

# **A General Overview Real Estate Valuation Applications in Turkey**

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**Key words:** real estate valuation, appraisal, valuation data, valuation methods.

## **ABSTRACT**

Real estate valuation, which is the base component of multipurpose cadastre and geographical information system, is needed many application such as; taxation, nationalization, privatization, urban and rural land arrangement, capital market, insurance and etc. In addition, setting the real estate policies and land management systems is needed objective and scientific property valuation system.

In this paper, the real estate valuation base legal regulations, valuation applications of public and private sector, valuation methods and valuation education in Turkey will be mentioned in general aspect.

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## **1. INTRODUCTION**

Private property rights have been guaranteed by the Constitution in Turkey. Performing the free circulation of the real estates and values depended on the real estates, for this aim presenting true and current data related to real estate market to usage of all citizens, taxation of the values or creating planned settlement in rural and urban areas with investment of public are closely related to real estate valuation.

An important part of Turkish law, specially like city planning, tax, expropriation and capital market laws, has many arrangement, relating to the real estate valuation practices, used data, methods and properties of appraisers, that framed by these laws.

## **2. VALUATION APPLICATIONS IN TURKEY**

In Turkey, one of the most important financial sources of local and central municipalities is the real estate taxes. Calculating of the land taxes needs the real estate market values. These taxes intend to reverse a part of profits resulting from the real property, for the public. In Turkey, these are 0.2% for buildings, 0.1% for houses, 0.3% for urban land, 0.1% for rural lands, over the owner's declaration values. However, these rates increased 100% by the Ministry Consul for the year 2002. Real Estate Tax laws gave definition of the market value to the real estate owners and add the "declaration value" concept in to the valuation literature. The reason of this concept's birth, are lack of current and right inventory, experienced appraisers and absence of valuating system in all over the country. Declaration values are being used for determining the real estate taxes, participation share infrastructure facilities costs constructed by municipality's expenditure which are more than fifty and also judiciary costs. Declaration value can be renewed at every taxation year by the property owner in any condition effects the value of real estate or can be calculated from increasing last year declaration value "revaluation rate". Approaching of declaration value to the market value; is important about the preventing to tax losses, also about taking expense and participation shares. At a Register of Title Deeds and Cadastre General Directory (1) research result, the state lost approximately \$600 million about land taxes, in 1999.

Expropriation Law is one of the important law related valuation arrangements. Expropriation is a real estate obtaining method for various public investments and it is taken from the private property. In the Expropriation Law, it is accepted that the expropriation value must be currently and objective value. Generally expropriation method gives a value to the real estate at two phases. Generally property valuation is used in two conditions at an expropriation application. In the first condition, property value is estimated by the institution which intends expropriation. After the estimating it is tried to make an agreement with the owners according to estimation value is the maximum limit. In the second condition property owner and

institution do not agree on determined value, so that estimation will be done by local courts (Aclar, 1989).

In our country, valuation is also important about the liquidity of the real estates. The liquidity concept means to determination of the real estates values and circulation of valuable bonds. Both participation of capital to the economic system and transferring sources to the real estate and residence investments can be provided with liquidation of real estate values according to Turkish Civil Code and Capital market Law.

In Turkish capital market, the most important liquidity tool is the “Real Estate Investment Trust” (REIT). For determination of REIT Company’s net active value and profit rate of investors, market value of the REIT’s real estates must be estimated periodically. These valuations results are publish with the company’s financial tables and so, investors’ gets information about the company’s real value. Another liquidity tool, which it process in the capital market, is the “Real Estate Certificates” (REC). It is needed to assessment both the date of REC to come on the market for determine of nominal market value of REC and the date of not or delay of practicing project for determine punishment fees (Cagdas, 2001).

## 2.1 Valuation Data

Land register and cadastre data, normal trend price tables, tax maps, construction prices and depreciation rates are the base data of valuation practices in Turkey.

An objective and consistent valuation is basically related with data variety and data quality. Valuation supplies own source data from Registry of Title Deeds and Cadastre General Directory. However Turkish cadastre system could not make transition from the possession and law cadastre mentality, to the modern multipurpose cadastre concept. Also it could not specialize itself about current and right selling values, regional value indexes, value information tools and their responsibilities.

Trade price tables have been used for calculating to tax values and organized with analyzing of registered trade prices by the municipalities. However, these tables never show us the real estate market current situation, because the real estate owners’ declares the transfer prices more than the real values. It is thought that, political and not collecting tax worries of local administrations caused to occur this condition. According to Real Estate Tax Law dated 1979, making tax maps was ordered, but it has not been practiced yet.

Revaluation rate can be used for making declaration values current as explained in our laws. With respect to this the net increment value of real estate is realized as revaluation rate. Revaluation rate which is computed by Ministry of Finance express annual changing rate in the Wholesale Price Indices (WPI). This rate was computed 77.8% in 1998, 52.1% in 1999, 56% in 2000 and 53% 2001. On the other hands, as known from all appraisers, the real estate values one affected from inflation, changes in economy, condition and attribute of real estate and also various regional and environmental factors. In addition to this, increase or decrease in property values is nor homogenous in all the country.

Construction per m<sup>2</sup> and m<sup>3</sup> prices and building depreciation proportions are using for determination of the construction values. These data has been published by the Ministry of Public Services and given usage of appraisers. However, production of these data has much incoherence. For example depreciation rates are organized with only kind of construction and construction age, but many functional and regional obsolescence effects are not taken into consideration.

## 2.2 Valuation Methods

Valuation practices in Turkey, generally uses three valuating methods. These are the sales comparison, income and cost approach methods.

Our justice is anticipating to comparing sell prices of similar real estates, specifically appreciating of values. Base data of this method, are sell prices and dates of similar real estates, trading price tables, cadastre data, infrastructure data, development condition and the other factors. These data are acquired from title deeds and cadastre organizations, municipalities and local real estate commission agents.

Income approach is used for appraising as office, residence for rent, agricultural land and etc. which have incomes real property. In according to this method, the net income of constructed real property is consisting of building and land income. Land value generally estimated comparable land prices and land income is calculating by land value multiplier and land interest rate. Building value is computed by multiplication of building's income and coefficient which is estimated from amortization and interest rate. The coefficient used in valuation has been determining by using the rates of the time and demand deposits, foreign money and other economic factors, because of not observing changes of property values in time periods and difficulties to reach proper and right data about property value.

In the condition of having insufficient data for comparison approach, especially residences, commercial and industrial buildings values were estimated by cost approach. Cost approach is practiced in two ways. One of them unit cost method, the second is foot square method. In the unit cost method everything that it affect the cost of building, as concrete, installation, paint, technical infrastructure cost, etc. was taken into consideration during the valuation progress. In the square foot method; quality and class of building were taken into consideration. In the square foot method cost value of constructions are calculated from multiplication construction areas and square meter costs which determine for each kind of building according to its type, quality and class. Current value of building is obtained after the subtraction of physical, functional and environmental depreciation from the cost value.

## 2.3 Appraisers

Valuation practices in Turkey were being generally made with experiences, subjective and uncontrolled by different profession member who has technical, social and legal formation.

But, with adding of REIT, REC stocks and bonds to Turkish Capital Market; importance of valuation was multiply at last years. Capital Market Board, was put to related with subject

into effect and try to formation of an arrangement organization. It is aimed to establish an institute, which accepts valuation as a profession, to control and manage the applications in respect of rules, ethics and standards. It is also aimed to standardize valuation, approaches, rules and factors which must be taken care during the valuation.

When we make an overview about valuation education in Turkey, valuation education has been giving only at departments of Geodesy and Photogrammetry Engineering in Yildiz and Black Sea Technical Universities. In addition to this some related causes have been giving in our universities, for example; Urban Land Economy at department of Urban and Region Planning and Land Economy at department of Agricultural Engineering.

### **3. CONCLUSION**

In Turkey's instable economic structure, real estate has become an assurance and annuity item because of unprotectiveness of savings against inflation, large demand increment on land and dwelling and inadequacy of Turkish social security system. While the share of real estates in overall investments is 25% in many countries, the figure is 40% in Turkey shows the affinity on real estate. Because of its characteristics, Turkish Real Estate Market is wide open to the speculative effects especially to the impacts of economical and political decisions. This situation directly affects the objectivity of appraisalment.

As mentioned before, there are some legal imperfections related with the appraisalment data and method specialists. So, establishment of an organization that will be able to determine standards and provide the appraisalment notion integrity between data, ethic and method specialists has become an obligation. In addition, our cadastral system also needs to specialize on high quality and updated appraisalment data production and restructure to constitute a transparent real estate market by this way.

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