

# Housing Financing in Turkey

Hülya DEMİR, Vildan KURT and Volkan CAGDAS, Turkey

**Key words:** Housing finance, housing policy, immigration.

## SUMMARY

The solution of the housing problem of a country depends on having an institutional housing finance system that has been arranged according to the conditions of that country. Housing finance may change from country to country according to economical and social conditions, politic regimes, consumption habits, internal revenue on one person, average of age and developments of the market of credits.

In this paper, housing finance, its resources and alternatives have been examined. Also Turkish housing finance system and its issues have been hold on. Finally, solutions of these problems have been proposed.

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## 1. INTRODUCTION

The aim of housing finance is to give the funds to people who wants to buy houses or corporations who wants to carry out big residential projects (ALP and YILMAZ 2000).

With the help of a good financial system, it is to be made easier to buy houses, to increase supply to houses and to be made advanced residences by transferring funds from the overbalanced sections to the deficient sections. For this, there must be a balanced relationship between government, financial foundations, house producters, insurance companies and households.

Mortgage is the most developed housing finance system. Economical conditions and its needings have been oriented to supply of various mortgage credits to market.

### 1.1 Classical Mortgage Credit

This is a loan with fixed interests, equivalent paybacks, redeemable, the interest and the capital is paid back with equivalent installments. The payer knows the surviving debts and how much of the property he owns.

### 1.2 Flexible (adjustable) Mortgage Credit

This is a mortgage credit with adjustable interest and paybacks. Tangible asset of revenue and fund costs of authorized financial corporations are taken as a base.

### 1.3 Other Alternatives

The derived choices by changing interest rates, expiry dates, advance payments and pay-Backs (NUROLBANK 2002)

- *Mortgages with increasing paybacks:* Paybacks may be increased in time. The increase is figured out really.
- *Mortgages adjusted in price level:* Interest rate is flexible.
- *Two proportion mortgages:* Mortgage balance is adjusted according to inflation rate.
- *Combined mortgages:* Paybacks are fixed for certain time, but it can be adjusted after some time.
- *Mortgages with shared profits:* A third person participates the speculative income that is gained by the person buys the house.
- *Mortgages with high-payments:* Advanced payments are low, interest rates are fixed or flexible, and the payments in the middle are high.
- *Slided mortgages:* To dislocate the credit balance taken for the realty to another one

- *Mortgages with two stages*: The interest rates can be changed once until the expiration date.
- Early-paid, totally paid, renewable mortgages or mortgages with life insurance or with retiring connections.

The fundamental source of housing finance is household income. In general, there are four types of financing sources:

- Non-institutional finance
- Institutional finance
- Public finance
- International sources

### **1.5 Non-institutional Financement**

Non-institutional finance sector is a system that there are not any official rules and regulations and that the activities are depend on the applications and traditions. In developing countries, the people who want to buy or construct a building, use the non-institutional sources because of non-formed institutional sector. The non-institutional finance sources can be detailed as household income, the funds obtained from relatives, friends and employers, the credits from credit unions, contractors and housing cooperatives (ALP and YILMAZ 2000).

### **1.6 Institutional Finance**

This is a system that approved by public authorities and based on juristic stage. Institutional sector consists of legal institutes and foundations.

- Expert housing finance corporations (The banks and corporations are established by public, financial corporations are established by private companies),
- General finance corporations (Commercial banks, insurance companies, social security institutions, retirement funds) (ALP and YILMAZ 2000).

### **1.7 Public Finance**

Public housing finance consists of public houses and housing projects are constructed by public (direct flow of funds) and government grants (indirect flow of funds) (ALP and YILMAZ 2000).

### **1.8 International Sources**

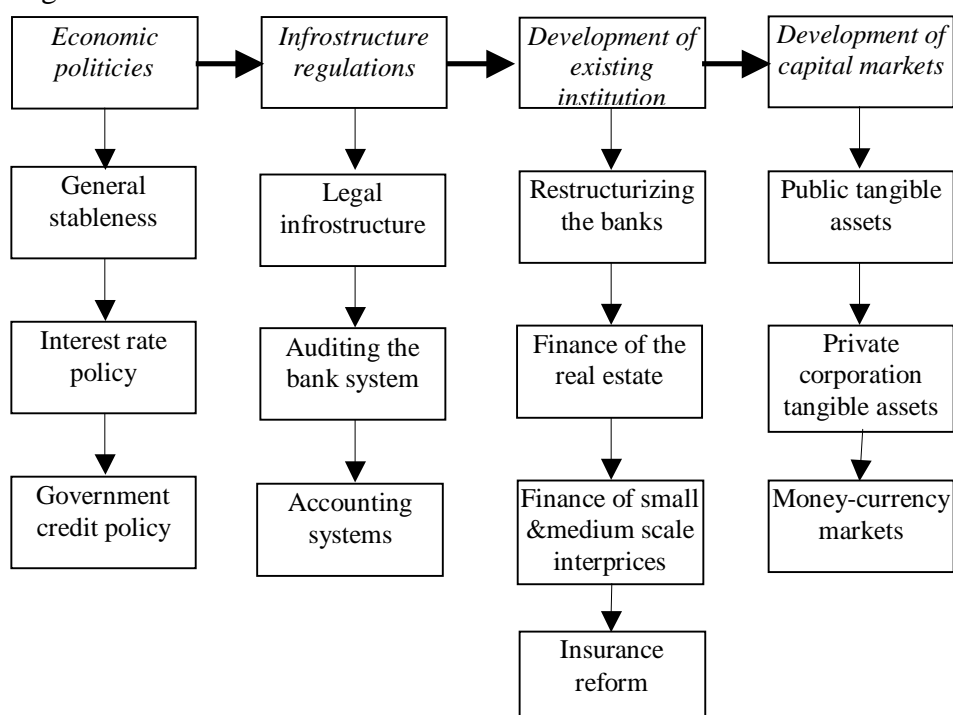
These sources obtained from international foundation such as WorldBank International Money Fund, United Nations and etc.

## 2. HOUSING FINANCE IN DEVELOPING COUNTRIES

There is not a sufficient housing finance system in developing countries. Housing finance is mostly provided by household income and house cooperatives. In developing countries, the problems in housing finance can be put in order as follow:

- The biggest problem while investing is the lack of capital. The personal savings are limited because personal and national income is low and fiscal system mostly is not advanced.
- Housing finance needs long-term credits. In developing countries, existing funds are used in short-term investments because of the economical instability.
- The income of people is unsteady because of high amount of unemployment and economical instability and this condition affects the housing finance system negatively and causes payment difficulties.
- Inflation is one of the most important factors that affect the financial system negatively. It carries away the uncertainties so; the financial corporations find it risky to pool the long-term credits. Regulating the credits according to the inflation causes another problem, because the income of the obligors does not increase according to the inflation.
- Because the distract process is very long and complicated and there are no financial organs, financial establishments do not prefer to give mortgages.
- Because there is not enough turning into an institution, and there are not institutions to give long-term funds, these mortgage instruments cannot be used efficiently.

In developing countries, these negative effects must be eliminated by some precautions which were given in Table 1.



**Table 1:** The study about regulating housing finance for developing countries (NUROLBANK 2002)

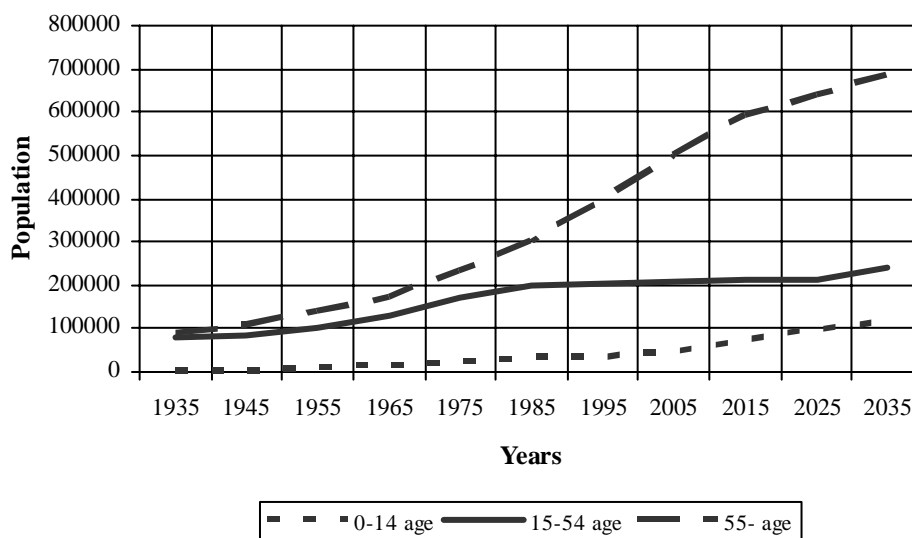
### 3. HOUSING FINANCE IN TURKEY

#### 3.1 General Approach

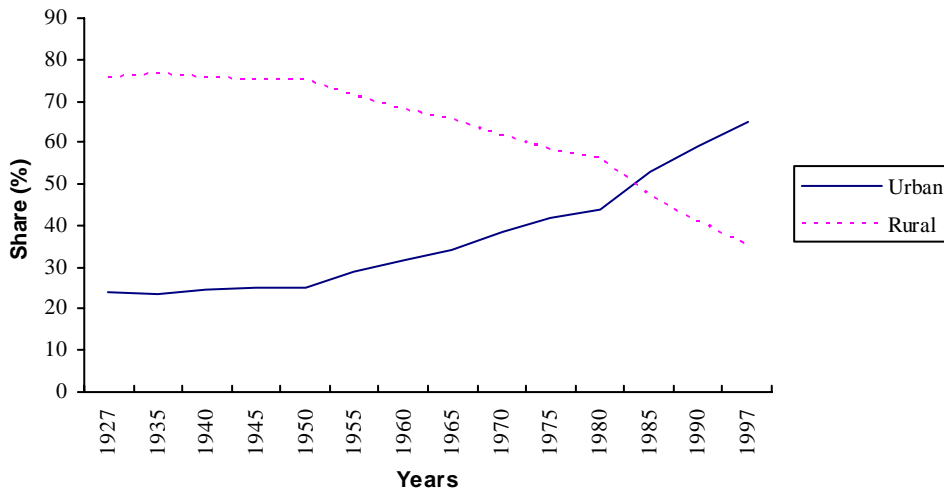
The Constitution of Turkish Republic stated that *The State, takes measurement to provide housing requirements, with an aspect of protecting specialities of cities and environmental circumstances. Also state supports cooperative apartment house investments.* According to this statement, in Turkey, the right of house acquiring is seen as a social and economic right.

Lately, the increment in the elder population, divorced person, single living person and immigration to cities have caused growth of individual demands for houses (Figure 1 and Figure 2).

In Turkey, house supply is not enough for demand. Therefore, the number of the shanty house has still been increasing. Shanty house can be defined as an illegal building. It is constructed on land which is owed public or another person, without any legal permission. In the 1996-2000 period, the demand of house had been determined as 2,540,000. However, in this period about 1,300,000 houses were produced.



**Figure 1:** The growth in population according to the ages (UNPF)

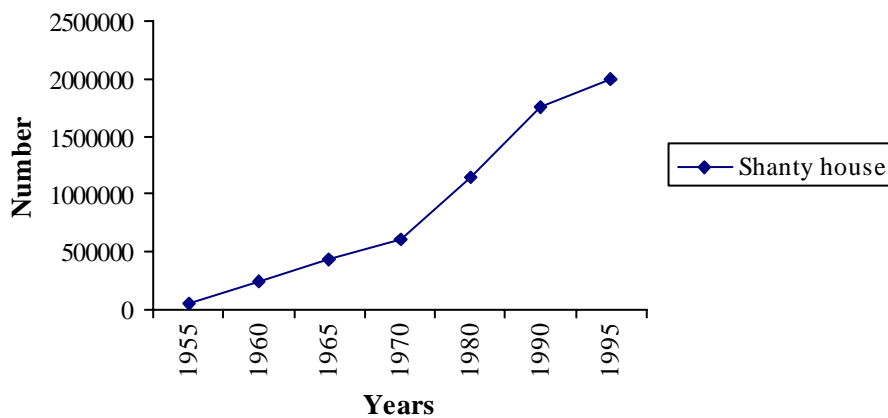


**Figure 2:** The urban and rural populations according to the census years in Turkey

While solving this house problem, the people with lower income are not considered; as a result it is observed that these people are made to be renters in the shanty houses (Figure 3).

Due to the excess production of illegal buildings or shanty houses, it is seemed that there is no shortage of house. However, if these illegal buildings are not considered, there is a real shortage of houses in all around Turkey. By the year 2000, totally 2,816,881 houses are needed in Turkey.

High prices of urban land plots are insufficient for the stability of housing market. There is voidness between the supply and demands of land and this voidness causes problem while creating qualified neighborhoods.



**Figure 3:** Shanty numbers in cities in Turkey

Many housing policies have been applied in order to solve the housing problems that have increased by the increase of urbanization in 1950's. These policies have been focused on the development of financial models lately.

One of the most distinctive properties of Turkish economic is the permanent and high rated inflation. Inflation affects the housing finance, which needs a medium and long-term financial system, negatively. The interest rates are increased because of the inflation, funds are stacked in short expiries, so the risk of the both the people buying houses and the corporations that are giving credits are increased.

When the interest rates are high, people prefer renting houses instead of buying them and use their savings in more profit-bringing fields such as deposit accounts, interests and chattels. This situation causes hesitance in demand of houses.

Housing finance studies in Turkey have started by giving credits for people with low income by The Ministry of Public Works. Between years 1963-1980 and went on by Social Security Organization (Sosyal Sigortalar Kurumu-SSK) funds, between years 1976-1986 Social Insurance Establishment for Tradesmen, Artists and Other Independent Workers (Esnaf ve Sanatkarlar ve Diger Bagimssz Calisanlar Sosyal Sigortalar Kurumu-BAG-KUR) funds, credits for Armed Forces Pension Fund (Ordu Yardimlasma Kurumu-OYAK) since 1963 and funds by Public Housing Administration (Toplu Konut Idaresi-TOKI) after 1980's.

In 1958, there were used to be only three banks giving house credits. On the other hand, in 1989, all banks have been authorized to give credits. Credits with short-term payments with high interests have been given to well-endowed people who could provide the requirements.

In 1989, house certificate system application has been started by TOKI. Operations have made by certain banks which were determined by TOKI, purchase and sale has been freed in second market. However, this system has not worked properly because the nominal values were determined by administration and pricing determined by a council outside of the capital market so the investor could not figured out the real profit. Only the people with high income could be able to save house certificates. Besides, the earnings yield of these certificates was lower than the government interest and bill of exchange (Table 2).

Months	Monthly Interest Rate	Months	Monthly Interest Rate
01-1996	85.3000	06-2000	43.5100
06-1996	75.6100	10-2000	41.4900
01-1997	73.5900	11.2000	48.9100
06-1997	70.5100	12-2000	81.2000
01-1998	78.1900	01-2001	51.5400
06-1998	72.5400	02-2001	344.1000
07-1998	65.9800	03-2001	124.4400
11-1998	80.2500	04-2001	90.2300

Months	Montly Interest Rate	Months	Montly Interest Rate
01-1999	79.0100	06-2001	67.0600
06-1999	77.1300	01-2002	58.7200
12-1999	72.1100	06-2002	48.4200
01-2000	41.8500	01-2003	45.4000
06-2000	43.5100	06-2003	39.6200

**Table 2:** Montly interest rate (TCMB)

Securitization was started with the notification issued by Capital Markets Board of Turkey about the tangible assets depending on the properties in 1984. In 1995 a notification has been broadcasted about setting up and operating of the real estate investment trust (REIT). With this notification, REIT has been redounded as an investment tool.

The net active value of REIT quated in Istanbul Stock Exchange (Istanbul Menkul Kıymetler Borsasi-IMKB) is consist of 75% commercial properties, 3% housing project, 14% land and 8% liquid assets.(NUROLBANK 2002).

In 1984, collective housing fund has been in operation. The funds carved out by fuel oil (26%), importation (18%), monopoly products (28%), and the taxes taken from the people traveling abroad (6%) have been distributed as a house credit (Nurol Bank, 2002). In 1984, house spending has been formed the 90% of the total consumption. In 1988, 16% of the source has been transferred to the general budget, in 1992 this ratio has become 32%, in 1993 total amount of fund resources have been transferred to the general budget. Increase in the inflation caused these funds to be insufficient. Because the sources of TOKI were based on taxes, it has become impossible to grow these sources. The ratio of mortgage credits obtained in this wise to the cost of houses remained 20%.

By 1984-2001, 1,045,968 houses have been bought on credit provided by TOKI, 1,012,329 houses have been finished (Table 3).

Years	Housing Projects	Personal Loan	Martyr Families	Total
1984	142,597	7,350	-	149,947
1985	70,015	17,850	-	87,865
1986	138,707	18,820	249	157,776
1987	140,813	16,580	27	157,420
1988	29,918	28,941	24	58,883
1989	25,947	3,674	144	29,765
1990	113,003	-	36	113,039
1991	83,272	-	26	83,298
1992	24,327	-	484	24,811
1993	16,746	-	307	17,053



Years	Housing Projects	Personal Loan	Martyr Families	Total
1994	30,313	-	261	30,574
1995	25,709	-	861	26,570
1996	25,952	-	1,047	26,999
1997	21,355	-	1,204	22,559
1998	36,185	-	1,435	37,620
1999	14,296	-	1,305	15,601
2000	1,828	-	1,071	2,899
2001	2,466	-	823	3,289
Total	943,449	93,215	9,304	1,045,968

**Table 3:** The number of houses bought on tick provided by TOKI by years. (TOKI)

In accordance with the Housing Saving System and House Credits Ordinance broadcasted in 1995, personal savings hve to be supported by the constructional savings account. In this regard the m<sup>2</sup> size of the credit, construction cost and the change in the house according to the population of the place are the factors that affect the government policies about the housing.

In our country, housing offer by building cooperatives has started in 1934. In 1987, law number 2985, named as Housing Law, has supported Housing Cooperatives. The rate of the housing cooperatives in house production was 8.9% in 1980 meanwhile; it became its maximum value, 31% in 1992-1993.

In Housing finance system, mortgage credits and credit types that need continuity has not been settled down yet. In Table 4, we see the rate of mortgage system in the Gross National Product (GNP) in some countries by year 1998.

England	USA	Portugal	France	Brazil	Argentina	Mexico	Turkey
65.4%	59.4%	55.6%	19.2%	10.4%	5%	2%	0.1%

**Table 4:** The ratio of the mortgage credit sector in GNP (NUROLBANK 2002)

Years	Total Number Of Houses with Licence	Number of Licensed Houses taken by the Building Societies	The Rate of Building Societies (%)
1964	14,343	797	5.56
1965	32,614	1,579	4.84
1966	40,973	2,967	7.24
1967	50,282	2,231	4.44
1968	62,910	3,508	5.58
1969	65,215	3,310	5.07
1970	71,589	3,734	5.22
1971	72,816	4,019	5.52
1972	88,231	5,636	6.39

Years	Total Number Of Houses with Licence	Number of Licensed Houses taken by the Building Societies	The Rate of Building Societies (%)
1973	96,163	8,153	8.48
1974	84,199	5,830	6.92
1975	97,431	7,892	8.10
1976	102,110	9,166	8.98
1977	119,409	10,917	9.14
1978	120,615	11,688	9.69
1979	124,297	13,978	11.25
1980	139,207	12,056	8.66
1981	118,778	12,501	10.52
1982	115,986	15,571	13.42
1983	113,453	17,201	15.16
1984	122,580	19,456	15.87
1985	118,205	21,273	17.99
1986	168,597	34,311	20.35
1987	191,109	41,931	21.94
1988	205,485	43,389	21.11
1989	250,480	67,140	26.80
1990	232,018	58,566	25.24
1991	227,570	61,842	27.17
1992	268,886	83,204	30.94
1993	269,694	83,421	30.93
1994	245,610	68,767	27.99
1995	248,946	68,799	27.64
1996	267,306	79,229	29.64
1997	277,056	76,541	27.63
1998	219,737	56,663	25.79

**Table 5:** The rate of building societies in production of licensed houses according to their warrants (DPT)

Special housing finance programs that started in 1980s appeared as a by-product of Commercial Banks. Small-scaled debts with fixed interests could have given, in order to be paid until 2-3 years (by year 2000, varied between 1.5 billion TL (\$2794) and 100 billion TL). Some of the commercial banks have given credits with expiration in 8-20 years. However, after the economical crisis in 2001, the terms of these credits have been lowered down.

Nowadays, the share of fiscal markets in housing finance is only 2.7%. (PIAR-GALLUP 1991)

	1996	1997	1998	1999	2000
Public sector	1.7	1.4	1.5	2.8	2.1
Private sector	39.6	35.8	36.8	41.5	43

**Table 6:** The share of housing investments in total fixed capital investments (DPT)

In Turkey, various housing finance instruments such as, TOKI, Emlakbank, REIT, Real Estate Certificates and etc. have been settled up. However, in generally, these tools have not been working in coordination and have not adopted the economical condition of this time. Issues have been worked to solve by only public authorities, solutions which depends on market mechanism, have not been produced. Therefore housing finance has still been resolved. The reasons of this result can be listed as follow;

- Insufficiency of fiscal resources
- Deficiencies in distrubition of fiscal resources
- Strategic planning faults
- Absence of efficently working property liquidty system
- Economic instability
- Populist urban policies such as development amnesties.

Consequently, absence of efficiently working instutional finance system, housing finance is still providing by household income, reltives assistance or getting into debt to contractors.

### 3.2 The Latest Improvements in Turkey

Nowadays, in Turkey, it has been argued to necessity amendment of law for long term mortgage credits. In Turkey Law, it is recognized that there are relationship between property sale and credit.

Also in Turkish Law, distress-sale mortgage process is making to become widespread of mortgage system diffucult.

Also, in our country, transforming of mortgage debt to securities and according to capital market code the asset-backed securiticities are applying.

TOKI has executed some studies about development new housing finance systems and in year 2002 started to Housing Finance System Depending On The Mortgage Credit System.

Housing Finance System Depending On The Mortgage Credit is based on the idea of buying the debt, which has born of by unloaded houses by credit, owed to Real Estate Investment Trust by the administration with the help of the housing mortgage credits given by Banks And Consumer Finance Establishments and in exchange for this purchasing and debts, importing tangible assets. As a result of this, a subsidiary market will be allowed for the arguments used in housing finance and by developing this market; our country will have an institutional substructure.

In Turkey, financial average, which is to compare the most productive and efficient sectors with the savings, does not work properly. Insufficient amounts of houses are financed by mortgage. There are three reasons for that:

- The revenue gets into debt with usury and the banks give debts to government instead of buying immovable.
- State banks subsidize according to government policies.
- Major private banks do not want to get into mortgage process because they support industrial holdings and the other activities of their own groups.

Because of these reasons, people who want to buy houses are the ones who have cash for pre-payment or the ones who are able to find loans by other ways.

### **3.3 Things to Be Done For Long-Term Mortgage Credit**

- The prior condition to build up a long-term mortgage credit system is to form the market conditions and to lower the inflation rate under 15%. Unless the market conditions are not formed, the solution of the problem is impossible even the government does all the responsibilities.
- When using mortgage credit as a bank credit, insurance should be made for this credit because it is inevitable to get the total amount of the debt and the interests of the person or the corporation who has difficulty about payments.
- The inconvenience caused by the mortgaging procedures can be solved by the trustee establishments. Credits should be re-arranged according to the law about consumer rights. People should not get into the risk of losing everything they have as they lose their homes because of the fear caused by the increasing inflation and devaluations. As a result, when the agreement between the creditor and the land agent is abolished, the house of the debtor should be taken back, it should be offered and the substitute should be given back to the debtor after cutting the rent of the house and an appropriate penalty. During this process, title deed should be on the trustee company until the total amount of the debt is paid.
- REIT should work more efficiently.
- Private retirement funds should be more effective as institutional investors and liquidity should be provided to the market.
- Financing according to the mortgage models should create tax advantages and should be supported as investments. All of the stamping taxes, deed fees and mortgage fees should be vanished and should be withdrawn to a neglected value. The interest expenses paid by the people using mortgage credit should be reduced from the taxes. Interest incomes and the profit from the purchase and sale should be taken as tax allowance.

## **4. CONCLUSION**

Real Estate in Turkey has a problem about housing finance sources as about other investments. The system necessary for financing property market and especially construction of houses did not work. Existing housing finance system is not functional. By re-arranging the law the

banks should take more part in housing finance. Concepts are needed as clearness, professionalism, polity, quality and standardization for financial evolution of housing sector.

In order to evaluate the finance of housing; a system, which can be used by most of the society and which can be operated according to the market conditions instead of indirect investments that are used by a limited number of people, should be formed. To this end, both the institutional structure of the system and the financial institutions should be formed and applications of credit systems according to Turkey's conditions should be supported.

In order to succeed a system that includes the finance, construction, purchasing and selling, renting houses, and the government should identify the national housing policy directly. The new system should present new sources of funds, should canalize the present funds to the housing finance at certain rates and should take precautions for the investments to be used for buying houses. To this end, forming the policy is very important for transferring and producing funds.

Precautions should be taken to prevent the fund sources of institutions from the sudden and fast increase in inflation and currencies that will cause a crisis in the finance system. Besides, in these periods subventions should be made for the mortgaged housing credits to the institutions that have submitted these credits.

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## CONTACTS

Hulya DEMIR

Yildiz Technical University Department of Geodesy and Photogrammetry Engineering

Yildiz Technical University Main Campus, Yildiz, Besiktas, 34349

Istanbul

TURKEY

Tel. + 90 212 259 70 70

Fax + 90 212 261 07 67

Email: [hudemir@yildiz.edu.tr](mailto:hudemir@yildiz.edu.tr)

Web site: <http://www.tyd.yildiz.edu.tr/>