

FINANCIALIZATION OF HOUSING AND MORTGAGE DEBT REPAYMENT STRATEGIES OF HOUSEHOLDS IN TURKEY (1)

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INTRODUCTION

Housing is a complex phenomenon with social, economic and political dimensions. Homeownership is seen as a way of coming of age and gaining independence in most modern societies (Forrest and Yip, 2012). It is also a means of money transfers in the family via which the elderly members of the family support younger members for the accumulation of wealth. The aggregate accumulation of wealth through homeownership had been substantial also as a form of special insurance against numerous risks such as unemployment or poverty in the past (Roland and Lennartz, 2019).

While there had been a period when the accumulation of wealth on urban land was a common practice in Turkey, in the past decade the chances of buying a house have become quite difficult compared to the past. It is less likely that people who have not inherited a house from their families could become a homeowner without borrowing, given the high cost of daily expenses (Harvey 2014).

In countries with strong traditional family ties, intrafamilial solidarity increases at the times of housing and property transfer (Manzo et al., 2019), whereas in modern capitalist countries, mortgages stand out as the most prevalent way of buying a house. When Turkey is concerned, there are several options to solve the housing demands of households. Living with extended families, renting a house, using mortgage loans are among these options; yet homeownership through mortgage loans mainly appeals to the middle and upper-income groups as a financial transaction tool.

Historically, the solutions to the housing problem have varied in Turkey, yet have always been accompanied by some efforts of being fully integrated into the capitalist market. In the same manner, Turkey, which is among the Global South countries, though lags behind, follows Global North countries in such processes where financial innovation coexists with the housing

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2. Law No. 5582 on the Amendment of Various Laws on Housing Finance System was adopted on 21.02.2007.

3. On the other hand, when the ratio of mortgage loans to GDP is calculated based on the data of the Banks Association of Turkey and International Monetary Fund, it is observed that the ratio has followed a downward trend parallel to the economic crisis experienced after 2017 in Turkey.

4. Due to the Covid-19 pandemic, BRSA first increased the follow-up period of loans from 90 days to 180 days in March 2020 for a period until December 31, 2020. Later, this period was extended until June 30, 2021. Increasing the follow-up period of loans two times longer has reduced the non-performing loan ratios of all loans.

sector, such as mortgage loans and the use of these loans in derivative transactions with mortgage-backed securities (MBS).

Mortgage loans are one of the main financial tools that financial institutions provide to individuals for the purchase of housing. The finance sector is involved to meet the capital needed to produce housing. It sells loans to actors in the housing sector including the contractors who produce housing and the individuals who purchase them. According to Eurostat (2020) data, there has been an increasing trend in the rate of mortgages in homeownership since 2007 in Turkey, when mortgage law was adopted and supported as a state policy in homeownership (2). Homeownership is also supported by the government as a solution to the housing problem and policies are set accordingly. As stated by Aalbers (2016), the growing importance of financial markets and corporations in the housing sector is among the indicators of housing financialization.

The financialization of housing is enabled by substantial modifications in the manner in which loans are supplied for housing and, more specifically, the advent of MBS (UN, 2017). With the securitization of mortgage loans, the scale and importance of the system have increased tremendously, producing global effects which led to further financialization of the housing field. The changes in housing policies, on the other hand, increased the emphasis on homeownership while bringing mortgage option to the forefront for the solution of the housing problem (Jones, 2012). In Turkey, as in other European countries, the volume of mortgage debts has increased significantly in the last ten years as a result of public policies and financial innovation (HYPOSTAT, 2020) (3).

As Erol (2019) states, the Turkish market is the most active one in housing production in Europe. According to the European Mortgage Federation (EMF) 2020 Report, in the period from 2007—the year the mortgage law was enforced in Turkey—to the end of 2019, approximately 10 million building permits have been received, with an annual average of 750 thousand (HYPOSTAT, 2020). **Figure 1** indicates that Turkey has greater performance than other European countries in terms of issued building permits. Following the global crisis of 2007, the number of building permits started to decrease in Europe. According to **Figure 1**, Spain is the country where the impact of the global crisis is the highest on the housing market in Europe. As for Turkey, the economic crisis in 2018 has significantly affected the number of building permits issued. As can be seen from **Figure 1**, there has been a significant decrease from 2017 to 2018 and 2018 to 2019. The number of building permits decreased to the level of the year 2012, in 2018. **Figure 2** shows how home sales on the mortgage are sensitive to interest rates of loans. The economic crisis that started in 2018 brought along an increase in loan rates and a decrease in the number of houses sold with mortgages, as well as a decrease in the number of building permits. In this sense, mortgages, which form an essential part of the construction-based growth project of the state, not only affect the spatial transformations related to construction but also fuels the financialization process of the country.

The rate of non-performing mortgage loans (NPL) oscillated between 0.33% and 0.82% (Banking Regulation and Supervisory Agency (BRSA), 2013-2020) in the period between January 2013 to December 2020 (4). **Figure 3** represents the non-performing loans in mortgages for the last 4 years and as can be seen, the ratio of non-repayment does not exceed 0.80% during this entire period. For the same period, while the NPL rate of consumer

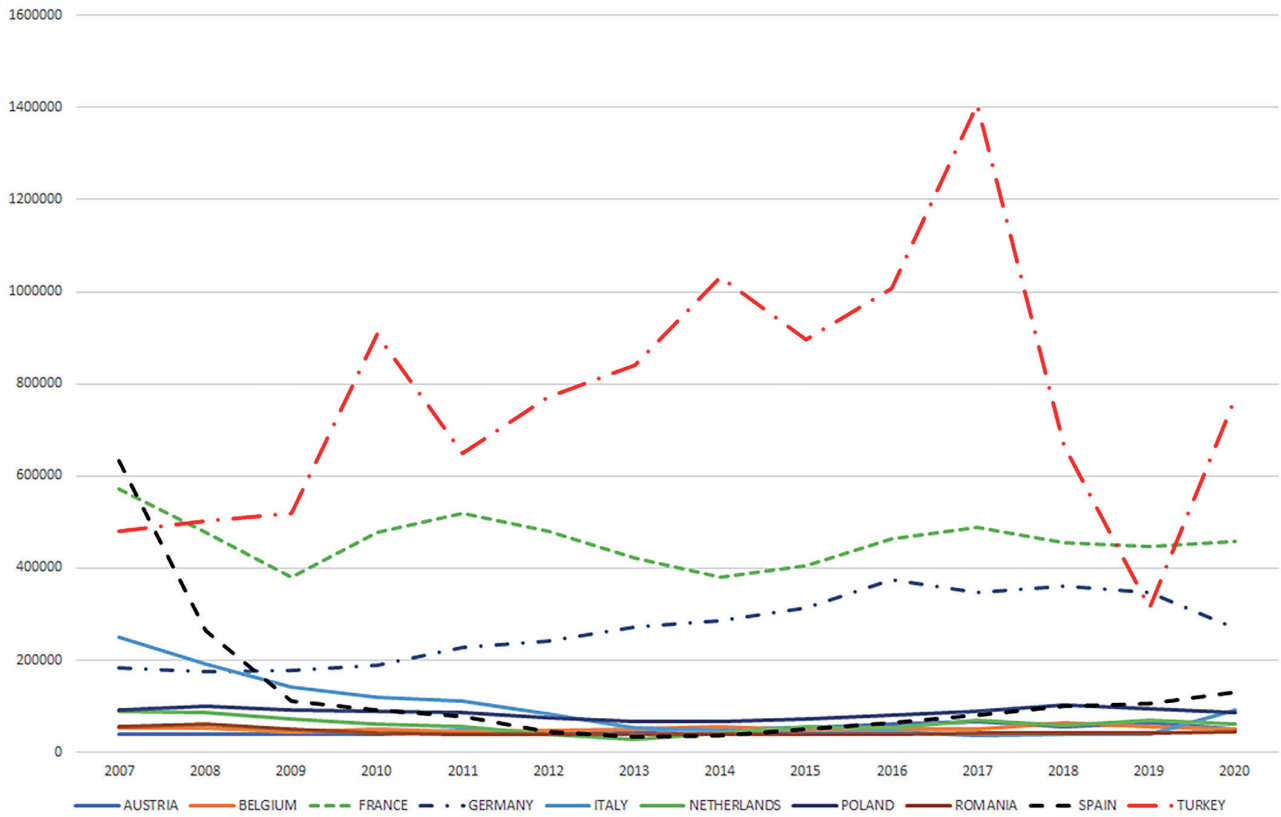


Figure 1. Building permits (HYPOSTAT, 2020)

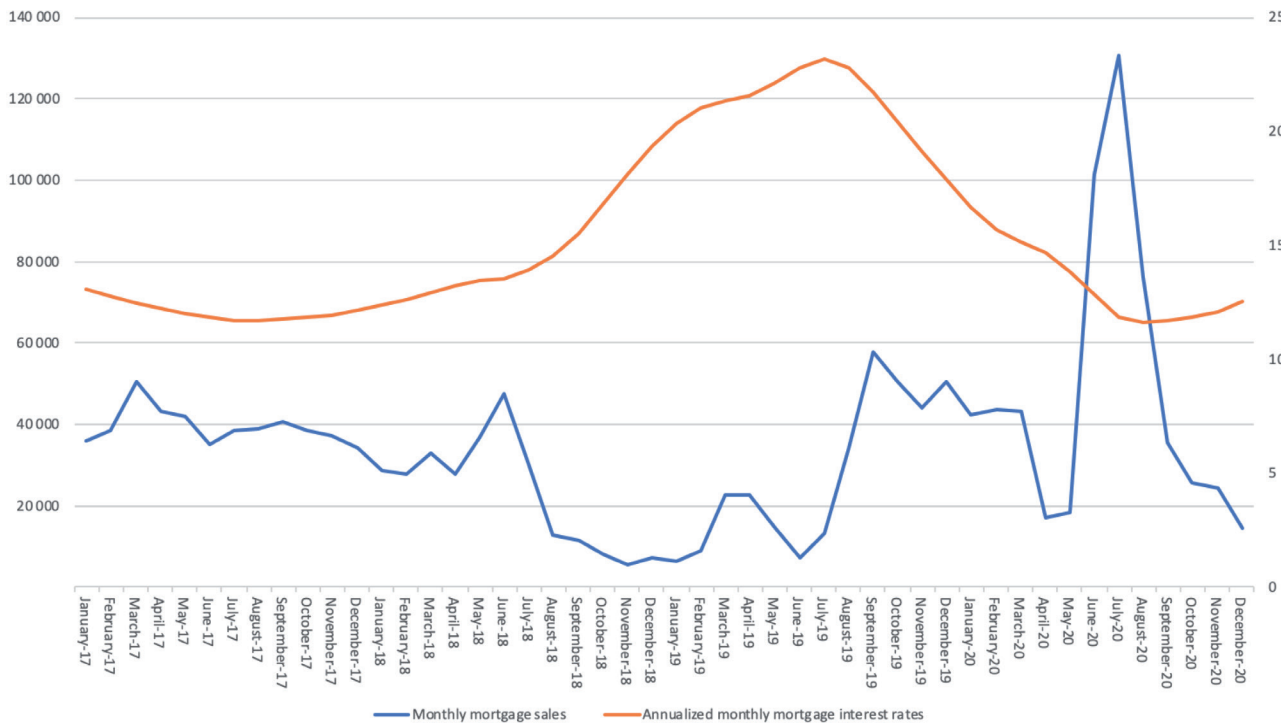


Figure 2. The relationship between the credit interest rate and the number of houses sold with mortgage (BRSA, 2021)

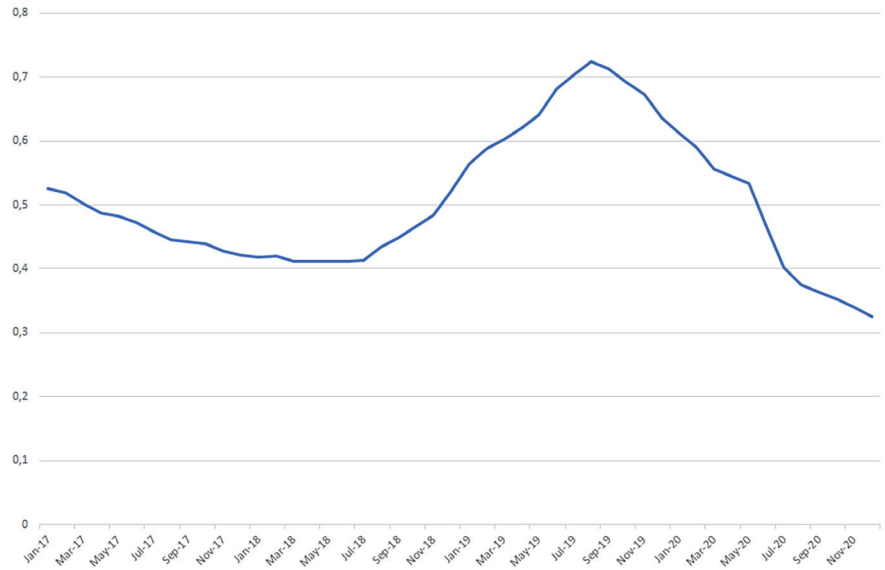


Figure 3. Ratios of non-performing mortgages in total mortgage loan repayments (BRSA, 2021)

loans used by households varied between 3.36% to 2.68%, it was between 5.06% and 3.69% for credit cards. As for the 2020 December period, NPL rates were 0.33% in mortgages, 2.68% in consumer loans, and 3.69% in credit cards. Based on this data, it can be inferred that households have a steadier attitude towards the repayments of mortgage loans than other loans.

This paper draws on a mixed methods approach to develop a better understanding of the relationship between processes of financialization, mortgage-market growth and mortgage debt repayment in the context of Istanbul, Turkey. Based on the analysis of policies and the quantitative analysis of mortgage-lending data as well as the analysis of a new qualitative data set with owner-occupiers, the paper develops an empirical basis for understanding the link between policies, macroeconomic processes of financialization and the strategies followed in the repayment of these loans in Turkey.

This paper contributes to the literature by shedding light on the relations between the financialization of housing through mortgage and the importance of familial solidarity among highly educated households. Therefore, the paper consequently addresses the vital role of family support in the process of owning a house on a mortgage. By doing so, the paper offers two key insights explained below.

Firstly, based on the historical account of Turkey's housing market, it is argued in the paper that the financialization of space in Turkey is realized through mortgage market expansion (Erol 2019, Aslan and Dinger 2018), and the state has taken an active role in the management of this process with the restructuring of some governmental institutions. In other words, this paper claims that the urbanization of Turkey has entered a new era with the structural transformation that took place following the 2001 crisis, through which the state facilitated the reproduction of capital via the financialization and liquidation of space by the introduction of various new tools. As mentioned above, MBS is one such tool that is key to the financialization of housing (Gotham, 2009). However; although the legislation is appropriate, the use of the MBS tool has been limited

in Turkey; in December 2018, securitized mortgage loans cost about 3.15 billion TL (Anadolu Agency, 2018), which is only %1,67 of total value of mortgage loans issued in December 2018. The study of internal dynamics will enrich the financialization literature given the underuse of MBS in Turkey. Besides, an increase in the use of MBS tool will deepen the financialization process with an inevitable increase in non-performing loans in Turkey.

The second point made by this paper is the strategic role of family support throughout the process from the receipt of the mortgage until its termination. Even though the non-performing loan rate of mortgages was quite low -32 per ten thousand- compared to all other credit types by December 2020 (BRSA, 2021), surveys with over 670 statistically representative households in Istanbul showed that 36.4% of households had problems in the loan repayments. As asserted by García-Lamarca and Kaika (2016), mortgage loans can structurally control the practices of everyday lives, as well as community and family relationships of their users; and similarly, the strategies to cope with this problem have fundamentally changed the daily experiences of households in Istanbul. In-depth interviews with mortgage users in Istanbul revealed that the primary strategy of the borrowers at each stage -from the receipt to the termination of mortgage debt- was based on the still-continuing traditional family structure of Turkey. The examination of the problem through everyday life experiences at the microscale by combining different sets of data presents a dynamic discussion arena for future studies.

Following this introduction, the paper is structured as follows: Firstly the context of the relationship between financialization and housing is introduced within a theoretical framework. Then, the methodological approach and data sources of the study were presented. After the evaluation of specific housing policies of Turkey and their articulation with global markets, finally, the role of family ties in buying a home on mortgage was clarified based on the analysis of household surveys and in-depth interviews.

FINANCIALIZATION OF HOUSING

Financialization has received much attention from different fields in recent years and has become a critical issue with the global financial crisis of 2007. Although the interpretations of the concept vary, financialization commonly refers to a change in the balance between production (manufacturing, construction and mining) and circulation (financial flows, securitization and investment) (Lapavitsas, 2009a). According to Sweezy (1997), financialization is the transformation of the capitalist mode of accumulation that began at the end of the nineteenth century. Looking at the discussion of financialization over a wider time span, Arrighi (2005) states that financialization is the result of recurrent over-accumulation of capital and explains this with systemic cycles of accumulation; while Orhangazi (2008), reflecting on the oil crisis and subsequent reformulation of welfare states in the 1970s, defines financialization as the engagement of non-financial companies with financial transactions after the decrease in the profitability of those non-financial firms. According to Harvey (2014), global financialization is underpinned by communication and technological innovations that dramatically increase the geographical mobility of the money-capital in particular. Financialization can also be interpreted in terms of individuals' incomes and assets (Lapavitsas, 2009a),

which is highly related to public policy and mortgage market reforms that encourage owner-occupancy in market-based economies (Smith 2008; Jacobs and Manzi 2020). If the financial properties of individuals increase, housing can become a valuable financial asset, as the housing price increases are higher than housing costs (Rolnik, 2013). Besides, the financialization of housing has also caused widespread housing precarity, underpinned by insecure income and escalating housing debt (Garcia-Lamarca and Kaika, 2016). While describing the bubble characteristics of housing, Lapavitsas (2009a, 2009b) states that mortgage loans are fixed expenses for households, which, in turn, makes the houses vulnerable to fluctuations in the housing market. Housing prices cannot rise continuously, and this produces a housing bubble as a result of the growth of financialization via mortgage loans as experienced in the 2007 crisis. Lapavitsas (2009a) states that in the process of housing production/demand boom, the net financial wealth of households increase, and this leads to an increase in consumption. However, when the housing bubble bursts, the process is reversed, and consumption is diminished.

Above all, it is possible to define the process of financialization as the increasing power of finance in economic policies and domestic life. This period has created sectors that are increasingly dependent on borrowing and indebtedness. One of the most significant characteristics of this period is increasing household debts (Aalbers 2019). The expectation of financial inclusion of households is captured in the principle of “innovative financial inclusion” (FIEG, 2010) within the framework of G20. This principle seeks to legitimize indebtedness in public policy such that the G20 describes the process of financial inclusion as a democratizing aspect of finance. With this inclusion process, households become more integrated into the financial system and financial risks spread to the base (Ergüder, 2017).

Mortgages are not just abstract, financial instruments but reshape the daily lives of households (Garcia-Lamarca and Kaika, 2016). Since mortgage loans constitute the biggest debt item that most households have, they are also a great source of stress on households. Mortgaging the future income threatens the household’s entire accumulation of money. In the case of becoming unemployed, the down payment that was delivered when buying the house and all the repaid amount would be at risk. On the other hand, increasing or decreasing mortgage usage is a determinant in shaping land use. Therefore, mortgage loans are important not only economically, but also sociologically and geographically, and the housing finance and the mortgage market generated through it have a leverage effect on other financial markets (Aalbers, 2011).

There is a growing body of literature on the financialization of housing since the global financial crisis of 2007. In the literature, the financialization of housing is often related to the incompatibilities between the national housing policies and international financial capital. Harvey’s (1985) capital circuits approach is the dominant view in the critical literature about the relationship of financialization and the built environment which emerged in the 1970s and which is conceptualized as a solution to periodical crises of capitalism (Çelik and Karaçimen, 2017). According to this approach, the over-accumulation in the production processes, which is the primary circuit of capital, is transferred to the secondary circuit as a spatial fix (Aalbers, 2008). Such a transfer is made possible by state intervention (Çelik and Karaçimen, 2017). Gotham (2009) mentions the importance of the state in regulating the mortgage and housing market, as well as

ensuring the financialization of housing and emphasizes the importance of mortgage-backed securities in housing financialization. MBS is in a crucial position for financialization as it enables the liquidation of space. In this sense, expansion of the mortgage market is critical for an increase in the liquidation of space, and financial markets have worked to achieve this (Rolnik, 2013). The financial system and the financialization process connect to the state through economic and regulatory policies by trying to increase liquidity at every stage of the housing sector. The state regulates the legal framework, makes infrastructure investments and thus plays a key role in the dialectics of spatial fix and liquidity. The rise of mortgage liquidity and handover via government policies demonstrates the active role of the state in crisis tendency in the financial and real estate sectors (Gotham, 2009).

The main body of literature on housing financialization concentrates on the increasing household indebtedness and mortgages in the global north. Among these, some of the global north-based studies are done in the USA (Aalbers, 2008; Dymksi et al., 2013), the UK (Montgomerie and Büdenbender, 2015; Smyth, 2019), Ireland (Waldron, 2016) and Spain (Coq-Huelva, 2013). While there is a considerable amount of literature on the global north, there is a noteworthy increase in the number of publications on the financialization of housing in the global south including Turkey (Aslan, 2019; Aslan and Dincer, 2018), Brazil (Pereira, 2017; Rolnik, 2013), Mexico (Nascimento Neto and Salinas Arreortua, 2019; Soederberg, 2015) and China (Theurillat et al., 2016; Wu, 2015). The second group of studies in the financialization of housing concentrates on how mortgage securitization is applied and disseminated geographically (Aalbers, 2008; Gotham, 2009; Immergluck, 2011; Newman, 2009).

Among the studies on the financialization of housing in Turkey; Çelik and Karaçimen (2017) focus on the financialization of the construction sector in Turkey, as one of the emerging economies (EME); Erol (2018) demonstrates the significant shifts in the Turkish economy since the financial crisis of 2001 and how it is integrated into the worldwide capitalist system. More recent works attempt to better understand institutional, regulatory and macroeconomic variables affecting the residential financialization process. Erol (2019) examines both mortgage market trends and economic industry indicators. Aslan and Dinçer (2018) examine the structure of mortgages in Turkey and discuss their role in the financialization of space. Empirical findings of their study indicate that household indebtedness increased with the introduction of mortgage loans, which have been an important factor in the financialization of the housing market. Aslan (2019) discusses whether the mortgage loans which are facilitated by the state power in the finance and construction field—and narrated as a solution to the housing problem—fulfill their promises within the framework of housing financialization. Ergüven (2020) exposes the relationship between the financialization of housing and the accumulation model in Turkey by replacing the housing sector at the heart of the accumulation model's inconsistencies. Yeşilbağ (2020) and Çelik (2021) investigate the role of the state in the financialization of housing in Turkey. All these studies have contributed to the literature by examining the role of the state in the financialization of housing, the size of mortgages, the increasing role of the construction sector in the Turkish economy, and the contradictions in the mode of accumulation. Nevertheless, the coping strategies of mortgage users have been overlooked in these studies. Building on the literature, the novelty that the current study brings is the exhibition of the importance of

domestic solidarity in the entire process characterized by the intertwined relationship between the finance and the housing sector, which is enabled by the state.

RESEARCH METHODOLOGY AND DATA SOURCES

This study concentrates on the role of family support in homeownership for mortgage users in the context of housing policies in Turkey. For this purpose, a fieldwork was carried out in Istanbul, the city with the largest population in the country. Istanbul was selected as the case study of the research as it is the driving force of the housing market as well as the economy in Turkey. Istanbul's relatively higher share in the national mortgage market is also a factor in its selection as the case study. According to the Turkish Statistical Institute (Turkstat), 18.66% of Turkey's population is located in Istanbul as of the end of 2019; 15,87% of the issued building permits in Turkey was held in Istanbul in 2019 (Turkstat, 2020) and 21.95% of the mortgages used in Turkey between the years 2009 to 2019 were received in Istanbul.

An explanatory mixed method design was used in the study. According to Creswell and Clark (2015), the explanatory mixed method design is a process in which quantitative data is collected and analyzed in the first step followed by a qualitative stage, which is built on the information/insight obtained from the first stage. The analysis in the first stage determines the structure of the qualitative study. The purpose of this design is to use qualitative data to explain quantitative findings in more detail. Questions derived from quantitative data for the qualitative phase are open-ended questions. First, the findings of the quantitative stage and then the results in the qualitative stage are reported. Finally, with the analysis of the qualitative results, new results are reached regarding the quantitative data which were not foreseen at the beginning (Creswell and Clark, 2015). In this frame, firstly the relevant data was obtained from the Turkstat database, and based on the analysis of this data; a household survey was designed and conducted. Finally, based on the analysis of survey findings, in-depth interviews were designed and conducted.

This study is based on the historical analysis of housing policy in Turkey, highlighting the heterogeneous and informal nature of the financialized housing market. Following this desktop study, a large-scale household survey (n= 670) was conducted. The proportional stratified sampling method was used to identify the study sample for this survey. The data on the number of building permits issued in the districts of Istanbul between 2010 and 2016 were obtained from Turkstat and the number of surveys required in each district was calculated according to the proportional stratified sampling method. The survey was conducted as a telephone survey with 5% error margin and 99% reliability. In order to determine the distribution of these surveys by districts, the number of issued building permits and the number of used mortgages were requested from the Turkstat from 2010 to 2016. Surveys were conducted only with mortgage users and household respondents were asked to answer the questions grouped under three main headings. The first section covered the profile information of the mortgage users including sub-expansions such as age, gender, education, and profession. The second section was related to mortgage loans, and the amount and the maturity of mortgage loans were inquired under this heading as well as the questions including when the loan was used, where the house was located, whether there were any

problems in loan repayments, the strategies to cope with them, whether they want to use mortgages again and whether the household owes other loans. The last topic was about the current and changing situation of the neighborhood where the house subject to mortgage is located.

The survey data was supplemented with in-depth interviews undertaken with a subset of 20 households (between January and June 2019). The survey study results showed that 55.1% of those who used mortgage credit have an education background above high school level. Among those who have difficulty in paying their mortgage loans, the rate of those who have an education background above high school level was 56.1%. As stated by Aslan (2019) access to the housing loan market is mainly indexed to household income, which is partially in line with education level. This case was also proved in the household surveys. Accordingly, in-depth interviews were structured to address only university graduates and their experiences, and the lower-educated social groups who have their own business and have access to the housing loan market were excluded from the study.

Besides other data sets that provide general answers, interviews with households investigated the everyday life experiences of interviewees. All 20 households were white-collar and had a bachelor's degree. Three of these 20 people were academics, and 9 work in public institutions with higher job security compared to the private sector. 16 mortgage users were between the ages of 27-35 when they used the loan. 18 mortgage users purchased their house for living purposes. The purchased houses were located in various districts of Istanbul. 12 interviewees received support from their families at some point in their repayment process. Before setting out the results of these new data sets, the next section provides a narrative of Turkey's housing development based on previous work in the field.

HISTORICAL DEVELOPMENT OF HOUSING IN TURKEY

In this section, the historical development of the housing sector in Turkey is presented to discuss the financialization of housing in Turkey from a historical perspective. Founded in 1923 after the Ottoman Empire, the Republic moved the capital of the country from Istanbul to Ankara. After World War II, Turkey's urbanization accelerated with the Marshall Plan aid, but with serious deficiencies. It was not easy to establish an urban consumer class in an environment where three-quarters of the active population engaged in agriculture, forestry, and hunting in the 1960s (Çavuşoğlu, 2004).

"In addition to low levels of income and instability, basic infrastructure was inadequate; the electrification across the country was far from complete, and the percentage of settlements without a municipal water system was very high" (Buğra, 2000, 70).

Under such circumstances, the state condoned the plundering process of urban rent in a populist manner due to the inability to fulfill the functions of the social welfare state (Çavuşoğlu, 2004). Şengül's periodization of the urban development of Turkey is helpful to understand the changing dynamics of the housing problem in Turkey from a historical perspective. Şengül (2001) describes the period between 1950 and 1980 as an era in which the city-state relationship in Turkey was mainly motivated by the reproduction of labour whereas; in the second period after 1980, it was the reproduction of capital that mainly characterized this relationship. While

5. Law no. 5218, which was enacted in 1948, was the first law, and law no. 7143, which is still in force is the 15th.

6. For a discussion on the transformation of MHA, see Topal et al. (2019).

reproduction of capital is still the basic driving force, this paper argues that the instruments used in the reproduction of capital have changed with the transformation brought about by the economic and financial crisis in 2001, after which the urban space has been financialized and liquidated.

Access to housing has never covered all social strata in Turkey, but a local but illegal housing production strategy known as *gecekondu*, meaning “collectively built in one-night”, has met housing needs for many years. This has also left significant traces in the urban patterning of the whole country. In order to restrain the production of *gecekondu* settlements, several amnesty laws were enacted (5). Although these legal practices are aimed at hindering *gecekondu*s, they have not been implemented decisively for the sake of political and economic gains. All these regulations failed to stop *gecekondu* driven urbanization and the number of illegal settlements increased. The legalization of the *gecekondu*s has also failed. In the early days, about a quarter of the labour force who built *gecekondu*s was composed of the unpaid labour of friends and relatives, and the construction process was based on mutual, trust-based borrowing relationships. The *gecekondu*s were built for their use-value, however, over time, these built-up areas became central parts of cities with rent potential, and their exchange value came to the fore (Çavuşoğlu, 2004).

One of the post-1980 transformations that took place in Turkey was the rising role of neoliberal policies in the economy. The impact of these policies on low and middle income has been severe. “Resolution on Protection the Value of Turkish Currency No. 32”, published in the Official Gazette on 11.08.1989, was one of the milestones of this transformation. With this decision, financial capital movements were liberalized through an attempt to integrate the domestic market into the international markets. This change is best characterized as the transition to “the hegemony of financial capital” (Balaban, 2011). According to Balaban (2011), the establishment of the Mass Housing Administration (MHA), the main actor in the formation of today’s built environment in Turkey, coincides with the period when neoliberal policies began to shape the country’s politics. To increase housing production, the government provided cheap credit and financing support to certain projects, contractors and housing cooperatives in this period. Founded in 1984, MHA was established to promote the construction of large-scale housing projects financed by the state (6). In the period from the late 1980s to the early 1990s, more than 200 thousand residential units were built for middle and low-income citizens in the periphery of metropolitan cities. During this period, MHA constructed 40 thousand prestigious residential areas for middle and upper-income groups in Istanbul, Ankara and İzmir (Gündoğdu and Gough, 2008). The management style, priorities and powers of the institution were subject to change in the following period. Balaban (2011) defines the first growth period in the construction sector of Turkey as the period between 1982-1987. In this period, the number of newly produced houses increased by 257% and the share of the construction sector in the GDP increased from 5.2% to 7.3%. The growth in this period was based on the increase in mass housing production and infrastructure investments (Çelik and Karaçimen, 2017).

In the early 2000s, Turkey faced the biggest economic crisis it had ever experienced. In order to overcome the 2001 crisis, the state system had to undergo a transformation. Consequently, some new institutions were established, and the authority and responsibility were redistributed among

certain institutions (Akçay, 2009). New regulations were made to determine the monetary policy. Among the most important regulations are ensuring the independence Central Bank and redistribution of power between technocrats and BRSA's gaining of broad authority regarding the banking sector (İslamoğlu, 2002).

One of the main strategies of the Justice and Development Party, the ruling party in the government, following the crisis, had been construction sector investments. In order to achieve this, MHA's authority has been increased in different areas and scales. Gündoğdu and Gough (2008) mention four directions in which MHA is empowered:

"First, it was given powers to establish companies related to the housing sector and form partnerships with existing companies, grant credits for, or directly undertake, the transformation of squatter areas, and preserve and restore historical and regional architecture. Secondly, the MHA was empowered to undertake, directly or indirectly, profit-oriented projects in association with the private sector, known as 'revenue sharing', to give an income stream to fund its other activities. Thirdly, the MHA has been given, for the first time, urban planning powers: to make plans at all scales, and alter existing plans, in areas designated for mass housing development, and to carry out compulsory purchase of property and land within these areas. Fourthly, the government transferred all the duties and powers of the national Urban Land Office, together with its land bank of 64.5 million square meters, to the MHA, to integrate housing production with land acquisition and development (Gündoğdu and Gough 2008, 4-5)".

The legislative changes had an impact on the economy; between the years 2002 and 2007, GDP grew by an average of 7% annually. Similarly, the construction sector grew by 11.6% during the same period, more than the annual average increase in GDP (Çelik and Karaçimen, 2017). In this period, the importance of loans given by the finance sector for supply and demand creation in the housing sector started to increase. New financial instruments were introduced as the relationship between finance and the housing sector went into change (Çelik and Karaçimen, 2017). One of the differences of the post-2001 period is that the state is no longer just a regulator on finance and construction, but rather an actor through MHA in both fields, connecting these sectors. Thus, more than just a regulator, it has double duty in the production and consumption of housing (Ergüder, 2017).

Mortgage loans have a critical role in this new urbanization period of Turkey. In 2007 a new law was introduced in Turkey setting for the first time the rules of homeownership by using mortgage loans. Some of the prominent rules of acquiring a mortgage are the legal status necessity of the house, the Loan to Value (LTV) criterion for the use of mortgage loans and the assessment of the real estate value by companies licensed by the Capital Markets Board (CMB). In Turkey, government officials acknowledge that the rate of legal buildings is almost half of the existing buildings (Şenol-Balaban, 2019), and this reduces the number of houses that can be bought on mortgage and ends up with higher rates of mortgage usages in newly developing urban areas. It is also important to note that for all households in Turkey, the LTV rate in the mortgage market has changed twice since the effective date of the mortgage law. When the law was first introduced in 2007, the LTV rate was 75% and in September 2018, this rate was increased to 80%. Afterward, due to the pressure of the housing market, which was shrinking with the 2018 economic crisis, the LTV rate was increased to 90% for mortgages up to 500,000 TL in March 2020. The LTV rate of 80%,

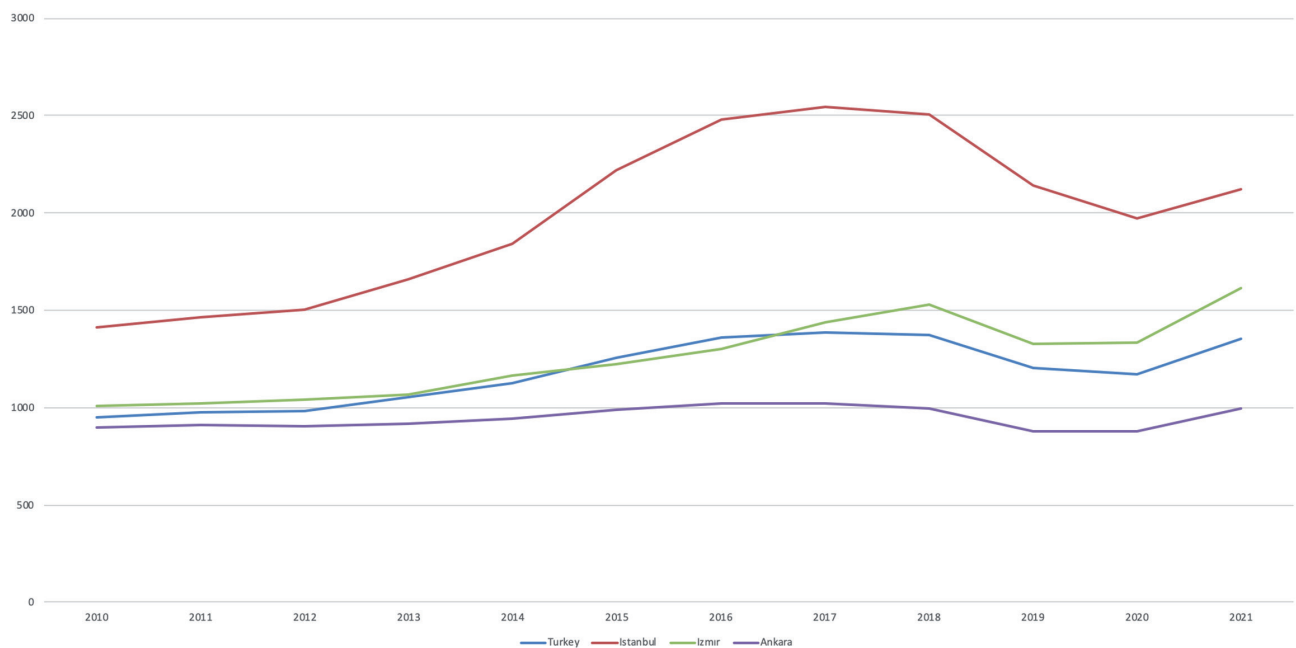
7. The inflation data of the Inflation Research Group (IRG), which is an independent organization, does not match with the inflation data of TURKSTAT. In this study, TURKSTAT data was used for the period between 2010 to 2021. It should be noted that, as the inflation rate calculated by the IRG is higher than that of TURKSTAT, the real rate of return for housing would be estimated lower based on IRG data.

for instance, denotes that those who want to use mortgages should have at least 20% of the purchase value of the house. Besides, it is necessary to consider other expenses, such as the real estate agent fees, title deed fees, and payments including moving costs if the property is purchased for use-value. The fact that the LTV ratio is not 100% adversely affects the mortgage usage in general, especially for the low-income group who cannot make 20% money accumulation. Unlike LTV, there is not a specific ratio set for the Loan to Income (LTI) in the mortgage loan market of Turkey. The facilitation of mortgage use by public institutions is directly related to the transformation in Turkey's urbanization; as part of the housing financialization policies of the government, the public banks are acting more flexibly at the determination of the LTI rate.

According to the analysis performed based on the data set of the Central Bank of Turkish Republic (CBRT) for the period between January 2010 and January 2021, and based on the real prices of housing sales per square meter, it was detected that there is an increasing trend in real housing prices until 2016. Stagnation is observed in prices between 2016 and 2019, with a decrease thereafter (7). According to **Figure 4**, real housing prices increased both in Turkey and in three big cities in the period from January 2010 to January, 2020. The rate of increase was 42.4% across Turkey, 50.1% in Istanbul, 50.9% in İzmir and 11.5% in Ankara. These figures show that the volume of household savings needed for mortgage use is higher in Istanbul compared to the rest of the country.

Aslan (2019) points that the average household income of a mortgage user is about 6 times the minimum wage that is mostly confined to middle and high income households in Turkey. Moreover, despite an increase in mortgage-based homeownership, the overall homeownership rate is decreasing. Comparing the homeownership rate of 2007, when the mortgage law came into force, with that of 2019, we see that the ratio has fallen from 60.8% to 58.8% (EUROSTAT, 2020). As can be seen in **Figure 5**, the rate of homeownership using mortgage loans increased from 1.7% to

Figure 4. Real exchange ratios of housing square meter prices (Central Bank of Turkey, 2021)

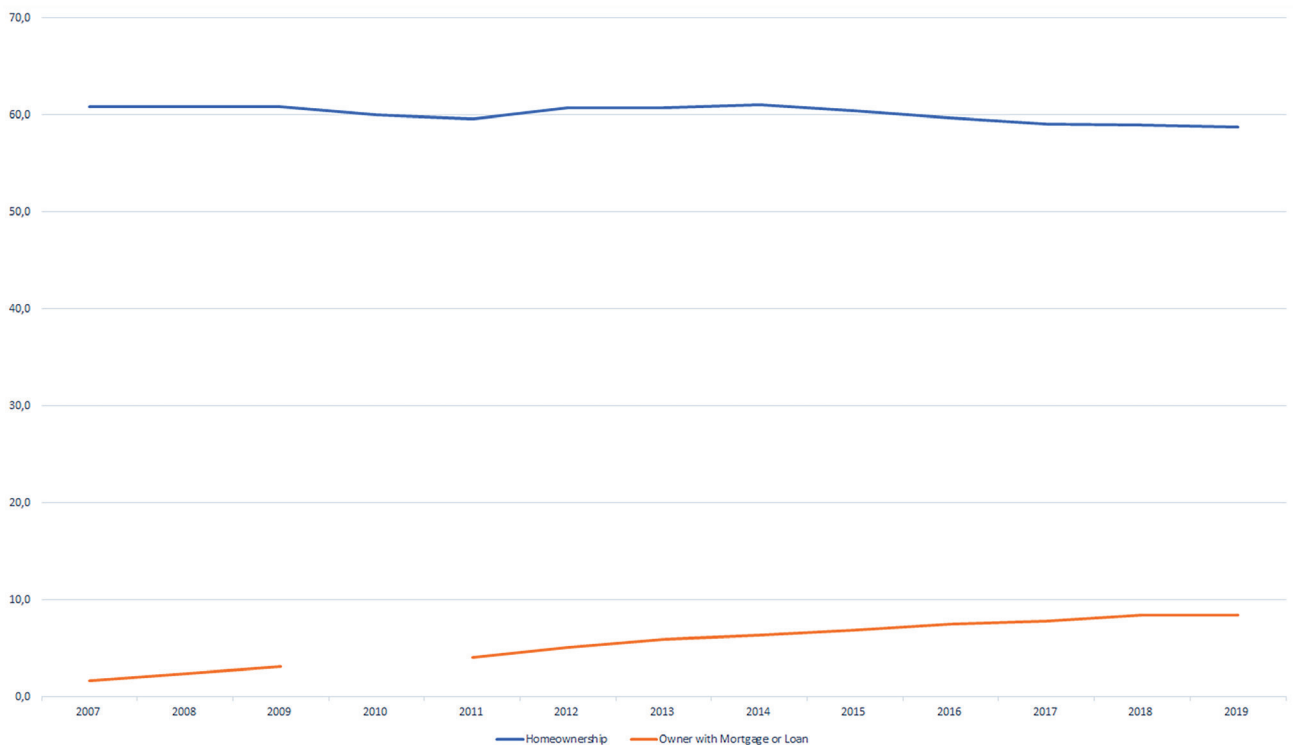


8. According to TURKSTAT data, the number of people using mortgages in Turkey increased from around 20 thousand in 2009 to over 550 thousand in 2020. Over 4 million mortgage loans were used in the past 12 years.

8.4% in the same period; that is, the rate of mortgage in homeownership has increased from 2.8% to 14.3% from 2007 to 2019. Although the mortgage system was introduced as a homeownership method, and the rate of homeowners using mortgage loans increased, contrarily the rate of homeownership declined. **Figures 6** and **Figure 7** demonstrate the ratio of homeownership for overall Turkey and Istanbul, respectively, based on TURKSTAT data for 20% quantiles income groups for the period between 2007 and 2019. In both graphs, it is seen that the homeownership rates of those who are in the middle-income group and below have decreased more than the other income groups. The homeownership rate of households in the bottom income group decreased from 43.2% to 27.33% in Istanbul. Although homeownership rates decrease in every income group, the decline in middle and lower-income groups is remarkable. In addition, while the rate of mortgage owners increased significantly from 2007 to 2019, it is observed that the rate of homeownership decreased throughout the country (8). Briefly, while homeownership rates decrease in every income group; the decrease is most significant in lower-middle and low-income groups. These income groups are affected the most by the increasing housing prices, as they have limited access to the mortgage system (due to their low wages), and thus they are excluded from the housing market.

Within this context, this paper claims that the urbanization of Turkey has entered a new era with the structural transformation that took place following the 2001 crisis. The state facilitates the reproduction of capital via the financialization and liquidation of space by the introduction of various tools. The financial capital and the power apparatus are the leading players in the mortgage field of Turkey; they jointly set the rules, and determine who can enter this system. The power apparatus has transformed MHA into a gigantic institution with dozens of legal regulations issued to

Figure 5. Changes in home ownership rate (Eurostat, 2020)



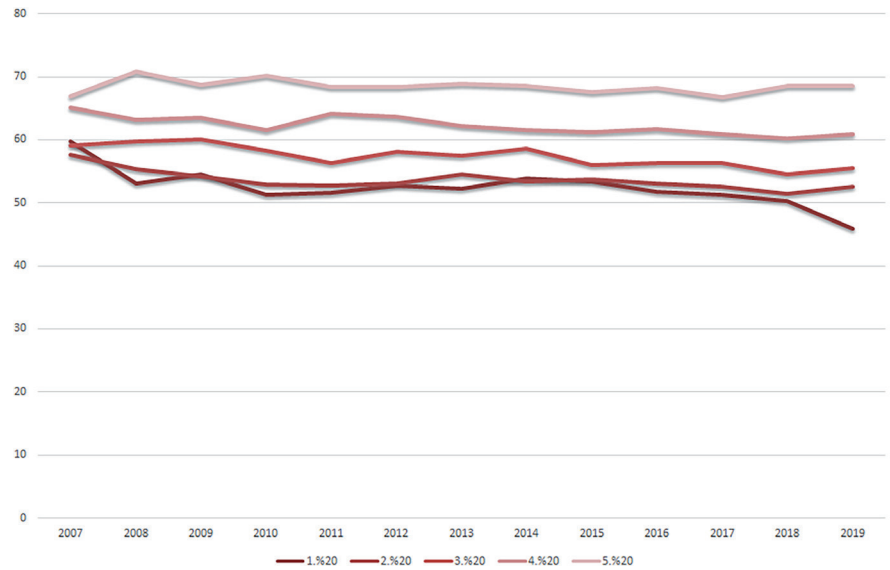


Figure 6. Homeownership of households based on 20% quantiles income groups in Turkey (TURKSTAT, 2021)

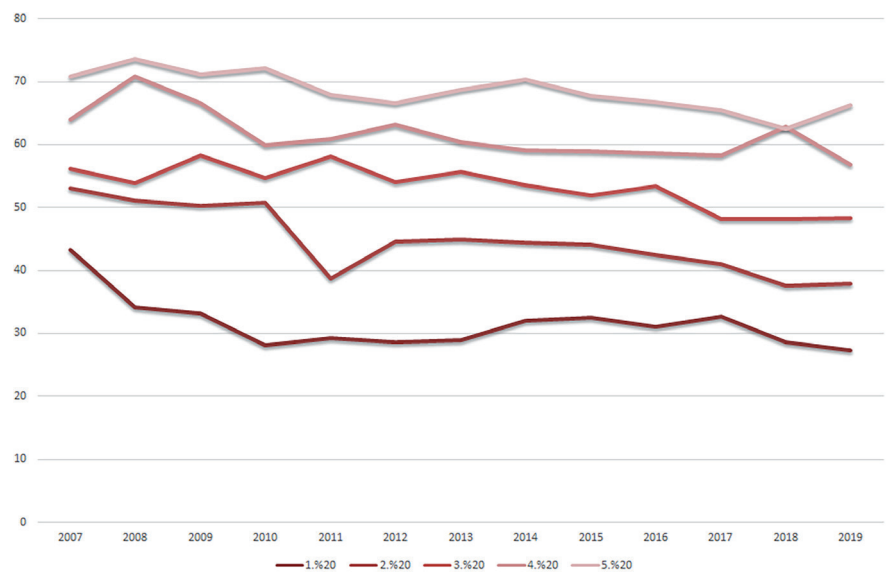


Figure 7. Homeownership of households based on 20% quantiles income groups in İstanbul (TURKSTAT, 2021)

redesign the politics of space. Thus, the power apparatus, which has a regulatory role in the field of finance, becomes more advantageous than all other players in the mortgage field via MHA (Aslan, 2019).

After having set out the housing policies and increasing role of finance in Turkey, the next section discusses the impact of housing financialization on the everyday life of mortgage users based on the findings of the surveys and in-depth interviews conducted with mortgage users.

HOUSEHOLD SURVEYS AND INTERVIEWS: THE PROBLEMS RELATED TO MORTGAGE LOAN REPAYMENTS

This section draws on data from the household surveys and in-depth interviews to better understand the experiences of households with mortgages. Both these research instruments focused on whether

households have difficulties in the repayment of housing loans, and if any, what strategies they use to overcome these problems. The results of the surveys conducted in Istanbul with 670 households revealed that 244 of the surveyed households (36.4%) had problems in repaying their mortgage loans.

In the household surveys, respondents were asked how they cope with their financial problems and they were asked to choose only one option among; 1. support from family or friends, 2. sell a house or car, 3. use new credit, 4. reduce living costs, 5. extra work, 6. just waiting and 7. others. 59.4% of those who had problems with mortgage repayments said they received support from their family or friends; 6.1% stated that they sold some other real estate or their cars. 7.4% of the respondents obtained a credit once again for the solution to their problem.

When we focus only on the households who had problems in repaying their mortgage debts, we see that 75.4% of the households with mortgage repayment problems purchased their houses for residential purposes. 77% have bought newly constructed houses. 68.9% are 44 years or younger; 56% have bachelor or graduate degrees.

As the mortgage law was enacted in 2007 in Turkey, not enough time has passed for households to use mortgage loans for a second time. However, both interviews and field surveys show that the respondents adopt the strategy of using a second mortgage loan to move to a more livable house after the sale of the first house.

In-depth interviews with households support the finding that the traditional family structure is effective in overcoming problems in the repayment of mortgage loans. Data suggests that the loan debt loyalty is much higher than other consumer loans due to family support over different time frames for the duration of the mortgage, including:

-at the time of purchase

"We bought the house for 250.000 TL, and my family gave 100.000 TL" (BP, 30, unmarried, academician, personal interview, 23 May 2019).

-in the course of the loan

"We bought the house for 240.000 TL. The families helped us by giving 140.000 TL. We planned for 120 months loan period, but my wife's father said that he would support us provided that the loan term is 60 months" (İB, 37, archaeologist, married, one child, personal interview, 20 May 2019).

-through smaller-scale support

"My mother, my father, and my wife's brothers supported us, albeit small. These little supports were vital. The two families are poor, but they are as generous as possible in sharing what they have" (SN, age 42, art historian, married, one child, personal interview, 19 May 2019).

Families try to support each other, but this support is not at the same level for all kinds of loans. When it comes to mortgage payments, families are trying to do their best for their relatives by providing extra savings in their daily lives as homeownership is seen as an important stage in life. Naturally, this support does not apply to all interviewees, yet the main point is to present the magnitude of the role of family support in mortgage repayment.

All interviewees who used mortgage loans reported that they make savings in their everyday lives. This feature, which is common to all interviewees,

differs in the duration of savings. The general pattern is that after three years, mortgage loan repayments become less problematic.

“We had almost no savings. When we received a mortgage, we were given loans up to 75% of the price of the house, and we could not get close to the total amount required for the price of the house, real estate agent, and title deed. I asked my family to take out consumer loans for me, and I paid both mortgage and consumer loans together for three years” (EA, 40, architect, married, one child personal interview February 2019).

“Since we could not afford the repayment anymore, my sister-in-law took a consumer loan in the amount of 50.000 TL for a five-year period (EŞ, 38, software developer, married, one child, personal interview May 21, 2019)”

As already stressed, the law allows for using a mortgage loan up to 80% of the price of the house in Turkey. Some people who do not have enough savings corresponding to 20% of the value of the house apply the strategy of completing this deficit with consumer loans. This strategy jeopardizes the household’s repayment of the mortgage loan. However, no interviewee implementing this strategy has reported having lost his home. Yet, among all the interviewees, the challenge of saving for a mortgage affected many facets of their daily life as households sought to cut living costs including, as reported by EA, “[going] to the library in the evening because the natural gas money was too high” (EA, personal interview 7 February 2019).

Another main strategy is to work in additional jobs.

“I work harder to pay the mortgage loan. I was working 15 hours a week before the loan repayments, but now I am working around 60 hours a week” (EK, 27, dentist, unmarried, personal interview, 17 May 2019).

“On the weekends I did extra work. At that time, there was an academic unit in the institution where I worked, and I started to teach there. I worked almost every weekend for the first year and a half (K, 33, lawyer, married, one child, personal interview, 23 May 2019).

It is a common strategy to increase household income by working in additional jobs, but it is not enough alone. Not being dismissed from the current job is also important. To make mortgage loan repayments, one of the strategies of the interviewees was to remain silent when they were exposed to mobbing in the workplace or to try to save the day with an overdraft account when the salary payment is delayed. Renting the purchased house was mentioned as another method.

Although there were no delays in mortgage loan repayments, many interviewees stressed that the repayments left deep traces in their everyday lives.

“It had a psychological effect on me since I had to worry all the time thinking “what if I lose my job and if I am not able to pay it” (OA, 37, academician, unmarried, personal interview, 15 April 2019).

“With the pressure of being dismissed, I remain silent at work where there are many negative behaviors that I would normally speak up. Moreover, I am very uncomfortable because I see this as a personality concession” (K, personal interview, 23 May 2019).

The pressure to repay mortgage loans can also be devastating for households.

“But the first years were challenging. It was so hard, and we were on the verge of divorce. I think the main reason behind divorces is the economic problems. If you could go on a blue voyage when the

stress reaches its peak, your marriage would live longer. When you cannot get out, you are projecting that stress onto the other one" (SN, personal interview, 19 May 2019).

Despite all these difficulties, mortgage loans rarely turn into non-performing loans. Only one of the interviewees had to sell his house because he delayed his repayments. In this sale, the house was reported to have sold at a value below 50.000 TL than the purchase price.

CONCLUSION

Evaluating the change of the housing market in Turkey from a historical perspective, this study conceptualizes that the reproduction of capital in the post-economic crisis period of 2001 was realized through the financialization of space. The mortgage system, which was enacted in 2007, plays a key role in ensuring the financialization of the space, and it dramatically affects the everyday lives of the borrowers in the growing mortgage market.

The current analysis conceptualizes a state-based housing market model in Turkey and highlights mortgage as a crucial pillar for urban capital accumulation under a financialized Turkish economy. At the micro-level, focusing on mortgage users, it reveals that purchasing a house is difficult even for middle-income white collars in Turkey.

The analysis of the historical development of mortgage policies marked a new phase for Turkey after the 2001 crisis, which can be characterized by the financialization and liquidation of space by the state apparatus, through the introduction of new tools such as mortgage and MBS, which are novel to the Turkish economic system. During this period, hundreds of regulations on the built environment were amended and consequently, institutions such as MHA have flourished, strengthened, and increased their authority. MHA has become a gigantic organization that makes zoning plans, provides financial loans to the construction sector, and builds various structures, thus, indispensably involving government at every stage of the construction industry. This was accompanied by the introduction of the mortgage system. In this context, mortgage loans turned into a strong tool acting on land use decisions on the one hand, and on the other, an important source of stress for households regarding their future incomes.

The first finding of the study is that; despite the enforcement of mortgage law and increasing mortgage usage, there is a decrease in the rate of housing ownership in overall figures. After the adoption of the mortgage law in 2007, mortgage loans gained importance as a method of homeownership in Turkey, and as shown in **Figure 5**, the rate of homeowners with mortgages has increased regularly every year. On the contrary, homeownership started to decline in Turkey in the same period. As shown in **Figure 4**, the real housing value increase in Turkey has been 42.4% in the period from January 2010 to January 2021. The decrease in homeownership can be associated with the increase in real housing prices, with the highest impact on lower income groups. During the 11-year period, the increase in real housing prices has reached 50% in Istanbul. Referring to **Figure 6**, which examines the homeownership ratios of bottom 20% income groups in Turkey, it is observed that the homeownership ratios of those in the bottom income group decreased dramatically by 23.1% during the 13-year period between 2007 and 2019. In this period,

housing ownership rate in Turkey decreased for every group except the top 20%.

The sensitivity of mortgage loans to interest rates makes them less preferable periodically. More than 4 million housing loans were used in the period from 2009 to 2020. The increasing amount of loans accompanies the increasing risk of non-performing loans, which has been augmented with the 2018 crisis environment and worsened by the COVID pandemic. Nevertheless, the number of non-performing loans remained low in Turkey as shown in **Figure 3**. This can be explained with the second main point made in this paper which is the role of traditional family ties as a coping strategy in mortgage loan repayments.

The findings of the analysis manifest that a significant portion of the mortgage users in Istanbul needs the social network formed by the traditional family structure. Mortgage loans constitute the largest debt item of the household and have a direct impact and pressure on the financial stability of the household. Household telephone surveys showed that 36.4% of mortgage loan users face difficulties in repayments and 59.4% of them used their social capital and received support from their families. Yet, receiving support from families is a viable strategy as long as the social capital network does not face other financial problems. All interviewees made serious concessions from their everyday lives and had to quit their old consumption habits for several years. Similarly, the survey results unsurprisingly demonstrated that when there is a decrease in household income, the probability of having problems in repayment of the mortgage loans increased.

While the social capital network, including families, is a key factor in mortgage payments, the people in the network may have financial difficulties too, in times of economic crisis. Therefore, it is likely that households trusting their social network for mortgage repayments might face problems, and the rate of non-performing mortgage loans might increase.

This paper shows that, particularly for middle and low-income households, the rate of homeownership decreased despite an increase in homeownership with mortgage. This finding raises the doubt whether mortgage loans should be the only legitimate basis for the housing demands. Although the mortgage system works efficiently per se, the decline in general housing ownership can be attributed to the increasing housing prices and the inadequate increases in the income of laborers. It would not be wrong to say that the rate of homeownership will decrease further in Turkey as long as the increases in real incomes are not at the same rate with the increases in housing prices. Another important point is the dependence on family networks in buying housing. Higher percentage of interviewees who bought home with mortgages made it clear that they needed family support at some point. The most significant finding of the study is that none of the interviewees could manage to buy a mortgaged house in Istanbul without any family support.

The importance of family support in the process of homeownership on mortgage was examined through the case of Istanbul. As a further study, a comparative study of Istanbul with some of the global southern cities that have adopted a mortgage system in the last two decades would provide further insights on the functioning of the mortgage markets as well as the survival strategies of loan owners across the world. Moreover, a

comparative study with other large-scale and middle-scale cities of Turkey might bring new insights into the role of family support in homeownership and mortgage loan repayments in Turkey.

ABBREVIATIONS

BRSA: Banking Regulation and Supervisory Agency

CMB: Capital Markets Board

CBRT: Central Bank of Turkish Republic

EME: Emerging Economies

EMF: European Mortgage Federation

IRG: Inflation Research Group

LTI: Loan to Income

LTV: Loan to Value

MBS: Mortgage-Backed Securities

MHA: Mass Housing Administration

NPL: Non-Performing Mortgage Loans

TURKSTAT: Turkish Statistical Institute

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Alındı; Son Metin:

Anahtar Sözcükler: İpotekli konut kredileri; konut politikaları; konutun finansallaşması; gayrimenkul; Türkiye.

TÜRKİYE'DE KONUTUN FİNANSALLAŞMASI VE HANELERİN İPOTEKLİ KONUT KREDİSİ BORCU GERİ ÖDEME STRATEJİLERİ

Konut, sosyal, ekonomik ve politik boyutlara sahip bir olgudur. Aynı zamanda konut, yüzyıllarca süreyle kullanılabilen ve tüketilebilen pahalı ve mekâna sabit bir varlıktır. Konut projelerinin gerçekleşmesi için gerekli sermayenin büyük olması sebebiyle, finans alanı ile konut alanı arasında birbirini destekleyen bir ilişki kurulmaktadır. İpotekli konut kredileri, finans kurumlarının bireylere konut sahibi olabilmeleri için verdikleri başlıca hizmetlerden biridir. Diğer taraftan ipotekli konut kredileri bir ailenin en büyük borç kalemini oluşturur. En geniş anlamıyla, ipotekli konut kredileri bireylerin gelecekteki gelirlerine göre verilmektedir ve krediyi kullanan kişi veya ailenin günlük hayatını düzenlemede belirleyici bir rol oynamaktadır. İpotekli konut kredilerine ilişkin yasal düzenlemenin yapıldığı 2007 yılından bu yana Türkiye'de hanehalklarının ipotekli konut kredisi kullanımındaki artış eğilimi göz önüne alındığında, bu makale iki temel fikir sunmaktadır. İlk olarak Türkiye konut piyasasına tarihsel bir perspektiften bakarak mekânın finansallaşmasının ipotekli konut kredileri yoluyla gerçekleştiği tartışılmakta ve buna bağlı olarak finansallaşmanın konut piyasasına etkileri araştırılmaktadır. İkinci olarak, Türkiye'deki finansallaşmış konut piyasasının büyük ölçüde aile ilişkilerine ve onların finansal desteklerine bağlı olduğunu göstermektedir. Ayrıca, ipotekli konut kredisi piyasasının büyümesine rağmen, konut sahipliğinin azaldığını ve ipotekli konut kredisini kullanabilenlerin orta sınıflar arasında yoğunlaştığını vurgulamaktadır. Çalışma, Türkiye'nin en büyük metropolü olan İstanbul'da açıklayıcı karma yöntem yaklaşımıyla gerçekleştirilmiştir. Bu makale, gelecekteki çalışmalara dinamik bir tartışma alanı sunmak için farklı veri setlerini birleştirerek konut sorununun günlük yaşam deneyimini araştırmaktadır.

FINANCIALIZATION OF HOUSING AND MORTGAGE DEBT REPAYMENT STRATEGIES OF HOUSEHOLDS IN TURKEY

Housing is a complex phenomenon with social, economic and political dimensions. It is also an expensive fixed asset that can be used and consumed for centuries. Due to the considerable amount of capital required for the realization of housing projects, a mutually supportive relationship is established between the finance and the housing sectors. Mortgage loans are the major tools provided by financial institutions to households for acquisition of housing. On the other hand, mortgage loans usually constitute the largest debt item of a family and are highly effective on the organization of their everyday lives as they are given on their future incomes. Given the increasing trend in the use of mortgages by households in Turkey since 2007, when mortgage law was adopted, this paper offers two key insights. Firstly, based on the historical account of Turkey's housing market, it is argued in the paper that the financialization of space in Turkey is realized through mortgage market expansion, and accordingly the effects of financialization on the housing market is investigated. Secondly, it demonstrates that the financialised housing market in Turkey is highly dependent on family relationships and their financial supports. Research findings also indicate that despite the growth of the mortgage market, owner-occupation has declined in total and use of mortgage was concentrated within the middle income groups. The study was conducted in Istanbul, the largest metropolis of Turkey, using a mixed method approach, and investigated the daily life experiences of mortgage debt owners by combining different sets of data to present a dynamic discussion arena for future studies.

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