

How would reforms made on zoning policies in Istanbul affect the SMEs?

Ayşe Umay Bahçivan
bahays27@robcol.com

ABSTRACT

Urban zoning reforms in Istanbul, particularly those related to rezoning, urban transformation, and large-scale housing projects, have reshaped the city's economic landscape, making their impact on SMEs, which constitute over 99% of enterprises in Turkey¹², an urgent issue for both policymakers and local communities. This study provides an overview of how urban planning policy reforms in Istanbul affect SMEs. Based on existing literature, statistical data, and case studies, the study highlights the displacement of SMEs from central areas, infrastructure inequalities in peripheral regions, and regulatory hurdles that increase costs and instability. The analysis shows that urban planning reforms, focusing on large-scale or luxury housing and infrastructure projects, have overlooked SMEs, despite their overwhelming presence in Turkey's economy. The study concludes that without inclusive and SME-sensitive reforms, Istanbul's urban development will continue to prioritize showcase projects over sustainability. Policy recommendations include participatory planning, SME-friendly incentives, infrastructure support, legal aid, and the protection of local economic ecosystems.

INTRODUCTION

Urbanization and industrialization in Turkey have accelerated rapidly since the 1950s, particularly after the 1980s, outpacing most regulatory legislation¹⁴. Within this context, zoning reforms, especially rezoning initiatives, urban renewal projects, and environmental planning regulations, have played a decisive role in shaping Istanbul's business environment. Small and Medium-sized Enterprises (SMEs), which make up almost all enterprises in Turkey, are directly affected by these reforms, making their survival and competitiveness a critical issue. SMEs constitute the foundation of Turkey's business environment, dominating both the national economy and Istanbul's business landscape. This makes zoning reforms especially important for their survival and competitiveness. Asgary, Özdemir, and Özyürek³ emphasize that pollution is a major environmental problem, especially in industrial and metropolitan areas such as Istanbul, Izmir, and Bursa, and these regions not only threaten environmental sustainability but also impose financial and health burdens on SMEs. These burdens include increased operational costs, regulatory compliance challenges, and productivity losses due to pollution-related illnesses among employees⁷

February 2026
Vol 4, No 1.

Beyond environmental concerns, urban policy and zoning reforms are expected to shape the landscape in which SMEs usually operate. The study by Eraydın⁸ highlights how Istanbul's unregulated planning system and inconsistent policy implementation result in failed development projects and economic inefficiencies. Rapid rezoning and urban transformation projects often prioritize large-scale development, sidelining the needs of smaller businesses. This creates a challenging environment for SMEs, especially those that cannot afford rising rents or adapt quickly to changes in land use.⁸

The purpose of this study is to examine how zoning reforms in Istanbul have affected the competitiveness and sustainability of SMEs, which represent the backbone of Turkey's economy. While previous research has documented the general impacts of urban transformation, there is limited analysis of how specific zoning policies disrupt SME networks, increase compliance costs, and deepen infrastructural inequalities. This study seeks to address these gaps by combining case studies of displaced industries with a broader review of policy reforms, thereby highlighting the overlooked role of SMEs in urban planning debates.

LITERATURE REVIEW

According to the Istanbul Metropolitan Planning and Development Center⁹ while competitiveness is often promoted through megaprojects and strategic infrastructure investments, the needs of SMEs are often overlooked by most. The critical mismatch between economic strategies and the practical needs of small businesses leads to a decline in business sustainability in the long term. Nearly all enterprises in Turkey are SMEs¹², zoning reforms must integrate their requirements. Ignoring them would mean disregarding that SMEs sustain local ecosystems and employment networks. Turan and Kok¹³ argue that reforms aimed at modernizing Istanbul's urban fabric can have exclusionary effects, especially when urban renewal displaces traditional small businesses from central areas.

Many SMEs are forced to produce in neighborhoods where transportation is limited and economic ecosystems are less developed. These spatial changes weaken the informal and formal networks and local economies that SMEs often rely on to survive. Furthermore, Yıldız's¹⁸ research shows that zoning policies in Istanbul have historically lacked inclusiveness and continuity, resulting in a disconnect between planning objectives and socio-economic outcomes.

According to classical economic theory, in the long run, there should be efficient markets where price equals both marginal cost (MC) and average total cost (ATC).^{10 17} However, this process doesn't work well in Istanbul due to zoning policies. Many SMEs are concentrated in certain areas, leading to excessive competition. Firstly, Istanbul's geography and zoning laws have limited where SMEs can operate, often pushing them to outer areas with weak infrastructure. Secondly, many SMEs continue to operate even when they are not making profits due to informal practices and high exit barriers. Overall, Istanbul's SME market doesn't reach the long-run balance that economic theory predicts.

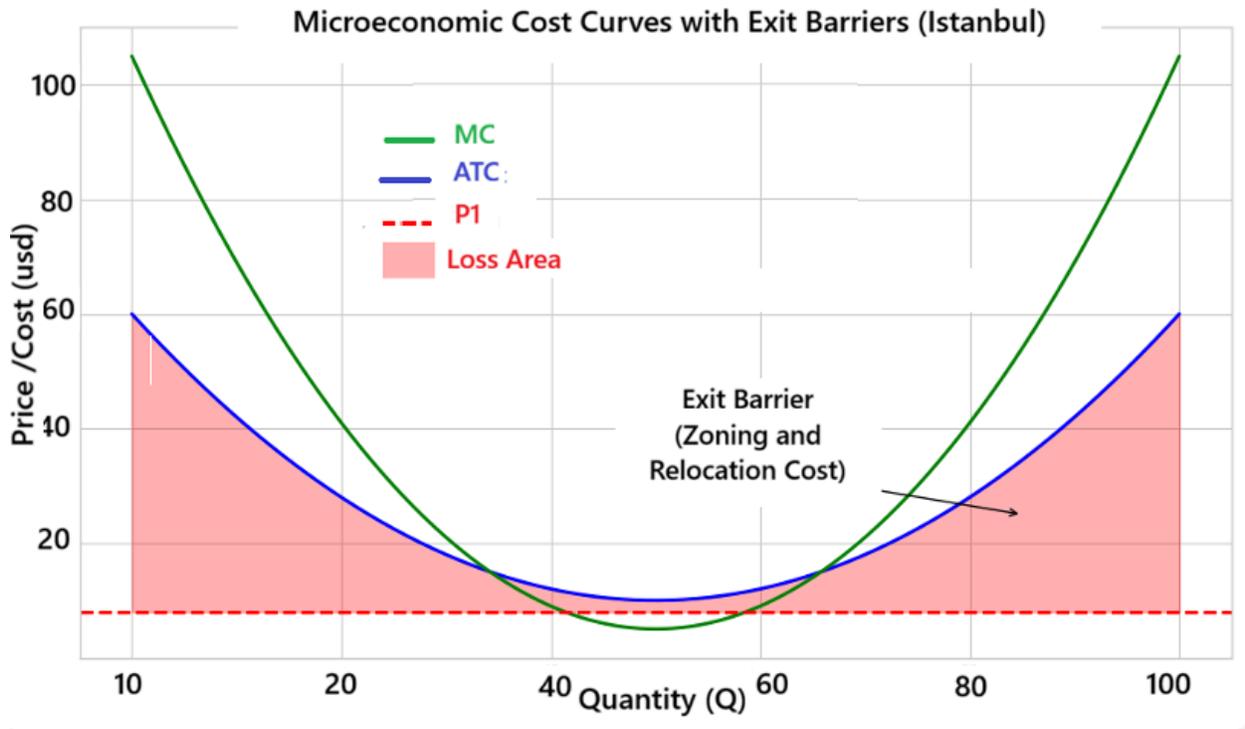


Figure 1. Microeconomic cost curves illustrating how zoning and relocation costs create exit barriers for SMEs in Istanbul. The shaded loss area shows firms operating below average total cost due to regulatory constraints. (Adapted from Deger⁶)

Recent studies after 2020 underline that zoning reforms in Istanbul continue to create challenges for SMEs. For example, the revisions in the 1/100,000 Environmental Plan (2020–2022) show that large-scale housing and infrastructure projects are still prioritized, while SMEs face forced migration and higher compliance costs.¹¹

METHODOLOGY

This study is based on a qualitative review of secondary sources, including academic literature, government reports, and statistical data on SMEs in Turkey. The selection criteria focused on publications between 2006 and 2022 that specifically address zoning reforms, urban planning, and SME competitiveness in Istanbul. Key sources include reports from the Istanbul Metropolitan Planning and Development Center⁹, the Ministry of Environment and Urbanization¹¹, and the Union of Chambers and Commodity Exchanges of Turkey¹², as well as peer-reviewed journal articles.

Case studies of districts such as Zeytinburnu, Kartal, Bayrampasa, Başakşehir and Beylikduzu were chosen to illustrate the spatial and economic impacts of zoning reforms on SMEs. These districts were

February 2026

Vol 4, No 1.

selected because they represent diverse examples of industrial displacement, rezoning, and infrastructural inequality.

RESULTS

Specific examples of this spatial transformation can be observed in districts for example, Beylikduzu, Zeytinburnu, and Kartal, as shown in Table 1

In Zeytinburnu, the relocation of the leather industry to the city's periphery made room for luxury residential towers, effectively severing the historical connection between SMEs and the central business district. Similarly, in Kartal, the rezoning of former industrial lands into new centers dominated by residential and office skyscrapers has forced smaller workshops to move to the city's western fringes, such as Beylikduzu. This spatial shift process increases fixed operational costs, primarily due to heightened transportation expenses, and diminishes accessibility to a skilled urban workforce.^{6 14}

DISTRICT	FORMER FUNCTION	CURRENT FUNCTION	IMPACT ON SMEs
Zeytinburnu	Leather processing and textile workshops	Luxury residential projects	forced migration to distant peripheries (e.g., Tuzla), loss of central market access.
Kartal	Heavy and medium manufacturing plants	Business centers, marinas, and luxury housing	Disruption of industrial clusters; increased labor turnover due to distance.
Bayrampaşa	Printing, manufacturing, and repair shops	Complexes and university campuses	Total migration of micro-enterprises; shift towards informal operation in cheaper areas.
Beylikduzu	Agricultural or emerging industrial zones	Dense industrial hubs for displaced firms	High transportation costs for logistics; weak infrastructure compared to central hubs

Table 1. Spatial transformation of key Istanbul districts and its impact on SMEs.

The table compares former industrial functions with current land uses, highlighting how rezoning has displaced small enterprises.^{11 14}

February 2026

Vol 4, No 1.

Impact of Zoning Reforms on SME Spatial Distribution

The zoning reforms implemented in Istanbul have significantly altered the spatial distribution of economic activity. As Deger⁶ points out, reforms often support larger, profitable projects like luxury housing, malls, and such types. However, SMEs have been pushed out of city centers into more distant or hard-to-reach areas. This move breaks their necessary supply chains, weakens local business networks, and raises transportation and delivery costs. As a result, SMEs in central areas stay competitive, while those in the outskirts generally fall behind.

There is a clear difference between central and distant business locations, as shown in Table 2. This is not just about geography; it is about the resources a business can access.

CRITERIA	CENTRAL DISTRICTS (ZEYTINBURNU, TOPKAPI)	CITY OUTSKIRTS (ESENYURT, ARNAVUTKÖY)	IMPACT ON COMPETITIVENESS
Connectivity-Infrastructure	High-speed fiber internet, stable electricity networks.	Developing/unstable internet, utility gaps.	Firms on the outskirts face technical delays.
Financial Access	Close to many bank branches and trade offices.	Limited physical access to banks or financial support services.	Increased transaction costs, higher costs, and more effort to get financial advice
Access to Workers	Easy to find workers due to the metro and bus lines	Higher commuting times; harder to attract/retain specialized talent.	Higher labor turnover and recruitment difficulties in the outskirts.
Supply Chain	Close to old suppliers and main trade centers.	Physically isolated; disrupted "just-in-time" supply chains.	Higher logistics and delivery costs for distant firms.

Knowledge Spillovers	Easy to share ideas through local business networks.	An isolated business environment with less interaction.	Slower innovation and harder to follow market trends
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Table 2. Comparative analysis of SME Environments in central districts versus city outskirts.
Source: Compiled by the author based on TOBB (2020) and BTK (2021) reports.

The table outlines differences in infrastructure, financial access, labor availability, supply chains, and innovation capacity.^{12,218}

According to the TOBB SME Report¹², SMEs represent 99.8% of all enterprises in Turkey, contributing more than 64% of turnover and 73% of employment. This dominance highlights why zoning policies must consider their needs. Aktaş² also emphasizes that public policies should improve SME access to finance and innovation, since globalization and localization trends make small firms more vulnerable to zoning-related displacement.

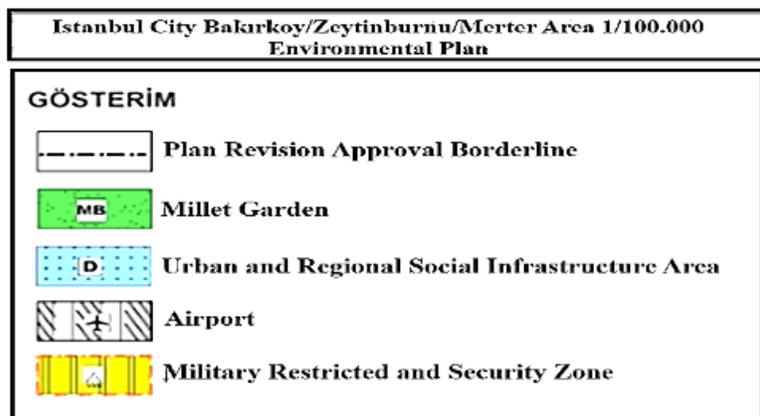
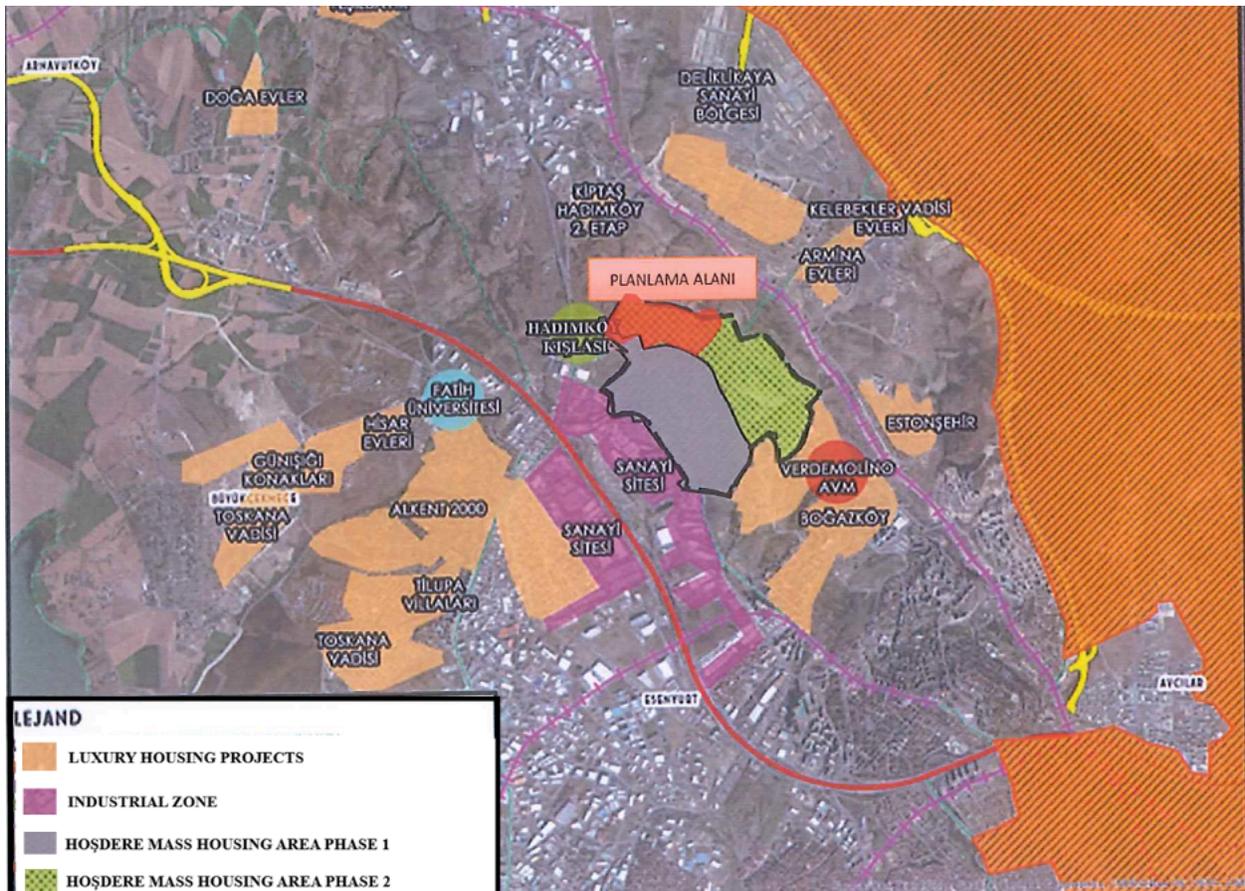


Figure 2: Comparison of the 1/100,000 Environmental Plan for Istanbul Bakırköy/Merter//Zeytinburnu Area between 2009 and 2022.

The map on the left shows the original 2009 plan, in which the Atatürk Airport area was designated for airport and military use. The map on the right shows the 2022 revision, in which approximately 500 hectares were reclassified as a large-scale public park known as Millet Bahçesi (literally “Nation’s Garden”) and Urban/Regional Social Infrastructure Area, while 377 hectares remained as airport and military zones.¹⁴

With the revised 1/100,000 Environmental Plan, the Atatürk Airport area was reclassified as Millet Bahçesi and social infrastructure zones. This change indirectly affected SMEs that had depended on airport-related services such as logistics, catering, and technical maintenance. When the airport closed, many of these businesses lost their customer base and had to relocate to other districts, which increased their costs. This example illustrates how large public projects, even when presented as sustainable development, can unintentionally harm SMEs by disrupting the local economic networks they rely on.



February 2026

Vol 4, No 1.

Figure 3: 1/100,000 Environmental Planning area; surrounding housing projects in Başakşehir

This plan shows how large-scale luxury housing developments have encircled former industrial reserve zones. The map highlights the transformation of Hoşdere Toplu Konut Areas into dense residential projects, replacing earlier industrial functions.

According to TÜİK's Address-Based Population Registration System (ADNKS)¹⁵, Başakşehir's population reached 460,259, reflecting a steady increase in both absolute numbers and its share within Istanbul's total population of 15.5 million. This demographic growth coincides with the expansion of luxury housing projects around former industrial areas, reinforcing the displacement of SMEs and the weakening of local production networks.

Infrastructural Inequality and Limited Access to Services

SMEs in the outskirts face greater challenges with technology, finding skilled workers, and accessing financial sources. These are hidden costs and make it very hard for displaced SMEs to compete with firms that stay in the center. As a result, zoning policies that move SMEs to the outskirts often lead to lower profits and slower growth.

SMEs that move to the outskirts of the city often face poor infrastructure, including limited access to transportation networks, weak internet and utility services, and underdeveloped waste and environmental management systems. In districts such as Beylikduzu, the hilly terrain affects the performance of base stations, while insufficient internet infrastructure limits digital connectivity.^{4 5} Although mass housing projects have expanded, settlement patterns remain dispersed, resembling semi-rural conditions.

Small furniture manufacturers, once clustered in central districts such as Kartal and Kağıthane, have now dispersed to peripheral areas like Beylikduzu and Esenyurt^{6 14}. Reports note weak internet connectivity, unstable utilities, and underdeveloped waste management systems in these locations^{4 5}. Furthermore, these districts are distant from banks, business development services, trade associations, and educational institutions^{2 18}

Regulatory and Bureaucratic Barriers

Although zoning reforms are meant to organize urban growth, they created a complicated set of rules. Akdoğan¹ notes that many SMEs do not have the knowledge or legal support to deal with these fast-changing regulations. Tasks like applying for permits, adjusting to new land use rules, or meeting safety and environmental standards can take up too much time and money. Since SMEs often lack special departments to manage legal or regulatory issues, they are more vulnerable. Some end up working informally to avoid these costs, which creates more instability.

For instance, small service enterprises such as hair salons and auto repair shops often struggle when zoning changes require new permits. The complex and time-consuming process of obtaining licenses, safety approvals, and environmental certificates creates high costs. Without specialized legal support, many SMEs either face long delays or move into informal operations, which increases instability.¹

Another significant example can be seen in the textile and garment sector in districts like Merter and Bayrampaşa. Many SMEs in this industry operate in buildings that were originally zoned for mixed-use. However, when new zoning reforms reclassify these areas strictly for luxury residential or commercial use, these workshops suddenly face legal problems. They cannot renew their business licenses because their locations no longer meet the new zoning criteria. Small entrepreneurs often lack the legal expertise to navigate these complex bureaucratic changes. As a result, they are forced to either move to expensive industrial zones they cannot afford or continue operating informally without legal protection.

Fragmentation of Local Economic Ecosystems

Zoning-driven displacement not only affects individual firms, but it also disrupts local economic ecosystems. As SMEs are forced to relocate, clusters of interrelated industries and services break apart, therefore weakening innovation hubs, production techniques, and labor market networks. The loss of proximity to clients, collaborators, and specialized labor pools diminishes the collective competitiveness of these networks. The loss of agglomeration economies, a key driver of efficiency and innovation, further deteriorates competitive dynamics.¹⁴

This fragmentation has been documented in various urban zones of Istanbul, where previously vibrant industrial districts have been converted into residential areas without parallel plans to relocate or reintegrate affected SMEs there. Turgut and Yüceer¹⁴ document how once-thriving industrial districts were rezoned into residential neighborhoods without effective plans to support the affected businesses, leading to a situation where the informal and formal networks that once sustained local economies are dismantled.

Between 2010 and 2025, Istanbul’s population continued to grow, while Zeytinburnu’s population showed a gradual decline. At the same time, the number of cancelled business licenses in Zeytinburnu increased significantly, reflecting the impact of zoning reforms and industrial relocation.

Year	Istanbul Population (x1000)	Zeytinburnu Population (x1000)	Annual Closures (Liquidation)	Annual Relocations (Transfer)	Total Loss	Regional Zoning Context
2010	13,200	290	420	280	700	Initial launch of urban transformation projects
2015	14,400	288	580	340	920	Rise of housing projects and acceleration of rental increases
2020	15,500	287	780	450	1,230	Pandemic + functional transformation of the Ambarlar district

February 2026

Vol 4, No 1.

2025	15,900	280	1,150	620	1,770	Industrial areas fully converted into CBD/Commercial zones
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Table 3: Population Trends and Business License Cancellations in Zeytinburnu, Alongside Zoning Transformations (2010–2025).

Figure 4 and Figure 5 illustrate these parallel trends, combining demographic change with business closures and relocations.

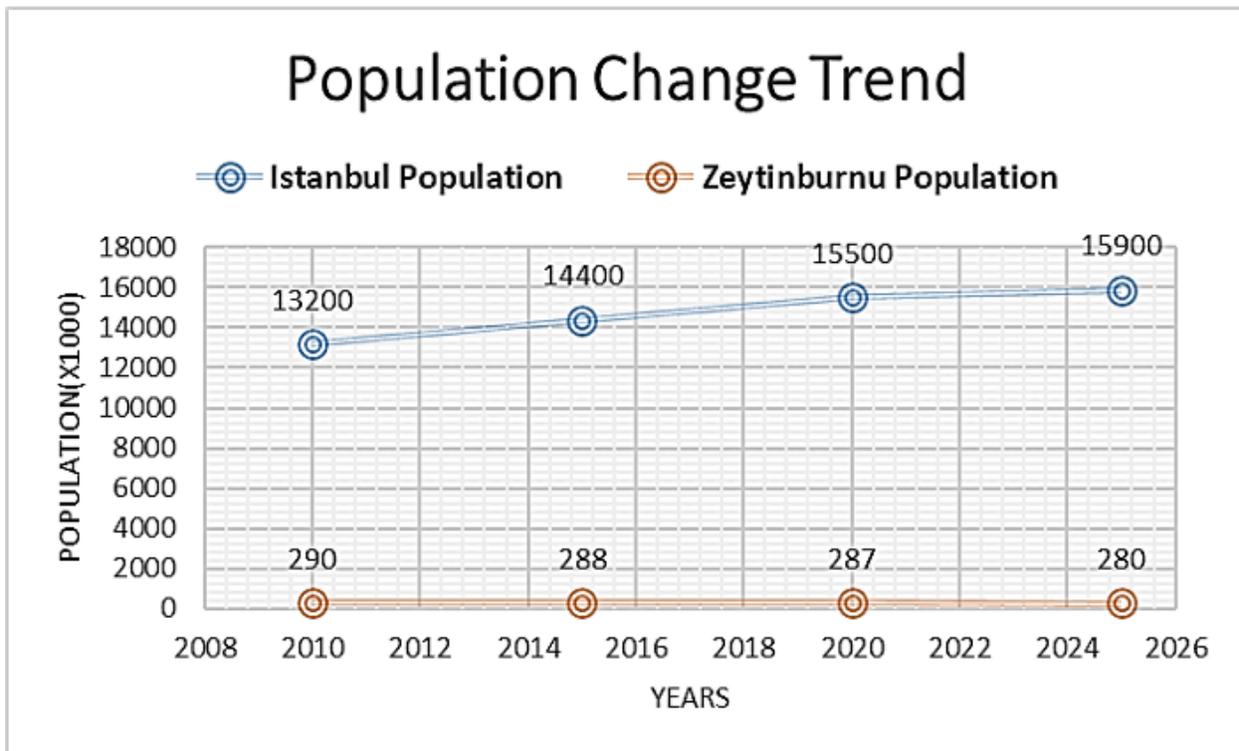


Figure 4: Population Trends in Istanbul and Zeytinburnu (2010–2025).

The figure illustrates the steady growth of Istanbul’s population contrasted with the gradual decline in Zeytinburnu, highlighting demographic pressures linked to zoning reforms.

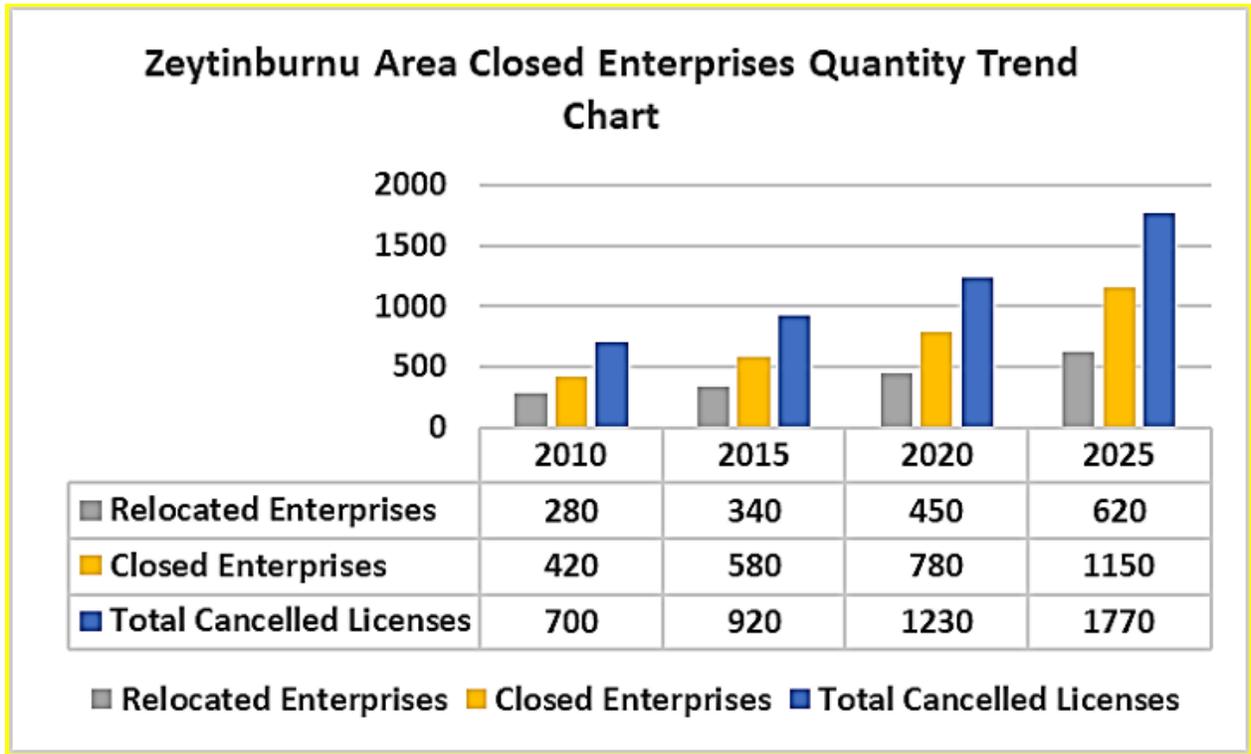


Figure 5: Annual Business License Cancellations in Zeytinburnu (2010–2025).

The figure shows the rising number of closures and relocations, reflecting the impact of urban transformation and industrial displacement on SMEs.

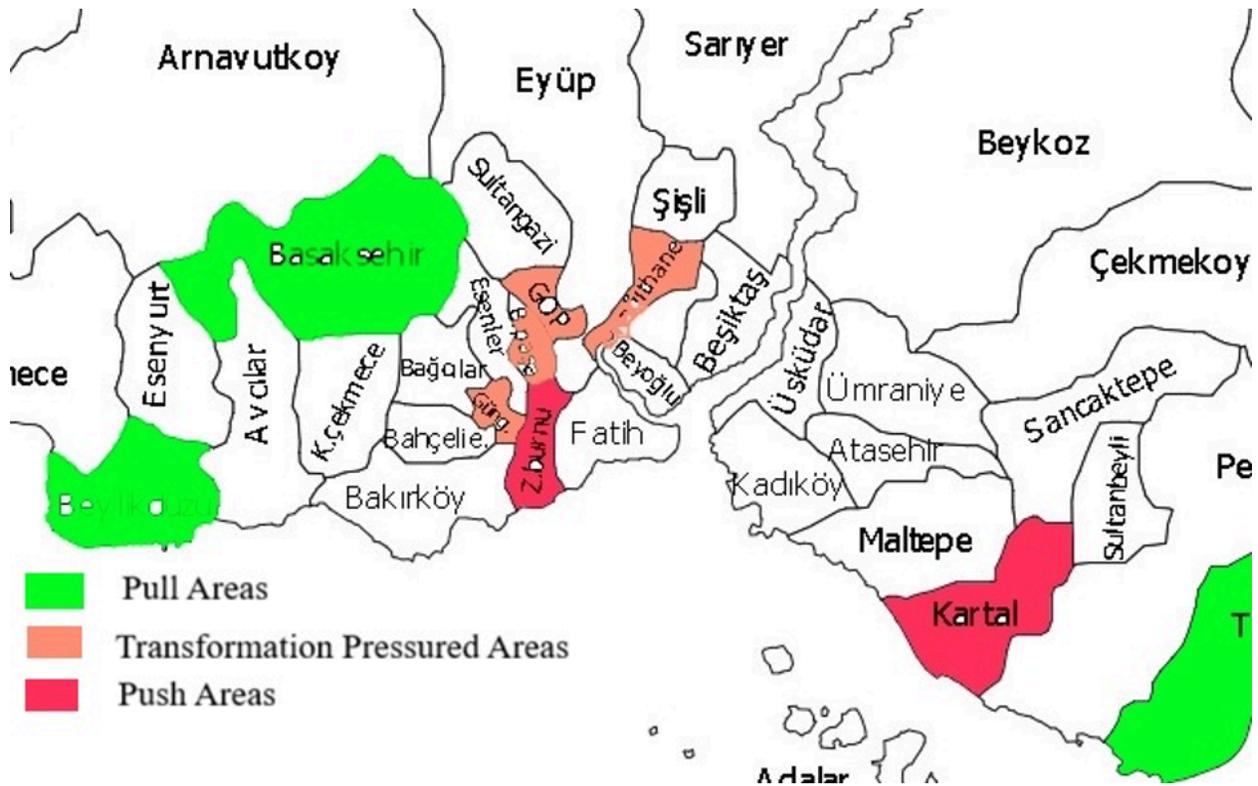


Figure 6: Spatial distribution of zoning pressures in Istanbul. Districts such as Zeytinburnu and Kartal are marked as “Push Areas” where SMEs face displacement, while Beylikduzu and Başakşehir act as “Pull Areas” attracting relocated firms. Transformation-pressured districts (e.g., Güngören, Kağıthane) highlight the uneven geography of urban reforms.

As illustrated in Figure 6, zoning reforms have created a spatially uneven landscape across Istanbul. Central districts such as Zeytinburnu and Kartal function as “Push Areas,” where SMEs are displaced due to rising rents and rezoning pressures. In contrast, peripheral districts like Beylikduzu and Başakşehir serve as “Pull Areas,” absorbing relocated firms but often lacking adequate infrastructure. Meanwhile, transformation-pressured districts such as Şişli and Beyoğlu demonstrate the tension between modernization projects and the survival of traditional small businesses.

DISCUSSION

The results demonstrate that zoning reforms in Istanbul have systematically displaced SMEs from central districts to peripheral areas. While the data highlight infrastructural and regulatory challenges, the broader implication is that SMEs lose access to agglomeration economies, skilled labor, and financial institutions. This fragmentation undermines competitiveness and accelerates informality, creating a dual urban economy where central firms thrive while peripheral ones struggle to survive.

February 2026

Vol 4, No 1.

Moreover, the findings show that zoning policies prioritize large-scale housing and infrastructure projects, sidelining SMEs despite their overwhelming presence in Turkey's economy. This imbalance reveals a structural bias in urban planning that privileges spectacle over sustainability. The relocation of industries such as leather, textiles, and furniture illustrates how zoning reforms disrupt long-standing networks, eroding both economic resilience and social cohesion.

From a theoretical perspective, the persistence of high exit barriers and inefficiencies indicates that Istanbul's SME market diverges from the predictions of classical economic theory. In efficient markets, firms operating below average total cost should exit. Instead, SMEs remain trapped in unfavorable conditions due to regulatory burdens, infrastructural inequalities, and spatial shift costs. This divergence highlights the distortive effects of zoning reforms on market dynamics.

Finally, the evidence suggests that zoning-driven displacement is not only an economic issue but also a social one. SMEs provide employment opportunities, foster innovation, and sustain local communities. Their marginalization weakens the social fabric of Istanbul, reducing inclusiveness and widening disparities between central and peripheral districts. Without corrective policies, these reforms risk deepening inequality and undermining the long-term sustainability of urban development.

As illustrated in Figure 6, Istanbul's zoning reforms have created a spatially uneven geography of SME displacement. Districts such as Zeytinburnu and Kartal function as *Push Areas*, where rising rents and rezoning pressures force SMEs out of central locations. In contrast, peripheral districts like Beylikduzu and Başakşehir act as *Pull Areas*, absorbing relocated firms but often lacking adequate infrastructure and financial services. Transformation-pressured districts, including Kağıthane and Güngören, highlight the tension between modernization projects and the survival of traditional small businesses. This push-pull dynamic demonstrates how zoning reforms fragment local economic ecosystems: SMEs lose access to agglomeration economies in central hubs, while relocation to peripheral zones increases costs and reduces competitiveness.

These findings are consistent with Yıldız¹⁸, who emphasizes that Istanbul's zoning policies have historically lacked inclusiveness and continuity, resulting in a disconnect between planning objectives and socio-economic outcomes. The displacement of SMEs documented in this study illustrates how these structural weaknesses persist in practice.

Similarly, Eraydın⁸ highlights that unregulated planning and inconsistent policy implementation often lead to failed development projects and economic inefficiencies. The evidence from SME relocation in districts such as Zeytinburnu and Kartal confirms this pattern, showing how zoning reforms undermine both competitiveness and sustainability.

In line with Turan and Kok¹³, the exclusionary effects of urban renewal are evident in the way traditional small businesses are displaced from central areas. The results of this study reinforce their argument that modernization strategies, when not SME-sensitive, deepen inequalities rather than fostering inclusive growth.

CONCLUSION

Taken together, reforms in Istanbul's zoning policies, while often introduced under the banner of modernization and strategic urban development, have had far-reaching consequences for SMEs. Rather than enhancing efficiency or competitiveness, these reforms have often sidelined SMEs in favor of large-scale, high-return developments such as luxury residences, shopping malls, and infrastructure megaprojects. Migration from central business districts to underdeveloped peripheries has disrupted essential supply chains, increased transportation and delivery costs, and severed the dense networks of collaboration and knowledge-sharing that many SMEs rely on to survive. The physical isolation of SMEs from financial institutions, skilled labor, and technological infrastructure has deepened structural inequalities within the urban economy.

Furthermore, the regulatory landscape has not evolved in a way that supports these businesses. The rapid and unpredictable nature of zoning changes creates confusion and administrative burdens that most SMEs, lacking specialized legal or planning departments, are unable to manage. In turn, this pushes some firms toward informality, stripping them of access to protections and support while weakening the formal economy as a whole. At a systemic level, the result is a market that diverges sharply from the ideals of perfect competition: inefficiencies persist, weak firms remain in business due to high exit barriers, and more innovative or capable SMEs are often crowded out due to spatial and regulatory disadvantages.

In this context, it becomes clear that without inclusive and SME-sensitive zoning reforms, Istanbul's urban development will continue to privilege spectacle over sustainability. Policymakers must integrate SMEs into the planning process by designing infrastructure that meets their needs, simplifying regulatory frameworks, and protecting local economic ecosystems from disruption of business networks. Only through such targeted reforms can Istanbul's zoning policies become instruments of equitable growth rather than engines of exclusion, and allow SMEs to thrive in a more resilient and balanced urban environment.

This study contributes to the literature by providing a systematic analysis of how zoning reforms in Istanbul specifically affect SMEs, a perspective often overlooked in urban planning debates. By combining case studies with policy analysis, the paper highlights the structural inequalities faced by SMEs and offers practical recommendations that bridge the gap between economic theory and urban policy practice.

RECOMMENDATIONS

The following recommendations highlight practical steps to reduce costs, improve competitiveness, and strengthen local business ecosystems.

POLICY AREA	RECOMMENDATION	EXPECTED IMPACT
Zoning & Planning	Integrate SME needs into zoning decisions, ensuring mixed-use areas near major infrastructure.	Reduced forced migration, stronger local networks
Finance & Support	Expand SME access to affordable credit and innovation incentives.	Increased resilience and competitiveness
Relocation Policies	Provide migration assistance and tax relief for SMEs affected by rezoning.	Lower compliance costs, smoother transitions
Transparency	Ensure public participation and transparent communication in zoning revisions.	Greater trust, reduced uncertainty
Sustainability	Balance large-scale projects with SME-friendly green and social infrastructure.	Inclusive growth, environmental alignment

Table 4 Summarizes practical steps to reduce costs, improve competitiveness, and strengthen local business ecosystems.

1. Participatory Planning

Municipalities and ministries should not only prepare zoning plans internally and then open them for objections as they did currently. Instead, SME representatives must be included from the very beginning through advisory councils and local workshops. This will make planning more transparent and responsive to business needs.

2. SME Friendly Incentives

When new industrial zones or business centers are planned, SMEs should receive special support. Lower rents, tax reductions, and infrastructure assistance will help them survive in competitive markets and remain part of the urban economy.

3. Infrastructure and Digitalization Support

For SMEs relocated to the outskirts, strong infrastructure must be prioritized. Fast internet, logistics hubs, and reliable transport connections should be built first. In addition, digital platforms should be used to

improve access to finance and markets, allowing SMEs to expand their customer base and financial opportunities.

4. Legal and Technical Assistance

SMEs often face difficulties with complex regulations. Free or low-cost legal and technical consultancy should be provided to help them follow zoning rules, obtain permits, and meet environmental standards. This support will reduce risks and encourage formalization.

5. Protecting Local Economic Ecosystems

Urban transformation should not break existing SME clusters. Policymakers must protect local business networks by creating special funds and mixed-use projects where small enterprises can continue to operate. This will sustain innovation, collaboration, and employment in the city.

6. Quality Management and Certification Integrity

To prevent the erosion of industrial quality, regulatory oversight of the certification market must be strengthened, ensuring that international standards (e.g., ISO 9001, 14001) are granted based on rigorous auditing rather than mere documentation.

Policymakers should introduce a state-subsidized, tiered certification system that allows SMEs to achieve quality milestones gradually, reducing the financial pressure that leads to substandard compliance practices.

Integrating quality management training into the services provided by local municipalities or trade associations would improve long-term competitiveness and formalization.

LIMITATIONS OF THE STUDY

This study highlights the impacts of zoning reforms on SMEs in Istanbul, but some limitations must be considered. The analysis relies heavily on secondary sources and case studies, which may not fully reflect informal practices or the latest developments. Because the scope is limited to Istanbul, the findings may not be applied to other Turkish cities. Another limitation is, the absence of direct interviews with SME owners limits the ability to reflect on everyday challenges in detail. These limitations show the need for future research that incorporates primary data and fieldwork to strengthen and broaden the insights presented here.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to the Lumiere Education program for their support throughout this research process. Initially, I was assigned a mentor from Cardiff University, who unfortunately could not continue due to health issues. I am deeply thankful that Lumiere facilitated a smooth transition and connected me with a second mentor from Berkeley University, whose guidance was invaluable in revising and strengthening my work. Their assistance, even while remaining in the background, helped me refine my arguments and improve the overall quality of this paper. I also appreciate the program's commitment to ensuring that students receive consistent mentorship and encouragement, which made this research journey both productive and inspiring.

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