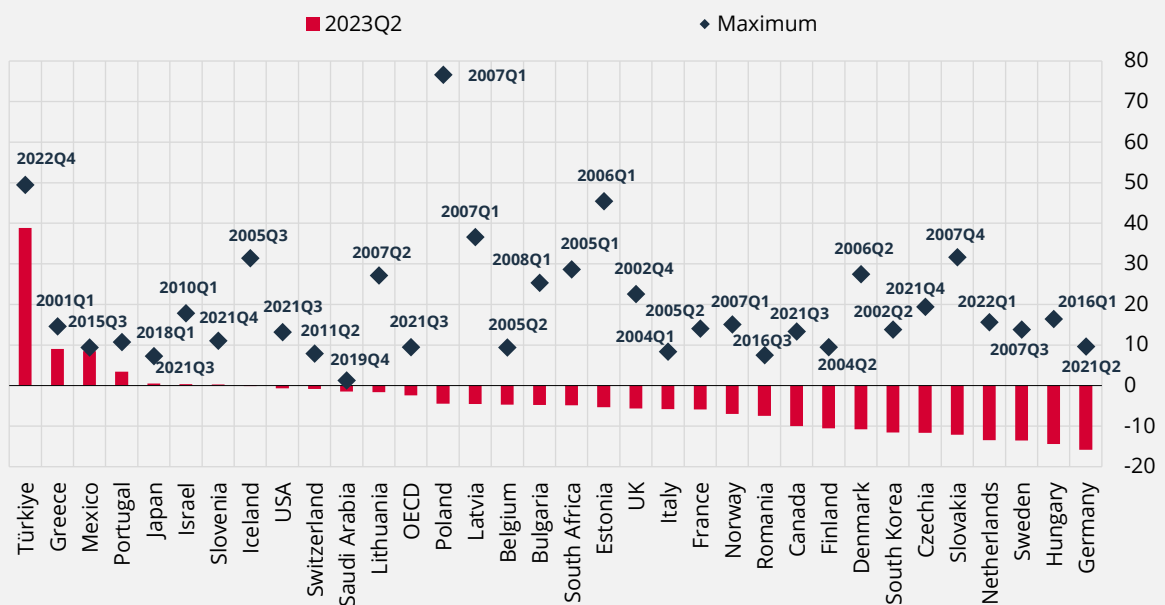


## Box 2.4

### General Outlook in the Housing Market

The analysis of the peaks of real house price increases during the 2000-2023 period from a historical perspective reveals that the peaks are usually concentrated during the pre-Global Financial Crisis or the pandemic period. After 2020, Türkiye witnessed considerable increases in housing prices as well. In 2022Q4, real house price increases in Türkiye reached their highest level. In 2023, while the real house price increases recorded a decline, they continued to decouple from the rest of the OECD countries (Chart 1). The importance of the housing market increased further following the Kahramanmaraş earthquakes in 2023. Increases in house prices can implicitly affect inflation by reflecting on rents as well as by affecting living and demand conditions. In this box, developments in the housing market, house prices and rent inflation are analyzed, and the importance of the housing market for price stability is discussed.

**Chart 1: House Prices (Real, Annual %Change)\***



Source: OECD.

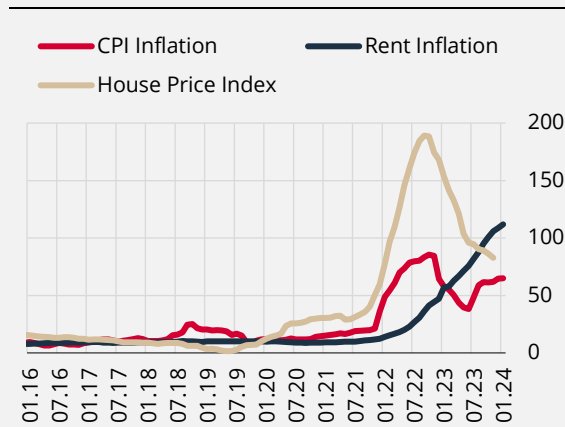
\* The maximum value shows the greatest annual increase for each country for the period between 2000Q1 and 2023Q2.

The role of the housing market as an investment tool in a high-inflation environment has become more important in recent years. The demand for durable goods, especially housing, automobiles and white goods, has increased both with the high increases in Turkish lira loans and with the motivation to hedge against inflation in a high and volatile inflation environment.<sup>1</sup>

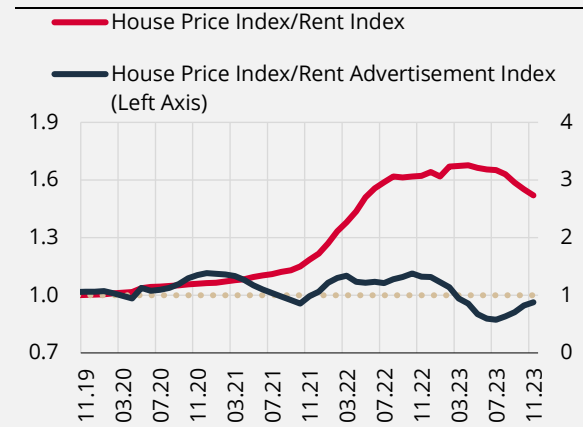
The upward trend in housing prices, which started in 2020 with the impact of the pandemic, continued to accelerate in 2022 and reached their peak in October 2022. Although a slowdown has been observed in the rate of house price increases since the end of 2022, high levels have been maintained. As of November 2023, the annual rate of increase in the house price index was 82.8% (Chart 2).

The annual increase of the rent index, which is a sub-item of the CPI and calculated from the real rents paid by tenants, generally remained below consumer price inflation until the end of 2022. However, rent inflation has strengthened since the beginning of 2022 and has exceeded the increase in consumer prices. With the earthquake disaster in February 2023, rent increases became more pronounced, and as of January 2024, the annual increase in consumer prices was 64.9%, while the annual rent inflation stood very high at 111.8% (Chart 2). In order to examine the reflection of the increase in house prices on rent inflation, the price-rent ratio was calculated by dividing the house price index by the rent index. This rate has increased rapidly with the increase in housing prices starting from 2020. The rapid increase in this rate is due to the slower reflection of the increase in housing prices on overall rents. In fact, housing prices are reflected much more quickly in the advertised rents for vacant homes. As a matter of fact, when a similar calculation is made using the rent advertisement index, it is seen that the pass-through of the increase in house prices to new rents is much higher (Chart 3). On the other hand, the reason for the slow reflection in the rent index measured in the CPI basket is that the ongoing rental contracts in residences are typically updated once a year and are subject to various limits when updating. Therefore, the reflection of the house price increases in inflation is much delayed, and even if house prices do not increase after reaching a certain level, they continue to affect inflation for a long time.

**Chart 2: CPI Inflation, Rent Inflation and House Price Index (Annual % Change)**



**Chart 3: Ratios of House Price Index/Rent Index and House Price Index/Rent Advertisement Index\* (2019=1)**



\* The rent index is a sub-item of CPI. The rent advertisement index is constructed using rents (TRY, m<sup>2</sup>) collected from the three biggest provinces in Türkiye.

In order to better measure the trend in rents, which is one of the factors affecting the rigidity of inflation, the CBRT makes use of data regarding rental prices on online platforms and rent payments made through the Retail Payment System (RPS), which is the inter-customer TL transfer system of the electronic fund transfer in addition to TURKSTAT data to monitor rent inflation.

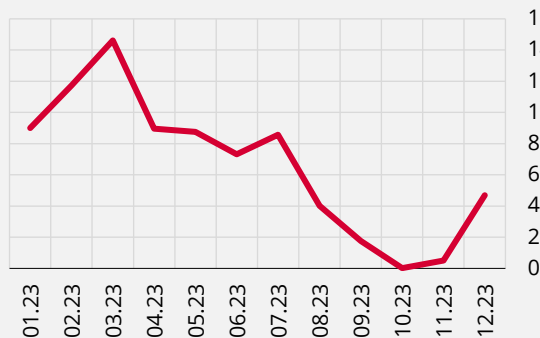
Rental prices quoted on online platforms only show the rental costs of residences subject to new contracts and represent prices that have not yet been realized. These data, which are inherently more sensitive to potential shocks that may be observed in the housing market, provide an idea about the general trend in the rental market. Since any impact on rents will be reflected first in new contracts, it is also important to monitor online rents as a leading indicator. Accordingly, the rent increase rates calculated from the advertisements in the three major provinces showed a steady decline after July 2023 and showed an increase in December due to the expected wage updates (Chart 4). The RPS data provides more comprehensive information about rents compared to online platform data, as it allows tracking of ongoing, renewed and newly concluded contracts as well as actual rent payments.

<sup>1</sup> For the effect of the mortgage program initiated during the pandemic on house prices, see Akgündüz et al. (2023).

Following the application of cleaning and tracking methods, the relevant dataset was transformed into a panel using the six-month sliding window method covering customers receiving regular rental

payments. Although the resulting series has certain divergences from the historical rent index, it is close to the rent index and follows a similar trend (Chart 5). Although this high-frequency data is not an alternative to TURKSTAT's data because it differs in terms of methodology and scope, it is monitored as a leading indicator for rent index.<sup>2</sup> This data also predicted a decrease in rents in the last quarter of the year amid monetary tightening and pointed to an increase due to the January wage updates and the high rent rates updated in January.

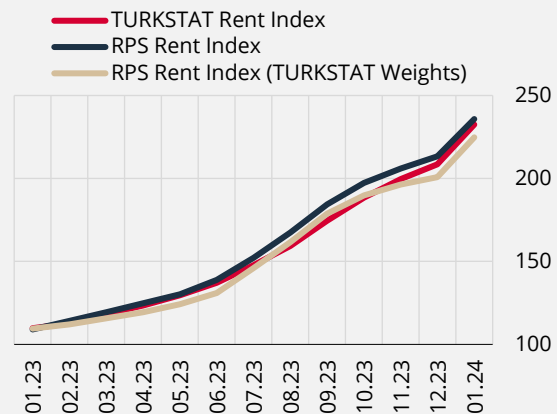
**Chart 4: Rental Prices on Online Platforms\*** (Monthly % Change)



Source: Sahibinden.com.

\* Includes ads in three biggest provinces.

**Chart 5: TURKSTAT Rent Index and RPS Rent Index\*** (December 2022=100)



Source: CBRT, TURKSTAT.

\* TURKSTAT weights are the typical monthly contract renewal frequency in the TURKSTAT sample.

Recent data demonstrates that housing inflation, unless faced with important shocks such as increases in wages, could swiftly retreat as a result of monetary tightening, but rents measured in CPI will mechanically continue to reflect previous increases in house prices. Nevertheless, regulations and supply-related factors are also important for the soundness of the residential real estate market and for their contribution to price stability. Policies regarding the residential real estate market in various countries point out to the need for infrastructure for the effective management of this market. Digital technology offers an opportunity for healthier analysis and the development of effective policies aimed at tackling the problem. To that end, tracking all rental contracts via an online platform (registering contracts and housing properties), setting standards in rental contracts and ensuring compliance can contribute to the establishment of regulations based on impact analysis for the healthy functioning of the rental market. In this context, the Ministry of Treasury and Finance decided that rental contracts should be arranged via the e-Devlet online platform as part of the Action Plan to Counter Informal Economy for the years 2023-2025. Considering the negative effects of regulations, a planned increase in housing supply is seen as a convenient solution in the medium and long run.<sup>3</sup> Another practice is “state-supported rental houses” offered in various countries. For instance, in the Netherlands, houses owned by the state are allocated to various income groups at lower rental prices

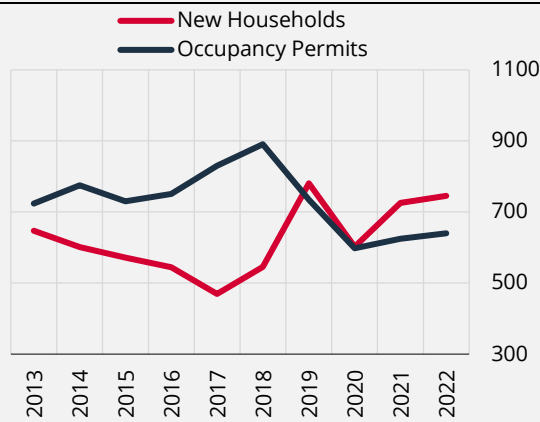
<sup>2</sup> TURKSTAT tracks the price of the “same” house as required by its methodology. The principle of ensuring all goods and services in the CPI basket to be of the same quality throughout the year is also valid for rents. While the same tenant can reside in a particular house for several years, a number of tenants can move in and out of the same house over the years. When the owner moves into the selected house or when the selected house is demolished, a substitute house is used. When the quality of house changes or when a new house is chosen to be tracked, a quality correction is applied (TURKSTAT, 2023 Consumer Price Index Methodology Document). Payment systems database does not contain data on the properties of houses or details of rental contracts. Data is prone to user errors made during the payment process.

<sup>3</sup> Existing studies note that rent regulations have negative effects on the construction and maintenance of houses as well as real estate investments. While more regulation would shrink the rental housing market, less regulation could increase tenancy insecurity (Haffner et al., 2008). Kholodilin and Kohl (2023) show that in European countries with greater rental supervision, the number of rental houses decreased and homeownership rates increased since the World War II. In this context, rent regulations protecting tenants in the short run should be implemented carefully in order not to disrupt the rental housing market.

compared to the private sector. In Italy, as part of a similar policy, rents for social houses are subsidized depending on the tenants' level of income. Construction of social houses with the aim of

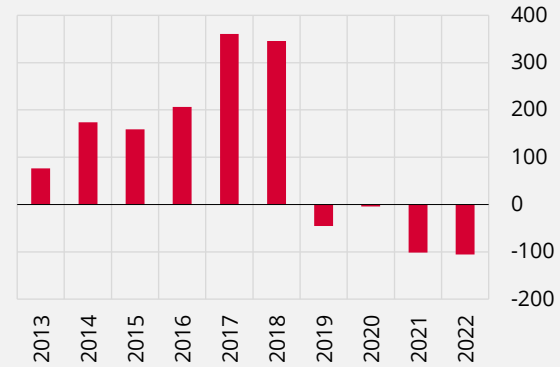
renting by the private sector along with the public sector is another step to be taken to increase rental supply. Houses to be rented by private sector firms along with individual investors, as seen in global examples, increase institutionalization and make it easier to track, regulate and tax rents. If these firms sell shares to the public and diversify their portfolios, they decrease the risks faced by individuals investing in the rental housing market, provide participants with regular cash flow, and enable tenants, even if their savings are low, to be hedged against shocks in the rental housing market. NGOs or institutional investors initiating shared ownership schemes,<sup>4</sup> especially in major cities where house prices are high, could pave the way for households, especially those with low levels of savings, to enter the housing market.

**Chart 6: Number of New Households and Occupancy Permits (Thousands)**



Source: TURKSTAT.

**Chart 7: Difference Between Occupancy Permits and Number of New Households (Thousands)**



Source: TURSTAT.

In addition to monetary policy, other economic policies to be implemented in the coming period are important for the housing market and rents. The 25% limit<sup>5</sup> on rent increases has been in effect since July 2021, and appropriate financing is provided to first-time home buyers. Increasing the effectiveness of taxes such as the title deed fee, the valuable property tax, the housing capital gains tax and the income tax on rental income, which are currently in force, is considered important for the efficient functioning of the housing market. Besides, legal measures such as gradual taxation according to the number of houses owned and a vacant house tax, introducing long-term, variable-interest or wage-indexed flexible housing loan models to help employees with regular income make house purchases and extending loans with interest rates that vary according to the number of houses owned stand out as demand-side arrangements. For example, related steps have been taken by the Banking Regulation and Supervision Agency (BRSA) to reduce the maximum loan amount for consumers who already own at least one house.<sup>6</sup>

Apart from demand-side developments, another important factor having an effect on the housing market in Türkiye is supply. As a matter of fact, the number of buildings receiving occupancy permits has decreased in recent years, and with the effect of the increasing population and urbanization rate, the formation of new households has exceeded the formation of new housing (Charts 6 and 7). After the Kahramanmaraş earthquakes, housing demand has increased further.

When the home ownership rate is examined by income groups, the ownership rate has been low in lower income groups in recent years (Chart 8). In order to increase home ownership rates, it is

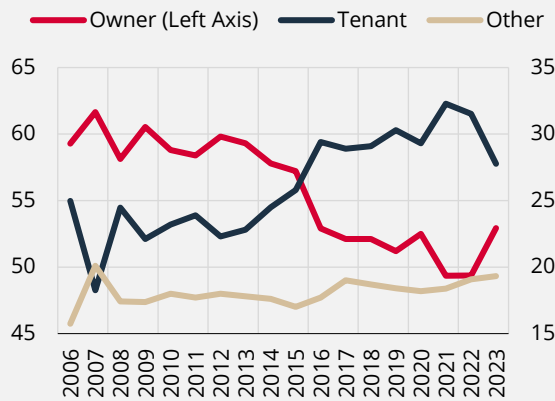
<sup>4</sup> For instance, first-time home buyers in London could buy 25% of their homes and rent the rest, having the option to buy the rest of the shares gradually through the "shared ownership" scheme. <https://www.gov.uk/shared-ownership-scheme/who-can-apply>.

<sup>5</sup> In Türkiye, the rent cap limiting annual rent increases to 25% is going to end in July 2024. RPS data indicate that the rent update rate in line with this constraint is quite low.

<sup>6</sup> <https://www.bddk.org.tr/Mevzuat/DokumanGetir/1191>.

imperative that house supply not be interrupted, and the construction of social houses continue with the supply-side support to be provided to the private sector following the achievement of permanent price stability.

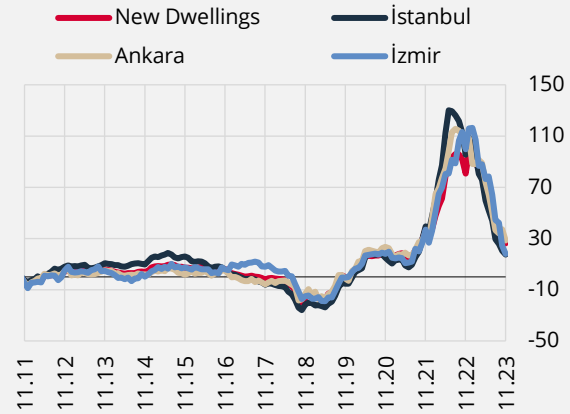
**Chart 8: Home Ownership Rate for Lower Income Groups\***



Source: TURKSTAT Income and Living Conditions Research.

\* Households whose income is lower than 60% of the median household income.

**Chart 9: Return on Real Estate Investment\* (Deflated with CPI)**



Source: CBRT, TURKSTAT.

\* Similar results are obtained by deflating return on real estate investment using exchange rate depreciation and construction costs.

In sum, rent inflation, which is affected by housing market developments with a lag, is relatively stickier, and the upward pressure on consumer price inflation caused by increases in rent inflation is expected to continue for a while. With price stability and a correction in expectations, the return on real estate investments relative to other alternative investment options is expected to converge to historical averages. In this case, since real increases in house prices and expectations of a real increase would decrease, demand for houses for investment purposes would witness a gradual correction, and the relative cost of keeping homes empty would increase due to the increase in the investment horizon in the housing market and an increase in risk-free return in financial markets. At this point, steps to be taken in coordination with monetary policy and other economic policies are important in order to achieve medium- and long-term stability in the housing market.

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