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# Affordable housing in Turkey

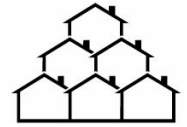
Country assessment and recommendations

Presented at GYODER conference

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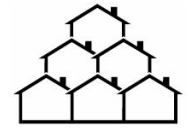
# AHI and the country assessment



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- Global consultancy (non-profit) on housing finance
  - Worked all over the world, for public benefit
    - India: Financial advisor, Slum Dwellers International
    - Ireland: Design long-term leasing program
    - South Africa: Financial Sector Charter
- Turkey country assessment
  - Commissioned by GYODER
  - Study the overall housing finance ecosystem
    - Where are the gaps?
    - Where are the best examples worldwide?
    - What can Turkey do to improve its housing quality and affordability?
  - Six months' work

# Turkey's housing: booming demand, supply not keeping up, finance developing

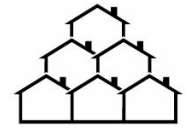


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- Strong economic and population growth
  - Rapid urbanization and housing demands
- Demand outstripping supply
  - Annual shortfall between 15%-20%
  - 50% of current stock need renovations
- Leading institutions are world class (including development)
  - New affordable housing production (via TOKI) efforts are valiant but not enough
- Housing affordability and finance
  - Expensive
  - Inefficient
- Transformation of gecekondü
  - Better construction
  - Earthquake reinforcement
  - Legal title and taxation

# Turkey's housing system: what is missing?

## Supply → more resources into upgrading

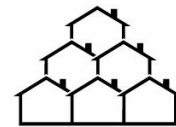


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- Not enough resources go into improving urban housing
  - Increasing urban density: demolish-and-rebuild
  - Improving informal housing
    - Physical upgrades (earthquake reinforcement)
    - Title transformation
    - Insuring macro risks (earthquake damage)
      - Government can require change
      - Government can finance the non-recoverable costs
  - Release more land to local and municipal governments
    - High-density mixed-use development
    - Affordable rental housing

# Turkey's housing system: what is missing?

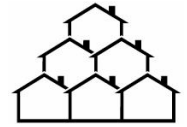
## Demand → Better lending products, terms



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- Buyers need access to credit
  - Customers accept principles of mortgage finance
    - Lack of consumer awareness
    - Lack of long-term government-backed products
  - 'Non-commercial risk' can be borne by government
    - Increasing the credit-worthiness of loans
    - Loan purchase capacity
  - Secondary market liquidity
    - Government buying loans
    - Specialists can originate for sale to others
      - They originate, warehouse, sell in bulk
      - Creates liquidity in lenders → increases loan volume

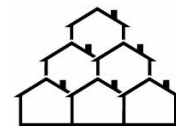
# Turkey and other countries: Europe and the US



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- Aspirations: Europe and the US
  - Government role: *“Never do anything the private sector can do; do only what the private sector cannot do.”*
    - Facilitate private involvement
      - Delivery – new homes, building, owning, management
      - Financing – lending, credit enhancement, and secondary market making
    - This implies shifting TOKI’s focus
  - UK: housing associations
    - For affordable rental, not co-opertatives
  - US: housing finance specialized housing lenders
    - National government lenders (VA, FHA)
    - Fannie Mae and Freddie Mac
      - Lending huge volumes now!
    - State housing finance agencies (HFAs)

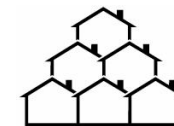
# Turkey and other countries: Mexico and Thailand, demand side



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- Five countries similar to Turkey
  - Population, economy, living standards, and housing market
  - Recent housing finance experience
- Mexico: demand-side partnering ✓
  - SOFOLS and SHF ([www.shf.gob.mx](http://www.shf.gob.mx))
- Thailand: mitigating financial risk ✓
  - Government Housing Bank ([www.ghb.co.th/eng/](http://www.ghb.co.th/eng/))

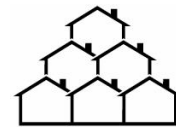
# Turkey and other countries: Egypt, Korea, and South Africa



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- Egypt: blockages in supply ✘
  - Ministry of Housing pre-empts development
- Korea: lack of financing ✘
  - Jeonse = prepaid lease-to-buy, large deposit
- South Africa: missed opportunity ✘
  - Financial Sector Charter, October, 2004
  - Political windows must be converted into tangible programs *swiftly*

# Essential housing activities of government

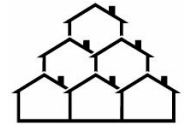


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1. Land use and land assembly
2. Land development
3. Formalization and efficient markets
4. Producing new housing
5. Lending and providing finance
6. Subsidy and incentives
7. Regulation and oversight

*Activities in green are missing, need to be accelerated*

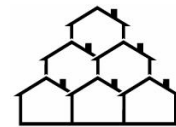
# TOKI today: Concentrated, not diversified



- Exclusively on the supply side (building new homes)
  - Strong balance sheet (can be securitized into cash)
- Essential principles for government housing banks
  - Go where the private market cannot go
  - Channel and lever government resources
    - Land → ability to release land, zone land
    - Credit → ability to take long-term ‘non-commercial’ risks
    - Subsidy → lower the costs → increase affordability
- Right now, critical areas have no government activity ...

	<i>Land and zoning</i>	<i>New housing</i>	<i>Existing homes</i>
<i>Supply side</i>	Small activity	Builds directly	No activity
<i>Demand side</i>	No activity	No activity	No activity

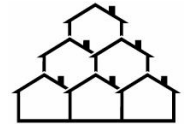
# Vision of a housing finance system: TOKI as national housing bank



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1. Housing finance (principal role in many countries)
  - Don't build. Lend to buyers
2. Housing production (finance, don't compete)
  - “Finance the financiers, let them finance the builders”
  - Make government land available (trade for affordability)
3. Housing quality (increase standards, fund upgrades)
  - Create loan products to enable people to renovate homes
  - Earthquake reinforcement loans, maybe insurance?
4. Formalization of urban areas
  - Encourage formalization – not amnesty
    - Loans available *only to formalized, recorded homes*
  - Use demolish-and-rebuild strategies
    - With resident involvement

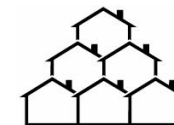
# AHI's recommendations: Part 1



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1. Shift government from supply to demand
  - Aid households, not properties
  - A financier, not a developer
  - TOKI → SHF (Mexico), GHB (Thailand)
2. Catalyze private mortgage banks
  - Create products that complement the market
  - Buy loans from originators ('secondary market')
    - Like Fannie Mae, Freddie Mac
  - Insure against 'non-commercial' risk
    - Lower interest rates to borrowers → more affordability

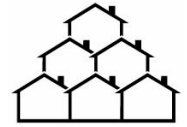
# AHI's recommendations: Part 2



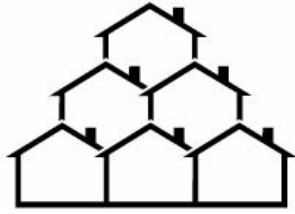
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3. Increase municipal roles in land use
  - Allow localities to obtain nationally owned land
    - By clear rules and quick processes
  - Address gecekondu through urbanization, not amnesty
4. Finance urbanization and formalization
  - Home improvement and earthquake-reinforcement loans
  - Infrastructure to formalizing neighborhoods
    - Brazil (Sao Paulo)
5. Create affordable rental via housing associations
  - UK offers excellent experience

# Summing up



- Great country; boom times (real estate will appreciate)
- Shift government from producing homes to financing homes
  - Finance the private sector, let private sector build
    - Demand side → help more customers
  - As in US, UK
- Diversify TOKI
  - Into the demand side → as in Mexico, Thailand
- Catalyze private mortgage banks
- Strengthen ability to improve locally
  - Home improvement (earthquake reinforcement)
  - Gecekondo formalization
  - Additional trunk infrastructure
  - Stronger role for municipal government



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