

# The Establishment of the Real Estate Regulation and Supervision Agency of Turkey (RERSAT)<sup>1</sup>

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## 1. Introduction

The Turkish real estate market has shown noticeable developments in recent years due to various reasons. In this second article,<sup>3</sup> we are attempting to define the pros and cons of the Turkish real estate market. We are also questioning whether the deficiencies may decrease the potential value of the opportunities in the Turkish real estate market, and what kind of measures could be taken for the benefit of consumers/investors in real estate. To analyse these issues, the paper aims to develop a problem-solution framework for the Turkish real estate market.

To our knowledge, with a market-wide approach, this study is the first to attempt an overall evaluation of the Turkish real estate market taking both the positive and negative sides into account. However, this study suffers from limited availability of data and statistical modeling. Nevertheless we believe that the perspective and policy suggestions contained in this study will be found challenging.

For a better disciplinary framework for public/market based real estate activities, we suggest that a Real Estate Regulation and Supervision Agency of Turkey (RERSAT) should be established as a new government agency. In our view, the primary expectation of this agency would be to enhance public interest, customer protection and market efficiency in the real estate market.

The paper is organised into four further sections. In sections 2 and 3, we analyse advantages and disadvantages of the Turkish real estate markets. In section 4, we argue that RERSAT should be established to solve current inefficiencies of the Turkish real estate market. The last section is reserved for the conclusion.

## 2. Advantages in the Turkish Real Estate Market

In sections 2 and 3, we attempt to classify both the advantages and disadvantages of the Turkish real estate sector to define an objective framework for the long term cost-benefit analysis.

According to statistics, Turkey is considered to be a promising country in the greater European region. If it is managed effectively, the country offers several economic benefits to its trade partners and investors. Like other immature sectors, the real estate market also offers opportunities.

In this context, there are positive foundations on which to build, in demographics and urbanisation. Istanbul, as an emerging mega-city, offers several advantages for investors/developers. Additionally, there are public policies on infrastructure investments, land development and social housing. There is an atmosphere of dynamic and creative entrepreneurship. Other

factors favouring strong demand are the advantages of Real Estate Investment Trusts (REITs), the advantages of being a late comer, developments in regulatory framework and developing academic knowledge. These factors would all be classified as opportunities (or positive factors) supporting the potential of the Turkish economy and real estate business. These factors can make positive contributions to the expected rate of return on investment in the Turkish real estate market.

Some of the above-mentioned factors are already well analysed in the literature. Therefore, methodologically, it would be useful to examine the positive impacts of motives in domestic demand, plus the importance of Istanbul and of REITs.

### 2.1. Motives in Domestic Demand

A high inflationary environment and negative real interest rates, which for many decades were a mainstay of the Turkish economy, resulted in unusual investment patterns for both Turkish households and corporate sectors. During this period, the emphasis was mostly on investment in precious metals (specifically the gold market) and real estate, specifically the housing market (Coşkun, 2010a: 30).<sup>4</sup>

In addition to being a major asset class in the household saving (investment) stream, real estate also represents one of the symbols of

<sup>1</sup> This article is essentially based on the working paper "An Analysis of the Opportunities and Weaknesses of the Turkish Real Estate Market" (17 th Annual ERES Conference, Milano/ITALY), see, Coşkun (2010c). The findings, interpretations, statements and conclusions expressed herein are those of the author alone and do not necessarily reflect the views of the institutions connected with the author.

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<sup>3</sup> This article is second of a pair of articles. For the first article, see Coşkun (2011a).

<sup>4</sup> It would be better to analyse Coşkun (2011a) and also this article simultaneously to give a realistic view of the Turkish real estate market.

**Table 1: Opportunities in Turkish Real Estate Market**

Opportunities (D/S)	Signs/Criteria	Impact (P/N)
<b>Positive Fundamentals (D)</b>	Geo-political position; EU candidacy; industrialisation; growing/stable economy	P: Increase R/C/L demand with growing FDI N: Increase real estate prices/rents
<b>Demographics (D)</b>	Benefits of window of opportunity	P: Increase public infrastructure investments and R/C/L demand N: Growing unemployment and crime rates.
<b>Urbanisation (D)</b>	Rapid and continuous immigration to urban area	P: Increase urban renewal; public infrastructure investments; R/C/L demand. N: Increase irregular urbanisation; urban land shortage; rent-seeking activities; <sup>5</sup> marginal sector activities
<b>Istanbul (D)</b> (see, 2.2)	Fast growing mega-city	P: Istanbul offers several advantages for retail, commercial and industrial RE projects. N: Increase socio-economic problems (i.e. gated communities, real-estate based wealth transfer mechanisms against public benefit)
<b>Motives in Domestic Demand (D)</b> (see, 2.1 and 2.2)	RE ownership is symbol of socio-political statute, major asset class in the household saving stream and big bet in rent seeking activity (specifically for land demand)	P: Increase R/C/L demand. N: Increase unlawful activities (i.e. squatter settlement)
<b>Other Factors for Strong Demand (D)</b>	Growing number of super wealthy people <sup>6</sup>	P: Increase demand on high-end buildings and niche residential/hotel projects N: Further social division
	Demand from unobserved economy <sup>7</sup>	P: Increase R/C/L demand N: Ruin statistics; public benefit/policies; reshaping socio-political structure
	Growing FDI and foreign home ownership <sup>8</sup>	P: Help to finance CA deficit; increase R/C/L demand and RE prices N: Rising doubts on foreign ownership
<b>Public Policies on RE Supply (D/S)</b>	Increasing volume of land development, infrastructure investments, social housing and urban regeneration projects by central /local governments and Housing Development Administration (HDA). <sup>9</sup>	P: Increase (social) house supply; benefits to rural development/urban renewals. N: Problems in the growing public economy/HDA type social enterprise; distortions on free market
	Privatisations/selling of public properties	P: Opportunities for land developers. N: Increase rent-seeking activities.
<b>Public Infrastructure Investments (D/S)</b>	Regional development projects (i.e. South- Eastern Anatolia Project/GAP), <sup>10</sup> highways, energy investments etc.	P: Increasing the number of construction projects requiring financial needs, technical advisory, PPP, market research etc. N: Problems in doing business with central/local governmentd
<b>Supply Side Framework (S)</b>	Dynamic and creative entrepreneurship in residential/commercial construction sector	P: Increase supply/competition; develop quality of R/C and land management; enhance sophistication N: Unplanned house supply, growing RE bubble risk; risk/liquidity management problems in construction firms and their creditors
	Growing number of foreign firms <sup>11</sup>	P: Increase technical knowledge and competition
	Developing construction technics/architectural quality	P: Increase R/C quality/supply elasticity
<b>Advantages of REITs (D/S)</b> (see, 2.3)	Active REITs market in ISE	P: Increasing institutionalisation, transparency and financial opportunities for REITs; enhancing transparency in construction sector
<b>Being a Late Comer</b>	Using other countries' experience	P: Decreasing costs
	No RE originated crisis	P: Decreasing costs
<b>Developments in Regulatory Framework</b> (see, 3 and 4)	CMB's and other government institutions' initiatives	P: Increasing efficiency/regulated-licensed activities N: Problems of integrity among regulatory authorities
<b>Developing Academic and Professional Knowledge</b>	Several universities offer MSc programs and Ankara University offer PhD program in RE. Several international RE organisations in the market (i.e. RICS, ULI)	P: Increasing knowledge, professionalism and education in RE markets.

D/S: The factor essentially impacts to demand/supply side of the RE market; P: Positive impacts; N: Negative impacts; R: Residential RE; C: Commercial RE; L: Land (for development); ISE: Istanbul Stock Exchange, RE: Real estate; CA: Current account; CMB: Capital Markets Board of Turkey, FDI: Foreign Direct Investments.

Source: Author.

<sup>5</sup> High revenues obtained from urban land transactions intensified conflicts over property rights among many actors (Gülöksüz, 2002: 474).

<sup>6</sup> According to Forbes (2008 and 2009), the number of billionaires in Turkey was respectively 35 and 13 in 2008 and 2009. These numbers are 24 and 17 in Japan; 18 and 8 in Spain; 13 and 6 in Italy and 13 and 14 in Saudi Arabia.

<sup>7</sup> It is estimated that unobserved (informal) economy may consist of 35% - 60% of Turkish economy. Researchers may analyse interactions between housing demand and unobserved economy in future researches. As a general observation, we think that the construction sector, unobserved economy and corruption economy have unclear but strong reciprocal connections in Turkey.

<sup>8</sup> According to the data of land registry, there are a total of 73.000 foreign home owners distributed in an area of 38.419.000 m<sup>2</sup> [in Turkey] (Turkey Real Estate Yearbook, 2008: 87).

<sup>9</sup> A detailed analysis for the social housing and HDA, see, Coşkun (2011b: 17-27).

<sup>10</sup> The scheme covers an area of 9.5 per cent of the total land area of Turkey, and has 8.5 per cent of the population. The area will contain 20 per cent of the 8.5 million hectares of irrigable land in Turkey when the project is complete. The cost is likely to exceed 32 billion USD. Objectives are to mobilise regional resources and reduce disparities (Bullard, 2007: 94).

<sup>11</sup> In the domestic real estate market, there are increasing number of foreign firms/initiatives in various sectors such as construction, brokerage, financial investment etc.

socio-political status in the country. Specifically in the case of the less-developed/rural regions of the country, more land means more political power and also input into agricultural production. On the other hand, rising land prices and growing profit opportunities in urban areas increase real estate demand from land speculators, developers and investors.

Spending on housing finance and rent makes up a considerable part of consumer spending in Turkey. In this context, The Housing Department of Turkey (2003: 5-16) indicates that in the year 1965 residential leaseholders consisted of 38.66% of all households. This ratio declined to 31.6% in the year 2000. In other words, 3.5 million people have monthly rent payment in Turkey. Therefore, the residential leaseholders could be seen as potential mortgage buyers if affordable loans were available. On the other hand, the data from the Central Bank of the Republic of Turkey (2008: 23) shows that housing credits consist of 33.3% of all housing debt in the 2008/Q1 term.

According to Eurostat, in EU-27, total of nearly three quarters (73.6%) of the population lived in

owner-occupied dwellings, while 13.0% lived in dwellings with a market price rent, and 13.5% in reduced-rent or free accommodation in 2009.<sup>12</sup> On the other hand, the average home ownership rate is 68% in Belgium (in 2001), 80% in Italy (in 2002) and 75% in Poland (in 2004) (The European Mortgage Federation, 2007: 124). According to TurkStat and The Housing Department (2003: 4) the owner occupation rate is 68.2% in Turkey. But, as indicated by Kongar (2003: 562), the average home ownership rate in urban areas is below 40%.

## 2.2. Opportunities in the Istanbul Real Estate Market

The real estate market in Istanbul provides important opportunities for both domestic/foreign investors/consumers. There are several official and private sector reports which analyse the opportunities in the Istanbul real estate market.

In the report Emerging Trends in Real Estate Europe 2010, ULI and PwC (2010: 9, 35) ranked Istanbul third for investment prospects and first

for development. According to existing property performance and new property opportunities, Istanbul seems to be one of the leading markets.

Istanbul is the most critical driver of the real estate investment in the country and still needs more office space,<sup>13</sup> upper/middle class residential, commercial and hotel investments.<sup>14</sup> Although estimates vary, there is a striking housing shortage in the urban areas of Turkey. Taking into account demographics, immigration and the current housing shortage it seems logical to assume that the residential sector would be the leading sub-sector in the real estate market. In this context, Istanbul probably needs more residential development projects in the near future.

Most Turkish provinces are likely to experience sizable population growth over the next twenty years. The population in the provinces of Antalya, Bursa and Istanbul is likely to increase by more than 30% over that period. In recent decades a significant part of the land use changes as a result of the population expansion in Turkish cities has not followed an urban development plan but was rather driven by unlicensed building activities. As an example, the built-up area

**Figure 1 Istanbul Real Estate Market (2010)**



Source: ULI and PwC (2010: 9, 28, 29).

<sup>12</sup> See, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Housing\\_statistics#Tenure\\_status](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics#Tenure_status) (01.06.2011)

<sup>13</sup> It is estimated that 5 million sqm new office space will be required in the next 10 years in the largest 25 cities (Altan, 2009: 18).

<sup>14</sup> While Istanbul will undoubtedly remain the focus of occupier, developer and investor interest into the foreseeable future, accounting for 40% of Turkey's modern retail stock and 80% of its modern offices, there are emerging opportunities beyond Istanbul, growing on the back of increasing dynamism (Jones Lang Lasalle, 2008: 3).

in the province of Istanbul increased by more than 40% between 1990 and 2005. (Deutsche Bank Research, 2008: 6-7).

It would be interesting to note that the growing importance of financial services in Istanbul may result in a further expansion in the real estate market. The importance of the finance sector in Turkey is growing due to several reasons. Thanks to the changing political environment in Middle East<sup>15</sup>, a steady growth in the Turkish economy and the worldwide negative impacts of the global financial crisis brought into question whether Istanbul can become a safe harbour in the region. According to a Global Financial Centers Report (6, 7) of Z/Yen (2009: 19; 2010: 5), Istanbul is one of the emerging financial centers in the world. Domestic reports also analyse Istanbul's position as a financial center (see, The Association of Capital Market Intermediary Institutions of Turkey, 2007; The Banks Association of Turkey, 2007 and 2009; State Planning Organisation, 2009). As a State policy, the Turkish government promotes Istanbul as a financial centre. It seems too optimistic to assume that Istanbul will become a financial centre within the next 10 years.<sup>16</sup> But like other sectors, the real estate sector may profit from these policies.

### 2.3. Advantages of REITs

Current REITs regulations offer leverage opportunities to real estate companies in Turkey. In this context, according to relevant regulations, REITs are exempted from corporate and income taxes. The freedom of REITs to choose their dividend policies must also be taken into account, Erol and Tirtroğlu (2008: 2694) indicate that Turkish REITs have significantly more flexibility in managing their portfolios than their counterparts in developed countries.

At the end of 2009, there were 14 REITs listed on the ISE (Istanbul Stock Exchange) which had a portfolio value of 3,2 billion USD. The portfolio of REITs is composed of real estate investments (69.54%), real estate projects (17.44%), other securities (8.63%) and government bonds/T-Bills (4.39%) (Capital Markets Board of Turkey, 2010: 23, 45). Following the CMB's policy change<sup>17</sup> which aimed to create a positive atmosphere for public offering of REITs, there are 22 REITs at the ISE, as of June 2011.<sup>18</sup>

As seen in the above table, although their market capitalisation is relatively small, Turkish REITs represent an alternative financial channel to real estate companies and capital gain opportunities to investors.<sup>19</sup> Total debt to gross assets as of 31.12.2009 is 0.03% and market price to net assets is 0.34% in the sector (Ernst&Young, 2010: 15). However, the limited growth of the sector, and unsatisfactory stock performance indicate that the (corporation and income tax) incentives are yet insufficient to ensure a healthy growth of the REITs industry in Turkey (Aydınoglu, 2004: 52). However, we may argue that if the current relatively stable economic conditions continue, and specifically finance-real estate linkage (see, line 6 of Table 3), develops in the near future, the REITs market with its transparent structure would be the very first candidate to upgrade its position.

### 3. Disadvantages of the Turkish Real Estate Market

While, the Turkish economy offers advantages to potential investors, the potential return comes with risks. In this context the difficulties could be classified as, fundamental instabilities, infrastructure problems, institutional deficiencies, irregular activities, inefficient finance-real

estate linkage, appraisal problems for market/public based transactions and problems in land/cadastral information systems, problematic decision-making process of public sector/judicial system. These factors are decreasing visibility, transparency, expected rate of return, legal security and fair transaction opportunities in the Turkish economy/real estate market.

As indicated the above problems may decrease the rate of return on real estate investments in Turkey. Among these factors we would emphasize the negative impacts of lack of data availability, problems in real estate valuation and less developed framework of protection of public/consumer benefits.

### 3.1. Data Availability and Problems with Transparency

There is no sound/generally accepted official/unofficial value map in Turkey. The availability of price information is relatively better via internet sources and real estate brokers, but there are still problems in the quality of the data from these sources. On the other hand one can get unofficial sales and rent information/statistics on shopping centers due to their commercial characteristics. In addition to difficulties in data

**Table 2: REITs in Turkey and Selected Countries (2007-2009)**

Country	Market Cap (2009) (mn, USD)	Total rate of return (% , 2009)	Total rate of return (% , 2007-2009)	Weighted Average Dividend Yield (2009)
Turkey	1,889	151.3	-1.8	*
U.S.	271,850	27.9	-14.2	5.6
U.K.	37,176	14.5	-26.3	4.6
Malaysia	1,542	38.6	10.2	3.7
South Africa	3,400	17.5	12.4	8.5
South Korea	132	28.4	12.1	8.4

\* Insufficient data. Source: Ernst&Young (2010: 11).

<sup>15</sup> Some expect that Turkey may derive economic benefits in the new political order of the Middle East. According to this view, Turkey may become a financial/political bridge in her region and also between East and West.

<sup>16</sup> To analyse problematic sides of the Istanbul see, OECD (2008) and Ipsos (2009). For a detailed analysis for the idea of Istanbul Financial Centre, see Coşkun (2011c).

<sup>17</sup> Communiqué Serial: VI, No: 26 on Amending Principles Regarding Real Estate Investment Companies has made amendments about; the ratio of IPO (decreasing the ratio from 49% to 25%) and a new provision that obligates them to offer their shares to the public within 3 months

after being established. (Official Gazette No. 27449, dated December 31, 2009). (Capital Markets Board of Turkey, 2010: 61).

<sup>18</sup> See, <http://www.imkb.gov.tr/Data/IPODData.aspx> (01.06.2011).

<sup>19</sup> See, Erol and Tirtroğlu (2008) for evidence on inflation hedging performance of Turkish REITs in the period of 1999/Dec-2004/Dec.

**Table 3: Disadvantages of Turkish Real Estate Market**

Disadvantages (D/S)	Signs/Criteria	Impact (P/N)
<b>Fundamental Instabilities (S/D)</b>	Implicit socio-economic/politic instability, unemployment, inequality of income, poverty etc.	N: Increase social fragility/exclusion; housing finance costs; political-economic risks, (i.e.: increasing CDS premium, real interest rates); reduce sustainable housing production etc.
<b>Infrastructural Problems (S/D)</b>	Inadequacy of water, electricity and other public services.	N: Problematic/ unsophisticated urbanisation; increasing illegal housing/irregular activities.
<b>Institutional Deficiencies (S)</b> (see, 3.1 and 4)	Complicated <sup>20</sup> /problematic/less effective legal system in RE business	N: Decrease visibility/transparency; increase irregular activities and legal problems.
	Unplanned changes in central/local government RE policies (i.e. tax system, zone practices <sup>21</sup> etc.)	N: Decrease visibility/transparency; increase irregular activities; damaging fair competition; increase rent seeking activities in urban area.
<b>Irregular Activities (S/D)</b>	Less transparency in RE markets, capturing legal system	N: Growing corrupt economies at the expense of fair market practices
<b>Supply Shortage in Affordable Housing (S/D)</b>	Squatter settlements; quality problem in existing housing units, growing demand for social housing	N: Socio-economic problems. N/P: Growing function of HDA as social enterprise. <sup>22</sup>
<b>Inefficient Finance-RE Link (S/D)<sup>23</sup></b>	Less developed credit/insurance markets for housing finance	N: Non-institutional finance is the main source of housing finance; decreasing the level of housing affordability; less developed financial markets
	No secondary mortgage market at ISE	N: Less developed capital markets/risk management practices; limited growth potential for housing credit market; increase liquidity/credit risks in banking.
<b>Problems in RE Appraisal (D/S)</b>		
Appraisal Problems in Market Transactions (see, 3.2)	Less developed appraisal profession/culture; less/inefficient supervision for appraisal practice	N: Problematic price/value formation; Increase asymmetric information problems in RE/finance markets; increase credit risks in banking.
Appraisal Problems in Public Transactions (see, 3.2 and 3.3)	Less developed appraisal profession/culture, complicated legal structure; public interest (State) accepts superior than the individual interest.	N: Appraisal for public based transactions may impair ownership rights/free market economy; problematic price/value formation.
<b>Problems in Information Systems (D/S)</b> (See, 3.1)	Less effective land information system; <sup>24</sup> No sound value maps	N: Less information to price formation/valuation/credit-capital markets
	No sound current/historical real estate sales/rent values; no official house sale/rent index	N: Less information to price formation/valuation/credit-capital markets
	Less efficiency in the transactions of Land Registry Office	N: Negative impacts to transactions/legal procedures
	Less efficiency in rural cadastral information	N: Negative impacts to real estate supply/ownership rights/agricultural production.
<b>State Sector Problems (S/D)</b> (see, 4)	No effective management in public properties	N: Less marketable land in urban area; increasing cost of land/irregular housing; inefficient use of rural land
	Problems in expropriation	N: Important appraisal and legal side problems
	Problems in land consolidation <sup>25</sup>	N: Decreasing agricultural productivity, increasing political problems
	Many authorities in RE regulation/supervision (specifically for development rights)	N: Increasing inefficiency/transaction costs in private/public RE management; growing corrupt economies
	Problems in urban planning and property laws	N: Growing informal housing markets/marginal sectors, increasing legal problems.
<b>Problems in Judicial System</b>	Less developed professional witness system for RE appraisal	N: Time-consuming, costly, problematic, unfair legal system

D/S: The factor essentially impacts to demand/supply side of the RE market; P: Positive impacts; N: Negative impacts; R: Residential RE; C: Commercial RE; L: Land (for development); ISE: Istanbul Stock Exchange; RE: Real estate.

Source: Author.

<sup>20</sup> General Directorate of Land Registry and Cadastre underlines that there is a complicated structure in the registry and cadastre transactions in Turkey (General Directorate of Land Registry and Cadastre, 2009: 54).

<sup>21</sup> The number of zoning plan changes was presumably 20.787 in Turkey in the period of 1965-1978. On the other hand, there were 3.900 zoning plan changes in Istanbul municipality between 2004-2007 (Turan, 2009: 131).

<sup>22</sup> It is estimated that the social house production of HDA consists of 5-10% market share in housing sector. Some argue that this level of public intervention creates distortions in the housing market (see, Coşkun, 2011b: 17).

<sup>23</sup> The link between finance and real estate in terms of access to primary/secondary mortgage markets is weak in Turkey. In other words, it can be statistically observable that the real estate

sector growth may not reflect the acceptable amount of growth in primary/secondary mortgage markets in Turkey (see, Coşkun, 2010b and Coşkun, 2011a: 11).

<sup>24</sup> Turkish national land registry is not a member of European Land Information System (EULIS) (see, <http://www.eulis.eu/countries/>). According to a relevant official report, land information systems are less developed in Turkey. But, there are various projects to enhance the system (General Directorate of Land Registry and Cadastre, 2009: 5, 54 and <http://www.tkgm.gov.tr/ana.php?Sayfa=icerikana&ICID=113,27.04.2010>). Also see, Bank and Mataracı (2004) and Çete et al. (2010).

<sup>25</sup> According to a relevant official report, there are problematic land-use practices in Turkish agricultural enterprises (i.e. small scale, fragmentation etc.) (The Ministry of Agriculture and Rural Affairs The General Directorate of Agrarian Reform, 2009: 16). In the EU, the average farm size is 16 hectares compared with 6 hectares in Turkey; the average number of land parcels per farm is six (average size of one hectare) (Bullard, 2007: 95).

acquisition, the absence of a real estate index<sup>26</sup> also results in transparency problems in the process of pricing, valuation and hence in the overall investment process.<sup>27</sup> It is important to note that this non-transparent structure would impair a rational decision-making process in the real estate sector for all market players.

## 3.2. Real Estate Valuation: Problems and Outcomes

The existence of a professional and independent appraisal service is vital for increasing the credibility of the industry from the perspective of investors (Aydoğanlı, 2004: 52). The problems of data availability and less developed real estate appraisal have caused important consequences.

Firstly, from the perspective of fair price assessment, the problems of data availability, and less developed real estate appraisal imply problems in the marketplace. It is expected that this structure may impede negatively on incentives for buyers'/sellers' in both residential and commercial markets.

Secondly, a less transparent price mechanism/information may also impair the credit/securitisation markets by increasing information asymmetry and hence credit/securitisation risks.<sup>28</sup> Anecdotal evidence suggests that over competition within the Turkish banking sector may also support this negative development.

Thirdly, appraisal problems may also create a negative impact on the marketability of real estate and lead to dissatisfaction amongst real estate investors. Categorically, real estate and stock market investments are incomparable. While real estate shows unique characteristics/heterogeneity, stocks show homogeneity as an asset class. But it would be useful to analyse the current positions of real estate investors by using stock market investment as proxy. Even unsophisticated stock market investors may easily access lots of information including up-to-date/historical prices, several stock market indexes, information on market crimes etc. In the case of

real estate markets, even sophisticated investors may face significant information asymmetries arising from the absence of sufficient information.<sup>29</sup> In this context, higher level of information asymmetries may lessen marketability and/or increase price volatility of the rural/urban properties. This picture also creates incentives to pursue unfair/irregular practices in the real estate market.<sup>30</sup>

## 3.3. Public Interest and Consumer Protection

Last but not least, weaknesses in real estate appraisal have also led to a negative impact in the protection of public interest. The State is the leading actor in the domestic real estate sector. In this context, central and local governments have extensive powers which affect the real estate market in a broader way. In this context sales, leases, establishment of servitude, privatisation of public properties,<sup>31</sup> expropriation,<sup>32</sup> contracts on build-operate-transfer or public private partnership (PPP) etc. are field which require real estate appraisal in Turkey. Taking into account negative public perception and the number (and impact) of lawsuits in the Turkish courts related to the above type of transactions, I argue that the management of public properties requires a better real estate management/appraisal framework. It is also important to note that the current central/local regulatory/supervisory structure is not sufficient to protect real estate consumers' rights.

The Capital Markets Board of Turkey has adopted international valuation standards as a domestic regulation in 2006.<sup>33</sup> Additionally, there is a regulated appraisal system in the banking/securities sectors. The real estate valuation companies are professional institutions which employ licensed valuers to determine the value of real estate, components of the real estate and real estate projects by gathering, analysing, and applying relevant information with respect to the generally accepted international principles of valuation.<sup>34</sup> While these developments can be accepted as good news for real estate

appraisal, there are still important deficiencies. First of all, above-mentioned regulatory framework cannot set down the standards for problems in the appraisal of public properties'. Second, although the regulation represents a significant step for the appraisal profession, to effectively implement the appraisal of real estate, knowledge of the market is of great importance and market players are expected to develop it. These include NGOs, SROs, regulators, academicians etc. Therefore, we would like to emphasise that real estate appraisal for public/market based transactions requires more sophisticated policies/practices.

## 4. A Model Suggestion: The Establishment of a Real Estate Regulation and Supervision Agency of Turkey (RERSAT)

Because the current regulatory/supervisory system has failed in solving specifically the problems of housing, land-use, urbanisation, real estate appraisal, protection of consumers/public benefit etc. in Turkey, there is a regulation rationale for the establishment of the Real Estate Regulation and Supervision Agency of Turkey (RERSAT) as a new government agency for real estate management.

We may analyse the rationale of the establishment of a new agency in the context of consumer/investor protection, enhancing co-ordination among different government agencies and enhancing the quality of appraisal.

### 4.1. Consumer and Investor Protection

The global financial crisis demonstrates the importance of co-ordination between financial regulatory authorities. It is observed specifically in the developed countries such as U.K., U.S, Germany, Holland etc. that real estate and the financial markets are interconnected. On the one side, it means positive externalities for both

<sup>26</sup> Apart from the Turk-Stat Housing and Rent Index (Mutluer, 2008: 258), there is no official or historically informative/broadly used rent and sales information in the real estate sector. It is important to note that Reidin, a private company, has published a housing sales/rent index since 2007 in Turkey (see, Reidin, 2010 and 2011). Apart from over optimistic market boom psychology, it would be possible to argue that current over supply in the residential and shopping center sub-markets in Turkey would be also related to a gap in information in the decision-making process arising from the absence of relevant statistics and price information.

<sup>27</sup> It can be useful to review European Mortgage Federation (2007: 121-141) relevant data to analyse the importance of the data problem in Turkish real estate market.

<sup>28</sup> On the other hand, it has been long observed that maturity mismatch is the leading factors causing increasing credit risks in the Turkish banking system. According to BRSA (2009: 30), although the capital adequacy ratio of the Turkish banking sector is 19,2% as of June 2009, deposit with maturities up to 3 months constitutes 92% of total deposits. IMF (2007: 6, 13) underlines that housing loans increase interest rate risks in banks due to duration mismatch.

<sup>29</sup> Deutsche Bank Research (2008: 23) indicates in relation to the Turkish market that with details of transactions remaining undisclosed there is a severe lack of information on deal flow.

<sup>30</sup> On the other hand, land shortage in the urban area and complexity of land use and zoning practices may also cause appraisal problems in real estate projects.

<sup>31</sup> Although foreign/domestic financial institutions provide advisory services to privatization transactions, there were many cases implying potential (firm/real estate) valuation problems.

<sup>32</sup> Keskin (2003) indicates that value of land may vary depends on the decision of the relevant valuation commission (namely, Value Appreciation Commission, Special Value Appreciation Commission or expert witness) in the process of expropriation.

<sup>33</sup> Serial VIII, No: 45 Communiqué on International Valuation Standards in the Capital Markets (see, <http://www.cmb.gov.tr/indexcont.aspx?action=showpage&menuid=1&pid=2>).

<sup>34</sup> See, <http://www.cmb.gov.tr/indexcont.aspx?action=showpage&showmenu=yes&menuid=4&pid=8&subid=2>, 16.04.2010.

housing finance and financial markets. But, as observed in crisis, this interconnectedness makes systemic risk management and the sustainability of housing finance more complicated. From the perspective of financial institutions, it seems that a consolidated regulator/single financial authority approach is a better solution to both consumer protection and systemic risk management. In this context, The U.S. Department of the Treasury (2008a: 169, 172) emphasises the importance of re-organisation in the mortgage/housing finance system. On the other hand, The Federal Geographic Data Committee (2009: 5,9) in regard to the U.S. underlines that local government land parcel level information is essential to the monitoring of the distressed housing market and that there is a need for a national system that can use early warning indicators of financially distressed housing and mortgage markets.

Current land parcel level information structure may not help in monitoring the trends of the mortgage market in Turkey due to a lack of institutional focus. Therefore, for better system wide risk management, the real estate sector needs a specific focus/ organisation on this issue. In the case of Turkey, instead of systemic concerns,<sup>35</sup> the rationale of re-organisation is related to protection of customers/public interest and also to increasing market efficiency (see, Table 4).

In the context of mortgage lending, the U.S. regulators established a brand new investor protection system based on Dodd-Frank Wall Street Reform and Consumer Protection Act (See, Davis Polk & Wardwell, 2010; Paulson, 2008; The U.S. Department of the Treasury, 2008a and 2008b).<sup>36</sup> In comparison to the developed markets, the Turkish mortgage market was underdeveloped in terms of financialisation, volume of securitisation, the use of complex financial products etc. In these circumstances, the coverage/scope of investor protection in the real estate sector should reflect the problems of the current market conditions.

Customer protection is at the centre of capital market regulation and also an important regulatory rationale in the banking and insurance sectors. Compared to the financial sub-sectors, there is little or no disclosure in the real estate market, particularly in residential and rural property transactions. Real estate transactions, mostly involving high amount of financial responsibility, may be complicated for average

households/investors having limited financial literacy. So, a less transparent market environment may not protect those unsophisticated households/investors.

This complicated market environment may be observed in house sales, real estate broker communications, mass-housing projects, land-use/development/renewal projects, housing cooperatives etc. This information asymmetry between buyer and seller (or their agents) does not support the interests of real estate consumers and there is no effective watchdog in the market who protects both sides of the transaction.<sup>37</sup> In particular, we think that inexperienced real estate consumers deserve a more transparent market to enable a healthier investment environment, not only in emerging markets, but also for the rest of the world. Therefore, because there is no well organised and effective customer protection in the Turkish real estate market, one of the critical responsibilities of the RERSAT is to protect real estate investors/customers. While developed countries may focus on mortgage market financial transactions/products in relation to customer protection, Turkey may need to particularly focus on real estate marketing/brokerage activities and non-institutionally financing real estate transactions due to characteristics of the domestic market.<sup>38</sup>

### 4.2. Enhancing Coordination and Protection of Public Interest

It seems that protecting public interest is relatively problematic due to its intensive political content and complicated structure. There are many central/local government authorities involved in the regulation/supervision of real estate business in Turkey. This structure is increasing inefficiency in private/public real estate management. For example, in the case of development rights, there are nearly twenty authorised public institutions in the Turkish legal system such as Housing Development Administration (HDA), Privatisation Administration, municipalities, National Estate Office, State Railways, The Ministry of Public Works and Settlement, The Ministry of Culture and Tourism etc.

As observed in many cases, it is difficult to protect the public interest through this complicated legal structure. Therefore it is expected that RERSAT would co-ordinate the authorised

government institutions' activities on real estate.

### 4.3. Better Valuation Framework

As reviewed in the previous section, the valuation requirement of public properties may arise from the transactions of public institutions (sale, lease, privatisation, expropriation etc.) or court decisions requiring real estate valuation. However each public property valuation case has its own merit, the system implies weaknesses. In this context, inadequate globally accepted professional knowledge<sup>39</sup> and absence of effective regulatory/supervisory framework are the components of increasing inefficiency. On the other hand, as noted above, market-based real estate valuations also need specific focus. To enhance the valuation profession and its regulatory/supervisory framework, we think that a common approach should be developed for both public and market based real estate transactions.

### 4.4. Goals and Benefits of RERSAT

To improve the business framework in public/market based real estate management, we think that RERSAT should be established as a new politically neutral independent central government agency. The goals (direct benefits) of the proposed new agency may be summarised as below.

As part of the above goals, it is expected that RERSAT may issue periodic reports on real estate sales/rent data, indexes and value-maps, oversee foreign real estate investments, issue reports on the major developments in the sector, and also publicly disclose the Agency's balance sheet, policies and practices. In this context, we anticipate that the activities of RERSAT may create positive externalities on urban/rural land policies and zoning/land-use practices.

There would be two important results from the establishment of RERSAT. First, it is believed that this framework would increase consumer protection, public interest and market efficiency, and hence the value of the Turkish real estate market. Second, the new government agency may enhance the effectiveness of public sector real estate management practices by co-ordinating the authorised government institutions based on the above objectives.

Discussion of the effectiveness of the HDA's current policies is beyond the scope of this paper.

<sup>35</sup> The Banking sector was the leading actor in the financial crisis in Turkey. In this context, Turkey has not experienced capital market and real estate originated financial crisis.

<sup>36</sup> Also see, [http://www.financialstability.gov/docs/regulatoryreform/strengthening\\_consumer\\_protection.pdf](http://www.financialstability.gov/docs/regulatoryreform/strengthening_consumer_protection.pdf) (28.04.2010).

<sup>37</sup> For principles for customer/investor protections in real estate markets, see United Nations (2010: 6-7).

<sup>38</sup> For interesting discussion on consumer protection in housing market see, Atterhöög (2005: 2).

<sup>39</sup> Public property valuers have no specific license recognized by the Capital Markets Board of Turkey or international organizations.

**Table 4: Principal Goals and Policy Instruments of RERSAT**

Principal Goals	Policy Instrument(s)
To enhance consumer/investor protection, public interest and market efficiency	- To issue regulations/standards for real estate brokerage/marketing/appraisal; public/private players' housing supply; land-use <sup>40</sup> ; development rights - To issue regulations/standards for housing finance - To enhance supervision on real estate (RE) transactions
To coordinate of the authorised central/local government agencies	- New regulatory framework for RERSAT and MoUs among authorised institutions - Simplifying, consolidating and converging rules/practices issued by different government agencies related to RE - Effective/politically neutral supervisory framework for land use/zoning practices
To promote fair market practices for housing market	- To issue regulations/standards for RE buying/selling activities - Better supervisory framework for public/market based housing transactions
To enhance transparency in RE price formation	- To enhance data availability (i.e. collect/publish data on RE sales/rent, publish official RE indexes etc.)
To enhance appraisal profession	- To develop policies/standards for public/ market based RE appraisals - To enhance supervision on appraisal firms' activities
To improve affordable housing	- To enhance primary/secondary mortgage markets through incentives - To transform HDA to a financial institution (i.e. Fannie Mae) and to create tax/insurance/credit incentives for the benefits of households and primary/secondary mortgage markets institutions
To improve policies on management of public properties, urban area land shortage and land speculation	- To develop transparent/politically neutral/accountable policies

Source: Author.

However the establishment of such a super authority inevitably brings into consideration of this discussion. Therefore, we would like to emphasize that RERSAT should specifically coordinate/supervise the policies of the HDA.<sup>41</sup>

To reach a more realistic approach, we have to underline the inadequacies of the suggestion of establishment of the RERSAT as the brand new central government agency. In this context, if public sector culture was prevalent in the RERSAT, the proposed agency could not fulfill expectations. Additionally, it does not seem sustainable to establish an effective real estate management system covering both public and private sectors unless the prerequisites, indicated in Table 3, have been met. It is also important to note that the idea of regulating/structure/market without any political influence seems too optimistic. At least, this suggestion may be helpful in any discussion of consumer protection, public interest and the market efficiency problems of the Turkish real estate market, to help formulate a new viewpoint.<sup>42</sup>

## 5. Conclusion

According to statistics, Turkey is one of the biggest economies in the world and also considered a promising country in the greater European region. As well as other immature sub-sectors, the real estate markets offer opportunities to investors. Although one side of the coin is bright for Turkey, the objective assessment of the domestic real estate market requires a cost – benefit analysis.

Fundamental instabilities, infrastructure problems, institutional deficiencies, irregular activities, inefficient finance-real estate linkage, appraisal problems for market/public based transactions, problems in land/cadastral information systems and problematic decision-making process of the public sector/judicial system can be classified as disadvantages. These factors are decreasing the visibility, transparency, expected rate of return, legal security and fair transaction opportunities in the Turkish economy/real estate market.

To improve the business framework in public/market based real estate management, we think

that a Real Estate Regulation and Supervision Agency of Turkey (RERSAT) should be established as a new, politically neutral, independent central government agency. There would be two important results of the establishment of RERSAT. First, it is believed that this framework would increase consumer protection, public interest and market efficiency, and hence the value of the Turkish real estate market. Second, the new government agency may enhance the effectiveness of the public sector real estate management practices by co-ordinating the authorised government institutions based on the above objectives.

The real estate sector seems extremely tied into local/central government policies and in the centre of the wealth accumulation process in Turkey. Therefore, we are clearly aware that there are important limitations on to which the above suggestion can be implemented. At least, we believe that this suggestion may be helpful in the discussion consumer protection, public interest and market efficiency problems of the Turkish real estate market, by putting forward a new viewpoint.

<sup>40</sup> An analysis for the principles for the benefits of integrated land administration system, see, United Nations (2010: 8).

<sup>41</sup> For detailed discussion and suggestions about the activities of HDA, see Coşkun (2011b: 17).

<sup>42</sup> Because of the scope of the paper, we may suggest further reading. To analyse problems and solutions framework, researchers may also review to those selected references. Üstünişik (1998),

State Planning Organisation (2001 and 2007), Yetgin and Lepkova (2007), Çete (2008), Akın (2009), Ministry of Public Works and Settlement (2009 and 2010). The Real Estate Regulatory Agency (RERA) of Dubai (see, [http://www.rera.gov.ae/rera/english/about\\_us.aspx](http://www.rera.gov.ae/rera/english/about_us.aspx)) and also state level regulatory agencies in the US also seem interesting to analyse as international experience (see, <http://www.arello.com/regulator/default.cfm>). On the other hand, United Nations (2010) and UN-Habitat (2008) would be useful international resources for best practice for land/real estate management.

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