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18 th Annual ERES Conference

18 June 2011

Online at <https://mpra.ub.uni-muenchen.de/31729/>

MPRA Paper No. 31729, posted 21 Jun 2011 14:13 UTC

**ERES 18 th Annual Conference 2011**  
**Eindhoven, The Netherlands, 15- 18th June 2011**

**DOES RE-DESIGN OF THE POLICIES ON HOUSING  
FINANCE AND SUPPLY HELP TO SOLVE HOUSING  
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**WORKING PAPER**

**Yener COŞKUN**

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# DOES RE-DESIGN OF THE POLICIES ON HOUSING FINANCE AND SUPPLY HELP TO SOLVE HOUSING QUESTION OF TURKEY?\*

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18 June 2011

## ABSTRACT

Housing is one of the major socio-economic problems in Turkey. Widespread spontaneous settlements in urban area may be accepted as the sufficient criterion for the level of housing question in Turkey. Additionally, there are important quality problems in existing housing units. This problematic structure may be also explained by the lack of efficient housing policies and housing finance system. It seems after 2003 that housing policy of Turkey is essentially based on the Housing Development Administration's (HDA) pragmatic approaches. In this context, we may argue that the current housing policy is one-dimensional and also would be unsustainable in some perspectives. In this experimental research, the author attempts to analyze limitations and clear/potential problems of the housing policies of HDA. We basically analyze whether affordable housing problem is minimize with alternative policies and required incentives. In this context, we review housing subsidies and PPPs as the instruments of alternative social/private rental housing supply models. In a broader perspective, the original contribution of this paper is to examine private rental housing, social rental housing, urban renewal, micro-finance and housing production of REITs as the alternative housing supply/finance models to improve affordable housing. We conclude that these alternative housing supply/finance models may improve housing affordability and hence minimize the housing question in Turkey, if they can optimally design and required incentives may meet by the central/local governments.

**Keywords:** Housing finance, affordable housing, Turkish housing policies, TOKI (Housing Development Administration).

**Jel Classification:** R31, R38.

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\* This paper is partly based on the ongoing PhD research of Yener Coşkun. Opinions expressed in this study are of author's and do not necessarily represent the institutions connected with the author. You may quote or cite with consent of the author.

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## 1. INTRODUCTION

Housing is one of the major socio-economic problems in Turkey. Widespread spontaneous settlements in urban area, may be accepted as sufficient criterion for the level of the housing question in Turkey. Additionally, there are important quality problems in existing housing units. This problematic structure may be also explained by the lack of efficient housing policies and housing finance system.

Although demographic and socio-economic factors are the main sources of high level of housing demand, it is clear that sustainable housing finance is the most important problem of the Turkish housing market, specifically for the lower income groups. Taking into account housing loans/GDP ratio is 4.8 % as of 2008 (Central Bank of the Republic of Turkey, 2010: 27), it is also important to note that most of the households have no or limited access to formal housing finance. In addition to disincentives in market-based solutions to housing finance, it has observed that affordable housing policies of central/local governments were not financially/politically sustainable in the last 50 years.

Because we search off the agenda and less popular issues for Turkey, this study may be accepted as rather experimental. Research approach of the study is based on data/literature analysis and also case studies about Turkey, U.S. and Australia. However the paper provides some updated data about housing question in Turkey and rental housing, it is clear that there is poor quality of the data for the activities of HDA (Housing Development Administration, TOKI) and urban renewals.

The fundamental objective of this study is to analyze limitations and clear/potential problems of the affordable housing policies associated with the available alternative policy options for Turkey. Following specific research questions regarding to Turkish housing markets have been addressed in the paper;

1. To examine essential characteristics of housing question,
2. To define features of housing supply mechanisms and the market players,

3. To discuss major problems of affordable housing,
4. To determine the weaknesses of the policies of HDA,
5. To examine alternative affordable housing policies to minimize housing question specifically in the context of private rental housing, social rental housing, urban renewals, micro-finance and housing supply of REITs,
6. To determine policy suggestions in the context of alternative housing policies to improve affordable housing.

The paper is organized in five further sections. In section two, we briefly analyze dimensions of housing question in Turkey. In section three, we analyse market players and the characteristics of housing supply mechanisms in Turkey. The fourth section put forward the major problems of affordable housing in the context of the activities of the HDA. In this section, we also overview the current/potential problems of HDA. The fifth section reviews extensively the private housing and social rental housing as the alternative housing policies. In this context, we review housing subsidies and PPPs as the instruments of alternative social/private rental housing supply models. Additionally, we briefly examine the impacts of urban renewal, micro finance and housing supply of REITs to affordable housing supply and housing finance. And last section is reserved for the conclusion remarks.

We conclude that these alternative housing supply/finance models may improve housing affordability and hence minimize the housing question in Turkey, if they can optimally design and required incentives may meet by the central/local governments.

## **2. The Dimensions of Housing Question in Turkey**

In order to better contextualize housing question of Turkey, it is adequate to compile some statistics regarding to housing markets. Therefore, the section starts with an examination of stylised facts on Turkish housing market, addressing the question of housing shortage. More specifically, we analyze data on population growth, urbanization, household formation, income distribution and housing shortage in Turkey.

## 2.1 Population Growth and Urbanization

The premier fact that cities are long-lived artifacts. Their tendency is to continue. Unattended, the artifact decays and disintegrates. But as long as there are people in residence, the city will renew itself without letup in unrehearsed *ad hoc* procedures or more methodically (Kostof, 1999: 250).

**Table 1. Population Statistics of Selected Countries (1990-2015)**

(Insert Table 1 here)

Population and household projections provide the number and characteristics of current and future households and thus the forecast of demand for new housing in the market area (Schmitz ve Brett, 2007: 43). In addition to other variables, population growth and rapid urbanization are of two leading determinants of the housing demand. As partially indicated in the above table, Turkey has experienced rapid urbanization and urban population growth after 1950s.

**Figure 1. Population and Annual Rate of Growth by Census Year**



Source: TurkStat (2010a: 5).

However population growth rate has declined in time, as shown in the Figure I, we may define that urban population has showed steady growth in Turkey. In this context, the population of the country reached to 73 million in 2006, from 35,6

million in 1970 (See, Table 2). According to TurkStat data, urban growth rate declined to 32,6 % in 1990-2000 period, from 43,9 % in 1985-1990 period.<sup>1</sup>

### **Table 2. Selected Population Statistics for Turkey (1970-2006)**

**(Insert Table 2 here)**

As seen in the above table, urban population growth is noteworthy in the period of 1970-2006. In this context, the ratio of urban population reached 62,7 % in the year 2006, from 28,7 % in 1970. On the other hand, while urban population is 45,8 million, rural population is 27,2 million in 2006.

### **2.2 Household Formation and Income Levels**

We can view the housing finance sector in terms of supply and demand. Demand for housing finance is in a sense a derived demand that flows from the demand for housing, which in turn depends importantly on the rate of household formation and income levels (Warnock ve Warnock, 2008: 3). Of greater significance in determining housing demand and market potential are the number and type of households that contain a given population. Growing populations signal a corresponding, but not proportional, increase in the number of households (Schmitz and Brett, 2007: 43).

### **Table 3. The Number of Households and Average Household Size in Turkey (1955-2000)**

**(Insert Table 3 here)**

Both population and also number of households in Turkey have increased in last 50 years. According to the above table, population and the number of households respectively reached 67,8 million and 15 million in the year of 2000.<sup>2</sup> Although it has

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<sup>1</sup> Available at: <http://nkg.tuik.gov.tr/son10.asp?gosterge=0&Submit=G%F6r%FCnt%FCle> and <http://nkg.tuik.gov.tr/goster.asp?aile=1> (06.11.2010).

<sup>2</sup> As of 2009, the number of household is 19,2 million in Turkey (See, [http://www.turkstat.gov.tr/VeriBilgi.do?tb\\_id=24&ust\\_id=7](http://www.turkstat.gov.tr/VeriBilgi.do?tb_id=24&ust_id=7), 01.05.2011).

gradually declined in time, population growth rate still seems relatively high in the 1955-2000 period. It is also important to note that average household size has also declined in time. In this context, population/households ratio declined to 4,50 in the year 2000, from 5,68 in the year 1955.

From the perspective of housing markets, these figures/ratios imply that demographic developments are critical components of rising housing demand, specifically in the urban areas of Turkey.<sup>3</sup>

**Table 4. Distribution of Annual Equivalised Household Disposable Incomes by Quintiles Ordered by Equivalised Household Disposable Income (2006-2008)**

**(Insert Table 4 here)**

There has been an important income inequality in Turkey. According to the TurkStat survey results of 2007, among the five quintile groups of the population, the share of the highest income group in total income is 8.1 times the share of the lowest income group (Central Bank of the Republic of Turkey, 2010: 26). As seen in the above table, share of the highest income group (the last 20 % income quintile) is 46,7 % in 2008.

**Table 5. Number of Poor Individuals in Turkey According to Poverty Line Methods (2002-2009)**

**(Insert Table 5 here)**

On the other hand, the number of poors living below 4,3 USD per capita per day are nearly 9,7 million in 2009 and consists of 13,3 % of the whole population. Additionally, average monthly income per household in Turkey is 1.553 Turkish Lira

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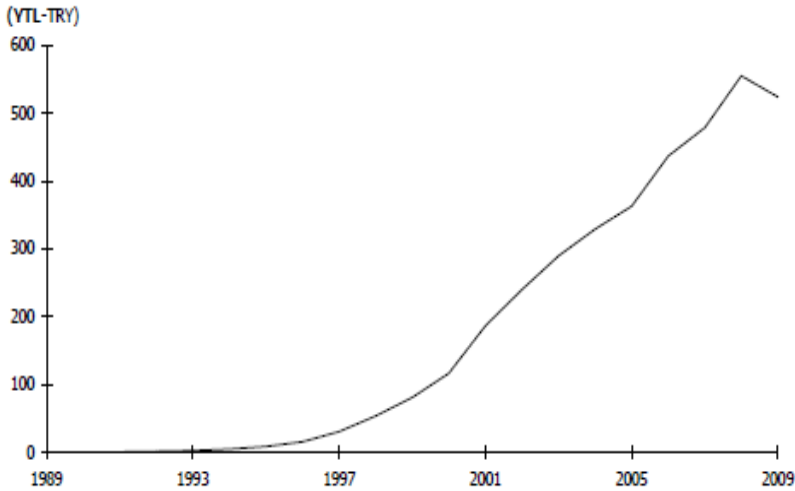
<sup>3</sup> For example, one of the factors increasing housing demand in Istanbul is to decline the average household size from 4,14 in the year 1990 to 3,85 in the year 2000 (Yirmibeşoğlu, 2008: 130).



(nearly equivalent to 1.000 USD)<sup>4</sup> and housing and rent consists of 29 % share in expenditures of households in 2007 (TurkStat, 2010c: 119) (See, Appendix 1).

We have data constraint to define the exact figure of housing affordability for different income groups. However Reidin, private data provider, publishes housing affordability index, house sales price index and composite rent index only since 2007, there is no official indexes to measure housing affordability in Turkey.<sup>5</sup> It is observable that gradually rising land cost, presumably consisting of % 40-% 60 of the house sale price in the urban area, makes housing unaffordable. On the other hand, by using construction cost per square meter as proxy for housing affordability, we may also argue that housing becomes more unaffordable for middle and lower income groups after 1990s due to rising construction costs. Rising housing prices also typically make housing unaffordable for lower income groups.

**Figure 2. Construction Cost Per Square Meter**



Source: TurkStat (2010a: 349).

Taking into account above data and explanation, we may define that lack of sufficient income, rising land prices, higher construction costs and rising house prices make housing unaffordable for the lower income groups in Turkey. From the perspective of lower income groups, we may particularly define that purchasing

<sup>4</sup> According to Central Bank of Turkey’s 12/31/2007 buying exchange rates (1.1585). (see, <http://www.tcmb.gov.tr>).

<sup>5</sup> Because Reidin indexes cover very short period of time, we didn’t prefer to use them in our analysis (see, Reidin, 2010 and 2011).

power of most of the Turkish households may not sufficient enough to finance housing purchase due to income inequalities and also poverty problem. This fundamental problem has caused limited mortgage penetration and high level of informal housing in Turkey. Moreover, the level of poverty and lack of sufficient income may be accepted as the most important rationale for the government interventions to housing markets.

### **2.3 Housing Shortage in Turkey**

Housing is one of the important indicators of a country's socio-economic standards. According to statistics, housing shortage is important problem in Turkey in terms of both quantity and quality. Like most of the developing countries, demographics, urbanization, inward migration,<sup>6</sup> renewals etc. are accepted as the leading factors of the growing housing demand in the country.

Making adequate shelter available and accessible to meet the housing requirements of the ever-increasing populations of the urban settlements remains to be a challenge for Turkey since the needs and demands are diverse and the funds are limited.<sup>7</sup> Because less developed formal housing production/finance system hasn't supplied sufficient housing units to the market, both housing shortage in formal market and also informal housing production (gecekondu) have increased in time. Taking into account nearly 12,5 million or 25,5 %<sup>8</sup> of the urban population live in gecekondu (illegal/informal/squatter settlement) (see, Keleş, 2006: 458), we conclude that formal housing markets have not created sustainable solutions to the housing question. Moreover, illegal housing production and finance pattern have made substantial impacts on the country's social, economic and political transformation in the last five decades. In this process, it is observable that there were also no coordinated, politically neutral and sustainable social housing policies in the country.

In this section, our primary empirical strategy is to discuss the gap between housing supply and demand in Turkey based on the official figures/reports. But it is hard to

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<sup>6</sup> Incorporation of the new immigrants into the modernizing social order could not have occurred without their physical integration operating through the acquisition of housing: the dynamics of incorporation depended closely on the ease with which immigrants could access land and housing (Keyder, 2005: 125).

<sup>7</sup> Available at: <http://www.toki.gov.tr/> (02.05.2011).

<sup>8</sup> Gecekondu population may change based on the estimation.

estimate the exact figure of housing shortage because of lack of reliable/timely data on both informal and formal housing systems. Nevertheless, available data may suggest that there often is a gap between the housing supply and demand.

Demographics, immigration to urban areas, urbanization, industrialization and urban renewals are known to have significant effects on the domestic demand for real estate in Turkey (Coşkun, 2011: 6). According to below table, which shows the data about new and additional constructions as per purpose of usage, housing is the essential investment field in the Turkish real estate sector. But, according to official statistics and some authors, housing supply is well behind the housing demand.

**Table 6. New and Additional Constructions as per Purpose of Usage (2003-2009)**

**(Insert Table 6 here)**

As of 2000, total number of housing units in Turkey is estimated to be about 14.8 million,<sup>9</sup> 10.2 million of which are placed in regions having population of 20.000 and more. Due to population growth, migration and rapid urbanisation, housing demand increases continuously, and since this requirement can not be met in a planned manner it is tried to be met by unlicensed construction (SPO, 2000: 20).

**Table 7. Housing Demand in the Urban Areas of Turkey (2001-2005)**

**(Insert Table 7 here)**

The total housing requirement in the 8th Plan period (2001-2005), stemming from urbanisation, population growth, renewal and natural disasters, is 3.075.000. It is evident from the SPO data that the yearly basis average housing demand is estimated as 600.000 new units for the 2001-2005 period (SPO, 2000: 195). On the other hand, more than half of above 3 million houses existing at Istanbul today need to be

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<sup>9</sup> For complete analysis of the building and housing stocks in Turkey, see TurkStat (2001).

renovated and also 60 percent of the existing housing stock of more than 15 million houses in the country should also renew (Bayraktar, 2008: 9).

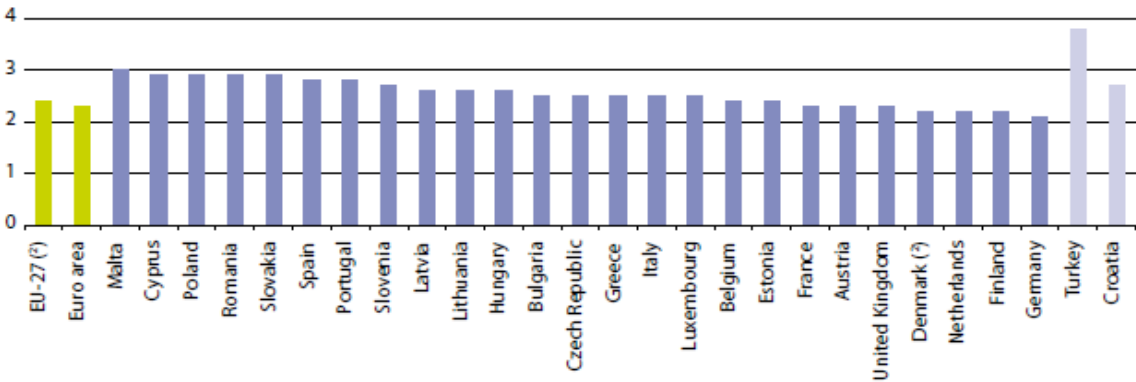
**Table 8. Comparison to Housing Demand and Construction/Occupancy Permits (1990-2003)**

**(Insert Table 8 here)**

The housing question of the Turkey refers to a problematic issue, as suggested by the above table. It is estimated that the number of houses built in the 8th Plan Period is about 1.3 million, which is rather below the needed amount of 2.5 million. It is estimated that illegally built houses and the squatters fill the gap. Construction of 185.379 houses with the loans granted by the Mass Housing Administration (HDA) in 1995-99 period has been completed. This amount constitutes 14 percent of the houses built (SPO, 2000: 194).

On the other hand, the average number of persons living in a household in the EU-27 was 2.4 in 2007, although among the Member States this average ranged from a low of just over two persons per household in Germany to an average of three persons in Malta (Eurostat, 2010: 330). But as seen in the Figure 3, the average number of persons living in a household in Turkey is well above the EU average and close to 3.9 in 2007.

**Figure 3. Average Number of Persons per Private Household (2007)**



(1) Ireland and Sweden, not available. (2) 2006. Source: Eurostat (2010: 330).

Although above tables do not provide exact and complete quantitative observation, they suggest a gap between housing supply and demand in Turkey. This gap leads researchers to introduce a challenging question whether alternative housing supply/finance options in the context of new housing policies might help reduce accumulated housing shortage in the country. This question will be discussed in the sections that follow.

### **3. Housing Supply Mechanisms in Turkey**

#### **3.1 Market Players in Housing Supply**

Housing finance structure of Turkey may be classified as institutional and non-institutional. Non-institutional housing finance sector consists of housing cooperatives, housing contractors (build-sell contractors) and individual producers. Housing production (and financing) pattern of the country is essentially based on the non-institutional housing finance because of the non-institutionalized housing finance structure and lack of sufficient income (SPO, 2001: 58).

It seems in the literature that housing production/finance patterns of Turkey involve both formal/informal features. Tekeli (1987: 104) indicates that housing supply is provided by production of gecekondü, individual producers, housing cooperatives (and their upper level organization), local governments, housing contractors, mass housing producers and Housing Development Administration (HDA). By analysing dwelling typology in Istanbul, Baytın (2000: 3-4) classifies production types into three main groups as build-and-sell, gecekondü, collective housing co-operatives and mass housing. Altınok (2006: 5) underlines that dominant building forms of the Turkey are housing contractors, gecekondü and mass housing. On the other hand, Keleş (2006: 515) says that there are two types of housing in Turkey. Those are gecekondü and luxury apartments.

According to State Planning Organization (SPO) data, it seems that housing is not one of the primary sectors from the perspective of public fixed capital investments. In this context, the share of housing investment in the total public fixed capital investments was % 0,8 in 2006. It is also expected that this ratio would be % 0,8 in the period of 2007-2013 (SPO, 2006: 69).

**Table 9. Public Fixed Capital Investments by Sectors (2006-2013)**

**(Insert Table 9 here)**

In housing production process in Turkey, construction permit is provided before the construction and occupancy permit is provided after completion of the construction (Bayraktar, 2007: 144). According to below SPO data, residential building sector has showed important development in the period of 2002-2009.

**Table 10. Residential Buildings With One or Two Dwelling Units According to Construction Permits (2002-2009)**

**(Insert Table 10 here)**

It is estimated that private sector makes 90-95% of total housing investments in Turkey (Oğuz, 2003: 40). According to both construction and occupancy permits criteria, we may define that private sector is the essential player in the residential housing supply in Turkey. First, according to construction permits in residential buildings with one or two dwelling units, we may observe that market share of private sector is respectively 85 % and 93 % in 2002 and 2009, as seen in the above table.

**Table 11. Residential Buildings With One or Two Dwelling Units According to Occupancy Permits Given by Municipalities (2002-2009)**

**(Insert Table 11 here)**

Second, as seen in the above table, according to occupancy permits in residential buildings with one or two dwelling units, market share of private sector is respectively % 72 and 87 % in 2002 and 2009.

### 3.2 Characteristics of Turkish Housing System

We can generalize the following points regarding to current housing market and housing supply/finance mechanisms in Turkey.

1. *Housing Question*; Turkey has a long-standing housing question. Politic/bureaucratic problems in housing policies, lack of sufficient/sustainable central/local government resources, rapid urbanization and low income level of lower/middle income groups are the essential reasons of housing question in Turkey.
2. *Gecekondu Phenomenon*; Gecekondu is one of the major housing (production) forms in the urban areas of Turkey. From the perspective of institutional housing production/financing, gecekondu phenomenon represents an essential bias from the legal structure and market-based housing finance mechanisms. As an illegal/informal housing finance system, gecekondu also represents major socio-economic/politic reality of the country (see, section 3.3).
3. *Less Developed Mortgage Finance System*: Affordable mortgage products and mortgage system as a whole are less developed in Turkey. In this context, housing loans/GDP ratio is roughly 4,8 % in year 2008 (Central Bank of the Republic of Turkey, 2010: 27) and there has been no mortgage securization since 1998 (see, Coşkun, 2011: 12).
4. *Problems in Credit Mechanism, Capital Market-Financing and Insurance*; Inefficiencies in the financial sub-sectors inevitably create negative impacts on the development of housing finance. In this context, lack of efficient mortgage insurance system and securization make housing finance more costly for average households. On the other hand, limited access to credit markets makes mortgage and formal housing finance less sophisticated and inefficient.
5. *Non-institutional finance*; Less developed mortgage markets, gecekondu phenomenon and lack of consistency in the housing policies have resulted in a self-made and spontaneous housing finance model in the country. The dominant housing finance form in Turkey is non-institutional finance due to structural reasons.

6. *Ownership Housing Market*: However there are no systematic/effective public subsidy system, stable housing policies/institutions and affordable mortgage products, Turkey is ownership housing market. Housing ownership ratio is 68 % and ownership represents ideal tenure model for the Turkish households.
7. *Private Sector Oriented Housing Supply*: Current housing supply mechanism is based on the private sector initiatives. The market share of the HDA, central government agency, is estimated as % 5-% 10 of the total supply.
8. *Inconsistencies in Housing Policies*: Inconsistencies in housing policies might be accepted as one of the leading determinants of the housing question.
9. *Inadequate Social Housing Supply of HDA*: The role of HDA in housing markets has been growing in recent years. Most of the HDA's housing supply is affordable housing and it may be accepted as successful in some respects. But, as analysed in section 4, HDA has important financial/structural shortcomings which might create negative impacts to development of housing markets and social housing.
10. *Lack of Alternative Housing (Supply/Finance) Policies*: To our perspective, both public and private housing finance mechanisms in Turkey imply weaknesses to provide long-term solutions to housing shortage (question). Therefore, it is argued in the following sections that current housing policies should be reviewed.
11. *Limited Impacts of Local Governments to Housing Question*; Local governments (municipalities) have lack of sufficient financial resources to produce affordable housing for low/middle income groups. Additionally, it may be observed in recent years that municipalities become a secondary actor in the HDA's urban renewals projects.
12. *Data Problems*; In general, there is important data availability problem in Turkish housing markets. The problem of data acquisition and absence of real estate index result in transparency problem in the process of pricing, valuation and hence overall investment process (Coşkun, 2010: 22-23).

### **3.3 Gecekondu Phenomenon**

The structure of the housing supply in Turkey has mixed/dual form. On the one hand, there is an authorized/formal housing finance/production sector based on the laws,



private sector initiatives and formal credit mechanisms. But on the other hand, there is large illegal/informal housing finance/production sector, called *gecekodu*.

Dependence on direct finance results in cities that are built as they are financed, with a considerable and visible proportion of self-construction and slum proliferation (Lea, 2009: 30). The unfulfillment of the housing requirements leads to unauthorised construction for bridging the gap (in Turkey). Due to the lack of data on number of buildings since 1984, information about building and illegal building stock is limited. It is estimated that illegal building stock in the biggest three cities is about 2 million and such a trend of building throughout the country spoils the building and environment quality of the cities. Uncontrolled building stock makes it harder to take measures against disasters especially against flood, earthquake and fire (SPO, 2000: 194).

*Gecekodu* production type, which meets the demand of lower and lower-middle income group coming from the rural areas and working at industry or at service units of the city. *Gecekodu* is not a dwelling that is done and lived inside but while living in it is enlarged and developed (Baytın, 2000: 4).

According to the assumption that there will be no further unauthorized housing construction and the existing authorized and unauthorized housing stock in 2000 is increased by the average trend growth rate of the construction permits during 2000-2010, there will be an excess housing supply of 6,126,971 dwelling units. On the other hand, according to the assumption that the housing need will be met by only authorized housing, the housing deficit reaches to 1,577,663 in 2010 if the authorized housing provision evolves according to the trend growth rate. These two findings clearly show that, when unauthorized housing stock is excluded from the total housing stock, the supply of quality and licensed housing becomes an important problem in shaping the housing policy in Turkey (Akin, 2009: 311).

From the perspective of public policies on housing and also market practices, it is critical to note that Turkish housing market may provide inadequate “formal” housing. In this context, it is arguable that increasing the number of formal housing supply methods/alternatives with required incentives for credit

institutions/producers/households may be helpful to improve affordable housing and formal housing finance system. But before analysing this supply-side approach on affordable housing, it would be better to underline the current structure and potential problems of HDA's mass housing supply system as one of the most important housing supply/finance mechanisms in Turkey.

#### **4. Affordable Housing Supply and HDA**

Turkey has a problematic market structure in the context of affordable housing. On the one hand, mortgage markets tend to be less developed and help housing finance of relatively higher income groups. On the other hand, there is no effective subsidy system for rental/ownership housing. Moreover, social housing policies may not be sustainable in long term. In this section, we will review HDA's housing supply mechanism and its weaknesses to define whether current system needs improvements.

##### **4.1 Housing Policy and Social Housing**

Delivering an improved housing supply presents society, national and local government and communities with a set of difficult choices. It is necessary to strike a balance between the goals of: greater economic stability and economic growth; adequate and affordable housing for a growing population; meeting the aspirations of individuals as to the amount of space, the location and nature of housing to be provided; efficient allocation of resources, in particular land; and environmental and amenity considerations (Barker, 2004: 12).

Liberal economy is the essential economic system almost all over the world, specifically after ending of Cold War era. But unlike mainstream philosophy of the liberalism, it has observed substantial state intervention into housing sector in both developed and developing countries. It seems that the level of intervention may increase in the case of affordable housing supply. The systematic government interventions on affordable housing production may be explained by to support social justice, to overcome inadequacy of the market-based housing supply for the poor, to fix housing market inefficiencies etc. In this context, social housing may be accepted

as the tool of redistributions of wealth through less cost housing ownership or rental housing.<sup>10</sup>

The supply of social housing would be important housing supply element in developed countries. For example in Amsterdam, where more than half of the housing is social, non-profit housing associations own 205.000 social rental dwellings. Today, 19 per cent of Austrians and 21 per cent of non-Austrian citizens live in social housing. In Vienna, where half of the housing stock is social housing, subsidies are an important aspect of the city's urban renewal programme. The amount of subsidies granted for a particular project are dependent on the standard of the existing building, but can be up to 90 per cent of total construction costs (UNECE, 2009: 86-87 and Whitehead and Scanlon, 2007: 40).

Social housing can offer development opportunities for the real estate market and housing sector, and it can be a stabilizing factor for economic development. Basic preconditions for successful social housing policies are multi-year strategies, the establishment of institutions and an economic environment that stimulates policy continuity and long-term investments (UNECE, WPLA and REM, 2010: 18). Public housing should not be considered as a separate system to satisfy the needs of low-income groups, but must be integrated into a unified residential market.<sup>11</sup> Creating a housing system that provides fair, affordable and diverse choices for low-income groups requires a new vision and long-term national and local strategies (UNECE, 2009: 78).

#### **4.2 Housing Policies and Housing Supply of HDA**

State couldn't maintain an integrated and comprehensive land and housing policies in Turkey. It has observed in this process that State didn't accept housing as a social phenomenon and establish required public policies (The Ministry of Public Works and Settlement, 2009: 61).<sup>12</sup> Today, social housing is essentially provided by central government (through HDA) and also some municipalities in a limited scope in Turkey. Despite experiments of different models, it hasn't developed institutional

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<sup>10</sup> A literature analysis on government intervention on affordable housing see, Whitehead (2007: 30).

<sup>11</sup> Social housing (through public housing, PPPs, cooperatives, etc.) should be developed as integral part of a housing market (UNECE, WPLA and REM, 2010: 19).

<sup>12</sup> It is also arguable that governments have lack of sufficient financial resources and sometimes political will to solve problems arising from the rapid immigration and urbanization after 1950s.

and sustainable housing finance system in Turkey (Bayraktar, 2007: 105). The central government has been active in the construction of social housing since the 1980s, and currently operates both as regulator and as a provider of social housing. While the basic strategy of HDA as a central unit had been the financial support to social housing units between 1984 and 2003, this strategy has changed and since 2003 HDA has tended to be a direct provider of social housing (Türk and Altes, 2010a: 30).

According to Integrated Urban Development Strategy and Action Plan 2010-2023, HDA is the responsible institution for the affordable housing production in Turkey.<sup>13</sup> In this process, The Ministry of Public Works and Settlement, Ministry of Finance, Municipalities and Special Provincial Administrations are defined as the secondary (relevant) institutions (The Ministry of Public Works and Settlement, 2010: 22). Therefore, one may strongly argue that HDA will continue her leading role (as the affordable housing supplier) in the near future.

HDA provided housing credit support to 940.000 housing units<sup>14</sup> in the 1983-2002 period. In this period, HDA directly produced 43.145 housing units (Bayraktar, 2007: 16 and HDA, 2010a: 5). As seen in the below table, mass housing projects are central importance in most of the HDA's housing production. Therefore, in the 1984-2004 period, 90 % of the housing units, produced by HDA, were classified as mass housing.

**Table 12. The Number of Housing Units Credited by HDA (1984-2004)**

**(Insert Table 12 here)**

It is also evident that HDA's housing production were booming in recent years. As seen in the below table, the number of new housing production of the Institution is 500.000, in the dates between 01.01.2003-01.01.2011. In this context, the number of social housing unit is 416.000 and the share of social housing is 83 % in the total

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<sup>13</sup> It is indicated in the Action 3.1.1 of the Plan that dwelling house production according to different income groups' ability to pay and expectations is intended. Also, it is aimed to develop, support and diversify appropriate funding opportunities (The Ministry of Public Works and Settlement, 2010: 22).

<sup>14</sup> This credit support was provided in the context of housing cooperative credits (HDA, 2010a: 5).

house production of HDA. On the other hand, housing produced by revenue sharing model (revenue sharing scheme in return for the land sale) consists of 17 % of the total production. HDA also indicates that 350.000 housing units sold out of 404.000 new dwellings and total investment reached 35 billion Turkish Lira (nearly 20 billion USD as of 01.01.2011) (HDA, 2010a: 4-5).

**Table 13. Social Housing Production of HDA (01.01.2003-01.01.2011)**

**(Insert Table 13 here)**

Social housing production of HDA seems large in scale, but the above data and analysis do not necessarily emphasize an institutional success. Although it is out of the context of the paper, we would like to underline that researchers/practitioners should analyse overall performance of the Institution to reach an objective assessment for the efficiency of the social/non-social housing supply mechanisms of the HDA.

**4.3 Revenue Sharing Approach of HDA: Social vs. Pragmatic Enterprise**

[As not-for-profit organization,] HDA's primary task is to provide housing for the lower and middle income classes at affordable rates (European Mortgage Federation, 2007: 116). HDA categorizes her housing production activities as public housing, urban renewal and the transformation of slums (gecekondu) and resource development projects and development of property with infrastructure. The Institution indicates that public housing and urban renewals are non-profit social projects and help to generate resources (HDA, 2010b: 10).

In Istanbul, HDA have become directly involved in the land development process in order to provide an answer to the two main problems that the metropolitan area faces: the low quality and quantity of the houses, and the high prices of serviced urban plots on the legal market (Turk and Altes, 2010b: 183). It may be observed that this approach has also used in different Turkish cities by HDA.

Mass Housing Law implemented by HDA gives authority (in supplementary article 1/k) to implementing or appointing others, to implement profit-oriented projects, to

ensure sources to the benefit of the HDA.<sup>15</sup> Instead of using central government budget in her activities (see, Bayraktar, 2008: 10), the idea of generating own resources for funding of the affordable housing production seems as innovative and bright idea for public sector.

But it is also important to note that there are criticisms in the literature against this pragmatic approach in the context of whether it is suitable with the core missions of the HDA. In this context, Karasu (2009: 256) underlines that HDA's prestigious projects aim to produce housing for upper income groups. Turan (2009: 281) emphasizes that HDA's approach is not proper with her mission about housing production for low income groups. The Author also says that HDA's tender process creates privileged companies. On the other hand Erol (2007: 239) argues that revenue-sharing model is against the Turkish Constitution's equality principle. Additionally, Turk and Altes (2010b: 194) indicate that HDA's revenue sharing scheme in return for the land sale with the private developers is shaped wholly by the profit motive.

It seems that housing policy of Turkey is essentially based on the HDA's pragmatic approaches in recent years. Therefore, it is critical to analyse the positive and negative sides of HDA's housing supply model to understand current framework of the housing policies in Turkey.

#### **4.4 Sustainability Problems of the HDA's Housing Supply Mechanism**

##### **4.4.1 Research Question: Does the HDA System is Sustainable?**

This section seeks to set out a framework to analyse HDA's housing policies to define weaknesses and/or sustainability problems of the current social housing scheme.

The limited success of public housing programmes may be attributed to a number of factors. Economic growth has been given higher priority over social issues due to strong beliefs in market efficiency and the trickle-down effect. Aspects of the

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<sup>15</sup> See, <http://www.toki.gov.tr/english/MASSHOUSINGLAW.PDF>, (11.03.2011).

problem may be scepticism in the political discourse on social housing<sup>16</sup> and the low esteem of representations in the media. There is also insufficient knowledge about the centrality of the housing sector to social development and economic growth (UNECE, 2009: 86-87). From the perspective of Turkey, we may argue that (social) housing production of HDA is one of the critical determinants of the strong growth period of the country in recent years. On the other hand, it seems that social housing has used as a wealth distribution instrument for different socio-economic agents. From the perspective of low/middle income groups and poors, it is possible to argue that having a low-cost social house would be a great opportunity to increase individual wealth accumulation. For a private house producer, house production for HDA would be the best opportunity to make profit.

It has observed in recent years that HDA has showed unusual performance in social house production. Although it seems that hybridity is one of the critical aspects of the HDA's enterprise model, pragmatic sides of the model is also noteworthy. In this context, we will briefly analyse in the below whether HDA's policies are sustainable in the long term.

First, it has observed that current/historical financial/operational information of the HDA hasn't been accessible for third parties (i.e. researchers, market players etc.). Less transparent activities and hence financial structure raise questions on efficiency and accountability.

It is important to note that HDA discloses her ratings in the official website. We summarize below some of the notes about HDA's rating.

"With a Ba3 global scale rating from Moody's International Sub-Sovereign and a BB-rating from Fitch Ratings International Public Finance, HDA (TOKI) is seen as a stable potential investment. Moody's notes HDA offers a strong business model that encourages efficiency and careful management of any risk from exposure that comes its way. FitchRatings gives HDA a positive key rating based on several factors: (1) HDA reports directly to the Prime Minister's Office rather than being part of the general administrative bureaucracy. (2) The Treasury must approve any foreign

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<sup>16</sup> Transferring an affordable housing contributions policy faces particular challenges that are as much ideological as technical (Austin, 2009: 17).

borrowing that HDA may need. All of the Administration's accounts are audited by the High Council Audit Office, which is attached to parliament. HDA must write monthly reports for the Prime Minister's Office, which can also appoint inspectors for the Administration if necessary. (3) Though HDA is a non-profit government administration, it has reported net profit for the last six years (see, <http://www.toki.gov.tr/english/ratings.asp>, 11.04.2011).

Relatively better rating notes of HDA do not necessarily mean that HDA is financially sound and/or operationally efficient. One should note that government financial support is the most critical elements of these ratings. Considered Fannie Mae and Freddie Mac, as the GSEs, failed (and bailed out) with AAA ratings, we can conclude that the ratings of an untransparent government institution would be assessed carefully. In the context of transparency, it is also critical to note that PPP model used by HDA, specifically in the case of urban renewals, involves many unclear financial/ operational points.

Secondly, it is the fact that HDA's activities are out of the scope of the several governmental supervisory authorities<sup>17</sup> based on the rules granting exceptions from the current state audit scheme. The Institution has also no independent audit responsibility. Therefore, it is clear that less effective supervisory structure may also increase negative perceptions on accountability.

A housing strategy is a plan for deploying the resources available (and if needed increasing them) to finance the demand for housing by different segments of society. A purpose of a strategy is to get the most from available resources (Struyk, 2009: 11). However efficiently functioning secondary mortgage market is of critical elements of the mortgage market completeness, the lack of secondary mortgage market is one of the weakest points of the Turkish housing finance system (see, Coşkun, 2011: 12-13). In this context, thirdly, HDA faces a dilemma based on the structural problems of the Turkish economy/financial system. So, it is clear that the absence of secondary mortgage markets create disincentives to the HDA's affordable housing programs. Lack of securization reduces the efficiency of the primary

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<sup>17</sup> In this context, it is indicated in the article 6 of the Mass Housing Law that “for the acts to be performed under this Law, Articles 38 and 50 of the Decree No. 70, provisions of the Law No. 1070 on General Accounting Law, the Law No. 832 on Comptroller General, and Public Procurement Law No. 2886 shall not be applicable.”



mortgage market by increasing costs and creates negative impacts of product diversity.

Fourth, instead of using various tax incentives (for households, credit institutions, housing producers, secondary mortgage institution etc.) or guarantee/subsidy programs, HDA mostly prefers direct/indirect housing production (public-based built-sell) model as the social housing policy instrument. So, there are two important shortcomings of this choice. First, it seems that there are negative externalities arising from the growing of the central government economy (i.e. growing public deficit). Second, government initiatives on housing production discourage/disincentivize private sector investments. In this context, it is important to note that activities of HDA results in lack of a level playing field between HDA and private sector players and also among private sector players.

The residences produced in Istanbul by HDA, the municipalities, developers, cooperatives, and small producers were intended for middle- and upper-income groups (Türk and Altes, 2010b: 194). Therefore, fifth, it seems particularly in the case of urban renewal projects that social and commercial functions would be mixed and finally cretaes questions on social enterprise function of the Institution. In this context, it is important to note that revenue-sharing model (urban renewal projects) is of particular importance.

#### **4.4.2 Discussion: HDA Bank, Turkish Cagamas and/or Alternative Housing Policies**

HDA is the most important policy institution to develop formal housing markets in Turkey. Considered current regulatory framework and practices, it is the fact that HDA's housing policies actually represent the national housing policies. It seems that HDA has transformed to a pragmatic state enterprise in recent years. From the perspective of volume of housing supply, we have to note that this model showed succesfull outcomes. However our preliminary observations indicate that inherent (and clear) costs and limitations of the HDA's housing supply/finance model may create problems. Therefore, it would be possible to argue that the above problems may result in sustainability problems in housing supply model/social housing policies of the HDA.

At this point, we offer two sets of “complementary” suggestions to improve the effectiveness of affordable housing scheme. First group of suggestions are aim to change business model of HDA. Second group of suggestions are aim to improve alternative housing policies.

In the context of first approach, HDA should disclose her detailed financial/operational information to third parties to improve accountability/transparency. In this context, increasing supervision of State and/or independent audit firms may also help to realize this goal.

More importantly, it is arguable that HDA may use various incentives as full service financial firms instead of providing directly/indirectly social house as producer. In this context, it would be useful to discuss costs/benefits of transforming HDA to a full service secondary mortgage market conduit (government sponsored liquidity facility) like Fannie Mae of the US and/or Cagamas Berhad of the Malaysia.<sup>18</sup> The other option is to establish HDA Bank as the brand new state-owned full service housing bank having authorities in both primary and secondary mortgage markets.

It would be interesting to note current regulatory framework of HDA (Mass Housing Law, No. 2985) does not define HDA as a liquidity provider and state insurance supplier to the mortgage markets participants, but it indicates that the Institution may grant individual and mass housing credits, get credit from foreign sources and issue internal/external bonds and any kind of stocks with or without state guarantee. Therefore the current regulatory framework of HDA involves some elements of a secondary market mortgage institution and also non-bank credit institution.

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<sup>18</sup> Cagamas Berhad (Cagamas), the National Mortgage Corporation, was established in 1986 to promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia. It issues debt securities to finance the purchase of housing loans from financial institutions and non-financial institutions. The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost. The Cagamas model is well regarded by the World Bank as a successful secondary mortgage liquidity facility (Available at: <http://www.cagamas.com.my/>, 15.05.2011).

It is discussable that HDA may transform to a super financial institution serving to primary mortgage market (as credit institution), secondary mortgage market (as liquidity and state insurance provider) and also social housing sector (as direct/indirect house producer). But, as indicated above, direct/indirect house production of HDA may involve inefficiencies. On the other hand, it is hard to establish a new state-owned housing bank in Turkey because problematic sides of state initiatives, current economic policies favoring free-market economy and also Emlakbank, failed state-owned housing bank, experience of Turkey.

Therefore, as a conclusion for the first approach, we believe that transforming HDA to a full service secondary mortgage market conduit would be the best option to improve mortgage markets and housing affordability. It would be expected that social house production may be realized by private sectors (through incentives and PPP model) in long term. However it is realistic to assume that HDA may continue her role in the short term.

We may conclude based on the limited analysis of the HDA's social housing policies that current housing policies of HDA is one-dimensional and also may be unsustainable in some perspectives. Therefore, in the context of second approach, we will analyze in the next sections whether different housing supply models would improve affordable housing supply/finance framework in Turkey.

## **5. Overview of the Alternative Housing Supply Models**

The concept of housing policies involve all government interventions aim to increase housing supply (Tekeli, 1983: 221). Therefore, government may support different housing supply (finance) models as part of her priorities.

Despite one-dimensional Turkish social housing finance structure, one may observe multi-products/approaches in stable/developed economies. For example, it has used capital market loans, public loans, equity of the developer, additional subsidies and sometimes the equity of future tenants in Austrian social housing is financed. Additionally, private mortgage finance, comprising up to 50%, is largely raised through the sale of bonds via private housing banks (Lawson et al., 2009: 21). In this context, we will analyze whether alternative housing supply models (namely

private/social rental housing, urban renewals, micro-finance and housing supply of REITs) overcome the problems of affordable housing.

### **5.1 Option 1: Policies on Private Rental Housing**

The importance of a functioning formal rental market is all the more crucial when the mortgage market is not fully developed, because access to ownership is more difficult (LeBlanc, 2009: 365). Because there is no well functioning formal housing market and mortgage sector, the premise of the Author is certainly valid for Turkey. Therefore, we will analyse in the section 5.1 and 5.2 whether private and social rental housing would be alternative affordable housing supply models for Turkey.

#### **5.1.1 Ownership Housing and Rental Housing**

Most governments across the world have been anxious to encourage homeownership and, over the last twenty or thirty years, owner-occupation has generally increased in most urban areas. This is a fairly consistent tendency across countries whatever their level of development (UN Habitat, 2003: 11).

Just as through “push-marketing” the mortgage industry can encourage unsuspecting families to obtain high-cost and otherwise inappropriate mortgage products, it is also important for government policy and programs not to push families into bad tenure choice decisions. Recognizing that tenure and other choices have a significant and meaningful impact on the well-being of individuals, families and communities, it is understandable that crafting housing policies at all levels of government is an intensely political undertaking (Apgar, 2004: 9). The reason why the ideal of universal homeownership has gained a grip is largely related to the experience in the United Kingdom and the United States of America.<sup>19</sup> After 1918, governments in both countries strongly encouraged owner-occupation and during the 1950s both achieved unprecedented levels of homeownership (UN-Habitat, 2003: 103).

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<sup>19</sup> It would be interesting to note that Krueckeberg (1999: 26) argues that there is a property bias in the U.S. The Author says that “we are the inheritors of a nasty and pervasive property bias in our society with roots that run deep, just as other strong biases of gender, race, and nationality still do in spite of our efforts to outlaw them. Our institutions and practices continue to embody and perpetuate the property bias, particularly in the tax system - in the subsidies given to owners but denied to renters and in many of the property tax laws that deny that renters are stakeholders in their communities.”

By the start of the new millennium, however, many of the more explicit forms of support for home ownership had been dramatically reduced. A number of reasons may be given as to why this is the case. One explanation is that much of the assistance provided has merely brought forward access to home ownership for those who ultimately would be able to access it without assistance. A second explanation is that assistance is likely to have been capitalised into house prices, benefiting land owners rather than new purchasers. A third explanation is that explicit subsidies have become more tightly targeted on poorer households while home ownership remains predominantly a tenure for the economically more privileged in society. Finally, home ownership may no longer be seen as the ideal tenure in an increasingly globalised world where flexibility, mobility and just-in-time solutions have emerged as dominant forces (Yates and Whitehead, 2001: 141).

Similar to U.S. and U.K., both general approach of households and also housing policies focus on to increase housing ownership in Turkey. Turkish housing markets are dominated by the ownership housing. However, it has observed in several countries that market based and social rental housing are also integral part of housing markets. In this context, we may argue that rental housing would be an alternative policy option to improve affordable housing opportunities.

Rental and leasing policies should, on the one hand, favour the mobility of people for reasons of work and study and, on the other, make it possible to give concrete answers (e.g. through tax breaks by the state or state-supported social rents) to low income groups (UNECE, WPLA and REM, 2010: 19).

Rental housing in most emerging market economies is subject to a plethora of regulations and taxes often related to the political sense that tenants need protection from landlords. Rent control laws and rigid tenant protection regulations were introduced in many countries and have resulted in a severe lack of investment in rental housing (Hoek-Smit, 2009: 441). Therefore, the culture of ownership housing, housing consumers' choice, affordability of housing and policy-makers' approach to rental markets may define the scope of the (social/private) rental sectors.

### 5.1.2 Data on Tenure Status and Tenancy in Turkey

Real estate represents a hedging instrument rather than a short-term investment instrument, particularly from the perspective of middle and lower - income residents (Coşkun, 2011: 8). Housing ownership (and rental) ratio may change based on the socio-economic/politic structure of the country/region. As a general trend, Turkish households prefer ownership housing either in the form of formal housing or gecekondü instead of rental.

According to TurkStat tenure status classification, the number of households is 15.070.093 in Turkey.<sup>20</sup> In this context, the number of owner is 10.290.843, the number of tenant is 3.604.367, the number of lodging (user) is 310.347 and the number of non-owner but not pay rent group is 730.065.<sup>21</sup> According to non-institutional population concept, housing ownership ratio is 61 % in Turkey, as seen in Table 14.

**Table 14. Income Groups and Tenure Status (2006)**

**(Insert Table 14 here)**

Because housing policies have aimed to improve housing ownership, it has observed that rental house become less available and expensive in Turkey (see, Tekeli, 1987: 103 and Keleş, 2006: 494). Spending on housing and rent consist of considerable amount in Turkish households' spending. Housing Department of Turkey (2003: 19) indicates that the share of spending on rent consists of 1/3 of households spending. It is indicated in the "Household Budget Survey Consumption Expenditures 2007" of TurkStat (2010c: 118) that maximum expenditures are made for housing and rent by 28.9% in 2007 (see, Figure 4).<sup>22</sup>

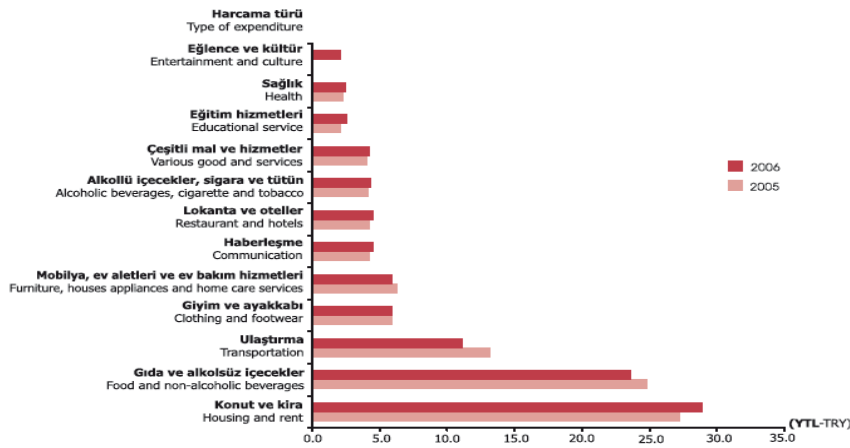
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<sup>20</sup> According to the latest figure, the number of households is 17.4 million in Turkey (TurkStat, 2010c: 119). See, Appendix 1.

<sup>21</sup> See, [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=40&ust\\_id=11](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=40&ust_id=11) (13.10.2010).

<sup>22</sup> In 2007, those living in block of flats allocated 31.1% of their expenditures to housing and rent whereas this figure was 16.5% for those living in shanties (TurkStat, 2010c: 118).

**Figure 4. Consumption Expenditures in Turkey by Years (%), 2006-2007**



Source: TurkStat (2010c: 118).

Additionally, the rate of housing and rent spending is the most important determinant of the inflation level in Turkey. According to TurkStat (2010a: 550), housing and rent index number increased to 22.004 in the year 2009, from 187 in 1995 (base year 1994= 100).

### 5.1.3 Explaining Ownership and Rental Housing Facts of Turkey

The literature explains the benefits of rental housing (see for example, UN Habitat, 2003: 108-109 and LeBlanc, 2009: 364-365). However, it is observable in Turkey that ownership is the dominant tenure culture and there is no specific State support for rental housing. Both public and private sectors have no particular interest for increasing the supply of rental housing. So, lack of adequate affordable rental housing has caused higher rent-to-income ratio for households, specifically in the urban areas. It is also important to note that higher costs of rental housing would also trigger negative socio-economical externalities such as growing gecekondu population in urban areas.

Housing ownership ratio in Turkey is close to ownership oriented housing markets in Europe (see, European Mortgage Federation, 2007: 124). Ortega et. al. (2011: 31) emphasize that relatively low rental share in Spain may be partly attributed to the existence of fiscal distortions favoring ownership. In this context, how can we explain relatively higher level of ownership ratio in Turkey, taken into account lack

of subsidies to homeownership, very limited access to mortgage markets (and lack of mortgage subsidies) and low level of income.<sup>23</sup>

First, ownership represents a better (qualified) tenure status as a general perception of households due to motives of financial/social security. Despite unfavourable socio-economic conditions, relatively higher level of ownership ratio in Turkey may be also explained by the consumers' choice. In this context, we may argue that lack of efficient social security and lack of financial product diversity (due to less developed financial markets) have caused higher demand for housing as the investment category.

Second, it seems that there is an emerging niche rental residential market in Istanbul. However it doesn't represent a mainstream business in terms of both industry-wide income production and volume of rental-housing supply. Therefore, from the perspective of private sector, it is the fact that market-based rental housing is not profitable business alternative for house producers.

Third, only very solvent and long-term actors can usually enter the rental housing market as owners (Atterhög, 2005: 2). Rental housing may be accepted rather complicated business due to its nature.<sup>24</sup> Therefore, to manage rental housing units may require additional operational burden and costs to the firms in the long-term.

Fourth, public policies have no specific incentive/support to increase rental housing supply. Finally, lack of social housing tradition in Turkey and temporality of rental housing would be other reasons of less developed rental market (for the analysis see, Oncu, 1988 and Erman, 2010: 6).

In our perspective, the above reasons are still valid and support growing of ownership market versus rental market.

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<sup>23</sup> In addition to rental housing supply of private sector, private homeowners may offer their flats in the rental market. In the case of Germany, Serrano (2006: 29) indicates by giving an incentive to private homeowners to offer their flats in the rental market, which in turn implies a larger supply of dwellings for rent, and hence lower rents. Although it would be a good idea, it may not be culturally acceptable and long-term solution for improving rental housing market in Turkey.

<sup>24</sup> For developers/investors, it is reasonable to invest ownership housing due to its relatively shorter investment and amortization period. In fact, relatively short term investment nature of ownership housing is also suitable to the economic realities of Turkish economy.



Despite policies in other housing markets favoring housing ownership,<sup>25</sup> we may argue that housing policies in Turkey is almost neutral between ownership and rental choice of households. But it is important to note that there is no comprehensive/effective subsidy program aim to create incentives for both housing ownership and rental housing in Turkey. Nevertheless, to improve affordable housing in the country, rental housing would be accepted as the policy option with required incentives and political will.

Although public attention now focuses on subsidized rental housing, preserving the stock of affordable, privately owned, unsubsidized single-family and small multifamily rental units is equally critical. Lack of suitable financing vehicles is, however, a major obstacle (Apgar, 2004: 8). Reasons for failures or inefficiencies in private rental markets appear to be related to (1) poor taxation and regulatory systems that discourage investment in rental housing, (2) lenders' constraints in dealing with the particular risks of lending to rental investors, and (3) a mismatch between tenant incomes and the cost of providing formal rental housing in the lower-income segments (Hoek-Smit, 2009: 440-441).

It is clear that increasing rental housing supply based on the private initiatives may stabilize the housing prices and improve the affordability. Considered there is almost no investment in this field, we conclude that private rental housing is not a profitable business for private sectors. However this picture may change depends on the incentives which would be provided by the governments as discussed in the next section.

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<sup>25</sup> [In addition to subsidy systems of UK and US favoring home ownership,] In Morocco, considerable tax breaks are granted to developers constructing social housing (defined as units with value under an MDH 200,000 [US\$24,000] ceiling) for ownership; these advantages are not available for rental programs. (LeBlanc, 2009: 374).

## **5.2 Option 2: Public Policies on Private/Social Rental Housing**

### **5.2.1 Social Rental Housing: A Comparison**

However it doesn't sound great in the era of neo-liberalism, social rental housing would be a policy option to combat housing question for the low/middle income groups not only for developing countries but also developed countries.<sup>26</sup>

Pure social rented sectors are declining and varying forms of public/private partnerships are becoming more important across Europe. But, minority and immigrants are important elements in the residential patterns in social housing in Europe (Whitehead and Scanlon, 2007: 27, 33).

The characteristics of rental housing markets are changing depends of the country specific examples. For example, the rental housing market in Sweden is rather unique due to the large market share of the local municipal housing company (between 25-75 percent of the rental apartments are owned by the municipality) (Atterhög and Song, 2005: 2). On the other hand, traditionally, the government has played an important role in the Hong Kong housing market. On the supply side, it runs a large public housing programme (including low-cost housing and public rental units) that provides accommodation for about half of Hong Kong's population (Zhu, 2006: 57). Public sector, central, regional or local government, is the most important supplier in the rental market, like in the Netherlands, Denmark, UK or Ireland. On the contrary, in the Southern European countries the private rental sector is very small and social rents are practically inexistent (Serrano, 2006: 30).

Public rental housing played a major role in the 1960s and 1970s in almost every region of the world, but has steadily declined since. Plus, the bulk of subsidies to households have been shifted to sustaining homeownership (LeBlanc, 2009: 367). Increasingly, commercial investors began to ignore rental housing and, today, there are few countries beyond Western and Northern Europe where private investors find the sector very attractive. Large companies have continued to act as private landlords in Germany and Switzerland and some commercial investors entered the 'buy to let'

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<sup>26</sup> For example, it is indicated in the relevant ODPM report that the failure to invest in social housing for rent lies at the root of Britain's housing crisis (ODPM, 2006: 13).

market in the United Kingdom after the private rented sector was deregulated by the 1988 and 1996 Housing Acts.<sup>101</sup> But these countries have been very much the exception (see, UN-Habitat, 2003: 117-118).

In the case of Turkey, public rental housing generally seems as a privilege of civil servants and army members.<sup>27</sup> Unsurprisingly, this scheme involves various problems such as quality of housing, lack of sufficient maintenance on buildings/houses etc. Despite the opinions about privatizations of the current state-owned dwellings, it seems that current sub-optimal model will continue for the benefits of selected tenants.

The current rental housing market structure of Turkey also criticizes by the State in her formal reports. For example, SPO (2001: 19,65) suggests that rental housing cooperatives may establish and produce rental houses specifically for the young households in the urban area. Additionally, rental housing would be alternative housing option for the households living in *gecekondu*. On the other hand, The Ministry of Public Works and Settlement (2009: 28, 34) underlines that lack of sufficient public policies on rental housing is a matter of concern. It was suggested in the relevant report that housing cooperatives may produce rental housings and also manage this portfolio.

Despite even criticism from public side, there is no effective housing policy tool using social rental housing to improve living conditions of lower income groups. Not surprisingly, HDA and municipalities have also no comprehensive/sustainable policies to increase social rental housing supply. In this context, it seems that Mass Housing Law of Turkey (No. 2985, Date of Official Gazette: 17.03.1984-Nr. 18344) does not indicate specific duty about rental housing to HDA.<sup>28</sup> On the other hand, according to article 69 of the Municipal Law of Turkey (No. 5393, Date of Official Gazette: 13.07.2005-Nr. 25874), municipalities have authority to engage lease of

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<sup>27</sup> On the other hand, there is no housing allowances to lower income renters in Turkey as is the case of Belgium, France or Finland (see, Serrano, 2006: 30).

<sup>28</sup> It may be interesting to note that according to Article 2 of the Mass Housing Law of Turkey, the revenues of HDA may also involve housing rental revenues (see, <http://www.toki.gov.tr/english/MASSHOUINGLAW.PDF>, 11.03.2011).

mass housings.<sup>29</sup> But it is observable that municipalities have no sufficient resources to finance supply of social rental housing.

Therefore, we conclude that HDA and municipalities have no specific agenda and actual operations on the social rental housing.

### **5.2.2 PPPs, Subsidies and Feasibility Test for Turkey**

Housing subsidies favoring ownership againsts rental housing may play an important role to increase housing ownership ratio. In this context, it is indicated that granting of huge amounts of tax relief on mortgage payments in United Kingdom and the United States of America is among reasons of the high level housing ownership ratio (see, UN-Habitat, 2003: 104). For the Spanish housing market Ortega et. al. (2011: 31) find that eliminating the existing subsidy to house purchases,<sup>30</sup> introducing a comparable subsidy to rental payments or increasing the efficiency in the production of housing rental services raise the rental share by a similar amount.

As indicated before, there is no policy oriented/comprehensive subsidy program for both ownership/rental housing in Turkey. However, we believe that optimally designed subsidy program for public rental housing may help to minimize affordable housing problem.

### **Table 15. Subsidies to Rental Sector and Feasibility Test for Turkey**

**(Insert Table 15 here)**

As indicated in the above table, we may define several policy options to improve rental housing investments for Turkey. But, it does not seem realistic to implement some of the above suggestions because of budget constraints of central and local

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<sup>29</sup> Article 69: "The Municipality shall be entitled to provide plots with complete infrastructure within the municipal boundaries and contiguous areas to enable performance of urban development activities in the most orderly manner and to meet the housing, industrial and commercial requirements of the county; to engage in purchase, expropriation, exchange of plots for construction, lease of mass housings and to establish cooperation with the banks and other public institutions and corporations, and to realize joint projects on this subject (...)." Available at: <http://www.ibb.gov.tr/en-US/Organizasyon/Birimler/FinansmanMd/Documents/MUNICIPAL%20Law%20Nr.5393.doc> (16.04.2011).

<sup>30</sup> Ortega et. al. (2011: 21) indicate in their econometric model that 15 % income tax deduction (applied until 2011) is the critical subsidy element for house purchases.

governments. But, among these policy options, equity subsidies linked to equity investments, production subsidies and PPP (public-private partnerships) for the provision of affordable rental housing may help to minimize potential financial costs of public sector because of their self-financing characteristics.

Equity subsidies linked to equity investments might be useful to support social rental housing supply of housing construction cooperatives. Because it requires financial contributions of the users, it may help to minimize public costs. But, considered vitalizing housing construction cooperatives doesn't strategically appropriate with the current housing policies and also probably less than expected contributions of the tenants, this suggestion may not become an effective policy option.

We will analyse below whether incentives for private house producers and PPP model, as essential elements of the last two suggestions, would be the optimal choices to increase social rental housing supply.

### **5.2.3 Designing Subsidy System for Turkish Social Rental Housing: The Analysis of Australia and U.S. Rental Market Development**

To show the linkage between private sector subsidies and social rental housing supply, we will analyze Australia and the U.S. rental housing models.

The financing of social and affordable housing in Australia can be categorised into three models: public housing, community housing and affordable rental housing. Prospectively, much more affordable rental housing will be delivered through the National Rental Affordability Scheme (NRAS). This scheme offers financial incentives to encourage private investors, developers and non-profit organisations to construct additional dwellings for rent. Specifically, it offers a \$6,000 Commonwealth refundable tax offset (or grant to registered charities) plus a \$2,000 state grant (or equivalent) per dwelling, indexed, for ten years. Dwellings must be allocated to eligible low and moderate income households at rents no higher than 80% of the local market level for 10 years. There are no restrictions on the use of the dwellings produced after the expiry of the 10-year tax credit period. There are, however, a number of weaknesses of NRAS, as it is designed or operating currently. First, the flat rate subsidy is likely to be inadequate to ensure that affordable housing

projects in high cost areas are viable on an on-going basis. Thus, in high cost areas, the current scheme is unlikely to contribute to development of a sustainable affordable housing sector. Second, the prevailing subsidy levels, structure and current design of demand assistance (CRA) are not sufficient to achieve affordable rents for special needs households or those on low and very low incomes or in high cost locations. Finally, as with any new financial initiative at present, the current economic climate raises considerable uncertainties about the capacity of a scheme to attract private investors (Lawson et al., 2009: 18-20).

Affordable rental housing in the United States is provided through a combination of federal and state programs, very often with supplementary financing or subsidies from other institutions. The two main federal programs directed at affordable rental housing are embedded in the Tax Code. (1) The Low-Income Housing Tax Credit (LIHTC) is a 10-year tax credit granted to investors investing in affordable rental equity. During the period 1995–2005, 1.100.000 housing units have been constructed under the program. The purpose of the federal LIHTC program is to create a financial incentive (in the form of tax credits) for private investors (both profit and nonprofit) to invest in the development of low-income rental housing. The private investor benefits by using the tax credits to reduce its annual tax liability each year during 10 years. (2) Tax-exempt bonds for multifamily rental housing financing are bonds issued by local governments for special government purposes, including the production of affordable rental housing (LeBlanc, 2009: 388-389).

Australia and U.S. affordable rental housing system, involving subsidy system and incentives to encourage private investors, may be accepted as good examples to improve affordable rental housing. In the case of Australia, no restrictions on the use of the dwellings produced after the expiry of the 10-year tax credit period is particularly noteworthy. On the other hand, we should note that tax-exempt bonds issuance of local governments is probably may not suitable for Turkey because of the lack of municipal bond markets.

Overall, increasing the supply of (social/private) rental housing may improve affordable housing in Turkey and optimally designed subsidy program may help to

achieve this goal. The weakest point of the suggestion is that subsidy model requires direct/indirect public costs and hence may probably increase political reactions.

#### **5.2.4 PPP Model for Turkish Social Rental Housing**

The public sector alone cannot solve the housing problems of low-income households. More and more often, interventions on rental housing markets occur through PPPs, by which different levels of government participate in various forms to the financing of the units located in their jurisdictions, together with private entities (LeBlanc, 2009: 393-394). PPPs aim at financing, designing, implementing and operating public sector facilities and services. Their key characteristics include: (a) Long-term (sometimes up to 30 years) service provisions; (b) The transfer of risk to the private sector; and (c) Different forms of long-term contracts drawn up between legal entities and public authorities (UNECE, 2008: 1). PPP model would be preferable to increase rental housing supply because it helps to minimize potential costs of central/local government.

PPPs would be valuable opportunity to solve housing question of Turkey through increasing the supply of affordable market/social rental housing. The positive side of the model is to minimize local/central government costs on social rental housing. Additionally, it looks like to HDA's current housing supply mechanisms, using in some urban renewal projects. However the model has some drawbacks.

First, suggested rental housing supply mechanism implies certain problems in its own merit such as difficulties in the management of a social rental project in the long term, transparency/ accountability problems in the contract management and unclear social cost-benefit analysis etc. Second, income production capacity of the rental housing project may not be satisfactory for the private sector firms, comparing non-rental housing market (which may offer relatively better profit structure in a very short period of time). At this point, we should emphasize by taken into account Australian case that high cost areas for rental housing make further decline in the profit of private firms. To persuade private sector to invest in rental housing, one may adopt Australian case to Turkey by adding "more profit in a short term". However, this suggestion does not seem fair from the perspective of social benefit.

Because government subsidies tend to be insufficient or inappropriate (Schmidt and Budinich, 2006) and also social rental housing seems as long-term/less profitable business, PPPs may not work effectively in Turkey. But again, it is also hypotetically possible to create optimal incentive structure for private sector firms to increase affordable housing supply through PPPs.

### **5.3 Option 3: Housing Supply/Finance and Urban Renewals**

#### **5.3.1 Positive and Negative Sides of Urban Renewals in Turkey**

In addition to private/social rental housing, some argue that urban renewal may be a new policy options to improve affordable housing supply in Turkey. Although it requires a detailed research, we will briefly present our opinions/observations about the feasibility of this suggestion.

One of the important characteristics of urbanization dynamics in Turkey especially after 1980 is that the poors living in gecekondu areas were included in urban rants. This development both accelerated the urban transformation processes in the gecekondu areas, which is still an on going process of today's cities, and made it difficult to consider gecekondu areas as the homogeneous urban districts (Ozcan, 2005: 67).

Turkey has no specific urban renewal policy (Ozden, 2008: 346). It would be appropriate to say that urban regeneration is still in its infancy in Turkey.<sup>31</sup> Piecemeal efforts have been observed throughout the country, especially in Istanbul in the last two decades (Gökşin and Müderrisoğlu, 2005: 7). In recent years a great variety of urban development and renewal projects are started to be implemented in big cities in Turkey. Although they show different approaches in terms of urban intervention, renovation and rehabilitation, implementations are vital both by their spatial and physical formations and social consequences (Dursun and Ekmekçi, 2010: 2).

It would be correct to analyse each renewal project in its own merit. But, to reach a general observation, we may define positive and negative sides of urban transformation projects in Turkey.

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<sup>31</sup> An analys for appraisal problems in urban renewals, see, Tanrıvermiş and Aliefendioğlu (2008).



Related to negative side, some argue that these projects may increase social exclusion in the transformed area. Kuyucu and Ünsal (2010) emphasize that large urban transformation projects are the main mechanisms through which a neo-liberal system is instituted in incompletely commodified urban areas in Turkey. According to analysis, the Authors show that urban transformation projects predominantly aim at physical and demographic upgrading of their respective areas rather than improving the living conditions of existing inhabitants.<sup>32</sup>

Secondly, it is observable that most of the urban renewal projects produce new residential for the high income groups. Hence, from the social perspective, it is clear that housing supply based on the urban renewals doesn't categorically target the lower income groups<sup>33</sup> and have no social mix objective. Moreover, as expected, private initiatives do care "profit maximizing" in the declining urban areas rather than solve to housing question of lower income groups.

Thirdly, it is argued that urban renewal projects may be used as the wealth creation/transfer mechanisms to developers and other players. For example Kuyucu and Ünsal (2010: 2) indicate related to Başbüyük and Tarlabası (in Istanbul) urban transformation projects that "these radical interventions into urban space disproportionately benefit a coalition of urban developers, credit institutions, local and central state actors and the politically and economically stronger inhabitants of these areas, whose interests lie in the institutionalisation of a neo-liberal urban regime."

In this context, Akkar (2006: 36, 37) argues that some urban renewal projects involve profit motive of international capital. Ataöv ve Osmay (2007: 78) indicate that urban renewals in Turkey reflect the benefits of small interest groups. On the other hand, Ince (2006: 54, 89) argues because of high costs of expropriation, most of the

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<sup>32</sup> For example, Koroğlu and Ercoşkun (2006: 183) indicates in the case of Çukurambar/Ankara urban renewal project that previous landowners moved to periphery of the Ankara and built a new gecekondü. The project didn't prevent social exclusion.

<sup>33</sup> It would be interesting to note that North Ankara Entrance Urban Renewal Project may be an exception. Although this project is based on the transformation of gecekondü area in Ankara, Turkey, the income production capacities of the transformation field is low because the basic point in the intervention is to beauty of the city (see, Türk and Altes, 2009: 6).

renewal projects couldn't implement and municipalities have to implement the self-financing urban renewal projects. The Author also indicates that investors don't invest slum areas of Turkey because of the risk of lack of sufficient rent/profit in a short period of time.

The most important positive impacts of the urban renewals is to supply of new residential units. Renewal projects may also create positive externalities to the transformed areas in terms of better infrastructure/living conditions.<sup>34</sup> It may observe that small business may also improve in these areas.

### **5.3.2 Urban Renewals and Affordable Housing**

We may summarize why urban renewals may not helpful to improve affordable housing. First, it is very clear that profit motive and housing supply for high income groups are of critical features of the urban renewals. In other words, they have no particular goal for improving affordability, which is very acceptable in the context of private sector initiatives. Second, housing policies have no specific aim related to increase affordable housing supply through urban renewals. Overall, it is hard to argue that the housing supply which may arise from the urban renewals would be a policy tool to improve affordable housing in Turkey.

We shouldn't expect in this circumstances that urban renewal projects would help to minimize affordable housing problems of low and middle income groups. However it is also hypothetically very possible to create incentives for private sector firms to increase affordable housing supply through urban renewals. As the future research area, we would like to note that this approach would be specifically useful in the gecekonddu area.

### **5.4 Option 4: Micro Finance, REITs and Future Researches**

It would be interesting to discuss whether housing finance/supply opportunities provided by micro finance and REITs may create positive impacts to affordable housing in Turkey.<sup>35</sup>

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<sup>34</sup> Regeneration projects can also introduce new infrastructure such as new lines of transportation, and digital infrastructure (Gökşin and Müderrisoğlu, 2005: 6).

<sup>35</sup> There are certainly other housing finance (supply) mechanisms currently dysfunctional in Turkey. In this context, housing cooperatives, contractual route and state housing banking system are also discussable as the alternative affordable housing finance systems.

#### **5.4.1 Housing Finance by Micro Finance**

It is observable that micro-finance mechanism may provide additional housing finance opportunities for low and middle income groups specifically for the developing countries. Therefore, housing micro finance products may help to improve affordable housing particularly in less developed regions of Turkey. However the weakest point is that it may offer only limited volume of housing credit which would not enough to finance all costs of housing purchase.

Micro-finance is almost inactive in Turkey due to various reasons. But even if it would work effectively, micro-finance may provide only partial opportunity to solve affordable housing problems. So, we should note that impacts of micro-finance to housing affordability would be very limited in Turkey.

#### **5.4.1 Housing Production of REITs**

Usually, commercial rental investment is more profitable than residential housing, which in turn is more profitable than social rental housing. Thus, private investors attracted by those structures will not necessarily be interested in social housing investments, unless additional tax advantages are granted to social projects (LeBlanc, 2009:379). In this context, it seems that Turkish REITs have also focused on commercial real estate projects.

On the other hand, housing supply of REITs historically focuses on middle and high income groups. Therefore, we may argue that the activities of REITs are not directly related to affordable housing supply for targeted low income groups. However, like in the case of increasing rental housing supply of private producers, State may also create incentives for REITs to increase the supply of affordable housing. In this context, for example, HDA may support REITs by using various instruments (i.e. credit subsidies, land-use regulation etc.) to improve affordable ownership housing supply for low/middle income groups. In this context, HDA may employ revenue-sharing model with technical/financial benefits for REITs. On the other hand, the State may also grant additional subsidies to REITs to produce/manage social rental housing.

Therefore, researchers may analyze whether affordable housing opportunities may improve, if public policies would create incentives for both micro-finance and REITs. In our perspective, it seems that micro-finance mechanism may partially help specifically for the lower income groups. However optimally designed incentives for REITs would be successful to improve affordable housing supply.

## **6. CONCLUSION**

This paper explores various critical issues in the intersection of housing shortage, housing policies and limitations and clear/potential problems of HDA as social enterprise with the aim of assessing alternative housing policies for Turkish housing markets. We specifically discuss whether private rental housing, social rental housing, urban renewal, micro-finance and housing production of REITs would be alternative housing supply models to overcome affordable housing problems in Turkey. In this context, we also review housing subsidies and PPPs as the instruments of alternative social/private rental housing supply models.

The structure of housing supply in Turkey has mixed/dual form. On the one hand, there is an authorized/formal housing finance/production sector based on the laws, private sector initiatives and formal credit mechanisms. But, on the other hand, there is a large illegal/informal housing finance/production sector, crystallized in the form of gecekondu phenomenon with various players from politicians to rural immigrants. From the perspective of public policies on housing and also market practices, it would be interesting to note that Turkish housing market may offer only limited “formal” housing supply and financing alternatives. In this context, it is arguable that increasing the number of housing supply/finance alternatives may be helpful to improve affordable housing.

It is the fact that HDA’s housing policies actually represent the national housing policies. It seems that HDA has created a pragmatic state enterprise model in recent years. From the perspective of volume of housing supply, we have to note that this model has showed successful outcomes. However our preliminary observations imply that inherent/clear costs/limitations of the HDA’s model may raise sustainability problems on the housing supply model and also social housing policies of HDA.

At this point, we offer two sets of “complementary” suggestions to improve effectiveness of affordable housing scheme. First group of suggestions are aim to change business model of HDA. As conclusion for the first approach, we believe that transforming HDA to a full service secondary mortgage market conduit would be the best option to improve mortgage markets and housing affordability. Although it is expected that social house production may be realized by private sectors (through incentives and PPP model) in long term. However it is realistic to assume that HDA may continue her role in the short term.

Second group of suggestions are aim to improve alternative housing policies. In this context, we analyzed private/social rental housing, urban renewal, micro-finance and housing production of REITs as alternative housing supply/finance models. We conclude that these alternative housing supply/finance models may improve housing affordability and hence minimize the housing question in Turkey, if they can optimally design and required incentives may meet by the central/local governments.

But if we rate all these models based on the cost-efficiency (for central/local governments) and also scale and self-financing features of housing supply, it seems that best option is the private/social rental housing through PPPs. In this context PPPs may help to minimize potential financial costs of public sector because of self-financing characteristics. The worst option is urban renewal projects, because, similar to REITs housing supply model, most of the urban renewal projects are aim to supply housing to high income groups. Therefore we shouldn't expect that urban renewal projects and REITs may help to minimize affordable housing problems of low and middle income groups. However one should also note that optimally designed incentives for both REITs and urban renewal projects may be succesful to improve affordable housing supply. On the other hand, even if it would work effectively, micro-finance may provide only partial opportunity to solve affordable housing problems for the lower income groups.

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### Appendix 1. Distribution of consumption expenditures by expenditure groups, indicators on average income and expenditures, 2007.

		Türkiye - Turkey		Kent - Urban		Kır - Rural	
		2006	2007	2006	2007	2006	2007
<b>Hanehalkı sayısı (bin)</b> Number of household (thousand)		17 690	<b>17 338</b>	11 398	<b>12 472</b>	6 292	<b>4 866</b>
<b>Hanehalkı başına ortalama aylık gelir (YTL)</b> Average monthly income per household (TRY)		1 365	<b>1 553</b>	1 519	<b>1 708</b>	1 085	<b>1 157</b>
<b>Hanehalkı başına ortalama aylık harcama (YTL)</b> Average monthly expenditure per household (TRY)		1 225	<b>1 364</b>	1 364	<b>1 500</b>	973	<b>1 015</b>
<b>Tüketim harcaması ana grupları</b> Main groups of consumption expenditures (COICOP-HBS)		<b>Dikey - Vertical %</b>					
<b>1-12</b>	<b>Toplam tüketim harcaması</b> Total consumption expenditure	100,0	<b>100,0</b>	100,0	<b>100,0</b>	100,0	<b>100,0</b>
<b>1</b>	<b>Gıda ve alkolsüz içecekler</b> Food and non-alcoholic beverages	24,8	<b>23,6</b>	22,3	<b>21,6</b>	31,2	<b>31,3</b>
<b>2</b>	<b>Alkollü içecekler, sigara ve tütün</b> Alcoholic beverages, cigarette	4,1	<b>4,3</b>	3,8	<b>4,1</b>	4,7	<b>5,2</b>
<b>3</b>	<b>Giyim ve ayakkabı</b> Clothing and footwear	5,9	<b>5,9</b>	5,8	<b>5,7</b>	6,1	<b>6,6</b>
<b>4</b>	<b>Konut ve kira</b> Housing and rent	27,2	<b>28,9</b>	29,2	<b>30,9</b>	22,1	<b>21,6</b>
<b>5</b>	<b>Mobilya, ev aletleri ve ev bakım hizmetleri</b> Furniture, houses appliances and home care services	6,2	<b>5,9</b>	5,8	<b>5,7</b>	7,1	<b>6,7</b>
<b>6</b>	<b>Sağlık</b> Health	2,2	<b>2,4</b>	2,1	<b>2,2</b>	2,3	<b>3,2</b>
<b>7</b>	<b>Ulaştırma</b> Transportation	13,1	<b>11,1</b>	13,2	<b>11,3</b>	12,7	<b>10,5</b>
<b>8</b>	<b>Haberleşme</b> Communication	4,2	<b>4,5</b>	4,2	<b>4,6</b>	4,1	<b>4,2</b>
<b>9</b>	<b>Eğlence ve kültür</b> Entertainment and culture	2,2	<b>2,1</b>	2,3	<b>2,2</b>	1,8	<b>1,8</b>
<b>10</b>	<b>Eğitim hizmetleri</b> Educational services	2,1	<b>2,5</b>	2,5	<b>2,8</b>	1,3	<b>1,5</b>
<b>11</b>	<b>Lokanta ve oteller</b> Restaurant and hotels	4,2	<b>4,5</b>	4,5	<b>4,9</b>	3,2	<b>3,2</b>
<b>12</b>	<b>Çeşitli mal ve hizmetler</b> Various good and services	4,0	<b>4,2</b>	4,2	<b>4,2</b>	3,4	<b>4,2</b>

**Not. Oranlar cari değerler üzerinden hesaplanmıştır.**  
Note. Rates are calculated from current values.

Source: TurkStat (2010c: 119).