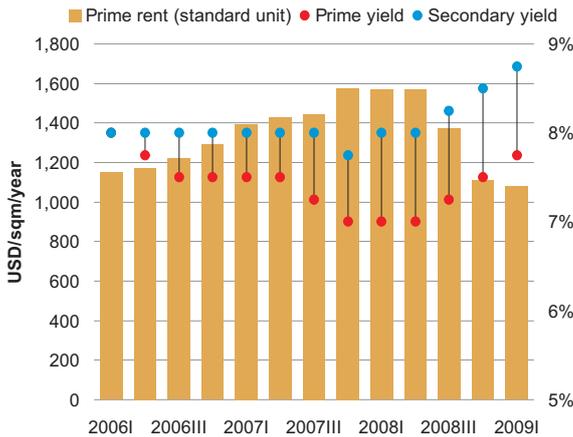


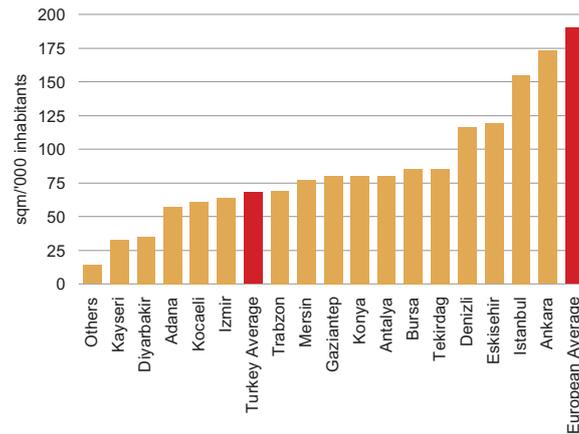
# Turkey Retail market

## Spring 2009

### Shopping centre rents and yields



### Shopping centre space density Q1 2009



**“In the current context of weakening consumer spending, the performance of a shopping centre relies heavily on the quality of catchment area, tenant mix and management. We expect as the economy recovers, successful centres to attract investor interest leading to yield compression”.**



**Murat Ergin - Managing Director**

- Decreasing income and economic uncertainty, are anticipated to keep visitor numbers and turnover rents below expectations for many shopping centres.
- The modernisation of the retail market, has attracted numerous international brands in the Turkish market and they continue to expand.
- Total shopping centre stock increased by almost 30% in 2008 and currently the national average density is at 68sqm/1,000 inhabitants. This is not expected to exceed 105sqm/1,000 inhabitants by 2012.
- Due to the international financial crisis, some of the projects in the pipeline have been postponed, especially in metropolitan areas that show signs of saturation.
- Downward pressure on retailer turnover has led to rent concessions and other incentives. Shopping centre yields have increased by 25 basis points on a quarterly basis in Q1 2009.
- Despite the small number of investment transactions, the investment market is driven by development. International investors enter the market through joint ventures with successful local developers.

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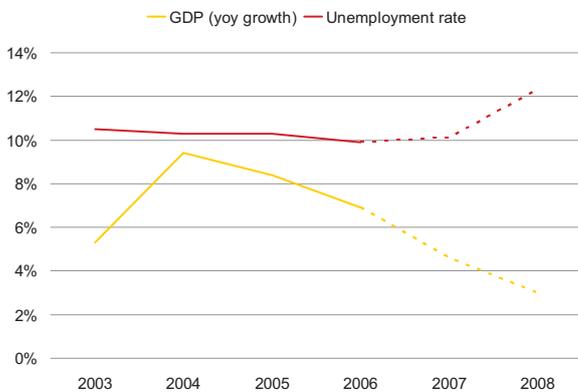


# Economy, demand and supply

## Economy

The negative impact of the global credit crisis on private consumption and investment has caused a slowdown in GDP growth from 4.6% in 2007 to 3.0% in 2008, particularly in the last half of the year. Inflation rose from around 8.5% in 2008 to 10.4% in February 2009 and unemployment rate rose to 12.3% in November 2008 from 10.1% one year earlier. Due to the strong growth of the past six years, the economy is in a better position to weather the global financial crisis, but it is still vulnerable to weakening external demand and internal structural issues.

### Economic indicators



Source: Turkstat

## Demand

### Consumer demand

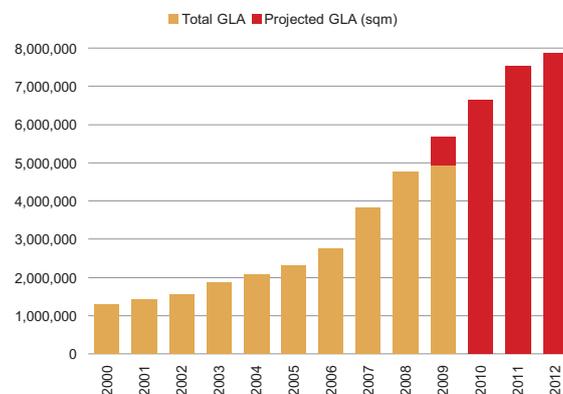
Growing consumer spending, the growth of suburban population, the improvement of infrastructure, increasing car ownership, and the growing demand for western-style products are the main factors that have led to the transition of traditional retail patterns to out-of-town, large-scale retail formats over the recent years. Currently weakening economic conditions have a negative impact on consumption. Consumer confidence index in January 2009 was 22.3% lower compared to the same period in 2008, although a growth by 2.4 % between December 2008 and January 2009 has been recorded. Decreasing income and market uncertainty, are anticipated to keep visitor numbers and turnover rents below expectations for many shopping centres. However, it is also recognised that the supermarket and fast-food areas attract more attention than ever.

### Retailer demand

Modern shopping centre investments firstly began to be realised in metropolitan cities with high population densities. The shopping centre format has been undergoing a change from a small scale concept into a regional scale shopping and entertainment destination. The modernisation of the retail market, has attracted

numerous international brands such as C&A, Tommy Hilfiger, Accessorize, Electroworld, Debenhams, Watson, Next, Zara, Mango, GAP, Banana Republic, Caffe Nero, and Sephora, which entered the Turkish market and opened stores especially in regional shopping centres. Big box retailer Media Markt entered the market in 2007, while despite the uncertainty caused by the economic conditions electronic goods retailer Best Buy and French DIY retailer Leroy Merlin are preparing to enter the market in Anatolium shopping centre in Bursa. Additionally, IKEA with its most recent store that opened in Bursa has now four stores in total in Turkey.

### Evolution of stock



Source: Kuzey Bati - Savills

## Supply

During 2008, nearly 950,000sqm gross leasable area (GLA) came onto the market with the opening of 39 new shopping centres. As of the first quarter of 2009, total GLA in the country was 4,922,600 sqm representing an increase of 29% compared to 2007. Due to the international financial crisis, some of the projects under construction or in the pipeline have been delayed and are not expected to open before late 2009 or 2010. However, the volume of new shopping centre completions in 2009 is still expected to reach about 895,750sqm.

As of the first quarter of 2009, the national average density has reached 68sqm per 1,000 inhabitants. Taking into account the shopping centres under construction and in the pipeline, the number of shopping centres is expected to increase to 297 from 221 and total GLA is expected to be around 7,8 million sqm in 2012. At the end of 2012, it is estimated that the highest retail space densities will be in Istanbul, Ankara, and Denizli and the national average is estimated to reach 105sqm per 1,000 inhabitants.

Nevertheless in metropolitan cities such as Istanbul and Ankara, the number of new shopping centre projects has been decreasing due to the saturation in the retail market. Mixed use projects have become an alternative to shopping centre projects of non-regional

# Rents, investment and outlook

scale. In the past two years, shopping centre development has shifted towards middle-size cities with a population between 500,000 and 1 million inhabitants where no demand for shopping centres has been recorded previously.

## Major developments in the pipeline for 2009

Developer	Project (type)	Size (sqm)	Province
Multi Turkmall	Forum Istanbul	172,200	Istanbul
Megaturk	Kentpark	68,000	Ankara
MAYA-Corio	Anatolium	78,000	Bursa
Redevco	Gordion	55,000	Ankara
KREA	NEO Pendik	30,000	Istanbul
Prime Development	Iskenderun Project	33,000	Hatay

Source: Kuzey Bati - Savills

## Rents

The rental levels in shopping centres vary depending on a number of factors such as location, the type of centre, size and purchasing power of catchment area population. Effective management has been critical for sustaining rental levels. Positive rental growth over the past years and until 2008 has meant increasing revenue, especially in new shopping centres. However, after the global economic crisis and due to the decrease in turnover some tenants have difficulties paying their rents. Additionally, changes of dollar and euro cross rates brought about periodical rent and service charge concessions, temporary marketing contributions and in some cases currency exchange rate is capped for rental payment. We assume that these concessions will continue during 2009 depending on economic conditions.

Prime market rents are at 1,080 USD/sqm/year for units with a GLA of 150sqm, and at 480 USD/sqm/year for units with a GLA of between 1,000 and 1,500sqm. These rents are achieved in regional or/and prime shopping centres located mainly in big cities. Top retail rents are achieved in Istanbul in the major high streets such as Nisantasi, Bagdat and Istiklal Streets where the average prime unit rent is about 1,400 USD/sqm/year while the secondary unit rent is 450 USD/sqm/year. However, the rental level and key money has been decreasing due to reduced demand.

## Investment

The total retail investment volume recorded in 2008 was 360.6 million USD. However we must bear in mind that on the one hand shopping centre transactions are rare and on the other hand the investment market is not transparent therefore the total volume might be higher than registered. The acquisition of three shopping centres located in Malatya, Mersin and Hatay by Corio and Nil Park in Bursa by Sireo are the latest transactions that occurred in 2008.

Turkish players that invest in shopping centres mostly develop, operate and hold the schemes. Because of this fragmented process, many foreign companies willing to enter the market prefer to set up joint ventures with successful and experienced Turkish developers. Examples of such joint ventures are: Carrefour-Sabancı Group, Metro Group-Tepe Group, Multi Development-Turkmall, Merrill Lynch-Krea, and Tesco-Kipa. When foreign investors gain some experience on the market via these joint ventures, they sometimes continue their operations on their own. One of the most active European developers in the market is Redevco with projects in Erzurum, Ankara, Edirne and Manisa. Since 2004 we have also seen some investment activity through the capital markets, after the real-estate investment group Corio bought the shares of Akmerkez, which has 11 shopping centre investments in different cities. Through this route current owners and developers are seeking an exit and a way to raise capital for new developments.

After five years of a strong yield decompression, we have noticed a slight softening of yields due to the slowdown in investment activity. Prime retail yields are at 7.75% and up to 8.75% for secondary product.

## Outlook

We expect the economic slowdown to continue to have a negative impact on consumer demand maintaining the rental growth downturn noticed in the first quarter of the year at least for another quarter. In this environment, a distinction between high and poor quality projects in the market is possible to become more apparent. Therefore strong catchment characteristics, professional management, and tenant mix are becoming paramount. We have already noticed that some projects in the pipeline are being postponed or delayed, however we expect with the first signs of economic recovery to see renewed investor interest in the new product that will come onto the market and possible yield compression. Shopping centre projects, stand-alone or integrated in mixed use schemes and retail warehouses and parks are expected to become more widespread.

# Turkey Retail market

## Retail density map



### Shopping centres density in sqm / 1,000 inhab.

- 0
- 0 - 40 sqm
- 40 - 80 sqm
- 80 - 120 sqm
- > 120 sqm

Turkey average: 68 sqm

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