

MARKETBEAT TURKEY

Office H2 2021



MARKET INDICATORS

Prime Rents: Stable in dollar terms and to increase in TL terms in the short and medium term in line with inflation.



Prime Yields: Yields expected to remain stable over the medium term.



Supply: Although planned office projects are limited, the largest supply will be Istanbul International Finance Center project.



Demand: Demand is expected to continue to increase slowly in the new period.



Prime Office Rents – December 2021

LOCATION	TRY	US\$	€	US\$	GROWTH %	
	SQ.M/MTH	SQ. M/MTH	SQ. M/YR	SQ. FT/YR	1YR	5YR CAGR
Istanbul (Levent)	240	22.0	227	24.5	-12.0	-11.7
Istanbul (Esentepe-Gayrettepe)	135	12.0	128	13.4	-20.0	-15.0
Istanbul (Maslak)	145	13.0	137	14.5	-13.3	-14.2
Istanbul (Asian side)	180	16.0	170	17.8	-5.9	-9.3
Izmir	135	12.0	128	13.4	33.3	-4.4
Ankara	110	10.0	104	11.1	11.1	-10.1

Prime Office Yields – December 2021

LOCATION (FIGURES ARE GROSS, %)	CURRE NT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Istanbul (Levent)	7.75	7.75	7.75	8.00	6.80
Istanbul (Esentepe-Gayrettepe)	8.25	8.25	8.25	8.25	7.25
Istanbul (Maslak)	8.00	8.00	8.00	8.75	7.25
Istanbul (Asian side)	7.75	7.75	7.75	8.75	7.25
Izmir	9.50	9.50	9.50	10.00	9.25
Ankara	9.25	9.25	9.25	10.00	9.25

Indicated office prime yields not applicable for fragmented ownership

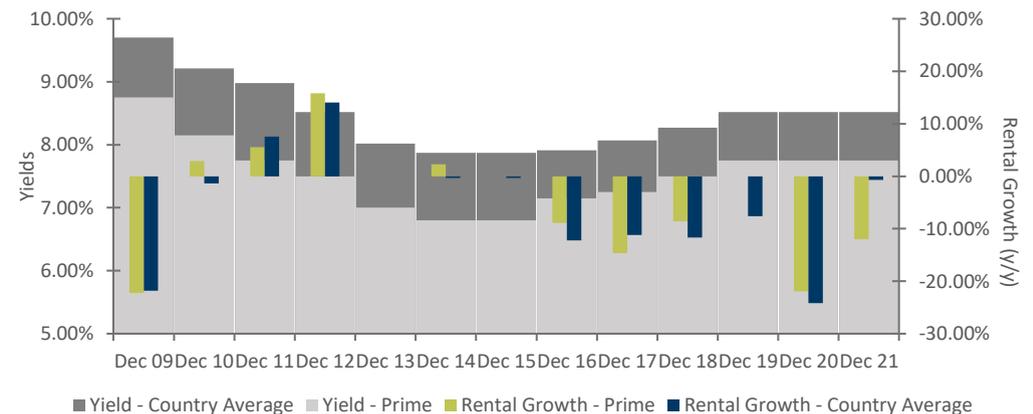
Overview

2021 has been an active year for the markets with the continuation of the ongoing effects of the pandemic, the increase in vaccinations and the impact of the emergence of new variants. At the end of the first half of the year, all workplaces, public institutions and organizations that suspended their activities within the scope of the gradual normalization process started to work in accordance with normal working hours, curfews and intercity travel restrictions were lifted. In the second half of the year, with the addition of the schools continuing face-to-face education after 2 years, most of the restrictions were lifted. Moreover, companies that mostly proceeded with the remote working system in the first half of the year, quickly adapted to the hybrid working model in the second half and returned to the office to a large extent. In addition to the undeniable positive effect of remote working on productivity, the observance of the lack of sense of belonging and commitment to the company culture, and the adaptation to the mixed working model caused companies to take quick action in this regard. As a result of the negative pressure created by the 2-year pandemic process on the whole world and the country's economy, inflationary pressure gradually increased towards the end of the year, and the demand accumulated in the market with the commercial conditions determined beforehand with the ensuing exchange rate volatility was mostly realized in the last quarter. While it was observed that the prime rents, which were below the market value on a dollar basis, increased especially in office buildings outside of the CBD, it was observed that there was a decrease in the CBD in dollar basis and as a result, the market came back to balance by repricing itself.

Occupier focus

The overall supply remained at 6.46 million sq. m by the end of 2021. Pent up demand turned into transactions in the last quarter of the year, and the recorded transaction volume almost doubled compared to the previous quarter with the effect of exchange rate and inflation pressure. Take-up reached approx. 123,553 sq. m in the fourth quarter taking the total to 304,507 sq. m in 2021. Take-up volume increased by 32% compared to the year before. 62% of leasing transactions in 2021 were recorded in the second half of the year. Meanwhile, 89% and 90% 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



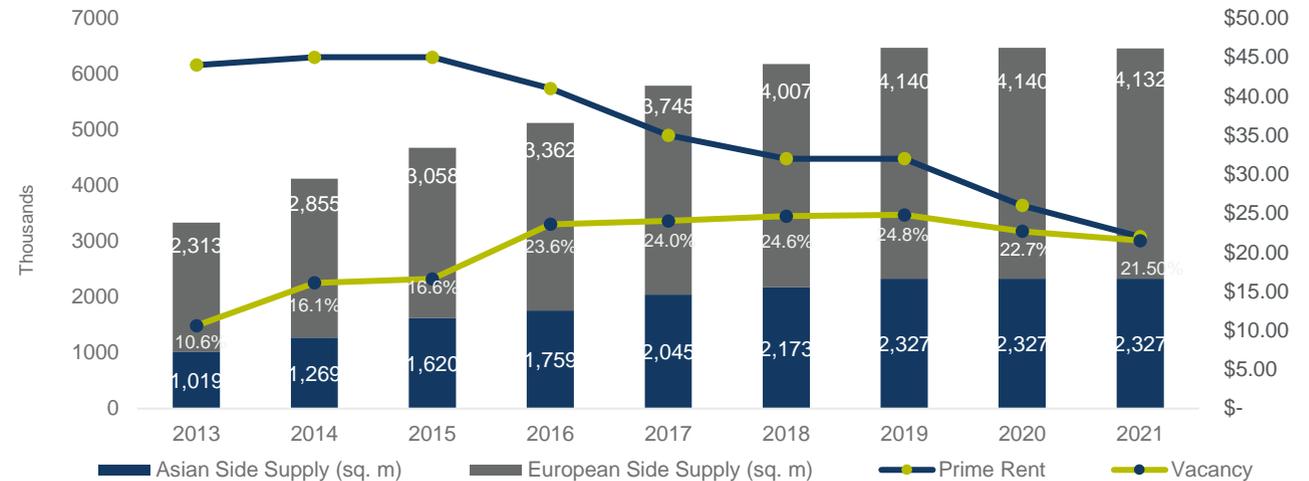
In Q4, 26.46% of deals on a sq. m basis occurred in the CBD, recording a decline compared to the previous quarter. 33% of all deals were on the Asian Side, slightly decreasing and 40.37% outside the CBD on the European side, recorded an increase compared to the previous quarter. Major new lease transactions include, Dogus Group (16,000 sq. m, Galataport), Türkiye Petrolleri (6,192 sq. m, Kosifler Plaza), Roche (5,419 sq. m, Uniq Istanbul), Galeria Istanbul (4,500 sq. m, Istanbul Bloom), Oyak Investment (4,044 sq. m, Vadistanbul), CitiBank (3,500 sq. m, Tekfen Tower), Eren Holding (3,030 sq. m, Metropol Istanbul) and Derimod (2,835 sq. m, Premier Kampus Ofis). Furthermore, new leases on a sq. m basis increased in the fourth quarter compared to the previous quarter.

Meanwhile, vacancy rate recorded as 21.5% by the end of 2021.

Investment Focus

Major investment transactions in the first quarter of 2021 are as follows: AND Plaza Kozyatagi, sold to Quick Sigorta and Corpus Sigorta, a subsidiary of Maher Yatirim Holding. On the other hand, Yesil REIT sold their 50% share in Yesil Plaza, located in Zeytinburnu, to Korfez Enerji Sanayi and Ticaret Co. for 180 million Turkish Liras.

No significant investment transactions were recorded in the last quarter of the year. Investment transactions are expected to accelerate in the medium and long term.



Outlook

- Companies that have experienced remote and hybrid working models in 2021 have formed their own strategies as a quick action in this regard. In this process, the decrease in employees' sense of belonging and commitment to the company culture as a result of the remote working model has highlighted the importance of the existence of offices. In line with this transformation, for users who want to reshape their offices with office designs, the need for healthy workspaces has increased the demand for high-quality office spaces. At the point reached today, it is important for the effective use of the office to create spaces that contribute to the development of corporate culture and create a sense of belonging, with designs that encourage productivity and prioritize innovation, socialization and cooperation.
- Vacancy has decreased against public perception and shows continued demand for office space post pandemic. Traffic data suggests that office use has been picking up in the second half of the year and that Office space hasn't been vacated as suggested by widespread perception.
- As a result of the fluctuation in the dollar exchange rate and increasing inflation, prime rents in the CBD and its surroundings decreased in dollar terms, while the low-dollar rents in the office market in secondary locations increased. Moreover, it is foreseen that the gap between primary and secondary locations will be closed and the market will stabilize in the short term. Accordingly, it is estimated that the increased rents in secondary locations will lead to an increase in the demand for primary locations in the coming period. In addition, due to the sudden increase in TRY-based rent experienced in the market, it will be on the agenda of the landlords to come to an agreement with occupiers lease terms older than 5 years old and to reprice in line with the request of the landlords.
- With the price increase in prime rents on a local currency basis, asking rents increased in a range of 50-60%. Concluded lease transactions rent increases in the range of 40-45%. It is predicted that this rent increase will limit demand in the short term.
- Occupiers have started taking possession at the Istanbul International Finance Center at the end of 2021. Approx. 1.4 million sq.m of supply will enter the market by end of 2022. About 50% of this supply will be occupied by public banks and financial institutions.

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