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**THE STATE OF PROPERTY DEVELOPMENT IN
TURKEY: FACTS AND COMPARISONS**

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The State of Property Development in Turkey: Facts and Comparisons

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In this paper, we investigate the economic and political developments in the construction sector over the last decade, and consider their implications. We find that both private and public construction rose considerably during the first term of the AKP government, thanks to administrative and economic incentives. Despite the construction sector's contribution to growth, there is also evidence of a transfer from the industrial sector towards the construction sector which led to a significant decline in the trend growth of the industrial sector in the pre-2006 era. Such evidence disappears in the post-crisis period when the growth of private construction slows down. Yet, overcentralization, clientalism, absence of transparency, and limitations to citizen participation in urban planning remain as problems that need to be addressed through an urban reform.

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1. Introduction

Turkey has been going through a profound urban renewal process in the past decade, based on an urban policy where public and private land were aggressively developed through major government support. To some, property development is one of the pillars of Turkish economic growth and therefore deserves the support it receives. In contrast, critiques suggest that Turkey's construction sector developed too rapidly and at the expense of other important sectors, such as the industry. In addition, the centralized and clientelistic mechanisms which dominated the urban renewal process had adversarial impacts on state-society relations and strained the social fabric. Despite profound public interest in the topic, empirical studies that investigate the subject remain limited. This paper aims to make a contribution in this regard and analyzes the government's role in the rise of the construction sector, the extent of the growth of the construction sector, and the economic and political consequences of these developments.

We show that the construction sector developed rather rapidly in the period before 2006 but adopted a slower growth trend in the post-crisis era. The rise of the construction sector was supported by legal reforms. These reforms promoted public and private property development by lifting institutional restrictions and centralizing property development. These changes to the law enabled the government administration to develop public land or to provide cheap land to favored private sector partners, which generated excessive rents.

The rapid rise of a state-led construction sector had important political and economic consequences vis-à-vis industrial development, the distribution of land rents, the relationships between the state and private sector actors, and citizens' rights on their urban environment.

Our findings suggest that there has been a transfer from the industrial sector to the construction sector in the pre-2006 period, leading to a significant decline in the trend growth of the industrial sector. We believe that these results are related to the excessive rent generated in the sector, the opaqueness and favoritism regarding its distribution, and limited fair competition in the sector. These factors promoted clientalism and eroded ordinary citizens' influence on urban policy decisions.

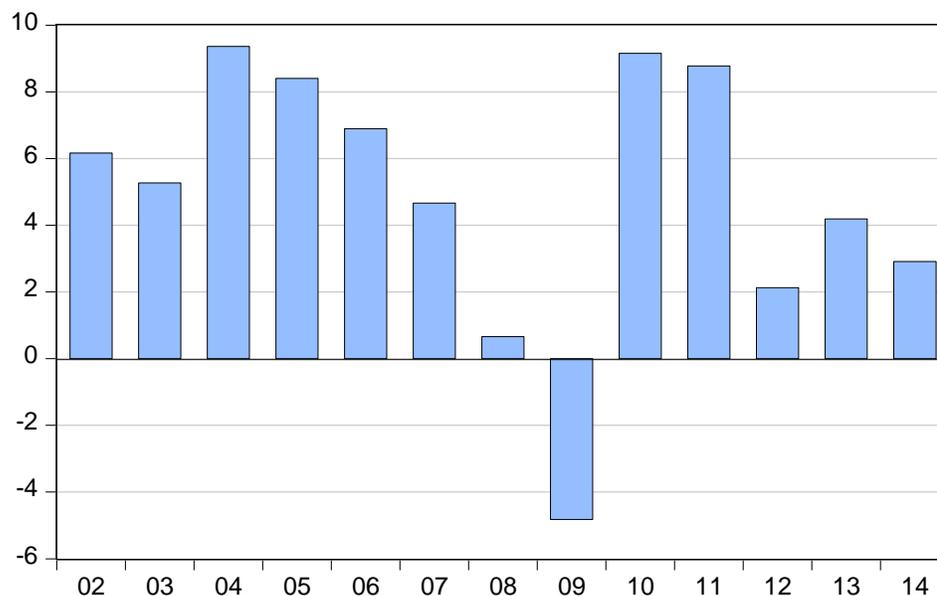
The construction sector slowed down in the post crisis era, which weakens the validity of the widespread perception regarding “the ever-rising share of the construction sector”. The basic statistics that we provide in this paper reflect that the pre-crisis trend cannot be generalized to depict the developments in this sector in the second half of the decade. Our analysis highlights that following a rapid increase in the years leading to the global crisis in 2007, the share of the construction sector returned back to its pre-crisis levels quickly and no longer contributed to the slowdown in the industrial sector in the post crisis era. Nevertheless, a closer look at the data reveals certain characteristics of this sector that are hidden in the aggregate numbers. When we decompose total construction into its private and public components, we observe that while private construction slowed down, public construction continues to grow at full speed and so do the concerns that arise from excessive centralization and clientalism in the sector. This requires an urgent reform in urban policy that institutes decentralization and transparency in urban development.

2. The AKP Government, Economic Growth and Urban Policy

The rise of the Justice and Development Party (AKP) in 2002 and its continued electoral success in the succeeding years was received well among neoliberal circles. This was mainly

the result of the economic policies of the government which emphasized production, privatization and other business oriented policies, and its ability to maintain an above average growth rate, particularly in its early years (Figure 1).

Figure 1: Growth Rate of Real GDP



The privatization of public land and the promotion of public and private property development played an important role in the AKP government's growth strategy. Despite its overall neoliberal orientation, the government adopted a highly active role in the development of the construction sector and provided economic and political incentives. The most significant economic incentive included cheap land which the government provided for property development (Karaman 2013, Kuyucu and Ünsal 2010). Most large scale developments took place through public-private partnerships, where the state provided land and the private sector carried out the construction projects. In other cases, the state took an even more active role and carried out developments itself, using public land.

2.1.Changes in the Legal Framework

The government's contribution to urban renewal was not limited to the provision of land, but included reforms that shaped the pace of urban development. The changes and amendments made to the laws in the past decade dramatically centralized urban planning and lifted restrictions in urban development (see also Acemoğlu and Üçer, 2015). Perhaps the most important reform in this respect, concerns the changes to the Housing Development Administration Law (HDAL, 2985).⁴ The numerous amendments to the HDAL between 2003-2013 transformed a rather idle state institution, namely the Housing Development Administration (HDA) to a major actor in property development, which enjoys extensive powers including publicizing private land, privatizing public land (independent from the Public Procurement Authority), developing for-profit real estate projects (independent from ministries and municipalities), and forming partnerships with private developers. Today, the HDA is only and directly accountable to the Prime Ministry, maintains a private budget independent from the Treasury, enjoys exemptions in taxation, and is not subject to the fiscal auditing of the Turkish Court of Accounts, the main regulating institution against corruption. Atiyas (2012) notes that although HDA's exemptions were originally limited to public housing projects, these were extended to all construction activities undertaken by HDA in 2011.

Another important legal change took place in the Public Procurement Law (PPL, 4734) which was amended extensively from 2002 to 2014.⁵ The amendments limited the powers of the

⁴ For the amendments to the Housing Development Administration Law, see URL:
<http://www.toki.gov.tr/docs/mevzuat/2985SAYILIKANUN.pdf>.

⁵ For the changes to the Public Procurement Law, see URL:
<http://www.google.com.tr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDYQFjAD&url=http%3A%2F%2Fwww.mevzuat.gov.tr%2FMevzuatMetin%2F1.5.4734.doc&ei=ELZpVOPXA43gau7lgdgK&usg=AFQjCNHhEKCGkDIJkc9RvIN8khknoH56Gg&bvm=bv.79142246,d.d2s>.

Public Procurement Authority (PPA) in regulating the sales of public land and other construction-based government procurements. The transparency of these procurements is critical to ensure the competitiveness of the property development sector and to fight corruption. Yet, the amendments to the Public Procurement Law granted 60 institutions, including the HDA, exemptions from the PPL and relaxed procurement regulations. These reforms may have speeded up the procurement processes, but they severely limited the regulating power of the PPA and hindered the transparency of the procurements.

Other important legal interventions that promoted property development include the amendment to the Law on Land Development Planning and Control (LLDPC, 3194), Greater City Law (GCL, 5216), the Law on the Transformation of Areas under Disaster Risk (LTADR, 6306), and the Land Registry and Cadastral Law (LRCL, 6302), among others. Amendments to the LLDPC relaxed procedures in obtaining building permits and limited the enforcement of Administrative Court's decisions to stop unlawful construction developments.⁶ GCL centralized urban planning by granting Greater City Municipalities increased rights to develop city plans and limiting the power of local administrations, which hinders residents' access to urban planning decisions that impact their surroundings.⁷ LTADR allowed public actors such as the HDA and its private sector allies to intervene and transform areas which they designate as under "Disaster Risk", without having to receive consent from the residents.⁸ Finally, LRCL provided foreign

⁶ For the changes to the Law on Development Planning and Control, see URL:
[URL:http://www.mevzuat.gov.tr/MevzuatMetin/1.5.3194.pdf](http://www.mevzuat.gov.tr/MevzuatMetin/1.5.3194.pdf).

⁷ For the changes to the Greater City Law, see URL:
<http://www.mevzuat.gov.tr/Metin.Aspx?MevzuatKod=1.5.5216&MevzuatIliski=0&sourceXmlSearch=5216>.

⁸ For the changes to the Law on the Transformation of Areas under Disaster Risk, see URL:
<http://www.mevzuat.gov.tr/MevzuatMetin/1.5.6306.pdf>

nationals (with exceptions including Cuban, North Korean, Syrian, and Armenian nationals) the right to purchase private property in Turkey.⁹

These legal amendments allowed the state to not only promote property development but also become a key actor in the construction sector. The HDA records suggest that the housing units developed through the HDA projects rose considerably in the past decade, from 43,145 between 1984-2003 to 590,483 between 2004-2014.¹⁰ According to the Association of Real Estate and Real Estate Investment Companies (GYODER) statistics, cited by Törüner (2008), the HDA's market share increased from 1.1 per cent in 2003 to 18.6 per cent in 2007.¹¹ Similarly, Housing Developers and Investors Organization (KONUTDER) (2013) statistics suggest that the HDA is the number one actor in the housing sector, having developed 10 per cent of all housing units developed between 2002-2012.

While the HDA records reveal the massive rise of the HDA as a developer or partner in the construction sector, private sector counterparts have also enjoyed the new legal environment that promotes property development. Cheap land obtained through connections to the state and fewer institutional restrictions on property development reduced the economic and bureaucratic costs of these entrepreneurs and promoted new construction. Figure 2 demonstrates the dramatic rise in the building permits distributed in the past decade, thanks to changes to the laws that lifted restrictions in property development. Figure 3 compares the profits earned in various sectors of

⁹ For the changes to the Land Registry and Cadestrial Law, see URL:

<http://www.google.com.tr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDkQFjAD&url=http%3A%2F%2Fwww.mevzuat.gov.tr%2FMevzuatMetin%2F1.5.3402.doc&ei=j3aaVeamFsqXsgGGp72gAg&usg=AFQjCNEAqoFPPgfpwMqg50xE82840MJjg&sig2=Aw11rchtgnhjFGiqz-JDUA&bvm=bv.96952980,d.bGg>

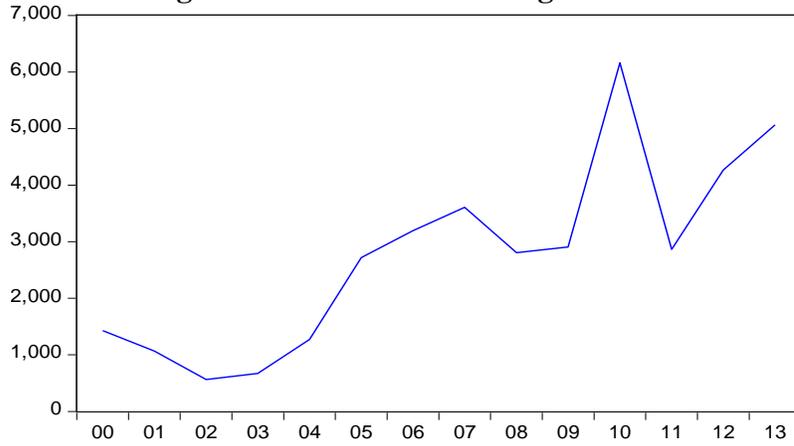
¹⁰ For a list of auctions held by the Housing Development Administration of Turkey (TOKİ) see: URL:

<https://www.toki.gov.tr/TR/Genel/BelgeGoster.aspx?F6E10F8892433CFFAAF6AA849816B2EF66FA6A1CE407B291>

¹¹ [Http://www.milliyet.com.tr/2008/01/29/yazar/toruner.html](http://www.milliyet.com.tr/2008/01/29/yazar/toruner.html).

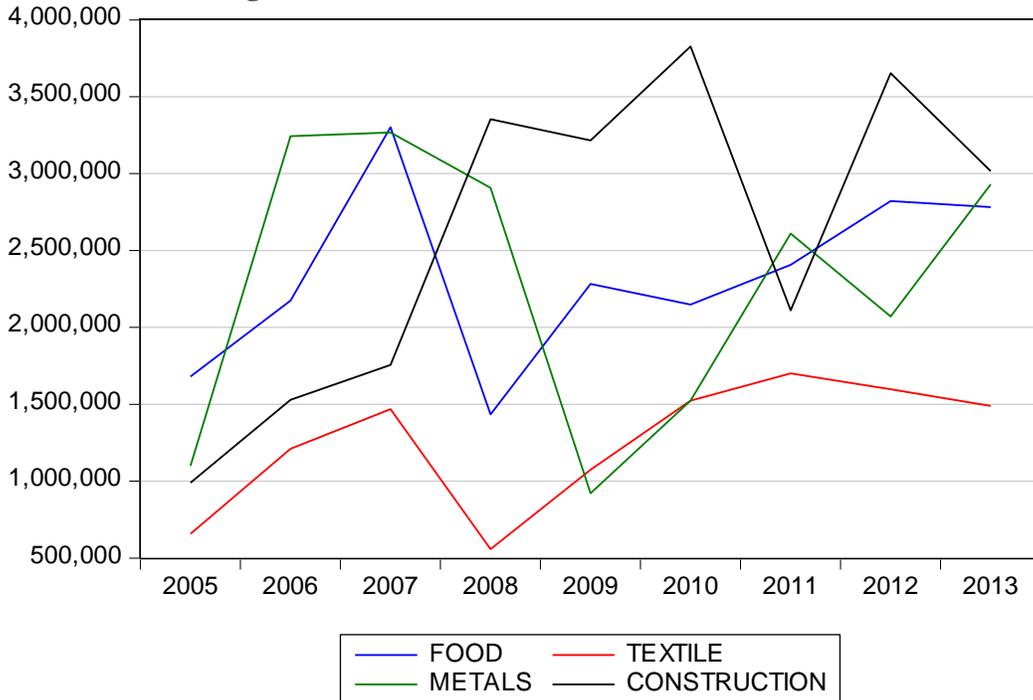
the economy between 2005 and 2013 and demonstrates the rise in the profitability of the construction sector which surpassed the other sectors.¹²

Figure 2: Number of Building Permits



Source: Turkstat

Figure 3: Breakdown of Profits in Alternative Sectors



Source: Central Bank of Turkey

¹² It is advisable to interpret the profit numbers with a grain of salt because the rent generated in the construction sector is likely to be not quite reflected in the profit numbers.

The government's emphasis on urban development, its active role in the construction sector and changes in the legal framework had important consequences. The following sections focus on the economic consequences of this urban policy and analyze the role that the construction sector has played in Turkey's economic growth.

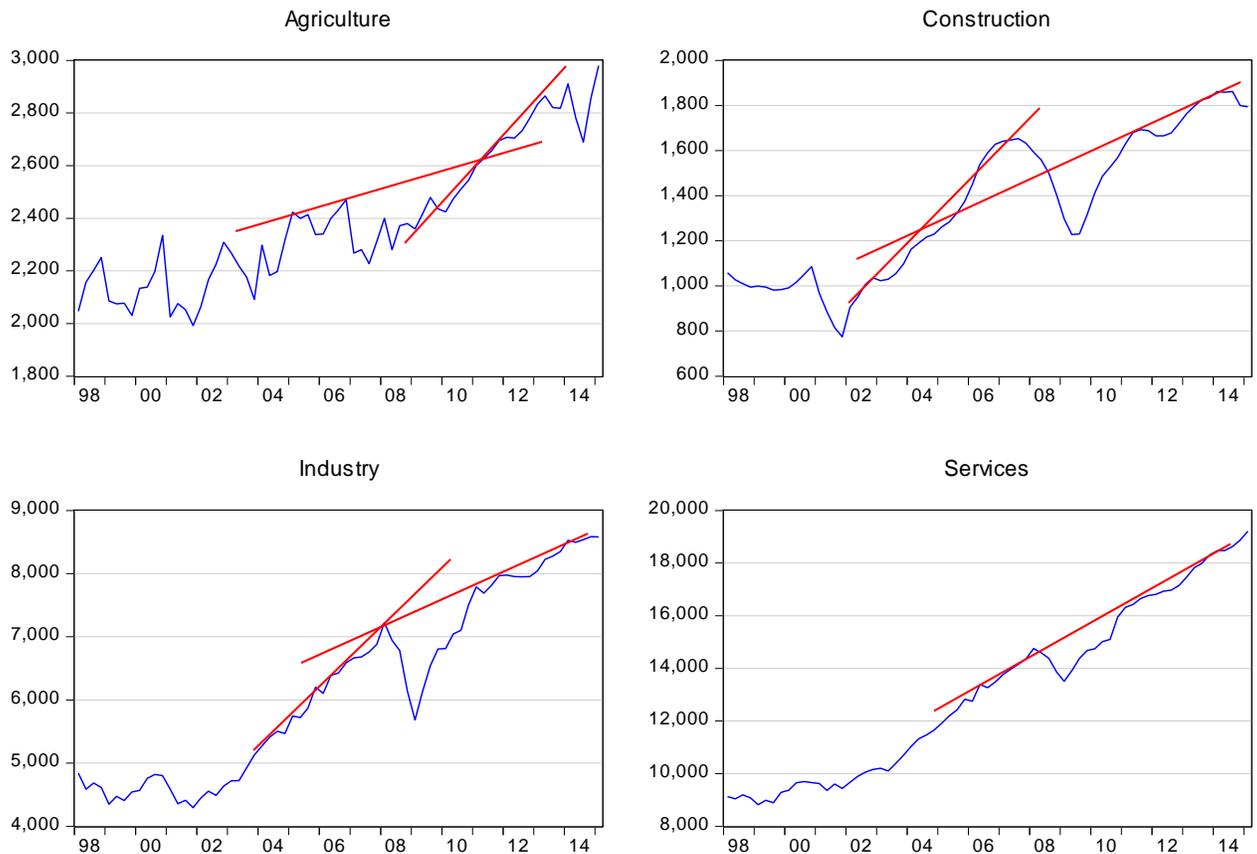
2.2. The Rise of the Construction Sector

In order to analyze the development of the construction sector and situate its role in the broader economic context of Turkey, we plot the four components of the GDP based on the production approach in Figure 4, using quarterly data for the period from 1998.q1 through 2015.q1. Table 1 provides the annual growth rates of these components.

A couple of observations are immediately noticeable from Figure 4 and Table 1: (i) Construction sector is indeed the most rapidly growing sector in the period before the financial crisis (Table 1, row 1) but the post-crisis trend (row 3, column 3) seems to be slower than the pre-crisis trend (row 1, column 3). (ii) There is a slowdown in the trend growth of the industrial sector in the post-crisis period (row 3, column 4), closely following the general trend in GDP. (iii) There is a slight slowdown in the services sector after 2007 as well (column 5). (iv) Agricultural sector is the only sector that accelerated its trend growth in the period after the 2007-2008 financial crisis.

Table 1: Average Annual Growth Rates

	I. GDP	II. Agriculture	III. Construction	IV. Industry	V. Services
1. 1998-2006	4.36	1.17	6.16	4.45	4.94
2. 2007-2010	2.82	0.73	-0.92	3.27	4.20
3. 2011-2014	3.48	2.89	3.43	3.35	4.21

Figure 4: GDP Components based on Production Approach

Real GDP using 1998 prices (million TL).

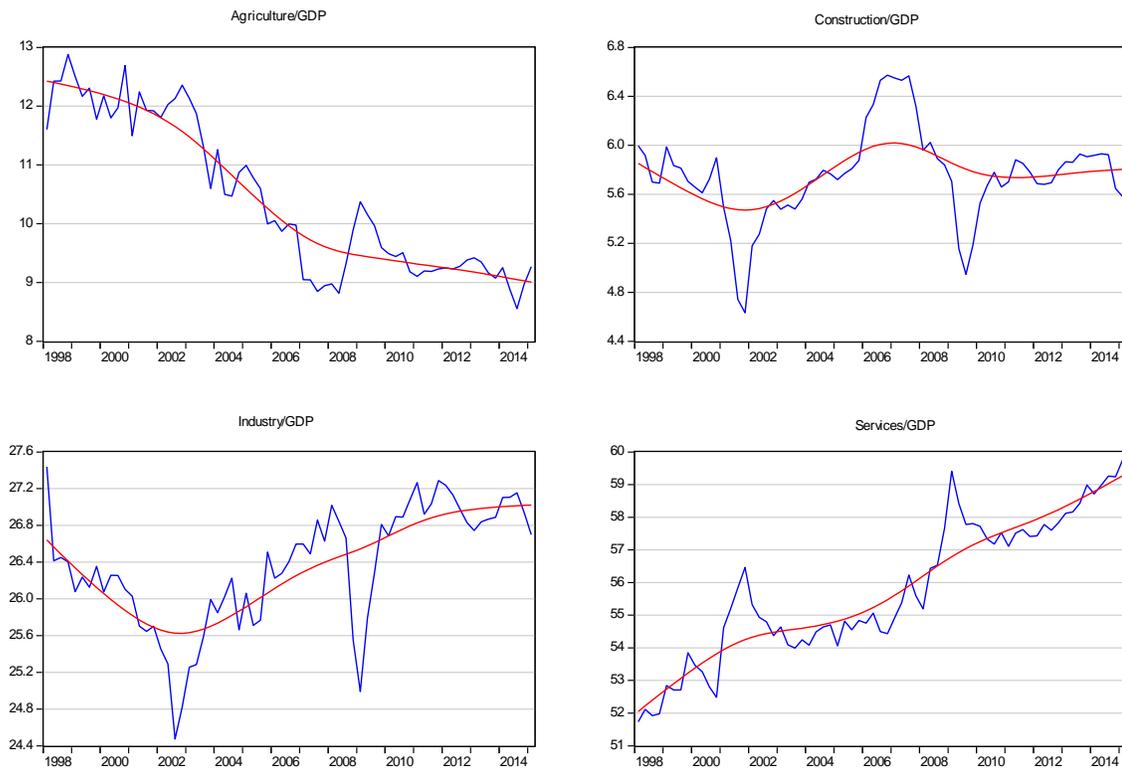
Seasonally adjusted data using Census X-13 technique.

Source: Turkstat

Figure 5 illustrates the shares of these sub-components as a fraction of GDP while Table 2 provides average quarterly shares. The red line shows the Hodrick-Prescott time trend. The share of the construction sector increased from 2001 onwards, reaching a peak in 2007, as seen in Figure 5. However, after the crisis, its share dropped back to slightly below 6 percent, which is approximately the average for the whole sample as seen in Table 2, column 2. Despite the acceleration in the growth rate of the agricultural sector in recent years, we note that its share in

GDP followed a decreasing trend over time (Table 2, column 1). Turning to the lower panels, the share of industry has an increasing trend starting roughly in 2002 until the 2007-2008 crisis but the trend growth slows down in the post-crisis period. The last panel shows that the share of the service sector has an increasing trend throughout the sample period.

Figure 5: Sectoral Shares in GDP using the Production Approach



Real GDP using 1998 prices (million TL).

Seasonally adjusted data using Census X-13 technique.

Source: Turkstat and authors' calculations.

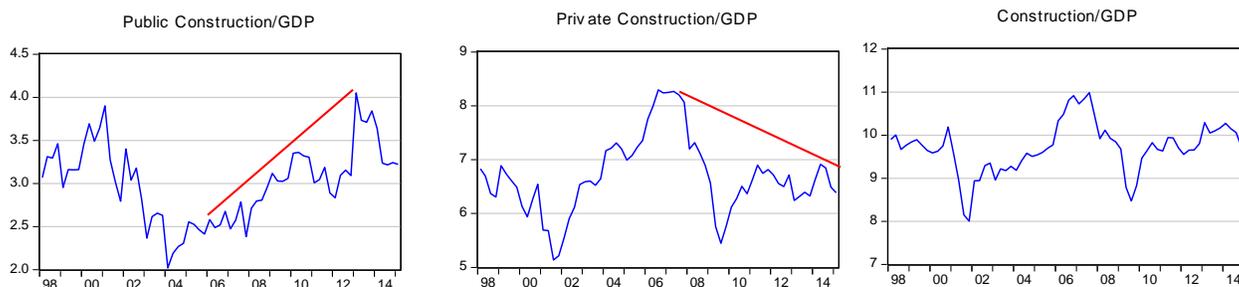
Table 2: Average Quarterly Shares

	I. Agriculture/GDP	II. Construction/GDP	III. Industry/GDP	IV. Services/GDP
1. 1998-2006	10.85	5.77	26.02	54.71
2. 2007-2010	9.50	5.61	26.68	57.71
3. 2011-2015	9.13	5.84	26.92	58.75

In addition to the production approach, one other way to decompose the GDP is using the expenditure approach. Under this approach, construction spending is shown as part of the investment category, which is further broken down into public and private investment. Figure 6 illustrates the share of construction that is measured using the expenditure approach. The left panel shows the share of construction expenditure that is undertaken by the public sector while the middle panel shows the share of construction expenditure by the private sector. The panel on the right shows the sum of these two sub-components as a fraction of GDP, which is comparable to the upper right panel in Figure 5.¹³ The share of the public sector construction expenditure has an increasing trend starting in 2004. Even though the share of private construction expenditure declines in the post-crisis period, the share of public construction continues to increase. On the aggregate, however, the decline in private construction offsets the rise in public construction keeping the share of total construction in GDP at a stable level.

¹³The construction-to-GDP ratio measured by the expenditure approach (Figure 6) is higher than the corresponding ratio measured by the production approach (Figure 4), even though they follow identical trends. With the production approach, each sector's contribution to GDP is computed using the total value added of that sector. Therefore, the series used in Figure 4 measures the total output produced by the construction sector excluding the value of inputs used in production. The latter is accounted for by the other sectors of the economy that provide inputs for the construction sector such as the industrial sector. The series used in Figure 6, however, measures the total spending on goods produced by the construction sector, which is the total value of final goods, and does not exclude the value of inputs. Hence, as a ratio of GDP, this series has a higher level (moving around 10 percent) than the one measured by the production approach (moving around 6 percent).

Figure 6: Sectoral Shares in GDP using the Expenditure Approach



Real GDP using 1998 prices (million TL).

Seasonally adjusted data using Census X-13 technique.

Source: Turkstat and authors' calculations.

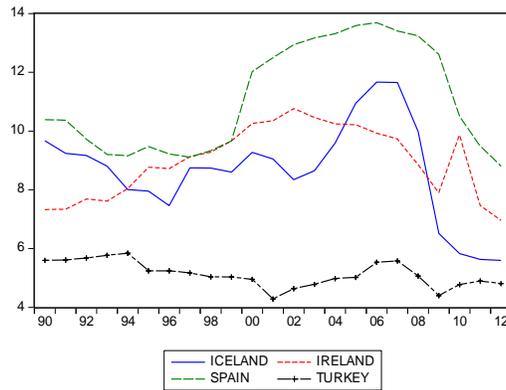
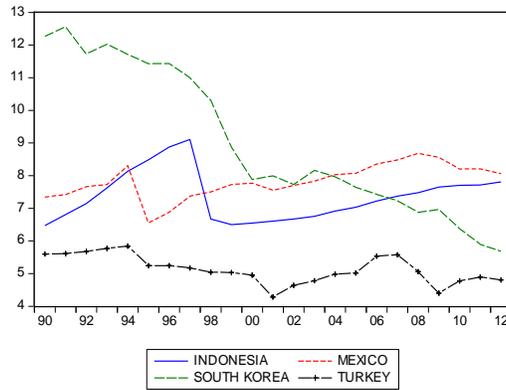
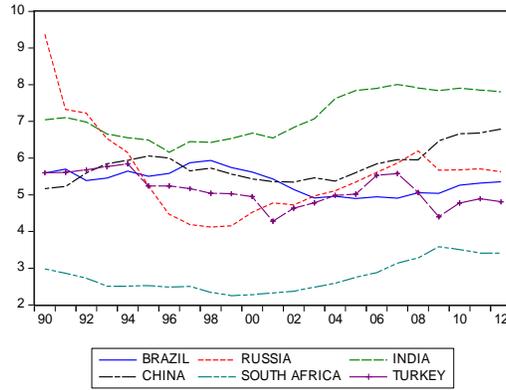
Finally, a comparative perspective suggests that the construction sector's growth in Turkey has been parallel to its counterparts elsewhere. Figure 7 below compares the share of the construction sector in Turkey against several other emerging market economies as well as those Euro Area countries that experienced a construction boom. The charts plot the share of the construction sector as a fraction of GDP. The top panel compares the construction ratio in Turkey against the so-called BRICS economies which are the major emerging market economies that consist of Brazil, Russia, India, China, and South Africa. We observe that while the share of the construction sector is highest for India, hovering around 7 percent, and lowest for South Africa, hovering around 3 percent, Turkey remains inside this corridor for the entire period from 1990 to 2012. The middle panel provides a further comparison with other emerging market economies such as Indonesia, Mexico and South Korea. We observe that the share of the construction sector in Turkey is consistently below these countries as well.

The lower panel compares the share of the construction sector against the Euro Area countries whose names were associated with real estate bubbles during the recent financial crisis:

Spain, Iceland, and Ireland. Here we observe that the construction ratios in these troubled economies were more than twice as large as the share of the construction sector in Turkey.

Overall Figure 7 suggests that even though the construction sector grew rapidly before 2006, its share has been comparable to other emerging market economies and it has never reached levels that were observed in those countries that experienced real estate bubbles. Even though the growth in the construction sector is not at an extreme level, however, this fact does not pre-empt the problems associated with the state's involvement in the construction sector, opaqueness of law and the generation of excessive rent which may generate the wrong incentives for the entrepreneurs to switch from more productive sectors into construction. In the next section we investigate this question formally.

Figure 7: Construction/GDP from an International Perspective



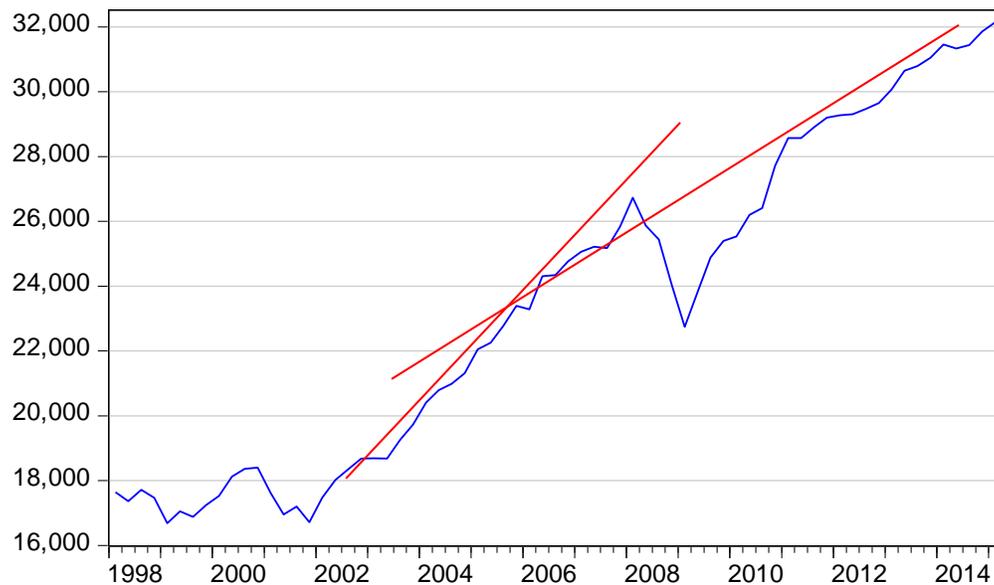
Source: United Nations Statistics Division, National Accounts Main Aggregates Database

2.3. The Effects of Construction on Economic Growth

When the AKP took over in 2002, Turkey's rapid growth story that was driven by the industrial sector continued, with an additional emphasis on promoting property development. Yet, the AKP's urban policy created a controversy. While some groups considered the government's urban renewal strategy as the engine of Turkey's economic growth, others argued that it may have had adverse effects on the economy, particularly due to the excessive state involvement and the limits to transparency and institutional checks.

Soon after the second term of the AKP in 2007, the global financial crisis emerged. While Turkish GDP had a quick rebound after the recession in 2008, the pre-crisis trend has not been caught (Figure 8).

Figure 8: Slowing trend in Turkish GDP



Real GDP using 1998 prices (million TL).

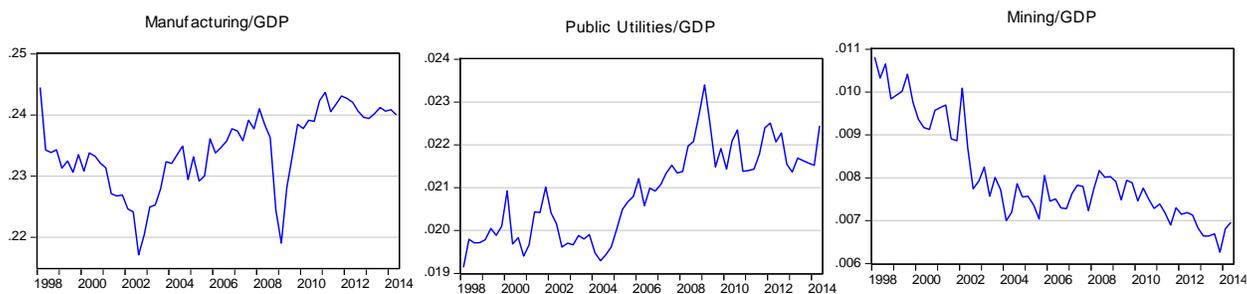
Seasonally adjusted data using X-13 technique.

Source: Turkstat

The slowing trend in GDP was largely due to the slowdown in the industrial sector, which was argued by some critics to be a consequence of the expansion in the construction sector (see e.g. Pamuk, 2014, Babacan, 2014b, Bahçivan, 2015, Eğılmez, 2015). A shift from the industrial sector to the construction sector can partly explain the slowdown in economic growth because of the lower productivity of the construction sector compared to the industrial sector. Furthermore, unlike the industrial sector which contributes to production directly and indirectly by producing the means to produce other products, the construction sector's contribution to total output is limited to the final good that is produced (Eğılmez, 2015). Hence, a transfer from the industrial sector to the construction sector is bound to lead to a slowdown in the GDP growth.

Figure 9 takes a closer look at the sub-components of the industrial sector, which are manufacturing, public utilities (which includes electricity production and distribution as well as water purification and sewage systems), and mining as a share of GDP. One can note that the overall trend of the industrial sector is driven by manufacturing, which is its largest component. Unfortunately, a finer breakdown within the manufacturing sector is not available to see whether the production of intermediate goods for the construction sector has increased or not. Nevertheless, it is interesting to note that the infrastructure spending captured by the public utilities category follows the increase in the construction sector with a lag. Two years after the construction sector had a peak (during 2006-2007 period), public utilities sector reaches its peak during 2008-2009 period.

Figure 9: Sub-components of the Industry Sector as a fraction of GDP

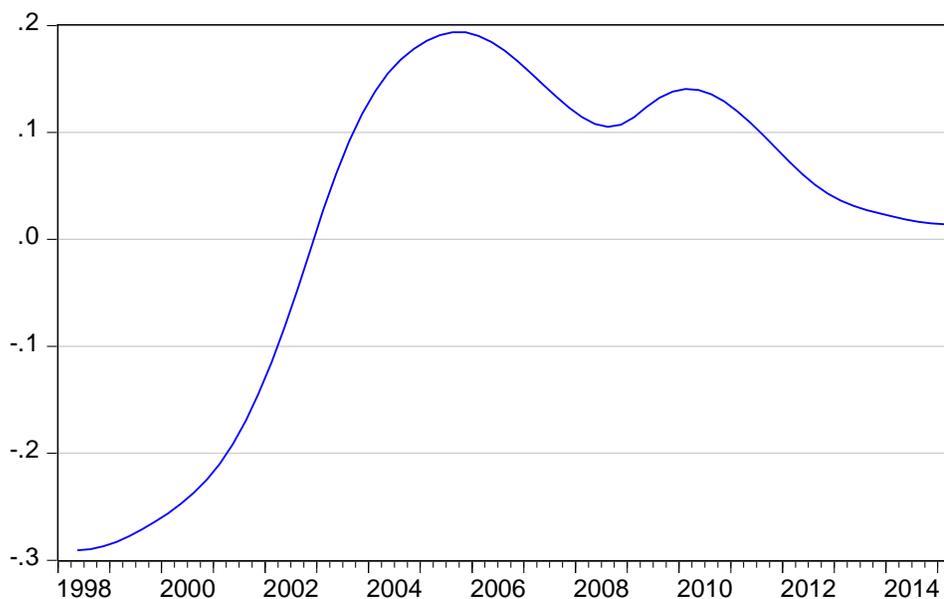


It has been argued that excessive rents are available in the construction sector for those who can secure inroads to the state bureaucracy and obtain favorable government contracts or building permits (recall Figure 1), which attracts industrialists to the construction sector to seek such rents. While the government officials noted that the growth in the construction sector has been following normal trends, it admitted that regulatory changes did indeed cause excessive rent. The deputy prime minister Babacan (2014a, 2014b) expressed his concerns about these issues and noted that “there is excessive rent in the construction sector which reduces the interest in the industrial sector” and their priority will be to re-introduce transparency and hence avoid the rent-based shifts in the industrial sector towards construction.

In this section, we analyze these claims formally and investigate whether the slowdown in GDP growth is indeed related to the relationship between the construction and industrial sectors. Simple growth charts do not give information about causal relationships or the spillovers between the different sectors. Further analysis is necessary to test the claim that the slowdown in the industrial growth could be at least partially attributed to the excessive rent generated in the construction sector. With this purpose, we first document the declining trend in the industrial sector. Figure 5 had plotted the Hodrick-Prescott trend of the industrial sector’s share in GDP and

highlighted the slowdown in this trend. Figure 10 illustrates the growth rate of this trend to better illustrate the slowdown.

Figure 10: Growth Rate of Industry/GDP trend



Source: Turkstat and authors' calculations.

The average growth rate in the trend of Industry/GDP ratio declines from 0.15 in the 2003 to 2006 period to 0.08 during the period after 2006 where the difference is statistically significant (not shown).¹⁴ The question is whether the construction sector is at least partly responsible for this decline or not. If the popular claims are true, then the excessive rent in construction projects may have caused shifts from the industrial sector to the construction sector. In that case, the decline in the share of industry could be at least partially explained by transfers from the industrial sector to the construction sector in an attempt to exploit such rents.

¹⁴ The trend of the industrial sector is negative for the period before 2003 and hence excluded from the above calculation.

In order to test this claim formally, we consider the following regression:

$$\log\left(\text{Trend}_t^{\frac{\text{Industry}}{\text{GDP}}}\right) = \quad (1)$$

$$\alpha + \beta_1 \text{Industry}_{t-1} + \beta_2 \text{Construction}_{t-1}^{\text{Private}}$$

$$+ \beta_3 \text{Construction}_{t-1}^{\text{Public}} + \beta_4 \text{Agriculture}_{t-1} + \beta_5 \text{Services}_{t-1} + \varepsilon_t$$

The dependent variable is the growth rate of the Industry/GDP trend as plotted in Figure 10. t is the quarter index. The right hand side variables are the components of real GDP (in billions of TL) measured in 1998 prices as provided by Turkstat. All GDP components are seasonally adjusted.¹⁵

If part of the slowdown in the growth rate of the industrial sector is due to transfers to the construction sector, then we expect the coefficient associated with the construction sector to be negative. Specifically, if the rise in the construction sector in the previous quarter ($\text{Construction}_{t-1}$) is associated with a decline in the trend of the industrial sector in the current quarter

($\text{Trend}_t^{\frac{\text{Industry}}{\text{GDP}}}$), then, $\beta_2 < 0$ (for private construction) and/or $\beta_3 < 0$ (for public construction).

Table 3: Trend growth in Industry/GDP

		1998-2006	2007-2010	2011-2015
1.	$\text{Construction}_{t-1}^{\text{Private}}$	-0.14 (0.20)	-0.05 (0.03)	0.01 (0.11)
2.	$\text{Construction}_{t-1}^{\text{Public}}$	-0.86** (0.22)	0.17** (0.07)	0.05 (0.10)
3.	Industry_{t-1}	-0.19** (0.08)	0.07* (0.03)	0.04 (0.06)
4.	Agriculture_{t-1}	0.16 (0.12)	0.00 (0.05)	-0.17* (0.09)
5.	Services_{t-1}	0.22**	-0.08**	-0.04

¹⁵ In order to distinguish between public and private construction, we use the decomposition provided by the expenditure approach. The rest of the GDP components are obtained from the production approach.

		(0.02)	(0.02)	(0.03)
6.	R ²	0.93	0.61	0.91
7.	Number of observations	35	16	17

HAC standard errors and covariance are reported under coefficient estimates in parenthesis. ** indicates significance at 99 percent level of confidence, * indicates significance at 95 percent level of confidence. The regression model includes a constant.

Table 3 shows the regression results. We observe that an increase in public construction in the previous quarter reduces the trend of Industry/GDP in the period before 2006 (row 2, column 1). This finding is consistent with the claim that the excessive rent generated in the construction sector led to transfers from the industrial sector to the public construction sector, slowing down the growth rate in the industrial sector. Turning to the second column, we observe that the public construction sector actually supports the industrial sector in a crisis environment, when the construction sector was deliberately supported by the government to provide such a boost. Nevertheless, any feedback from the construction sector to the industrial sector disappears in the last sample, as the share of construction slows down as shown in Figure 5. This finding suggests that the declining trend in the industrial sector that we observe in the post-crisis era cannot be explained by transfers to the construction sector, even though the rapid increase in construction in the pre-crisis period had a negative effect on industrial growth. Acemoğlu and Üçer (2015) attribute the slowdown in the period after 2007 to the deterioration in economic and political institutions as well as the absence of structural and economic reforms during this era.

As for the rest of the coefficients, there is negative serial correlation in industrial sector during the period before 2006 as shown by the significant coefficient during that time (column 1). While there is no feedback from the agricultural sector to the industry for the first two periods, services contribute positively in the first period and negatively in the second period.

Table 4 provides a “mirror-image” exercise similar to Table 3. This time we put the trend growth in the share of construction under the magnifying glass (as our dependent variable) and see if an acceleration in the growth of construction sector is associated with a decline in industry in the previous quarter. If the increase in construction’s share is at least partly due to transfers to this sector from the industry sector, then we should observe a negative coefficient associated with the industrial sector in the previous quarter. The first column in Table 4 reflects that this is indeed the case for the first sample period, supporting our findings in Table 3. Similar to Table 3, this effect disappears in the next two sub-samples. In other words, our results suggest that there was a shift from the industrial sector to the construction sector during the period before 2006 when the construction sector grew rather rapidly. This evidence disappears in the post-crisis era, however, when construction growth slowed down.

Table 4: Trend growth in Construction/GDP

		1998-2006	2007-2010	2011-2015
1.	<i>Industry</i> _{<i>t</i>-1}	-8.19** (3.79)	1.58 (2.40)	0.74 (1.37)
2.	<i>Construction</i> _{<i>t</i>-1}	-18.76 (12.54)	5.72 (3.43)	1.34 (3.47)
3.	<i>Agriculture</i> _{<i>t</i>-1}	5.62 (5.82)	12.86** (3.95)	4.48** (1.90)
4.	<i>Services</i> _{<i>t</i>-1}	8.14** (1.16)	-1.82 (1.45)	-0.53 (0.62)
6.	R ²	0.75	0.50	0.60
7.	Number of observations	35	16	17

HAC standard errors and covariance are reported under coefficient estimates in parenthesis. ** indicates significance at 99 percent level of confidence. The regression model includes a constant.

3. Political Costs of Turkey's Urban Development

Turkey went through a dramatic urban development, particularly in the 2002-2006 period, albeit through excessively centralized and clientelistic means. While some of the economic costs of this construction boom declined after 2006, political concerns remained as the sector continued to be under the influence of clientelistic relations between a highly interventionist state and its private sector allies, with little transparency, checks and balances, or deliberation.

A major concern regarding Turkey's real estate development arises from the fact that it significantly increased state influence on the distribution of land rents.¹⁶ In the past decade, we witnessed how a strong government administration that enjoys a single party rule, control over the legislative branch, and absence of rival institutions, used the powers in its discretion to further consolidate its control. In this context, the changes and amendments to the laws made in the past decade regarding property development, expanded the government administration's role in the creation¹⁷ and distribution of land rents.¹⁸ Under the circumstances, the government can create new land rents, either by commodifying more public land or relaxing construction permits for already commodified lands. The weakness of democratic procedures enables state institutions to avoid consulting the citizens during the commodification and other decisions that regard the usage of public land. In addition, the limitations of transparency and checks and balances between institutions create a large room of maneuver for the government administration to influence the distribution of the land rents generated through these developments. While land

¹⁶See also: Erbatır Çavuşođlu, "İslamcı Neoliberalizmde İnşaat Fetişive Mülkiyet Üzerindeki Simgesel Hale," *Birikim* 270 (2011): 40-51, Tuna Kuyucu and Özlem Ünsal, "Urban Transformation as State-led Property Transfer: An Analysis of Two Cases of Urban Renewal in Istanbul," *Urban Studies* 47:7 (2010):1479-1499 and Ozan Karaman, "Urban Neoliberalism with Islamic Characteristics," *Urban Studies* 50:16 (2013): 3412-3427.

¹⁷Çavuşođlu, "İslamcı Neoliberalizm'de İnşaat,"40-51.

¹⁸Mehmet Penpeciogđlu, "Kapitalist Kentleşme Dinamiklerinin Türkiye'deki Son 10 Yılı: Yapılı Çevre Üretimi, Devlet ve Büyük Ölçekli Kentsel Projeler", *Birikim* 270 (2011): 62-73.

sales are conducted through public tenders which are regulated through laws passed in 2002, recent amendments to the law decreased the power of regulatory institutions, and thus, challenged fair competition.¹⁹ Thus, some actors enjoy noncompetitive access to land rents. These make “excessive” rents (*ölçüsüz rantlar*) as Babacan notes, thanks to their ability to build inroads to state bureaucracy and obtain favors. Yet numerous competent construction companies remain unable to receive such rents, according to the Chambers of Civil Engineers.²⁰ This situation prevents institutionalization, limits free and fair competition, and decreases efficiency.

Turkey’s state controlled property development also has implications regarding democratization. Classical and neoclassical studies on modernization suggest that economic development contributes to democratization.²¹ In this theory lies the assumption that an independent bourgeois class can play a positive role in democratization.²² Among many reasons, the most significant one is that an independent bourgeoisie can balance political authority by demanding political opening (representation) in return for its economic contribution (taxation). Nevertheless, this democratizing effect of economic development may be more limited or absent in clientalistic societies where the bourgeoisie is dependent on state favors (Camp, 1989; Rueschemeyer et.al., 1992; Buğra, 1994). The bourgeoisie members are rather “contingent democrats” who support democracy only when their economic interests are relatively independent from state support (Bellin, 2000: 197). Thus, to the extent that the property

¹⁹Ayşe Buğra and Osman Savaşkan, “Turkish Business Environment in the Neoliberal Age,” *New Perspectives on Turkey* 46 (2012):27-63.

²⁰ İnşaat Mühendisleri Odası, *Toki Değerlendirme Raporu*, November 13, 2011, accessed December 20, 2014, http://www.imo.org.tr/resimler/dosya_ekler/2d6528de98702ba_ek.pdf?tipi=4&turu=H&sube=0

²¹See also: Seymour Martin Lipset, *Man: The Social Bases of Politics* (Garden City, NY: Doubleday & Company, 1963), David Epstein et al., “Democratic Transitions,” *American Journal of Political Science* 50:3 (2006): 551-569 and Ronald Inglehart and Christian Welzel, “How Development Leads to Democracy,” *Foreign Affairs* 88:2 (2009):33-48.

²²Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon Press, 1993).

development in Turkey takes place through noncompetitive and clientelistic means, this constitutes an obstacle for democratization. In the real estate market where the careers of real estate developers largely depend on their ability to secure cheap land, profitable government contracts, or favorable construction permits, thanks to their privileged connections to the government bureaucracy, they become dependent on the state, which hinders the democratic potential of this entrepreneurial class. This becomes a particularly important problem when competitors for government contracts, public land, or exceptional construction permits include actors who particularly need to have an objective stance towards the government, such as owners of media companies. In the past decade, the majority of media patrons in Turkey including Çalık Holding, Kalyon Group, Albayrak Group, and Çukurova Holding have been among the winners of billion dollar government contracts in the real estate sector. This situation has placed significant doubts on their objectivity in the eyes of the public.

The combination of political centralization and neoliberalism in Turkey's urban renewal policy also erodes ordinary citizen's "right to the city" as decisions on urban development are taken between the state and private developers (Lefebvre 1996:63, Purcell 2003: 582). The changes to the law described in previous sections centralized urban development and weakened the power of local and elected actors. As a result, citizen participation in the making of urban policy eroded considerably. Under the circumstances, the rent value of land dominated its social value, shared public space declined dramatically, and high rises replaced lower rises, causing major negative externalities that are incurred by citizens who may have never asked for such developments in the first place. In the absence of checks and balances between institutions or participatory decision making, cities transform too rapidly and according to the interests of the

state and its partners in the private sector, rather than ordinary citizens (Purcell, Van Deusen 2002).

To overcome the above described challenges Turkey needs an urban reform that promotes decentralization and checks and balances between institutions that regulate property development as well as instituting transparency, and citizen participation in urban planning (Shah 2007, Sintomer 2012, Brown and Kristiansen 2009). These reforms firstly need to limit the excessive powers and exemptions enjoyed by the HDA and subject HDA actions to the supervision of regulating institutions such as the Turkish Court of Accounts, Administrative Courts, and the PPA. In addition, Greater City Law and Municipal Laws need to be reformed to decentralize municipal administrations with an increase in the decision making power of local municipalities in developing city plans. The reforms should also increase transparency and deliberation during the making of city plans and enable resident's access to these decisions both directly and indirectly, through locally elected City Council members. Thirdly, the PPA needs to be reformed where exemptions to the PPL are lifted, PPA procedures are tightened to ensure transparency, and restrictions are placed on media patrons' participation in public procurements (as was originally suggested in 2002 by Derviş, the Former Economics Affairs Minister of Economics during the drafting of the PPL).

4. Conclusions

In this paper, we have analyzed the recent developments in the construction sector in Turkey and considered their economic and political significance. Our analysis has shown that the construction sector grew rapidly between 2002-2006, supported by state interventions that took

place mainly in the form of legal reforms as well as economic incentives. The growth in the private sector construction returned to regular trends in the post 2007 period, although public sector construction continued to rise.

One concern in this regard is that the excessive rents which can be generated in the construction sector provide incentives to leave the industrial sector in favor of the construction sector. Our findings provide evidence of such transfers for the period before 2006, although the construction sector does not seem to be responsible for the declining trend of the industrial sector in the post-crisis era.

The state-led rise of the construction sector has also had important political consequences which remain significant even in the post-crisis period when the construction sector slowed down. The central role of the government administration and opaqueness in the distribution of land rents and other incentives continue to increase the private sector's dependence on the state, challenge competitiveness, and erode ordinary citizens' influence on urban development. These problems need to be addressed urgently through reforms in urban policy. These reforms need to decentralize property development and restore checks and balances between the institutions that regulate the process, increase citizens' access to urban policy decisions and ensure transparency and competitiveness in the distribution of land rents.

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