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SUPPLY AND DEMAND IN THE HOUSING MARKET: AN ANALYSIS OF RENT PRICES IN TURKEY

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SUPPLY AND DEMAND IN THE HOUSING MARKET

AN ANALYSIS OF RENT PRICES IN TURKEY

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By

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DECLARATION

I declare that the work contained in this thesis has not been presented for a degree anywhere and is my own original work. Appropriate academic citation is used for all sources cited in the preparation of this thesis.

I certify that this thesis is the result of my own efforts and that the data, references and quotations have been properly referenced and attributed.

Signature: _____

Name: AYSE SARE AY

Date: 10 June 2026

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CHAPTER 1: INTRODUCTION

Housing is among one of the pillars of any economy, being a basic human need and an important economic indicator. The housing market has experienced significant changes in Turkey within the last decade due to the speed of urbanization, population growth, economic instability and unique events like the COVID-19 pandemic and the devastating earthquake in February 2023. The impact of these factors has been significant on the housing supply and demand dynamics, and consequently, its effects has been reflected in unprecedented rise of rents in the major urban centres (TÜİK, 2024).

The Turkish housing market is also faced with a set of problems that differ from many other countries. Since the 1950s, higher levels of internal migration to urban regions have led to a movement of millions of people to the large cities of Turkey, such as Istanbul, Ankara and İzmir for economic opportunities (Erman, 2020). The demographic change has caused a long-term increase in demand for housing, especially in metropolitan areas, which account for nearly 78 percent of the national population (Akar et al., 2026). At the same time, the supply of housing has not met the demand it has seen, with increasing construction costs, availability of land and regulations being the factors that have hampered its ability. These market dynamics can be understood, and analysed using a classical micro-economic framework, namely that of supply and demand. In any competitive market, the equilibrium price is determined by the interaction of supply and demand; in the case of the housing market, this helps to explain what influences what rents are, and why government policies, like rent controls, can have unintended consequences.

The problem of affordability has become a serious issue in Turkey over the past few years, attracting the interest of policymakers, academics, and the public. The rent prices rose by more than 300 percent from 2018 to 2023, with rent price increases of more than 50

percent in 2022 and 2023 (TÜİK, 2024). According to the CBRT, the New Tenant Rent Index (NTRI) increased by 53.9 percent year-on-year as of February 2025, but seemed to be declining from earlier highs (CBRT, 2025). These increases have significantly outstripped wage growth, and are an enormous burden on households especially those that rely on renting – especially in major cities. As a result of the public pressure, the Turkish government has adopted the Law No. 7409 in June 2022 setting a temporary ceiling of 25 percent on annual rent increases for residential tenancies. This price ceiling policy was intended to limit the amount that landlords can charge current tenants for rent, but it has sparked lot of discussion about how well it works and what side effects it has. According to Köksal's (2024) findings, the regulation has resulted in more court cases, less incentives for renting properties and the creation of informal rental arrangements that opt out of the official price ceiling.

Given this policy move, it is particularly crucial to investigate the impact of this policy measure on the housing market, particularly as the housing market is relevant to the welfare and economic stability of households. So, the general goal of this thesis is to examine the relation between the supply and demand to the rent prices in Turkey and to look at the effect of the government rent control policy on the market outcomes. Specifically, the purpose of this study is to elucidate the theory of supply and demand in housing markets, to review the official data on rent prices provided by the Turkish Statistical Institute (TÜİK) and the Central Bank, to discuss the determinants of the housing demand and supply in Turkey, and to analyze the economic consequences of the 25 percent rent control policy on housing affordability, supply and market efficiency.

The main research questions that are considered in the present study are:

(1) What are the determinants of rent prices in Turkey? What factors cause changes in the supply and demand of housing in the Turkish housing market?

(2) What are the effects of the increase and decrease of housing supply and demand on the equilibrium rent prices in the main cities of Turkey?

(3) What are the intended and unintended effects of the 25 percent rent control policy in the Turkish housing market?

This study is important for several parties. The results can inform policymakers about the effectiveness of rent control as a housing policy tool, help them make decisions about implementing future rent control policies, and shed light on the Turkish case for other countries looking to implement rent control. This study provides useful insights for tenants and landlords about the benefits and drawbacks of rent control policies, as well as their rights and the impact of rent control on the market. The thesis is key addition to the microeconomic literature on housing markets, as it brings together concepts and theories from the literature to a real-world policy case set in an emerging economy framework.

The rest of this thesis is organised as follows. In Chapter 2, theory is introduced by examining the concepts of supply and demand, equilibrium price, price elasticity of demand and government intervention in the form of price ceilings. Chapter 3, the Turkish Housing Market, reviews the supply and demand conditions in the housing market, based on official data. In Chapter 4, prices of rents and government intervention is assessed with a particular emphasis on the rent control policy of 2022. The impact of the policy is analysed in detail in Chapter 5. The findings, policy recommendations and suggestions for future studies are summarized in Chapter 6.

CHAPTER 2: SUPPLY AND DEMAND THEORY

2.1 THE FUNDAMENTALS OF SUPPLY AND DEMAND

The tools and basic theory developed in Microeconomics is used to determine the function of the market and how the price level is determined by the interaction of supply and demand. As Mankiw (2021) explained, in economics the term economics refers to the study of how scarce resources are managed in society, and microeconomics deals specifically with the behaviour of individual economic units: consumers, firms, and markets. The housing market, like other markets, is a competitive market where the equilibrium price is determined by the interaction of the buyers (tenants) and sellers (landlords). According to the law of demand, other things being equal, when a good's price increases, the quantity demanded decreases, and when a good's price decreases, the quantity demanded increases; this means that the demand curve for a good is down sloping (Mankiw, 2021). The law of supply, on the other hand, states that an increase in price will result in an increase in quantity supplied, which creates an upward-sloping supply curve. The price at which these two curves cross each other is the equilibrium price and the quantity at which they cross each other is the quantity demanded equals the quantity supplied. The chapter looks at the application of these basic principles in the housing market and the special elements that make housing a different commodity than others.

Housing supply refers to the total stock of residential units available for rent or purchase in a given market at a particular time. Unlike many other goods, housing supply is relatively inelastic in the short run because the construction of new units requires significant time, capital, and regulatory approvals (Yaşar & Bulut, 2023). The determinants of housing supply include construction costs, which encompass land acquisition, building materials, labour expenses, and compliance with building regulations. In Turkey, construction costs

have risen substantially in recent years due to inflation and currency depreciation; the Domestic Producer Price Index for construction materials increased significantly between 2020 and 2023, directly affecting developers' willingness and ability to build new housing units (Atasoy & Tursun, 2022). Interest rates also play a critical role, as higher rates increase the cost of borrowing for developers and reduce the profitability of new construction projects. Furthermore, the 2023 earthquake in southeastern Turkey destroyed thousands of residential units, creating a sudden negative supply shock that further strained the already limited housing stock (Köksal, 2024). Government regulations, including zoning laws and building codes overseen by the Ministry of Environment, Urbanization, and Climate Change, also constrain housing supply by increasing development costs and extending project timelines.

On the demand side, housing demand represents the quantity of residential units that households are willing and able to rent or purchase at various price levels, and it is influenced by a complex array of demographic, economic, and social factors. Population growth and urbanization are fundamental drivers of housing demand in Turkey. The country's population has grown from approximately 67 million in 2000 to over 85 million in 2024, with urbanization rates increasing correspondingly (TÜİK, 2024). Internal migration from rural areas to major cities has concentrated demand in urban centres, particularly Istanbul, which alone accounts for approximately 18 percent of national housing transactions (CBRT, 2025). Income levels and employment opportunities significantly influence demand, although in Turkey high inflation has eroded real purchasing power, creating a paradox where housing demand remains strong but affordability has declined substantially (Yaşar & Bulut, 2023). Additionally, refugee migration since 2011 has significantly increased housing demand, particularly in border provinces and major cities (Köksal, 2024), while inflation expectations and housing's traditional role as an inflation hedge have further stimulated demand as Turkish

households have historically viewed real estate as a store of value during periods of currency depreciation.

2.2 EQUILIBRIUM PRICE AND PRICE ELASTICITY

When the amount of housing supplied is the same as the amount of housing demanded at a specific price, there is an equilibrium in the market. The equilibrium rent in the housing market is the renter's price at which the number of rental units offered by landlords equals the number of units tenants are willing to rent. Mathematically equilibrium is represented by:

$$Q_d Q_s =$$

Where Qd represents quantity demanded and Qs represents quantity supplied. If this condition is satisfied, there is neither excess supply (vacancy surplus) nor excess demand (housing shortage). However, in practice, housing markets do not appear to be in a state of perfect equilibrium because of a number of frictions: search costs, information asymmetries, and the time needed for supply to respond to changes in demand. Increase in demand in the short run, when the supply curve does not shift (due to an increase in population or income) causes the demand curve to move from left to the right, increasing the equilibrium rent. However, with an upward shift in supply (new construction) and unchanged demand, the supply curve moves to the right, which results in a downward movement in the equilibrium rents (Mankiw, 2021).

The equilibrium rents in Turkey have been subjected to quasi-permanent pressure upward, due to the result of the rapid growth of demand due to urbanization and migration, along with supply restrictions arising from earthquake losses and increasing construction costs. This demand-supply imbalance is reflected on the CBRT data where the nationwide New Tenant Rent Index rose by 34.2 percent year-on-year as of February 2026, but has subsided from some of its higher levels that occurred previously (CBRT, 2025). This

equilibrium mechanism is important for assessing the impact of policy measures like rent control.

The price elasticity of demand is a measure of how sensitive the quantity demanded is to a change in the price. It is defined as the ratio of the percentage changed in quantity demanded to percentage changed in price:

$$\frac{\%\Delta Q_d}{\%\Delta P_d} E_d \ =$$

The price elasticity of demand (Ed) is equal to the percentage change in quantity demanded (%ΔQd) divided by the percentage change in price (%ΔP). Housing demand is generally price inelastic, particularly in the short run, because shelter is a necessity and few viable substitutes exist in the immediate term (Hanushek & Quigley, 1980). Empirical price elasticities of housing demand tend to fall in the range of -0.2 to -0.95, with the majority of studies obtaining a value near -0.5 (Gyourko & Voith, 1999; Hanushek & Quigley, 1980).Since the price elasticity of demand is always negative, it is formally correct to assess elasticity in terms of its absolute value: if the absolute value of Ed is greater than 1, the demand is elastic, which means that demand is relatively responsive to changes in price. If the absolute value of Ed is less than 1, then the demand is inelastic, meaning that the quantity demanded moves less than proportionally to the price change.

This inelasticity suggests that if rents go up, the amount demanded goes down less, so that the total expenditure on rent rises by the same percentage as the increase in rents, but households do not necessarily reduce their housing quantity consumed by a proportionate amount. There are several dimensions to the price elasticity of demand for housing. In the short run, demand is inelastic because tenants have high moving costs, search costs, and they have limited alternatives in the near-term. In the long run, the demand for housing is more elastic because more time is given for tenants to move to more affordable housing, or to

become homeowners (Mankiw, 2021). Geographic differences also are important: demand is more elastic in markets where there is a wider variety of housing and transportation choices, and less elastic in less flexible markets such as constrained urban markets like Istanbul, where other housing options are scarcer.

2.3 GOVERNMENT INTERVENTION AND PRICE CEILINGS

Governments frequently intervene in housing markets to address perceived market failures or to achieve social equity objectives. One of the most common forms of intervention is rent control, which constitutes a price ceiling on rental housing. A price ceiling is a legally mandated maximum price that can be charged for a good or service. For a price ceiling to be effective, or binding, it must be set below the equilibrium price:

$$P_c P_e \ <$$

Where Pc is the ceiling price and Pe is the equilibrium price. When this happens, the price ceiling will cause the market to not reach equilibrium as the quantity demanded is greater than the quantity supplied at the controlled price (Mankiw, 2021). Germany, France, the Netherlands, Spain, and some cities in the United States (U.S.) have instituted rent control (Kholodilin, 2024). The stated goals are usually to help prevent low-income residents from being displaced from the community, to help prevent the loss of affordable housing stock and/or to help ensure that tenants are not subjected to excessive rent increases. But economic theory and empirical research indicate there are substantial unintended consequences of rent controls.

A rent ceiling binding in some instances can make the landlord less inclined to improve and maintain the property, since the rent is no longer the motivating factor. This will cause the quality of housing to decline over time due to deferred maintenance and deferred capital improvements (Sims, 2007). Further, the decreased returns can also lead landlords to

repurpose rental properties for other purposes, like condominiums or brief-term vacation leases, and decrease the quantity of rental housing (Stacy et al., 2025). On the demand side, below-market rents lead to underproduction because landlords, who can expect to receive less from tenants living in rent-controlled units, are less willing to invest in these buildings. This imbalance can result in lower mobility in the labour market and inefficient use of housing resources; some households live in larger units than their needs, and some households are unable to access any affordable housing (Brookings Institution, 2022).

In Turkey, rent increases have been capped at 25 percent annually since June 2022 with Law No. 7409, which was originally to take effect until July 2023 and then extended until July 2024. This policy was a major change from the previous one that allowed rent to increase in line with the average of the Consumer Price Index (CPI) for the past year, a figure that surpassed 60 percent per year during the inflation period (Köksal, 2024). Although the policy offered instant relief to the current tenants, studies show that it also led to a rise in litigation, fewer rentals and informal arrangements to bypass the law (Köksal, 2024). After the 25 percent rent cap expired in July 2024, rent inflation was still high, but the system was switched back to the CPI-based system.

2.4 THEORETICAL FRAMEWORK

In this thesis, a micro-economic theoretical approach is used to analyze the Turkish housing market using the standard supply-demand model. The study combines theory with empirical analysis using primary data provided by official bodies in Turkey (TÜİK and CBRT), and analyses the influence of market dynamics and policy measures on rent prices. The theory starts with the premise that the housing market, although distorted by many factors and hampered by many frictions, is a basic supply and demand market. The model implies that an increase in the demand for housing relative to the supply will lead to an

increase in the equilibrium level of rents, and that a price ceiling below equilibrium will lead to a housing shortage, a fall in the quality of housing, and market inefficiency. The theoretical implications are then tested with the Turkish empirical evidence in the following chapters. Elasticity is also included in the analysis to account for the differences in the responsiveness of housing demand during the short run and the long run and why rent control policies might seem to be beneficial in the short-run and to become increasingly more costly in the long-run. The aim of this thesis is to evaluate the determinants of rent prices and the effects of rent controls in the Turkish housing market based on a combination of micro-economic theory, market data from Turkey, and empirical studies from elsewhere in the world.

CHAPTER 3: HOUSING MARKET IN TURKEY

3.1 OVERVIEW OF TURKEY'S HOUSING SECTOR

The Turkish housing industry has undergone significant change and development in the last 20 years, in line with the country's fast economic growth and demographic shifts. This process has been shaped mainly by the urbanization trend which has increased from around 44 per cent of the population in 1980 to more than 78 per cent in 2024 (TÜİK, 2024). This enormous change has caused an increased need for residential housing in the cities, especially in Istanbul, where the population has reached over 15 million making it one of the largest cities in Europe. The real estate industry has become an important part of Turkey's economy, accounting for about 8-10% of the country's gross domestic product (GDP) (REOS, 2023). Turkey's real estate market has experienced growth cycles and correction cycles, which are driven by macroeconomic factors. The housing market experienced a long and vigorous expansion from the mid-2000s to 2017 due to the growth of cities, the scale of building and the demand from domestic markets.

In that period there was a rise in nominal prices in most major cities, new supply was high as developers rushed to meet demand and transaction volume was growing due to credit conditions and household income enabling home transactions (Global Property Guide, 2026). From 2018 onward, however, macroeconomic uncertainty led to dramatic nominal house-price swings: the value of the Turkish lira depreciated significantly, causing associated economic slowdowns, while gains in house prices in real terms were actually negative. Property became a growing inflation hedge for many investors, which fueled rising demand for housing from 2020 to 2022. This, added to supply-side cost pressures, resulted in highly significant real and regional nominal price increases which, when adjusted for inflation, were

significant in real terms. The earthquakes in February 2023 brought a significant market shock, and emergency reconstruction work spurred construction activity in affected provinces, while large public housing projects, and reconstruction activities, increased demand and reshaped pricing dynamics in affected provinces (Global Property Guide, 2026). In 2025, the housing market had a more distinct improvement in activity than in real house prices, as the activity of residential sales continued to increase, albeit at a slightly lower rate in real terms.

Figure 3.1 below illustrates the theoretical supply-demand equilibrium in the housing market, providing the analytical foundation for understanding the rent price dynamics discussed in this and subsequent chapters.

Figure 3.1: Market Equilibrium in the Housing Market

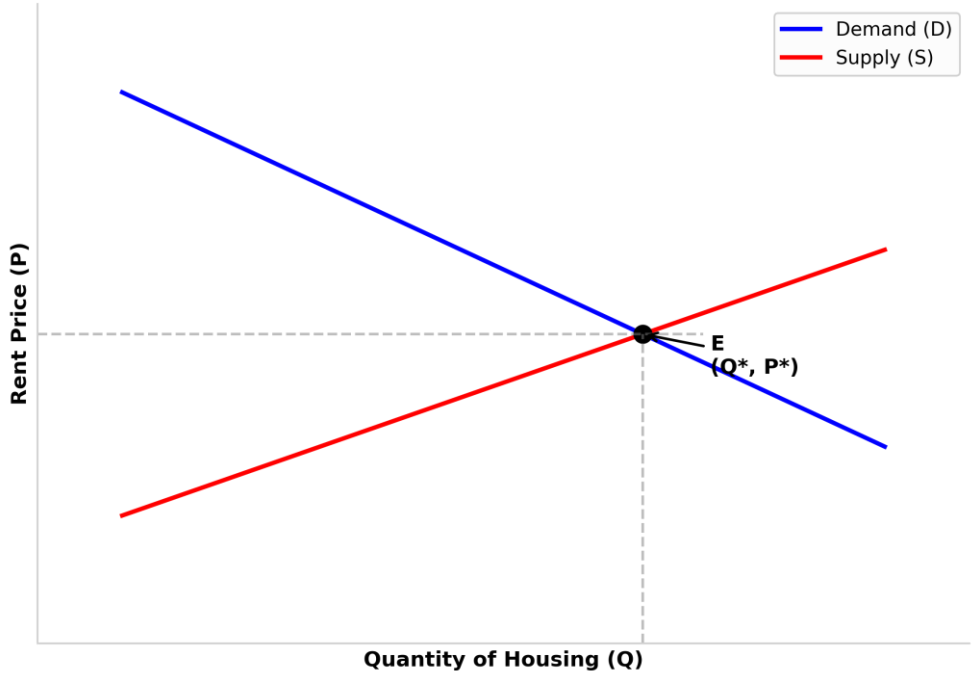


Figure 3.1: Market Equilibrium in the Housing Market (Supply and Demand)

3.2 HOUSING SUPPLY AND DEMAND DYNAMICS

The Turkish real estate market is a complicated one that needs to be studied thoroughly, taking into account both supply-side and demand-side influences that have

contributed to the evolution of the sector. On the supply side, the construction industry plays a major role in the Turkish economy, with numerous employees and significant multiplier effects in related industries. The data from the Turkish Statistical Institute show that the number of residential building construction permits issued in 2023 amounted to 197.56 thousand square metres of floor area, which decreased by 8.7 percent to 180.27 thousand square metres in 2024 (Türel, EECFA, 2025). In contrast, occupancy permits, which represent housing stock that has already been completed and is now available, increased from 118.80 million square metres in 2023 to 138.21 million square metres in 2024 (+16.4 percent) reflecting in part the reconstruction from the earthquake. The Housing Development Administration (TOKİ) of the Ministry of Environment, Urbanization, and Climate Change has played a major role in providing mass housing projects, and they will aim to build 200,000 dwelling units per year in the post-earthquake period (Türel, EECFA, 2025).

A lack of housing remains an issue and is especially severe in the main metros where demand always grows faster than supply. This index rose 66.12 percent year-on-year in June 2024, with the major contributor being labour cost which rose by 105.50 percent, significantly contributing to new housing development (Türel, EECFA, 2025). The earthquakes in February 2023, that hit the southeast of Turkey, resulting in more than 50,000 deaths, demolished an estimated 345,000 houses and severely damaged hundreds of thousands of others, thus marking an unprecedented supply shock. The reconstruction of buildings and infrastructure is estimated at about EUR 100 billion and it is expected that rebuilding 870,000 independent units will take 2-3 years more (Türel, EECFA, 2025). This reconstruction need has taken construction efforts away from other areas and limited housing supply in major cities such as Istanbul and Ankara.

Demand-side factors such as population growth and changes in household characteristics have been among the most important ones in Turkey's housing demand. The

number of households in independent accommodation has been increasing since 2000, from 4.5 persons to 3.2 persons during the same period, consequently the national population has increased from an estimated 67 million to over 85 million people (TÜİK, 2024). Another important demand factor has been the migration of refugees from Syria and other conflict-affected areas in Turkey since 2011: Turkey is a country of refuge for more than 3.6 million refugees under temporary protection status, as well as migrants from Iraq, Afghanistan and other conflict-affected countries, which is significantly affecting housing demand in border provinces and major urban centres (Köksal, 2024). Additionally, as Turkish citizens have traditionally believed housing is the most secure asset to hold during inflation and currency depreciation, the investment demand for housing has been increased by inflation expectations. Between 2020 and 2023, the number of housing transactions for the purpose of investment increased significantly, especially as many purchasers tried to invest in the capital to safeguard their savings against the loss of purchasing power due to inflation (Yaşar & Bulut, 2023).

3.3 RENT PRICE TRENDS AND REGIONAL VARIATIONS

Rent price trends in Turkey indicate a dramatic increase that has completely changed the affordability of housing in Turkey. The New Tenant Rent Index (NTRI), published by the Central Bank of the Republic of Turkey, measures the annual price variation that renters would face if they changed housing units every period. It reflects the rent level for new lease contracts and is not adjusted for inflation, meaning it reports nominal rent changes as experienced by tenants entering new agreements. Figure 3.2 shows the annual change in the New Tenant Rent Index from 2019 to 2025. The annual change in this index measures the year-on-year percentage change in rent prices for new tenants. It was 13.2 percent in 2019, 11.8 percent in 2020, 21.5 percent in 2021, 78.5 percent in 2022 and 95.2 percent in 2023

(CBRT, 2025).Although the rate of rent growth slowed to 45.8 percent in 2024 and then to 34.2 percent by February 2026, rent increases remained much higher than wage growth and overall inflation rates, putting significant pressure on household budgets.

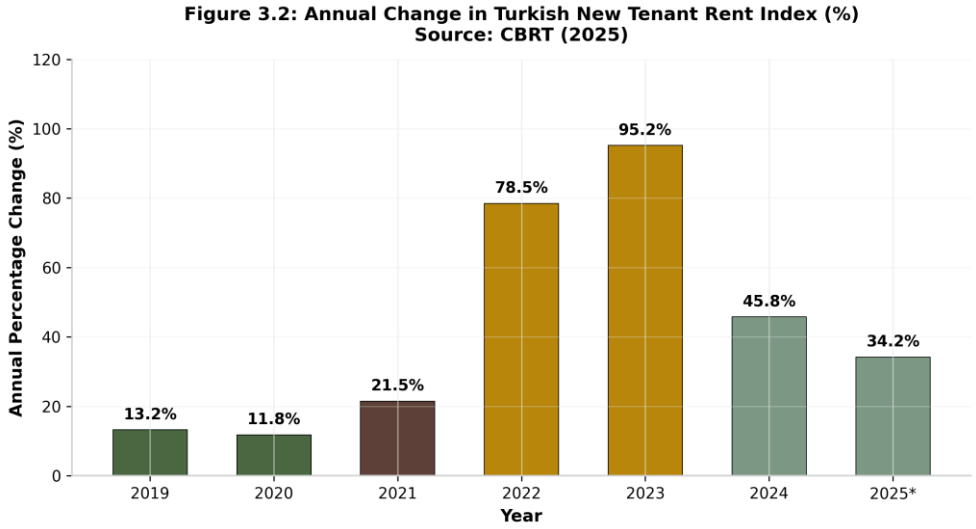


Figure 3.2: Annual Change in Turkish New Tenant Rent Index, 2019-2025

Rental prices vary significantly across regions, corresponding to uneven distribution of economic opportunities, population density, and housing supply in Turkey. With its being the economic and cultural heart of the country, Istanbul has the highest rent prices and the fastest price growth. Istanbul, which is responsible for about 18 percent of all housing transactions in the country, is also home to prime residential rents that are similar to those in major cities in Europe (CBRT, 2025; REOS, 2023). The rent increases in the capital city of Ankara were a bit less steep because of the more stable economy of the public sector, but still considerable. The rent growth has been highly dynamic in coastal cities, with Antalya and Mersin experiencing the strongest growth, driven by both domestic migration and foreign buyers, especially Russian and Middle Eastern buyers. The Price Index for Housing (Purchase and Rental) rose by 38.7 percent at current prices in July 2024 but decreased 14.3 percent in real terms, after adjusting for inflation (Türel, EECFA, 2025).

The difference in the movements of nominal and real prices shows the effect of the relatively high inflation rate in Turkey on the housing market indicators. Data sources of this analysis consist of the official statistics of the Turkish Statistical Institute (TÜİK) and the Central Bank of the Republic of Turkey (CBRT), and the academic literature research was made with help of Google Scholar, DergiPark and YÖK Thesis Centre. The methodological approach is a blend of quantitative data analysis of current official statistics and qualitative analysis of policy documents and scholarly studies, which enables comprehensive understanding of the dynamics of the housing market in Turkey.

CHAPTER 4: RENT PRICES AND GOVERNMENT INTERVENTION

4.1 RISING RENT PRICES AND THE RENT CONTROL POLICY

The reason why rent price increases in Turkey have increased dramatically from 2020 to 2023 is due to the synergy of inflationary pressures and currency depreciation in the country, as well as the concurrent shock to the housing market. During this period, consumer price inflation in Turkey has reached unprecedented levels, and the annual inflation rate has reached 85.5 percent according to TÜİK data in October 2022. The hyperinflationary environment directly affected housing costs in several ways: Firstly, prices of construction materials rose. Secondly, labour costs rose significantly. Thirdly, landlords raised rents in order to cover the loss of purchasing power of their returns on investment (Yaşar & Bulut, 2023). Between 2018 and 2023, Turkey's lira fell by around 80 percent against the US dollar, making imported building materials more expensive and driving up inflation expectations which added to the rise in the demand for housing as a currency hedge.

These inflationary effects were exacerbated by demand shocks. COVID-19 activity initially dampened activity for housing market in 2020, but later drove change in preferences as households looked for larger homes and home office space, which drove up the demand for residential units. The economic recovery from the pandemic, along with expansive monetary and fiscal policy, added a lot of liquidity to the economy, including a portion into real estate. The earthquake that occurred in February 2023 triggered an acute displacement crisis, as hundreds of thousands of families rapidly sought alternative housing in unaffected cities, placing a demand shock on cities such as Istanbul, Ankara, and İzmir (Köksal, 2024). Together these factors gave rise to rent increases that outpaced growth in incomes, so that by mid-2023 the ratio of median rent to median household income was at historically high

levels. Under strong public pressure and in response to these developments, the Government of Turkey passed Law No. 7409 in June 2022 that capped annual rent increases for residential rentals at a maximum of 25 per cent. This rule was in effect for the period of existing leases and was originally scheduled to expire in July 2023 and extended to July 2024. This policy was far different from the past, where rent increases were tied to the 12-month average CPI, which led to increases of more than 60 percent a year during the peak years of inflation.

4.2 ECONOMIC EFFECTS OF THE PRICE CEILING

The economic impact of Turkey's rent control policy can be examined by using the traditional microeconomic price ceiling approach. A binding price ceiling set below the market equilibrium causes a shortage because people want to buy more housing than is available at the price ceiling. Figure 4.1 illustrates this theoretical prediction, showing how the price ceiling stops the market from clearing, creating excess demand which is expressed in a shortage of housing.

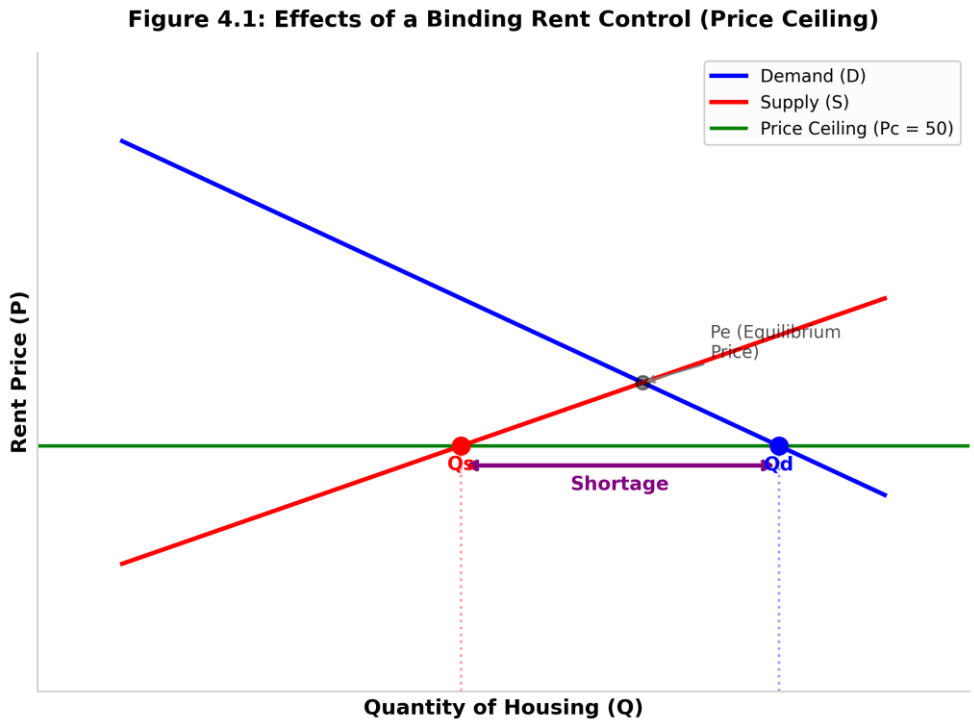


Figure 4.1: Effects of a Binding Rent Control (Price Ceiling) on the Housing Market

In the Turkish context, the 25 percent cap on rent increases had several observable consequences in line with this theoretical prediction. First, the problem of housing shortage was becoming increasingly visible in the big cities, as rental listing volumes on the market dropped significantly, with landlords either pulling properties off the market or converting them into short-term tourist rentals. According to the study conducted by Köksal (2024), the number of rental properties available in the listings in Istanbul has dropped by around 30 to 40 percent over the course of one year after the law went into effect. Second, many informal agreements were developed, in which landlords would demand a significant advance payment, buying of furniture, or extra fees in cash to help them skirt the rent regulations. These unofficial solutions resulted in a lack of transparency in the policy and new types of tenant vulnerability. Third, inefficiency in the market took the form of less labour mobility, with tenants who had more secure, lower rent contracts growing less willing to relocate when job offers were available elsewhere. This lock-in effect decreased the dynamism of the

housing market, and the overall economy. Fourth, the policy led to the existence of an old and a new market: existing tenants received rents that were lower than those that could be had in the free market, while new tenants had to pay higher entry fees, reflecting the landlords' expectation of lower rents in the future. This dual structure effectively redistributed wealth from the new tenants and from potential homeowners to the incumbent tenants, resulting in a number of equity issues not fully addressed by the policy.

4.3 CASE STUDY: ISTANBUL HOUSING MARKET

Istanbul offers a valuable example for the impact of the rent control policy, as it is quite large, diverse, and has a more acute housing market problem. Istanbul, as the largest city in Turkey (population over 15 million and GDP about 31 per cent of the total national GDP) has disproportionate influence on market trends in Turkey. During the crisis, the New Tenant Rent Index for Istanbul registered annual increases of more than 100 percent, while Istanbul was one of the cities with the highest annual rent increases in the country (CBRT, 2025). An estimated 5 million rental households in the metropolitan area were impacted by the 25 percent rent cap. The impacts of the policy became apparent in a different way in Istanbul depending on the districts and housing groups. Where rental demand is driven by proximity to employment centres and universities, like high-demand central districts like Şişli, Beşiktaş, Kadıköy, the lack of properties on the market was most severely felt, with average listing time for available properties dropping to less than 48 hours. The effects were slightly softened by continuing construction activity, although rents are still marginally higher than the national average, in peripheral districts with higher elasticity in supply, such as Esenyurt and Beylikdüzü (European side) and Pendik (Asian side). The case of Istanbul is, therefore, significant in terms of how the effects of rent control are dependent on the local

market conditions, the elasticity of the supply and the intensity of the demand, and thus for the overall effectiveness of the policy.

CHAPTER 5: ANALYSIS OF RENT CONTROL POLICY

5.1 EVALUATING THE ADVANTAGES AND DISADVANTAGES OF RENT CONTROL

The unintended costs and intended benefits of Turkey's rent control policy must be carefully considered for a balanced assessment. At the top of the list of benefits is tenant protection. Immediate and significant relief was provided to millions of current tenants who would otherwise have seen their rents rise by more than 60 percent a year, due to the 25 percent annual rent limit. It could have been particularly important to low-income and middle-income households, elderly tenants on fixed incomes, and families with children whose displacement would have had important social and economic consequences. The policy contributed to the stability of the neighborhoods and avoided forced relocations, whilst keeping some level of affordability in a situation of rapid rent increases exceeding the income of an average wage earner. The drawbacks to rent control are significant, though, and have been extensively theorized and studied. One of the biggest worries is impact on housing investment. Rental returns limited by below market rates reduce the incentive on the part of the developer and investor to build new rental housing, and can cause existing landlords to delay maintenance and capital improvements.

Diamond, McQuade, and Qian (2019) looked at the impact the expansion of rent control had on landlords in San Francisco, and found that landlords react by either making the property owner-occupied (condominiums) or by redeveloping the building, both of which lead to a long-run decrease in the number of available rental units that eventually drive up rents for future tenants. Similar trends can be observed in Turkey, where housing starts dropped in the post-policy phase because developers shifted their investment focus to

commercial and luxury rental segments, which are not subject to rent control (Köksal, 2024). Another major disadvantage of black market risks is the possibility of them being illegal. If the legal rent is less than the equilibrium rent, then there will be informal mechanisms to clear the market. In Turkey, these methods involved paying high key money as well as having to buy furniture and paying the rentals in the back of the house, thus bypassing the law. In addition, the lower quality of the housing was a predictable result, with landlords with limited rental income cutting back on maintenance, repairs, and improvement. This deterioration has a negative impact over time on not only the welfare of tenants, but the value of the national housing stock as well.

5.2 MARKET REACTIONS AND INTERNATIONAL COMPARISONS

The responses of market players to the rent control policy in Turkey offer valuable lessons for understanding the effects of rent controls on market behavior and outcomes. The 25 percent cap was responded to by the landlords in several avenues that are documented in the research by Köksal (2024). Others decided to sell their rental units to owner-occupiers, thereby decreasing the number of rent units. Many made a concerted effort to evict tenants by filing lawsuits by claiming the use of their own premises, resulting in an increase in eviction cases and placing a strain on the courts. Tenant behaviour also shifted those who moved into a rent-controlled unit became much less likely to relocate even if it would have benefited their employment situation, regardless of the circumstances.

International comparisons give food for thought for the Turkish experience. In 2015, Germany passed its rent brake (Mietpreisbremse) law, which limits new lease rents to at most 10 per cent of the local rent index in targeted tight housing markets. Breidenbach et al. (2019) showed that the policy inhibited growth in overall rental prices by about 2.5 percent, a relatively small effect which indicates that rent controls may have less impact than their

advocates would like. Diamond et al. (2019) examined the implementation of rent control in San Francisco in 1994, which lowered rents for current tenants and reduced the displacement of those tenants, but also saw rent increases in the city as landlords turned rental housing to condominiums that raised rents. The results of these international studies further confirm that the issue of rent control is a basic one of balancing short-term tenant protection with long-term market efficiency.

A further instructive case illustrating the negative impact of rent controls on housing supply is Sweden, where the country's system of comprehensive rent regulation has been associated with persistent housing shortages, long waiting lists for rental apartments in major cities, and the emergence of an informal market for rental contracts (Kholodilin, 2024). The Swedish experience demonstrates that even well-intentioned and administratively sophisticated rent control systems can produce adverse outcomes when they suppress the price signals that coordinate supply and demand. As a whole, the international experience with rent caps indicates that the 25 percent cap on rent in Turkey has had real medium-term costs due to supply constraints and market distortions that will persist even after the rent cap expires.

CHAPTER 6: CONCLUSION

This thesis has identified the factors driving rent prices in Turkey, through the analysis of the supply and demand dynamics, and analyzed the effects of the government's rent control policy for 2022 on the market. This analysis is based on both microeconomic theory and empirical evidence from official data in Turkey and from international scholarly literature, and, as such, has provided a comprehensive assessment of the housing market and the effects of policy intervention. It is possible to conclude the main findings of the theoretical and empirical analysis as follows. First of all, the rapid urbanisation, population growth and the increased inflow of refugees into Turkey as well as the demand for investments due to inflationary expectations have been putting increasing pressure on the housing market.

Secondly, the demand for housing has not been met by an adequate supply, as costs of construction have increased, the currency has lost value, regulations have become more stringent, and, not least, the supply shock of the earthquake in February 2023 has slowed down construction. Thirdly, this came in as demand-supply imbalance resulting in unprecedented rent increases, the New Tenant Rent Index reaching more than 95 percent per year at one point. Fourth, the 25 per cent rent control policy which was implemented in June 2022, while giving immediate relief to the existing tenants, created many unintended consequences like housing scarcity, the informal market, lack of investment incentive and deterioration in housing quality.

Rather than addressing the causes of the housing affordability crisis, the policy dealt with the symptom of high rents, the underlying cause being the basic imbalance between housing supply and demand. The rents were capped to the detriment of new construction and maintenance investment, further discouraging rent increase, and providing a negative price

signal that may have worsened the initial rents' price signal. This is in line with international experiences from Germany, the USA and Sweden, where rent control has led to similar trade-offs between protection and efficiency. Given these results, there are a few policy conclusions that can be drawn. Most importantly, policies that would solve the housing crisis would be policies that increased housing supply whilst not reducing prices. The government should speed up the process of zoning and improve the permitting process, and should offer incentives for affordable housing production, especially in the most in-demand metros. Secondly, the social housing scheme managed by TOKİ needs to be scaled up to create more affordable units at below market rates to help low income families, while avoiding market distortions. Third, rather than overt price controls, rental housing laws should be transparent, secure and provide mechanisms for resolving disputes. Fourth, macroeconomic stabilization is still necessary, since continued high inflation and currency volatility are underlying factors of housing market instability.

There are a number of limitations to this study that should be noted. The analysis is done on a national level which can overlook significant regional, city and housing segment differences. If more detailed information at the district or neighborhood level were available, more detailed analysis of the impact of rent control would be possible. Further, the relatively brief duration of time since the policy was adopted and that it ran for a limited time may make it difficult to fully capture long-term impacts. Last but not the least, take into account that some rental market agreements are informal in Turkey and official statistics may, therefore, underestimate some market features. These limitations can be addressed in future research through the use of micro-level data, a longer observation period, and qualitative methods of observation to highlight the experiences of those most directly impacted by the policy: tenants and landlords.

This study suggests some directions for future research. Comparative studies of rent control policies in emerging economies would provide a better understanding of which features of a rent control design work in which institutional setting. Longitudinal studies of the same units and households over time would offer stronger evidence of the impact of policy on the quality of the housing units, mobility and welfare of the households. Last but not least, studies on the interplay between rent control and other housing policies (social housing programmes, mortgage market policies, urban planning laws) will help inform a more holistic approach to address housing affordability issues sustainably.

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