

AND THE BEAT GOES ON

Revealing the current conditions of the retail industry in Turkey, eight leading players of the market answered our questions about the current investment climate in the country. Apart from the issues of the market, such as missing transparency or lack of urban planning policy, Turkey continues to be a favourable location for international investors, pointing out a great potential of further expansion.

The economic growth in Turkey slowed down in 2012 after gaining momentum in 2011. What were the impacts of such climate change on retail investment market?

CEM ALFAR (CA): The focus of the investors has turned into existing prime assets rather than new developments which seem to be more vulnerable to fluctuations in the key parameters and to uncertainties; while retailers have become more conscious about profitability and efficiency in square meter. Thus, they are now more selective when signing or renewing rental contracts in shopping centres.

AVİ ALKAŞ (AA): Actually, the economic growth has been slowed down within the control of the government especially due to the foreign exchange deficit of the Turkish economy, but we are still expecting that the growth would be around 4%, implying the highest in Europe. Indeed, such a slowdown has not affected the retail investment market in Turkey; the country is still under the radar of the international global investors. There have not been many transactions due to the high expectations of the Turkish real estate owners; however some global players continue to explore the

potential of Turkey. So, we can claim that there will be further interest.

HULUSİ BELGÜ (HB): As per the 2012 figures, we can say that the year 2012 will be considered as a successful year for the retail market with a turnover of 39.2 billion TRY. Furthermore, the retail market is one of the most dynamic markets in Turkey after energy, education and health. Particularly in cities except Istanbul, we observe significant increases in disposable income and turnovers. In brief, the growth of the retail market is likely to continue.

KERİM CİN (KC): In 2012, we have observed a significant slowdown in demand in most segments of the real estate market, mainly due to economic slowdown. The effects of economic slowdown was felt mainly on; commercial rents as overall office activity decreased resulting in rents also dropping in the business districts of Istanbul, and in the retail market as shopping centre rents had not seen any signs of strong recovery based on the increased sale revenue figures released by the retailers for this period. The effects of the credit crunch in the international markets have seen in the retail investment market in Turkey as well. Most of the international investors were active in the market, showing intentions of exiting existing positions



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in Turkish assets rather than increasing their positions. We expect more disposals of standing assets by foreign investors in 2013.

GÖKŞİN DURUSOY (GD): Turkey has a robust retail market in parallel with the fast growing economy. Despite the economic slowdown in the last 6 months the retail market continues to be strong. Continually developing retail infrastructure and young population with increasing disposable income level in Turkey play the most significant role in keeping retail industry powerful. I believe the retail investment market shall retain its dynamic characteristics in the future as well.

MEHMET EVEN (ME): Retail market is a primary market getting a considerable attention on both in primary and secondary cities from investors. A research on retail market in Turkey covering the first half of 2012 shows that investors' attention increased in 2012. The slowing pace of the economic growth did not have a significant effect on the Turkish retail market. The shopping centre density in Turkey has increased moderately in the first half of 2012; leasable area per 1,000 people has increased from 102 m² as of the end of 2011 to 104 m². The number is expected to be 129 m² as of the end of 2013. Turkey's GLA per capita still points for a large potential of further expansion and we expect the growth for retail market shall continue to be higher than the overall growth of economy over the next decade.

ANDREAS HOHLMANN (AH): We only take strategic decisions when it comes to shopping centre investments, this means with medium or long-term prospects. Thereby, socioeconomic framework

such as the population growth rate, average age, consumption behaviour as well as the development of income and unemployment are decisive. We consider these parameters to be very positive in Turkey in the long term. In addition to the positive long-term parameters, there still exists a great demand for prime retail space in Turkey on part of the retailers. This relates to the new construction of shopping centres as well as the extension and refurbishment of existing shopping centres.

ANHONY KHOI (AK): The economic growth figures in Turkey in 2011 were record highs in the last 10 years. We should note that while most of the countries are stagnant, the growth rate in Turkey is still significant in 2012. The Council of Shopping Centres – Turkey has been monitoring the key figures in shopping centres for years. When we look at the turnover index, we can see increases from 10% to 38% in monthly figures, compared to 2011. Although the footfall figures remained parallel to 2011 figures, the increase in turnover index shows that the slowdown of the growth has not affected the turnovers in shopping centres negatively yet. This can also be attributed to the shift to the modern retail from traditional retail.

Investors will have some great opportunities to get into the market as regulation will become more streamlined. The next ten years will be very exciting. Quality of the assets and the management will be keys to distinguish the centres from the competition. 2012 is a real turning point; the door is open for American, Middle Eastern and European funds to come in to Turkey now and take a position in one of the world's most dynamic and high potential markets, of the next decade.



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Retailer demand remained strong in 2012. What about the shopping centre development market?

CA: Retailer demand and shopping centre development appetite will remain strong for prime locations despite the slowdown in economy. However, the supply of land is still limited and expensive. The dynamics are different in Anatolian cities. Local investors not operating on leverage can afford to get low rent levels pulling down the market rents overall. The institutional investors having predetermined return targets refrain from taking the market risk in the secondary cities. Therefore we expect that the slowdown in new developments will prevail throughout the country. Professional management, customer research, personalization of the shopping experience and mobilization of the communities will be equally important as the jussive elements such as location, design, shop mix .

AA: As retailer demand remained strong in 2012, we are having new projects in the pipeline coming into reality this year. 12 shopping centres have been opened and this is attracting further international retailers towards the country. There are still some major players to come. And with the arrivals of new brands, new department stores, we are expecting that the shopping centre developments will continue.

KC: We can see that almost all major new retail projects in the pipeline developed by Turkish investors, which were initiated or launched before 2012, are still underway without any delays or cancellations. This pipeline, especially in big cities such as Istanbul, Izmir, and Antalya will increase the existing shopping centre supply tremendously, almost doubling the current supply, in the coming few years. It shows

us that local developers and investors are still confident on the local retail demand and also have better access to financing these projects, compared to international investors, especially from European markets. We expect that most of the new retail development activity in the next 3 to 5 years will come from local investors and most of the disposal activity of standing assets will come from international investors.

GD: Shopping centres have become an indispensable part of modern urban life. Retail and shopping centre developments are highly interrelated with each other, in that regard dynamism in retail market is reflected to shopping centre developments directly. The increase in consumer awareness and life quality results in the assessment of shopping centres based on a wide range of criteria including architecture, diversity of spaces for different social activities, and cultural events.

ME: Many comments like "Turkish economy lost its pace. A shopping centre will be closed every month" following the growth rate of 2, 9% in the second quarter were proven to be wrong. On the contrary, 50 new shopping centres will be opened in the 1-year period and 150 Turkish shopping centre projects are ongoing abroad. Furthermore, brands increased the number of their shops and many new brands entered the market. Based on the data provided by Ministry of Economy and Ministry of Science, Technology and Industry, the number of shopping centres in Turkey is 309 as of June 2012. Only in the first six-month period, 15 new shopping centres were opened. 50 shopping centre projects will be completed in the last quarter of the year and in 2013. Turkish companies are planning to open shopping centres in



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Russia, Libya, Iran, Iraq, Northern Cyprus and Saudi Arabia among others. The investment size of the 309 active shopping centres in Turkey has reached USD 35 billion. USD 12 billion of this capital is foreign investment. Shopping centres which were estimated to be closed saw record revenue levels in the first half of the year. Based on the data provided by Council of Shopping Centres-Turkey, total revenues of the shopping canterers increase to USD 23 billion with an increase of 15% in the first half of the year.

AH: Turkey still provides great potential for the developments. The demand for prime rental space continues to be high. However, the unregulated mega-boom of the past years has been replaced by qualitative growth. Shopping centres must adapt to the customers' wishes and meet the demand. This applies both to the development of new shopping centres as well as to existing shopping centres. Branch and tenant mixture, flexible shop sizes and continues adjustment to the market define the development. Attractive retail must take place where people live and work, not on the green field. Attractive design, up-to-date tenant mixture and professional management are the future's factors of success. This applies to new developments but also in particular for existing shopping canterers. Shopping centres of the first and second generation aged 10 years and older must be extended and refurbished in order to adapt to the market. Our shopping canterers are redesigned and adjusted to the market every 10 years on average. In this field is great growth potential in Turkey.

AK: 1990 – 2001 was a very unstable and difficult economic period in Turkey due to international and domestic crises. The post-crisis period 2002 – 2012 was shaped by fantastic stability and growth for all sectors of the economy and particularly modern

retail and shopping centres. Today, Turkey has the second highest retail GLA under development in the pipeline in Europe after Russia, representing over 3 million m² for the next 3 years, focused mainly on Ankara and Istanbul.

Over the next ten years, my vision of Turkey is that we are moving from a strong development market to a high potential investment market. Just as a plane has to reach the right altitude to fly, Turkey is now reaching the right moment to really soar. We have to keep the industry at the top of its game and pilot our centres through turbulence over the next few years. Turkey will reach saturation in some cities in the next 10 years, some centres will close with the arrival of better shopping centres, first generation centres will have to be refurbished, or extended. Some will die and the new generation will take their place; others will keep their market share with smart management.

On the other side, overconcentration of shopping centres in a limited catchment and urban area is harmful for cities, investors, and retailers. The financial and real estate crisis during last 3 years generated an opportunity for the shopping canter investors and retailers by preventing excessive development and over density in Turkey. Following the crisis, all participants are now more diligent and aware of the risks of the over density in retail market. Turkey has an important potential for retail and shopping centre growth in the next decade. There isn't any urban planning policy and regulations for the retail development in Turkey at the moment. Market analysis, city planning and adapted law are necessary to preserve and to support the activities of existing and future shopping centres and retailers. Turkey also needs retail development regulation, like many other European countries, as quickly as possible.



KERİM CİN

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Attracting foreign investors is still an issue for the real estate market in Turkey. What should be done to draw more interest in the near future?

CA: Investor interest has revived in 2012 actualized by acquisitions and ongoing negotiations. There is a serious interest in the Turkish market from all sorts of investors, including sovereign wealth funds, investment funds and private equity funds. Foreign investors expect from government side that the favourable climate will be secured through stabilizing the economy, easing in securing development loans, promulgating proper laws and regulations and avoiding additional tax or other burdens or applications over the real estate transactions.

AA: The country's young population, ongoing economic growth (even though it's controlled by the government), and single digit inflation rate make Turkey a quite favourable location to invest. However, the transparency improvement of Turkey is an issue for attracting international investors. With the stability and consistency in the economic policies in the fiscal and monetary policies, which are being observed by the Turkish economists and especially the Central Bank of Turkey and related ministries, we are expecting that there would be a further interest towards Turkey.

HB: The retail market has already become a locomotive market for Turkey, with a turnover of 39.2 billion TRY, a total employment of 375,000 people, and 298 sales points according to 2012 data. The number of shopping centres in Turkey has reached 298 in 49 cities, and the total GLA

has reached 7.6 million m². The leasable area per 1,000 people in Turkey is 104 m², and this figure has reached 230 m² in the United Kingdom, 121 m² in Italy, and 80 m² in the Czech Republic. When we assess all this data, the retail market is extremely important for local and foreign investors. It is possible to say that there is certain saturation for Istanbul, Ankara, and Izmir, but the need still continues. The cities other than those mentioned do need investments.

KC: Reciprocity law, which has been activated in the second half of 2012, increased the demand of foreigners to buy residential and land on an individual level in Turkey. However on the institutional level, there are still problems of bureaucracy, lack of transparency, and inflated asset prices. These local problems, when coupled by the economic and financial problems of the EuroZone, keep the levels of foreign direct investment into real estate on low levels in Turkey.

GD: Turkey goes through a really better period in real estate market in comparison to many other European countries. There have been developments that would make our country more attractive for foreign investors thanks to the legal reforms adopted lately. The Reciprocity Law that was enforced in May 2012 removed all the barriers for foreigners to make real estate investments in Turkey. We expect that the market will be positively affected by the regulation in the medium-term. We have no doubt that outstanding real estate projects from Turkey will be seen in the international platform more and more frequently. With the 2B Law and Urban Regeneration Law an increase in the supply of land suitable for new project developments is another positive development for investors to design new projects.



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ME: Real estate in Turkey is recently the most preferred area of investment. This is clearly indicated by researches and corporate surveys. Emerging Trends in Real Estate Europe research refers to Istanbul as the most favourable city for real estate investments. Another research states that foreign direct investments of USD 26.5 billion is expected in the next five years by real estate sales, thanks to new regulations which eases real estate sales to foreigners. Of course, positive indications and estimations do not lead to action in a very short time. However, we can see the increasing interest in Turkey and especially in Istanbul at every international congress, fair and meeting and many feasibility works are underway.

The attention of foreign investors is the result of not only retail and residence investments but also of the stronger tourism sector, Istanbul's strong position as regional centre for many countries and the increasing need for office space, thus all segments of real estate. These segments naturally affect another positively. For instance, we can see from the tourism statistics that average spending of tourists visiting Turkey is a rising trend. Better facilities, higher-quality organizations, perfect flight connectivity and many other factors provide that wealthier visitors come to Turkey and these visitors are also retail customers. Also in relation with political developments in the region, the number of Arabic visitors of Turkey has increased by 45% in the first half of 2012 as compared to previous year and this is a huge increase. In a time when the whole world is very cautious in terms of investment, Istanbul has its advantages thanks to its unique features. We think that the companies should act in coordination for drawing more investment. Reasonable prices,

EU accession process and a strong economy makes Turkey one of the best places for real estate investments in these times. Today, real estate market is growing slowly but consistently and it will be very profitable in the long-term. Many foreign funds are searching for opportunities to invest in Turkey and make their initial access to the Turkish market via real estate. Turkey has a large and young population of 70 million, this creates a huge local demand for real estate and this means that the internal demand alone creates a big potential to help things work.

AH: Due to the economic and population growth, Turkey is quite favourable for many investors in the real estate market. However, in particular institutional investors hesitate to enter the market despite good expected returns. Main reason is missing transparency on part of the local market participants and sometime unclear regulations and framework conditions. Professional management of real estate as well as clear and statutory regulations binding in the long term in particular in commercial leasing law is a prerequisite for more international investors entering the Turkish real estate market.

AK: Fitch Ratings upgraded Turkey to investment grade on November 5, 2012, a move long coveted by Ankara, citing underlying strengths and an easing in near-term risks for the economy. The transparency and business environment in Turkey have improved significantly thanks to the strong, prudent and stable government. Turkish government has enacted new regulations regarding reciprocity for owning real estates in Turkey by foreigners which definitely had a positive impact especially on



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the residential market. However, there are still uncertainties especially about urban planning, government taxes and regulatory policies. Several retail and shopping centre organizations and councils are collaborating with the government authorities regarding new regulations for the improvement and sustainability of the shopping centre sector. We trust that Turkish government will consider the opinions of these prominent organizations in order to promote the investment environment in the country.

What's the outlook of the retail market in Turkey for 2013?

CA: Turkish growth relies on consumer demand and consumption. Private consumption makes 75% of the GNP and retail sales from 40% of private consumption expenditures. The worth of retail expenditures were USD 266 billion in 2011 and is expected to reach USD 276 billion in 2012. 43% of retail sales are realized in organized retail channels. This ratio varies between 75% and 85% in EU countries. Therefore, Turkey has still room to go in organized retail spending in which shopping centres are included.

AA: The retail market outlook will continue to be lively within 2013 and onwards with the new projects on the pipeline and especially with recent movement on the urban regeneration. There will be 7 million houses to be demolished on the weak areas because of the earthquake threat. With the new cities being developed and the new municipalities to be established there will be further satellite cities around the major cities which will add up to the demand towards new modern shopping centres along with the high street developments.

HB: It is possible to say that the acceleration in the retail market will strongly continue in 2013, both in Istanbul and in other cities. Particularly in Anatolia, many new investments shall be implemented, new markets will be created with these shopping centres for the retailers and a growth will be observed. Furthermore, there is another market for the Turkish brands. The Turkish brands have been attracting the attention of foreign investors for a long time. We will increasingly see many brands abroad in the near future.

KC: We expect retail rents to be under pressure as new supply will come online in large markets like Istanbul, causing fierce competition between projects to attract strong new retailers, especially from international markets. We expect more international retailers to enter the Turkish market in 2013, 2014, and 2015, as consumer demand in European markets will continue to slow down. Turkey will provide stronger sales potential and advantageous leasing terms based on fierce competition in the development market. We also expect increased retailer demand on street shop supply in Istanbul as many major pedestrian areas are being rehabilitated by the municipalities, such as Nişantaşı and Taksim. Expanding the mass transportation lines in large cities, such as metro and metrobus, will also support street shopping as consumers will have easier time to reach different locations when commuting.

GD: Retail market in Turkey is highly attractive for investors. It is expected that the magnitude of the market shall become 313 USD billion at the end of 2012, growing approximately by 10% each year until 2016. Similarly, we know that a large number of foreign investors are about to



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open their first stores in Turkey in the upcoming period. Furthermore, some of the Turkish companies to introduce new foreign brands inland will create additional demand for the retail spaces. On the other hand, rapidly increasing density of the available modern retail spaces in some sub-markets of major cities will make the retailers to become more selective. All of these factors are sure to contribute to an increase in competition between shopping centres. I believe those which create a difference in competition, keep up with global developments, and renew themselves shall take the lead in the sector.

ME: Emerging Trends 2012 report states that shopping centre developers are very positive about 2013. Consumer is spending at prime shopping centres of Istanbul have increased by 15% as compared to the previous year; this is 10% for Turkey. This positively affects the views of foreign brands about the market. The size of the retail market in Turkey is estimated to be USD 313 billion as of the end of 2012. The market is estimated to grow 10% every year until 2016.

AH: The retail market in Turkey will grow and at the same time concentration will intensify, and this in the retail as well as the real estate section. Flexible concepts adapting to the consumers' wishes and professional management will be successful in the medium and long term. The concentration which we observed in individual areas in the course of the last years will progress further. At the same time, again and again new opportunities will open up for new market participants with new concepts.

Only those who continuously invest in their business will defend their position on the very competitive Turkish market.

AK: There are 305 shopping centres in Turkey as of Q3 2012, representing over 7.9 million m², EUR 75 billion retail turnover and 50,000 sales points. The total private consumption expenditure is over USD 600 billion in 2012. With a population of 73 million and an average age of 28.5 years, Turkey has the youngest and second largest population in Europe. Each year 450,000 graduates emerge from Turkey's 161 universities. The unemployment rate is stable and decreasing, it should be under 9% in 2015.

Turkey ranks in 10th position for global retail sales, standing as 7th in Europe. Retail sales increased 15% in the first half of 2012, compared to 2011. The total size of Turkish retail market is expected to reach USD 313 billion in 2012, while average annual growth is projected at 10% up until 2016.

Besides the strong fundamentals, online sales and some other trends will have a significant effect on retail market in the coming years, like all other markets. By 2015, in several sectors of the retail industry in Europe and the US, retailers could reduce their sales areas by up to 25%.

The growth in online sales continues to outpace traditional retail growth, with higher price transparency, 24/7 access and better deals online. The retail market is going actually through a critical period of important structural evolution influenced by technological innovation, the internet, the economy, and increasing consumer purchase power. The future of the retail real estate investment sector is also directly shaped by these changes.



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