

MARKET BEAT TURKEY

Retail H2 2020



MARKET INDICATORS

Prime Rents: Rents are expected to soften in 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 continued increase in pipeline supply, some delays for ongoing developments. The number of closed or reuse of shopping centers are likely to increase in mid to long term.



Demand: Retailer expansion remained subdued in line with the pandemic and second wave curfews.



Prime Retail Rents – December 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	105	1,050	117	-19.2	-17.81
Izmir	350	50	505	55	-23.1	-18.02
Ankara	450	65	655	72	-23.5	-17.97

Prime Retail Yields – December 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

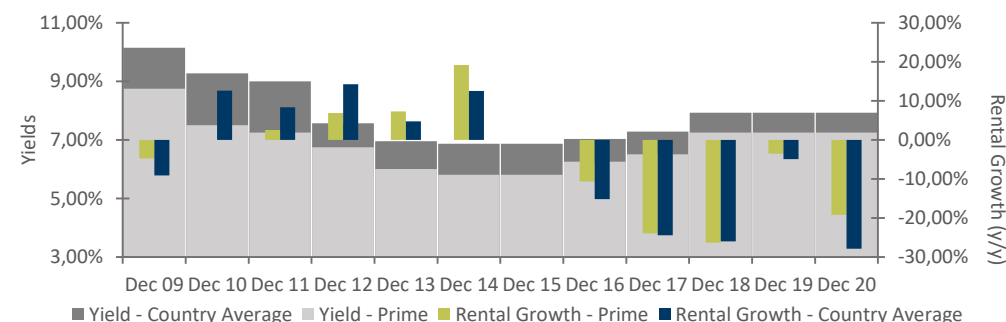
Overview

Along with the unprecedented impact of the pandemic, the impact is set to dramatically disrupt brick-and-mortar retail market. Recovery path at slower pace indicated partial rebound before the second wave curfew in November, therefore the turnover index has decreased by 10.3% m/m in November 2020 and dropped by 11% compared to year before given the results of the shopping center retail data provided by AYD/Akademetre. All category sales declined y/y in November 2020 as a result of new measures except technology. Apparel and shoes recorded decreases by 14.8% and 18.8%, respectively. Both categories decreased at similar levels by approx. 10% and 12% m/m, respectively. The highest and significant increase was by 33.9% in the technology category. A distinct decrease of 41.3% on the other hand was recorded in food & beverage in November 2020 compared to the same period of last year, while both categories indicated a similar trend as observed in the previous quarter. Along with Covid related closure of the food and beverage sector and limitation to takeaway and deliveries only, the decrease in the turnover index continued to be recorded in November and set to remain for the following months. The footfall index indicated a partial recovery with an increase by 19.1% m/m in October. Yet, a 34% y/y decrease in the same period should be examined as the count is to decline starting from November following new restrictions. Moreover, according to the Turkish Statistical Institute, retail sales volumes and turnover increased by 11.9% and 26.1%, respectively in November 2020 on an annual basis. The share of online retail sales and turnover remained to weigh on by 69.8% and 89.5% y/y increases in November 2020, respectively in line with the transformation in consumer spending habits as a result of the pandemic.

Occupier focus

New curfews and restrictions starting from November weighed on retailer activity in the fourth quarter, where occupier demand was already relatively low in the third quarter. Considering the ongoing lower retailer expansion in 2020, demand may pick up in the recovery period as of next year. Furthermore, expansion plans of both local and international retailers may accelerate starting from the first half of next year.

RECENT PERFORMANCE



As a result of the pandemic, a number of notable retailers have slowed their expansion plans in 2020. Due to the second wave weighing on retailer activity, occupier investments remained limited in the fourth quarter, parallel to the outcome observed in the third quarter. Meanwhile during Q4, Puma has strengthened its market share in line with its growth strategy, while Decathlon maintained its expansion plans. Alongside with the investment announcement plans of coffee shop brands such as Kahve Dunyasi and Kahve Diyari for the upcoming period, third wave coffee chains retailers are expected to pick up. Furthermore, supermarket and discount retailers are maintaining to grow with new stores and its investment plans in order to expand further as pandemic has brought potential to emerge. Most active fast fashion retailers are also anticipated to gain momentum, while technology brands are likely to invest in new openings parallel to their expanding forecast, considering the significant rise of the technology category in shopping centers' turnover indices recorded in the fourth quarter.

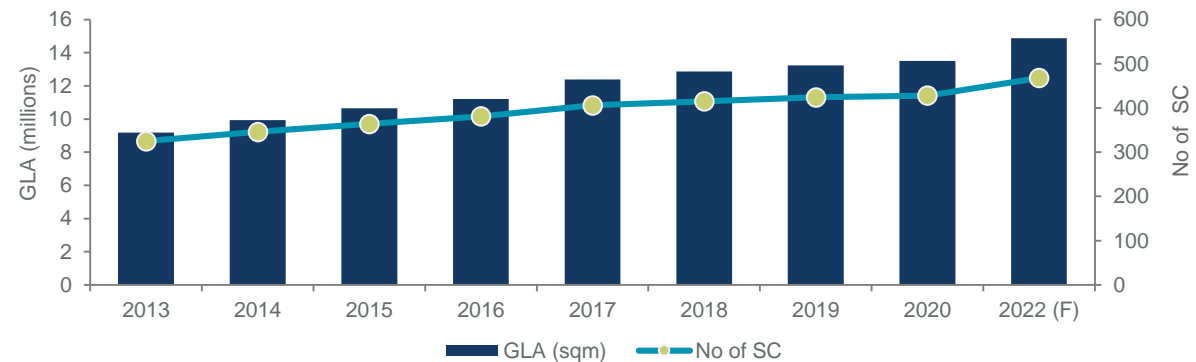
93,000sq. m of new supply entered the market in Q4 taking new shopping centre completions to 309,000 sq. m for the year. This is a decrease by 12% compared to the previous year, while overall supply reached 13,5 million sq. m and 428 shopping centers. New shopping centres in this quarter are Vega Istanbul SC (58,000 sq. m) in Istanbul and Park Karaman (35,000 sq. m) in Karaman. Other new shopping centres were Vega Subayevleri SC (25,000 sq. m) in the first quarter and Kumsmall SC (180,000 sq. m) in Kayseri and Cizre Park SC (11,000 sq. m) in Sirnak in third quarter.

Investment Focus

Retail investment deals in 2020 were limited to retail units, while two sizeable transactions were recorded in the first half of 2020, including Gergul Construction acquiring Kipa Cigli SC in Izmir from Migros for \$266.8 million and Kocak Gold's acquisition of 3M Migros in Istanbul from Migros for \$206 million. Dogus Holding has agreed to sell 42% stake in Istanbul's one of the prime shopping center, İstinye Park to Qatar Holding LLC in the fourth quarter.

Investment activity in retail is expected to accelerate with more distressed assets coming on the market in the upcoming periods.

Total Shopping Centre GLA and Numbers by Years



Outlook

- Throughout 2020, the impact of the global pandemic had dramatic consequences on the retail market reshaping the industry. Given the first lockdown from March to May and second curfew within the latest measures in brick-and-mortar retail starting from November and continued closures of food and beverage sector, limited with takeaways, put a new stop and added more pressure on the recovery period starting in the second half of the year and will negatively impact turnovers and retailer activity. As a result of the drop in footfall and turnover, turnover rent arrangements requested by occupiers remained in the fourth quarter including the discussions around ability to terminate leases without penalty have risen in order to mitigate the economic ripple effect caused by the pandemic.
- Along with the restrictions, according to the survey of United Brands Association of Turkey, members whose turnover was below 80% compared to year before, rose from 38% to 60%, where the rate of the members reaching a turnover of more than 100% decreased from 25% to 12% in November m/m in the shopping centers. Decrease in the rate of the turnover, on the other hand, were relatively less in the high street with the results of members whose turnover was below 80% compared to year before, rose from 29% to 43% and members reaching a turnover of more than 100% decreased from 39% to 20% in November m/m despite the continuous discount period in the same month. As a result of more consumer interest in high streets, some recovery rebound is likely to be recorded more than shopping centers in the upcoming periods.
- Online sales and e-commerce have been growing exponentially during the pandemic. Given the result of the volume of e-commerce in the first six months of 2020 with an increase of 64% compared to the same period of the previous year, online sales increased by 90% while 103% increase in transaction volume was recorded during the "Black Friday" period in November y/y, reflecting that online retail will be a driving force of physical retail and in retailer activity. Therefore, brands that have developed and are considering investing further in structured omnichannel strategy are likely to expand market share. Reviewing store environment with every health and safety aspect including click and collect options, integrating technology by providing touchless points at most with artificial intelligence and virtual reality and utilizing data with analytics which is critical to understanding the consumer's needs, will benefit the increase in footfall index. Furthermore, hybrid retail model, integrating e-commerce and physical retail while leveraging logistics capabilities is set to strengthen.
- With changing consumer patterns, emerging concepts of open spaces in common and food & beverage areas, leisure & entertainment to socialize with new health and safety standards, shopping centers will need to reposition. Shopping centers that are not able to adopt new concepts will be on the map for conversions and a considerable amount of shopping centers may go out of business.
- Many shopping centers are already facing foreclosure as a result of foreign currency financing and FX volatility.
- Interest from opportunistic buyers is expected to accelerate for distressed assets in the near future.

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