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# Istanbul: an opportune hotel investment target

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Starting from the macro viewpoint we are talking about the powerhouse and economic epicentre of the 16th largest economy in the world, accounting for c. 60% of that output and wealth. Furthermore, we are talking about one of the largest metropolitan cities in the world with around 15 million inhabitants. Add to this a sustained economic growth rate between 4 to 7 % (prior to the current world recession) and we will understand that Istanbul market is one of the real estate focal points on a global scale.

Three local elements highlight the general characteristic of the market: (a) low leverage, (b) low quality of existing limited service / budget category hotel stock and (c) slow penetration of international brands till now, with great appetite today. This profile when combined with lower inflation, increased per capita income (to the tune of some 120 % over the last 5 years) and reasonable interest rates would fuel real estate in Turkey in general. The recent addition of FDI (to the tune of some 17 billion USD in 2008) to the system with some channelled towards real estate.

Istanbul tourism is set to become one of world's greatest upside stories to come in the foreseeable future. Considering that Europe still produces over 65% world outbound tourism and that Istanbul is at a 2,5 hour average distance from this generation pool, combined with increased air travel through de-regulation it is obvious that access is not an issue. With two privatized international airports at the two continental parts of the city handling some 27 million passengers a year Istanbul is becoming a serious hub reflecting its east-west bridging position. When this is combined with the rapid development of the city as a multi faceted global metropolis with increased international business, wide variety of retail and entertainment and large scale events, we foresee a baseline of c.15 million visitors to be reached within the next 7-8 years.

We see potential across all hotel segments from ultra-luxury boutiques and upper upscale to limited-service hotels depending on location. Of particular note would be the less obvious gaps in the market for internationally branded and properly managed budget hotels and limited / select service properties to easily outperform the very poor local stock in that segment. Our caveat remains strong that proper site appraisal, assessment and concept development is key to success in the hotel sector too and such assessment and outline development should be independently carried out rather than through branded operators then followed by a professional method of operator / brand selection and integration.

Largely signified by the post-sub-prime mortgage crisis, credit crunch are driving advanced economies into phases ranging from slowdown to recession. The good news is that the Turkish banking sector is far less exposed on risk lending than western counterparts with relatively solid balance sheets. The less good news is that Turkish banks need low cost funding to roll-over or refinance their positions internationally which is now harder to access.

We observe a slight slowdown in the visibility of EU accession efforts although this is partly due to the cyclical nature of the accession process. The government reactions against the current global economic scenario has been largely conservative with a recent-albeit through a slow process- alignment with IMF, and few measures to support or fuel any particular sector.

What this does to the Istanbul real estate is as follows: We expect liquidity in the market to decrease with hesitant movement of FDI into the city, including some departures- impacting consumer spending and hence both retailers and shopping center rents will be under downwards pressure. Secondly the uncertainty and the lack of well priced credit will impact residential sales speeds initially and sales prices in less funded projects thereafter while high end and well funded prime product values can remain firm with low absorption rates for the next 12 to 18 months. Hotels however will continue to be firm with only temporary dents from decrease of international business travel and MICE business globally. We do not expect however that any of these short term dynamics will cause a serious and sustained real estate crisis or a deep recession in Istanbul causing significant value erosion particularly in prime stock. This opinion combined with the fact that some value degradation on land and incomplete investments may still occur in isolated individual cases due to cash or credit squeeze allows us to rate Istanbul real estate as a highly opportune entry, re-entry or position strengthening arena.