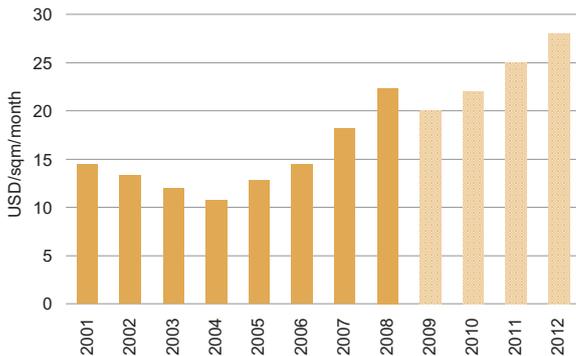


# Istanbul office market

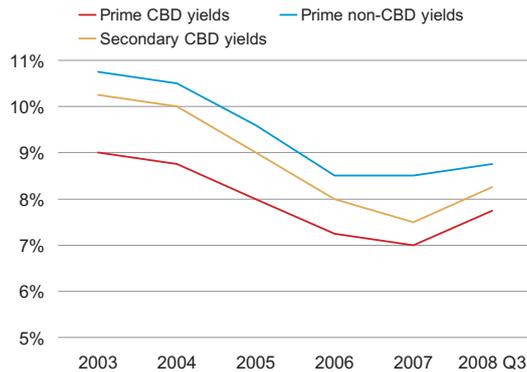
## Winter 2008-2009

### Average office rents



Source: Kuzey Bati-Savills Research

### Prime office yields



Source: Kuzey Bati-Savills Research

**“Investment turnover has decreased due to the international credit crisis, however the prospects for positive prime rental growth should sustain prime yields at their current levels”.**

**Murat Ergin - Managing Director**



- Demand is driven by the rising number of international companies, as well as the privatisations and corporate acquisitions that create demand for high quality offices.
- Annual take-up has reached approximately 230,000 sqm in the third quarter of 2008, 15% lower compared to 2007.
- The total Grade A office stock supply has increased by 6% to 2.6 million sqm. Most of Grade A office supply is concentrated along Besiktas-Maslak corridor, defined as Central Business District (CBD).
- Istanbul average rent in mid 2008 was USD 23.20/sqm/month and now stands at USD 21.90/sqm/month, still 19% higher than 12 months ago.
- Property yields have been decreasing until early 2008, however, the latest global economic crisis has affected the investment volume in real estate and the risk premiums applied. Prime office yields are now at 7.75%.
- We expect the slowdown of the economic activity to have a negative impact on rental growth and take-up leading to a temporary rise in the average vacancy rate.

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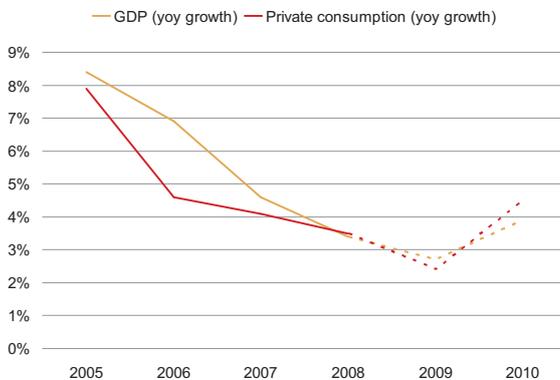
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# Demand and Supply

## Economy

Domestic political uncertainty and the international credit crisis have had a negative impact on private consumption and investment causing a slowdown in GDP growth from 7.0% in 2006 to 4.6% in 2007 and 4.25% in the first half of 2008. Inflation rose from around 9% in 2007 to 11% in the third quarter of 2008 and unemployment went up by over 0.5% over the same period. Despite the slowdown in economic activity the economy is in a better position to weather the global financial crisis.

## GDP and unemployment



Source: European Commission

## Leasing market

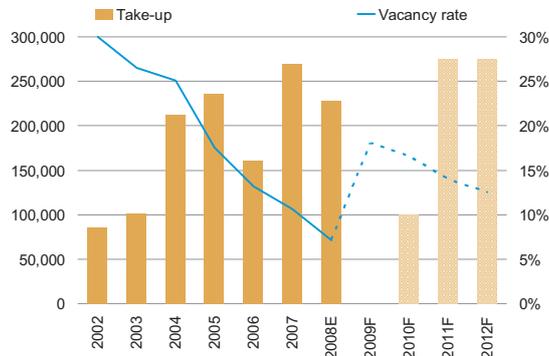
### Demand and take-up

Since 2004 the number of foreign companies in the market has increased, as well as the number of acquisitions and privatisations, raising the demand for high quality office space. Financial and Business services sectors concentrate generally on the European side accounting for about 66% of the total office space occupied in this area. Multinational companies prefer prestigious office buildings in CBD locations on the European side especially along Buyukdere Street.

Manufacturing and transportation firms prefer to be located on the Asian side of Istanbul and they account for 42% of the occupiers in this area. Umraniye has become an attractive region for built-to-suit developments, while new office developments are commencing on the main highways TEM and E-5.

Annual take-up has reached approximately 230,000 sqm in the third quarter of 2008, 15% lower compared to 2007. Comparing the take-up levels of different regions the highest share belongs to Besiktas with 42,660 sqm, followed by Maslak with 31,000 sqm on European side and Umraniye with 40,330 sqm.

## Take-up and vacancy rate



Source: Kuzey Bati-Savills Research

## Major leasing transactions

Tenant	Location	Size (sqm)
Unilever	Umraniye	18,000
Fritolay	Umraniye	7,200
3M	Kavacik	6,300
Novartis	Kavacik	5,500
Regus	Atasehir	1,000
BAT	Maslak	9,900
Beymen	Maslak	5,400
Basak Groupama	Kozyatagi	10,700
Dell	Kozyatagi	1,000

Source: Kuzey Bati-Savills Research

## Supply and vacancy rate

Maslak, Esentepe, Sisli, Mecidiyekoy, Levent and Ataturk Airport on the European Side and Umraniye, Kozyatagi, Altunizade and Kavacik on the Asian Side are Istanbul's major regions where office buildings are located. The total Grade A office stock supply has increased by 6% to 2.6 million sqm. Most of Grade A office supply is concentrated along Besiktas-Maslak corridor, defined as Central Business District (CBD).

Levent is the most important part of the CBD. In spite of high rental prices the vacancy rate is below 1.0%. Levent accounts for the largest part of the office stock with 493,700 sqm. Large corporations and multinational firms choose Levent because of the supply of high specification and high profile office buildings.

Maslak is located on the northern part of Buyukdere Street. The office stock in Maslak is 394,500 sqm and vacancy rate is approximately 6.5% lower compared to the year before. Currently insufficient infrastructure causes high traffic in the area, nevertheless

# Investment and Outlook

accessibility will be improved after the completion of the new Metro line in the first quarter of 2009.

In the region of Besiktas-Taksim the total office stock increased to 180,100 sqm after the completion of a number of new office developments (Akaretler Siraevler, Ciner Business Center, Selenium Office, Terrace Fulya) and the area has become a significant part of the CBD. After the completion of all the projects under construction by 2010, the total Grade A stock will increase by 15%.

Kozyatagi, Umraniye, Kavacik and Altunizade are the key office areas on the Asian Side. Umraniye has easy access both from the E-5 and TEM highways. Although the office buildings are of high quality and specification rental prices are low compared to the European Side. The stock is 220,000 sqm and vacancy rate is 4.3%. Development in Umraniye continues and there are several office projects in the pipeline. After the completion of these projects the total stock will be doubled by 2012.

Although the quality of office buildings in Altunizade is relatively low, rental prices are high and vacancy rates are low compared to the other office regions in the Asian side due to its central location. Kozyatagi, on E5 highway, comprises a major part of the office stock in the Asian Side due to the proximity to white collar residential areas. Office stock in Kozyatagi is 256,700 sqm and vacancy rate is 2.4%.

## Rents

Rental levels have been rising 2004 until the third quarter of 2008. However, rental growth slowed down in the last quarter of the 2008 and asking rents have started to decrease. While asking rents in Levent and Besiktas reached USD 45.00/sqm/month within Q3 2008, they have decreased to USD 30.00/sqm/month by the first quarter of 2009 as a result of the economic crisis and the decline in demand. Istanbul average rent in mid 2008 was USD 23.20/sqm/month and now stands at USD 21.90/sqm/month, still 19% higher than a year ago. The annual rental growth in 2007 was higher at 26%. Rental growth depends on the location and quality of office accommodation. The average asking rental price on the European side is higher than the Asian side. Average rents reached USD 23.00/sqm/month on the European side and USD 19.60/sqm/month on the Asian side.

## Average asking rents per submarket

Area	Rent (USD/sqm/month)
Maslak (CBD)	22.00
Levent (CBD)	30.00
Kozyatagi (non-CBD)	20.00
Umraniye (non-CBD)	17.00

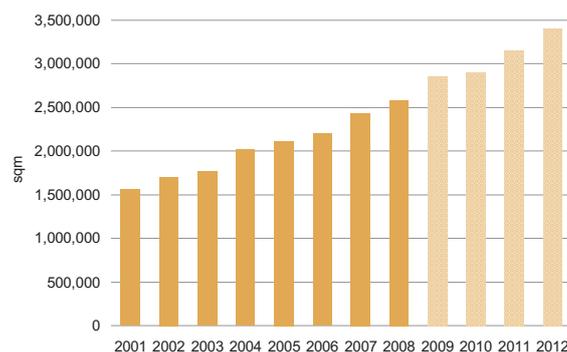
## Investment market

The global economic crisis and the political instability has had an adverse effect on the Turkish investment market. Foreign Direct Investment in the period January-September 2008 was down by 28% compared to the same period in 2007 reaching USD 12,311 million. 74% of the equity capital came from the European Union, while around 58% of the foreign companies that invested in the country are of EU origin, mostly from Germany, UK and The Netherlands. The majority of FDI is in the wholesale, retail trade, manufacturing and real estate sectors. Property yields have been steadily decreasing until early 2008, however, the latest economic crisis in the USA and Europe has affected the investment volume in real estate and the risk premiums applied. Prime yields for Grade A offices decreased by 25 basis point to 7.0% in 2007. In 2008, prime office yields begun to increase during the third quarter of the year and they are now at 7.75%. We expect this yield shift to continue during the first half of 2009. Secondary yields have also increased from 7.50% in 2007 to 8.25%.

## Outlook

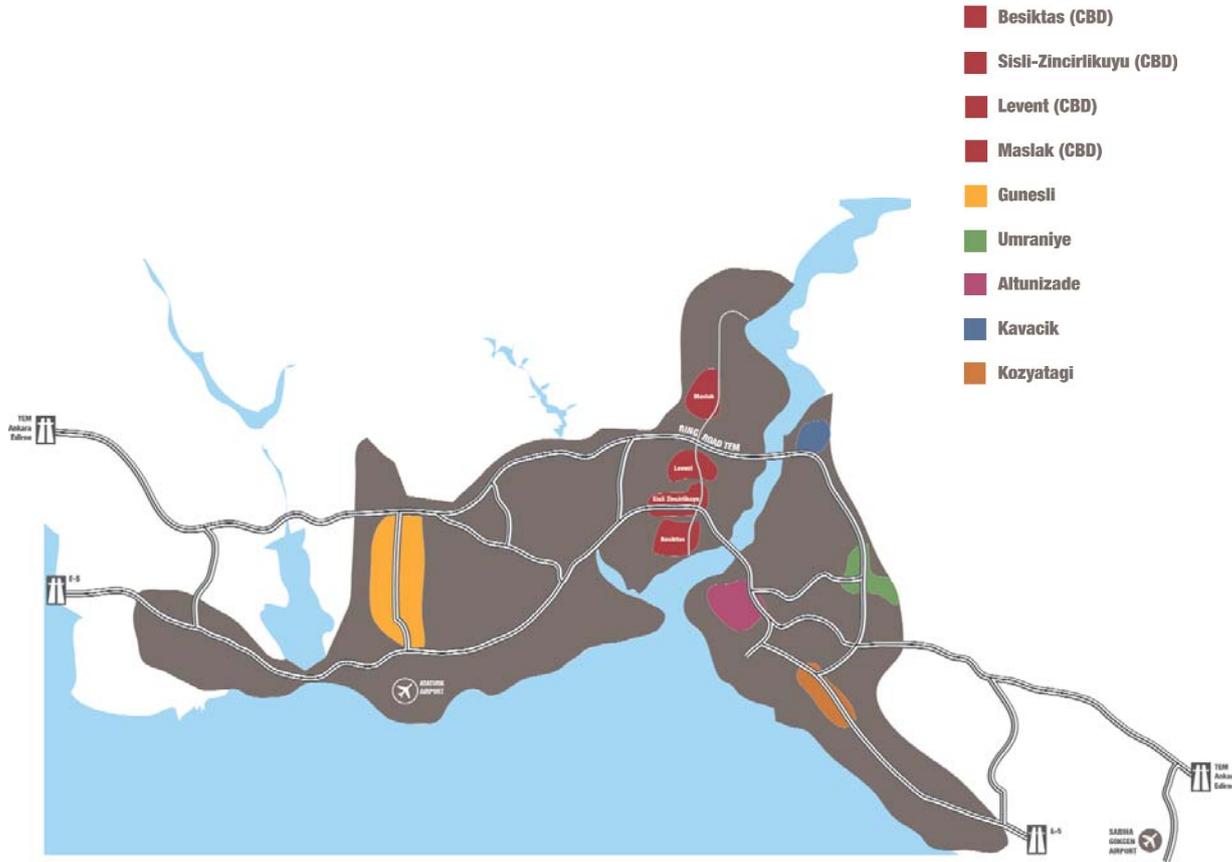
According to European Commission, GDP growth is expected to fall gradually from about 3.5% in 2008 to 2.75% in 2009, due to the weakening consumer and business confidence and lower lending and spending linked to the global financial crisis. Our analysis shows that there is a strong correlation between GDP growth, take-up growth and office rental growth. Based on the economic forecasts we predict that average rental values will decrease slightly over the next two years. On the other hand average vacancy rates will increase due to the slowdown of economic activity and the amount of office space in the pipeline. We expect that initial yields will rise further as long as inactivity in the investment market continues. Investment demand should start recovering together with the first signs of the recovery of the international economy and will be also supported by the supply of new office product onto the market.

## Projection of stock



Source: Kuzey Bati-Savills Research

# Istanbul office market map



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