

MARKETBEAT TURKEY

Office H2 2020



MARKET INDICATORS

Prime Rents: Stable in short to medium term



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



Supply: Increasing at much slower pace where IIFC is the largest project under construction, limited new projects in the pipeline



Demand: Demand accelerated in H2, yet smaller in size for new leases compared to previous year



Prime Office Rents – December 2020

LOCATION	TRY	US\$	€	US\$	GROWTH %	
	SQ.M/MTH	SQ. M/MTH	SQ. M/YR	SQ. FT/YR	1YR	5YR CAGR
Istanbul (Levent)	170	25.0	250	27.8	-21.9	-11.1
Istanbul (Esentepe-Gayrettepe)	105	15.0	150	16.7	-21.0	-15.1
Istanbul (Maslak)	105	15.0	150	16.7	-21.0	-12.9
Istanbul (Asian side)	120	17.0	170	18.9	-22.7	-9.5
Izmir	65	9.0	90	10.0	-25	-11.9
Ankara	65	9.0	90	10.0	-30.8	-16.4

Prime Office Yields – December 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 not applicable for fragmented ownership

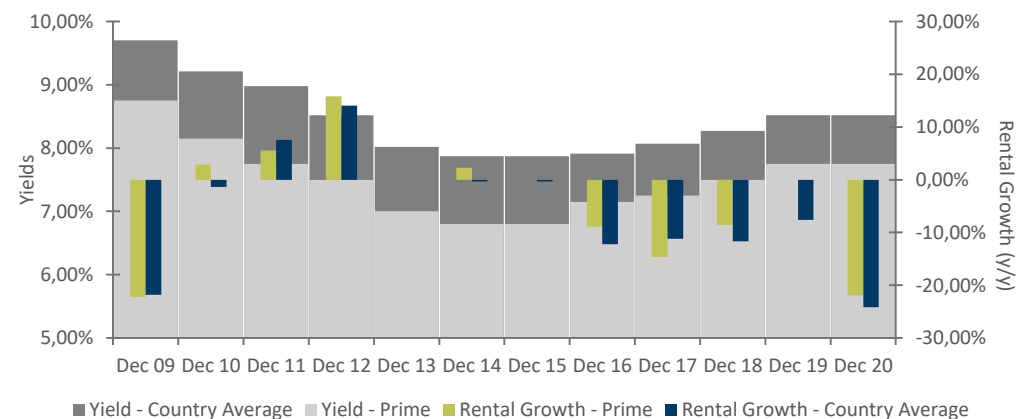
Overview

2020 was an unusual year in every aspect. The global pandemic had an unprecedented impact on almost every sector. Therefore, as the workplace is changing, so is the office market expected to. New ways of working have been adopted across the board with outcomes varying in every organizations. Trends towards more flexibility and productivity are likely to gain momentum. Apart from the actual landscape in office market, ongoing headwinds in the economy within the forecast of GDP contraction, higher unemployment rate and FX pressure will affect overall leasing activities and investments. Yet, along with the office using job growth in Istanbul remaining on the top spot across EMEA where it is set to remain according to Moody's Analytics with the economy's expected partial rebound in 2021; the office market is likely to recover in line with the changing workplace requirements. In addition, the Istanbul International Finance Center (IIFC), a key project of global significance, holding 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 2020. However, supply will need to be reclassified in line with changing building requirements with regards to health and safety. Take-up reached approx. 89,514 sq. m in the fourth quarter taking the total to 329,000 sq. m in 2020. Take-up volume in the fourth quarter recorded a similar level compared to the previous quarter and decreased by 12% compared to the year before. 55% of leasing transactions in 2020 were recorded in the second half of the year. Meanwhile, 40% and 31% of all deals by size and number, respectively were lease renewals in the final quarter indicating a decrease by number for new leases compared to previous quarter and year.

RECENT PERFORMANCE



MARKETBEAT TURKEY

Office H2 2020



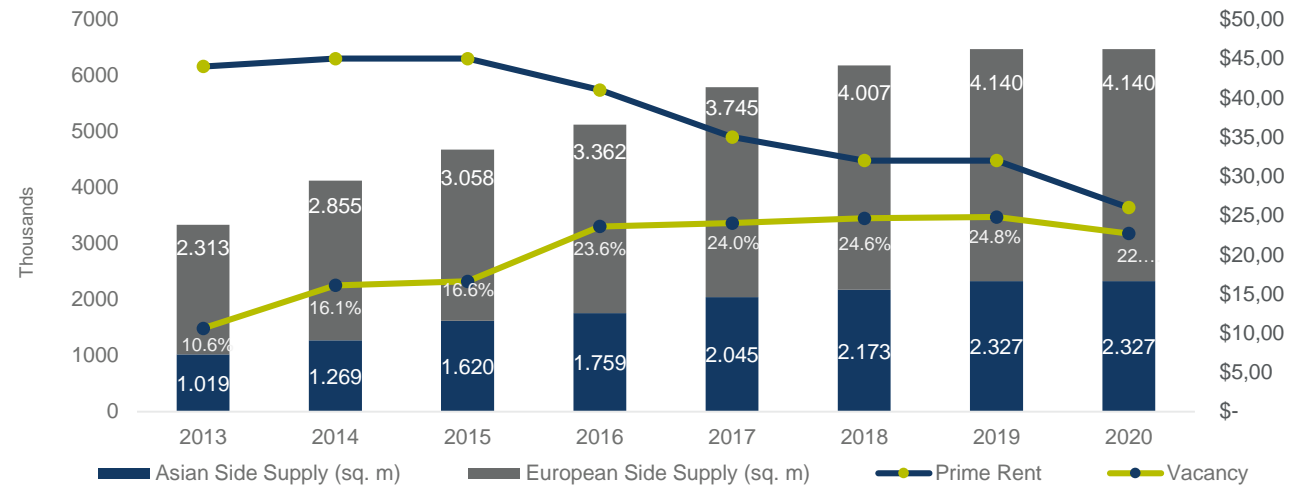
In Q4, on a sq. m basis, 32.2% of deals occurred in the CBD, recording a decline compared to the previous quarter. 56.7% were on the Asian Side, indicating a distinct acceleration and 11.1% outside the CBD on the European side, recorded a decrease compared to the previous quarter. Major new lease transactions include, Halkbank (11,414 sq. m, Worldwide Business Center), Diebold Nixdorf (5,000 sq. m, Atasehir), TBWA (4,000 sq. m, Levent), Dentsu Ageis Network (3,000 sq. m, Skyland), Ingenico (2,012 sq. m, Nuru Plaza), Edenred (1,878 sq. m, Vadistanbul), Deutsche Bank (1,722 sq. m, Ferko Signature), Benart (1,470 sq. m, Apa Giz) and HP (1,378 sq. m, Emaar Square). Furthermore, new leases on a sq. m basis decreased in the fourth quarter compared to the previous quarter, while key new transactions were recorded in the range of 3,000 – 12,000 sq. m in the rest of the year, particularly in the first quarter before the net impact of pandemic.

Meanwhile, the vacancy rate slightly decreased to 22.7% in general by the end of 2020.

Investment Focus

Office investment deals were predominantly limited to office units in the fourth quarter and in overall 2020. Existing deals included Kocak Gold's acquisition of Migros' headquarters in Istanbul, Atasehir in the second quarter and the acquisition of an office building in the CBD by a foreign investor in the third quarter.

An acceleration in investment transactions within repricing is anticipated to be observed in the mid to long term.



Outlook

- Along with the enforcement of the outbreak, many organizations migrated their new way of working which is the distinct rise of remote in 2020 in line with the short-term fixes of social distancing measures that we highlighted during the year. In order to balance life and work integration in organizations, the emerging aspects of agile solutions and flexibility will determine the change and likely be the driving force of the office market. Key approaches of productivity and utilisation will be the outcomes of total workplace strategies that aims to provide the correct balance of remote and agile working as these aspects are pivotal than ever.
- Parallel to the global agreement, physical offices will certainly remain necessary in order to ensure interactions, corporate culture, learning and innovation in the organizations. Therefore, within the reconstruction of work in a collaborative environment and flexibility of remote working for some level, redesigning the workplace in line with evolving needs and resizing the footprint effectively will be required to support organizational priorities. Thus, demand for flexible office area is to be examined in this total workplace ecosystem. Moreover, rather than a single core building, an ecosystem of workplace alternatives depending on the density of the residences of the employees are likely to bring develop in the medium term, especially for organizations with large workforce.
- Furthermore, office supply will be subject to reclassification driven by an increased requirement for healthier workplace with high quality building infrastructure and technology. Technology and amenities are expected to become the focus for high quality buildings.
- Moreover, flexible and common areas along with the social amenities will be substantial elements in office buildings and pipeline projects.
- Decline in new leases by size and number due to the impact of pandemic and exchange rate hike weighing on leasing activity while putting pressure on landlords. New lease demand is expected to gradually reenter the office market driven by space optimization throughout 2021. 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.

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