INTERNATIONAL UNION FOR HOUSING FINANCE
FACT SHEET

> TURKEY

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Date of Publication: October 2010

1. DEMOGRAPHIC OVERVIEW

Turkey has a total population of 72.6 million inhabitants, which has grown over the last five years at an average rate of 1.3% and which therefore represents the 17th largest population in the world. The biggest age group in the Turkish population is the 20 to 44 year-old group, accounting for 39.8% of total population, followed by population under 20, which amounts to 34.6%.

2. MACROECONOMIC BACKGROUND

Real Turkish Gross Domestic Product (GDP) grew at an average annual rate of 5.2% between the years 2005 and 2008. Although the banking system and financial markets were able to weather the 2009 global financial crisis, due to the fact that structural and banking reforms had already been implemented following Turkey's own financial crisis in 2001, real GDP growth became negative (-4.7%), the unemployment rate increased to 14.0% and the consumer price index decreased to 6.3%, the lowest consumer price index in 34 years. Current GDP per capita is approximately TL 13,147 (EUR €6,080).

The largest economic sector in Turkey is the service sector, which accounts for 72.9% of GDP, followed by the industrial and the agricultural sectors, with 18.8% and 8.2% respectively. This shows a clear change in the structure of the economy with respect to 2000, when the agricultural sector had a much more important role in the economy. However, agriculture is still relevant in terms of labour force as it accounts for 23.9% of total employment. This percentage is just slightly lower than that working in the industrial sector (25.2%) and much is lower than the percentage working in services (50.5%).

3. HOUSING MARKET

3.1. Housing Supply

Turkey has approximately 16.1 million dwellings and only 508,000 new house building permits were issued in 2009. The number of dwellings in the country is by far lower than the number of inhabitants and shows a shortage of housing stock in Turkey, where the average household size is of 4.5 people.

If the population increase is analysed together with the high migration from rural areas in Turkey over the last thirty years,[1] it is clear that the demand for urban land and housing has been exponentially rising in urban areas, particularly amongst low and middle-income groups. In parallel, this has led to a problem of affordability for these groups, which are unable to purchase or rent a dwelling, and to an increase in unauthorised housing neighbourhoods (*gecekondu*), which do not satisfy either sustainability or liveability conditions. Consequently, social housing is a key issue in Turkey.

[1] According to the Housing Development Administration of Turkey (TOKI), Turkey is still one of the most rapidly urbanising countries in the world. The CIA's World Factbook estimated that the annual rate of change between 2005 and 2010 was of 1.9%.

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The Housing Development Administration of Turkey (TOKI), the public body for the housing sector in Turkey, is responsible for dealing with this problem. Nevertheless, its efforts to provide access to adequate shelter for lower income groups, by constructing and selling homes to these groups, are still far from achieving their objectives as the population's needs are extremely diverse and the funding available for such projects is limited.

3.2. Housing Tenure

The proportion of dwellings rented (26%) is much smaller than that which covers owner occupied properties (68.3%), which still remain primarily in the hands of higher-income groups as the average price per square metre for residential dwellings is TL 1,027 (EUR €475). Nevertheless, there is also a small proportion of dwellings (2.1%), which are rented from social landlords or the government, that tackle the issue of providing housing for poorer groups.

4. RESIDENTIAL MORTGAGE MARKET

4.1. Lending

The total value of outstanding residential mortgage loans in Turkey in 2009 was of TL 42,733 million (EUR €19.4 billion), a value which has more than doubled since 2005. The residential mortgage debt to GDP ratio has followed the same upward trend, with the ratio growing from just 1.9% in 2005 to 4.48% in 2009. The total number of new loans remained stable between 2005 and 2008, at approximately 238,000; however, this indicator showed a significant jump in 2009 when 337,000 new loans were issued. This increase was mainly due to the decreasing trend in both mortgage rates and housing prices. Also, a significant number of borrowers have refinanced their mortgages in order to benefit from these decreasing mortgage rates and, therefore, net residential lending is currently at its lowest level of the last five years.

The representative interest rate per month on new mortgage loans is 1.05% and, although fixed rate mortgage products dominate the Turkish residential mortgage market, there is also a small proportion of variable rate mortgage products. Most of these products are offered by commercial banks, Turkey's main mortgage lenders, as only one specialised mortgage credit institution exists. Although secondary market legislation came into force in 2007, no transactions in this market have taken place so far.

The average mortgage loan in Turkey is of TL 62,936 (€EUR 29,095) and has an average term of eight years, representing a loan to income multiple of 4.8 and a loan to value (LTV) ration of 60%. According to Turkish law, the LTV is capped and, therefore, cannot exceed 75%. The law also establishes that mortgage lenders have the right to sell the property after a three month period in cases of default.

4.2. Funding

The residential mortgage market is mainly funded via saving deposits and this is the reason why the residential mortgage debt to GDP ratio mentioned in the section above is so low.

5. GOVERNMENT HOUSING POLICIES

As mentioned in the previous sections, there is a concerted effort by the Turkish authorities to tackle both the affordable housing problems of the poor and urbanisation problems. These objectives have been defined in the Constitution of the Republic of Turkey, Article 57 of which states, *"The State shall take measures to meet the needs of housing within the framework of a plan which takes into account the characteristics of cities and environmental conditions and shall support mass housing projects"*.

However, there are no particular government policies regarding the residential mortgage market apart from those regarding a maximum level of LTV and the right of lenders to sell the property three months after a default. Consequently, mortgage repayments are not tax exempt and no subsidies are provided. Only on rare occasions are houses subsidised, usually when employers choose to do so, and this represents barely 2% of the total housing stock.

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