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Housing Finance in Turkey over the Last 25 Years: Good, Bad or Ugly?

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Introduction

Turkish households traditionally prefer to invest in real estate as opposed to other investments. As a result of experiences during the high inflation, negative real interest rate periods following the 1970s, the majority of Turkish households believe that housing is the strongest available anti-inflationary hedging instrument (Coşkun *et al.* 2014). This economic history may also explain Turkey's high ownership ratio (61 percent) and its patterns of housing demand. Housing finance in the late 1980s was mostly dysfunctional and consequently houses were rarely used as collateral in many parts of the country. Both the Turkish economy and the housing market, however, have benefited from new policies and improved market dynamics since then. This research identifies three important trends which have had great influence on the practices and structure of housing finance in Turkey. These include: (i) the growing impact of central government policies and initiatives on the housing (and real estate) market after the 1980s; (ii) the impressive growth in the housing and primary mortgage markets in last decade; and (iii) the increasing internationalisation of the real estate (and housing) market in Turkey, specifically in last decade. These three key trends reveal that the development of Turkey's housing finance system over the last 25 years has been the result of market dynamics and specific government policies but is also the outcome of a wider socio-political agenda, characterised by the marketisation and liberalisation of the Turkish economy and its housing market.

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This study discusses the economic and institutional environment within which the Turkish housing finance system developed over the last 25 years. It does not, however, include a detailed analysis or assessment of market performance, structural problems or the effectiveness of housing (finance) policies. Instead, it seeks to set out a framework for understanding milestones and trends in the development of Turkish housing markets and their impact on housing finance during this period.

The Turkish experience provides an interesting case study for several reasons. First, it is now an example of an almost completely market-based housing finance regime with some limited exceptions, mostly arising from the activities of the Housing Development Agency, hereafter HDA (TOKI). Second, the Turkish experience also suggests that the current housing finance system has not generated positive efficiency benefits for households, the housing finance market and the financial market more broadly because of structural problems and market incompleteness. Third, by documenting the evolution of housing policies after the 1980s and identifying changes in the institutional, regulatory and market structure of Turkish housing finance, we are able to see how the real estate and housing markets have become some of the main policy instruments for Turkey's central government. Essentially, these instruments have been used by the government to manage socio-economic and political pressures over the last decade. We also discuss what we should expect from the Turkish housing finance system in the near future, based on analysis of existing legislative/policy/market structures and emerging trends.

The Turkish housing finance system over the last 25 years from a marketisation perspective

Overview of the Turkish housing market

According to Turkstat data, there are approximately 20 million buildings in Turkey; 40 percent of these buildings are squatter settlements and 67 percent lack a settlement permit. Approximately 14 million of these buildings are residential. Renovation – that is, demolition and rebuilding – is necessary for approximately 6.5 million of these homes within of the next 20 years because of disaster risks (HDA accessed 2013). This picture implies that the housing and land management system in Turkey has important deficiencies, one key reason for an increased governmental role in housing finance.

The supply of housing in Turkey is market based and is dominated by home-ownership. Just less than two in three (61 percent) of the population were owner-occupiers in both 2006 and 2013 (Table 23.1) (for the proportion of households by ownership status of the dwelling, see TurkStat (2013a)). Most of the housing in Turkey is produced by the private sector, but there are two

Table 23.1 Income groups and tenure status in Turkey, 2006–2013.

			Income Groups					
			Group I (%)		Group II (%)		Group III (%)	
	2013	2006	2013	2006	2013	2006	2013	2006
NIP* (in thousand)	74 457	67 631	16 706	17 165	28 724	23 229	29 027	27 237
Tenure Status (percent)								
Owner	60.7	60.9	59.3	59.3	56.3	56.6	65.9	65.5
Tenant	21.3	23.5	22.8	25.0	23.3	26.0	18.5	20.5
Lodging**	1.6	1.1	0.4	0.0	1.1	0.9	2.9	2.0
Other***	16.3	14.5	17.4	15.7	19.3	16.5	12.8	12.0

Notes:
*NIP (non-institutional population): Comprises all the population excluding the residents of dormitories of universities, orphanages, rest homes for elderly persons, special hospitals, prisons and military barracks etc. Group I: refers to households who earn below 60% of the median income; Group II includes households who earn between 60% and 120% of the median income; and households in Group III earn above 120% of median income.
**'Lodging' is an ownership status of households who live in a house which belongs to either the government or a workplace or whose rent is paid by the workplace of one of the members of household.
***'Other' includes households that live in housing owned by family members or relatives, etc. and do not make any payment or pay only a a small amount of money (TurkStat 2013c: 173, 379).
Source: TurkStat (2010: 393; 2013c: 374; 2014).

exceptions: first, the HDA currently meets 5–10 percent of the housing need of Turkey (see Box 23.1 later) (HDA accessed 2013) and second, squatter settlements (*gecekondu*), which involve self-build production, are an important part of the existing housing stock. The provision of housing finance by the HDA started in the 1980s but almost stopped in early 2000s; since 2003, however, it has again greatly increased.

Figure 23.1 summarises the key features of the Turkish housing market (see also Coşkun 2011c: 43, 46) and underlines that housing has been a longstanding policy predicament in Turkey. The complexity of addressing housing through policy is the result of political and bureaucratic problems, a lack of sufficient and sustainable government resources (at either the local or central level), rapid urbanisation and rural immigration, income and wealth constraints faced by lower/middle income groups, and the negative impacts of macro-economic instabilities in Turkey.

Marketisation: literature review and periodisation

The Turkish economy has a bank-based financial system. Commercial banks, nearly 40 percent of which are foreign banks, are also main players in capital markets. However, structural problems and financial instabilities have made the Turkish economy fragile and have resulted in less developed financial and mortgage systems. Our primary focus in this section will be on

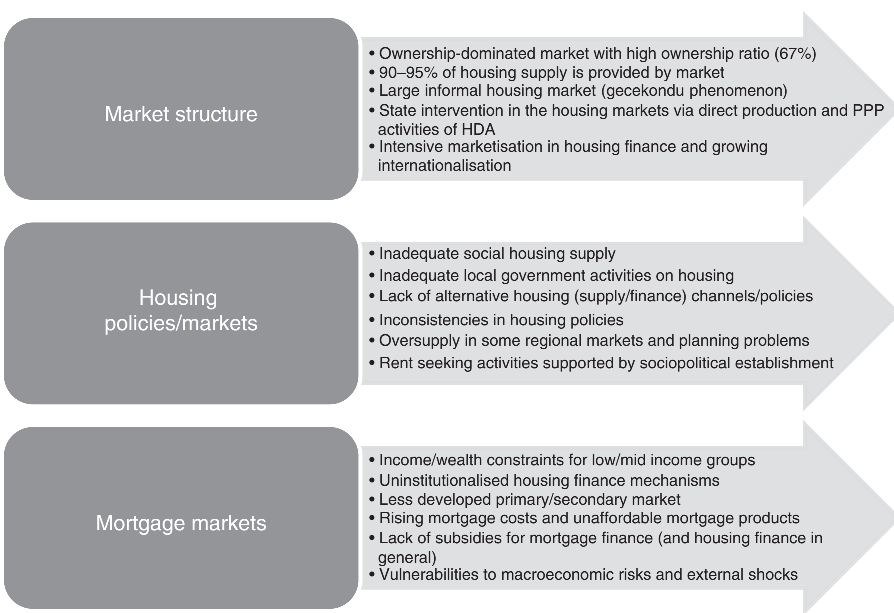

Figure 23.1 Overview of the Turkish housing market.
Source: Author.

the emerging marketisation of the housing market, looking at the critical junctures in Turkish housing policy and the transformation into a market-based housing finance system. We mark the starting point of this periodisation in 1980 as this encompasses key political and economic milestones of the country's development.

Different classification approaches have been used in existing housing literature in Turkey, generally focusing on the features of housing supply or the role of the public sector rather than the evolution of housing finance. For example, Bal (2010: 120–124) categorises housing (production and supply) systems in Turkey into five periods: 1923–1950, 1950–1965, 1965–1980, 1980–1990 and the period after 1990. The author specifically indicates that, although housing was market based from the 1980s, it became more market focused after 2000 when neoliberal policies became even more influential. Özdemir (2011: 1102–1112) analyses the role of the Turkish public sector in housing provision over three periods: 1950–1980, 1980–2000 and 2000 onwards. Concerning mortgage availability, the author says that the market is newly developed and has still only been serving upper income groups since 2000. For different approaches to classification of the Turkish housing (finance) system, see Tekeli (1995), Altaban (1996) (cited in Bal 2010: 120) and Keyder and Öncü (1993).

We suggest that the recent history of the Turkish housing finance system should be classified into three sub-periods. Those periods are: 1980–2000 (the early marketisation period); 2000–2002 (the transitional period) and post-2003 (the full marketisation period) (Figure 23.2).

1980–2000 Early Marketisation Period	2000–2002 Transitional Period	Post–2003 Full Marketisation Period
Environment (1) Liberal economic policies (2) Rising/falling central government initiatives in housing (via HDA) (3) Unsuccessful regulatory initiatives concerning market based housing finance (4) Financial crises (1982,1994, 2000–2001) and several recession periods (5) Political instabilities **Indicators** (1) Private sector is essential housing supply channel (2) Slow growth in housing credit market (3) Rising/declining role of government subsidies and housing cooperatives (4) Deregulation in mortgage loans in late1980s (5) Short period of growth in securitisation market in mid 1990s	**Environment** (1) Economic/political transition period after 2000–2001 banking crisis (2) Political turbulance during the period and the early years of the new political structure **Indicators** (1) Lack of effective policies on real estate/housing markets	**Environment** (1) Changing market conditions with new political agenda and philosophy after banking crisis (2) Positive impacts of global liquidity surplus on financial and real estate markets (3) Limited negative impacts of global financial crisis during 2008–2009; but rising risks after 2013 (4) Booming housing/mortgage markets based on positive outlook (5) Growing pure market-based practices in mortgage finance (6) Internationalisation in real estate markets **Indicators** (1) Private sector is essential housing supply channel (2) Enacted mortgage law (3) Dramatic decline in production of housing cooperatives after 2005 (4) No effective alternative housing finance channels except activities of HDA and mortgage system (5) HDA's PPP activities with private producers aim to share real estate rents between both parties (6) Newly emerging non-public securitisation market after 2010 (7) Growing urban regeneration activities

Figure 23.2 Marketisation of the Turkish housing finance system, 1980–2013.
Source: Author.

The three periods

Our attempt at classifying the development of Turkey's housing finance system into three periods is based on observations regarding market dynamics, legislation and policies. Indicators of the evolving marketisation of housing finance and the housing market overall after the 1980s include: the deregulation of the housing credit market in the late 1980s; introduction of secondary mortgage instruments, institutions and rules in capital market regulations from the early 1990s; a short period of growth in the securitisation market in the mid-1990s; a newly emerging non-public securitisation/bond market after 2010 (the first mortgage covered bond was issued in 2015; for an analysis of the Turkish covered bond market, see Coşkun and Gökçeimam 2015); the declining role of housing cooperatives in housing supply after 2005; the increasing importance of market-based mortgage loans after 2003; regulation of new primary/secondary mortgage markets; policy preference to keep subsidies at a minimum level in the housing finance system; the HDA's public-private partnership (PPP) activities with private producers with the goal of sharing real estate rents between both parties and growing internationalisation and urban regeneration activities. Although marketisation has been the overwhelming general trend in the Turkish housing finance system, there have been some exceptions to this privatisation. The provision of selective and limited central government subsidies via the HDA and urban regeneration schemes in the post-2003 period are two important examples of moves in the other direction. Subsidies for housing cooperatives were maintained before 2000 but these have been largely removed over the last decade. Throughout all three periods, the Turkish housing finance system lacked an efficient primary and secondary mortgage system, faced problems of instability concerning government subsidies and the HDA and struggled to develop successful alternative (social) housing finance channels.

1980–2000: The early marketisation period 1980 marked a significant turning point for Turkey in that it paved the way for a period of liberal restructuring. During the country's transition from a closed to a liberal economy, housing was brought to the fore as a profitable area that could provide capital for the new economic order. The 1980s were the transitional years in which housing became market based (Bal 2010: 122). Consequently, the state's housing policies in the 1980s were designed to expand and restructure the housing market – a process that continued until the turn of the century (Aydın and Yarar 2007: 50) and to early 2015.

2000–2002: The transitional period After the banking crisis of 2000–2001 (see Box 23.3, later), structural reforms were designed to help the banking sector become the engine of economic growth. In order to return to sustainable economic growth, public sector deficits were reduced and the public sector stepped back from financial markets (BRSA 2010: ix, 34). Following the crisis, Turkey was able to enter a period of successful economic restoration as a result of an unusually long period of political and economic stability and the positive impacts of the global liquidity surplus particularly between 2003 and 2007. The banking crisis (2000–2001) and early post-crisis era (2002) can be classified as a transitional period because there were no effective housing finance policies.

Post 2003: The full marketisation period Despite the numerous challenges Turkey faced in addressing the problems after the 2000–2001 banking crisis, the Turkish economy has enjoyed a relatively successful record over the last decade. During this period, the real estate and housing sectors gradually became one of the top policy priorities at both the municipal and national levels. It is important to note that the rapid marketisation in the post-2003 period is based both on the increasing role of the real estate and housing sectors as an economic stabiliser for the general economy and the large increase in available housing credit thanks to the global liquidity surplus and economic stability.

In the full marketisation period, the private sector has continued to provide most of the housing supply in the country. This period represents a further rise in the marketisation of housing as a result of booming housing credit volume, PPP activities of HDA (see Box 23.1), the declining importance of (subsidised) housing cooperatives and more importantly, the lack of government subsidies on mortgage finance. Politically, this period has been characterised by a shift away from subsidies for low and middle income groups alongside the increasing marketisation of mortgage finance.

Box 23.1 The role of the HDA in the post-2003 period

Involvement of the central government in the housing and land markets remained a critical factor in both the early marketisation period (1980–2000) and the full marketisation period (post-2003) in Turkey (see Figure 23.2). Policymakers in Turkey have preferred to employ both market-based housing finance (mortgage) mechanisms (for higher-income groups) and direct housing production through the HDA (for lower-income groups) to address the housing finance problems in the post-2003 period. The beneficiaries of the HDA's social housing projects (constructed on HDA-owned land) make their down payments at the beginning of construction and then continue to pay monthly through a single-index repayment plan (Housing Development Agency 2006). There may also be payment increases, depending on inflation, in the housing finance programmes targeting the poorest citizens. The maturities of the loan repayments of the HDA are set at 10, 15 or 20 years depending on the financial capacities of the target group (HDA accessed 2013).

The following section discusses key institutional, regulatory and policy changes during these three periods and analyses their implications for the Turkish housing finance system, both in the last 25 years and in the future.

Finance milestones: The rise of marketisation and changes in housing finance

Regulation, marketisation and constraints

There were several unsuccessful market-based housing finance initiatives introduced in Turkey after 1980. Affordable mortgage products failed to develop in the market-based housing finance system because of a variety of factors: sub-optimal design of the housing finance instruments and intermediaries, macro-economic instabilities and a lack of efficient subsidy mechanisms. The mortgage law introduced in 2007 – the most important market-based housing finance regulation in Turkey – has seemingly proved unsuccessful in providing effective solutions to the larger structural problems (Coşkun and Yalçıner 2011). It has limited the positive impact on the development of mortgage markets. The economic rationale of the mortgage regulation was to increase housing credit volume within a sound mortgage banking environment. The primary reason for increasing the volume of housing credit in the last decade was mostly related to improving affordability and building upon the unusually successful growth in the Turkish economy after 2003.

While the housing market outlook may appear positive, questions remain about how low and middle-income groups will survive in this highly marketised housing finance environment. As suggested by Coşkun (2015), in the period between January 2005 and September 2011 public policies that sought to expand the money supply and increase the financial income/wealth of households may in fact have had little positive impact on housing credit growth and the development of the mortgage market in Turkey. However market-based housing finance policies do not seem to be the best option for addressing the income and wealth constraints faced by most of the population or for developing a well operating mortgage market. Nevertheless, although these policies appear 'ugly' from a social perspective, it is clear that this type of marketisation of housing finance has become the new norm in the Turkish housing market.

Declining financial support for housing cooperatives

The structure of housing supply in Turkey has a dual character (see Figure 23.1). On the one hand, housing is provided by a formal finance and production sector shaped by laws, private sector initiatives and formal credit mechanisms. On the other hand, there is a large illegal, informal housing finance and production sector, epitomised by the *gecekondu* phenomenon (Coşkun 2011a). Before the 2000s, housing cooperatives (co-ops) represented another core housing supply channel. In the last decade, however, policy changes have reduced financial support for these co-ops, which arguably has had a negative impact on the finance of affordable housing.

The financial support of co-ops by the HDA was one of the important housing supply mechanisms during the 1990s. For moderate income groups, cooperative housing is a tool for securing homeownership via affordable payments. Co-ops pool members' resources and benefit from collectivism during the development process. The HDA supported the production of co-ops through the provision of long-term, cheap housing credits. But mostly because of removed benefits, the share of co-ops in the production of total dwellings has declined from 34.7 percent to 5.6 percent between 2001 and 2011 (Turkstat 2012: 412–413).

The declining role of co-ops in the housing market has had several impacts, and serves as an indicator of the marketisation of Turkey's housing finance system. This change away from supporting co-ops favours market-based finance at the expense of subsidised housing finance. The groups who benefit from the decline of co-ops are probably private sector house suppliers and mortgage banks. In this context, while the housing finance mechanisms that supported co-ops were weakening, mortgage credit volume has been increasing since mid-2003. Instead of providing better governmental (and/or third party) control mechanisms on the HDA's credit subsidies to co-ops, the HDA preferred to be a direct supplier (producer), via contractors, in the social housing sector and almost entirely ceased providing financial incentives to co-ops. The gradual decline in HDA subsidies for co-ops and the shift to direct housing production by the HDA represent a change in philosophy around the state's housing policies after 2003. As a result of these policy changes, some part of housing demand that was originally satisfied by the supply of co-ops may now be met by the free market. Consequently, this policy change represents another step toward marketisation and supports the aims of policy makers who want to increase middle-class housing demand for mortgage markets.

Urban regeneration, marketisation and housing finance markets

Investment in urban regeneration has grown substantially in recent years as an outcome of central government policy. Urban regeneration helps to create economic activity for the construction, banking and state sectors and improves the formal housing finance system. It is expected that the production of regenerated housing units will increase and hence create a new impetus in both the urban area and the macro-economy. From the perspective of Turkish municipal economies and the national economy, the urban regeneration projects are expected to increase government spending on subsidies and infrastructure while also increasing private firm and household spending through construction and housing loans (for the relevant regulations and the outcomes, see Çevre ve Şehircilik Bakanlığı). Additionally, Penpecioğlu (2013: 182) underlines that, in the formation of urban development projects, urban planning as the strategic mechanism in space production has been subordinated to the priorities of economic growth.

As indicated, with the exception of the HDA activities, the housing finance structure of Turkey is almost fully marketised and includes no effective subsidy schemes for specific social groups. Surprisingly, however, recent urban regeneration legislation has included a temporary subsidy framework. According to relevant legislation, the government will pursue selective subsidy policies in urban regeneration projects including rent and interest payment assistance (credit support) for owners whose apartments are to be regenerated. This selective subsidy strategy may help to satisfy general economic expectations from the process. Therefore, it seems that urban regeneration has developed both a new rental sector and housing supply channel while also serving as a new tool of the real estate-based, short-term growth strategy for the country. From a housing (and also construction) finance perspective, the urban regeneration scheme represents a new, profitable face of the marketisation of the Turkish housing finance system, but one that includes a subsidy system for qualified projects.

Impacts of the transformation of the housing finance system

Both the marketisation processes and the introduction of new state initiatives concerning the Turkish housing market gained pace after the 1980s. The Turkish economy faced three economic crises and several recession periods particularly in the 1990s (see Box 23.3). However, in the last decade, the economy has generally showed resilience and both the housing and mortgage markets have experienced spectacular growth. In this respect, 'the good' part of the story includes three positive transformations that resulted from the changing market dynamics of last decade.

According to statistics, housing demand and supply, housing transactions, mortgage rates and house prices have all generally followed positive trends in recent years. Mortgage loan rates declined from 29.3 percent in 2003 to 10.9 percent in 2013. Dramatic declines in interest rates have had positive effects on key housing market variables, including house prices and the volume of loans. Figures 23.3 and 23.4 together show the inverse correlation between mortgage interest rates and house prices/loan volume in Turkey between 2003 and 2013. In this context, lower mortgage rates have positively supported mortgage affordability through to the lower costs of mortgage loans and probably growing refinancing arrangements on better terms.

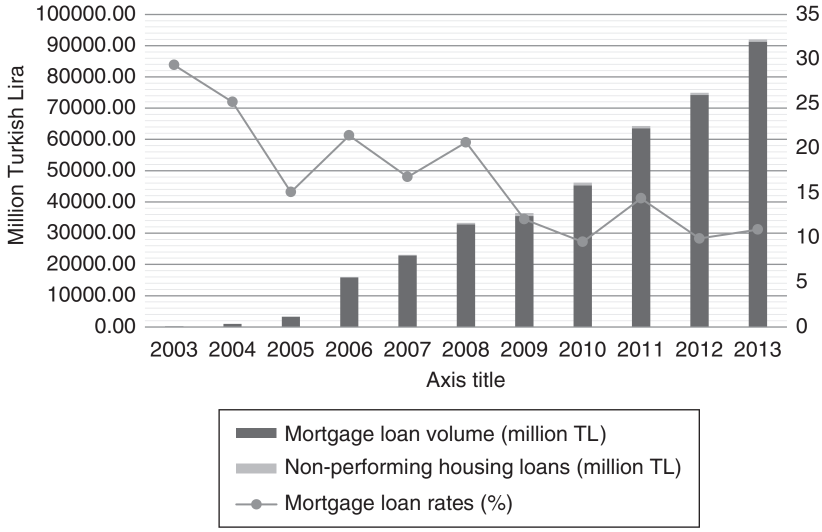

Figure 23.3 Mortgage loan rates/volume and non-performing housing loans in Turkey, 2003–2013.
Source: CBRT (2013); BRSA (2012; 2013).

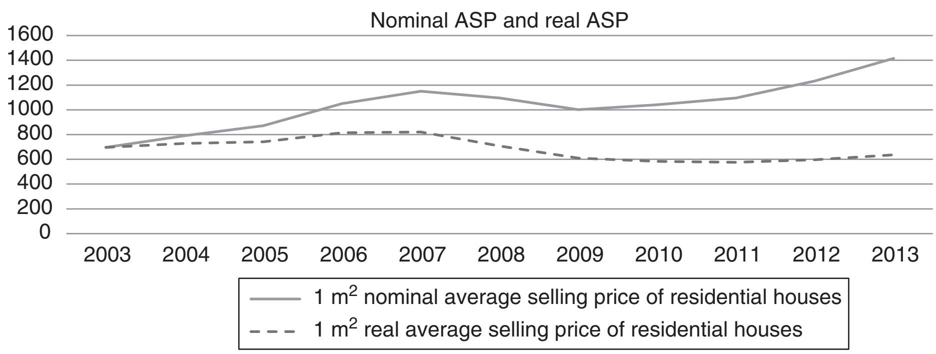

Figure 23.4 Average nominal and real selling price of residential houses per m^2 in Turkey, 2003–2013.
Source: Reidin (2013) and TurkStat (2013d).
Note: Year-end average house selling price (ASP) data are derived from the arithmetic average of monthly house price data for 2008–2013. Because of the lack of data, the 2007 year-end ASP house price data is the arithmetic average of 7 months (6/2007–12/2007). Longer period house price data starting in 2003 were constructed by combining the actual house price index, provided by Reidin for the term 6/2007–2013, and the construction cost index as a proxy (for the term 2003–2006) (for the methodology, see Coşkun 2015). For a different perspective, researchers may also review Turkish Central Bank house price indexes.

Figure 23.3 shows the boom in mortgage loan volumes between 2003 and 2013. After the 2000–2001 banking crisis, the value of mortgage loans in Turkey increased from $0.04 bn in 2003 to $51.6 bn in 2013 with an insignificant non-performing housing loan portfolio.

Moreover, this positive market environment has fundamentally continued, despite the Global Financial Crisis (GFC: see Box 23.3). The 'good' news is that increasing access to mortgage finance in the last decade has supported formal housing finance at the expense of informal housing finance (see Box 23.2). Yet the ratio of mortgage loans to GDP is roughly 6 percent as of June 2013 and there have been no publicly issued mortgage backed securities since the mid-1990s. This picture suggests that Turkish primary and secondary mortgage market volumes are far below the EU 27 and US averages. Therefore, despite the recent boom in housing loans, the mortgage market in Turkey is comparatively much smaller than markets in more developed countries.

The greater availability of relatively affordable mortgage loans has also helped to increase housing demand and house prices in addition to the volume of mortgage loans. As Figure 23.4 demonstrates, the nominal average selling price of residential houses per m^2 has almost doubled in last decade, while real house prices by CPI have fallen since 2007.

Box 23.2 Institutional housing finance and housing finance sources in Turkey

Until the establishment of the Mass Housing Fund (MHF) in 1984, there were only two institutionalised finance channels in Turkey: the state-owned Emlak Bank, and the Worker's Social Security Fund. Together, these channels contributed to the financing of less than 10 percent of the housing constructed in the 1970s. Until the inception of the MHF, most housing construction was financed either directly by private savings or by short-term, commercial and supplier credit (Keyder and Öncü 1993: 23–24). Most private housing finance programmes were developed as part of consumer lending initiatives that started in the late 1980s. There were some similarities between the programmes of four private lenders (Pamukbank, Emlak Bank, Yapı Kredi and Is Bank). For example, the loans tended to have maturities of no longer than 5 years, be fully amortising, require monthly payments and have rates that could adjust at least annually. Most were available for finished homes only and loan-to-value ratios (LTVs) tended to be between 50 percent and 80 percent (Fannie Mae 1992: 11–12). Therefore, before the mortgage boom in recent years, formal finance channels were quite restrictive in Turkey with a less developed institutional housing finance framework than existed in other countries (Fannie Mae 2004).

Profiles of Turkish home owners under this finance system can be grouped as follows: self-builders, inheritors, beneficiaries of parental donations and family borrowing, transfers relying on private debts, direct purchasers (with existing assets and savings), purchasers via the HDA, transfers with market debt programmes and those accessing housing through unauthorised channels (*gecekondu*) (Erdoğdu 2010: 110–113). Personal savings remain the most frequent source of capital used to purchase a home, representing a 76 percent share of all housing finance in Turkey. Nearly 62 percent of owner-occupiers who did not use financial markets purchased their property using their own savings (HDA 2006: 62, cited in: Erdoğdu 2010: 110).

On the other hand, it is important to note that the short average mortgage loan maturity in Turkey makes housing less affordable. According to the Turkish Banking Association (2012: 8) the average mortgage loan maturity was only 7.2 years between 2006 and 2010.

Future trends in housing finance markets

The internationalisation of Turkey's housing market

Growing foreign direct investment (FDI) is one of the major recent trends in the Turkish real estate and housing sectors. As discussed previously, policy makers support the real estate sector as a tool for short-term growth purposes. Growing foreign demand in the real estate sector conforms to this policy and also helps to finance current account deficits, one of the most fragile points of the Turkish economy.

The value of the net real estate purchase by foreigners between 2004 and 2012 was $20.9 bn (see Table 23.2). Compared to the net $1 bn of real estate purchases made by foreigners between 1995 and 2003, the 2004–2012 period can be classified as a boom period (Republic of Turkey Ministry of Economy 2012: 9). The Turkish real estate market has thus experienced increasing internationalisation in last decade as a result of foreign demand. According to several local and global industry reports (see DTZ 2013: 1–2; Knight Frank 2013: 29), Istanbul's real estate market is one of the fastest growing markets in the world. However, it is also important to note that this internationalisation may increase the instability and vulnerability of the overall economy and, in turn, the housing market (see Box 23.3).

Gated communities and housing finance

Changing preferences among high-income groups towards gated communities are visible in big Turkish cities. The essential motives for this shift in demand include desire for safety and luxury. The increasing income and wealth of existing and newly emerging social groups and the greater availability of mortgage credit in last decade have also supported this development. New residential units in big cities are of higher quality, have higher prices and are marketed through nationwide campaigns. This commoditisation has socio-economic and political implications for different income groups. In this respect, housing researchers have specifically addressed the following issues: the social impacts of gated communities; social exclusion; new housing supply and new rent economies in regenerated areas through the activities of private firms. From the perspective of housing finance, increasing demand from international buyers and the rise of gated communities have resulted in

Table 23.2 FDI inflows by component, 1995–2011 (USD millions).

	1995–2003*	2004	2005	2006	2007	2008	2009	2010	2011
Cumulative FDI (net)	11 253	2785	10 031	20 185	22 047	19 504	8411	9038	15 904
FDI	10 255	1442	8190	17 263	19 121	16 567	6629	6544	13 891
Capital (Net)	9591	888	8053	16 876	18 100	14 313	5382	5792	13 297
Inflow	10 682	986	8454	17 533	18 843	14 348	5464	5827	15 288
Outflow	–1091	–98	–401	–657	–743	–35	–82	–35	–1991
Reinvested Earnings	132	204	81	106	294	399	788	411	599**
Other Capital***	532	350	56	281	727	1855	459	341	–5
Real Estate Purchases (Net)	998	1343	1841	2922	2926	2937	1782	2494	2013

Notes:
* Cumulative
** Estimate
*** Investment credits received by foreign-owned companies from foreign partner
Source: Republic of Turkey Ministry of Economy (2012: 9).

Box 23.3 Banking crises in Turkey and impacts of the GFC

The Turkish economy has experienced three important financial crises and several periods of financial pressure since 1980. After the 1982 and 1994 banking crises, the third crisis, the 2000–2001 banking crisis, resulted in huge economic losses and a brand new political structure in the country. After the crisis, economic recovery was guided by an International Monetary Fund (IMF) and World Bank-supported financial stability programme, which has been accepted as one of the critical reasons for the recent economic revitalisation (Coşkun 2013: 46). The 5 years between 2003 and 2008 were a period of economic growth for the country and the GFC had little impact on this positive trajectory.

During the GFC, many countries experienced huge financial losses and extraordinarily negative impacts on their housing sectors. Turkey, however, faced limited negative impacts. By analysing the structure of Turkey's primary and secondary mortgage markets, we argue that these limited negative impacts were related to the small and inefficient mortgage economy of the country rather than a positive strategy of successful crisis management or market dynamics. Because securitisation and structured product markets had also been dysfunctional before/during crisis, the Turkish economy was not exposed to significant problems. Therefore, the absence of a secondary mortgage market and the inefficient housing credit market may have, in reality, been beneficial for Turkey during the financial crisis (Coşkun 2011b: 13).

higher residential property values and consequently increasing affordability problems in urban areas.

Challenges to housing finance: income and wealth constraints and emerging risks

It is expected that the Turkish mortgage market will pursue further growth into the long-term, but this is not without some short and long-term risks. It may be true that Turkey is a dynamic, emerging economy and that there are several positive factors that resulted from the improved housing and mortgage market performance in recent years. But it is equally true that the housing and mortgage markets will face important challenges. First, income and wealth constraints faced by most households and a lack of effective subsidy policies for middle and low-income groups may create housing affordability problems, and hence limit the development of market based housing finance systems. In this context, Coşkun *et al.* (2014) show empirically that between 2003 and 2013, median priced housing was not affordable for median and average income households in Turkey, despite positive trends in macro-economic variables and even in affordability. Yalçıner and Coşkun (2014) suggest that developments in the Turkish mortgage market are not only directly related to financial stability, affordable mortgage costs, sufficient housing demand and housing market activity level but also to more complex socio-economic and political processes, such as income inequalities.

Second, another potentially 'bad' development may be an increase in risk as the result of housing market growth. In this context, fragilities in the Turkish economy may inevitably create distortions in the housing and mortgage market. Moreover, some have raised questions about whether there are growing risks from rising house prices, growing mortgage and construction loans, unsold new residential units (excess housing supply) and the aggressive marketing campaigns of both the HDA and private firms (Coşkun 2013: 48–50). Volatilities and growing perceptions of risk in international and local financial markets increase these concerns. On the other hand, it has been observed in recent years that the HDA has shown unusually effective performance in social housing production. It seems that hybridity is one of the critical aspects of the HDA's enterprise model and its pragmatic approach called revenue-sharing has worked well. However, as discussed by Coşkun (2011a), concerns also exist about the sustainability and efficiency of the existing policies and the financial structure of the HDA. Therefore, we should note that the lack of transparency about the structure and operation of the HDA may hide potential risks in its current housing finance model. Additionally, the way that real estate and housing markets are working may be one of the most important socio-economic factors in increasing social tensions between different social groups. In this respect, the Gezi Park protests, which occurred in mid-2013 in Istanbul and spread to some other Turkish cities, represent an interesting case study for real estate researchers. This series of events may be also analysed from the perspectives of how the new middle class and urban poor differentially react to income inequalities, rent-seeking activities in real estate and private profit-making in public places (Fukuyama 2013; Gürkaynak 2013; Keyder 2013).

Conclusions

After the collapse of the golden age of economic growth in the early 1970s, developed countries gradually deregulated their economies. This marketisation process slowly but inevitably affected the social sectors, also gradually involving housing. The Turkish economy and housing market were no exception to this almost global phenomenon. Marketisation in the Turkish economy started after 1980, but has rapidly accelerated in the last decade. Moreover, the increasing role of the real estate and housing sectors has acted as an economic stabiliser and a growth channel after the 2000–2001 banking crisis period, which, in turn, has had noteworthy impacts on the marketisation process.

This study aimed to document the economic and institutional environment of the Turkish housing finance system over the last 25 years, in the light of the influence of marketisation in the housing market. It analysed the regulatory, policy and market dynamics related to housing finance and the housing market after 1980. In this context, we have defined three key periods to describe the evolution of the Turkish housing finance system over the last 25 years. These are the early marketisation period (1980–2000), the transitional period (2000–2002) and the full marketisation period (post-2003). Market dynamics in the last decade have resulted in increasing house prices and a growing volume of mortgage loans with falling interest rates. Moreover, it seems that the internationalisation of the market, the growing popularity of gated communities, income and wealth constraints and inequalities as well as some external risks will shape the near future of housing finance and markets in Turkey.

The discussion presented in the study provides a framework for analysing the evolution, problems and future trends of the Turkish housing market. In this context, we can identify three key conclusions. The 'good' thing about the development of the Turkish housing market that has been driven by marketisation over the last 25 years is that it has stimulated economic growth, internationalisation, rapid urbanisation and demographic transformation. These dynamics have helped to increase housing demand and supply into the longer term. The 'bad' thing is that the fragility of the Turkish economy may inevitably create negative pressure on housing and mortgage markets based on the complex relationship between housing and financial markets. The 'ugly' outcome of this evolution is that housing finance in Turkey is now based on households having to finance their own home purchase in pure market conditions with some limited exceptions. In this context, income and wealth constraints and the lack of effective subsidy policies for middle and low-income groups have created housing affordability problems, which are constraining the long term development of the market-based housing finance system. In other words, a fully market-based mortgage market that includes no or ineffectual subsidies for housing finance with a less affordable market structure may not provide a sustainable financial framework for most of the population in Turkey. The direct supply of housing by the HDA is almost the only important exception to the marketisation of housing finance in Turkey. It, too, may be classified as a 'good' outcome of the developments of recent decades, despite remaining concerns about the sustainability and efficiency of the existing policies and the financial structure of the HDA.

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