

TURKEY

Country Snapshots

Third Quarter | 2020

Office
Retail
Industrial & Logistics



MARKET BEAT TURKEY

Office Q3 2020



MARKET INDICATORS

Prime Rents: Stable in short to medium term



Prime Yields: Yields expected to be less impacted in the short to medium term for prime assets



Supply: Increasing though at much slower pace, IFC biggest project under construction, limited new projects in the pipeline



Demand: Despite slow down in Q2 due to the pandemic, demand grew in H1 and gained momentum in Q3 as anticipated



Prime Office Rents – September 2020

LOCATION	TRY	US\$	€	US\$	GROWTH %	
	SQ.M/MTH	SQ. M/MTH	SQ. M/YR	SQ. FT/YR	1YR	5YR CAGR
Istanbul (Levent)	170	27.0	289	30.1	-15.6	-6.6
Istanbul (Esentepe-Gayrettepe)	105	16.0	172	17.8	-15.8	-11.0
Istanbul (Maslak)	105	16.0	172	17.8	-15.8	-8.7
Istanbul (Asian side)	120	18.0	192	20.1	-18.2	-2.5
Izmir	65	10.0	107	11.2	-16.7	-6.7
Ankara	65	10.0	107	11.2	-23.1	-11.0

Prime Office Yields – September 2020

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Istanbul (Levent)	7.75	7.75	7.75	8.75	6.80
Istanbul (Esentepe-Gayrettepe)	8.25	8.25	8.25	9.00	7.25
Istanbul (Maslak)	8.00	8.00	8.00	9.25	7.25
Istanbul (Asian side)	7.75	7.75	7.75	9.50	7.25
Izmir	9.50	9.50	9.50	10.50	9.25
Ankara	9.25	9.25	9.25	10.50	9.00

Indicated office prime yields are not applied for fragmented ownership

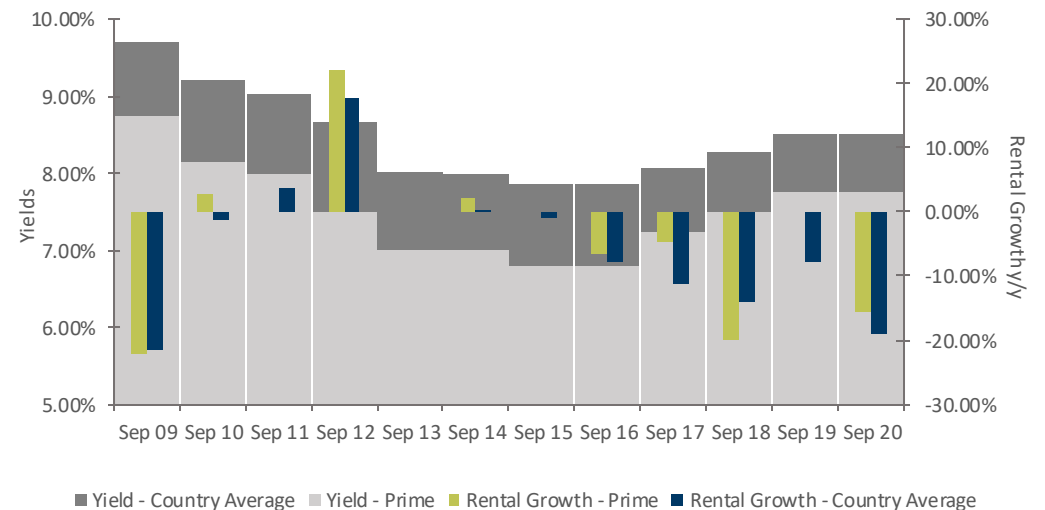
Overview

A rebound in the economy from the severe decline in Q2 has started to be recorded in Q3 in line with the increase in industrial production, retail sales and credit payments whereas consumer sentiment remains cautious, Oxford Economics' GDP growth expectation for 2020 was lifted again to 2.8% drop from -4.1% previously. Yet, given the ongoing headwinds, the unemployment rate projection remains high at 13.6% seasonally adjusted in July 2020. Meanwhile, FX pressure undermines disinflation anticipations for year end where CPI increased by 11.75% annually in September 2020. Furthermore, a weaker local currency and tightening economy remain weighing indicators for overall leasing activities and investments in the office market. Additionally, despite a very limited supply pipeline. The International Finance Center (IFC) holds the top spot with around 1.5 million sq. m of supply pipeline to be completed by the end of 2021.

Occupier focus

The overall supply remained at 6.46 million sq. m by the end of the third quarter of the year. Yet, supply will be the subject to reclassification in line with new requirements from a technical, health and safety point of view. Take-up reached approx. 90,869 sq. m in the third quarter taking the total to 223,000 sq. m year to date. Take-up volume in the third quarter increased by more than twofold compared to the previous quarter, particularly due to the finalization of ongoing lease transactions and increased by 15% compared to the previous year. 75% of all deals by number are new lease agreements and more than half by size, whereas the rest are renewals in the third quarter.

RECENT PERFORMANCE



MARKET BEAT TURKEY

Office Q3 2020

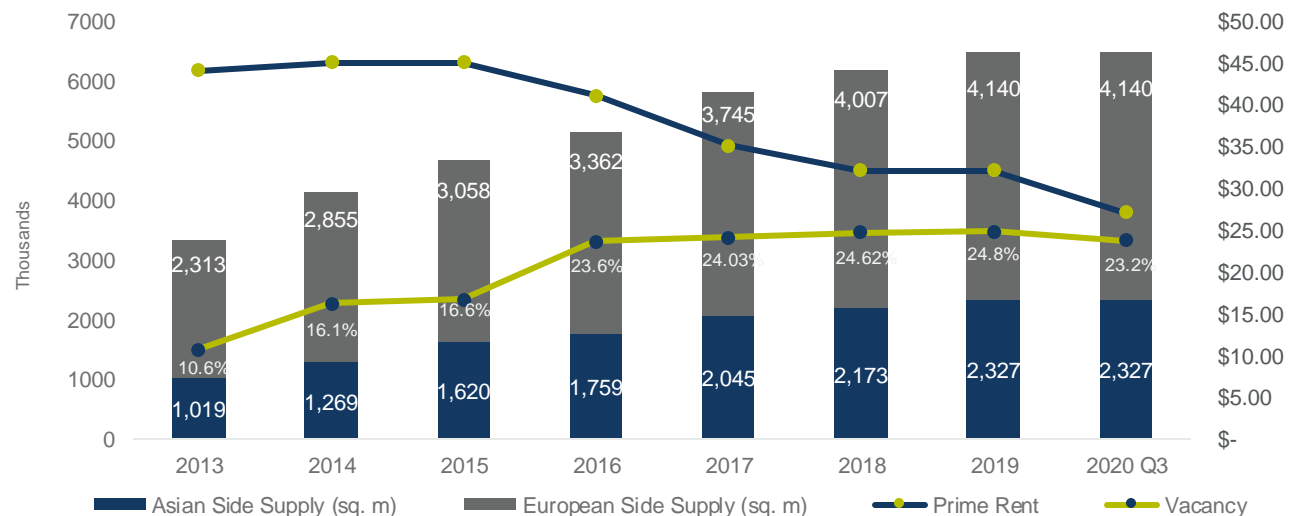


In Q3, on a sq. m basis, 42.4% of the deals occurred in the CBD, recording a slight decrease compared to the previous quarter. 38.4% were on the Asian Side and 19.2% outside the CBD on the European side indicating an increase compared to the previous quarter. Major new lease transactions include, Assembly Buildings (14,750 sq. m, Quasar), SGS Turkey (11,800 sq. m, Is Istanbul Plaza), Medtronic (8,500 sq. m, Akkom Laodik Plaza), Shell (7,900 sq. m, Karamancilar Business Center), Wood Plc (5,100 sq. m, Atasehir), Yurtici Kargo (5,000 sq. m, Vadistanbul) and SEDDK (3,312 sq. m, Palladium Tower). Furthermore, leasing activities in the third quarter were larger on a sq. m basis compared to previous quarter, while key transactions were recorded in the similar range of 3,000 – 12,000 sq. m in Q1.

Meanwhile, the vacancy rate slightly decreased to 23.2% in general by the end of third quarter.

Investment Focus

One major investment deal completed in the third quarter including; an acquisition of an office building in CBD by a foreign investor group. An acceleration in investment transactions is likely in the mid to long term within repricing.



Outlook

- Short term workplace fixes applying social distancing measures were mostly maintained in many organisations. Now, the key approach of flexibility for new shaped workplace areas are to be determined around the outcomes of well-being, productivity and cost optimization focuses that will be the long term solutions and expected to be driving force in the fourth quarter and year onward in office market.
- Therefore, organisations will need to create a balance between productivity and managing remote work in order to maintain the highest efficiency within the new normal. Physical offices will certainly remain necessary, whereas it is likely to change in the functionality that offers more collaborative and social areas in general. Moreover, under a total workplace ecosystem; companies will likely be required to provide employees to get to choose from any workplace at least to some level. Furthermore, rather than a single core building, feasible satellite offices depending on the density of the residences of the employees are likely to bring forward in the medium term, essentially for organisations with large workforce.
- Furthermore, office building supply will be subject to reclassification in line with the requirement for healthier workplace solutions with high quality building infrastructure.
- Pent up demand is starting to accelerate as anticipated in the third quarter, particularly due to the finalization of pending leasing agreements. Yet, along with the impact of pandemic, the exchange rate hike will likely pressure landlords and will weigh on leasing activity. Meanwhile, tenant friendly conditions are expected to remain for the medium term.
- Investment appetite in the office market is likely to gain momentum with more attractive opportunities in the near future.

MARKET BEAT TURKEY

Retail Q3 2020



MARKET INDICATORS

Prime Rents:	Rents are expected to soften in the short to medium term due to the COVID-19 pandemic.	▼
Prime Yields:	Yields expected to be impacted rapidly in the short to medium term.	▬
Supply:	Slowed but ongoing increase in pipeline, however some delays for ongoing developments.	▲
Demand:	Retailer expansion started to come back, relatively low due to the pandemic.	▼

Prime Retail Rents – September 2020

HIGH STREET SHOPS	TRY	US\$	€	US\$	GROWTH %	
	SQ.M/MTH	SQ.M/MTH	SQ.M/YR	SQ.FT/YR	1YR	5YR CAGR
Istanbul	750	110	1,178	122	-18.5	-17.04
Izmir	350	50	535	55	-23.1	-18.02
Ankara	450	65	695	72	-23.5	-17.97

Prime Retail Yields – September 2020

HIGH STREET SHOPS (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Istanbul	7.25	7.25	7.25	8.75	5.80
Izmir	8.25	8.25	8.25	11.25	7.50
Ankara	8.25	8.25	8.25	11.25	7.00

SHOPPING CENTRES (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Turkey	7.75	7.75	7.75	9.25	6.80

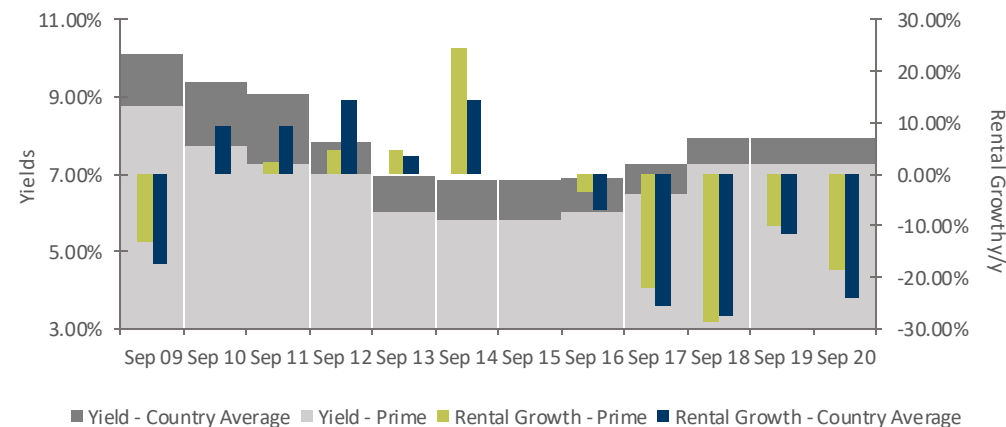
Overview

While the impact of pandemic in retail market remains to be observed, results of the shopping center retail data provided by AYD/Akademre indicate that, the turnover index has increased by 33.5% m/m in July 2020, as expected following the reopening of brick and mortar retail. Considering a slight decrease of 2.6% y/y in July 2020, the shopping centers turnover index has to recover. All category sales recorded a decrease where the only and highest rise was in technology category by 41.9%, significant decrease on the other hand was recorded in food & beverage by 36.3% y/y in July 2020 compared to the same period of last year. Moreover, the footfall index started to record an increase by 37.2% m/m in July following the gradual reopening starting from May. Furthermore, according to the Turkish Statistical Institute, retail sales volumes and turnover increased by 5.8% and 18.2%, respectively in August 2020 on an annual basis. The share of online retail sales remain to indicate a significant increase by 92.6% y/y in August 2020 as the pandemic drives lasting changes in consumer behaviour.

Occupier focus

Occupier demand was very limited in the first half of the year and relatively low in the third quarter following the shutdown due to the outbreak. Furthermore, demand from both local and international retailers is expected to remain on low levels during the recovery period. Expansion plans are anticipated to be back on the map in the medium to long term starting next year.

RECENT PERFORMANCE



MARKET BEAT TURKEY



Retail Q3 2020

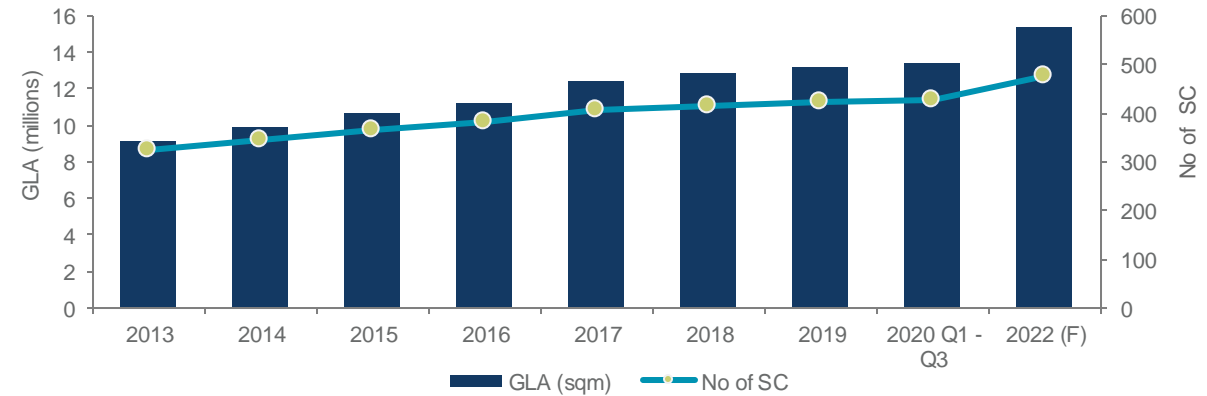
Along with the impact of the lockdown and social distancing measures retailers with physical stores were more affected than online retailers. Retailer expansion remained limited in the third quarter. Meanwhile during Q3, Decathlon has strengthened its market share by maintaining its expansion plans, while TeknoSA opened new stores. H&M, continued to increase its market share in line with its growth strategy by opening a new large concept store in Istanbul, Akasya SC. In addition; fast fashion, third wave coffee chains and supermarket/discounter retailers are expected to pick up starting with the beginning of next year.

191,000 sq. m of new supply entered the market in Q3 taking the overall shopping centre supply to 13.41 million sq. m with 426 shopping centers; namely Kumsmall SC (180,000 sq. m) in Kayseri and Cizre Park SC (11,000 sq. m) in Sirnak.

Investment Focus

No sizeable investment deal was closed in the third quarter; however, investment activity in retail is anticipated to gain momentum with more distressed assets coming on the market.

Total Shopping Centre GLA and Numbers by Years



Outlook

- Shopping centers and high street retail have mostly adapted to the new normal within the social distancing measures. In order to mitigate the economic ripple effect in the retail market, partial exemption of service charges and withholding tax remained in the third quarter, including rent breaks that had been offered starting from the first half of the year. Discussions around turnover rent arrangements have risen by occupiers due to the challenges in footfall count and turnover recovery.
- Following the distinct decline in sales and footfall count recorded in the first half of the year, some rebound in the retail market started in the third quarter as the consumer interest has accelerated more in high streets, whereas a relatively low recovery in shopping centers. Nevertheless, the footfall index is expected to get some reprieve by year end and next year onward with domestic and foreign visitors following a sharp decline recorded during the pandemic shutdown.
- Alongside the rise of online sales and e-commerce due to the outbreak, a slower growth rate in e-commerce in the third quarter draws attention of the retailers. Notwithstanding, given the rapid change in consumer behaviour, brick and mortar retail will require an organisational approach of omnichannel strategies including a fully embraced digitalization to be developed.
- Furthermore, pandemic highlights the big-box retail market where it set to strengthen.
- The interest of opportunistic buyers is expected to accelerate for distressed and secondary assets in the near future.

MARKETBEAT TURKEY

Industrial & Logistics Q3 2020



MARKET INDICATORS

Prime Rents: Stable in short term, with the potential upward trend in the medium term



Prime Yields: Yields expected to be less impacted in the short to medium term



Supply: With limited development activity, modern warehouses remain in short supply, activity may set to gain momentum due to the acceleration in demand in the medium term



Demand: Predominantly driven by domestic occupiers, short to mid term demand for flexible warehouse solutions expected to remain in line with the ongoing acceleration in online sales and e-commerce



Prime Industrial Rents – September 2020

LOGISTICS LOCATIONS	TRY	US\$	€	US\$	GROWTH %	
	SQ. M MTH	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Istanbul	32	4.50	48.2	5.02	-18.2	-6.0
Ankara	19	2.75	29.5	3.07	-15.4	-6.3

Prime Industrial Yields – September 2020

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Istanbul	9.25	9.25	9.25	9.25	8.75
Ankara	10.25	10.25	10.00	10.25	10.00

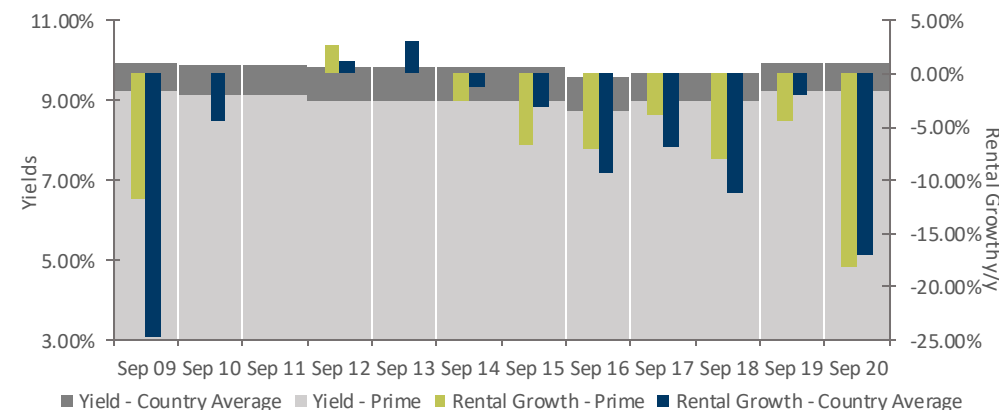
Overview

Following the significant decline in export trade volume recorded in the first half of the year, export trade volume decreased by 5.7%, while imports increased by 20.4% in August 2020. Moreover, export trade volume was US\$102.3 billion with a 12.9% decrease. Import trade volume was US\$135.3 billion with a 1.2% decrease for January - August 2020 y/y. The foreign trade deficit increased to US\$33.4 billion by 69.9% in January - August 2020 compared to year before. Annual rate of CPI change recorded at similar levels in the first half of the year, increasing by 11.75% in September 2020 y/y where the annual rise in D-PPI recorded a distinct increase by 14.33% in September 2020 compared to the previous quarter.

Occupier Focus

According to data provided, leasing activity for warehouse space was recorded at approx. 50,873 sq. m in the third quarter taking the total to 289k sq. m in the January – September 2020 period. The ongoing acceleration in demand resulted in significant increases both compared to the same quarter and the total of the previous year by approx. fivefold and threefold, respectively. Unlike the first half of the year, leasing activities consist of a number of deals, rather than larger transactions on a square meter basis in the third quarter. Despite the slow down in the increase of the transaction volume in the third quarter comparing to the distinct hike recorded in the first half of the year, demand for short-term warehouse requirements due to the pandemic remains.

RECENT PERFORMANCE



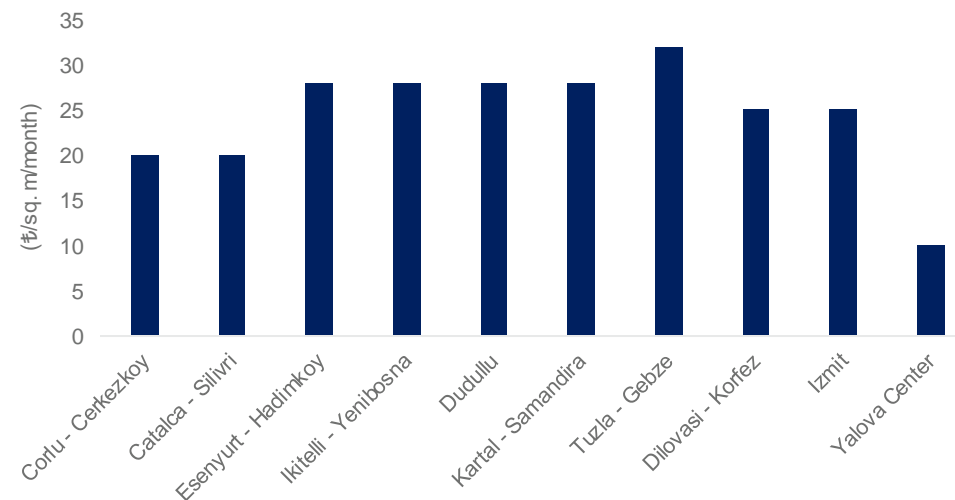
Recorded major transactions in the third quarter include; Trendyol (9,250 sq. m, Istanbul/Ikitelli), Horoz Logistics (8,977 sq. m, Kocaeli/Cayirova), 2B Plast (5,700 sq. m, Kocaeli/Kartepe), Alatlı Transportation (5,500 sq. m, Kocaeli/Cayirova), Jan Furniture (5,400 sq. m, Kocaeli/Cayirova), Viverse (3,500 sq. m, Ankara/Kahramankazan) and Karat Power Systems (2,925 sq. m, Kocaeli/Cayirova).

Investment focus

In the first three quarters of 2020, investment transactions in industrial and logistics were predominantly in land acquisitions and factory building acquisitions that were recorded in the third quarter.

The key investment transactions in Q3 include; a factory disposal by Honda to Heksagon Engineering in Kocaeli, Sekerpinar, Koska's factory acquisition from Korozo in Istanbul, Esenyurt (11,955 sq. m land, 22,240 sq. m closed area), Servet REIT's land acquisition from Sinpas REIT in Istanbul, Umraniye (4,647 sq. m), land disposal by Bossa Trade in Adana, Seyhan (210,655 sq. m) to Kivanc Textile, Towsan Paper's land and building acquisition from Sasa Polyester in Adana, OIZ (63,810 sq. m), Bossa Trade's land acquisition from Sasa Polyester in Adana, Seyhan (64,000 sq. m).

North Marmara Logistic Submarkets - Prime Rents



Outlook

- Along with the reopening of the economy, industrial production growth returned to positive territory, where PMI averaged 55.6 during the first two months of Q3, well above comparing the first half of the year following with the distinct impact of the pandemic. Furthermore, consumer and business confidence indices showed further improvement in September.
- Expectation towards Turkey taking advantage of the global production strategy that has started to change in order to mitigate production and distribution shortfalls given its strategic location, transportation hub and strong workforce remain in the long term. Furthermore, as some international manufacturers announced in the third quarter, their investment plans are expected to maintain in the upcoming periods.
- The ongoing acceleration of online sales and e-commerce is expected to further lead the demand for short-term flexible warehouse solutions in post pandemic, most likely with the discounters and e-commerce players to retain of their high online volume sales. The last mile delivery and urban logistics are expected to be boosted along with the increase in demand for distribution facilities.
- Unlike the few sizeable investment deals in industrial and logistics recorded in the first half of the year, investment transactions may gain momentum in the medium term with growing investor demand for quality logistics assets in line with the pandemic and limited supply.
- Moreover, investment appetite in industrial and logistics is expected to further accelerate by opportunistic buyers, with the expectation pricing to adjust on a foreign currency basis.

Cigdem Isozen

Consultant, Research
Buyukdere Cd. 13, River Plaza, 15, Levent
34394 Istanbul/Turkey
Phone: +90 212 334 78 00
cigdem.isozen@cushwake.com

Tugra Gonden

International Partner, Head of Turkey
Buyukdere Cd. 13, River Plaza, 15, Levent
34394 Istanbul/Turkey
Phone: +90 212 334 78 00
tugra.gonden@eur.cushwake.com

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