

Mortgage System and the Increasing Importance of Real Estate Evaluation in Turkey

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Key words: Mortgage, real estate evaluation, expertise etc.

SUMMARY

Today, sheltering problem is one of the most important problems of human being as it was in the past. Mortgage is a system, which will make individual landowner by paying their house's instalments under long term payment plants around the rent amounts, sometimes less than these amounts, as if they are paying monthly rent. In the Mortgage system a certain amount of the real estate value is paid in advance and then for the remaining part credit is obtained from the credit establishments under the maturity options 15-30 years and variable interest rates. In this way, the landlord has collected the value of the real estate in cash. The value of the house is determined by authorised experts. In this stage, real estate evaluation experts must enter the subject. Before the Mortgage system which will make the people of small income to be land owner and has become a popular subject in Turkey nowadays, the subject of real estate evaluation and related infrastructure which is extremely weak, must be taken up urgently and well-planned. Different Mortgage applications like the number of countries applying Mortgage have developed. Because every country's economic and administrative structure differs from each other. Consequently it is a necessity to develop a different solution and procedure for each country. What should be the results of this system, which has not legalised in Turkey yet, is a matter of curiosity. In this study, the importance of the system and real estate evaluation, forming the necessary infrastructure, evaluation criteria and legalisation stages have been discussed, the place of such a social project in the development of the country is emphasized.

ÖZET

Barınma problemi geçmişte olduğu kadar günümüzde de insanoğlunun en önemli sorunlarından biridir. Mortgage, insanların ödedikleri kira bedeli civarında ya da bazen bunun dahi altında kalan rakamlarla, uzun vadeli ödeme planları ile kira öder gibi evlerinin taksidini ödeyerek ev sahibi olabilmelerini sağlayabilecek bir sistemdir. Mortgage sisteminde genelde ev bedelinin belirli bir kısmının peşin olarak ödenmesinden sonra, kalan kısım için 15 yıl ila 30 yıl arasında değişen farklı vade seçenekleri ve değişken faiz oranlarıyla kredi veren kurumlardan kredi temin edilmektedir. Bu sayede ev sahibi satmak istediği evinin değerini peşin olarak tahsil etmiş olmaktadır. Evin değerini, konusunda yetkili eksperler belirlemektedir. Bu aşamada, konuya taşınmaz mal değerlemesi uzmanları dâhil olmak zorundadır. Şu günlerde Türkiye’de popüler bir konu haline gelen ve dar gelirli halkın da ev sahibi olmasını sağlayabilecek Mortgage sisteminden önce son derece zayıf kalmış taşınmaz

mal deęerlemesi konusunun ve buna baęlı alt yapının ivedilikle ve dözgün bir şekilde belirlenmesi gerekmektedir.

Mortgage uygulayan ölkelerin sayısı kadar, farklı Mortgage uygulamaları da gelişmiştir. Bunun sebebi de her ölkenin ekonomik ve idari yapısının birbirinden farklı olmasıdır. Dolayısıyla her öлке için farklı bir çözüm ve mekanizma geliştirilmesi de işin bir gereęidir. Türkiye’de henüz yasalaşmamış bu sistemin getirisinin ve götürüsünün (avantajlarının ve dezavantajlarının) ne olacağı merak konusudur. Bu çalışmada, sistemin ve taşınmaz mal deęerlemesinin önemi, gerekli alt yapının ve deęerlendirme kriterlerinin oluşturulması ve yasalaştırılması aşamaları üzerinde durulmuş, böyle bir sosyal projenin ölkenin kalkınmasındaki yeri vurgulanmıştır.

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1. INTRODUCTION

The most important problem and target of mankind is sheltering and real estate owning. The systems developed to solve this problem bring some needs together. Real estates form a big part of social wealth, and everybody wishes to know the correct value of own estates. The determining of the real estate values objective, correct and safe, concerns the real estate owners, sellers, buyers, and carried importance from the angle of the social economy (Açlar 2002). As in the most of the countries having the right of private property, being able to make justly applications in land planning in Turkey, require the knowing and following of the real estate values. Especially when property owning with mortgage system, which is a new system for Turkey, is talked about, the importance of real estate evaluation arises once more.

2. MORTGAGE SYSTEM

Mortgage system, which is brought as a solution to the house problem with long-term loans, which makes way of being real estate owner for millions of people in different countries of the world. In this system the lenders pay the value of the house. The person who buys the house pays to the lender a certain amount in advance. The remainder is paid back monthly, like paying rent within the periods between 15-30 years, according to the conditions of the system. In mortgage system the worth of the house to be bought is evaluated by experts. If a certain amount of advance payment to get the loan is ready (this is generally 25% of the sale price of the house) the remaining amount is paid by the association providing mortgage that is loan giving association.

2.1 Entrance to the Mortgage System in Turkey

Because of the problems like

- Population increase
- The problem of emigration from village to the city
- The need of restoration and increasing the earthquake endurance of the houses, Turkey is a country living the need of house intensively. For this reason there is a need of 350.000 new house annually. Looking at the general income level it is understood that mortgage system can be a solution to the house need which is a dream of a lot of people in Turkey (Onen 2006).

The Turkish mortgage market is poised for growth. Economic growth, rising incomes, falling interest rates in recent years have increased the demand for housing and mortgages. A strengthened banking system with greater retail focus is expanding the supply of mortgage credit. Nevertheless macroeconomic instability is the chief concern for Turkey.

Looking from the angle of house loans every country has its own arrangements. But there are community-based arrangements directed to protect the consumer. Mortgaged house loan market has developed over 10% in 2005 in many European countries (Denmark, Portugal, France, Greece, Spain, Italy, and UK). In Baltic countries this ratio has realised over 70%. Denmark, Germany, Sweden, UK, Finland and Portugal are the countries in which refinance is mostly made. House prices have increased around 10%. House ownership ratios, which change between 40% and 85%, have increased excluding Germany, Denmark, Finland and Austria (Onen 2006). Although mortgage system has not started completely in Turkey, it is possible to use short-term loans through banks having higher interest rates compared to mortgage system. Bank loan rates are much changeable, and this situation could time to time be against the buyer. The payments exceeding the income level of the people decrease the demand of house loans. However the annual increase at the house sales prices around 70-80%, has risen more with the being heard of mortgage system. Speculative values formed here can be drawn to normal levels by the conscious acting of the people willing to own house.

Improving the legal status of the mortgage;

- Countries with the strongest mortgage lie through effective registration and enforcement has deeper mortgage markets
- Anglo-Saxon and Nordic legal protection stronger than those in South Europe.
- New Turkish Law improves legal protection of mortgage
- More timely and certain foreclosure process required authorisation for funding.
- New Mortgage law builds strong infrastructure for housing finance in Turkey
- Strengthened legal protection of the mortgage
- Improved primary market infrastructure
- Increased competition
- Improved consumer choice and disclosure
- New funding and risk management instruments (Lea 2006).

Draft law concerning house finance system including the changes at the laws of debt-bankruptcy, protecting consumer and various tax laws is at the agenda of the Turkish National Assembly at present (<http://www.tbmm.gov.tr>).

3. REAL ESTATE EVALUATION

Real estate evaluation is an obligatory factor which is needed. Real estate evaluation in urban and rural areas is made at the applications of development plans, land-agriculture reform and land consolidation, for the reasons of expropriation, taxation, buying-selling, mortgaged loans. According to the draft law concerning house finance system evaluation is being obligatory at the stage of giving mortgage loans and the state of cashing the mortgages (www.spk.gov.tr). Determining the values of the real estates in urban and rural areas are realised by considering the specialities of the real estates like type, quality, using purposes and etc. Mentioned obligation is supported by current laws and regulations.

Although a lot of methods are used to determine the values of real estates, there are three basic methods actually. These are comparison method, cost method and income method. The method to be chosen for evaluation is determined according to the location of the real estate of which the value will be determined and habitudes of real estate market. The most appropriate and persuasive evaluation for improvement parcels having constructions on them or not, can be made by the help of circulation values. For this reason comparison method is the most convenient method in case of having enough value of precedent. If the value of the real estates can be determined according to their future incomes rented - i.e. house or working places - in order to find circulation values the application of income method will be convenient. The circulation value for the real estates having constructions like factory, large commercial building on them and their rent incomes are not known, is found according to their cost methods (Açlar 2002). Evaluation will naturally show some differences in urban and rural areas. Production income-expense, type of enterprise and related periodical and annual incomes are considered, while at the real estates in urban areas gaining value with mortgage system and especially different measures are considered on the subject of house evaluation. In this way real estate evaluation experts can reach more realistic prices. To understand the effects of urban area functions on real estate values the measures in house evaluation can be listed as below;

Location: The district in which the building take place.

The specialty of the region: The region in which the house takes place is very important from the angle of pricing. The prices of the houses at good and distinguished district are always higher.

The condition of title deed: The title deed of the house, being common or independent is effective on price. Independent title deeded houses are always advantageous according to the common title deeded houses.

Construction year: The year, which the building is constructed. As the period, which the building is used, draws out the house prices drops. (The buildings, which are constructed after 1999 in Turkey, are built according to the earthquake regulation, and their prices are higher accordingly)

Plot area: Plot share of the building is important. As this share increases the price also increases.

Construction area: The house is valued as the ratio of the area of the building to the plot gets smaller.

Net area: Total area of room, saloon, corridor and balcony. The exceeding of the net area increases the value.

Total using area: The price goes up as the using area of the house increases.

The base (ground) situation: Soundness of the house base effects the price. The houses having sound base are more expensive.

Construction quality: All the factors like iron, cement, plaster and workmanship forms the quality of the construction. These effect the price.

The quality of the materials: The materials used in door, window, electric and water installation being the products of certain brands in high quality increases the price of the house. Imported brands (excluding China) are more valuable than local brands.

Characteristics of the building: The building, being an apartment or independent house, effects on price. The price of the apartments is low because of the plot share being few. Construction area of the villa is intense according to the plot area. So the price is high.

Special decoration: The decoration and the quality of the decoration in houses are among the factors increasing the price.

The flat: The flat at which the house takes place is important from the angle of price. The value of the houses at the basement, entrance and top flats are always low.

The number of the rooms: Another important factor effecting the price of the house is the number of rooms. The number of the rooms and the rooms being useful increases the price.

Balcony: This is the required specification at houses. Width and being more than one effects the price.

Lift: The house at the building which has elevator are most precious every time.

Open autopark: Open autopark area of the building adds a surplus value.

Closed autopark: The house having a closed autopark is an advantage from the angle of the price.

Water and pressure tank: Being water tank and pressure tank system increases the value of the house.

Condition of heating and sunshine taking: The heating method of the building effects on the price. The most expensive one is the fancoil system used in A type buildings. Then follows the houses heated by independence flat heating (flat furnace), central heating, natural gas stove and normal stove. Whether or not the house takes the sunshine in or if so how many hours a day, is important. Being the rooms in the house not letting the sunshine in drops the price of the house.

Subscription: The factors like central heating and security rise the subscription. If the subscription is low according to the services, this situation increases the value of the apartment. If the subscription is high due to the received services this is a disadvantage from the angle of the house.

Security system: If there is a security system in the building, this effects the price positively.

Pool: Being or not a pool at the building effects the price. The apartment houses having swimming pool are more expensive.

Doorman flat: Doorman flat in the building, outbuilding at villas increases their values.

Sea landscape: The houses having a sea landscape are always more expensive.

Nature landscape: Nature landscape rises the price of the houses.

Green area: Increases the value of the house. Environment organization always increases the price.

Social establishments: Shopping center and meeting rooms add a surplus value to the house.

Sport complex: Being closed sport hall and health center rises the price of the house.

Communication: Easy or difficult communication effects the price.

The effects of rent income and sale capability: If high rent income is obtained in case the house is rented, then this situation increases the house's price. Besides if it could easily be sold when desired, this also makes a positive effect on the house price.

Potential premium income: If the house is at the points where it could make medium or long-term premium, this effects the price positively.

Being close to shopping centers: Closeness of the house to the shopping centers is important, it rises the price (<http://www.krealtybank.com>).

4. IMPORTANCE OF REAL ESTATE EVALUATION IN TURKEY

“International Evaluation Standards” will be added to country regulations in order to make the national and international operations directed to real estate procedures in Turkey transparent and make them easy and provide the reliability of the evaluation. Within the frame of International Evaluation Standards, at the prepared evaluation reports;

- The evaluation of physical and environmental specialities are made as a result of the investigations made at the place of the real estate.
- Communication and location specialities are evaluated.
- If the real estate is constructed, its price is determined according to the construction specialities.
- After the researches current plot price is calculated and total sale price of the real estate is determined.
- Income method is applied for the estates bringing income.
- Report is prepared by commenting expertise reports and current situations.
- The photographs of the concerned real estate are enclosed to each expertise report.
- Development condition research is made, to see the limitations on the real estate (mortgage, sequestration, i.e.), title deed research and the development of the real estates region in the future or to investigate whether or not there is an application against the laws (<http://www.tgd.com.tr>).

The importance of the evaluation expert comes out here, as much as the evaluation method. Turkey urgently needs evaluation experts working with the working principles convenient to knowledge, experience and ethic rules. The boom in the market with the placement of the mortgage system completely will increase the need of evaluation expert. According to the Capital Market Law the people who are graduated from at least 4 years universities like construction engineering, surveying and cadastre (geodesy and photogrammetry) engineering, business administration, economy, architecture, city and region planning having a business experience of at least three years and given the license of “Evaluation Expert” by Capital Market Board, will be able to do this job (www.spk.gov.tr).

5. CONCLUSION

It can be said that mortgage system is the major challenges for Turkey.

- Regaining macroeconomic stability
 - High and volatile interest rates reduce affordability and increase risk
- Improving legal system and lending infrastructure
 - Testing and further strengthening the foreclosure regime
 - Improving the housing authorization process
 - Improving the construction period financing process
- Expanding funding options

- Banks have a funding (interest rate, maturity) mismatch and need capital market and hedging instruments
- New funding instruments require liquidity, standardization
- Need for educating and expanding the investor base
- Expanding loan options
 - Importance of TL lending
 - Instruments can be tailored to borrower need – different interest, amortization patterns, and longer terms to improve affordability (Lea 2006).

With the mortgage system the importance of the real estate evaluation is beginning to be understood once more. It is important here is to use this situation in favour of our profession. From the angle of the lessons given one of the closest professions to the subject is Geodesy and Photogrammetry Engineering. This can be evaluated as a new working area for our colleagues and Turkey's needs are also removed. As in the other developed countries, it is expected to establish the legal infrastructure, and to finish the preparations of the loan giving associations (lenders) as soon as possible.

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BIOGRAPHICAL NOTES

Dr. Gaye Kizilsu was born in Istanbul. She graduated from Istanbul Technical University, Civil Engineering Faculty, Geodesy and Photogrammetry Division. She completed her PhD thesis at the same university in 1998. She has been working as associated professor in Surveying Technique Department at I.T.Ü.

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