



# NATIONAL REAL ESTATE Investor

## Turning Istanbul-lish

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Until recently, Istanbul occupied almost no space in the minds of most Western real estate investors. Turkey's largest city was one of those places that seem to exist mostly to serve as scenery in James Bond movies.

Today, however, a few real estate pros are finding a lot of real-life thrills in Istanbul. In office space, Class-A vacancy rates are now below 1%, and rents in some prime spots have risen more than 100% over the past two and a half years, says **Murat Ergin**, manager of **Kuzeybatı-Savills**, the local branch of the international real estate services company.

"If you want to open an office tomorrow employing 25 people, you can't find space," says Maarten Hulshoff, head of RE Tailwind, a recently formed Turkish property advisory service.

Hulshoff's presence in the market may itself be a sign of the strength of Istanbul's prospects. First, because he's an established figure in European real estate — he was CEO of Rodamco Europe until just a few months ago, when it merged with Unibail to become Europe's largest real estate firm. Second, because he seems to have a good sense of timing: The \$12.5 billion deal closed last June 21, a few days before the subprime mess hit the fan.

### *Foreign direct investment soars*

Many investors believe Hulshoff is on to something. Even as European politicians dither over whether to let Muslim Turkey into the European Union, global investors are fairly infatuated. Total foreign direct investment may have hit \$30 billion in 2007, up from a little more than \$1 billion just six years ago, according to a King Sturge report.

In real estate, global retailers are investing in Istanbul, but London-based Savills notes that most office investments are still local. Office demand in this city of 11 million is driven largely by rising needs of foreign companies, says **Ergin**.

Many of those companies are in Istanbul to serve the Turkish market, he says. Other companies, including Microsoft and Coca-Cola, are making it a regional hub, in part because the country is within a two-hour plane flight of 10 Middle Eastern and European capitals.

The center for Turkish business, Istanbul has about 15 million sq. ft. of modern office space. Rents in prime locations are still low by American standards, running nearly \$3.4 per sq. ft. per month, but are rising fast, according to Savills Research. Cap rates for prime office properties have fallen in the past two years from 9% to a still-healthy 7%.

Yet in spite of all the rent growth, there are relatively few office projects in the pipeline. **Ergin** points to Turkish zoning as the culprit. Flexible rules mean developers can choose retail over office projects. Retailers reportedly like the fact that the average Turk is much younger than the average European in general, much less leveraged, and his income is rising: per capita GDP rose to \$7,000 last year, up 6% from 2006.

### *A few worries*

But like many emerging markets, there also are some serious risks. The country has suffered repeated bouts of hyperinflation. And although stability seems assured, democracy can't always be taken for granted. Over the last 50 years, the military deposed four governments.

Sharing a 240-plus mile border with Iraq also is not easy, mostly because Turkey has long feared that Iraq's Kurdish minority would support Turkey's Kurds and try to carve out an independent Kurdistan from the two countries. Perhaps most of all, pundits inside and outside Turkey worry about whether the country will be able to resolve tensions between the popular pro-religious Justice and Development Party and secular Turks over the future of a fiercely secular political system.

But Hulshoff, who served five years as a Citibank executive in Turkey, remains optimistic. "It's a Mediterranean country geographically, but there's an American-style business ethic," he says. He quotes an American real estate colleague who describes Turkey as "the only American country in Europe." Translation? "There's a can-do attitude — it's growth. There's energy," says Hulshoff. "It's a truly promising emerging market."

**Bennett Voyles** is a veteran commercial real estate reporter and National Real Estate Investor's Paris correspondent. For questions or comments, e-mail [benvoyles@yahoo.com](mailto:benvoyles@yahoo.com).