



The housing finance system in Turkey

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Abstract

Purpose – The purpose of this paper is to review the housing sector of Turkey and present the housing development strategies developed by government enterprises for the urban poor in Turkey as successful examples.

Design/methodology/approach – The methodology of the paper is descriptive. First of all, the literature on housing finance systems and sources of housing finance are stated. Then, the paper reviews housing finance systems applied in Turkey in the past to solve housing problems. Later, it describes current housing strategy to solve housing problems of low- and middle-income groups and also presents this strategy as a successful model to other countries. Moreover, mortgage law and the current situation of the Turkish housing sector are discussed within the study.

Findings – As a result of economic normalization achieved after 2002, mortgage loans extended by commercial banks have increased in Turkey. Besides, governmental institutions, such as Housing Development Administration of Turkey (HDAT) and Istanbul Public Housing Corporation (KIPTAS), apply very extensive projects to allow low- and middle-income groups to have their dwellings. In 2007, the Turkish Parliament enacted mortgage law and defined rules and actors of the mortgage sector. However, as a consequence of economic deterioration in the world economy, mortgage loan receivables-backed securities could not be issued to public yet. Public issuance of mortgage loan receivables-backed securities in the future are expected to direct more long-term funds to the housing sector and also to provide an additional investment instrument for the individual and institutional investors.

Originality/value – The housing production and finance models developed by the HDAT and KIPTAS can be good models for the solution of housing problems of urban poor in other countries.

Keywords Housing, Housing finance systems

Paper type Research paper

1. Introduction

Housing is one of the most basic needs of the human beings, and it indicates the level of economic and social development of societies. Housing has great importance for households and countries. It is also a valuable and important wealth that can be used by its owners currently or in the future (King, 2009). Because of its high value and cost, a large part of the world's population cannot afford to buy their own houses without additional funds (Warnock and Warnock, 2008). Therefore, to provide necessary funds to people who need additional funds, many countries have established their own housing finance systems (Leece, 2004).

Housing finance systems vary among countries, as well as within countries, and there are differences in application (Warnock and Warnock, 2008). Leece (2004) and Baloglu (2007) list some of the reasons of different applications among and within countries in their studies as discrepancies in housing stock and history, financial



markets, level of financial depth, economic conditions and economic stabilization, banking and insurance sectors, laws and legal systems, tax laws, preferences of people and culture and social structure. This paper reviews housing finance systems implemented in Turkey. The aim of this study is to examine housing finance systems in general and the institutional development of the housing finance system for the urban poor in Turkey within the scope of methods developed by the Housing Development Administration of Turkey (HDAT) and the Istanbul Public Housing Corporation (KIPTAS). As many lower- and middle-income people cannot afford to purchase house in the world, the Turkish government-led housing finance system may get attention of executives and help the solution of housing problem of the poor in other countries.

2. Housing finance systems

Housing finance systems have been developed to meet expectations of borrowers and lenders (Lea, 2000). Boleat (1985), Lea (2000) and King (2009) emphasize that housing finance systems aim to provide funds through public and private institutions to customers who want to buy a house and to organizations that realize large housing projects as much as possible because many households and organizations do not have sufficient funds for housing. There are many methods to achieve this goal. Lea (2000) claims that the most important point is bringing together those who need to borrow funds with those who supply funds. According to Renaud (1984), Boleat (1985) and Leece (2004), this is possible only with an efficient housing finance system, and such a system provides benefits to all parties involved, such as capital, housing and labor markets. Supply and accessibility of funds in accordance with customers' desire can be achieved by applying an efficient housing finance system. To satisfy expectations of borrowers and lenders, there must be institutional harmony among government, financial institutions, house producers, insurance companies and households that can be accomplished with efficient housing finance markets (Demir *et al.*, 2003 and Komurlu and Onel, 2007). In general, there are four types of housing finance systems.

2.1 The direct route

The direct route system is used by individuals who do not have sufficient funds to purchase a house and finance their needs from their friends, relatives or personal and business environment (Boleat, 1985; Lea, 2000; Kilic, 2007; Hepsen, 2010). Financial institutions do not exist in this finance system. In the direct route method, there is a trust relationship between savers and borrowers. This method is mostly used in the developing or underdeveloped economies where money and capital markets do not work effectively (Boleat, 1985; Datta and Jones, 1999; Gurbuz, 2002; Kilic, 2007).

2.2 The contractual route

In the contractual route, depositors invest their funds to a specialized agency for several years. During the investment period, they get interest rate below the market rate of interest (Boleat, 1985; Lea, 2000; Kilic, 2007). Then, depositors pay lower interest rate than the current market interest rate for the credits they take when they are entitled to take out the credit to buy a house (Boleat, 1985). In other words, the account owners who are newly included in the system provide funds for certain periods with the costs below the current interest rates to the account owners who have already been included in the system formerly. The success and the continuation of this system depend on the participation of the newcomers regularly (Komurlu, 2006). Lea (2000) emphasizes that

the contractual method has been used effectively in the countries which has economic stabilization or where the inflation is low.

2.3 The deposit finance route

The deposit finance route relies on the principle that financial institutions collect deposits from the public and give all or some part of their gathered deposits to the ones who do not have sufficient accumulation to purchase housing (Boleat, 1985; Kilic, 2007). The deposit finance route is effectively practiced in many developed countries because they have many housing finance institutions which can afford for long-term fixed-interest rate housing loans. As the deposit finance route covers most of methods of housing finance systems, it is the most frequently used financing method (Boleat, 1985).

2.4 The mortgage bank route

The principal of mortgage system based on hypothec is to form a hypothec on the real estate to secure the repayment of the loan (Komurlu, 2006). The main purpose of the system, which can show some differences in accordance with the economic and social status of the countries, is to provide long-term fixed interest rate housing loans to homebuyers (Lea, 2000; Yilmaz, 2000). Mortgage banks purchase and gather originated mortgage loan receivables in one pool, and to obtain necessary funds, they issue mortgage-backed securities based on these loan receivables through the secondary mortgage market (Komurlu, 2006; Hepsen, 2010). According to Boleat (1985) and Komurlu (2006), the effectiveness of this method depends on the existence of a developed and deepened bond market. Therefore, this model has been applied effectively in developed countries.

3. Sources of housing finance

Most important sources of housing finance are individuals' savings and other savings provided through banks, insurance companies and pension funds and so forth (Boleat, 1985; King, 2009). Different systems and methods are used to obtain necessary funds for housing in developed and developing countries (Leece, 2004).

Developed countries have well-structured housing finance sectors that have been built on private-sector institutions and capital market instruments (Baloglu, 2007). Housing finance institutions in developed countries finance their activities with the funds from deposits and capital market instruments issued (Yilmaz, 2000; Hepsen, 2008). Therefore, financial institutions meet housing finance needs of their customers from long-term sources in developed countries (Lea, 2000).

Housing conditions are poor in developing countries, and developing countries do not have enough financial intermediaries that provide necessary sources to housing sector (Renaud, 1984). Developing countries use tradition-based, non-institutional housing finance sources, such as personal savings, support from extended families, loan from friends or relatives, credits from contractors and housing cooperatives (Alp *et al.*, 2000; Baloglu, 2007). Housing finance sources are examined under two main categories, the non-institutional and institutional resources.

Non-institutional housing finance sector is a system in which there are no any rules and regulations governing the housing activities. Therefore, there are no exact statistics, no official records and no legal regulations in this sector (Demir *et al.*, 2003). Non-institutional housing finance systems are used commonly in undeveloped or developing countries (Datta and Jones, 1999). One of the main problems of these

countries is the lack of well-structured financial system that regulates housing activities and financial institutions which provide long-term funds (Berberoglu and Teker, 2005).

In the institutional housing finance system, formal financial institutions provide funds for the housing sector that are approved by public authorities and are operating based on rules and regulations (Lea, 2000). These institutions are mostly located in developed countries because they have well-arranged primary and secondary housing markets (Hepsen, 2010). Institutional housing finance system provides large volume of credits with low interest rates and long-term payment periods through financial institutions (Warnock and Warnock, 2008).

4. Sources of housing finance for the urban poor

After the industrialization period of the countries, huge migration started from rural to urban areas and sizes of the cities increased. As a result of the rapid urbanization, a number of the squatter and other uncontrolled settlements increased in contemporary developing countries of Africa, Asia and Latin America. Urbanization without economic growth and public services resulted in the urbanization of poverty and slums. Urban slums and squatter areas is one of the most important problems of the developing countries. To improve living conditions in the slum areas and solve the problems of the urban poor, over the past three decades, central and local governments have developed new plans and methods for finding new sources of finance for housing and urban infrastructure. The concept of the urban transformation has been developed during this stage (Jensen, 2006).

Urban transformation has different definitions in the literature due to the political, economic and social conditions of the countries and timing, scope and targets of the transformation projects. However, in general, urban transformation is defined as a systematic renovation movement to provide solutions for the physical, social and economical problems of the urban areas. Public or private institutions may realize urban transformation projects with different purposes. Urban transformation projects aim for renewal, gentrification, rehabilitation, preservation, improvement and redevelopment of the slum areas (Kara and Palabıyık, 2009).

One of the most important aims of the urban transformation is renewal of the slum areas. In this kind of projects, slum areas, which are not good for life and health of the people, are demolished partly or totally by the central or local governments or private companies and renewed with healthy and livable places that have modern infrastructure and life standards (Kara and Palabıyık, 2009).

Another important aim of the urban transformation is gentrification of the slum areas. These projects aim to construct modern and luxury housing units instead of the squatter housing units (Kara and Palabıyık, 2009). Gentrification of the slum areas is mostly applied in the centers of the big metropolitan cities where the land prices are substantially high. After demolishing slum areas located on financial districts of the metropolitan cities, luxury housing units are constructed with modern facilities and sold to upper income groups. Local governments support gentrification projects because they provide huge capital from these projects to finance more social housing units for poor income groups.

Central government, local governments and private institutions are the main organizers of the urban transformation projects. Today, there is important involvement of the public sector in almost all of the urban transformation projects, and most of them

are managed by the relevant public institutions (Kara and Palabiyik, 2009). Public institutions mainly take the role of the urban transformation as a regulator and controller. In general, the urban transformation projects are high-cost projects due to the planning, financing, constructing and marketing costs, and these projects aim to renew slum areas in terms of socio-cultural, economical and physical manners (Mutman and Turgut, 2011). Normally, in these projects, prompting public-private cooperation or applying for external sources is required. Public institutions cannot finance all transformation projects by their own budget; therefore, they provide incentives to private institutions and realize public-private corporations to finance these projects (Kentlesme Surasi 2009: Kentssel Donusum, Konut ve Arsa Politikalari 3, 2009).

Public institutions that cannot supply enough sources for urban renewal projects mostly apply to the revenue sharing model. In this model, they cooperate with domestic or international private housing contractors. The revenue sharing model is developed under the public-private partnership (PPP) model. The PPP model was first developed in England and the USA to solve the funding problem of different public projects through corporation of public and private institutions. PPP can be defined as sharing costs, risks, revenue and profits at agreed-on rate between public and private institutions.

On the new housing development projects based on the revenue-sharing model, public institutions diminish the risks related to project development, and they get rid of searching for financing of the projects. The revenue sharing model is applied mostly in big cities because there is high demand for luxury housing units, and therefore, there are high-profit opportunities in these metropolitan cities. In general, public institutions take the land provider role in the revenue sharing model. They can use both government land units and lands obtained from demolishing of slum areas. Public institutions assign housing projects totally or partly to private companies directly or with the tender method. After the completion of housing projects, profits are shared between public institutions and the housing contractor firms.

The revenue sharing method provides important capital for housing activities of public institutions, and it generates its own resources. Instead of using central government budget, this method seems as innovative and a bright idea for social housing production (Coskun, 2011).

5. Housing finance systems in Turkey

In Turkey, different housing policies were followed and different housing finance systems were applied by government, private institutions and households since the establishment of the Turkish Republic in 1923. The housing finance systems applied in Turkey are examined below as non-institutional and institutional structures (Coskun, 2011).

5.1 Non-institutional structure of the Turkish housing finance system

A housing finance system that achieves sufficient number of housing production and provides required financing could not be established in Turkey for many years (Coskun, 2011). Therefore, people have mostly used their personal savings and applied for non-institutional sources to meet their housing requirements (Ozturk and Dogan, 2010).

Personal savings are the largest resource for homeownership in Turkey. In addition to using personal savings, people obtain resources from selling their old houses and

valuable assets, such as gold and silver. Moreover, funds from relatives, inheritances, close friends and employer or colleagues, savings from abroad are widely used in Turkey to become a homeowner (Berberoglu and Teker, 2005; Erdogdu, 2010; Hepsen, 2010). After providing housing funds from non-institutional sources, people apply various strategies to produce dwellings in Turkey. Turkish people purchase houses from housing contractors with term loans or cash payment, obtain houses through private building cooperatives and also prefer to build their own houses (Hepsen, 2010; Coskun, 2011).

5.2 Institutional structure of the Turkish housing finance system

Housing production has been accomplished and supported by governmental or private organizations in Turkey since the 1920s (Hepsen, 2010). These organizations are social security institutions, such as Social Security Institution (SSI), Social Insurance Institution for Tradesmen and Craftsmen and Other Self Employed (Bag-Kur) and Army Aid Institution (OYAK), HDAT, KIPTAS, local municipalities, local organizations, commercial banks and Real Estate Investment Trusts (REITs) (Erol and Patel, 2005; Ozturk and Dogan, 2010).

5.3 Social security institutions

Some institutions, such as the SSI, Social Insurance Institution for Tradesmen and Craftsmen and Other Self Employed (Bag-Kur) and OYAK, whose tasks are not to take place in the building sector, provide housing credits to their members with low interest rates and various terms (Hepsen, 2010). These institutions collected insurance premiums from their members and transferred some of these premiums to their members' housing cooperatives as housing loans. Although SSI and Bag-Kur stopped extending housing loans (Hepsen, 2010), OYAK still provides individual housing loans, cooperative housing loans and mass housing loans for houses constructed by Oyak Construction Company (Gurbuz, 2002; Aydin, 2006).

5.4 Real Estate Bank

The Real Estate Bank was established as a state-owned bank in 1926 to support housing production and provide housing loans. The Real Estate Bank had different housing finance policies in different periods. However, in general, the Real Estate Bank provided housing loans with low interest rates in long-term payment periods to households that opened accounts with the building saving system (Gurbuz, 2002). The Real Estate Bank collected funds from households, pooled them in the Building Saving and provided these funds as housing loans to the right owners. It also issued long-term bonds to provide necessary funds for housing loans (Erol and Patel, 2004). This bank mostly applied fixed interest rates to home loans with 15 years' repayment periods. However, the Real Estate Bank changed its applications from time to time and arranged its interest rates and repayment periods (Gurbuz, 2002). This bank extended various housing credits as building saving loans, cooperative loans and construction repair loans, etc.

The Real Estate Bank was an important housing finance institution, and it made significant contributions to urbanization of Turkey with important projects since 1926. However, it was closed in 2001 as a result of the negative effects of the economic crisis. All projects, assets and shares of the Real Estate Bank in the housing sector were transferred to the HDAT in 2001 (Gurbuz, 2002; Ayan, 2011).

5.5 Commercial banks

Commercial banks stayed away from providing housing loans with long-term payment periods as a result of high inflation and interest rates in Turkey for many years. They provided housing loans with short-term monthly repayment policies (Komurlu, 2006; Hepsen, 2010). Therefore, people have mostly used their personal savings and applied for non-institutional sources. However, as a result of the economic stability achieved after 2002, inflation, nominal and real interest rates decreased and the volume of housing loans offered by commercial banks increased significantly. Development of housing loans extended by commercial banks is given in Table I. As shown in the table, amount and percentage of housing loans of commercial banks has increased dramatically after 2004.

Commercial banks are the most important institutions that provide housing loans, and they have critical roles in stimulating the housing and real estate sectors, and they are expected to continue their critical roles in housing the finance sector of Turkey.

5.6 Real estate investment trusts

A REIT, is an investment company that provides funding for all kinds of real estate through its own equity or using the pooled capital of many investors (Compare and contrast: Worldwide REIT Regimes, 2011). REITs are one of the most important financial institutions in the world. REITs were started to be established in Turkey in 1995. The first corporations in the sector are Alarko REIT and Vakif REIT. The first public offering of the shares of a real estate investment trust was realized in 1997 (Ernst and Young, 2007). REITs' stocks are quoted in the Istanbul Stock Exchange (ISE), and their activities are regulated by the Capital Markets Board of Turkey.

With the effects of instability of the Turkish economy, the earthquake in 1999 and the financial crisis of 2001, the growth rate of REITs was low until 2004. The normalization process has started after 2002 in the Turkish economy, and the number of REITs and their portfolio sizes increased over time. As a result of the rapid growth rate in the market, REITs have been very effective in the real estate market since 2004 in Turkey. There were 9 REITs trading on the ISE with total paid in capital of 560 million TL and total net asset value of 1,205 million TL in December 2003 (Aydinoglu, 2004). Today,

Period	Loans extended, million TL				Total loans	Per cent housing loans in total
	Housing loans	Automobile loans	Consumer loans	Other loans		
2003	805	4,689	0	4,989	10,483	7.68
2004	2,713	8,457	0	10,175	21,344	12.71
2005	12,967	6,836	15,233	4,348	39,384	32.92
2006	15,604	5,373	19,975	652	41,604	37.50
2007	15,535	5,178	27,538	1,603	49,853	31.40
2008	15,360	5,029	31,938	2,919	55,246	27.80
2009	21,222	4,863	39,921	122	66,129	32.09
2010	31,821	7,780	60,532	2,885	103,019	30.88
2011	29,756	8,036	69,404	5,631	112,827	26.37

Table I.
Total amount and the
ratio of housing loans
supplied by Commercial
Banks of Turkey

Source: The Banks Association of Turkey, available at: www.tbb.org.tr/tr/ (accessed 1 August 2012)

there are 24 registered REITs in Turkey, with total paid in capital of 6,969 million TL and total asset value of 22,761 million TL as shown in Table II.

In Turkey, REITs have financed a number of large projects, such as commercial business centers, shopping centers and mass housing since their establishment (Capital Markets Board of Turkey). REITs contribute to the economy through financing large real estate projects, and they also provide investment opportunities to investors through capital markets. During the early years of REITs in Turkey, they had invested mainly to rental real estate portfolios. Later, they moved their portfolios to the development of real estates. Currently, the portfolios of REITs include mainly commercial real estates, and they started to turn their investments for housing and shopping center projects.

Turkey has got an attractive real estate sector for domestic and international investors in recent years. Therefore, REITs may play an important role for the development of the Turkish real estate sector by attracting more international investors in high-quality and reliable real estate projects developed in international standards.

Title of company	Registered capital (TL)	Paid in capital (TL)	Total assets (30 September 2012) (TL)	Number of shares	Price per share (TL)
1. Akfen REIT	1,000,000,000	184,000,000	1,141,353,201	46,064,000	1.60
2. Akmerkez REIT	75,000,000	37,264,000	168,544,674	1,162,570	21.95
3. Alarko REIT	20,000,000	10,650,794	229,618,736	3,650,130	22.25
4. Atakule REIT	200,000,000	84,000,000	226,861,734	13,197,400	1.35
5. Avrasya REIT	480,000,000	72,000,000	80,315,898	56,338,300	0.48
6. Doğuş REIT	500,000,000	93,780,000	198,881,088	7,891,630	1.60
7. EGS REIT	75,000,000	50,000,000	135,782,059	33,797,500	0.27
8. Emlak Konut REIT	4,000,000,000	2,500,000,000	7,646,681,000	536,704,000	2.96
9. Idealist REIT	200,000,000	10,000,000	9,285,536	2,499,250	2.50
10. İş REIT	2,000,000,000	600,000,000	1,304,177,001	294,386,000	1.50
11. Kiler REIT	1,400,000,000	124,000,000	475,466,995	39,784,900	1.85
12. Martı REIT	200,000,000	110,000,000	214,865,538	52,924,900	0.51
13. Nürol REIT	40,000,000	40,000,000	495,599,558	8,847,750	8.10
14. Özak REIT	300,000,000	157,000,000	884,325,867	5,418,690	1.75
15. Özderici REIT	250,000,000	100,000,000	130,603,489	32,886,600	0.85
16. Pera REIT	250,000,000	89,100,000	218,858,789	44,822,000	0.56
17. Reysaş REIT	500,000,000	190,000,000	424,098,406	53,644,100	0.74
18. Saf REIT	2,000,000,000	886,601,669	722,145,312	319,585,000	0.97
19. Sinpaş REIT	1,000,000,000	600,000,000	1,922,038,715	241,793,000	1.36
20. Torunlar REIT	1,000,000,000	500,000,000	4,374,928,000	69,272,500	2.89
21. TSKB REIT	200,000,000	150,000,000	347,636,323	43,408,800	0.76
22. Vakıf REIT	300,000,000	105,000,000	192,847,398	10,064,200	5.10
23. Yapı Kredi Koray REIT	100,000,000	40,000,000	105,371,865	17,619,700	1.32
24. Yeşil REIT	1,000,000,000	235,115,706	1,110,289,869	63,571,500	0.66
Total	17,090,000,000	6,968,512,169	22,760,577,051		

Table II.
List and capital of REITs
in Turkey

Source: Kamuyu Aydınlatma Platformu (2012)

5.7 Mortgage law

The Mortgage Law (Law No.5582), which was passed and entered into force by the Parliament in 2007 (www.tbmm.gov.tr/kanunlar/k5582.html), is seen as an important step for the improvement of housing finance system and sector of Turkey. In 2007, legal arrangements were made with this law for the housing finance sector's adaptation process to market conditions of Turkey. The following arrangements are made within the context of the new mortgage law:

To support development of both primary and secondary mortgage markets, certain tax incentives were introduced within the context of the new mortgage law. It is aimed to decrease the demand for informal housing and stimulate the economy while increasing the number and quality of housing production with tax incentives (Tekler, 2007). All transactions made by mortgage finance companies and housing finance institutions within the scope of housing finance are exempted from expenditure tax and fees. In addition, receipts and papers related to public issuance of capital market instruments are exempted from the stamp duty according to the Stamp Tax Law. Dividend and interest income of capital market instruments have been exempted from income tax (www.tbmm.gov.tr/kanunlar/k5582.html).

Before this law, the foreclosure time for a defaulted property was quite lengthy. Amendments to the Execution and Bankruptcy Law (No. 2004) provided the opportunity to shorten the follow-up process of mortgage loans through foreclosure. This law has great importance in the functioning of the new mortgage system because it accelerated the liquidation process of the property (Tekler, 2007; www.tbmm.gov.tr/kanunlar/k5582.html).

Mortgage loan lenders are allowed to extend variable and adjustable rate mortgages with the amendment to the Consumer Protection Law. The other amendment is that lender institution must give information about all aspects of the law and consumers are protected against the downside developments in laws (Tekler, 2007).

With the amendment to the Financial Leasing Law, financial leasing and consumer finance companies, which are approved as eligible to operate in the housing finance sector by the Banking Regulation and Supervision Agency, are enabled to provide mortgage loans (www.tbmm.gov.tr/kanunlar/k5582.html). As a result of this law, number of lending institutions increased in the housing sector. With the increased number of lending institutions, households can take mortgage loans with more economic conditions.

The mortgage finance system is expected to have a critical role in financing long-term investments and growth in the housing sector and the development of an institutionalized housing finance system for Turkey.

6. Housing problem of the urban poor in Turkey

Housing was not an important problem for Turkey, as the migration level from rural to urban areas was slow and also the industrialization level was very low before 1950. However, Turkey has witnessed housing shortage since 1950s due to the population growth, rapid urbanization and industrialization process (Turhan, 2008; Turk and Altes, 2010; Coskun, 2011). People started to migrate from rural areas to big cities due to good opportunities of job, education, health and social activities (Elliot, 2010). The urbanization level in Turkey had increased from 18.5 per cent to 65.6 per cent between the years 1950 and 2000 (Turk and Altes, 2010), and it is expected to reach 84 per cent by

2023 (Gurlesel, 2012). Although Turkey's population growth and urbanization rate is high, housing supply has remained very low in the urban areas. As a result of this, housing problem reached to an important level and huge number of housing deficit emerged in large cities (Elliot, 2010; Erdogdu, 2010). Housing shortage resulted in high housing prices in the urban areas of Turkey (Elliot, 2010). In this period, there was no housing finance structure to offer dwellings to lower-income people in long-term payment periods, and the existing housing finance structure and corporations could not solve these problems (Turk and Altes, 2010). Therefore, the number of shanty houses increased and violated the zoning and resettlement especially in large cities. Shanty houses also have unhealthy conditions with low living standards (Ozturk and Dogan, 2010).

In Turkey, shanty houses are a very important problem in the urban areas (Erdogdu, 2010). The number of shanty houses and illegal constructions were 50,000 in 1955. The number of illegal housing units reached to 2.5 million in 2002. It is estimated that approximately 12.5 million people are living in these shanty houses (Turk and Altes, 2010). These houses are especially concentrated in industrial zones and public lands. They are spread all around Turkey with zoning amnesties which were enacted by the government (Erdogdu, 2010).

Due to lack of an effective financing system, an important part of the housing stock has not been constructed in accordance with standards. To solve housing problems and meet financing needs of households, new policies were applied and new institutions were established toward the improvement of the housing sector in Turkey since the 1980s. In this regard, the Housing Development Administration of Turkey was established to prevent squatter buildings and illegal constructions in Turkey with the new housing production and financing methods (Toplu Konut Idaresi Baskanligi, 2012).

7. Housing finance methods of the housing development administration of Turkey for the urban poor in Turkey

In Turkey, housing production was mostly realized with individual projects until 1970s. However, in the 1970s, as a solution of continuous demand for land and housing, mass housing production has gained importance instead of the single building construction (Turk and Altes, 2010). In this period, to encourage planned urbanization, mass housing production was decided to be constructed by state enterprises (Eskinat, 2012).

In this regard, as a state enterprise, the HDAT was established in 1984, with the aim of meeting housing requirements of low- and middle-income households while preventing unplanned urbanization by this way. Today, the HDAT is the most important public institution of housing sector which has taken active role in the housing sector as regulator, producer and also funds provider since 1984. The HDAT carries out numerous and diversified social housing projects and financing methods within the scope of planned urbanization and housing production program throughout Turkey.

Between 1984 and 2002, HDAT's strategy was supporting social housing projects with credits by utilizing public housing funds resources. During these years, HDAT determined and implemented housing policies as a state enterprise. HDAT provided credits to housing cooperatives and local municipalities to prevent the construction of shanty houses. HDAT extended funds to governmental or municipal enterprises to build public housing for middle- and lower-income groups. Approximately, 950,000 housing units had been constructed by the credit support of HDAT until 2002. At the

same time, HDAT constructed 43,145 dwellings on its own lands (Erdogdu, 2010; Coskun, 2011).

Priorities about the housing and urbanization problems have been changed after 2002, and HDAT was authorized to take an active part in the solution of the housing and urbanization problems of Turkey (Camur, 2007). In other words, the HDAT's role in solving housing and urbanization problems was adjusted to a more efficient strategy (Eskinat, 2012). HDAT has started to direct provision of social housing for the lower-income groups who live in urban areas since 2003 (Turk and Altes, 2010). By this way, HDAT has produced nearly 475,000 social housing units since 2003. These housing units have different construction phases, and they are offered to different income groups of people. The HDAT focuses on planning, building, financing, promoting and constructing of dwelling units under different methods (Corporate Profile of TOKI, 2011):

7.1 Housing production on its own lands for the lower- and middle-income people

The middle- and lower-income groups do not have sufficient resources to allocate for housing due to their low-income level. Moreover, restrictions on access to housing finance alternatives are making it harder to become homeowners for these income groups. (Elliot, 2010). Finding a solution to the problem of housing affordability for middle- and lower-income groups in accordance with regulations is one of the main objectives of HDAT (Coskun, 2011). HDAT has developed various housing projects on its own lands and also developed financing models and payment plans for these projects (Elliot, 2010). These projects are carried by construction firms with the tender method. In the tender method, social housing projects are completed in 18 to 24 months by contractors. After the construction of these dwellings by constructors, HDAT sells these houses with long-term payment plans (Turk and Altes, 2010; Corporate Profile of TOKI, 2011).

In these housing projects, HDAT determines the sale price of the dwellings depending on the cost. Depending on the financial strength of the target group, 10 to 25 per cent of the housing price is taken in advance, and the rest of the payment is extended to monthly installments changing between 75 and 240 months. To hold the realization of installment payments at the highest level, HDAT determines monthly payments as close as to the amount of rent the homeowner could normally afford to pay, and the delivery of the ownership document is carried out at the end of the whole payment (Elliot, 2010; Corporate Profile of TOKI, 2011). During this process, HDAT conducts the customer services under its own management structure. In case of any need, it gets help from banks and the contractor and consultant firms. Also, houses are insured by the contractor for the construction phase and by the HDAT after the completion of dwellings.

Direct provision of social housing for lower-income groups all over Turkey with affordable prices has become HDAT's one of the main strategies. Infrastructure, technical and financial programs of HDAT for lower-income groups can be a model for housing producers in other developing countries.

7.2 Renovation of squatter areas in cooperation with municipalities

A significant number of housing units is lacking from the social and technical infrastructure (Turk and Altes, 2010; Coskun, 2011), and one-third of the urban housing

stocks are below the minimum standards and have poor quality in Turkey (Elliot, 2010). To solve this problem within the scope of urban transformation, HDAT has planned and developed housing and financing projects since 2004. In these projects, HDAT demolishes the existing structures in slum areas and constructs new housing units instead of them. These dwellings offer modern life standards and infrastructure facilities (Elliot, 2010). In Turkey, partnership models of urban regeneration applications mainly operate on the basis of HDAT–municipality cooperation. HDAT and municipalities continue the renovation of old and unusable housing stock into legal, livable and modern housing units (Tuhral, 2005; Yetgin, 2007).

In the urban transformation process, HDAT initially makes collaboration with the local municipality about a slum area. Homeowners who live in that area should voluntarily participate for the project. Within the context of the projects, the discharged shanty town areas have been transformed into sample settlement or recreational areas, and in the meantime, citizens who live in those areas have been given the opportunity to live in modern and planned areas with solid infrastructure and social equipments. After the construction is completed, people who previously lived in that area can own a housing unit only by paying cost of the home with cash or with installments up to 180 months period (Corporate Profile of TOKI, 2011, p. 48).

7.3 Resource development projects based on a revenue-sharing model

HDAT has valuable building lands in its portfolio that was transferred from Real Estate Bank and Undersecretariat of Treasury without charge (Yukseler, 2009). HDAT has started to realize construction of luxury dwellings through private companies by the revenue-sharing method on those lands for the purpose of creating funds to finance construction of its social housing projects (Tuhral, 2005; Camur, 2007; Elliot, 2010; Turk and Altes, 2010). These prestigious housing projects are produced for the upper-income groups (Coskun, 2011). Resource development projects have been fulfilled in large provinces, such as Istanbul, Ankara and Izmir, because there is a high demand in these provinces for luxurious housing units (Tuhral, 2005). Sales price of these dwellings are defined according to market conditions (Corporate Profile of TOKI, 2011).

In resource development projects, HDAT is the landowner, and it has collaboration with private-sector contractors (Elliot, 2010). These housing contractor firms are chosen with the open bidding method, and the contractor which offers the highest share to the HDAT is preferred. The contractor firm has responsibility for all investment of housing project and housing production (Elliot, 2010; Turk and Altes, 2010). Housing contractor firms have advantages on these projects because land for the project comes from the HDAT's portfolio and it is public land. Therefore, contractor firms are exempt from huge cost of lands and challenging legal procedures (Elliot, 2010). Accordingly, these projects are completed in the shortest possible time by contractor firms. After the completion of housing projects, profits are shared between HDAT and the housing contractor firms (Turk and Altes, 2010).

Resource development projects of HDAT have the same housing finance method with the "Build and Sell" method. However, when compared with housing contractors who use this method, the HDAT has favorable position as a landowner, and it uses the advantage of free lands very efficiently for this method. Thus, HDAT realizes prestigious housing projects on these lands through private enterprises and sells them

at high prices. Furthermore, owing to this method, HDAT is excluded from the search for financing for its projects.

The revenue-sharing method provided important capital for housing activities of HDAT, and it generates its own resources. While HDAT meets housing requirements of Turkey, at the same time, it provides resources for future housing projects. Instead of using the central government budget, this method seems as innovative and a bright idea for social housing production (Coskun, 2011).

7.4 Housing production in the disaster areas

HDAT has authority to obtain free lands to build dwellings in the disaster areas. To close housing deficit of disaster areas, HDAT provides housing loans for disaster victims and cooperatives. Moreover, HDAT has authority to borrow loans from foreign countries and establish provinces in disaster areas. In natural disaster conditions, HDAT helps disaster areas in cooperation with the Ministry of Public Works and Settlements. This system meets the immediate housing requirements in the disaster areas, and at the same time, prevents uncontrolled urbanization. Modern and safest construction techniques are used for dwellings produced in disaster areas by HDAT, and those houses are good examples for the housing sector (Yetgin, 2007).

Creation of producer village settlements to prevent rural-to-urban migration: Turkey has rapid urbanization rate which results in poor living conditions in the urban areas. To prevent rural-to-urban migration, HDAT tries to provide the same facilities of cities to rural areas, such as modern infrastructure, adequate housing units and social and economic facilities, within the scope of village settlements applications. HDAT also targets to stimulate agricultural and livestock production activities in rural areas (Tuhral, 2005; Elliot, 2010; Corporate Profile of TOKI, 2011).

7.5 Immigrant housing applications

As a consequence of political reasons, Turkey accepts migration of people as refugees. This group of people mostly settles in the urban areas. Therefore, to prevent uncontrolled settling, HDAT produces immigrant housing units. HDAT offers immigrant housing units with 2000 TL down payment and 180 months' payment term for the remaining amount without charging interest (Toplu Konut Idaresi Baskanligi, 2012). Moreover, if the immigrants establish a housing cooperative, HDAT provides lands for them. In addition to dwellings, HDAT fulfills other needs of refugees, such as hospitals, schools and mosques (Toplu Konut Idaresi Baskanligi, 2012).

7.6 Credit support to individuals, cooperatives and municipalities

HDAT provides long-term housing construction loans to housing cooperatives, municipalities, individuals and the relatives of soldiers who have died while serving the Turkish State since its establishment. Maturity of these loans range from five to ten years. The terms of the loans are specified in regulations issued by HDAT. The applications for loans are accepted and evaluated by HDAT-authorized banks which have branches throughout the country (Elliot, 2010; Corporate Profile of TOKI, 2011).

7.7 Land development

To provide adequate housing construction and planned urbanization and also prevent land speculation, all the duties and the authority of the Urban Land Office have been transferred to HDAT in 2004 (Camur, 2007; Turk and Altes, 2010; Elliot, 2010; Eskinat,

2012). After this transfer, HDAT has become the sole public authority for housing production and land development. Building lands and plots, which were transferred to HDAT, are the most important financial source for HDAT (Yukseler, 2009). HDAT's active participation in housing production and land development provided it an important power and funds to solve problems in the housing sector (Camur, 2007; Yukseler, 2009; Turk and Altes, 2010; Elliot, 2010; Eskinat, 2012). HDAT also develops proper building lands for industry, education, health, tourism and public investments (Coskun, 2011; Toplu Konut Idaresi Baskanligi, 2012).

When it is compared with other institutions, HDAT has more advantages and privileges in the housing sector of Turkey because it has the right to use public lands without charge. Moreover, in these lands, HDAT has authority to make construction plan without permission from municipalities. Also, HDAT can increase construction densities as it wishes (Turk and Altes, 2010; Elliot, 2010).

HDAT builds a huge amount of social housing units in Turkey. Besides credit support to housing cooperatives, 560,000 housing units have been produced by HDAT since 2003 and 85 per cent of the produced housing units were offered as social housing units to households. Only 15 per cent of the dwellings were constructed by Emlak Konut REIT (the most important partnership of HDAT) within the framework of resource development implementations. Revenues obtained from resource development projects are used in the social housing projects of HDAT.

Emlak Konut REIT operates all kinds of construction, subcontracting, contracting and engineering services for housing projects. This company also has construction materials trading activity (Corporate Profile of TOKI, 2011). Emlak Konut REIT is the largest REIT in Turkey, and it has one of the valuable real estate portfolios in Istanbul (Corporate Profile of TOKI, 2011).

The revenue-sharing model is a unique model that provides high revenues and profitability for Emlak Konut REIT. In this model, housing units are offered for mostly the middle-upper and upper-income groups. Emlak Konut REIT develops revenue-sharing projects along with the private sector, particularly in the Thracian region and in metropolises, such as Istanbul, Ankara and Izmir (Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş., 2012).

HDAT's goal is not to be an organization that solves urban housing problems with its own production. It produces 5-10 per cent of housing needs of the housing sector annually, but HDAT's goal is to identify barriers of the housing sector and eliminate them to increase efficiency in the housing sector of Turkey (Yetgin, 2007; Coskun, 2011).

8. Housing finance methods of the Istanbul public housing corporation for the urban poor in Istanbul

Istanbul has the highest migration rate in Turkey due to the good facilities of job, income, education, health and social activities (Elliot, 2010). Therefore, the population of Istanbul has increased from 1 million in 1950 to 14 million people in 2012. In parallel to this, demand for land and housing has increased considerably and affordable housing units have become an important problem for lower-income groups in Istanbul. Therefore, shanty houses and unplanned houses are built and used without construction permits in Istanbul (Turk and Altes, 2010).

The KIPTAS, which is a participation of Istanbul Metropolitan Municipality, was established on March 8, 1995, to solve problems of illegal houses and unplanned

urbanization and increase the life standards of the society and quality of living places in Istanbul (Elliot, 2010; www.kiptas.com.tr, 2012). The Istanbul Metropolitan Municipality realizes mass housing production directly through KIPTAS, including profit-oriented and social housing applications (Turk and Altes, 2010).

KIPTAS has a purpose of providing affordable housing units with long payment periods and low interest rates. Interest rates, payment periods and amount of down payment change from project to project. These are arranged based on the housing area, housing size and housing quality (www.kiptas.com.tr, 2012). KIPTAS realized different kinds of housing projects for all income groups. KIPTAS has been producing social housing, renovating housing stock in slum areas and constructing prestige housing to create sources for social housing projects. KIPTAS has constructed nearly 60,000 dwelling units in Istanbul within these housing projects since its establishment (www.kiptas.com.tr, 2012).

8.1 Urban transformation projects of KIPTAS

There is significant number of shanty houses in Istanbul, which are lacking of social and technical infrastructure. Three million of the existing housing units need to be renovated in Istanbul (Coskun, 2011) due to the earthquake risk in Marmara region. Many dwellings may collapse in case of a future earthquake (Turk and Altes, 2010).

To prevent public land from shanty houses and renew unplanned housing areas, the Istanbul Metropolitan Municipality demolishes illegal housing units to produce land for new construction projects of KIPTAS. After demolishing these houses, KIPTAS performs planning, development and financing of housing projects. As the main goal is to get rid of illegal housing in Istanbul, in these projects, KIPTAS guarantees providing new housing units to households those who were previously living in those lands if they pay only the total cost of the new housing unit. Every year, KIPTAS performs the construction of new, legal housing units on the lands that are produced by demolishing illegal housing units. In these projects, mostly apartment buildings are constructed which are strong for earthquakes and healthy to live in. Urban transformation projects have many positive advantages for Istanbul. Slum areas have been turned into proper settlement areas, which are valuable in terms of economy, city planning, social life and environment (Tuhral, 2005).

8.2 Resource development projects of KIPTAS

Principally, KIPTAS is constructing reasonable dwellings for all income groups (Elliot, 2010). As it is in HDAT projects, high profit margins are not the final goal of KIPTAS. However, KIPTAS needs more financial resources to meet the housing requirements of lower- and middle-income groups (Coskun, 2011). Thus, KIPTAS wanted to utilize the high profit capacity of the Istanbul housing market and started to perform planning, construction and marketing of luxury dwellings for the upper income people in Istanbul to accumulate more capital for new social housing projects of urban poor (Turk and Altes, 2010).

According to the general construction procedure of KIPTAS, it signs a contract with one or more construction companies for a fixed price. KIPTAS selects high performance construction companies whose previous housing projects comply with the criteria of KIPTAS. These construction companies are responsible from all construction phases of dwelling projects, and they have direct effects on KIPTAS's prestige in the sector.

Therefore, contractors handle the jobs under the control of KIPTAS. However, the marketing phase is totally made by KIPTAS (Tuhral, 2005). Prestige housing units are offered for either cash or 25 per cent down payments and up to 120 months payment terms through banks agreed by KIPTAS (<http://www.kiptas.com.tr>, 2012).

With its huge population and migration rate, economic, social and physical aspects, Istanbul is an important financial district for domestic and international housing investors. Land prices are really high in Istanbul; thus, the central government and local municipalities realize urban transformation projects in Istanbul to create more cheap lands for prestige housing projects and get rid of uncontrolled settlements with this way. In Istanbul, generally, after demolishing slum areas located in the financial district of the city, luxury housing units are constructed with modern facilities and sold to upper-income groups at very high prices. Information about the size, price, payment schedule and monthly interest rate of such a project of the KIPTAS is provided in Table III.

As a result of the huge prices of the dwellings, gated communities have been established in Istanbul. Therefore, Istanbul can be accepted as the best example for gentrification. These luxury housing projects gained popularity among higher-income families who want to live in a gated community, close to the financial district of Istanbul (Mutman and Turgut, 2011).

8.3 Social housing projects of KIPTAS

KIPTAS aims to provide low-cost, small housing units in quick and economical way with modern, pleasant, secure, livable housing environment to people from lower-income group and in this way prevent from squatter housing units (Tuhral, 2005). The Istanbul Metropolitan Municipality allocates a budget for the financing of the social housing projects developed by KIPTAS. KIPTAS is also allowed to borrow from foreign investors. However, the main part of the resources of social housing projects comes from resource development projects (Tuhral, 2005).

For the general sales procedure of social housing projects, KIPTAS applies draw method. People who want to purchase housing units need to make pre-registration. After drawing, right holders should need to make registration and sign contracts. At this stage, households need to make down payment and apply for the housing loan to the bank determined by KIPTAS. KIPTAS delivers dwelling units to the right holders in 24 months after signing contract (www.kiptas.com.tr, 2012).

KIPTAS sells dwellings with relatively cheap prices according to market conditions to the lower- and middle-income groups. Small amount of down payment is required and dwellings are offered with low interest rates and up to 120 months' payment terms (Elliot, 2010). In Istanbul housing market conditions, this is a good chance of buying a house for these income groups (Tuhral, 2005).

Size of dwelling	Cash price (\$)	Down payment (\$)	Maturity (in months)	Interest rate (%)	Monthly payment (\$)	Total price (\$)
222 m ²	386,000.00	77,200.00	120	0.82	4,050.00	570,000.00
254 m ²	520,000.00	104,000.00	120	0.82	5,470.00	770,000.00

Table III.
Payment plan for 222 and 254 m² dwelling units in green valley mansions

Source: www.kiptas.com.tr (2012)

9. Conclusion

Housing finance system creates positive effects to the social life by helping construction and finance sectors and other sectors which are connected to those two. It also develops the economy and planned urbanization from the aspects of introducing new investment instruments and avoiding illegal constructions.

In Turkey, importance of the housing sector and housing demand has increased in time because of rapid population growth, economic growth, division of extended families into nuclear families, cultural changes and remarkable changes in construction technology. Therefore, housing production and housing finance have gained importance due to increasing importance of the real estate sector. Turkey needs a well-designed housing finance system that should meet housing requirements in all aspects.

In 2007, legal arrangements had been made about the mortgage system and primary and secondary market institutions, which operate within the framework of housing finance, and have been defined with mortgage law. However, mortgage crisis occurred in the US housing market in 2008, and deteriorations on local and global financial conditions have influenced and slowed down the development of the system. Therefore, the establishment and development process of primary and secondary mortgage markets had not been completed yet. Commercial banks have a crucial role in the development processes of mortgage system in terms of both primary and secondary markets. They increased the volume of housing loans in recent years due to the decline in inflation and interest rates in Turkey. As a result of this, primary market has started to develop in the housing sector.

To have an effective mortgage sector, there should be a sophisticated and efficient secondary market to meet the requirements of the primary market. The secondary mortgage market is critical to provide liquidity and long-term funds to the housing sector and to raise volume of housing loans in Turkey. However, secondary market has not been established in Turkey yet. Thus, any mortgage receivables-backed security could not be issued to investors in the secondary market, and the mortgage market of Turkey is deprived of contributions of the investors.

Although a fully fledged housing finance system could not be established yet in Turkey, government enterprises became very successful in producing dwellings for low- and middle-income people living in urban areas. To solve the problems of households, who live in the urban areas, government enterprises, such as HDAT and KIPTAS, developed new methods for the social housing production and financing according to the market conditions and households' expectations especially after 2002. With their new methods, HDAT and KIPTAS achieved to increase the number of available housing for low-income groups and to eliminate problems related to urban areas at the national level in the past decade. The methods developed by HDAT and KIPTAS can be good models for the solution of housing problems of urban poor in other countries.

The different applications of the housing finance systems in the world have shown that there is no single housing finance system which can be applicable for all countries. Thus, the important issue is applying most appropriate housing finance system and later, adapting the system according to market conditions. In this direction, to apply most appropriate housing development and finance system for the urban poor according to market conditions of Turkey, research should focus on the cost issues of the

urban renewal projects and study to find new partnership methods to create more funds for urban development projects. Also, they can try to find alternative ways for producing cheap lands and alternative finance methods according to desire of all income groups.

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