

Istanbul Property Market

1st QUARTER 2008

General and Presidential elections held in Turkey last year resulted in an overwhelming majority for the AK Party enabling it to form a single party Government led by Mr. Tayyip Erdogan.

The political stability will enable the economy to develop at a sustained pace. Foreign investors continue to be attracted to the various sectors of the economy. Foreign Direct Investment increased some 9.8% year-on-year in 2007 to reach US\$21.87bn; It is expected that Foreign Direct Investment in 2008 will exceed US\$20.0bn

OVERVIEW

The population of Turkey stood at 70.5mn people at the end of 2007, an increase of 4.0% compared to the year 2000. The average age of the population is 28 and 66.5% are aged between 15 and 64 years and 26.4% are younger than 14. Some 17.8% of the population are concentrated in Istanbul. Other important cities include Ankara (4.5m), Izmir (3.7m), Bursa (2.4m) and Adana (2.2m).

Turkey's GDP last year was US\$489.4bn, representing a per capita income of US\$6,933.

The Central Bank decreased interest rates six times between mid-September last year to mid-February, 2008. However, with interest rates still standing at 15.25%, it is still the highest in global markets.

In the last 12 months, exports rose 25.0% to reach a record US\$109.16bn. Export growth continued throughout January, 2008, reaching US\$9.8bn, representing a 49.27% increase compared to the same period last year.

Industrial output increased by some 8.3% and 7.7% in October and November (respectively), 2007, to meet increasing European demand, which are the main market for Turkish exports. The automotive sector is Turkey's leading exporter.

However, high oil and food prices continue to burden imports and increase trade deficit. Imports grew some 21.8% in 2007 compared to 2006 to reach US\$167.0bn, widening the trade deficit by 16.3%.

The tourism sector recovered remarkably from the slowdown in 2006 with foreign arrivals reaching some 23.0mn people in 2007. Revenues from tourism reached US\$18.5bn.

Inflation at the end of 2007 stood at 8.39%, higher than the original target of 4.0% due to rises in oil and wholesale food prices; processed food prices rose some 9.8% in the second half of 2007 due to drought which greatly impacted the core indicators of inflation.

Turkey aims to open bidding for at least 3 power distribution grids by the end of April 2008, in an attempt to attract investment needed to support the economy.

The retail sector, which experienced considerable investment in 2007, continues to consolidate with the latest acquisition of 51.0% of Migros Turk, Turkey's largest supermarket chain, by BC Partners Ltd. for some US\$1.7bn, representing the country's biggest leveraged buyout.

BAT recently acquired a majority stake in Tekel for US\$1.72bn.

1st QUARTER AT A GLANCE

Prime Office Rents

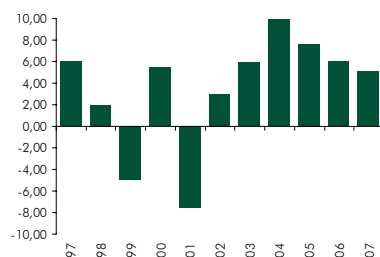
Prime Office Yields

Vacancy Rates



GDP GROWTH IN TURKEY

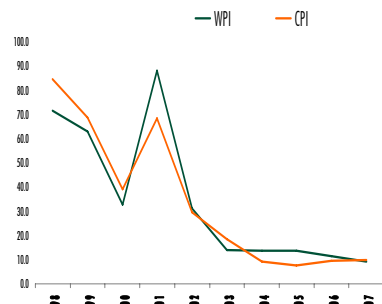
% per annum growth



Source: CB Richard Ellis

INFLATION RATES

%



Source: CB Richard Ellis

THE OFFICE MARKET IN ISTANBUL

Most of the office buildings in the CBD of Levent are now fully let, although, some vacancies persist in the decentralized location of Maslak (10.0%), where rents are marginally lower. Rental levels have reached US\$30/m²/month in Levent whereas Maslak still commands rents in the region of US\$18/m²/month. A recent transaction was agreed in Maslak at a rent of US\$15/m²/month in a modern tower block, known as Veko Giz Plaza. Two new developments are being undertaken in the Levent area although completion is some 2 years away. In Akaretler, a high end development recently completed is leasing at €40/m²/month for small office suites. This would appear to be the exception rather than the rule.

Spaces are still available on the Asian side of the city, which is considered a secondary location, where asking rents are in the region of US\$15-18/m²/month. Most office buildings are located in the neighbourhoods of Altunizade, Kavacik and Kozyatagi, which underwent considerable development in the last few years but no new schemes are currently planned for these neighbourhoods. A recent letting in Kosifler Building in Bostanci achieved a rental of US\$18/m²/month.

Rents in the secondary markets of Şişli, Mecidiyeköy and Esentepe are still in the region of US\$12-15/m²/month. A recent letting by CBRE was achieved in Esentepe at US\$11/m²/month for a 1,000m² stand-alone building.

No new significant investment activity has taken place in İstanbul in the last few months.

THE RETAIL MARKET

The retail sector has experienced price rises and yield compressions triggered by major transactions in 2007. However, the sector appears to still be attracting interest from investors in 2008 so far.

Ikea and Corio signed an agreement for strategic partnership. Ikea will be the main anchor of the shopping centres to be developed by Corio in Turkey.

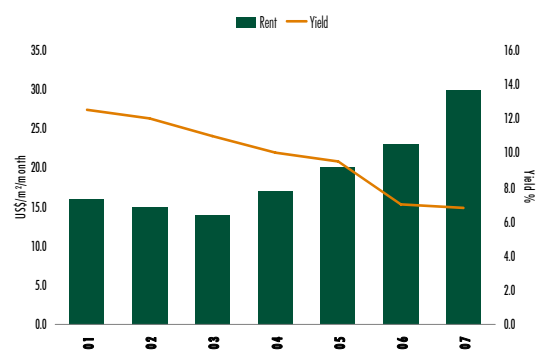
City's Shopping Centre in Nisantasi opened for trade in January, 2008, in one of the best retail high street areas of İstanbul.

Several other developments are in the pipeline, either at design or construction stage. Attractive investment opportunities can still be identified in the sector.

Total GLA in the city is currently around 1.3 million sqm.

Mall of Turkey is intended to be a large retail park (120,000sqm) planned by Multi-Turkmall.

PRIME OFFICE RENTS AND YIELDS



Source: CB Richard Ellis

OFFICE AREAS IN ISTANBUL



Source: CB Richard Ellis

PRIME RETAIL RENTAL LEVELS



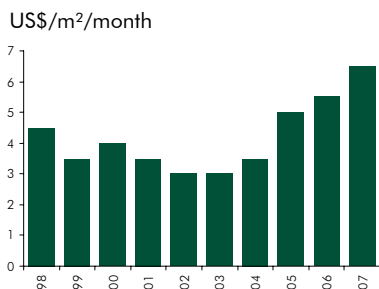
Source: CB Richard Ellis

INDUSTRIAL AREAS IN ISTANBUL



Source: CB Richard Ellis

INDUSTRIAL RENTAL LEVELS



Source: CB Richard Ellis

PALAZZIO CORPI IN TEPEBASI ISTANBUL



Source: CB Richard Ellis

THE INDUSTRIAL MARKET

The logistics sector continues to expand in the industrial heartlands of Gebze and Sekerpinar (on the Asian side of Istanbul) and Hadimkoy and Esenyurt (on the European side of the city). CBRE has recently agreed terms for the sale of 70,000m² of industrial land in Gebze at a price approaching US\$190/m². Terms have also been agreed for the sale of a 25,000m² site in Gebze also at a price of US\$200/m² for an international company

Rising demand for warehousing space is causing land prices to increase significantly. Many foreign players are seriously considering developing industrial facilities due to a shortage of standing investments. The market appears to be less dominated by owner occupiers now because logistic companies favour renting to outright ownership.

In some cases, prices of large industrial plots have risen up to US\$300/m². Smaller plots nearer the city centre can be priced up to US\$600/m². Rental values in new and modern accommodation have risen some 44.0% in the last year to reach US\$6.5/m²/month. Yields have dropped progressively to below 8.0%. The industrial sector still provides good opportunities for growth in both rental and capital values.

THE HOTEL MARKET

The tourist industry is well established in Turkey as visitor numbers continue to increase year-on-year contributing some 2.9% to GDP in foreign currency earnings. The Hotel market in Istanbul and in the resorts in the south of the country have achieved a level of maturity comparable to all the main European cities.

Three new five star hotels are to open in Istanbul in spring 2008. They are "W" (134 rooms), and The 4 Seasons (170 rooms) both located in Besiktas and the Grand Hyatt (90 rooms) in Nisantasi. The hotel market in Istanbul offers high standards of accommodation in a wide cross section of categories.

Russian buyers have been active in southern parts of Turkey in the last few years. Other European investors are reported to be targeting city hotels in Istanbul and Izmir, investigating the possibility of converting older landmark properties into small boutique hotels.

CBRE is currently marketing the Palazzo Corpi for conversion into an hotel in Tepebasi. The premises were formerly used by the US Consulate in Istanbul.

LEASE TERMS

Occupational leases are generally short, being for periods of up to five years, usually quoted in US dollars or Euros. A form of indexation generally revises rents annually, which may be to a fixed percentage of a variable such as US inflation or treasury bills. Rent is currently subject to VAT @ 18% (which is recoverable by corporate tenants) or to a non-recoverable withholding tax of 20% with a 10% surcharge when landlords are private individuals. Retail rents are generally based on turnover subject to a minimum basic rent. Insurance premiums and property taxes are generally paid by the landlord. New properties are leased on a "shell and core" basis with tenants being responsible for fitting-out costs although landlords can sometimes be persuaded to participate in these costs by granting rent-free periods.

Services charges are payable by tenants and currently represent approximately US\$7.0/m²/month to US\$8.0/m²/month in modern air-conditioned offices. They are significantly higher in shopping centers.

PROPERTY FUNDS (REITS)

Foreign Investors have invested heavily in Turkish property funds. Their share in the ten REITS trading in the IMKB exceeded 30.0% at the beginning of 2008 for value of \$500m. The total market value of REITS has reached \$16.0bln. More IPO's are being currently being launched in the sector.

YIELDS

The city of Istanbul has traditionally provided many opportunities to the foreign investor prepared to take a long-term view. Investment yields in the retail sector are now below 7.0% for prime properties; yields in the office sector have fallen below 8.0% but in the industrial sector it is still possible to negotiate yields above this level. Capital values in the residential sector have more than doubled in the last 12 months. Prime yields in commercial property compare favourably with Euro or US Bond yields which are currently at low levels, and much higher than yields obtainable for comparable properties in the more mature and sophisticated markets of western Europe.

TURKEY



For more information please contact:

Asli Alptekin Selman
asli.selman@cbre.com.tr

Feroze Bundhun
feroze.bundhun@cbre.com

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EMEA Offices CB Richard Ellis

Aix-en-Provence (33) 4 42 60 01 31	Munich (49) 89 2420 600
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Copenhagen (45) 70 22 96 01	Warsaw (48) 22 653 7000
Dublin (353) 1 618 5500	Zurich (41) 1 226 3000

Correspondent Firms:

Durban (27) 31 207 1183	Helsinki, Tallberg Toimitilajohto Oy (358) 207 420 400
Edinburgh (44) 131 469 7666	Istanbul CB Richard Ellis (90) 212 259 36 29
Frankfurt (49) 69 17 00 77 0	Oslo, Atrium AS (47) 23 01 10 70
Gaborone (267) 3188 200	Sofia Elita Consult Ltd (359) 29 87 7647
Glasgow (44) 141 204 7666	Tampere Tallberg Toimitilajohto Oy (358) 3 235 9033
Gothenburg (46)31 761 8750	Tel Aviv, M.A.N. Properties Real Estate (972) 3 561 6161
Hamburg (49) 40 80 80 20 0	
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Jersey (44) 1534 874141	
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Lisbon (351) 21 311 4400	
Liverpool (44) 151 227 4611	
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Marseille (33) 4 91 29 67 67	
Milan (39) 02 655 6701 (39) 02 303 7771	
Moscow (7501) 258 3990	

CB Richard Ellis
 Süleyman Seba Cad. No. 48
 BJK Plaza A Blok A1-06
 Akaretler 34357
 Tel (+90) 212 259 3629
 Fax (+90) 212 259 5598

CBRE
 CB RICHARD ELLIS