New Geographies of Residential Capitalism:
The Financialization of Turkish Housing Market since the Early 2000s

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Abstract
The post-2001 crisis era in Turkey gave rise to twin booms in housing construction and credit markets, which ended up suffering from the unfolding debt crisis. Financial transformation of the economy along with state-led urban legislation reform had important reflections on housing market in terms of commodification of housing, country-wide construction activities and substantial increases in household debt and construction company loans. Two separate periods are important for understanding the Turkish case of housing financialization: 2002-2007 housing consumption-finance nexus and 2010-2014 government-led re-regulation of housing market periods. The changing role and function of state as a direct provider of housing can be accepted as actually existing neoliberalism, which provided favorable conditions for financialization as it opened the way for commodification of housing. The government has been active in nationwide housing construction and urban regeneration projects together with government-backed housing agency, metropolitan municipalities, and publicly-owned real estate investment company. The paper argues that there is a lack of synchrony between commodification of housing and financialization in the household sector due to institutional setting of mortgage system and structural macroeconomic problems. In contrast, housing commodification has been accompanied by the financialization of corporate sector through a steep rise in external debt burden of construction companies.

Key words: Financialization, housing financialization, mortgage, neoliberalism, commodification of housing.
Introduction
The expanding role and dominance of financial markets and corporations in the housing sector is generally referred to as the financialization of housing (Aalbers, 2016). A recent United Nations (UN) report on the right to adequate housing identifies financialization of housing as an issue of global importance and points out that financialization process in housing markets refers to structural changes in housing and financial markets, and global investment whereby housing is treated as a commodity, a means of accumulating wealth and often as security for financial instruments that are traded and sold on global markets.7 The historical origins of financialization of housing lie in neoliberalism, deregulation of housing markets, internationalization of trade and investment agreements, significant changes in the way credit was provided for housing, and the advent of mortgage-backed securities (UN Report, page 6).

In order to have a broad understanding of the variegated nature of housing financialization, it is important to carry out more developing country case studies and define the financialization process in different national and local contexts. Turkey provides an interesting case study due to limited official access to housing with a long history of squatter-settlement development, a different investment environment with the recurrence of financial crises, and a proactive state with its changing role of direct provider of housing rather than market regulator.

The post-2001 crisis period in Turkey gave rise to twin booms in housing construction and credit markets, which ended up suffering from the currently unfolding crisis. Along with the internal factors of improving macroeconomic conditions, rising domestic demand for housing, and the state’s proactive role in construction industry, foreign demand and international capital inflows played a key role in Turkey’s construction boom. Two separate periods are crucial for understanding the housing market financialization in Turkey. First, 2002-2007 Housing Consumption-Finance Nexus Period, in which improved macroeconomic conditions resulted in the establishment of a legal mortgage market in the country and middle- and upper-income households started to become indebted by entering into housing credit market. Second, 2010-2014 Government-Led Re-regulation of Housing Market Period, through which the state has effectively shaped real estate sector through an urban legislative reform. Post-2001 crisis recovery had important reflections on housing market, not only in terms of construction boom, but also in terms of substantial increases in household debt and construction company credits. It is possible to claim that commodification of housing has not occurred at the same pace and degree as the household financialization until now. In contrast, commodification of housing has been accompanied by the financialization of construction companies at the similar pace and degree so far. The unfolding debt crisis in Turkey has started not because of the household debt burden or household financialization, but due to the credit boom in non-financial corporate sector.

Existing literature on the financialization of housing markets has generally focused on housing markets that were heavily exposed to the recent Global Financial Crisis (GFC), including those in the United States, the United Kingdom, Spain and Ireland (Wijburg and Aalbers, 2017: 969). The literature recognizes housing as a central aspect of financialization and argues that the interaction of global financialization and national systems of housing policy and finance has been uneven across countries. In the meantime, a growing body of research headed towards understanding the housing financialization in other Western European countries (Belgium, France, the Netherlands, Germany), Eastern and Southern European countries (Hungary, Greece, Portugal, Italy), and also Australia, Singapore, Japan, and Canada. Current research can be grouped into four main categories as follows. The first group of studies investigates development of mortgage

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1 UN Report on adequate housing as a component of the right to an adequate standard of living and on the right to non-discrimination in this context, January 18, 2017, A/HRC/34/51, p3.
markets, mortgage securitization, the US sub-prime mortgage crisis and the subsequent GFC and includes research by Aalbers (2008, 2009, 2012, 2015, 2016), Gotham (2009), Newman (2009), Wainwright (2009), Walks (2013), Walks and Clifford (2015) and Waldron (2016). The second group of studies considers the financialization of rental housing markets, social housing and/or public housing, and the affordability and inequality issues in housing outcomes in the USA, Singapore and the European countries, including Germany, the Netherlands, Spain, and Italy.\(^2\) Empirical research on the financialization of built environment, land-use planning, urban redevelopment projects, and government policies in a number of countries, including Spain (Coq-Huelva, 2013); China (Wu, 2015; Theurillat et al., 2017); Italy (Kaika and Ruggiero 2016 and Savini and Aalbers, 2016); and France (Guironnet et al. 2016) represents the third group. Finally, financialization of homeownership and housing rights (see Rolnik, 2013; Forrest, 2015; Smith, 2015 among others) represents the last group of studies.

Neoliberal urban policies and financialization of housing markets are not limited to developed countries, and rapidly spread out to the developing world. The global liquidity abundance in the developed countries after the 2008 GFC had an effect on the high economic growth rates recorded in many developing economies (Aslan and Dincer, 2018). Therefore, emerging market economies (EMEs) like China, Turkey and Brazil have gradually accumulated mortgage debt and experienced rising price-to-income and price-to-rent levels since the latest GFC (Fernandez and Aalbers, 2016:79).

There is a new but growing body of literature on the financialization experiences of housing markets in EMEs, including Brazil (Klink, 2013; Klink and Denaldi, 2014; Pereira, 2017; Sanfelici and Halbert, 2016), Mexico (Levy-Orlik, 2014), Turkey (Erol, 2018; Aslan and Dincer, 2018), China (Wu, 2015; Theurillat et al., 2017), Russia (Zavisca, and Gerber, 2017; Badyina, 2012), the Eastern European countries (Florea et al., 2018; Posfai, et al., 2018), and the peripheral European countries of Iceland, Ireland, Latvia, and Estonia (see Bohle, 2014, 2018 and Saxegaard et al., 2011 among others). These studies collectively suggest that the narratives of housing financialization in developing countries are different from those in the developed world. For instance, Klink and Denaldi (2014) argue that Brazilian financialization does not fit standard narratives as a result of the absence of a consolidated market for mortgage finance and a public housing stock. Financialization process within the Brazilian housing sector remain limited and restricted by structural economic conditions such as the low-income level of the majority of the population and the limited capacity of the state to foster expansion of housing markets through subsidized programs (Pereira, 2017: 620). Wu (2015) examines the major housing market cycles in China after 1978 and claims that injection of capital in China in the aftermath of the GFC has led to a new housing market cycle as a result of housing commodification. The volatility of house prices in China was driven by housing financialization and state intervention in response to global macroeconomic crises. Financialization in other EMEs (e.g. Argentina, South Africa, Czech Republic, Poland, India, Indonesia, Malaysia, Thailand, South Korea) has been studied in the cross-country analyses of Bonizzi (2013), Rolnik (2013), Fernandez and Aalbers (2016), and Karwowski and Stockhammer (2016). These studies do not focus specifically on the financialization of housing markets, with the exception of Fernandez and Aalbers (2016). According to Karwowski and Stockhammer (2016: 3-4), an understanding of financialization as entirely externally driven is overly simplistic; therefore, domestic institutions and internal dynamics have to be studied carefully to understand the differences in financialization trajectories among EMEs.

\(^2\) Detailed discussions can be found in the studies of Aalbers and Holm, 2008; Wijburg and Aalbers, 2017; Palomera, 2014; Dewilde and Decker, 2016; Fields and Uffer, 2016; Fields, 2014; Chua, 2015; Dewilde, 2016; Aalbers et al., 2015.
A considerable amount of literature has been published on the financial transformation of Turkish economy (Basci, 2006; Ergunes, 2009; Karacimen, 2014; Gungen, 2017; Demiroz and Erdem, 2018; Yeldan and Univar, 2016); however, a few studies have examined financialization of Turkish housing market. Aslan and Dincer (2018) studies the structure of mortgage loans in Turkey and discusses the role of space in financialization process by focusing on the spatialization of mortgages in Istanbul at the district level between 2010 and 2016. Empirical findings show that it is necessary to be a middle- or upper-middle-income class member in order to have a mortgage loan in Turkey and that the households’ indebtedness is accelerated by the spread of mortgage loans, which are important factors that provide financialization in the country, after 2002. Another new research by Erol (2018) reveals that there has been a significant change in the mode of integration of the Turkish economy into the global capitalist order after the 2001 financial crisis. Since the election of the Justice and Development Party (henceforth AKP) government in 2002, state economic policies have supported the construction industry as the engine of economic growth. Capital market instruments such as mortgage loans, asset-backed securities and publicly-traded real estate company shares have been growing as new alternative sources of housing finance and they have linked the national economy strongly into international financial markets.

Unlike previous research on Turkey, the present paper provides a comprehensive analysis of housing financialization by giving a clear definition of financialization process in the context of Turkey, presenting a conceptual discussion on the changing role of state, and the synchrony between commodification of housing and financialization phenomena in household and corporate sectors. This paper examines not only mortgage market developments, but also financial sector indicators to have a better understanding of the institutional, regulatory and macroeconomic factors influencing housing financialization process in the country.

The rest of the paper is organized as follows. Next section provides answer to the question ‘Why study the financialization of housing in Turkey?’ Section 3 discusses the integration of Turkish economy into the global economy after the 2011 financial crisis. Recent developments in the Turkish construction industry in comparison with the European countries and the dominating role played by state in shaping real estate sector are also reviewed in this section. Section 4 firstly, defines financialization of housing for the case of Turkey, and then empirically evaluates financialization process in the country by means of the mortgage market- and financial sector-related indicators. The final section provides a conceptual discussion on financialization of housing market and presents the concluding remarks.

Why Study the Financialization of Housing in Turkey?
Turkey has been the leading producer of housing in Europe in terms of the number of building permits and total floor area since 2009. Like Spain and Ireland, Turkey had a large inflow of foreign capital and a sustained boom in housing construction resulting into a very particular type of crisis compared to other models of housing-centered financialization where construction of new units was less important (e.g. Netherlands, UK and US). Turkey provides a developing country case study to understand the variegated financialization of housing due to its unique housing market dynamics. That is, the country has a limited official access to housing with a long history of squatter-settlement development, a different investment environment with the recurrence of financial crises, and a proactive state with its changing role of a direct provider of housing rather than a market regulator.

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3 See the European Mortgage Federation (EMF) Hypostat 2018 and housing construction data published by the Turkish Statistics Institute.
Official access to housing has never been extensive in Turkey as the squatter housing or *gecekondu*⁴ has been the key driver of housing market growth since the 1950s. *Gecekondu* and their incompatibility with city centers have been important issues in country and the governments have been trying to solve this issue by implementing various approaches since the 1950s (Uzun *et al.*, 2010:205).⁵ The laws, which aimed to demolish *gecekondu* and to prevent the construction of new ones, had not been implemented adequately due to political and economic reasons and resulted in an increase in these illegal settlements. Similarly, the policy of legalizing *gecekondu* was also failed as the gecekondu, which were constructed by the poor people to meet their shelter needs at the beginning, have turned into a tool for urban rent, especially when these illegal settlements sit in the central parts of the cities, as the cities grew outward through time (Uzun *et al.*, 2010). In order to solve the problem of expanding *gecekondu*, the current government amended various laws regarding renewal and rehabilitation projects on historical sites and made changes to local government structure between 2003 and 2005. During this restructuring process, the concept of urban regeneration was also introduced into Turkish planning legislation. In 2012, the parliament passed the Law on the Transformation of Areas under Natural Disaster Risk (Urban Transformation Law No. 6306) for a country-wide implementation of urban regeneration projects, including the *gecekondu* areas, by local governments. The new law delegates not only the Mass Housing Administration (or TOKI) but also the local governments and private sector developers for the urban transformation projects. Recently, Aslan and Dincer (2018: 144) also cited the excess illegal housing rate in metropolitan cities as one of the reasons behind the departure of Turkey’s housing financialization process from developed countries.

Although housing is recognized as ‘high-quality collateral’ or a ‘safe haven’ for the growing global capital in the context of developed economies (Aalbers, 2016), it has a different role in EMEs (Pereira, 2017), like Turkey. The inflow of foreign capital into Turkish housing market has been motivated by a high required rate of return (not a low-risk investment choice) and has been unstable due to country’s high legal and political risk, so far. Economic growth has been volatile and fragile due to its foreign capital dependent growth model and the country has suffered from the recurrence of economic crises since the mid-1990s. The recoveries from the crises in Turkey have reinforced the leading role of finance and banking interests in the national political economy (Marois, 2011). Turkish state authorities actively mediated conflicting interests within the capitalist class, particularly between large corporations, international investors, and small- and medium-size enterprises in a heterodox approach to neoliberal deepening (Marois and Munoz-Martiez, 2016:172). State-led financial transformation of the economy in the post-2001 crisis recovery had important reflections on housing market in terms of a substantial increase in household debt and non-financial corporate credits, especially construction company loans.

Finally, it is not the deregulation of the housing market, which is accepted as one of the historical origins of financialization of housing in developed world (UN Report, 2017), but instead re-regulation of housing market by the state that gave rise to neoliberal urban practices in Turkey. After the election of November 2002, the government comprehensively restructured the urban development legislation and adopted a completely new approach to the problem of housing

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⁴ In Turkish language ‘gecekondu’ means landed overnight. These illegal buildings were mainly built in the outskirts of the cities particularly on government-owned lands (Uzun *et al.*, 2010: 205)

⁵ The Demolition of Illegally Built Structures Law No. 5431 and the Gecekondu Law No. 775, enacted in 1949 and 1966, respectively, ruled to demolish gecekondu and to prevent the construction of new ones. Afterwards, the government put the Amnesty Laws No. 2805 and 2981 in 1983 and 1984, respectively, into force to legalize gecekondu.
provision by becoming a direct provider (Ozdemir, 2011). As a result of the government’s essential urban legislative reform, through a set of newly ratified urban laws, the regulator role of state has changed to the direct provider of housing. Through several amendments in Mass Housing Law, TOKI has been restructured and gained planning authority to increase both its financial resources and ability to invest in development projects and started to act as an economic enterprise in the construction and real estate sector. The central government has been active in country-wide housing construction and urban regeneration projects together with TOKI - administered by the office of Prime Minister -, the municipalities at the local level, and a publicly-owned real estate investment company, called Emlak Konut REIT. Hence, recent neoliberal urban practices in Turkey did not entail a retreat of the state, as discussed by Panitch and Konings (2009) and Pereira (2017), but rather a reorientation of its roles and functions with the aim of expanding the housing market landscape. Gungen (2017) also emphasizes the fact that financialization process in the Turkish economy has evolved unlike the other late capitalist countries due to proactive role of the government.

Turkish Economy, Construction Industry and the Role of State in Shaping Real Estate Market

A substantial amount of uncertainty in the capital markets prevailed in Turkey for decades until around the early 2000s. This uncertainty has its roots in the turbulent and crisis-prone macro economy, complemented by a weak institutional structure manipulated rather frequently by political interventions. Turkey had had a number of financial meltdowns, including the currency crisis in 1994, a devastating earthquake, coupled with the effects of the Asian crisis, in 1999, and a destructive banking crisis in late 2000 and early 2001. Between 1995 and early 2001s, the inflation rate fluctuated within a band of 70% to 100% per annum. After the February 2001 financial meltdown, a set of unprecedented reforms in macroeconomic policy was promptly put in place, accordingly the macroeconomic conditions have changed fast, suddenly and unexpectedly for much better. The annual inflation rate has fallen sharply into a band of 8% to 10% since then.

The post-2001 crisis period in Turkey has been characterized by its deepening integration into the world economy through trade and capital flows (Ergunes, 2009). During this period, there have been substantial changes in the regulatory and macroeconomic policy environment under which banks operate, leading to a transformation in banking sector activities for consumer lending. Several interrelated external factors played a role in the diversification of the Turkish banking sector activities towards consumer lending. First, corporate sector borrowing from international markets became a key characteristic of the global integration of developing countries in the 2000s, as lower international interest rates together with excess global liquidity environment reduced the cost of external financing for developing country corporations. Increased external borrowing of corporations in Turkey has reduced their reliance on domestic banks and pushed banks for diversifying their businesses with a focus on lending to households. Second, restructuring of the banking sector after the 2001 crisis created an environment for banks, which has reduced the opportunities of making profit from financing the public deficit and made them seek alternative ways of making profit. Meanwhile, the increasing presence of foreign banks in the sector has also

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6 Ozdemir (2011:1099) states that Turkish public sector’s direct involvement in housing provision in mid-2000s is in contrast to the trends in both Northern and Southern European countries.
7 Staring from 2003, TOKI was administered by Office of the Prime Minister and all immovable assets and duties of the former Land Office were transferred to TOKI, which added 64.5 million m$^2$ of public lands to its portfolio. Central government achieved its strongest position in housing provision since the establishment of TOKI in 1984 (Ozdemir, 2011: 1106).
8 World Bank, Global Development Finance, Washington, DC, 2007.
intensified the diversification of banking activities with a focus on consumer lending. Third, domestic banks found greater access to foreign funding, which created an opportunity for funding the consumer credit expansion (Karacimen, 2014). Rising demand for consumer credits in the mid-2000s was also a consequence of internal factors, including the remarkable fall in inflation and interest rates, economic growth, and the realization of deferred consumption of durable goods before and during the 2001 crisis (Basci, 2006). Hence post-crisis recovery in Turkey was mainly driven by increases in consumption financed by the extension of consumer credits (Karacimen, 2014: 167).

As a result of developments in consumer lending, the government had the Parliament ratify a legal framework, which introduces a mortgage system and proposes the eventual securitization of the mortgages, into law. With the approval of the Law on Amendments to Various Laws on the Housing Finance System (Housing Finance Law No. 5582), long-term fixed rate borrowing is, for the first time ever, an available financing option for potential homeowners in Turkey. The main target of the mortgage system is thought to be the middle-income households (Erol and Tirtiroglu, 2011: 183). The rapid decline in annual interest rates on residential mortgages, falling from 25.2% in 2004 to 9.7% in 2013, and the extension of loan maturities have played an important role in rising demand for housing loans. Due to the expansion of housing consumption-finance collaboration, middle- and upper-income households became indebted and entered into the housing credit market. Lately, an official strategy and action plan was published in June 2014 by the Prime Ministry of Turkey with the aim of extending financial products and services to all segments of the society and increasing the quality and use of existing products and services through financial education program. It is expected that every segment of society will use financial products and each individual will benefit from the democratization of finance by making rational decisions. Inevitably, the result has been a noteworthy increase in household debts (Aslan and Dincer, 2018: 146).

The AKP government has played a very active and dominant role in shaping the real estate market. First, government facilitated the creation of urban rent and accelerated commodification of cities through a set of urban laws. In addition to the Housing Finance Law of 2007, the government introduced further essential legislative reforms in 2012, in line with the European Union harmonization process, and made investing in Turkish property markets market even easier than it used to be. In May 2012, the parliament passed the Urban Transformation Law No. 6306 and also enacted certain amendments for Article 35 and 36 of the Land Registry Law No 2644 which redefined rules of reciprocity and substantially eased foreign investment restrictions in Turkey. Second, the government embarked on urban mega-projects in Istanbul, including Istanbul financial center, Istanbul third airport, and channel Istanbul projects, which are all boosting the demand for commercial real estate and infrastructure investment. Third, through its authorized organization in housing and land production, TOKI, government increased the supply of housing for low-to-middle income households and offered alternative housing finance solutions. Fourth, government has recently taken counter-cyclical policy actions to stimulate housing demand.9

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9 Housing Finance Law of 2007 made amendments in several laws such as Capital Markets Law, Law of Foreclosure, Consumer Protection Law, Financial Leasing Law, Mass Housing Law and Tax Laws.

10 Karacimen (2014: 173) also argues that growing demand for housing credits is very much related to the increased mediation of consumption through finance.

11 In February 2016, government publicized contributions as 15-to-20% of the household savings for the first single home purchases in order to improve debt affordability of low-income households. The Loan-to-Value ratio for residential mortgages was increased from 75-to-80% and value-added tax rate was temporarily cut from 18% to 8% for luxury houses (IMF Country Report No.17/33, Turkey, Selected Issues, February 2017, page 46).
Hence, during the AKP era, the state’s direct involvement in the construction industry, particularly in housing, has drastically expanded, and the political involvement in and the economic development of the construction sector became inseparably evident (Karatepe, 2016).

Nonthreatening macroeconomic environment after the 2001 financial crisis together with the radical regulatory changes in urban legislation, zoning and city building, which gave a new role to the state as a direct provider of housing, boosted massively construction activities. According to the Turkish Statistical Institute (TSI), average real GDP growth rate has been 7.4% between 2010 and 2015, whilst the construction industry has been the fastest-growing sector with a real growth rate of 12.3% over the same period.\textsuperscript{12} Construction industry has received lots of injection from foreign-based investors after the 2001 crisis. During the period from 2005 to 2012, FDIs in construction investments and real estate activities increased from US$ 297 million to US$ 1.6 billion and the share of FDIs in real estate sector increased from 3.5% to 14.9% over the same period. It is important to note that, the peak value of FDIs was realized through the construction investment with a share of 13.3% in total foreign capital inflows. Hence, in addition to the internal factors of improving macroeconomic conditions, rising domestic demand for housing, and the state’s proactive role in housing construction industry, foreign demand and international capital inflows played a key role in Turkey’s construction boom.

Construction industry has been dominated by the housing sector. According to the building permits statistics published by TSI, the number of constructions permits given to the residential buildings have 90.7% share in the total number of permits between 2008 and 2015. Commercial and industrial buildings have a share of 6.1% and 3.2%, respectively, in the overall number of permits. Examining the building construction permits in terms of the total usage area (m\textsuperscript{2}) and total market value (TL), housing construction has once again dominated the market with 84.5% and 85% shares, respectively. In terms of housing production, Turkey is one of the most active real estate markets in Europe. Annual construction permits have been between 500,000-600,000 dwelling units in most years during the last two decades and went up as high as 1.2 million units in 2017. Figure 1 displays housing construction permits for Turkey and the European countries. Clearly, the Central and Eastern European countries failed to keep up with Turkey. Spain and France experienced significant declines in their housing starts after 2006; therefore, Turkey has been leading housing construction industry in Europe since 2009.

![Figure 1 near here](https://example.com/figure1.png)

Increasing domestic and foreign demand for residential properties has resulted in overvaluation in housing market. Turkey has experienced the highest house price increase compared with the European countries, Russia and Australia in the last seven years. House prices in Turkey rose by a cumulative 99.1% (38.2%) in nominal (real terms) from December 2010 to December 2017. Significant house price increase in Turkey was followed by Australia (72.6%), Russia (46.5%), Germany (35.6%), and Czech Republic (35.2%), respectively (EMF Hypostat, 2018). As reported by IMF Global Housing Watch (2016), Turkish housing market had the highest price-to-rent ratio of 148.9 in 2016 among 36 countries considered,\textsuperscript{13} but house prices have recently showed signs of moderating.

\textsuperscript{12} Similarly, between 2002 and 2007 (after the 2001 financial meltdown and before the 2008/09 GFC), the GDP grew by an annual average of 7%, while the construction sector grew by an annual average of 11.6% (Celik and Karacimen, 2017).

\textsuperscript{13} New Zealand has the second highest house price-to-rent ratio of 135.2 and followed by Israel, Sweden and Canada with the price-to-rent ratios of 131.8, 130.1, 129.5, respectively.
In summary, two separate time periods are crucial for understanding the housing market financialization in Turkey as they provide the main incentives that initiate and support financialization process.

- **2002-2007 Housing Consumption-Finance Nexus Period:** In the post-2001 crisis period, Turkey experienced a deeper integration into the world economy through trade and capital flows and entered a decade with lower inflation and interest rates and higher economic growth mainly due to increased exports, FDI flows and increased transfer of funds. Post-crisis recovery in the country has stimulated the demand for credits and resulted in a consumption-finance collaboration. Accordingly, a formal residential mortgage market was established in 2007, which mainly served the middle- and upper-income households as they have secure incomes. There has been a rapid increase in the outstanding residential mortgages, which were increased from EUR 11.8 billion in 2006 to EUR 42.3 billion in 2017, with a cumulative increase of 260.4%.

- **2010-2014 Government-Led Re-regulation of Housing Market Period:** Government has effectively shaped the real estate sector through an urban legislative reform, country-wide urban transformation projects, mega infrastructure projects, and counter-cyclical policies to stimulate housing demand across the country. Increasing demand for housing boosted massively the construction investment activities, which gave rise to the recent construction boom in the country.

Since the early-2000s, deeper integration of Turkish economy into the world economy with growing foreign capital inflows into the property sector, improvements in macroeconomic environment and rising domestic demand for housing, and a state-led urban legislation reform all together resulted in a notable increase in household debt levels and commodification of housing, which generally paves the way for financialization in housing markets.

**Financialization of Turkish Housing Market**

The financialization literature generally struggles with defining how processes of financialization are processed in other local and national frameworks (Engelen et al., 2010 and Pike and Pollard, 2010 quoted in Wijburg and Aalbers, 2017:969). While in some countries the dramatic rise of finance has clearly resulted in over-leveraged and debt-fuelled housing markets, in other countries, the expansion of banks, finance and mortgages has not fully materialized or has followed a different pathway (Wijburg and Aalbers, 2017: 969).

I here define financialization process in Turkey as ‘the *financial inclusion* of individuals, households, and firms or their *financial access* to internal and external sources of borrowing as a result of the transformation and diversification of the banking sector activities towards consumer lending’ after the 2001 financial crisis. Regarding housing financialization, it is possible to highlight the financialization of personal income through severely rising household debt, mainly in the form of residential mortgages\(^\text{14}\). Furthermore, non-financial corporations, especially construction and real estate companies have significantly increased their debt burden, which created the recent credit boom in the country. Central Bank of the Republic of Turkey (CBRT) publications demonstrate that construction and real estate companies’ foreign debt amount continuously increased from US$ 7.2 billion in 2002 up to US$ 55.9 billion by the end of 2017, a multiple of 7.8

\(^{14}\) Karacimen (2014:162) defines the rise in household debt as an important aspect of financialization of personal income in developing countries. The ratio of financial liabilities-to-assets for Turkish households rose from 8.5% in 2003 to 50% in 2013, decreased to 41% in 2018.
times the 2002 debt level.\textsuperscript{15} Thus, financialization is operationalized in terms of increasing mortgage debt, particularly for the middle- and upper-income households, and a significant rise in construction firms’ debt levels. It is possible to claim that during the post-2001 crisis era both housing consumption and housing production were financialized considerably as the household sector and construction companies became heavily indebted.

There is not a particular methodology to measure or quantify the degree of financialization in housing markets. Romainville (2017) highlights this difficulty and states that the task of empirically measuring financialization raises numerous methodological questions, and that a choice has to be made between a wide range of definitions, both for financial activities and the financial process (Romainville, 2017: 625). These concepts are made operational and turned into indicators. Along the lines of the existing research (Aalbers, 2016; Fernandez and Aalbers, 2016), this section examines the mortgage market and financial market related indicators to have a better understanding of the institutional, regulatory and macroeconomic factors influencing the housing financialization process in Turkey.

**Mortgage Market Related Indicators**

Mortgage market-related indicators, including mortgage interest rate, tax deductibility of mortgage interest payment, outstanding mortgage debt, and mortgage equity withdrawal schemes are closely related to both the macroeconomic environment and institutional setting of the country. These indicators can be evaluated as the key variables of mortgage market development.

In spite of a strong demand for housing, a well-organized and deep enough mortgage market did not exist in Turkey until quite recently. The absence of an efficient mortgage market was mainly due to a long-running process of persistently high inflation\textsuperscript{16}. In a relatively stable economic environment of the post-2001 crisis era, Housing Finance Law of March 2007 was approved by the Parliament, and within the new framework of mortgage lending, legal procedures for enforcing claims, default and foreclosure rules were well-defined. There are no mortgage interest rate subsidies for the households who buy dwellings for their residency, so the interest paid on a mortgage loan is not tax-deductible. As the law does not allow borrowers to deduct the interest paid on their home loans from their income taxes, there is a clear lack of institutional support for the development of primary mortgage market in the country. Financial regulations set forth by the Banking Regulation and Supervision Agency of Turkey help controlling risk associated with mortgage debt. For instance, almost all of the mortgages are fixed rate loans and foreign currency-denominated housing loans are not allowed by law. Mortgage equity withdrawal schemes do exist and are used by Turkish borrowers; however, mortgage lenders apply conservative criteria in originating housing loans especially after the 2001 financial crisis. Briefly, institutional setting of mortgage system does not encourage further development of the market due to the limited variety of mortgage products, well-ordered mortgage underwriting criteria due to the restructuring guidelines of the Banking Regulation after the 2001 crisis, and the lack of tax deductibility of mortgage interest payments.

Undoubtedly, mortgage interest rate is a crucial indicator of mortgage market development. European Mortgage Federation (EMF) Hyopstat shows that for the 2004-2017 period, Turkey had

\textsuperscript{15} Growth in real estate sector credits has been leading the overall banking system credits during the past four years (The Banks Association of Turkey).

\textsuperscript{16} The absence of commercial banks from the mortgage markets in the 1980s and 1990s led government subsidized Housing Development Administration and a few state-owned banks to try to fill this void by creating inflation-sensitive alternative mortgages. But high inflation eventually shut down these instruments (Erol and Patel, 2005).
the highest average annual mortgage interest rate of 14.7% among the Central and Eastern European countries. Russia and Hungary had closely followed Turkey with average annual mortgage interest rates of 12.9% and 9.8%, respectively. Interest rate on new housing loans in Turkey has declined noticeably from 25.2% in 2004 to 9.7% in 2013, and then rose up again to 12.1% in 2017, and the total residential mortgage debt has increased severely from 307 million TL in 2002 to 182.5 billion TL in 2017, with a cumulative increase of 260.4% (Figure 2). According to Aslan and Dincer (2018), this sharp increase in mortgages is in line with the arguments of bankers, property developers, and interviewed academics, who state that Turkish mortgage market is expanding and has a potential for more expansion. The share of mortgages in the total consumer credits was only 10-11 % in the early 2000s but increased up to 49% in 2016 and 2017.

Figure 3 presents a comparison of Turkish mortgage market size with that of Central and Eastern European countries between 2006 and 2017 and reveals that Poland has the largest mortgage market with an outstanding mortgage debt of EUR 93.1 billion in December 2017. Greece and Russia have followed Poland, respectively. Turkey and the Czech Republic have a similar size of markets with outstanding loan balances of EUR 42.3 billion and EUR 45.2 billion, respectively in 2017. EMF Hyopstat reviews the share of outstanding mortgage loan balance in GDP as a measure of mortgage market maturity for 28 European Union countries, Australia, Brazil, Iceland, Japan, Russia, Singapore, South Korea, and Turkey. In 2017, total outstanding residential loans-to-GDP ratio was only 6% for Turkey, the second smallest ratio after Russia. Although the Turkish mortgage market is small compared to many other countries, it has grown rather spectacularly over the past decade.

[Figures 2 and 3 near here]

In conclusion, the institutional setting of mortgage system and the macroeconomic environment with comparatively high inflation and mortgage interest rates, high unemployment rate and low-income levels of the majority of the population can be accepted as the structural constraints for the further development of primary mortgage market in Turkey. The interviewed bankers and property developers in the study of Aslan and Dincer (2018: 148) also accept the high mortgage interest rate problem as a barrier for the access of low-income households.

**Financial Sector Related Indicators**

Financialization and housing are primarily associated to mortgages for homeownership and securitization techniques (Sanfelici and Halbert, 2016: 1465). Financialization of housing markets is directly related to the size of mortgage debt (primary mortgage market development) and mortgage securitization (secondary mortgage market development). At present, there is a very small secondary market for Turkish mortgages as the total covered bonds outstanding (EUR 1.9 billion) has only 0.1% share of GDP in 2017 (EMF, Hyopstat 2018). In addition to the Housing Finance Law, two bye-laws (Serial III, Number 33-34 by Capital Market Board) were structured for the introduction of covered bonds and the mortgage-backed securities, and lately the Capital Markets Board released the ‘Communiqué on Covered Bonds’ in January 2014, which introduces a single piece of legislation governing both mortgage- and asset-covered bonds. Nevertheless, several factors have restrained the growth of the secondary mortgage market up to now. First, a number of governmental institutions, including Capital Markets Board, Banking Regulation and Supervision Agency, CBRT and Under secretariat of Treasury, have taken different responsibilities for the development of the market. This multi-agent regulatory framework may create significant coordination problems. Second, the issuances of Turkish Treasury still have low credit ratings from external credit assessment institutions; therefore, most of the secondary market products would not get high rating grades. Finally, although the banking sector has shown
a strong growth in the last decade, capital markets have been lagging behind it, and limiting the further development of the primary mortgage market (Erol, 2015).

It is well known that another important driver of the penetration of financial capital into the housing sector is the growth of publicly-traded real estate companies (Pereira, 2017: 608), like Real Estate Investment Trusts (REITs) and Real Estate Investment Funds (REIFs) that mainly target institutional investors in property markets. The share of non-bank financial institutions like funds, investment trusts, and portfolio management companies in Turkish stock market capitalization increased from 6.9% in 2000 to 36.3% in 2017. However, the share of REITs is very small; that is, 3.05% of the stock market capitalization of US$ 233.4 billion in 2017. REIFs, which aim to heavily invest in high-quality properties, are new capital market instruments and introduced into Law in February 2014. Hence, sources of funding for mortgages have been heavily dependent on depository banks as the other capital market institutions like investment banks did not originate housing loans and REITs and REIFs did not invest in mortgage-backed securities to support the further development of primary mortgage market in the country.

Financialization process in Turkish housing market has started with a severe increase in residential mortgage loans, which resulted in the rapid development of primary mortgage market. But it has remained limited in the securitization side as the capital market institutions have not invested adequately in mortgage loans and/or mortgage-backed securities so far. In contrast, financialization has speeded up due to a substantial increase in non-financial corporations, especially in construction and real estate company debt levels during the last five years. Using firm level data, Demir (2009) argues that capital inflows (portfolio flows and FDI) contributed towards financialization in Turkey, inducing a shift of domestic non-financial corporations away from productive towards more short-term and speculative financial investment.

Figure 4 demonstrates the sectoral net financial worth (financial assets minus financial debt) of Turkish economy from 2010 to 2018Q2. Households’ total assets (total liabilities) amounted to 1.35 trillion TL (555.1 billion TL) and generated a financial surplus of 708.1 billion TL as of 2018Q2. Non-financial corporations proved the most indebted sector with a debt-to-GDP ratio of 67%, which was followed by the general government sector having a ratio of 27%. Financial corporations continued their balanced position with a financial net worth close to zero, due to their financial intermediation activities until 2014, and then produced a financial surplus of 158 to 246 billion TL in the last 4 years. While the ratio of financial liabilities to assets for the household sector was 0.41, non-financial corporate sector has the highest ratio of 1.42 in 2018Q2. Thus, borrowing is mainly on non-financial corporate balance sheets in Turkey. Bank for International Settlements (BIS) data on the total credit to non-financial corporations shows that non-financial corporations in Turkey have considerably higher debt burden with a 69.2% share in GDP in comparison to Hungary (21.9%), Greece (65.5%), Poland (46.9%), Russia (48.5%), South Africa (38.3%) and China (56.3%) as of 2018Q1. Although non-financial corporate debt-to-GDP ratio for Turkey is below the EME average of 95.3%, the country is significantly reliant on foreign capital with 70% of its total debt denominated in US dollars and Euros, and this external debt makes the country vulnerable (Brown, 2018).

As mentioned earlier, the case of Turkey is quite similar to that of Spain and Ireland, since the foreign capital inflows played a key role in construction boom. However, Turkish households were relatively lightly leveraged in comparison with their Spanish and Irish counterparts and the current debt crisis started not because of the household debt burden but due to the credit boom in the
non-financial corporate sector. Whilst, household debts in Spain and Ireland reached up to 85.1% and 117.2% of GDP, respectively in 2009-2010 period, household debt in Turkey reached an all-time high of 19.6% of GDP in 2013 (BIS statistics). The unfolding debt crisis in Turkey is quite different from the recent (mortgage) finance crisis in the peripheral European countries of Iceland, Ireland, Latvia, and Hungary in that the government debt and non-financial corporate sector credits were largely funded by foreign currency loans, and the accelerated depreciation of Turkish lira against the US Dollar and Euro resulted in a financial and economic crisis in the country. Nevertheless, it was not the rapid financialization of construction companies but the excessively leveraged banking system, channeling dominantly international liquidity into mortgage finance that triggered financial crises in the peripheral European countries. Sudden stops and reversals of capital flows badly affected the banking sector and resulted in a mortgage crisis in these countries (Bohle, 2018: 212).

**Discussion and Conclusions**

Financialization has multifaceted relations of cause and effect with phenomena like globalization, neoliberalism and commodification, as Pereira (2017) recognizes, obscuring their boundaries and raising challenges for those engaged in theorizing their connections. Financialization process has a critical mutually reinforcing relationship with neoliberalism, which may be regarded as an agenda providing favorable regulatory and ideological conditions for financialization as it opens the way for commodification and removes the barriers for capital circulation by means of a set of institutional reforms and policies. On the other hand, financialization is not a necessary outcome of neoliberalism, but rather a process likely to stimulate and be stimulated by the latter (Pereira, 2017: 607). Panitch and Konings (2009: 68) argue that most academic research has remained guided by the notion that financial expansion has been accompanied by the attenuation of the state; however, the neoliberal practices (in contrast to its ideological representations) did not entail a retreat of the state, but rather a reorientation of its roles and functions with a view to expanding the terrain for market relations.

The substantial withdrawal of the direct state involvement in the housing provision is evident not only across Europe but it seems to be in other developed and transition economies except few cases. The withdrawal of the state in the overwhelming majority of countries symbolizes ‘the transfer of responsibility for housing provision to the market’ (Rolnik, 2013: 1062). Numerous studies on Central and Eastern European countries have also documented the rapid state withdrawal from direct intervention in the housing sector after the early 1990s (Florea et al., 2018: 712). Bohle (2018: 202) highlights the fact that transferring the predominantly public housing stock into private hands was among the first steps undertaken by post-communist governments, often in close collaboration with international financial organizations such as the World Bank. In the context of Turkey, current government’s radical urban legislation reform changed the role of state from a market regulator to a direct provider of housing. Along the lines of discussions by Pereira (2017) and Panitch and Konings (2009), the changing role and functions of the Turkish state as a direct provider of housing can be accepted as ‘actually existing neoliberalism’, which provided favorable conditions for financialization as it opened the way for commodification of urban land and housing.

Commodification can be regarded as a process that often paves the way for financialization, but this does not imply that both processes will occur at the same pace nor that the latter will

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17 For the EU member countries, role of state in the housing industry does not lose its importance, even though ‘all have undergone change’. The states are no longer responsible for housing delivery (Doherty, 2004:259). Housing policies in EU states designed to make state an enabler than a provider (Karatepe, 2016:56).
necessarily be triggered by the former (Pereira, 2017: 606). Hence, it is possible to define a mutually reinforcing relationship between these two processes: On the one hand, ongoing processes of commodification are likely to promote favorable conditions for further financialization by providing raw materials to feed the financial industry (Christophers, 2010). On the other hand, financialization usually fosters the influence of commodification by increasing the systemic pressure to liberate goods, services and other activities from all sorts of obstacles and regulatory restrictions and facilitating their integration into circuits of capital accumulation (Fields, 2017), which tends to speed up commodification. Regarding Turkey, rapid commodification of housing resulted in country-wide speculative construction activities and drastically rising house prices, which gave rise to the recent construction boom. However, commodification of housing has not occurred at the same pace and degree as the household financialization until now. Financialization of housing consumption started but remained limited due to the institutional setting of mortgage system and structural economic problems, including high inflation and mortgage interest rates, high unemployment rate and low-income levels of the majority of the population. Hence, it is possible to argue that there is a lack of synchrony between commodification of housing and financialization phenomenon in the household sector. On the contrary, the process of housing commodification has been accompanied by the financialization of corporate sector at the similar pace and degree so far. Financialization of housing production is evident from construction and real estate companies’ severely rising debt burden, which resulted in the current debt crisis.

To conclude, the post-2001 crisis era in Turkey gave rise to twin booms in construction industry and credit markets, which ended up suffering from the currently unfolding crisis. Turkey has gone through a decade-long credit boom, largely funded by foreign currency borrowing on international markets and the country had the second highest credit boom among emerging markets after China by 2018. Like Spain and Ireland, Turkey has been experiencing a sustained boom in housing construction resulting into a very particular type of crisis compared to other models of housing-centered financialization where construction of new units was less important. However, the unfolding crisis has started not because of the household debt burden or household financialization as in the cases of Spain and Ireland, but due to the credit boom in non-financial corporate sector. Turkey’s currency and debt crisis of 2018 was mainly caused by the economy’s excessive current account deficit and foreign-currency debt. While the crisis was pronounced for waves of major devaluation of the currency, later stages were characterized by rising debt defaults and finally by economic contraction. The sharp decline in household saving rates, widening of the current account deficit, and increasing number of bankruptcy declarations by construction companies highlight the need for a further analysis of the reflections of evolving crisis on property and credit markets in Turkey.

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18 According to Altug and Firat (2018:1), household saving rate in Turkey declined from 19.6% in 2003 to 8.7% in 2014.
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