

Housing Financing in Turkey

Res. Asst. Mehmet Gur
Istanbul - TURKEY

Yildiz Technical University
Department of Geodesy and Photogrammetry
Division of Land Arrangement and Management

1

Housing financing

- The aim of housing financing is to give the funds to people who want to buy houses or companies who want to carry out big residential projects.
- In general, there are four types of financing sources:
 - i. Non-institutional financing
 - ii. Institutional financing
 - iii. Public financing
 - iv. International sourced financing

2

Non-institutional financing

- In developing countries, generally the non-institutional sources are used.
- The non-institutional finance sources consist of:
 - i. household income,
 - ii. the funds obtained from relatives, friends and employers,
 - iii. the credits from credit unions,
 - iv. contractors and
 - v. housing cooperatives.

3

Institutional financing

- Institutional sector consists of legal institutes and foundations. These are:
 - i. Expert housing finance companies (established by public and private banks or governmental),
 - ii. General finance corporations (commercial banks, insurance companies, social security institutions, retirement funds).

4

Public financing

- Public housing financing consists of public houses and housing projects. They are constructed by municipality and government grants.

5

International sources

- International sources obtained from international foundation such as World Bank, International Money Fund, United Nations and etc.

6

Housing financing in developing countries

- Generally, there is not a sufficient housing financing system in developing countries.
- Housing financing is mostly provided by household income and house cooperatives.

7

Problems in housing financing in developing countries

- Lack of capital.** The personal savings are limited because national income is low and fiscal system mostly is not advanced.
- Lack of long-term credits.** Existing funds are used in short-term investments because of the economical instability.
- High inflation.** The financial companies find housing financing risky and avoid to give the long-term credits.
- Regulating the credit rates according to the inflation** causes another problem, because the income of the customers does not increase according to the inflation.
- Mortgages system is not performed** due to economical and circumstances and its long complicated processes.

8

Housing financing in Turkey

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

9

Housing financing in Turkey

- In Turkey, growth of individual demands for houses have been increasing due to
 - immigration to cities,
 - increment in the elder population
 - increment in single living person population.
- House supply is not enough for demand. Therefore, the number of the shanty house has been increasing day by day.
 - Shanty house is an illegal and unhealthy building. It is constructed on land which is owed public or another person without any legal permission.

10

Housing finance in Turkey

- If illegal buildings are not considered, there is a real shortage of houses in all around Turkey.
- In the 1996-2000 period, the demand of house had been determined as 2,540,000. In this period about 1,300,000 houses were produced.

11

Housing financing in Turkey

- Housing financing studies in Turkey have started by giving credits for people with low income by The Ministry of Public Works.
- In 1958, there were used to be only three banks could give house credits. After 1989, all banks have been authorized to give house credits.
- However, generally, wealthy people use these credits which has short-term payments with high interest.

12

Housing financing in Turkey

- In 1989, house certificate system application has been started by Public Housing Administration. Purchase and sale of certificates have been freed in second markets.
- This system has not worked properly because of speculations that the investor made for more profit. Only the people with high income could be able to save house certificates.

13

Housing financing in Turkey

- In 1995 a notification has been broadcasted about setting up and operating of the Real Estate Investment Trust (REIT) by Capital Markets Board of Turkey . With this notification, REIT has been rounded as an investment tool.
- The net active value of REITs quoted in Istanbul Stock Exchange is consist of 75% commercial properties, 3% housing project, 14% land and 8% liquid assets.

14

Housing financing in Turkey

- In 1984, Public Housing Fund (PHF) has been established for supporting housing. In this year, 90% of the total PHF resources used for building up.
- In 1993, total amount of fund resources have been transferred to the general budget because of economic crises.
- Increase in the inflation made these funds insufficient.

15

Housing financing in Turkey

- In Turkey, owning house by building cooperatives has started in 1934. Also the Housing Law (1987) has supported housing cooperatives.
- The average rate of the housing cooperatives in house production is 8.9% and it reached its maximum value, 31% in 1992-1993.

16

Housing financing in Turkey

- Private housing financing programs that started at the end of 1980s as a by-product of commercial banks. Small-scaled debts with fixed interests could have given, in order to be paid until 2-3 years.
- Some of the commercial banks have given credits with expiration in 8-20 years. However, after the economical crisis in 2001, the terms of these credits have been lowered down.

17

Housing financing in Turkey

- In Turkey, various housing financing instruments have been settled up. However these tools have not been working in coordination and have not adopted the economical conditions. Therefore housing financing has not been resolved yet.
- The reasons of this result can be listed as follow;
 - i. Insufficiency of fiscal resources,
 - ii. Deficiencies in distribution of fiscal resources,
 - iii. Strategic planning faults,
 - iv. Absence of efficiently working property liquidity system,
 - v. Economic instability,
 - vi. Populist urban policies such as development amnesties.

18

Advices for long-term mortgage credit

- The precondition to build up a long-term mortgage credit system is to form the market conditions and to reduce the inflation rate under 15%.
- When using mortgage credit as a bank credit, insurance should be made for this credit because it is inevitable to get the total amount of the debt and the interests of the person or the companies who has difficulty about payments.

19

Advices for long-term mortgage credit

- REIT must work more efficiently.
- Private retirement funds should be more effective as an institutional investors and liquidity of properties should be provided for the market conditions.
- Financing according to the mortgage models should create tax advantages and should support the other investments.

20

Conclusion

- In Turkey and some developing countries housing finance system is not functional. Not only the state can solve all the problems but also private sectors do everything.
- A new approach, that gives more role banks, financial institutions and society, is needed
- A clear urbanizations and also housing policies must be determined.
- Both institutional and financial structures of the housing system should be re-arranged by a integrated national urbanization and housing policies.
- Measurements for preventing speculations and controlling the system must be taken to protect the people who need houses and institutions who provide finance.

21

Thank you for your attention.

Please contact for more information and cooperation.

hudemir@yildiz.edu.tr

vkurt@yildiz.edu.tr

22