

Ozdemir, Dilek

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The developments in the central business district of Istanbul in the 1990s

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THE DEVELOPMENTS IN THE CENTRAL BUSINESS DISTRICT OF ISTANBUL IN THE 1990s

Dilek Özdemir

Yeditepe University, Faculty of Engineering and Architecture, Department of Architecture, Istanbul, Turkey

Since 1980, the economic and political conjuncture of the world has changed to a great extent, leading to profound transformations in cities and metropolitan areas. Economic restructuring, globalization process, and re-organization of central-local government relations are the basic factors behind these transformations (Harding, 1994). In a similar vein, after the mid-1980s and throughout the 1990s, the development of the Istanbul metropolitan area has been characterized by a variety of factors ranging from the implementation of the neo-liberal policies on the national level to the changes in the metropolitan government at the local level. Although the roots of this transformation can be traced back to the late-1970s, the most important changes have taken place in the last two decades.

After 1980, Turkey adopted neo-liberal policies in order to increase its economic integration to the international relations. As a result of these measures, starting from the mid-1980s, foreign direct investment inflows into Turkey have increased to a great extent. Moreover, parallel to the worldwide trend of the rising importance of producer services, the share of service sector investments in total amount of foreign direct investment inflows into Turkey has increased. During this period, the Istanbul metropolitan area and especially its Central Business District (CBD) was affected to a great extent by the implementation of private sector-led projects realized by both foreign and Turkish firms operating in various activities such as retailing, tourism, real-estate, finance and other producer services. Therefore, the neo-liberal policies of the central government after 1980, the increase in foreign direct investments (FDIs) in producer services and retail sector, the investment shift from industry to commercial and residential real-estate development, and growth of the banking and financial activities and producer services brought about significant transformations in the CBD development of Istanbul in the 1990s.

1. The Impact of Neo-liberal Policies on Foreign Direct Investment (FDI) Inflows into Turkey

Turkey, until 1980, adopted a mixed-economy model targeting mainly economic growth. Industrial development, structural improvements in agriculture, establishment of public economic enterprises in industry, restricting foreign competition, and protecting private enterprises were the basic features of this model (Kazgan, 1997). After the 1980 military coup, the central government implemented neo-liberal economic policies and structural adjustments to integrate Turkey into international markets and to the dynamics of free market economy.

Before 1980, the influence of foreign direct investments (FDIs) in Turkey's economy was insignificant. To illustrate, between 1950 and 1960, due to economic instability and devaluation foreign direct investment was only \$ 30 million. After 1960, economy stability was achieved, and FDIs rose \$ 68 million and the number of firms reached 122. In this period, foreign firms in Turkey were mainly involved in the production of durable and non-durable consumption goods (Sönmez, 1996).

Between 1981 and 1982, all necessary institutional regulations for the establishment of the *Capital Market*, and the legal framework for *Capital Market Law* were completed. The opening of *Istanbul Stock Exchange (ISE)* in 1986 became a cornerstone in the development of Turkish financial sector. Also, the Foreign Capital Law was redefined twice in 1980 and 1986. In 1989 an important stage was reached in Turkish economy by completely liberating foreign currency operations and capital movements (Bankacılar, 1996). The new economic policies aiming to integrate Turkey to the international relations and free market economy showed their reflections in the banking sector. In this period, the share of banking sector constituted an important portion of foreign direct investments (Arýcanlý and Rodrik, 1990).

After 1980, the volume of foreign direct investments (FDIs) increased considerably as compared to the pre-1980 period, but the sharp increase took place after 1990. Between 1980 and 2001, FDIs into Turkey increased 323 times and reached \$31,349 million (Undersecretary of Treasury)¹. In this period, while the share of manufacturing in FDIs was decreasing from 91.5% to 54.4% that of the service sector increased from 8.4% to 48.1% (See Figure 1).

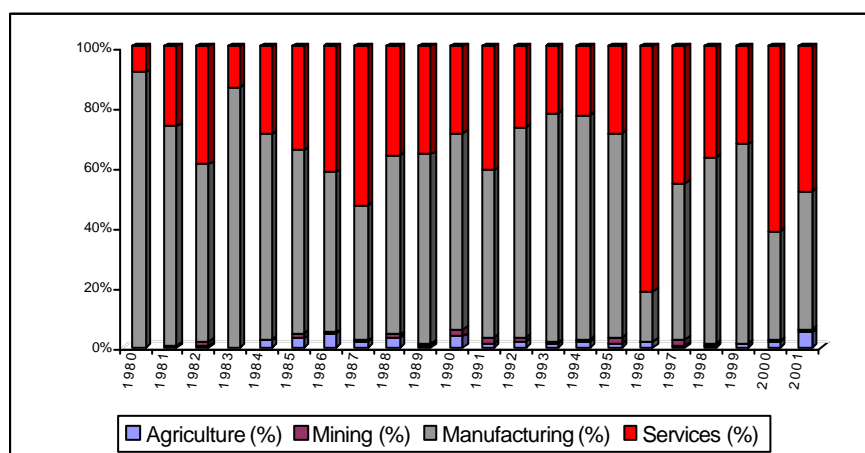


Figure 1. Sectoral Breakdown of FDIs in Turkey Between 1980 and 2001
Source. Undersecretary of Treasury

¹ Nevertheless, as Tokatli and Erkip (1998) set forth the growth rate of FDIs was not as high as it was expected due to political economic instability, bureaucratic formalities and resultant delays, high rate of inflation, high wages and currency crisis.

In 1999, there were 4656 foreign firms in agriculture, mining, manufacturing and service sector activities in Turkey. Firms specializing in agriculture and mining activities constituted, respectively, 2% and 1% of the total firms. The highest shares belonged to services and manufacturing, respectively, 72% and 25% (Undersecretary of Treasury). Between 1999 and 2001, the weight of manufacturing and service sector firms in FDIs continued. However, the dominance of manufacturing decreased after 1999, and in 2001 the percentage of permits in service sector surpassed that of manufacturing, respectively 48% and 46%. Table 1 shows the sectoral breakdown of authorized foreign investment between 1999 and 2001. Contrary to the previous years, in 2000 and 2001 the amount of FDIs in the service sector exceeded that of manufacturing.

Table 1. The Distribution of Authorized FDI between 1999 and 2001 (\$ Million)

	1999	2000	2001	1980-2001
Agriculture	17.15	59.74	134.68	577
Mining	6.76	6.32	29.90	303
Manufacturing	1,123.22	1,115.20	1,255.88	17,061
Services	553.40	1,878.64	1,318.12	13,410
Total	1,700.53	3,059.90	2,738.58	31,349

Source. Undersecretary of Treasury

As of 2001, there were 5,841 foreign firms in Turkey and the share of foreign capital in total capital was 63.2%. Among the investor countries, France, the Netherlands, Germany, the USA, the United Kingdom were the first five countries investments of which surpassed that of the others (See Figure 2).

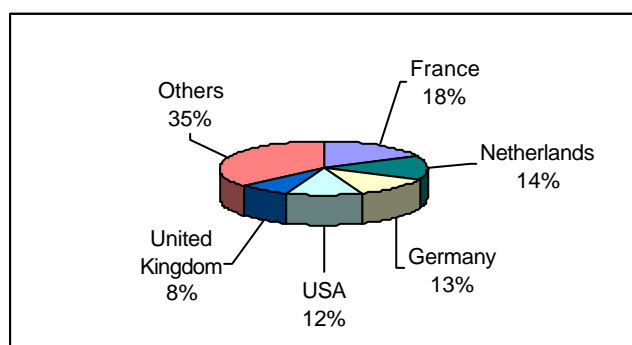


Figure 2. Percentage Breakdown of Foreign Investors With Regard to Capital Investments Between 1980 and 2001

Source. Undersecretary of Treasury

2. The Restructuring Of Central- Local Government Relations after 1980

After the military rule between 1980 and 1983, the central government adopted three major policies with regard to metropolitan cities: implementation of a new two-tier metropolitan government model; increase in the revenues of the metropolitan municipalities; and the provision of state subsidies for mass-housing projects (Keyder and Öncü, 1993).

A new two-tier metropolitan government model: After the military coup in 1980, a two-tier metropolitan government model was adopted by implementing The Act on Metropolitan Municipalities, No.3030. Although this Act was central government's intention to decentralize its power and responsibilities, in some instances, planning powers of local authorities were also moved to the central government. The *Act of Encouragement of Tourism, No.2634*, dated in March 1982, is the example of such a relaxation.

Increase in financial resources of metropolitan governments: After the 1981, local authorities were substantially supported by central government. Especially during the 1980s, local governments (metropolitan city municipalities and district municipalities) were extensively benefited from various financial improvements transferred into their budgets (Keleş, 1992). As Ersoy (1999) stated the urban population increased 60% between 1980 and 1995 in Turkey, while during this period, the municipal revenues increased 140% in real terms (Ersoy, 1999, p. 81).

Promotion of mass housing: Before 1980, housing supply was either through squatter housing or by activities of small contractors. In the post-1980 period, the approval of the Mass Housing Law, the establishment of Directorate of Mass Housing and the foundation of Mass Housing Fund resulted in the increase of the role of housing co-operatives in the provision of housing supply. Between 1975 and 1980, the share of housing co-operatives in housing supply was only 10.9%, this ratio reached 21.1% between 1980 and 1985; and it rose 31.5% between 1985 and 1990 (İpýk and Pýnarcýođlu, 2001, p.132).

3. A Brief Review of the Development of Istanbul Metropolitan Area After 1980

The socio-economic and spatial transformations that took place in Istanbul after 1980 were resulted from both the local dynamics of the city and the global dynamics which affected the cities of the developing and developed countries. The changes in Istanbul metropolitan area and especially its central business district (CBD) were widely analyzed and well-described by others (For a brief review see Tekeli, *et al*, 1992; Dökmeci and Berköz, 1994; Keyder and Öncü, 1993; Aksoy and Robins, 1994).

Until the 1970s, Istanbul was a *mono-centric city* in which the offices, retailing and wholesaling, banking, insurance activities were concentrated in Eminönü and Beyoğlu (Dökmeci and Berköz, 1994). In the early 1970s, first signs of transformations were observed. Apart from the accessibility problem which resulted from the inadequate means of transportation, during this period, population growth led to the demand for more offices. However, due to the negative effects of agglomeration, these demands could not be met in the old core. In 1973, the construction of the Bosphorus Bridge and provision of peripheral highways led to the dispersion of new business areas towards Taksim-İzmirli-Zincirlikuyu axis (ibid).

The opening of Fatih Sultan Mehmet Bridge in 1987 drew the development towards the northern side of the city, into the forests and water basins. Decentralization of industry stimulated the expansion towards the east-west direction. In this sense, the changes in the provision of transportation network, opening of Fatih Sultan Mehmet Bridge and Trans-European Motorway (TEM), brought about changes in traffic flows that affected the location pattern of housing, employment and services.

From 1980 to 1990, the population of the city grew from 4.7 million to 7.3 million, and reached 10 million in 2000. In the 1990s, the macroform of the Istanbul metropolitan area was determined by the dispersion of housing areas towards the periphery by reflecting on the provision of transportation network. While the historical urban core was slowly experiencing transformations in itself, the peripheral areas developed rapidly without planning decisions and adequate provision of infrastructure. In the east-west direction, the areas on the north of the Expressway-5 (E-5) were occupied by residential and industrial uses. During this period, the old core Eminönü district experienced population losses. Beyoğlu district turned into a depressed area by losing its residential character (*Greater Istanbul Municipality Master Plan Report*, 1995).

After the approval of the Act of Encouragement of Tourism, No.2634, in March 1982, 13 deluxe hotels were opened in Istanbul between 1983 and 1993. Some of these hotels are parts of international hotel chains were developed by the foreign investments².

² The following hotels are the ones completely established by foreign capital. They are located on the most prestigious sites of Istanbul. Along the Bosphorus, Swissotel was located behind the Dolmabahçe Palace, whereas, Çırağan Kempinsky Hotel was constructed near Çırağan Palace. Hyatt Regency Hotel was constructed in front of the historical Taşkışla building occupied by the Istanbul Technical University. *Çırağan Palace Hotel*, opened in 1986, is located along the seaside between Beşiktaş and Ortaköy. The touristic hotel operation licence was given to Çırağan Sarayý İşletme ve Geliştirme İnşaat Turizm A.Ş., founded in 1986 (Istanbul Chamber of Commerce). The hotel is the investment of Taksim Co.Ltd. (Jersey Islands) that owns 99,7% of the firm and other foreign partners from United Arab Emirates (0,26%). In 1995, the hotel started to be managed by a Thailand-originated management firm, Kare Turistik İşletmecilik ve Tic. A.Ş. (Undersecretary of Treasury). *The Bosphorus Swissotel*, opened in 1988 is a multipartnered investment of Japan and Germany. The touristic hotel operation licence was given to Anadolu Japon Turizm A.Ş. which was established by a Japanese firm, Japon-Turkey Ur.Dev.In.Corp. (85,2% share); Herbert Gather (9,56% share); and other Japanese partners (2,59%). (Istanbul Chamber of Commerce; Undersecretary of

The development of the CBD along Büyükdere Boulevard started after 1980. Then throughout the 1990s, the developments on this axis continued towards Maslak area in north of Şişli district. Büyükdere Boulevard administratively is under control of four district municipalities, *Sarıyer, Beşiktaş, Beşiktaş, Beşiktaş and Kağıthane*. As it was indicated in Cengiz's work (1995, 7-10), since the area was not under the control of one body, there were various plans approved and put into implementation on different dates after 1980 up to date. Some of them were approved by the Ministry of Tourism, and some of them by Beşiktaş, Sarıyer, Beşiktaş and Kağıthane Municipalities. Therefore, the developments on Büyükdere Boulevard toward Maslak came into reality through a variety of different plans approved and implemented in different dates. Figure 3 shows the development of office buildings along Büyükdere Boulevard. The black dots on the figure are the results of the land-use which was realized by Cengiz (1995). The research covers the period from 1980 to 1993. In the area, another land-use was realized by the author in 1999. The buildings which were built between 1993 and 1999 are dotted in gray. As it can be seen from the figure, in six years, almost 40 new office buildings, serving as the headquarters of powerful capital holders, and head offices of banks, other financial institutions and producer service firms were established.

Treasury). *Hyatt Regency*, the last deluxe hotel which was opened in Istanbul, started to operate in 1993. The touristic hotel licence was given to GöktransTurizm ve Tic. A.Ş. which was founded by the Dutch firm Goktrans Holding BV.

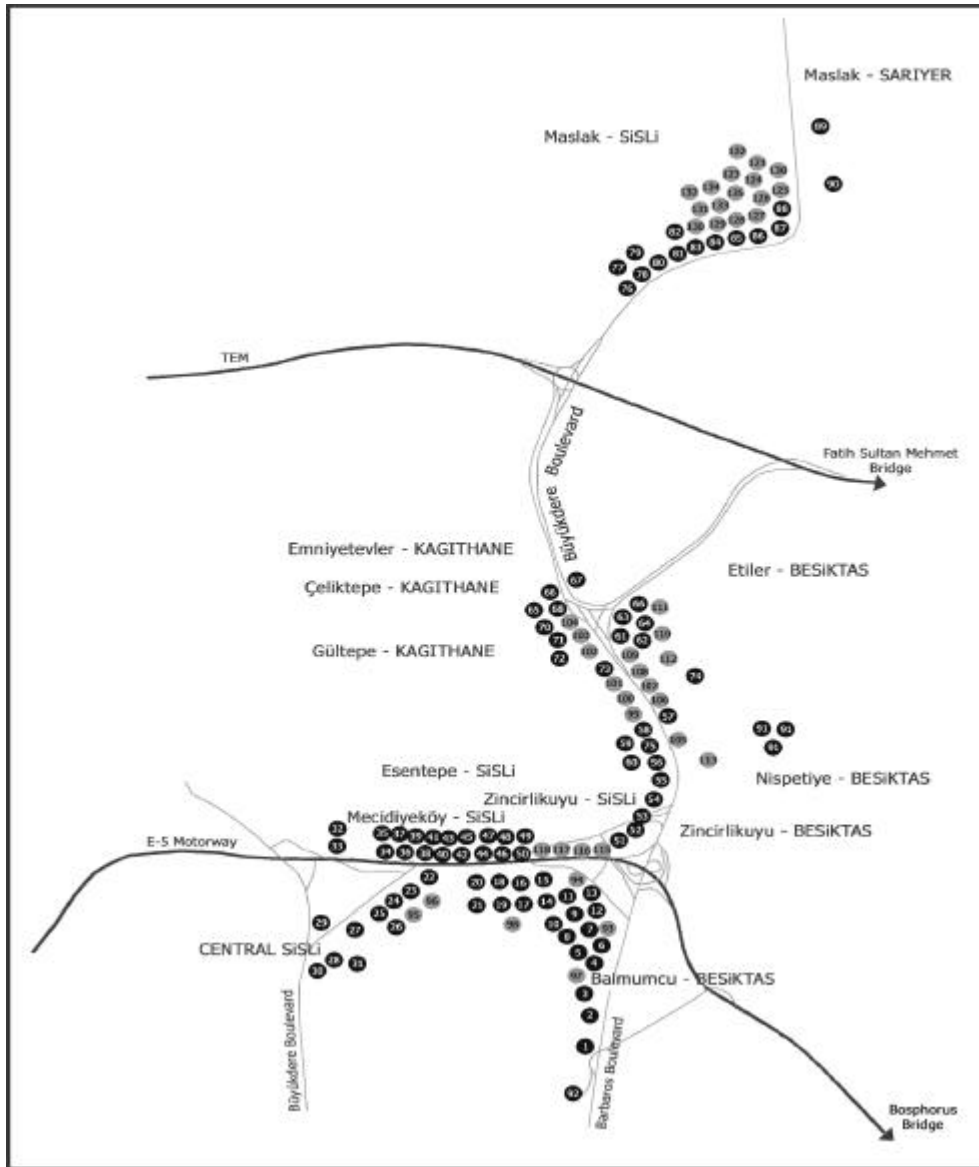


Figure 3. The Development of Office Buildings along Büyükdere Boulevard
Office buildings (until 1993)

Office buildings (between 1993 and 1999)

4. Changes in Istanbul's Economy and Commercial Real Estate Markets

In the late-1980s and throughout the 1990s, sectoral changes took place in the economy of Istanbul. In the 1970s, powerful industrialists in Istanbul, such as Koç, Sabancı, Çukurova, Eczacıbaşı, Profilo holding companies, preferred to locate their production units in peripheral cities of Istanbul. The location shift of the industry from Istanbul towards Marmara region was due to near increases in land prices in the city, the establishment of organized industrial districts, desire to being closer to raw material as well as state subsidies (Sönmez, 1996, pp.39-41). Outward

movement of Turkish and foreign industrialists continued through the 1980s. Between 1980 and 1990, there was not any significant growth in manufacturing sector; and the share of manufacturing in Istanbul's employment decreased from 33.6% to 32.8%. In this period, employment in finance, retail and tourism sectors increased (Sönmez, 1996, p.59). The employment in commercial activities increased to 74% and reached 490,000 employees between 1980 and 1990; and 70% of the labor force in commercial activities was engaged in the retail industry. In 1992, 20% of the workplaces in retail-tourism sector were located in Istanbul and 25% of the labour force was in Istanbul (ibid, 64-65).

During the period between 1980 and 1990, the growth rate of employment in producer services, consumer services and retail activities increased 170%, 65.5%, and 77.5%, respectively, while the growth rate of employment in financial firms and insurance companies reached 37% and 36%, respectively. The growth rate of employment in categories of restaurants and hotels, and real estate and professional services reached 72%, and 220%, respectively (Aksoy, 1996, p.62).

According to Ercan (1995) during the 1980s, the difficulties in the restructuring of capital forced capital owners to invest in urban land. In this period, the areas previously used as production sites were rapidly turned into financial and commercial uses with which higher rents could be achieved. Also, parallel to the decentralization of industry towards the periphery of Istanbul and the Marmara region, the headquarters of these firms have made their location decisions in newly developing business district areas in the city, along Büyükdere-Boulevard, Kozyatađý in Kadýky and Altunizade in Üskdar districts.

Since 1980, except for the central government or metropolitan government-led projects, most of the developments taking place in Istanbul are private-sector led shopping centres and office buildings. The leading actors of these projects were the big capital holders and/or multinational firms acting in various other sectors of the economy³. Similar to the other financial centres or the

³ Among other shopping centres in Ýstanbul, *Akmerkez*, is the biggest in terms of number of shops. Apart from its size, it is also the only shopping centre in the world awarded both the *ICSC European Shopping Centre Award* in 1995 and *International Design and Development Award -Innovative Design and Construction of a New Project-* in 1996. The investors are Akkk Group, Tekfen Holding Company and Ýstikkbal Construction and Export Ltd. The shops were lent to the A-grade brands in Turkey and its customer profile is made up of high income group living and working in the surrounding area, mainly Etiler, Niþantađý and Levent. The construction firm, Yksel Ýnþaat is also the owner of the MetroCity complex opened in 2000 in Zincirlikuyu. Tekfen Holding Company, one of owners of the shopping centre, is also a multinational firm operating internationally with its four multinational companies, namely, Tekfen International Limited (the United Kingdom), Oceanic Finance Corporation (Singapour), TST International Limited (the United Kingdom), and Tekfen Saudi Arabia (Saudi Arabistan). In 1986, Tekfen was the second biggest export firm in Turkey with exports worth \$245 million (Snmez, 1987, 267). Tekfen Holding Company is also one of the leading holding companies in Turkey, acting in industry, construction and commerce, whereas Akkk Group, owned by Diñkk family, is also one of the biggest holdings in Turkey specialized on textile production and exportation. Apart from their four big enterprises in textile industry, Aksu, Ak-Al, Dinarsu, and Aksa, the Group also established a multinational firm in Germany, Atak GmbH. In the early 1980s, Diñkk Family started to get involved in tourism (Snmez, 1987).

world cities, a highly speculative real-estate market became a predominant feature of Istanbul. High prices were not only confined to housing, but also the price of commercial property, such as shopping and business centers as well as hotels reached a high level of real estate prices.

In 1994, Turkish economy entered into a financial crisis⁴. Figure 4 shows the percentage increase in banks, bankers and insurance companies and real-estate companies registered in the Istanbul Chamber of Commerce between 1991 and 1996. As can be observed in the Figure, the signs of economic crisis became apparent in decreasing number of firms between 1992 and 1994⁵. In this period, while banking, finance and insurance companies were experiencing severe bottlenecks and closures, real estate companies continuously increased their revenues and reached an apex. Therefore, in this period, the restructuring of capital was realized by investing into the commercial and residential real estate markets (See Figure 4).

Figure 4. The development trend of "Banks, Bankers and Insurance Companies" and "Real Estate Agents" between 1991 and 1996

Source: Unprocessed data obtained from the Istanbul Chamber of Commerce in 1997, compiled by the author

The majority of firms locating on Büyükdere Boulevard and other Kozyatađı and Altunizade areas were financial, insurance, and producer service firms. Spatial requirements of these firms were mostly "A-grade" offices, equipped with the latest technology and security systems. The rents were determined based on size and location. Majority of foreign firms required A-grade office buildings. The office supply in 1997 reached 400,000 m² (*Property News*, 1998). According to *DTZ Pamir & Soyuer* real estate firm, approximately 89,000 m² of new A-grade office space was constructed in Istanbul only in 1998. The biggest occupiers of the A-grade office market are *banks* and *financial institutions* (See Table 2). In December 1997, the total A-grade office supply in Istanbul CBD

⁴ In this period, while public sector deficit was continuously growing, interest rates were kept lower. This caused both domestic and foreign investors operate with foreign currencies rather than Turkish Lira, which in turn led interest rates to become much higher than previous rates. Turkish lira started to devalue as compared to foreign currencies, causing the financial sector to shrink. To illustrate, total assets in the banking sector in 1994 decreased from \$68,6 billion to \$51,6 billion; and the equity capital fell down to \$6,6 billion to \$4,3 billion. The crisis was overcome when state guarantees was provided to deposit accounts (40.Yılında Türkiye Bankalar Birliđi ve Türk Bankacılıđık Sistemi: "1958-1997" (1998), pp.13-14).

⁵ The recovery of Turkish financial sector was realized in 1995, together with improvements in the banking sector.

reached 485,000 m². The average rent for A-grade offices (without the VAT) was \$ 16.21/m²/month in December 1997 (*Property News*, 1998).

Table 3 shows the locations of noteworthy office buildings and their prices for rent and sales as of 1997. The majority of these buildings are located on Büyükdere Boulevard in Maslak area in ^ai^oli district. The others are in Kozyatađý area in Kadýk^oy district and Altunizade area in Üsküdar district. Apart from establishment of high-rise office buildings along Büyükdere Boulevard and other areas such as Kozyatađý, throughout the 1990s, the location preferences of the high-income groups changed towards the peripheral areas of the city in order to escape from traffic problems, congestion, noise etc.

Table 2. A-grade Office Market Distribution of Current Tenants in 1997

Banking, insurance and financial services	49%
Industrial	15%
Information technology	7%
Holding company	7%
Construction companies	6%
Other services	5%
Government	5%
Professional	3%
Foreign trade and transportation	2%
Media	1%

Total	100%

Source. *Property News* (1998) DTZ Pamir & Soyuer International Property Advisers

Table 3. Rental and Sales Prices of Some Noteworthy Office Buildings in Istanbul in 1997

BUILDING	AREA -DISTRICT	PRICE FOR SALES (\$/m ²)	PRICE FOR RENT (\$/m ² /month)

Acarlar Plaza	Maslak- ^a i ^o li	1500	----
Inco Maslak Plaza	Maslak- ^a i ^o li	1750	----
Jumbo Bus.Centre	Maslak- ^a i ^o li	1750	----
Alarko Alsim-Osmanli B.	Maslak- ^a i ^o li	1800	----
Maslak Tower	Maslak- ^a i ^o li	1750	16
Maslak Trade Centre	Maslak- ^a i ^o li	1400	----
Nurol Maslak Plaza	Maslak- ^a i ^o li	-----	16
Özen Bus.Centre	Maslak- ^a i ^o li	2000	----

Spring Giz Plaza	Maslak- ^a i ^o li	1600	14
Yapý Kredi Plaza (A-B)	Levent-Be ^o ikta ^o	-----	17
Yapý Kredi Plaza (C Block)	Levent-Be ^o ikta ^o	2000	17
Polat Levent (A-B Block)	Levent-Be ^o ikta ^o	1850	----
Meridyen Bus.Centre	Levent-Be ^o ikta ^o	1800	17
Akmerkez (Etiler side)	Etiler-Be ^o ikta ^o	2000	18
Akmerkez (Levent side)	Etiler-Be ^o ikta ^o	1750	17
Nova Baran Centre	^a i ^o li	1600	15
Maya Akar Centre	Esentepe	2250	----
BJK Plaza	Be ^o ikta ^o	-----	16
Yolbulan Plaza	Kozyatađý-Kadýköy	-----	18
Aköz (A-B Blocks)	Altunizade-Üsküdar	-----	20

Source. Akbulut, S. (1997) "Ýþ Merkezleri" (Office Buildings), *Para*, August, pp.24-30,

The widening of the income gap between high-income groups and middle and/or low-income groups and the resultant tension and decreasing security in the city became most apparent in the increasing number of "gated-communities" of the rich. In majority, these villa sites are located in the forests and accessibility of these residences to city is easy via the provision of E-5 and TEM. Therefore, in such villa sites high-price real estate markets came into reality⁶.

5. Istanbul's Economy in the late-1990s and the Growth of Producer Services and Retail Activities in FDIs

As a result of the adoption of the neo-liberal policies after 1980, the FDI inflows into Turkey increased incomparably to the pre-1980 period. As mentioned earlier, the share of the service sector constantly increased the last two decades, and in 2001 the amount of FDIs in service sector surpassed that of the manufacturing. The location preferences of foreign investors were in favor of Istanbul which attracted 60% of all foreign firms in Turkey operating in the service sector as of

⁶ Prices of Some Selected Villa-sites in Istanbul

Projects	Location	Size(m ²)	Price (US\$)
Alarko 4 Seasons	Sarıyer	200-500	300,000 - 750,000
Alkent 2000	B.Çekmece	220-405	450,000 -1,350,000
Demirciköy Houses	Sarıyer	355, 365, 391, 470	425,000 - 575,000
Kemer County	Kemerburgaz	146, 230, 350	350,000 - 800,000
Residence 9 Palms	Kartal	71, 80, 175, 185	90,000 - 290,000
Saklý Koru	Bahçeköy	530, 625, 700, 755	700,000- 1,000,000
Mercansaray Houses	Tuzla	295, 533	400,000-1,200,000
Zekeriyaöy Mansions	Zekeriyaöy	400-520	561,000 - 750,500

Source: SEÇKÝN, S (1997) Villa nüfusu 60 bine ulađtı (The population of villas reached 60,000), *Capital*, No.9, p.114.

1999 (Özdemir)⁷. After 1990, producer and personal services continued to grow. To illustrate, between 1990 and 1996, real estate agents increased by 78%; hotels, restaurants and entertainment activities grew 101%; and banks, bankers and insurance companies rose by 90% (Akýn, 2000, 150). The period between 1999 and 2001 is a critical one for the Turkish economy. Following the financial loss which was a result of the big earthquake in August 1999, in 2001, Turkish economy and especially the banking sector entered into a severe crisis, the first signs of which were observed in November 2000. Then, in February 2001, the crisis hit the Turkish economy, first in banking sector and producer services, and then, within a short time, the impacts of the crisis spread to other sectors of the economy. In the banking sector, in 1999, there were 190,000 employees (Aydýn, 2002). As of December 2001, eleven banks with 503 branches were closed and 23,000 bankers lost their jobs (*Cumhuriyet*, 2001). The financial sector shrank by almost 50% in 2001 (Aydýn, 2002).

Before the crisis, there were 8,300 firms operating in the information technologies sector. In 2001, approximately 60% of these firms were closed and 10,000 employees lost their jobs. In the advertising sector, 500 people lost their jobs and the sector shrank 70%. The crisis in the advertising sector also affected the media industry, leading to 45% of decrease in advertisement revenues which also gave way to approximately 3,000 employees to lose their jobs (Aydýn, 2002). Figure 5 shows the development trend of Finance, Insurance and Real-Estate (FIRE) institutions, which were registered with the Istanbul Chamber of Commerce, from 1990 to the end of 2001. As it can be observed from the Figure 5 starting from 1998, decreases occurred both in the banking-financial sector and real-estate companies. The slight increase in insurance companies between 1999 and 2000 can be explained with the big earthquake in 1999, however after 2000, the number of insurance companies registered with the Istanbul Chamber of Commerce also started to decrease.

⁷ Some of the findings presented in this section are based on a recent work which will be published in *Cities* journal in 2002. In that study, location preferences and development trends of the FDIs in various categories of the service sector were analyzed from 1980 to 1999. Then, a taxonomy of the FDIs registered to the Undersecretary of Treasury under 21 different categories was made in order to reduce the number of categories and to assign firms to similar activity groups, namely, banking and financial services, producer services, retail, transportation, transformative services, personal services, and social services.

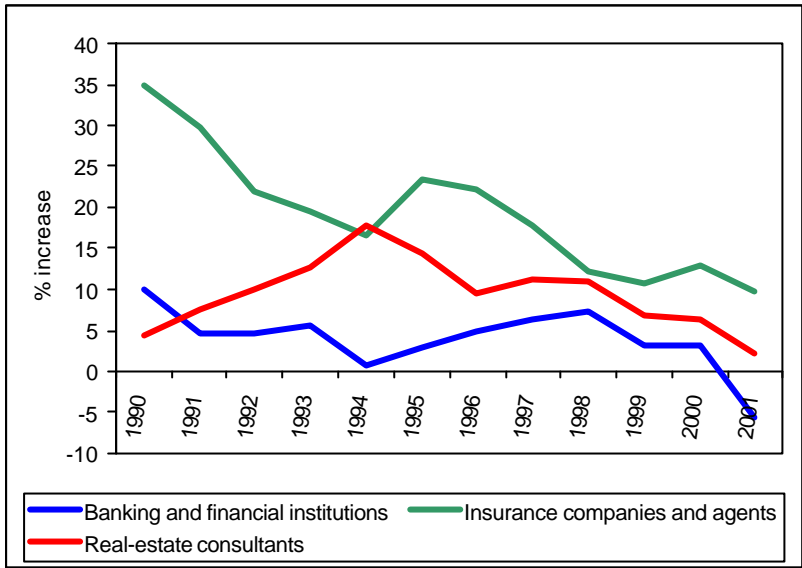


Figure 5. The Development Trend of FIRE institutions between 1990 and 2001
 Source. Unprocessed data of the Istanbul Chamber of Commerce, compiled by the author

The impact of crisis was influential not only in FIRE institutions, but also in other sectors of the economy. Figure 6 shows the percentage of increase in financial consultants and customs commissioners from 1990 to 2001.

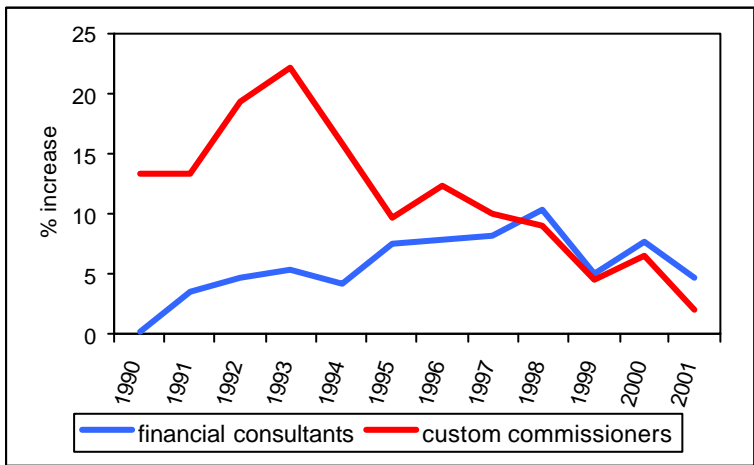


Figure 6. The Development Trend of Financial Consultants and Customs Commissioners Between 1990 and 2001
 Source. Unprocessed data of the Istanbul Chamber of Commerce, compiled by the author

From 1999 to 2001, foreign firms in all categories of the service sector increased 23%. Leading sub-sectors are retail (18%), restaurants, café and catering services (40%), construction activities (43%), transportation services (53%), investment financing (77%), and communication (255%), whereas in 2000, the FDI permits were mostly in communication and energy production sectors.

Whereas in 2001, the FDI inflows in service sector into Turkey were mainly concentrated in the banking and other financial activities, insurance, retail, communication, investment financing, and hotel, pension and camping management. Although the number of foreign investors in banking sector is not high, with regard to the amount of the investment, the HSBC Bank, which established a partnership with a Turkish bank -Demirbank, in 2001, was one the most important investors (Undersecretary of Treasury).

In banking and other financial activities category 95 % of all firms in Turkey were concentrated in Istanbul as of 1999. In producer services, the firms operating in advertising, media, services related to retail, shopping centers and hypermarkets, management consultancies, security services, legal and accounting firms, research and development firms were registered and 66% of these firms invested in Istanbul as of 1999. From 1999 to 2001, 120 producer firms started to operate in Istanbul. Figure 7 shows the development trend of foreign producer firms from 1980 to 2001.

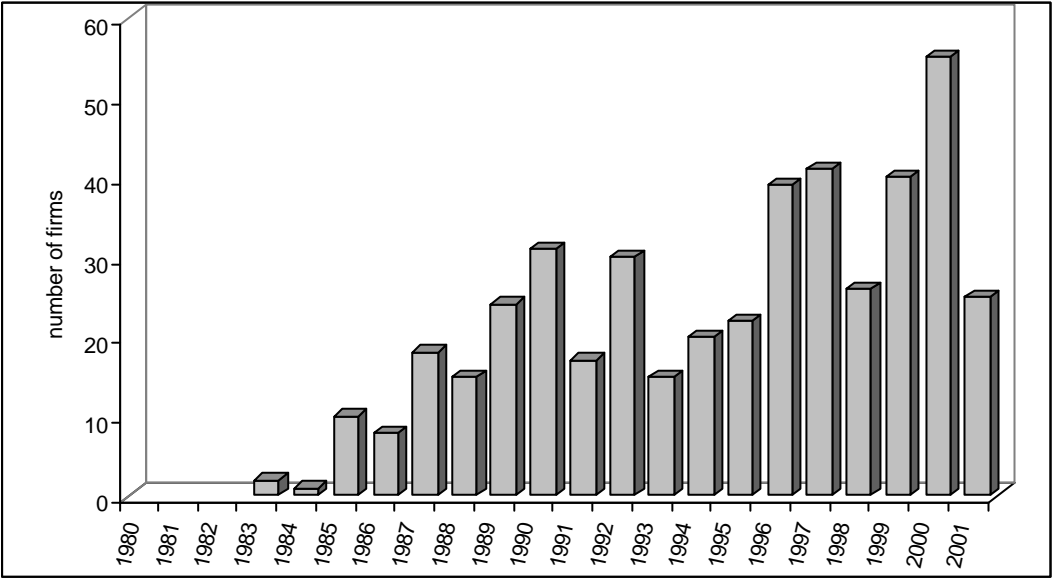


Figure 7. The Development Trend of Producer Firms in Istanbul
 Source. Unprocessed data obtained from the Undersecretary of Treasury, compiled by the author

The reflections of the neo-liberal policies adapted in Turkey in the 1980s, have started to be observed in the retail industry in the 1990s. As of 1999, there were 1852 foreign retail firms in Turkey and 65% of which were located in Istanbul. From 1999 to the end of 2001, 255 foreign retail firms started to operate in Istanbul (See Figure 8).

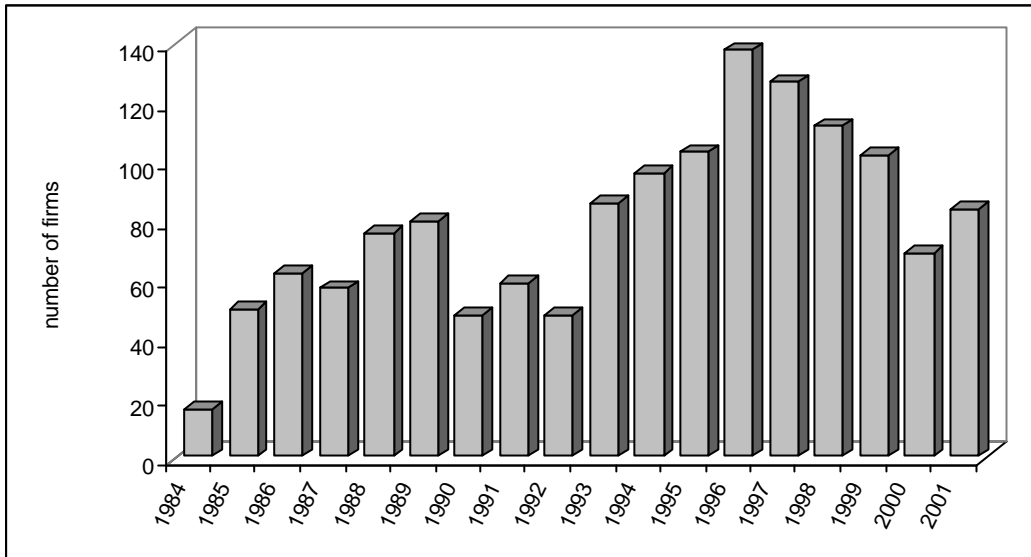


Figure 8. The Development Trend of Retail Firms in Istanbul

Source. Unprocessed data obtained from the Undersecretary of Treasury, compiled by the author

In the 1990s, foreign retailers entered Turkish markets with their brandnames by benefiting from the Foreign Capital Law. In this period, partnerships were established between powerful Turkish holding companies/ multinationals and foreign investors. The joint venture between *Sabancı Holding Company* and *French Carrefour*⁸; the franchise deal between *French Monoprix* and *Transtürk Holding Company*; license deal between *Sezginler Holding Company* and *British Booker*; and the entry of *German Metro AG* into the Turkish markets with *Real Adler and Praktiker* constituted the examples of such partnerships (Arasta, 1998). It should be noted that, these investments were realized by both retail companies as well as domestic or multinational companies operating in other sectors of economy, such as construction and industry⁹. As of 2001,

⁸ CarrefourSa shopping centre is the most well-known example of such partnerships. *Carrefour* was first opened in *Yçerenköy* as a hypermarket in 1993. The foreign investor, Carrefour, has more than 100 hypermarkets in France, apart from its investments in Europe, South America and Far East. Three years later, in 1996, *Sabancı Holding Company* established partnership with Carrefour, with a share of 40%; and the shopping centre part was added to the hypermarket. The total investment of Carrefour in Turkey is \$100 million as of 1993. The French firm, Cefic, is involved in marketing and management of the shopping centre. The total area of CarrefourSa is 195,000 m², 20,000 m² of which is occupied by the Carrefour hypermarket; and 28,000 m² is devoted to the shopping centre part (Arasta, 1998). In 2001, another CarrefourSa shopping center was opened in *Ümraniye* district.

⁹ *Migros* shopping centre is the first shopping centre with the investment of *Migros Türk T.A.Ş.* owned by *Koç Holding Company* in Turkey. The previous investments of this group were generally on hypermarket format and they opened *Ramstore Hypermarket* and *Shopping Centre* in *Moscow* together with *Ram* and *Enka Group* in November 1997 (Arasta, 1998). *Profilo* shopping centre, opened in May 1998, was realized through the renovation of the abandoned *Profilo* television factory. The investor, *Profilo Holding Company*, is an international firm having

there is 927,000 m² of retail space in Istanbul, excluding shopping centers smaller than 10,000 m²¹⁰. The partnerships between powerful Turkish holdings and foreign investors resulted in the opening of hypermarkets and supermarkets in Istanbul.

This trend is also evident in the changing structure of retail industry and changing shopping behaviours of Istanbulites. While the number of hypermarkets and supermarkets were increasing, the number groceries and small-sized markets decreased. In this respect, the location preferences

partnerships with AEG-Germany, Olivetti-Italy and Thompson-France; and operates in Switzerland under the name of *Profilo and F.S.A* (Sönmez, 1987). *Maxi* shopping centre in Silivri was opened in July 1998. It the first shopping centre in Turkey which combines hypermarket, building-market and and shops under one roof. The investor, Hamođlu Holding is also the owner of the deluxe Klassis Hotel in Silivri. *Batý Trade Centre*, is the investment of the Bayýndýr Holding Company. The first phase of the project, *Tatilya* in Beylikdüzü, was opened in April 1996; and since then, it has attracted vast amount of customer trips, 20% of which was generated from Russia, Eastern Europe and the Middle East (Arasta, 1999)

¹⁰ Shopping Centre*	Location	Opening	Investors
Galleria	Bakýrköy	1988	Emlak Bank, VakýfBank
Akmerkez	Be°ikta°	1993	Akkök Group, Tekfen Holding Company, Ýstikbal Group
Capitol	Üsküdar	1993	METUR (Mesa Holding Company, Tursoy Group)
Carousel	Bakýrköy	1995	Mermerler, Çetinsaya, Sevgi Holding Company, Ýlyas Özkök
CarrefourSa	Kadýköy	1996	Carrefour, Sabancı Holding Company
Migros	Avcýlar	1997	Koç Holding Company
Profilo	°i°li	1998	Profilo Holding Company
Mayadrom	Be°ikta°	1998	Maya Group
Maxi	Silivri	1998	Hamođlu Holding Company
CarrefourSA	Ümraniye	2001	Carrefour, Sabancı Holding Company

*Shopping centres smaller than 10,000 m² are not included.

Sources. *Arasta*, (1998 Nos.5, 6 and 7; *Arasta*, (1999) No. 9; *Arasta*, (2002) No.23

<u>Shopping Centre*</u>	<u>Area (m²)**</u>
Galleria	77,000
Akmerkez	180,000
Capitol	57,000
Carousel	60,000
CarrefourSA (Kadýköy)	195,000
CarrefourSA (Ümraniye)	107,000
Migros Beylikdüzü	65,000
Profilo	75,000
Mass Plaza	14,500
Mayadrom	20,000
Maxi	62,000
Polcenter	15,000

TOTAL	927,500

* Only the most important shopping centers are included in this list. There are also other small scale shopping centers and retail complexes in various office buildings.

** Total construction area of each shopping center is given. Actually, gross leasable area of these centers is much smaller.

Sources. *Arasta*, (1998 Nos.5, 6 and 7; *Arasta*, (1999) No. 9; *Arasta*, (2002) No.23

of big hypermarkets and multiples, along the E-5 and TEM, have also stimulated their development. The survey (Serpil, *et al*, 1998) analysing the outcomes of the development of hypermarket and supermarket type merchandising on groceries showed that in the 1990s, while the number of groceries smaller than 50 m² were decreasing, those larger than 50m² increased. The markets larger than 400 m² and above increased their market shares from 10% to 14% between 1995 and 1997 (Serpil, *et al*, 1998, p.5). The shares of multiples and hypermarkets in the retail sector are, respectively, 25-30% and 5-10%. Although results of the survey indicated that the increasing range of activities of multiples and hypermarkets has not resulted in any severe losses for the small sized retailers yet, as the percentage of target customers that multiples and hypermarkets have attracted constitutes a small share in total population, in the long run small and medium sized retailers would be affected by this trend. Figure 9 shows the percentage increase in number of grocery stores registered with the Istanbul Chamber of Commerce between 1990 and 2001. It is apparent in the figure that a decrease started to take place after the mid-1990s.

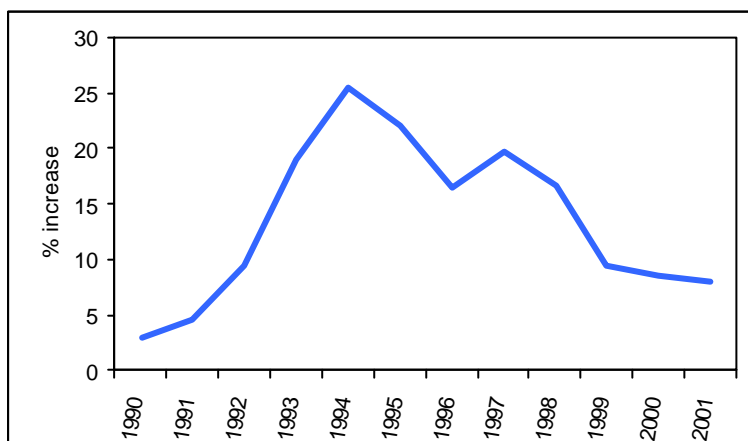


Figure 9. The Development Trend of Grocery Stores between 1990 and 2001
 Source. Unprocessed data of Istanbul Chamber of Commerce, compiled by the author

In the transportation category, which was comprised of air, land, sea transportation firms, other transportation services, and communication firms, 78% of the foreign firms preferred to operate in Istanbul. In personal services, i.e., private health and education firms, total number of foreign firms operating in Turkey was only 43, 53% of which were in Istanbul. Only in the social services category comprised of hotel, pension and camping management; and restaurant, café, and food services, could Istanbul attract 28% of the firms. The small share of Istanbul in attracting such social services might be explained by the increasing rate of tourist activities in Mediterranean and Aegean regions. However, as mentioned earlier, with the implementation of the Act of Encouragement of Tourism, many deluxe hotels were built on prestigious sites along the

Bosphorus straits the investors of which were foreign firms. A similar development also took place in construction activities, leading 65% of foreign firms to invest in other cities of Turkey, rather than Istanbul (Özdemir, forthcoming).

6. Conclusion

After 1980, the neo-liberal policies of the central government, increase in the FDIs in the service sector, restructuring of central-local government relations, and investment shift from manufacturing to the service sector affected the transformations of the CBD. In this period, a significant growth occurred in the financial, producer and consumer services as well as the retail activities in the economy of Istanbul. The development of the CBD toward Büyükdere Boulevard, which started after 1980, continued throughout the 1990s. Turkish and foreign firms operating in the banking, financial and producer services concentrated in Büyükdere Boulevard and Beşiktaş district. After the mid-1990s, Kozyatađı area in Kadıköy district developed as another new business district extension in the Anatolian side. However, Büyükdere Boulevard still maintains its dominance as the prime in attracting both foreign and Turkish financial institutions and producer service firms. In this period, high price commercial and residential real estate markets became a predominant feature of Istanbul. In spite of the insufficiency of the FDI inflows in Turkey, the growth of retail, finance and producer services in the FDIs, partnerships between powerful Turkish capital holders and foreign investors in the retail sector, and proliferation of shopping centers, hypermarkets and office buildings in the Anatolian and European sides of Istanbul influenced the transformations of the CBD of Istanbul in the 1990s.

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