

Article

Real Estate Market and Prospects for Its Development in the Republic of Uzbekistan

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Abstract: article reflects the current state of the real estate market in Uzbekistan and its development prospects. In particular, real estate and its market, comparative description of scientific-theoretical views on its evaluation, signs of real estate objects, classification of real estate markets, mechanisms related to regulation of evaluation activities were considered.

Key words: : *real estate value, appraisal, real estate market appraisal, appraisal organizations, factors affecting real estate market development, performance indicators of appraisal organizations, subjects of appraisal activity*

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Introduction

In the countries of the world that have moved to a market economy and are in the process of full transition to this economic system, the real estate market, which is an important segment of the capital market, plays a key role in the development of economic relations. The real estate market constitutes a significant part of the aggregate wealth of the countries of the world. It should be emphasized that it is impossible to imagine market relations without a functioning real estate market. The global real estate market has grown from \$3,694.47 billion in 2022 to \$3,976.18 billion in 2023, showing a compound annual growth rate (CAGR) of 7.6%. The real estate market is expected to reach \$5209.84 billion by 2027 at a CAGR of 7.0%¹. In addition, the importance of the real estate market and related financial and economic relations is increasing in the context of the organization of economic

¹ <https://vtoroidom.com/obzor-mirovogo-rinka-nedvigimosti-2023>

activity, the functioning of industrial sectors and the provision of housing for the population. In this regard, improving the methodology of real estate market assessment is an important task.

In international practice, in many countries of the world, scientific research is conducted on a continuous basis to improve the theoretical, organizational, methodological and practical foundations, as well as the methodology of real estate market valuation. In the conditions of the digital economy, special attention is paid to scientific research in the field of using IT-technologies and artificial intelligence in real estate market valuation activities, as well as ensuring transparency in the real estate valuation process. However, the need to collect unified data on comparable elements when valuing real estate on the basis of the comparative approach, calculation of capitalization rate for discounting cash flows when valuing real estate for investment purposes, as well as insufficient study of methodological aspects of prioritization of weighting coefficients by valuation approaches in scientific research strengthen the need for scientific-theoretical and empirical studies aimed at improving the methodology of real estate market valuation.

Literature Review on the subject

The study of scientific and theoretical aspects of appraisal activity, including the improvement of scientific and theoretical foundations of real estate valuation based on the cost approach, has been studied and researched by a number of foreign and domestic economists and practitioners.

In particular, appraisal standards, which are one of the main forms of state regulation of appraisal activity, are a set of interrelated norms and rules that reflect the concepts and principles of appraisal, terms and definitions used in appraisal activity, requirements for types of value, requirements for source information, the procedure for conducting appraisal, the specifics of applying appraisal methods, requirements for registration of appraisal results and other requirements.[1]

Taking into account the level of development of the real estate market and the dynamics of its changes in different countries, it should be noted that the administrative regulation of this problem, in particular, support measures from the state, play an important role. Consequently, it is expected that in each country the real estate market, including the housing sector, will be supported by the state to a greater or lesser extent. However, the degree of government support activity varies from country to country, which subsequently leads to differences in the formation of housing systems in developed and developing countries.[2]

In the textbook of American economists J. Friedman and N. Ordway "Analysis and Valuation of Income Real Estate", the authors present the real estate market as an interrelated system of market mechanisms that ensure the creation, transfer, operation and financing of real estate.[3]

The examination of the credibility of the valuation report means a thorough inspection, research, study of the characteristics, shortcomings, defects, advantages and features of the object, as well as the development of ways to eliminate deficiencies, further improve the characteristics and ways to attract owners, on the basis of which the professional results are formalized [4].

Research methodology

The article used methods of scientific abstraction, comparison, expert evaluation, correlation and regression analysis, economic observation, indices, dynamic analysis and linear relationship methods.

Results and Discussion

The significance of the real estate market as a major branch of the economy lies in the fact that the real estate market and related financial and economic relations are at the heart of economic relations related to the organization of economic activity, the functioning of industrial sectors and the provision of housing for the population. In this regard, further consider scientific and theoretical approaches of foreign and domestic economists to the category of real estate. In particular, we will consider trends in the development of the real estate market and appraisal activities in foreign countries, problems of the real estate market in Uzbekistan, analysis of the state of its development, as well as identify and evaluate factors affecting the development of the real estate market.

In particular, in the Russian Federation, as in other countries, realtors are important professional participants in the development of the real estate market. This is due to the fact that it is realtors who carry out a significant part of financial transactions related to real estate. The main segment of these professional participants is the secondary real estate market. Since the parties of transactions in the real estate market need the mediation of realtors. The analysis shows that in the primary real estate market, along with realtors, real estate developers and real estate buyers play an important role.

The analysis confirms that realtors are the main participants of the real estate market in the Russian Federation, which can be seen in the more frequent commissioning of residential buildings compared to non-residential real estate. Thus, over the last 6 years, in the residential real estate segment, more than 260 thousand real estate objects were commissioned in 2018, and non-residential buildings - 14 thousand. In 2022, more than 174 thousand real estate objects that are residential buildings were built, while the number of non-residential real estate commissioned in this year amounted to 13 thousand (Figure 1).

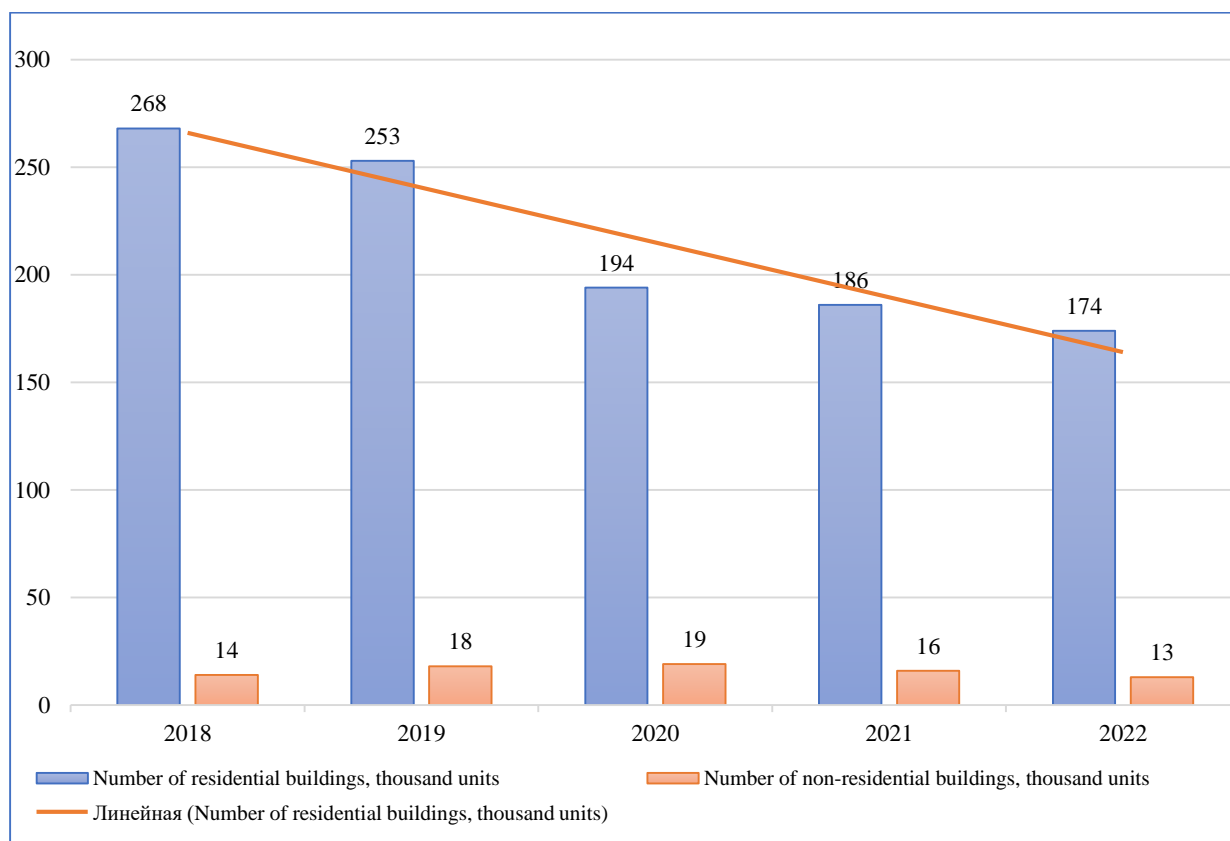


Figure 1: Number of objects commissioned in the primary real estate market in the Russian Federation²

As can be seen from the figure, during the beginning of the COVID-19 pandemic (2019-2021), which had a strong negative impact on the economies of all countries in the world and is still ongoing, the country also saw a downward trend in the number of commissioned real estate objects. In 2020, the number of new residential buildings constructed in the Federation decreased by more than 35% compared to 2018 and almost 6.5% compared to 2021. The number of newly constructed non-residential buildings also decreased by 3,000 units in 2022.

To continue the analysis, let's look at the dynamics of the residential market, which is a large segment of the real estate market globally. This dynamic data is important because it is based on changes in the capitalization of this market.

Table 1

Trends in the development of the housing market segment of the real estate market in the regions of the world³

Regions	Total development rate in 2021-2022, %	compared to 2019-2020, %
Developed countries	-3.1	4.0
Non-EU countries	-1.3	4.6

² Makarova E.E., Syshchikova E.N., Proskurina Z.B. The current state of the Russian real estate market in the context of the digital economy. Science of Krasnoyarsk Territory, Volume 10, No. 6, 2022.

³ Kookueva V., Tserceil Yu. Overview of foreign approaches to identifying factors in the development of the real estate market. The Eurasian Scientific Journal, 2018, No. 2, Volume 10, 2022, No. 2, Vol 10, ISSN 2588-0101.

EU countries	-9.8	3.0
European countries (non-EU)	5.3	4.2
Developing countries	14.0	3.1
Latin American countries	32.0	-0.6
Asian countries	23.8	6.0
Central and Eastern Europe	-31.0	-1.9

According to the residential real estate market trends by region of the world presented in Table 1, the real estate market prices in developed countries increased at a high rate during 2021-2022. The growth of residential real estate prices in developed countries averaged 4% during 2021-2022 as compared to 2019-2020. The steady growth in this rate is seen in developed countries such as Australia, Canada and Germany, while the average growth is seen in the group of developed countries such as the UK and the US. As for the group of developing countries, the average growth rate of residential real estate prices was 3%. However, the change in the value of this indicator is not homogeneous in developing countries. The stable growth of the indicator of real estate market capitalization dynamics was observed in such countries as China, India, Mexico and Turkey.

If the real demand for real estate in the country exceeds the existing supply, it has a positive impact on the acceleration of sales of new buildings, intensification of construction works and increase in material interest. In such conditions, i.e. in the conditions of economic crisis observed in the real estate market of the country, the need for intermediaries increases significantly, which means that the most favorable conditions are created for realtors to establish contacts with producers for long-term cooperation.

In terms of real estate market support instruments, object-oriented and subject-oriented subsidies predominate in Austria, while in Switzerland mainly object-oriented subsidies prevail. In Germany, social housing subsidies and direct housing allowances act as aid instruments. In Austria, the leasing contract can be fixed-term and open-ended, and the owners' obligations are not limited. In Germany, the leasing contract is mostly open-ended and the owners' obligations are fixed-term. In Switzerland, the leasing agreement is mostly fixed-term, and the obligations of the owners are also fixed-term.

In the European Union countries with developed economies there are two main directions of state policy in relation to the real estate market: active state housing policy and passive state housing policy.

Also, an important aspect of the peculiarities of the structure of the real estate market in such countries as Austria, Germany, Switzerland, which were considered above, is that with regard to the tools of support of the real estate market the priority is subsidies focused on the real estate object.

Based on the analysis of foreign models of state regulation of appraisal activity, the following scientific and theoretical conclusions and recommendations have been formed:

- Firstly, developed and European countries, in particular, the UK, have accumulated many years of historical and gradual experience in the development

of the market of appraisal services. This, in turn, has created an opportunity to test many regulatory tools and choose the most optimal ones;

- Second, international standards and generally recognized norms of property valuation are currently used not only in developed but also in developing countries.

- Thirdly, in the countries considered above, the role of the state in regulating the market of appraisal services and controlling the activities of professional participants in them is minimized.

The analysis of real estate market development in the country is interrelated with real estate appraisal activities.

In the analysis of the real estate market in Uzbekistan, the volume of construction works plays an important role. In this regard, it is advisable to consider the data of the Ministry of Construction and Housing and Communal Services.

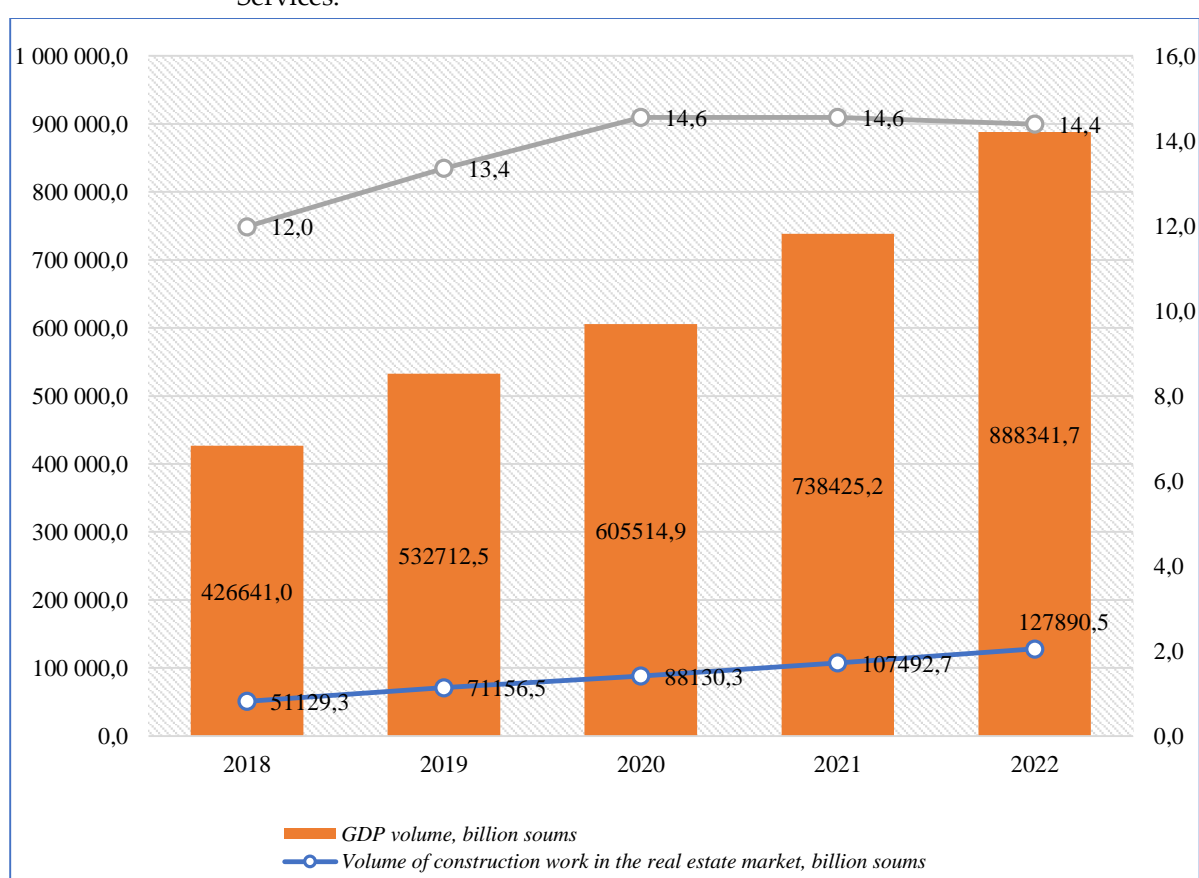


Figure 2: Indicators of the volume of construction works in the real estate market in relation to the volume of GDP of the country⁴

According to the indicators shown in Figure 2, over the last five years, namely, while in 2018 the volume of construction works in the real estate market amounted to 12% (51,129.3 billion soums) in relation to the volume of GDP, by 2022 the volume of construction works in the real estate market increased 2.5 times and its share in relation to GDP increased to 14.4%. This indicator is 23.8% higher than in the previous year. The fact that the volume of construction work in the real estate market has grown both in real terms and in relation to GDP over the last 3

⁴ Compiled by the author based on data from the Statistics Agency under the President and the Ministry of Construction and Housing and Communal Services.

years, even during the periods of pandemic and new economic crisis observed globally, means that the scope of work in this area is constantly expanding, which in turn means that activities related to real estate valuation are even more important. Also, pricing policy plays an important role in the development and valuation of the real estate market. As a result of our research it was noted that housing prices have increased by 70-80% in the period from 2020 to 2023.

According to the analysis, as of 2020-2022 in the regional centers and cities of the republic, the cost of 1 sq.m. of housing, which is real estate in the primary market, was estimated on average from 3400 thousand to 5500 thousand soums. In the capital city of Tashkent, the cost of 1 sq.m. of housing on average increased from 3950 thousand soums to 6700 thousand soums, and, moreover, there is currently a tendency to increase housing prices.

The study results indicate that rental prices remain a concern amid rising urbanisation. In Switzerland, 68% of families reside in rented accommodation, while in Germany, the figure is 64%. In China, the figure is 14%, while in Russia, it is at 11%. At present, industrialised nations enhance living conditions by safeguarding tenant rights through the stabilisation of rental rates for the duration of the lease agreement. In the UK, charging fees beyond the stipulated rent payments is prohibited, while in the US, individuals who purchase a home with a mortgage loan benefit from an income tax exemption. The Economist states that an increased⁵ house ownership rate correlates with greater volatility in housing market values. In Switzerland, the homeownership rate is 3%, but in the UK it is over 60%. Consequently, residential property values in Switzerland rose by 70% from 1970 to 2019, whereas in the UK, they surged by 346%. The rise in rental rates also impacts macroeconomic indices.

Conclusions and recommendations for the development of the rental housing market in Uzbekistan

In conclusion, it should be noted that the rental housing market in Uzbekistan is at the initial stage of formation. Taking into account the accelerated urbanization process, the following is recommended for the development of the rental market:

Further strengthening of the legal framework for the protection of tenants' interests and rights;

Control over abrupt changes in rental rates (e.g., legislative establishment of the impossibility of unjustified abrupt rent increases of more than 10% of the average price in the city, as it is practiced in Germany);

Widespread introduction of information technologies directly linking the landlord and the potential tenant in order to prevent the problem of information asymmetry in the market.

Currently, the valuation services market in Uzbekistan provides such services as valuation and expertise of immovable and movable property, valuation and expertise of vehicles, machinery and equipment, valuation and expertise of intellectual property, precious stones and metals, as well as valuation and expertise of business value. Services related to real estate appraisal activities are one of the main segments of the appraisal services market.

⁵ <https://www.economist.com/special-report/2020/01/16/housing-is-at-the-root-of-many-of-the-rich-worlds-problems>

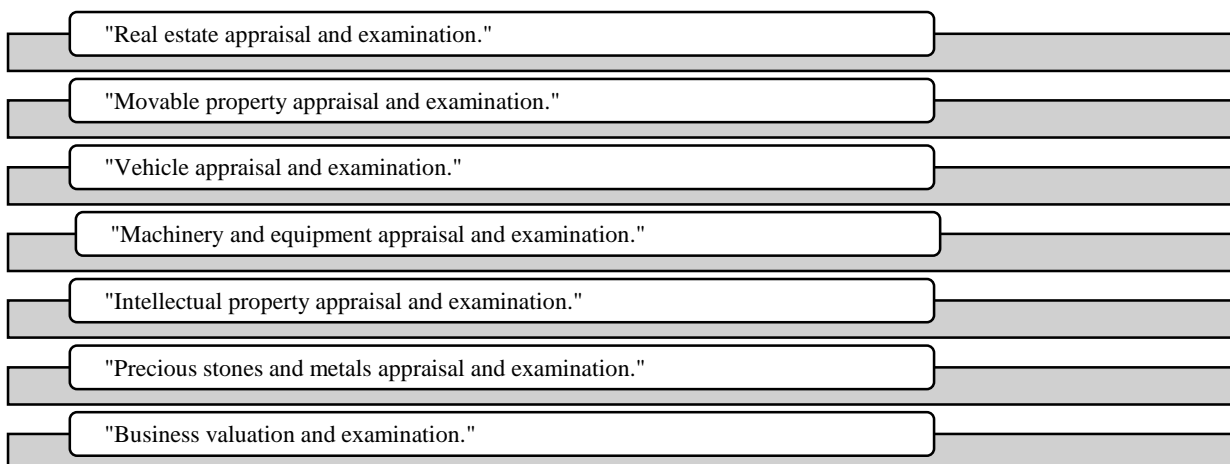


Figure 3: Diversification of types of services on the market of appraisal services⁶

In the market of appraisal services mentioned above, at the moment there are more than 1000 appraisers with qualification certificates, as well as more than 200 appraisal organizations with licenses. Information about this can be seen in the following analyses (Table 2).

Turning to the table, it can be seen that there are 231 appraisal organizations in the republic at present. These appraisal organizations employ 1188 appraisers as professional participants of the appraisal services market. In terms of regions, the largest number of appraisal organizations operates in the city of Tashkent, Bukhara, Andijan and Fergana regions.

Table 2
Information on the number of licensed appraisal organizations and appraisers with qualification certificates in the regions of Uzbekistan as of January 1, 2024⁷

No	The name of the regions	Appraiser number of organizations	Assessors the number
Republic of Uzbekistan		231	1188
1	Republic of Karakalpakstan	11	43
2	Andijan	14	31
3	Bukhara	16	39
4	Jizzakh	3	59
5	Kashkadarya	8	38
6	Navoi	5	33
7	Namangan	12	45
8	Samarkand	13	68
9	Surkhandarya	6	25
10	Syr Darya	1	21
11	Tashkent v.	2	64
12	Ferghana	19	55

⁶ Author's development.

⁷Compiled by the author based on data from the State Assets Management Agency of the Republic of Uzbekistan.

13	Khorezm	14	66
14	Tashkent sh.	107	601

In the course of our research, we found that in our republic, there are regulatory requirements regarding the amount of authorized capital for opening appraisal organizations in the categories of appraisal of movable and immovable property and business value. We will illustrate the diversification of these organizations' activities in the following Figure 10.

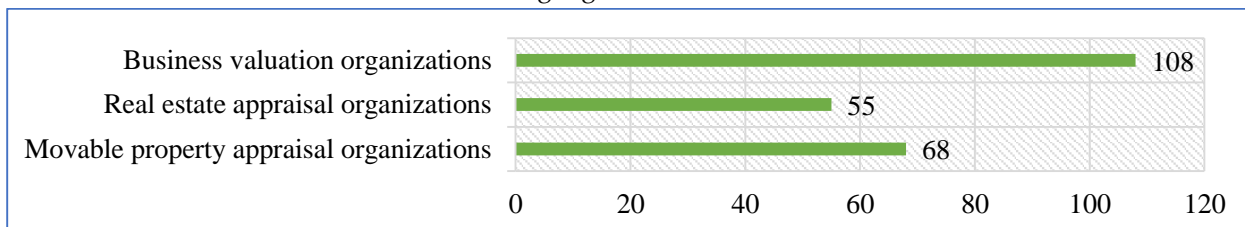


Figure 4. Diversification of Activities of Appraisal Organizations⁸

The majority of appraisal organizations are engaged in business valuation activities, and more than 23% of the existing 200+ appraisal organizations are involved in real estate appraisal.

Table 3

Performance Indicators of Appraisal Organizations⁹

Years	Indicators		
	The volume of provided services in the evaluation services market, billion soum	The number of concluded contracts for assessment services, pcs	Number of evaluation reports prepared, pcs
2018	50.2	110,567	113 082
2019	63.1	92 267	97 045
2020	72.8	95,020	99,070
2021	78.3	98 417	105 701
2022	103.9	191 209	193 457
2023	118.0	245 123	251 397

According to Table 3, in 2018, appraisal organizations provided services totaling 50.2 billion soums, concluding more than 110,000 contracts and producing more than 113,000 property appraisal reports. In 2022-2023, there is a sharp increase in the activities of appraisal organizations. The volume of services has more than doubled compared to 2018.

At present, the regulation of appraisal activity, its state regulation, improvement of methodological support and regulatory framework, licensing of participants' activities, including professional ones, issuance of qualification certificates to appraisers - all this represents a complex mechanism of comprehensive regulation of the appraisal services market.

⁸ Compiled by the author based on data from the State Assets Management Agency.

⁹ Compiled by the author based on data from the State Assets Management Agency.

According to the functional-structural scheme of regulation of appraisal activities, the self-regulation mechanism is an important institutional element in the regulation of appraisal activities.

Based on the above considerations, instrumental, institutional and functional components of the structure of the mechanism of regulation of appraisal activity are aimed at the development of the market of property valuation services and are interrelated with each other.

As a result of the study, it is proposed to divide the factors affecting the development of the real estate market into the following groups:

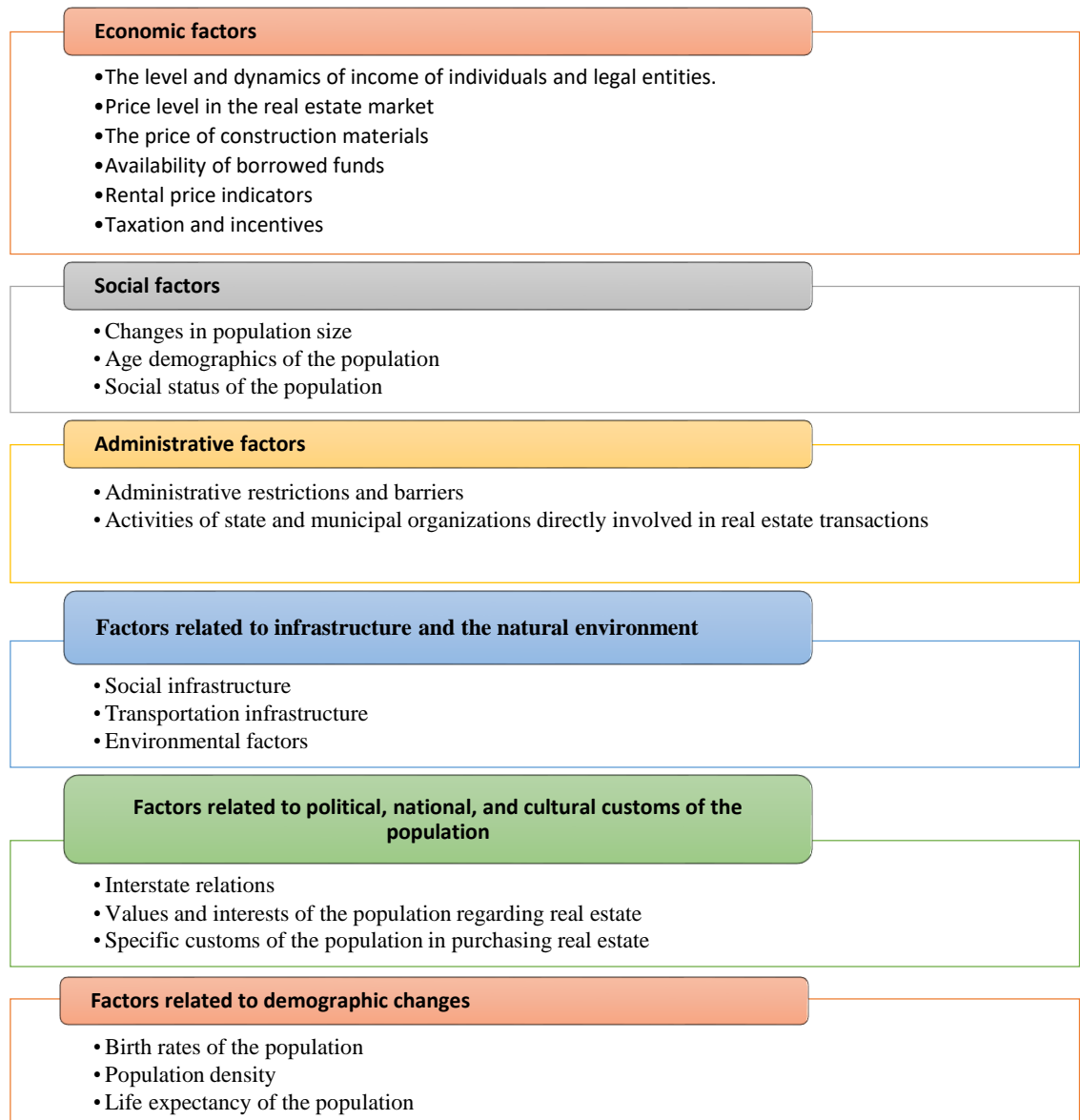


Figure 5. Classification of Factors Affecting Real Estate Market Development¹⁰

One of the main factors influencing the development of the real estate market is the income of individuals and legal entities. The income of the population directly affects the increase in demand in the real estate

¹⁰ Author's development.

market. The income of legal entities creates demand and shapes the supply in the market for non-residential real estate objects.

Table 4

Population income information in Uzbekistan¹¹

Indicators	2018	2019	2020	2021	2022	2023
Total income of the population, billion soums	300842.7	365735.6	414968.7	519181.4	634797.0	728826.1
compared to last year, in %	127.0	121.6	113.5	125.1	122.3	114.8
Total income per capita, thousand soums	9128.6	10891.3	12122.2	14869.8	17807.3	20015.9
compared to last year, in %	124.8	119.3	111.3	122.7	119.8	112.4
Total real income of the population, billion soums	255971.0	319336.1	367456.6	468448.4	569631.2	662749.9
compared to last year, in %	108.1	106.1	100.5	112.9	109.7	116.3
Real total income per capita, thousand soums	7767.0	9509.6	10734.3	13416.8	15979.3	18201.2
compared to last year, in %	106.2	104.2	98.6	110.7	107.5	113.9

In 2018, the income population of Uzbekistan decreased by 127 percent, in 2019 - by 121.6 percent, in 2020 - by 113.5 percent, in 2021 - by 125.1 percent, in 2022 - by 122.3 percent, in 2023 - by 114.8 percent. The population with a total income in 2018 according to kursatkich olding was 124.8%, in 2019-119.3%, in 2020-111.3%, in 2021-122.7%, in 2022-119.8%. The population with a total real income in 2018 was 255.971.0 billion. In 2023, the country's population amounted to 66.274.9 billion people with a total real income. it consists of mucus.

5-table

Analysis of the impact of OLS on the profitability of the population in the real estate market¹²

Involuntary variable	Real estate market construction volume(RS)			
The number of observations is 23 (covering the years 2000-2022)				
Free variable	Coefficients	Standard error	t-statistic	Probability
TIP (Total income of population)	.2024111	.0060251	33.59	0.000
(c) constant	-3680.422	1407.245	-2.62	0.016
Coefficient of determination	0.9817		Arithmetic mean of an arbitrary variable	151473.9
Modified coefficient of determination	0.9809		Standard deviation of the random variable	181780.7
Root mean square error	5137.2		Breusch-Pagan test	0.2873
F-statistics	1128.60		Durbin-Watson test	.3217377
Probability (F-stat.)	0.0000		Breusch-Godfrey LM test	0.0001
			VIF test	1.00
			Shapiro-Wilk W test	0.00787
			Skewness/Kurtosis test	0.0934

¹¹ Data from the Statistics Agency and author's calculations.

¹² Author's development.

From the data we can see that the square of residuals is located close to 1. This shows that the selected factor, namely the amount of total household income, has a 98.7 percent impact on the amount of construction in the real estate market. In addition, the P-value of the likelihood ratio of the selected independent variable is less than 5 percent. This indicator means that the influence of the selected influencing factors is reliable.

According to the T-statistic test (criterion) that was determined by the analysis, hypothesis tests were conducted based on the criterion $H_0: a_1=0$, $H_1: a_1 \neq 0$, and according to the results of this test, it was shown that the selected independent variable has a statistically significant value. The F-statistic shows that the selected factor, namely the amount of total household income, affects the volume of the real estate market by 98%. As a result of the test carried out in accordance with the econometric hypothesis, it was found using single factor regression model that the volume of total household income affects the volume of real estate market. This one-factor regression model was presented as follows.

$$RS = -3680.422 + .2024111 * TIP + e$$

The above econometric analysis showed that the coefficients of the selected factors are statistically significant. The reason is that the probability of P-value is less than 5 percent, which indicates 95 percent reliability of the coefficients. Interpretation of the above regression model is as follows: increase in the total volume of population's income in the country by 1 billion soums has a positive impact on the increase in the volume of construction in the real estate market of the republic by 0.2 billion soums. It should be noted that an increase in the volume of income of the population by 100 percent will lead to a 20 percent increase in the volume of construction in the real estate market.

Another of the economic factors that have a strong influence on the development of the real estate market is the availability of borrowed funds. Purchasing real estate using various credit schemes, including mortgages, may be a common practice, but it has a strong impact on the real estate market.

The mechanism and rates of taxation, tax incentives have a strong direct impact on the development of the real estate market. High taxes reduce the overall demand in the real estate market, as they lead to a decrease in real incomes of both the population and business entities.

Conclusion

Real estate appraisal for various purposes today is important in determining the real market value of property. In particular, the determination of the real value of real estate for such purposes as property taxation, determination as collateral for mortgages, privatization, compensation to citizens in the form of payment for residential premises, as well as the assessment of real estate for judicial purposes, allows to determine the market value of this property.

Based on the above considerations, the following scientific and theoretical conclusions and recommendations have been formulated based on the results of the analysis of existing models for assessing the market value of real estate:

First, the main aspects of technical and legal expertise are defined, and their role in the expertise of the valuation report is scientifically and practically substantiated.

Secondly, it is suggested that the recommended criteria for determining compliance of a real estate appraisal report with legal requirements should assess the state of their fulfillment in the report and be reflected in the expert's opinion;

Thirdly, practical recommendations are given to significantly reduce the role of the state in regulating the market of appraisal services and controlling the activities of professional participants of this market;

Fourthly, it is recommended to use three main approaches in describing the structure of the real estate market: institutional approach, approach by type of object and reproductive approach;

Fifth, scientific and practical recommendations were given to improve the methodology for assessing the market value of real estate in Uzbekistan on the basis of the cost approach, as well as to assess the impact of price changes on individual residential complexes and their impact on rental rates in the real estate market, and it was proposed to calculate the value of land rights using the method of comparative sales analysis.

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