

The Need for Re-Engineering in the Turkish Real Estate Valuation System

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Key words: Valuation, Real Estate, Re-engineering, Turkey.

SUMMARY

Real estate values are needed in a wide range of applications including taxation, expropriation, mortgage, nationalization, privatization, land readjustment and land consolidation. Thus, building national real estate valuation systems properly both to provide transparency of the local land markets and to make real estate values available for use in different purposes is one of the main duties of government. Appropriate regulations, standards, organizational structures, methods and tools are main components of such systems. In this context, this paper provides an overview to the Turkish Real Estate Valuation System by evaluating current regulations, organizational structure and the technical frame in the relevant domain. Actually, it is not easy to say that Turkey has a “real estate valuation system”. Rules on valuations take part in several laws in a scattered and insufficient manner. Many public institutions have authorizations to carry out real estate appraisals when they need the values. Values for real estate taxation are determined by municipalities roughly. Licensing system of appraisers organized by the Capital Markets Board of Turkey is a new and insufficient system to meet the needs for real estate valuations for several purposes in the country. There are no databases of real estate characteristics and sale prices to use in valuation works. Appraisers gather all information they need during valuations. Therefore, this paper recommends that the Turkish real estate valuation system is re-engineered by enacting an appropriate Law on Real Estate Valuation, building a leading institution of real estate valuation to carry out valuations in a standard and organized structure throughout the country and building real estate characteristics, and market price databases to use in real estate appraisals.

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1. INTRODUCTION

Real estate values are needed in many applications including taxation, expropriation, mortgage, nationalization, privatization, land readjustment and land consolidation. Therefore, building national real estate valuation systems properly both to provide transparency of the local land markets and to make real estate values available for use in different purposes is one of the main duties of government. Appropriate regulations, standards, organizational structures, methods and tools are some of the main components of such systems.

In Turkey, real estate values were needed only in taxation of land in the Ottoman times because almost all land were in government property while their uses were given to farmers in return for tax payments (Tüdeş and Bıyık, 1997; Açlar and Çağdaş, 2002). Then, privatization of land in the late Ottoman times, that this process was accelerated by foundation of the Republic of Turkey in 1923, increased the number of applications in which real estate values are needed. Today, capital markets institutions, banks, public institutions and organizations, private people and organizations, individual and institutional investors, lawyers, law offices and courts need real estate values in their activities in the country.

The increase in the need for real estate values aroused the need to establish an appropriate real estate valuation system in the country. However, this need has not been realized to date. A number of laws and regulations have enacted in the course of time to lead the valuations carried out for several purposes. Therefore, rules on valuations have been organized in different laws and regulations in a scattered and insufficient manner. Many public institutions have been authorized to carry out real estate appraisals when they need values without an umbrella or leading institution. Databases in which real estate characteristics and sale prices are stored to use in valuation works could not be constructed over time. Hence, appraisers have to gather all information they need during valuations. Valuations carried out for the same real estate by different committees generate largely different values from each other because there are no standard and reliable data and clearly defined standards of valuations in the country. When all these issues are taken into consideration, actually, it is not easy to say that Turkey has a “real estate valuation system”.

In this context, this paper provides an overview to the Turkish Real Estate Valuation System by evaluating current legislation, organizational structure and the technical frame in the relevant domain. Then, it discusses the need for re-engineering in the system and provides some recommendations on this way.

2. THE TURKISH REAL ESTATE VALUATION SYSTEM

2.1 Current Legislation

Real estate valuation works are carried out based on different laws, regulations and communications in Turkey (Demirel and Demir, 2002). Some of these laws and regulations are summarized in Table 1 (Çete, 2008).

Table 1. The main Turkish legislation including statements on real estate valuation and their enforcement years

LEGISLATION	YEAR
Income Tax Law	1960
Tax Procedure Law	1961
Immovable Property Tax Law	1970
Tax Value Appraisal Regulation	1972
Capital Markets Law	1981
The Constitution of the Republic of Turkey	1982
Expropriation Law	1983
Regulation on Valuation of Immovable Properties without a Property Tax Value	1987
Land Registry Regulation	1994
Communication about the Companies Providing Valuation Service According to Capital Board Legislation and Registration of These Companies by the Capital Markets Board of Turkey	2001
Regulation on Authorization of Organizations Providing Valuation Service to Banks and Their Activities	2006

“The Constitution of the Republic of Turkey” states that “expropriation, nationalization and privatization of real estate are carried out based on the *real market prices* of estates and therefore a law describing methods to determine real market prices is enacted”. The most comprehensive law on real estate appraisal is the “Expropriation Law” in Turkey. It mainly sets up rules for constituting valuation committees and methodology to calculate real estate values as well as main criteria which should be taken into consideration during valuations in expropriation projects. “Immovable Property Tax Law, Tax Procedure Law, Income Tax Law and Tax Value Appraisal Regulation” regulate valuations for the purpose of real estate taxation. “Capital Markets Law” defines the duties dedicated to the Capital Markets Board of Turkey on real estate valuation as well as structure, nature and duties of the Turkish Union of Appraisers (TDUB). “Land Registry Regulation” describes members of valuation

commissions and valuation methods in the valuations related with annuity charge bond and mortgage bond. “Regulation on Valuation of Immovable Properties without a Property Tax Value” was enacted to define methods of valuations carried out to calculate cadastre and trial fees of real estate. “Regulation on Authorization of Organizations Providing Valuation Service to Banks and Their Activities” targets to describe authorizations and activities of the organizations providing valuation service to banks. And finally, “Communication about the Companies Providing Valuation Service According to Capital Board Legislation and Registration of These Companies by the Capital Markets Board of Turkey” defines the rules for registration of the companies which provide valuation service based on the capital board legislation by the Capital Markets Board of Turkey (CMB). The communication also includes some regulations to build up a regulator and supervisor organization, to educate real estate appraisers and to make the domain a professional discipline in the country (Açlar et al., 2003).

2.2 Organizational Structure

Real estate valuations are carried out by real estate valuation commissions constituted in more than 20 institutions and in courts as well as licensed and unlicensed private appraisers in Turkey (Çete, 2008; Nişancı, 2005). The commissions make valuations for several purposes in their institutions based on the rules stated in related legislations most of which declared above. In addition to local experts, commissions may be composed of members from several professional disciplines such as surveying engineering, civil engineering, agricultural engineering and economics based on the type of real estate of which value is assessed. The members do not have to have a license or certificate in real estate valuation field to take part in the commissions. Only technical people assigned as experts to suits for expropriation have to attend courses organized by the Professional Chambers of Turkish Engineers or Architects.

Licensed or unlicensed private appraisers also perform real estate valuations in the country. Turkish Capital Markets Board (CMB) has organized licensing exams of appraisers since 2002. There are two types of license exam: expertise of real estate appraisal and housing appraisal. Only bachelors can enter these exams (Figure 1).

Exam for expertise of real estate appraisal includes following subjects:

- Introduction to Real Estate Valuation;
- Professional Legislation and Ethic Rules;
- Construction and Real Estate Accounting;
- Basic Finance Mathematics; and
- Taxation Legislation.

As for exam for expertise of housing appraisal, it is composed of two components:

- Housing Appraisal and Basic Finance Mathematics; and
- Professional Legislation and Ethic Rules and Related Taxation Legislation.

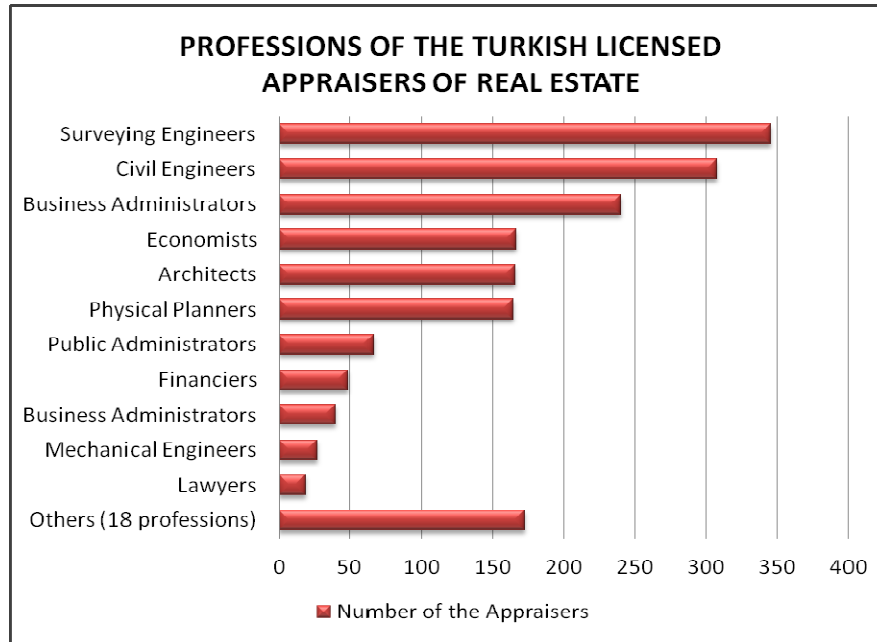


Figure 1. Professions of the Turkish licensed appraisers of real estate (October 2011 data) (Yıldırım, 2011)

Numbers of experts passed the exam and use the license in practice is seen in Table 2. These figures are different from each other because passing the exam is not enough to get a license. Experts of real estate appraisal also have to have three years experience in the real estate valuation domain, while this time is one year in housing expertise to have a license.

Table 2. Numbers of licensed appraisers of real estate and housing in Turkey (December 2011 data) (Yıldırım, 2012)

LICENSE TYPE	# OF APPRAISERS	
	PASSED THE EXAM	USE LICENSE IN PRACTICE
Real Estate Appraisal	2399	1787
Housing Appraisal	308	121
Total	2707	1908

Introduction of licensed appraisers of real estate and housing into the Turkish real estate valuation system in 2002 generated a need to build a union for licensed appraisers. Therefore, the Turkish Union of Real Estate Appraisers (UREA) was constructed as a public corporation in 2007 in the country. Real estate appraisers have to be members of the Union which has been in service since 2010. Main duties dedicated to the UREA are:

- Carrying out researches to provide development in real estate market and real estate valuation;
- Educating and certificating real estate appraisers;
- Forming professional rules and valuation standards;
- Taking precautions to prevent unfair competitions;

- Punishing the appraisers who do not obey the rules introduced by the UREA;
- Establishing coordination with other organizations as a representative of its members;
- Informing members about professional developments and administrative and legal changes; and
- Generating and publishing statistics on regional and national real estate values.

Capital Markets Board of Turkey (CMB) registers the licensed corporations of real estate valuation capable to carry out valuations in accordance with Capital Markets Legislation. As an organizer of licensing exams of appraisers, the CMB only has an authority on such corporations. In other words, other real estate corporations do not have to obey the rules introduced by the CMB.

2.3 Technical Frame

Similar to the situation in many other countries, three basic methods, namely, the cost, the income and the sales comparison methods, are used in real estate valuations in Turkey (Yomralioğlu, 1997). Data needed in these valuations are gathered from several resources by appraisers because databases constructed for real estate characteristics and sales prices are not available in the country. Therefore, appraisers spend most of their time on gathering the required data in the valuations. For example, they visit land registry offices to get the data of rights, responsibilities and restrictions and sales price of a real estate, municipalities to obtain data of real estate characteristics and tax value, some other institutions and corporations to get sales prices of similar real estate sold in the near past, etc. The only progress made in this aspect currently is protocols signed between the Turkish Union of Real Estate Appraisers (UREA) and the Turkish General Directorate of Land Registry and Cadastre in order to provide appraisers' access to land registration data through the Internet. However, a number of technical studies have to be carried out to define methods, authorizations, restrictions, etc. to use in the data access before implementing these protocols.

Real estate valuations, as stated above, are carried out based on rules laid down in different laws, regulations and communications in Turkey. Thus, real estate appraisers do not have a comprehensive law and regulations to apply in the valuation works. The only resource in this context is a translation of the International Valuation Standards (IVS) into Turkish language. Besides, the UREA is currently trying to prepare Turkish Valuation Standards mainly by adapting IVS into Turkish conditions.

3. A PROPOSAL FOR THE TURKISH REAL ESTATE VALUATION SYSTEM

All information given above sections clearly shows that Turkey does not have a comprehensive, systematic and healthy real estate valuation system. While a number of improvements have been made in the system by the Capital Markets Board of Turkey (CMB) and the Turkish Union of Real Estate Appraisers (UREA) since 2002, these improvements are not parts of a comprehensive plan. In other words, there is no comprehensive plan to build up an appropriate real estate valuation system in the country.

When it is taken into consideration that about 700,000 real estate valuations reports are prepared only for banking system (Yıldırım, 2012), valuations for several purposes are carried out by commissions of which members do not have a license or certificate on the valuation, databases including up-to-date information required in the valuations are not available, legislation for real estate valuation is scattered and insufficient in the country, it is clear that there is need for a comprehensive re-engineering in the Turkish real estate valuation system (Çete, 2008).

In this context, this paper firstly recommends that an appropriate Law on Real Estate Valuation is enacted to provide integrity in the related legislation in Turkey. This law should also be supported by a regulation or clearly defined guidelines to make rules and methods of real estate valuation clear to all appraisers. Compatibility of all these legislation with international valuation standards should be provided. Secondly, a leading institution of real estate valuation should be established to manage and organize all valuations carried out for different purposes throughout the country, to furnish standardization and professional development, and to provide transparency of the local land markets etc. In that case, Capital Markets Board of Turkey may only focus on the specific rules for the organizations carrying out valuations of the Board, and the UREA can continue its activities in more professional and strong way. In addition, some precautions and incentives should be considered to increase number and quality of real estate valuation corporations in the country as they will be one of the most important actors in the proposed system. The third point recommended in this paper for the Turkish real estate valuation system is building databases of real estate characteristics and market prices to use in all real estate appraisal works performed in the country. Access to existing databases already available in different institutions and organizations and needed in real estate valuations should be evaluated and maybe re-organized for this purpose. Mass appraisal systems should be built to carry out automated valuations. Use of Geographical Information System technologies in the valuations should be provided, up-to-date value maps of cities should be published and access to real estate values by the relevant people through the Internet should be available.

4. CONCLUSION

Real estate valuation systems provide transparency in the local land markets. Therefore, governments should build and sustain such systems in an appropriate manner. This sometimes requires re-engineering in the systems because global drivers, especially technological developments, have impacts on these systems similar to the situation in many other systems. This paper, in this context, presents findings of a research carried out on the Turkish Real Estate Valuation System to evaluate its current regulations, organizational structure and the technical frame. Lack of a framework law and regulations on real estate valuation, a leading institution deficiency and lack of databases for the data needed during valuations are the main problems in the system. While some improvements have been made in the system in the last decade, these improvements are not parts of a comprehensive plan developed for the domain. Therefore, there is need for a comprehensive re-engineering the Turkish Real Estate Valuation System. In this context, this paper provides some proposals for the re-engineering process. Some of these proposals are the Turkish Law on Real Estate Valuation compatible with

international valuation standards is enacted and it is supported by a regulation or clearly defined guidelines; a leading institution of real estate valuation is established; some precautions and incentives is provided to increase number and quality of appraisers and real estate valuation corporations; databases of real estate characteristics and market prices are built to use in all real estate appraisal works; mass appraisals and Geographical Information System technologies are used in the valuations; and access to real estate values by the relevant people through the Internet is provided in the country.

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BIOGRAPHICAL NOTES

Mehmet Çete graduated from Yıldız Technical University, İstanbul, Turkey in 1998, and received MSc and PhD degrees from Karadeniz Technical University, Trabzon, Turkey in 2002 and 2008. He studied at the Technical University of Munich in 2005-2006 Academic Year as a guest PhD student and visited the Netherlands, Denmark and Switzerland to carry out the researches on land administration systems of those countries. He received his Associate Professor degree in Turkey in 2011. He is now working for Erciyes University, Kayseri, Turkey as the Head of the Land Management Division at the Department of Geomatics Engineering. His research interests are cadastre, land information system, land readjustment, and real estate appraisal.

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