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FT REPORT - INVESTING IN TURKEY: Youthful population fuels national spending spree

By Pelin Turgut, Financial Times
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The people of Turkey are on a spending binge. New cars proliferate and new shopping malls are appearing across the country, often with glamorous brand names as key tenants. A milestone of sorts in this trend was reached earlier this year, when Harvey Nichols, the luxury London fashion store, opened at Kanyon, an upmarket mall in the business district of Istanbul.

Much of this development is attributable to low interest rates and inflation and the stable economic environment that has been ushered in during the past five years. Optimists cite Turkey's young population, where half of its 72m inhabitants are under the age of 25. Though Turkey is not a rich country relative to western Europe, there is wealth in Istanbul and other cities, resulting in a hankering for brands and consumer goods.

Such is the appetite for multinational lifestyle brands in Turkey that Unitim, Harvey Nichols' Turkish partner, says it has seen sales of its brand portfolio, which includes Tommy Hilfiger, Camper, Gas and Bally, grow by an average of 65 per cent annually since 1998. The group predicts that sales will grow by 20 per cent each year for the next few years.

Harvey Nichols occupies 8,000 square metres of space over three floors at Kanyon offering nearly 300 upmarket brands. It expects sales of \$40m in its first year. The store may open another outlet in Istanbul and possibly one in Ankara. Sebnem Keskin, head of Unitim, says Istanbul's demographic and wealth profile made the city a natural outlet. "With a population of 12 million people and a fashion-conscious consumer profile, Istanbul was already among Harvey Nichols' medium-term expansion strategies," Ms Keskin says.

Local appetite for multinational brands is not limited to high-end fashion. Shaya, the Turkish arm of Kuwait-based retailer Al Shaya, opened the first Debenhams department store in April. It is a \$10m investment at the Cevahir shopping mall, which attracts a more middle income clientele than Kanyon. Shaya plans to open five more stores in the near future.

Selcuk Guzenge, head of the Registered Brands Association, says: "From a retail sales perspective, Turkey ranks alongside Dubai and Russia as one of three markets with a lot of potential. Its large young population, growing consumerist appetite and easy transport access make it very attractive. Sales in South America and Europe are slow, so brands are looking elsewhere."

The growth in retail spending coincides with a proliferation of shopping malls. These malls are slowly replacing streets as the favourite locations for stores, a fact starkly illustrated this year when Vakko, one of Turkey's top retail chains, closed its flagship store on Istiklal Caddesi - Istanbul's equivalent of Oxford Street - and moved it to Kanyon.

Kanyon is leading the bullish commercial real estate market, offering an innovative design which combines a 26-storey office building, 179 apartments and 37,500 square meters of retail space in one development. But international investors have been focused on Turkey's retail property sector for some time. Akmerkez, the forerunner of the upmarket Istanbul mall, had an initial public offering last year that attracted wide attention. Corio, a Dutch property investment company, acquired a 47 per cent stake for €148m.

Shopping malls in Turkey are attractive because they offer higher yields - usually between 12 and 15 per cent - than other European cities. "There just aren't enough shopping malls at the moment," says Ozgur Altug, chief economist at Raymond James Securities. "We are seeing a lot of interest from multinationals with shopping mall expertise, and also from local developers." The sector is expected to grow by 50 per cent in the next three years, with the opening of between 30 and 40 malls.

Investors include property funds and developers from Germany, the US, the UK and Turkey. While Istanbul will lead the growth, other cities such as Ankara, Izmir and Bursa are also expected to receive their share of this expansion. "The real opportunity for expansion will come from the opening up of the remainder of the country," says Markus Lehto, Kanyon's managing director. "If the appetite in Istanbul is an indicator of things to come in other cities, the future looks extremely bright."

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