

Soaring Real Estate Prices in Uzbekistan (2021-2023): Causes, Current Conditions, And Future Projections

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ABSTRACT

The real estate market in Uzbekistan has witnessed a significant surge in prices over the period 2021-2023, raising concerns among potential buyers and policymakers alike. This article explores the key factors driving the soaring real estate prices, assesses the current market conditions, and provides predictions for the future.

Introduction

Real estate is a critical sector in any country's economy, reflecting economic prosperity and public sentiment. In Uzbekistan, the real estate market has experienced substantial price increases in recent years, impacting residents and investors. Real estate prices in Uzbekistan have experienced a significant upward trend from 2021 to 2023, raising concerns about the affordability and sustainability of this growth. This article delves into the reasons behind this surge, evaluates the present conditions, and speculates on future trends.

Methodology

This article's research methodology involves a comprehensive review of economic data, government reports and relevant literature to analyse the factors driving real estate price increases in Uzbekistan. In Uzbekistan, external geopolitical tensions increased the demand for housing from migrants in 2022.

Results

Various factors can negatively impact the demand in the real estate market, such as a decrease in economic activity, a reduction in the population's real income, and an increase in real interest rates. These factors can lead to unexpected housing price drops and even cause a price bubble to burst when high housing prices are formed due to non-fundamental factors.¹ However, there are other factors that lead to the increase of real estate prices in Uzbekistan in 2021-2023 years.

¹ Central Bank of Uzbekistan, Financial Stability Report 2022, 35

1. Causes of Soaring Real Estate Prices

Economic Growth: Uzbekistan has experienced robust economic growth during the specified period, driven by diversification efforts and policy reforms.

In 2022, Uzbekistan experienced a 5.7 per cent growth in its GDP, primarily driven by robust remittances, increased consumption, and expanded exports. Non-gold exports, measured in US dollars, also saw significant growth, surging by 21 per cent. This growth was mainly led by the textile, non-ferrous metals, fertilizer, and food sectors, with a substantial increase in exports to Russia, amounting to 52 per cent.

Furthermore, the services sector, particularly in transport and tourism, recorded a remarkable 53 per cent increase in exports. This surge can be attributed to a notable three-fold rise in tourists and immigrants from Russia, as well as increased tourism from neighbouring countries such as Kazakhstan, Kyrgyzstan, and Tajikistan. Remittances witnessed a doubling effect as a share of GDP, reaching 18.9 per cent in 2022. This increase was influenced by the appreciation of the Russian Ruble (RUB) and a higher influx of migrants. Notably, a portion of these financial inflows can be attributed to increased private money transfers from Russian citizens who relocated to Uzbekistan following political instability between Russia and Ukraine.

However, it's worth noting that the higher costs associated with food, fuel, and logistics contributed to a Consumer Price Index (CPI) inflation rate of 12.3 per cent year-on-year in December. In terms of currency dynamics, the Uzbek Som (UZS) depreciated by 3.8 per cent against the US dollar (USD) in 2022, while the real effective exchange rate experienced a marginal appreciation of 0.4 per cent.

Regarding the labour market, the unemployment rate declined to pre-COVID-19 levels at 8.8 per cent, down from 9.6 per cent in 2021. However, disparities persist, with higher unemployment rates among youth, women, and economically disadvantaged regions.

Additionally, the poverty rate was estimated to have decreased from 17 per cent in 2021 to 14 per cent in 2022, as supported by the higher inflow of remittances into the country.² This growth has resulted in increased disposable incomes and heightened demand for housing.

Foreign Investment and Government Incentives: The Uzbek government's active promotion of foreign direct investment has attracted international investors and developers to the real estate sector. According to the statistical data from the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, FDI inflows to Uzbekistan have increased substantially over five years from 2017 to 2022, resulting in an almost threefold increase from 3,3 billion USD in 2017 to 9,9 billion USD in 2022; thus the related number of investment projects also depicted a dramatic rise increasing from 111 to 981 consequently.³ This influx of foreign capital has stimulated construction activity and contributed to rising property prices.

² World Bank, 2023, Economy, Recent Economic Developments, URL: <https://www.worldbank.org/en/country/uzbekistan/overview#economy>

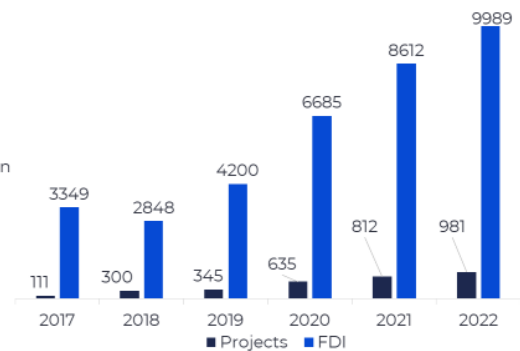
³ Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, 2023, Investments, Invest in Uzbekistan, URL: <https://miit.uz/en/menu/investirujte-v-uzbekistan>

FDI LANDSCAPE

FDI SECTORAL STRUCTURE IN 2017 - 2022



FDI INFLOWS IN 2017 – 2022, mln USD



Mixed Charts. FDI Landscape of Uzbekistan according to the data provided by the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, 2023, Investments, Invest in Uzbekistan (URL: <https://miit.uz/en/menu/investirujte-v-uzbekistan>).

Moreover, new government reforms such as VAT rates reduction (from 20 to 12 per cent), the establishment of the “Foreign Investor Council” (under the president of the Republic of Uzbekistan), abolishment of 500 functions of government on regulations and 132 licenses and permits, cancellation of import tariffs for more than 7000 raw materials and goods for investors and other subsidies and incentives aimed at promoting home ownership have further fuelled demand for real estate.⁴

Urbanization: Rapid urbanization and population growth rates (higher than 2 per cent annually in 2022, rising to this level compared to 2017) have led to a supply-demand gap in major urban centres, particularly in Tashkent. The shortage of housing supply relative to demand has exerted significant upward pressure on real estate prices.⁵

Low Interest Rates: Favourable lending conditions, including low interest rates (14 per cent) and accessible mortgage financing, have encouraged individuals and investors to enter the real estate market, amplifying demand (Central Bank of Uzbekistan, 2023).⁶

2. Current Conditions

As of 2023, real estate prices in Uzbekistan continue to rise, with Tashkent experiencing the most significant increases. This has raised concerns about housing affordability for many residents. The market remains active, with numerous construction projects underway, attracting domestic and international buyers and investors.

Discussion

While predicting real estate market trends with certainty is challenging, several factors will likely shape the future of real estate prices in Uzbekistan:

1. **Sustainable Growth:** Maintaining economic growth and political stability is the key to sustaining a thriving real estate market.
2. **Government Policies:** Government policies related to foreign investment and subsidies will continue to play a significant role in shaping the real estate sector.

⁴ Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, 2023, Investments, Invest in Uzbekistan, URL: <https://miit.uz/en/menu/investirujte-v-uzbekistan>

⁵ United Nations Population Division. World Population Prospects: 2022 Revision

⁶ Central Bank of Uzbekistan, 2023, URL: <https://cbu.uz/en/statistics/e-gdds/data/111576/>

3. *Urban Development*: The development of satellite cities and infrastructure projects may help alleviate price pressure in major cities, potentially moderating price increases.
4. *Interest Rates*: Adjustments to interest rates can impact mortgage affordability and, in turn, real estate demand.
5. *Global Economic Factors*: International economic conditions and geopolitical stability can influence foreign investment and, consequently, real estate prices.

Conclusion

The soaring real estate prices in Uzbekistan from 2021 to 2023 are attributed to a combination of economic growth, foreign investment, urbanization, low interest rates, and government incentives. While current conditions favour sellers and investors, the future trajectory of the market will depend on various factors, including government policies, economic stability, and global trends. Prospective buyers and investors should closely monitor these factors when making real estate decisions in Uzbekistan.

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4. United Nations Population Division. World Population Prospects: 2022 Revision
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