached 2.8 million sqm at the end of the first quarter of 2010. Almost 50% of this stock is located in the CBD covering the Besiktas, Sisli-Mecidiyeköy, Levent, Maslak regions. The average vacancy rate in Istanbul has risen to 9.9% from 9.0% the previous quarter and 8.7% in Q1 2009. However, in the CBD availability remains low; in Levent the vacancy rate is 2.3%.

### Take-up and vacancy rate



Source: Kuzey Bati / Savills Research

### Development and stock

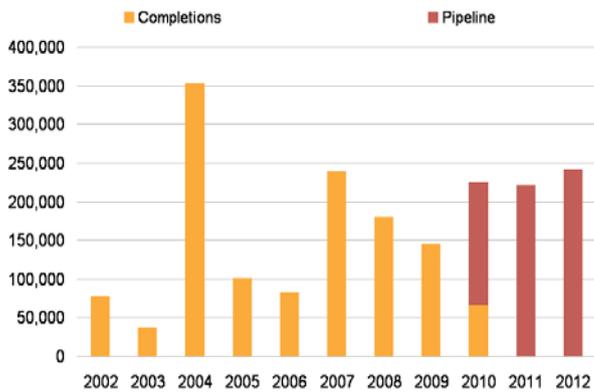
Following a strong rise in 2007, development activity slowed down since the last quarter of 2008. In 2009, office completions of Grade A buildings reached

# Rents, investment and outlook

approximately 145,000 sqm and some 45% of these developments were built in Ümraniye, a rapidly developing office district.

There is around 620,000 sqm new office stock under-construction or in the pipeline until 2012. We estimate that about half of this space will be completed over the next two years, while completion of some new projects may be postponed, due to lack of finance.

## Development completions and pipeline

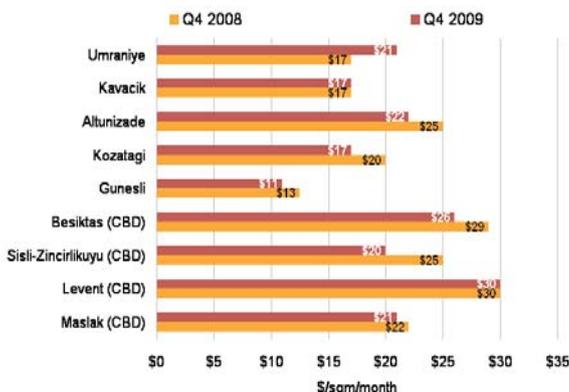


Source: Kuzey Bati / Savills Research

## Rents

Rents in Istanbul experienced a small decrease after 3rd quarter of 2008 due to the limited demand combined with the increasing supply. The slow recovery of the occupational market has eased the downward pressure on rental levels since the end of 2009.

## Average rents per location



Source: Kuzey Bati / Savills Research

Economic recovery has been reflected positively on occupier demand for office space and gradual increase on rents has started in the last quarter of 2009. The achievable prime rent is currently \$37/sqm/month (€333/sqm/year) in Levent- prime CBD while it was

\$32/sqm/month at the bottom of the cycle during the 2nd quarter of 2009. The overall average rent has decreased to \$21.2/sqm/month and is 3% lower than last year's average figure. Rental figures decreased in almost all districts compared to the average rents in 2009.

## Investment

In spite of the economic downturn, investors' demand remained in 2009 relatively strong. However the lack of investment product that is fully let and located in prime CBD locations remained difficult to find. Therefore, investment volume hardly exceeded \$300 million in 2009. This is still the double compared to the \$160 million turnover recorded in 2008.

Transaction purposes generally consist of owner occupation or speculative purchases. National private investors dominated the office investment market. The size of transactions mainly clustered in the range of \$5 – 20 million.

Due to the competition between investors for the same rare assets prime yields started to decrease in the last quarter of 2009. The prime office CBD yield is currently 7.75%, which is 25 basis points lower than a year ago and 75 basis points higher than the summer 2007.

## Outlook

The Turkish economy has entered a modest recovery phase since the end of last year. According to the European Commission, the GDP growth rate is estimated at 2.8% for 2010. But the weights of a still growing unemployment rate will slowdown the market activity.

Based on economic recovery, we expect office demand to get stronger in the course of 2010 and rents will benefit from this situation and continue to rise.

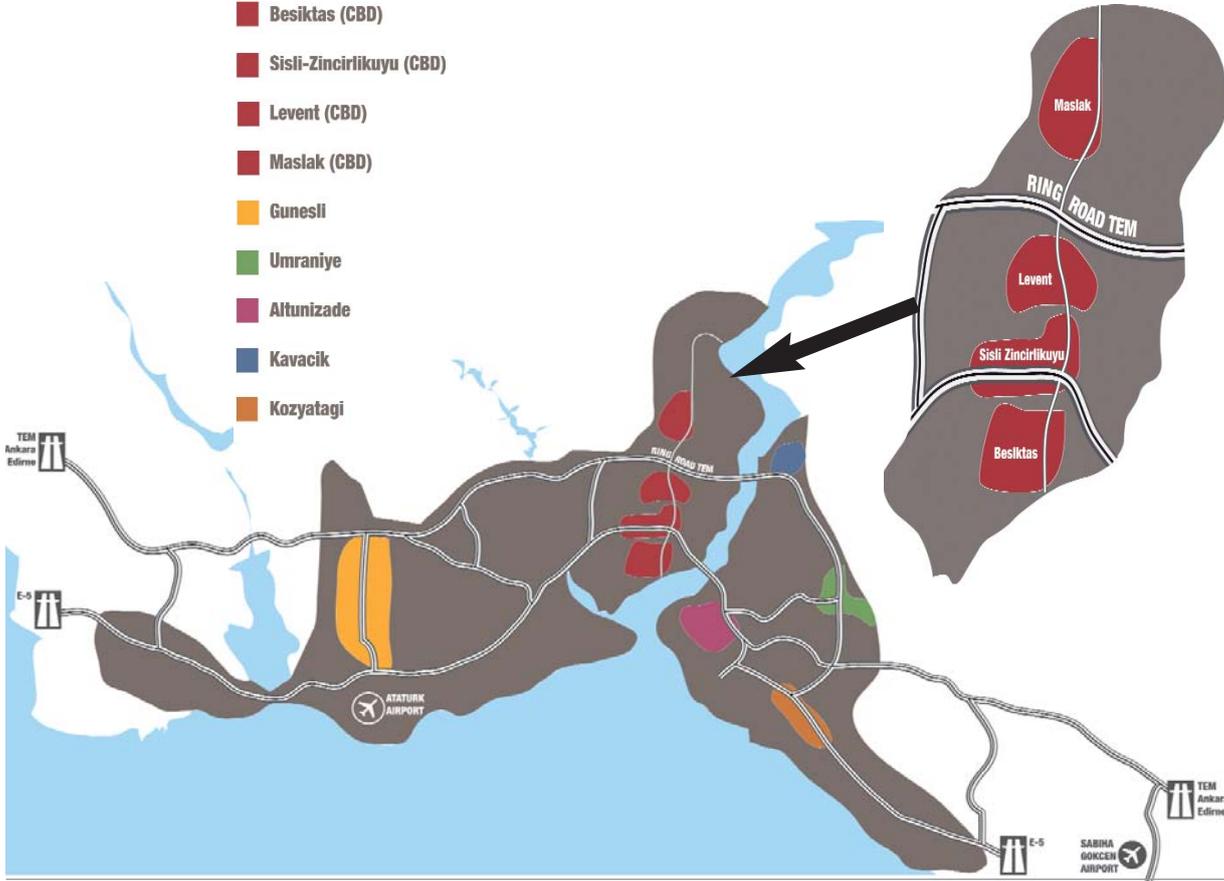
Development activity should gradually recover starting from the second half of the year with the sustainability now on the agenda.

Sustainability has become a significant issue for office development. Efficiency in floor planning has become important and most of the office developers have put green design on their agendas.

Given the strong demand and limited supply for investment products, we believe that the prime office CBD yield will decrease to 7.50% for the best product.

# Istanbul office market

## Survey map



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