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Istanbul, Turkey

Market Snapshot

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Istanbul, Turkey – Market Snapshot

This market snapshot is part of a series of articles that HVS is producing every month on a series of key markets. In writing these articles we aim to combine the market expertise of HVS with STR Global data for each key market. Our analysis for this market is based on data for a sample of 37 mainly branded properties as provided by STR Global. These properties represent the branded supply in the city. We note, however, that the majority of hotels are operated independently and most of the total stock are unbranded. Their performance can thus be different from the picture presented herein.

Highlights

- Turkey is playing a continually important role in the international political arena, particularly as a bridge between Europe and Asia. Its geographically strategic location has fostered investment interest in the country in general and in the hotel industry in particular;
- Despite a dip in economic growth in 2009, the economy has started to show healthy growth in 2010 again fuelled by GDP and FDI growth compared to the same period on the previous year. According to the Economist Intelligent Unit (EIU) Turkey's GDP growth is expected to reach 6.5 % in 2010, 4.4% in 2011 and an average of 5.0% thereafter;
- Even though Ankara is Turkey's political capital, Istanbul remains the financial centre of the country. Istanbul has experienced strong increases in visitation and overnight numbers translating into hotel performance levels that have seen year-to-August 2010 figures improving noticeably on the previous year. Occupancy increased by 13.1%, while RevPAR showed an impressive increase of 17.5% in euro terms, from €86 in 2009 to €101, on the back of an increase on average rates, of approximately 3.8%;
- Istanbul remains the focal point for foreign developers to enter the Turkish hotel market. Still characterised by a dominance of unbranded hotel supply, the number of developments carrying an international brand are increasing. Brands from all categories will be entering the Istanbul hotel arena in the coming years, including luxury brands such as Shangri-la as well as limited-service midscale brands such as Hilton Garden Inn and Courtyard by Marriott;
- Istanbul's declaration as '2010 European Capital of Culture' further emphasises the city's importance within the international environment

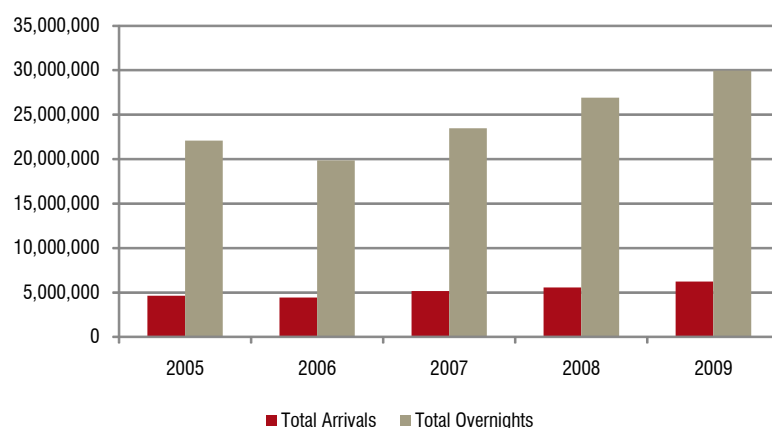
in addition to providing more exposure for Istanbul to attract an increased number of visitors in the future.

Hotel Demand Patterns

Ataturk, Istanbul's main airport, has shown a strong annual compound growth rate (CAGR) of 8.6% in passenger numbers over the past 20 years. The airport has experienced double-digit annual growth in domestic travellers since 2004, while international travellers have also shown significant growth peaking at 25.5% in 2008. The airport is now almost operating at maximum capacity. Sabiah Gökçen Airport (on the Asian side) is Istanbul's second airport. This airport has seen the arrival of low-cost airlines and proves to be popular with domestic travellers. Growth rates over the last few years have been extraordinary at an annual compound growth rate of 60.0%, albeit from very low levels. The airport has recently inaugurated a new terminal in order to be able to sustain future passenger growth levels. A third airport is said to be planned for development, located 40 km west of Istanbul, in the Silivri neighbourhood.

Arrivals and overnights have shown a steadily increasing pattern over the past five years. Domestic travellers have maintained stable growth levels, while international travellers have consistently grown year-on-year. The international market still shows further potential having registered a compound annual growth rate of approximately 8.0% in both arrivals and overnights between 2005 and 2009.

Chart 1 Total Arrivals and Overnights (2005-09) – Istanbul, Turkey



Source: Ministry of Tourism

The main international source markets for Istanbul are Germany, the UK and the USA. However, with the effects of the economic crisis influencing these countries, travel from these markets decreased during 2009. This has partly been counterbalanced by an increased demand from Middle Eastern markets and Turkish regulators are working towards easing visa restrictions for such travellers to enter the country.

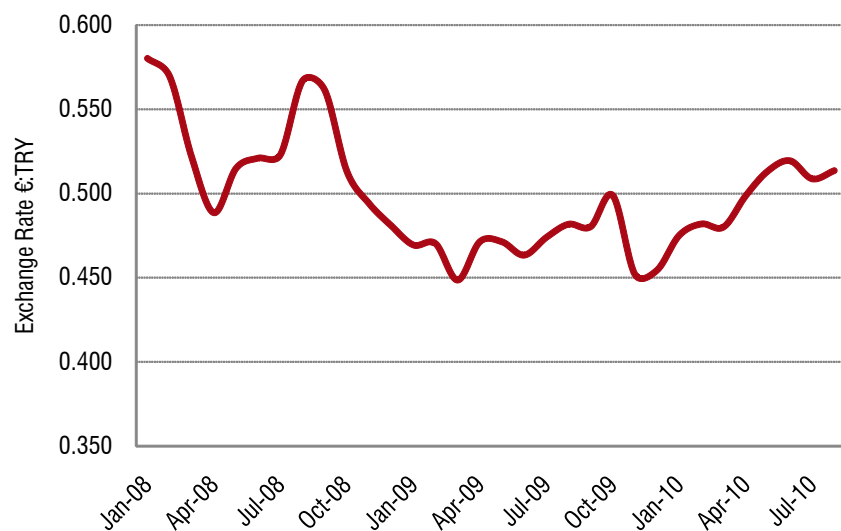
Istanbul is also one of the world's major conference destinations and is an increasingly popular choice for the world's leading international associations. It was ranked thirteenth in 2009 by the International Congress and Convention Association (ICCA) for the number of meetings

held and fourth for the number of participants. This difference in ranking highlights a high average number of participants per meeting. The ICCA statistics do not reflect the full picture as they exclude the non-rotating meetings, so the total amount of MICE business is in fact higher. According to the Istanbul Convention Bureau, the city hosted 80 congresses in 2009, with an average length of stay of between three and four days.

Hotel Performance

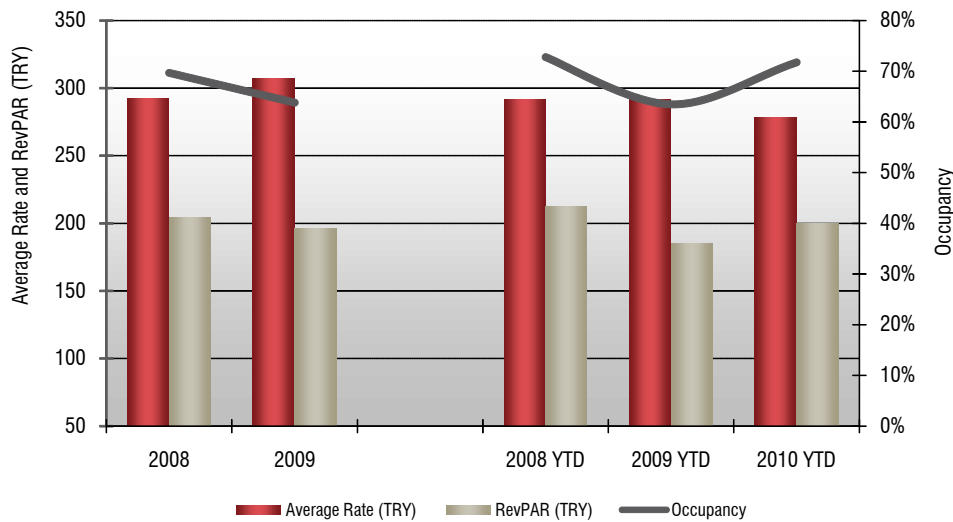
The analysis in this market snapshot is based on a sample of mostly branded hotels in Istanbul. The sample includes more than 9,000 rooms. Chart 3 and Chart 4 present the hotel performance indicator (occupancy, average rate and RevPAR) in Turkish lira and euro, respectively. Exchange rate fluctuations had an impact on average rate when shown in euro.

Chart 2 Exchange Rate Fluctuations (€:TRY) – January 2008 to August 2010



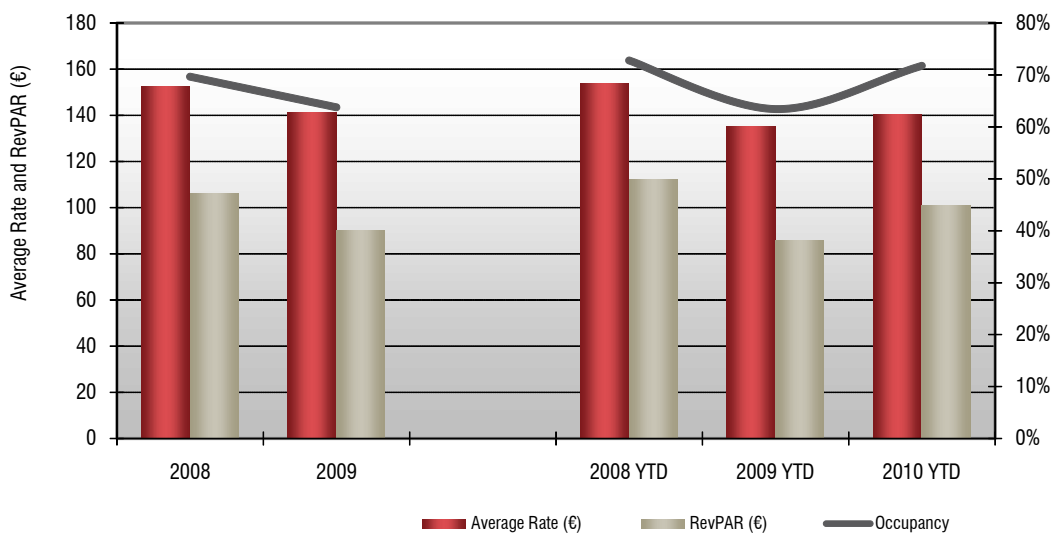
Source: OANDA

Chart 3 Hotel Performance in Istanbul 2008-10 (TRY)



Source: STR Global

Chart 4 Hotel Performance in Istanbul 2008-10 (€)



Source: STR Global

Although occupancy levels declined in 2009 to 63.8% compared to 69.7% in 2008, average rate in local currency increased by 5.0%. However, in euro

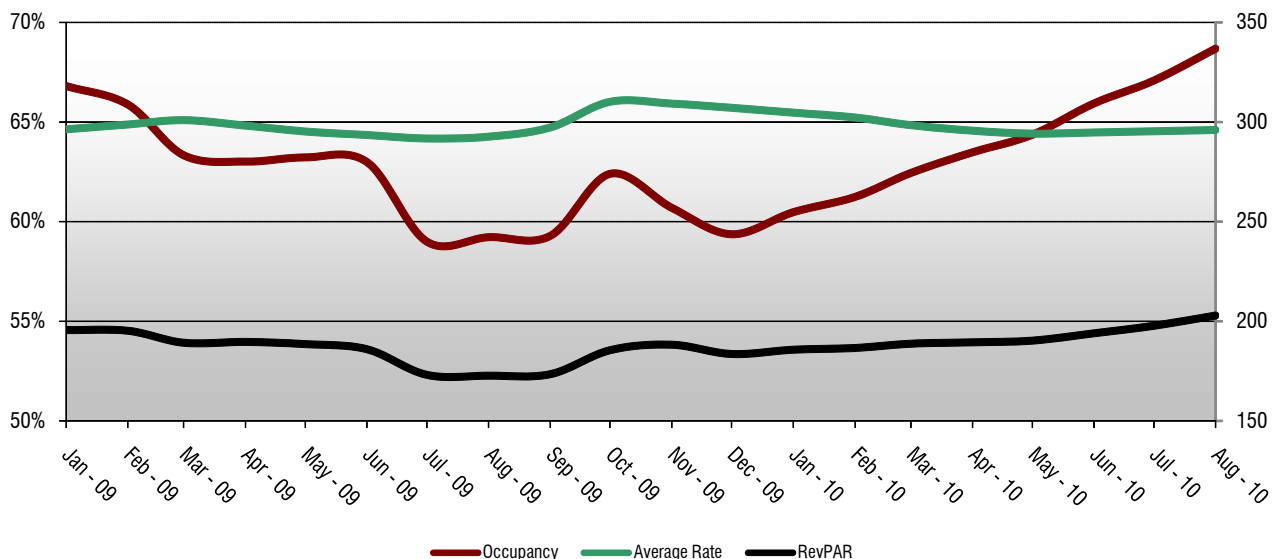
terms average rate in 2009 decreased by -7.5% to €141 from 2008 numbers due to the exchange rate fluctuation.

Year-to-August numbers from 2008 and 2009 show an impact of the credit crunch mainly in 2009 driven by decreasing occupancy levels from 72.8% to 63.5%. Again, average rate in local currency was able to hold up; however translating into a -12.1% decrease in euro terms.

Year-to-August 2010 has seen occupancy bouncing back to 2008 levels at approximately 71.8% but average rate lagging behind and experiencing decreases on 2009 and 2008 levels in local currency, while showing a stabilisation of average rate in euros. Overall however, RevPAR shows a healthy recovery reaching €101 driven by the increase in occupancy levels. Thus, it is expected that average rate increases will follow soon and the hotel market can benefit from a more substantial recovery.

Chart 5 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR (in Turkish lira terms) in Istanbul from January 2009 to August 2010.

Chart 5 Monthly Moving Annual Average – Occupancy, Average Rate and RevPAR January 2009 to August 2010 (TRY)



Source: STR Global

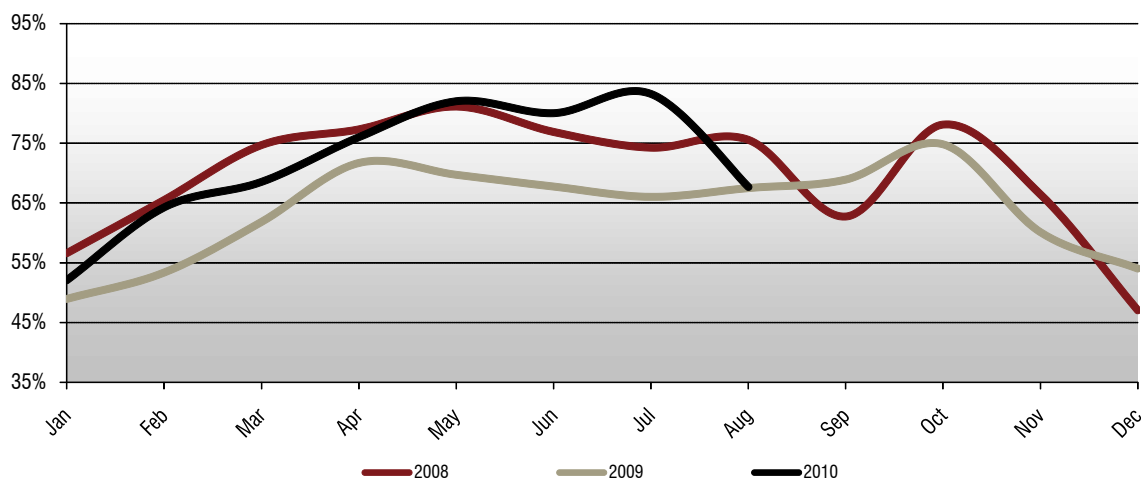
Chart 5 illustrates a relatively flat average rate performance for the period under study. It is interesting to observe that hotels resisted the temptation to undercut rates when occupancy levels dropped in comparison to many other European markets. Thus, RevPAR started showing signs of recovery in the first eight months of this year driven by a noticeable increase in

occupancy levels, fuelled by a pick up in demand for transient accommodation.

Seasonality

Istanbul is both a business and leisure destination and, as such, its seasonality patterns are relatively even. Chart 6 shows the seasonality of hotel occupancy for 2008, 2009 and Year-to-August 2010.

Chart 6 Seasonality – Istanbul Monthly Occupancy 2008, 2009 and Year-To-August 2010



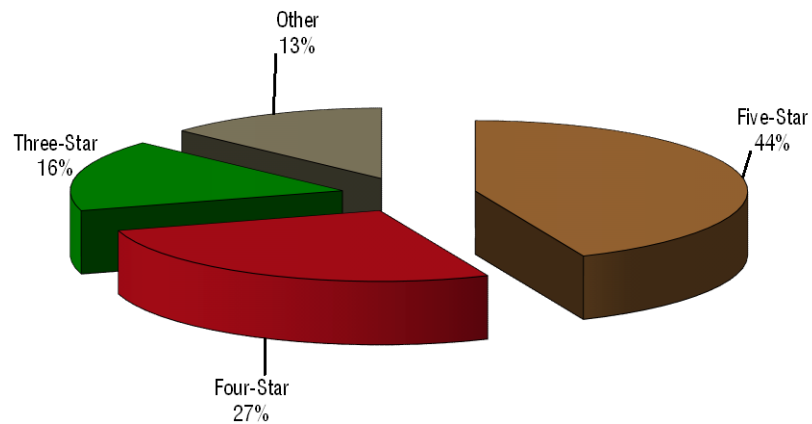
Source: STR Global

Chart 6 indicates that strong months for hotel accommodation are typically April, May and October when most international conferences take place. The trough is typically from November to February, primarily on account of the year-end holidays. From March to May, as well as late September to October, demand is characterised by the conference and exhibition business as well as commercial activities, which drive most of the city's occupancy. Furthermore, it is important to note that Ramadan is another factor influencing the city's seasonality patterns.

Supply

According to the Turkish Ministry of Tourism, there are approximately 342 hotels in Istanbul accounting for more than 31,522 rooms. Istanbul's hotel room supply covers all categories. It is still mainly characterised by unbranded and private stock in the lower segment whereas the upscale segment has seen many of the international brands operating hotels. Chart 7 shows the makeup of the current supply in the city of Istanbul.

Chart 7 Hotel Supply in Istanbul (2009)



Source: Ministry of Tourism

Currently, the city's room supply is dominated by four- and five-star hotels, accounting for more than 70.0% of total room supply. Istanbul has Turkey's largest concentration of hotel stock and it still has great growth potential owing to the development of the city and its importance as a gateway between Europe and Asia. The lack of branded quality three-star and budget hotels currently available offers future opportunities for investment in these categories.

New Supply

Istanbul's hotel market has seen a lot of development over the past few years and is currently very active in terms of new hotels. A number of international and national operators are present in the market today, many having entered Istanbul since 2006. It is evident that the city is still in a development stage which translates into great potential for hotel development particularly on the Asian side.

Table 8 illustrates the confirmed future branded hotel supply in Istanbul over the next few years. We note that this excludes any non-branded hotels.

Table 8 New Supply – Istanbul, Turkey

Proposed Property	Category	Number of Rooms	Opening Date	Location
Divan Istanbul	4-star	228	2011	Taksim District
Hilton Garden Inn Bostanci	3-star	155	2011	Bostanci District
Edition by Marriott	5-star	76	2011	European Side
Dedeman Hotel	4-star	220	2011	European Side
Doubletree by Hilton - Old City	5-star	171	2011	Old City
Hilton Garden Inn Golden Horn	3-star	220	2011	Golden Horn
Le Meridien Istanbul Etiler	5-star	260	2011	Etiler District
Ibis Istanbul Esenyurt	Budget	161	2011	Esenyurt,
Shangri-La Istanbul	Luxury	200	2012	Besiktas District
Doubletree by Hilton Istanbul - Moda	5-star	247	2012	Moda-Kadiköy
Radisson Blu Istanbul Asia	5-star	194	2012	Atasehir District
Ibis Istanbul Kartal	Budget	150	2012	Kartal
Ibis Istanbul Avrupa Merkez	Budget	150	2014	Asian Side
Ibis Istanbul Anadolu Merkez	Budget	150	2015	Asian Side
Total		2,582		

Source: HVS Research

We make the following comments on some of the new supply:

- Shangri-La Hotels & Resorts will be making its debut in Istanbul with the **Shangri-La Hotel Istanbul**, a 200-room property located in the Dolmabahce and the Maritime Museum on the European coast of the Bosphorus. The hotel will have several restaurants and bars, including a rooftop restaurant, a health club, a spa, a swimming pool, a business centre, a ballroom, as well as conference and meeting facilities. Tanriverdi Holding Company is developing the hotel on the site of a former tobacco factory and warehouse, and it is expected that the property will open in April 2012;
- With its third property in Istanbul, **Divan Istanbul** is being rebuilt after 50 years of presence in the city. The original hotel opened in 1956 within Istanbul's Taksim district, considered to be the heart of the city's cultural, social and business centre. The hotel is being renovated for an estimate US\$50 million, and will reopen as a completely new 228-room hotel. Other facilities will include two themed restaurants, a patisserie, a swimming pool, a fitness centre, a spa, and meeting and conference rooms. The hotel is envisaged to reopen in 2011;
- As part of Hilton's strategy to develop more extensively within Turkey, the hotel operator is entering Istanbul with four confirmed projects under two different flags: **Hilton Garden Inn Istanbul Bostanci**, **Hilton Garden Inn Golden Horn**, **Doubletree by Hilton – Old City**, and **Doubletree by Hilton Istanbul – Moda**. The Garden Inns will mark the brand's debut in the city and will improve the current midscale supply on offer. With opening dates expected to be in 2011, the Hilton Garden Inn Istanbul Bostanci will be a 155-room property

with a restaurant and bar, a fitness centre, a swimming pool, as well as meeting rooms; while the Hilton Garden Inn Golden Horn will have 220 rooms, eight meeting rooms, a large ballroom, as well as a restaurant and bar, and a fitness centre. The Doubletree by Hilton – Old City will be situated in the Golden Horn district of the city as well and will be a 171-room hotel, offering food and beverage outlets, as well as a fitness centre, a business centre and a number of meeting and conference rooms. The Doubletree by Hilton – Moda-Kadiköy will be situated on the Asian side of the city within the district. In addition to its 247 rooms, the hotel will have an outdoor rooftop restaurant, a bar and a swimming pool, 12 meeting rooms, as well as a spa and fitness centre. Both of the Doubletree by Hilton hotels are expected to open in 2012;

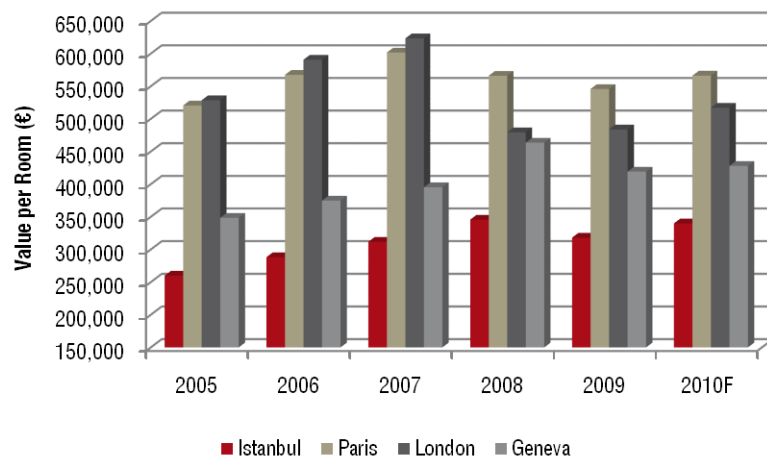
- Starwood Hotels & Resorts recently announced the future opening of **Le Méridien Istanbul Etiler**. The hotel will mark the brand's entry into the city and the company's fourth hotel in the city. The 260-room property will be located by the Bosphorus, offering panoramic views of the city. Within its 260 rooms, there will be 26 suites and 28 serviced apartments, in addition to a destination bar, signature restaurant and a rooftop lounge. Additional facilities will include meeting and conference space, as well as a wellness area comprising a spa, a gym and outdoor and indoor swimming pools. The opening date for the hotel is expected to be in autumn 2011;
- Rezidor is further expanding in Turkey by adding to its portfolio the **Radisson Blu Istanbul Asia**. The hotel will be located on the Asian side of the city in the Atasehir district, among a number of upscale residential properties and the offices of international companies, and will feature 194 guestrooms. Additionally, the hotel will have an all-day dining restaurant, two bars, ten meeting rooms, including a large ballroom, and a health and fitness centre. The hotel will be the company's fifth in the country and is expected to open in 2012;
- Finally, Accor has partnered with local Turkish developer, Akfen Group, in order to further develop its portfolio in the country. Such growth will see the hotel operator add another four hotels in Istanbul alone. There are currently four Ibis hotels in the pipeline: **Ibis Istanbul Esenyurt** (161 rooms, opening in 2011), **Ibis Istanbul Kartal** (150 rooms, opening in 2012), **Ibis Istanbul Avrupa Merkez** (150 rooms, opening in 2014), and **Ibis Istanbul Anadolu Merkez** (150 rooms, opening in 2015). This growth within the budget segment further emphasises the opportunities currently available in the city due to the lack of quality supply within the budget/midscale segments.

Hotel Investment Market

Istanbul's hotel investment market in the past decade has been quite active with a number of hotels changing hands, including the Swissôtel The Bosphorus, the Hilton Istanbul, and the Ceylan InterContinental Istanbul. Since 2007, however, as the global economic climate affected hotel investment at a worldwide level, Istanbul has not registered any hotel noteworthy transactions.

From our valuation experience and based on our knowledge of the market we estimate that hotel values have evolved as shown in the following chart.

Chart 9 Evolution of Hotel Values (2005-10) – Istanbul, Paris, London and Geneva



Source: HVS - London Office

*2010 Figures are forecast results

Istanbul continues its ascension to the top, based on positive market fundamentals and great interest from hotel investors. Despite a significant pipeline for the next couple of years, Istanbul is not yet out of breath and is likely to continue to tackle the other top four hotel investment markets, including London and Paris. As per our publication, Hotel Valuation Index (HVI), Istanbul places itself in fifth place. According to our estimates Istanbul should end the year at values of around €340,000 per room for a city centre four-star property.

Conclusion

Overall, Istanbul faced a more difficult year in 2009 with a drop in revenues mainly caused by lower occupancy levels and decreasing average rates towards the end of the year. However, since the beginning of 2010, occupancy levels, average room rates and therefore RevPAR have shown signs of recovery, thus improving overall performance levels on average. This trend bodes well for maintaining strong performance levels to the year end, as the busier autumn months of the year approach.

Hotel development in Istanbul and the country as a whole has been active over the past few years despite the economic recession which has delayed a few projects recently. Nevertheless, the market is still undersupplied in regards to branded quality hotel stock particularly in the midscale and economy sector. The pipeline for future branded hotel projects in Istanbul remains strong with a number of internationally branded hotel openings in the coming years including upscale brands like Shangri-La as well as

midscale and economy brands such as Hilton Garden Inn and Ibis. Developers have increasingly become more attracted to the Asian side of the city due to its underdeveloped nature in terms of hotels and the fact that this side of the city becomes increasingly important for office, retail and conference facility developments thus creating demand generators for transient accommodation. Furthermore, the cost of development on the Asian side is noticeably lower mainly due to lower land prices.

With the economy expected to remain relatively stable and performance showing signs of recovery in the year-to-date, investors are being reassured of the investment potential of the city and the country as a whole. In a climate of renewed economic growth, but on the assumption that there will be no further external disruption of the trading environment, demand for hotel accommodation should continue to increase noticeably.

Additionally, by being named as the European Capital of Culture 2010, the city has managed to further enhance its positioning in the international arena and its importance as a global destination for business and leisure guests further reassuring potential hotel investors of the medium to long term future of the city.

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Cristina Balekjian is a Consultant & Valuation Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS as a Market Intelligence Analyst in 2007, where she has worked on a number of assignments in Europe, the Middle East and Africa.



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Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, he noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. His first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject and, soon after, HVS was born. The HVS method of providing an economic study and valuation for hotels and motels immediately became, and continues to be, the industry standard.

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