An Approach for Re-Engineering Organizational Structure of Real Estate Valuation System in Turkey

Nuri ERDEM and Mehmet CETE, Turkey

SUMMARY

Real estate values are needed in many activities such as real estate sale, taxation, compulsory purchase, mortgage, insurance, privatization and nationalization. Therefore, countries build up their valuation systems and determine the real estate values both to use in different applications and to provide transparency in the market. Similar to the situation in many other systems, real estate valuation systems need to be re-engineered over time based on the changing expectations of societies, new organizational structures, modern trends, technological developments and so on. Turkey is one of those countries where a re-engineering process in real estate valuation is needed. Real estate valuations for taxation purposes are carried out by the municipalities without sufficient data on real estate characteristics and sales prices in the country. Some other public organizations, such as General Directorates of Highways and State Hydraulic Works, determine real estate values for compulsory purchases through the commissions set up in their institutions. Members of the commissions are mostly not real estate valuation experts. Mortgage and insurance based valuations are carried out by private valuation corporations. Valuations for the purposes of privatization and nationalization are performed by relevant administrations. The country does not have a leading public authority to organize and supervise the overall valuation system or works. This paper, firstly, introduces current organizational structure of the real estate valuation system in Turkey. Then, it describes the issues experienced during the valuation works carried out by both public and private organizations. It provides an approach for re-engineering organizational structure of real estate valuation system in Turkey.

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1. INTRODUCTION

Real estate appraisal is required for both public applications (such as taxation, expropriation, nationalization, privatization, real estate transaction and registry of an easement) and private sector applications (such as capital market, banking, credit facility and insurance). Therefore it is very important for countries to build up an infrastructure of real estate appraisal in order to ensure the transparency of real estate markets and realize public/private sector applications to be made equitably. Today, different techniques and methodologies are used for valuation of real property. From location of the estate to the characteristics thereof, several factors and concepts are available but these methods are not holistic, accurate or fast and many of them are complex.

If real estate appraisal system of Turkey is examined, it can be seen that the country does not have healthy regulations, an appropriate organizational structure, databases and models of real estate appraisal. The main problem lies in the fact that there are contradictions in property appraisals in Turkey. This situation causes a number of problems such as different values appraised by different organizations for the same property. Therefore building up a well-functioning valuation system is required in the country in order to carry out appropriate real estate appraisals to use not only in taxation but also in other fields. Although this need has been declared many times in many academic and professional platforms, very few works could be carried out to define main characteristics of a well-functioning Turkish real estate valuation system.

The aim of this paper is to evaluate efficiency of present Turkish real estate appraisal system and to submit some proposals to develop its efficiency. In this context, at first, general structure of current Turkish real estate valuation system is described. Then, the efficiencies of these systems are evaluated and the need for improvement in Turkish real estate appraisal system is defined. At the second part of the paper, it is aimed to examine a good operating real estate appraisal system and to get some experiences for Turkish case. At the end, some recommendations are submitted to re-engineering organizational structure of real estate valuation system in Turkey.

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2. ORGANIZATIONAL STRUCTURE OF REAL ESTATE VALUATION SYSTEM IN TURKEY

In this section, current real estate valuation system in Turkey has been investigated in detail in order to determine the problems of the sector and to mention what should be done to reach the international standards. For this purpose, some information about the subject is given in subtitles.

2.1. The Importance of Establishing the Organizational Structure

According to "Business Dictionary", organizational structure is "the typically hierarchical arrangement of lines of authority, communications, rights and duties of an organization. Organizational structure determines how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the different levels of management. A structure depends on the organization's objectives and strategy. In a centralized structure, the top layer of management has most of the decision making power and has tight control over departments and divisions. In a decentralized structure, the decision making power is distributed and the departments and divisions may have different degrees of independence" (URL_1). That's why organizational structure of real estate valuation system is very important factor of collecting immovable property taxes. So, they should be properly developed to build up economic conditions effectively. When valuation systems of different countries are examined, it is seen that there are many kinds of organizational structure around the world. It changes mostly depending on the politic and administrative structures and traditions of countries. While some countries have good operating organizational structure of property valuation system, the others haven't got it in valuation processes just like Turkey.

Turkey is one of the countries where an organizational re-engineering process is needed in real estate valuation. Real estate valuations for taxation purposes are carried out by the municipalities without sufficient data on real estate characteristics and sales prices. Some other public organizations, such as General Directorate of Land Registry and Cadastre, Capital Market Board, Governorships, Housing Development Administration, Special Provincial Administration, Revenue Administration, General Directorates of Highways, State Hydraulic Works, etc., determine real estate values for compulsory purchases through the commissions set up in their institutions. Members of the commissions are mostly not real estate valuation experts. Mortgage and insurance based valuations are carried out by private valuation corporations. Valuations for the purposes of privatization and nationalization are performed by relevant administrations. The country does not have a public authority to organize and supervise the overall valuation system or works.

2.2. Organizational Structure of Property Valuation

Valuation works for taxation purpose is carried out by municipalities in Turkey. However, they do not evaluate purchase prices in those works and do not have a database for object characteristics (Cete at al., 2006). Also many institutions like the General Directorate of Land Registry and Cadastre, Capital Market Board, Governorships, Housing Development

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Administration, Special Provincial Administration, General Directorate for Highways, Revenue Administration, and the others are carrying out valuation works for expropriation. On the other hand, valuation works of private sector (mortgage, insurance, etc.) are handling by appraisal companies. As a result, there is a gap in organizational structure of the Turkish real estate valuation system because current system has been structured overtime. Turkey needs an institution to assume the duty of standard and policy making for property valuation (Cesur, 2012).

In late 1980's, when foreign investment companies started to co-operate with Turkish companies in line with the economic developments, appraisal of real estate and collecting tax from them become necessary (Yilmaz, 2013). As a result, appraisal practice began to be developed. In recent years, some crucial steps have been taken in appraisal such as organization of Appraisal Institute courses and establishment of Appraisers' Association in Turkey. Those steps are follows in chronological order (Ozcelik, 2004):
- **2001:** Appraisers' Association was established in Turkey (DUD).
- **2001:** Capital Markets Board of Turkey (CMB) made arrangements for Appraisal Companies.
- **2002:** Instructors were trained at a University for Appraisal Principles Course.
- **2002:** CMB gave the first exam for certification of appraisers.
- **2007:** The concept of real estate appraiser has entered to our laws with mortgage law in the first time.
- **2007:** Association of Licensed Appraisal Companies (LİDEBİR) was established as a platform based in Istanbul.
- **2010:** The Turkish Union of Real Estate Appraisers (UREA) was established.

Capital Markets Board of Turkey decided to organize market and defined two types of appraisers; Residential Appraiser or Real Estate Appraiser. The number of licensed real estate appraiser is 2141 and the number of licensed residential appraiser is 224 people according to data of the year 2012. Real Estate Appraiser's skill covers Residential Appraiser's. There is no another authority to giving permission to people to doing valuation business. Personal certification only are given by Capital Markets Board of Turkey (CMB). The main functions of the Board is permissions on real estate appraisal foundation (URL_2). The requirements to obtain real estate appraisal license are;
- Being a four-year university graduate,
- Real estate licensing exam in a specialization to be successful,
- The candidate must be at least 3 years' experience in the field of real estate appraisal.

In 2010, the Turkish Union of Real Estate Appraisers (UREA) has been established. Main duties dedicated to the Union are:
- to carry out researches to provide development in real estate market and real estate valuation;
- to educate and certificate real estate appraisers;
- to form professional rules and valuation standards;
- to prevent unfair competitions;
- to establish coordination with other organizations;

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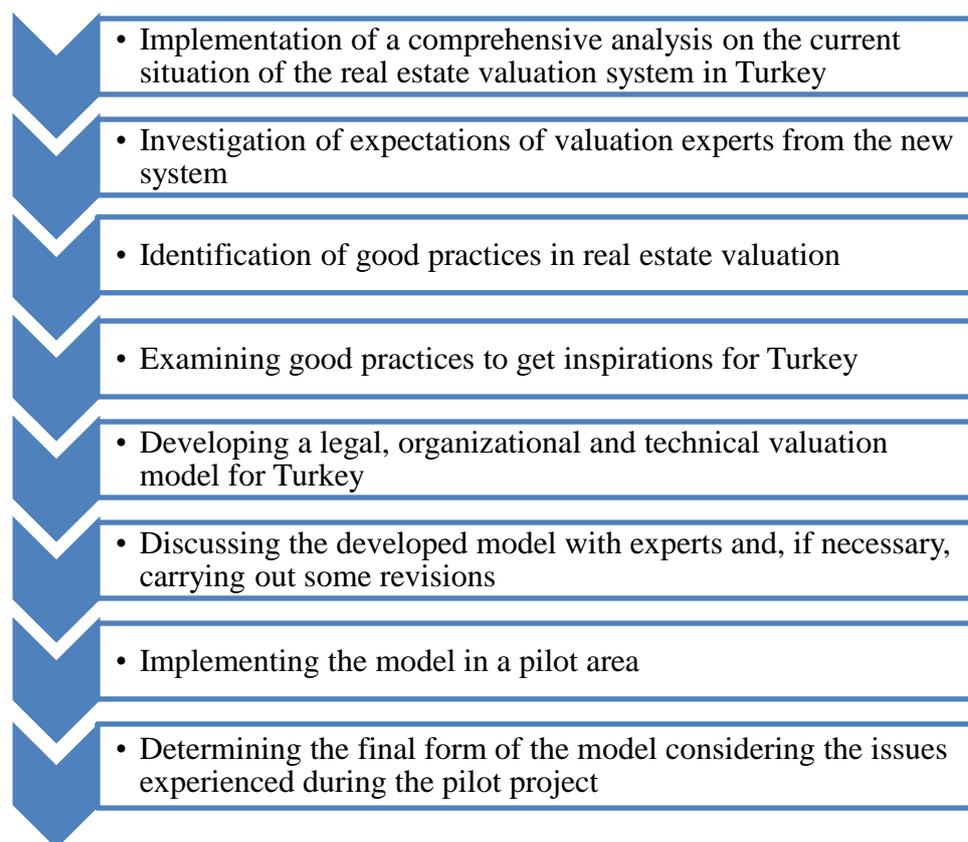
- to inform members about professional developments;
- to prepare and publish statistics on real estate values in both regional and national level.

In June 2008, the Loan Agreement between Turkey and the World Bank for "Land Registry and Cadastre Modernization Project" has been signed. One of the components of the project is "Property Valuation" and it is carried out by the General Directorate of Land Registry and Cadastre (URL_3). Within the property valuation component, it is aimed to develop a real estate valuation policy by underlying the need for changes in the governing structure, establishing the standards in the valuation studies. One of the objects of the property valuation component is to carry out a "mass property valuation". Building the mass valuation system in Turkey will provide calculating the property values in parallel with market value. And it will be provide a valuation system model with the other benefits (Yildiz at al., 2015).

3. THE ISSUES EXPERIENCED IN THE TURKISH REAL ESTATE VALUATION SYSTEM

Today, more than 30 institutions and organizations are carrying out real estate valuations in Turkey. There is no responsible authority to provide coordination among these institutions and organizations (Erdem and Cete, 2013). Many public institutions have been authorized to carry out real estate appraisals when they need values without an umbrella or leading institution. Some government institutions also carry out valuation works especially for expropriation purpose. Each municipality and government institution has its own valuation committee to carry out these works. Databases in which real estate characteristics and sale prices are stored to use in valuation works could not been constructed over time (Erdem and Cete, 2013; Cete, 2012). According to Candas and Yomralioglu (2014), real estate appraisal results should be recorded in the national geographical database and put into service of related institutions in national and international standards in order to define regional differences and the factors effecting value.

There is a need for a design for the re-engineering process of the Turkish real estate valuation system. This design for the processing steps that must be followed when performing presented proposal outlines a workflow diagram in Figure 1. The approach developed should be discussed with valuation experts in both public and the private sectors and with relevant academicians. Then, if necessary, it should be revised based on the results of the discussions.

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Figure 1. The basic steps of the re-structuring process in the Turkish real estate appraisal system (Erdem and Cete, 2013).

4. CONCLUSION

When taken into account the evaluations on efficiency of Turkish valuation system above, it can be easily said that there is need for re-engineering in real estate valuation system in Turkey. As a result of the evaluation, it is seen that there is a need for a leading institution that controls and regulates for all valuation works. The responsible authorities for real estate taxation are municipalities in the country. Municipalities should carry out taxation based real estate valuations. This must be done with mass valuation methods. In this process, if the relevant municipality does not have adequate infrastructure and experience, valuations can be carried out by tender process. It means, private companies of real estate valuation can perform the mass appraisal works. For this, building up infrastructures for both real estate characteristics and sales prices are very important. Private companies can also provide data for those infrastructures and thus all reliable information can be shared between public and private organizations. The valuations for expropriations and other purposes should also be made by the experts based on the appropriate regulations.

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Nuri Erdem graduated from Yıldız Technical University, İstanbul, Turkey in 1995, and received MSc degrees from Istanbul Technical University, İstanbul, Turkey in 1999. He worked for 3 years as a survey engineer in some private companies. He is now working for Osmaniye Korkut Ata University, Osmaniye, Turkey as the Head of the Architecture and Urban Planning at the Osmaniye Vocational Schools. His research interests are GNSS, land surveying, application, and real estate appraisal.

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