

# TURKEY

# Office Market Snapshot

Fourth Quarter | 2018



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Rents are expected to bottom out in line with local currency conversion decree and ₺ indexation. ▲
- Prime Yields: Expected to soften in the short to medium term. ▶
- Supply: Increasing in line with the existing pipeline albeit at a slower pace. ▼
- Demand: Expected to increase in line with choice. ▼

### Prime Office Rents – December 2018

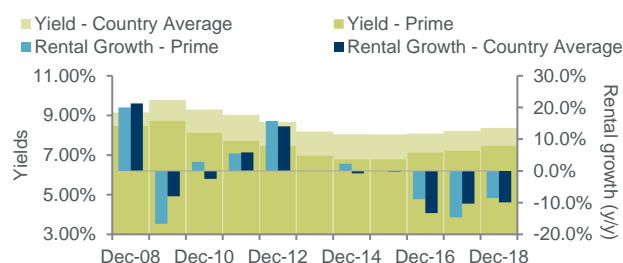
LOCATION	US\$	€	US\$	GROWTH %	
	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Istanbul (Levent)	32.0	337	35.7	-8.6	-6.2
Istanbul (Esentepe-Gayrettepe)	20.0	210	22.3	-9.1	-10.1
Istanbul (Maslak)	19.0	200	21.2	-32.1	-8.7
Istanbul (Asian side)	24.0	253	26.8	-4.0	0.0
Izmir	13.0	137	14.5	-7.1	-5.2
Ankara	14.0	147	15.6	-6.7	-9.5

### Prime Office Yields – December 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Istanbul (Levent)	7.50	7.50	7.25	8.75	6.80
Istanbul (Esentepe-Gayrettepe)	8.00	8.00	7.50	9.00	7.25
Istanbul (Maslak)	7.75	7.75	7.50	9.25	7.25
Istanbul (Asian side)	7.50	7.50	7.50	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

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

Along with a significant tightening in economy, GDP growth was recorded at 1.6% y-o-y in the third quarter of 2018 while the consumer confidence index slightly decreased to 58.20, however the real sector confidence index increased compared to previous quarter and recorded 97.7 points in December. On the other hand, the seasonally adjusted unemployment rate remains to increase, indicated as 11.3% in September 2018, whereas inflation rate slightly decreased to 20.3% in December, yet the concerns of inflation remaining significantly high and the recent devaluation of Turkish Lira continue to have impact on leasing and investment activities.

## Occupier focus

92,750 sq. m of new office space has entered the market in Q4 taking total supply entrance to 376,631 sq. m in 2018 therefore the overall supply reached to 6,18 million sq. m million. 2018 total take-up reached approx. 279,127 sq. m while take-up in the fourth quarter recorded approx. 65,564 sq. m. and decreased compared to the same period of the previous year and quarter by 7.78% and 20.22% respectively due to the impact of currency conversion decree.

In Q4, on a sq.m basis, 62.51% of the deals occurred on the Asian side, 19.40% in the CBD and significant increase in transactions recorded outside the CBD on the European with 18.08% of deals compared to last quarter. The largest new lease transactions include, CimSA (2,594 sq. m, Ronensans Tower), Yontem Cosmetic (2,400 sq. m, 4B Plaza), Lexus (2,000 sq. m, Suzer Plaza) and Eaton (1,927 sq. m, MOB). In addition, Index Group took 7,000 sq. m in Seba Office. Meanwhile, the vacancy rate slightly increased to 24.68% in general by the end of 2018.

## Investment focus

Investment activity is set to gain momentum with more product coming on the market and recorded transactions include: Vakif REIT's acquisition of 102 office units in Nidapark Kucukyali from Emlak Konut REIT for ₺220,7 million, Dogus REIT's acquisition of D Office Maslak from Dogus Holding valued at ₺525,69 million, the disposal of AG Anadolu Group Holding's former Alternatifbank headquarters to Karadeniz Orme for ₺62 million and Is Asset Management's acquisition of 3 floors at Kartal Manzara Adalar Office Building from Is REIT for ₺25,8 million.

## Outlook

Pent up demand remained on the similar level compared to the previous year and projected to further accelerate despite of all the strong headwinds recorded in the economy i.e. hike in exchange rate, slowing GDP growth and high inflation which indicates that the office market has not contracted in the current volatile environment. With recent exceptions for foreign entities the impact of the decree regarding local currency protection seems to be less significant on the grade A office market as high indexation for local currency rents linked to Turkish inflation will remain a key inhibitor. Pricing is expected to draw closer to buyers' expectations.

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