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## ANALYSIS OF HIGH HOUSING PRICES IN UZBEKISTAN AND IMPACT OF ISLAMIC FINANCING.

## АНАЛИЗ ВЫСОКИХ ЦЕН НА ЖИЛЬЕ В УЗБЕКИСТАНЕ И ВЛИЯНИЕ ИСЛАМСКОГО ФИНАНСИРОВАНИЯ.

## O'ZBEKISTONDA YUKARI UY-JOY NARXLARINING TAHLILI VA ISLOM MOLIYAJLANISHINING TA'SIRI.

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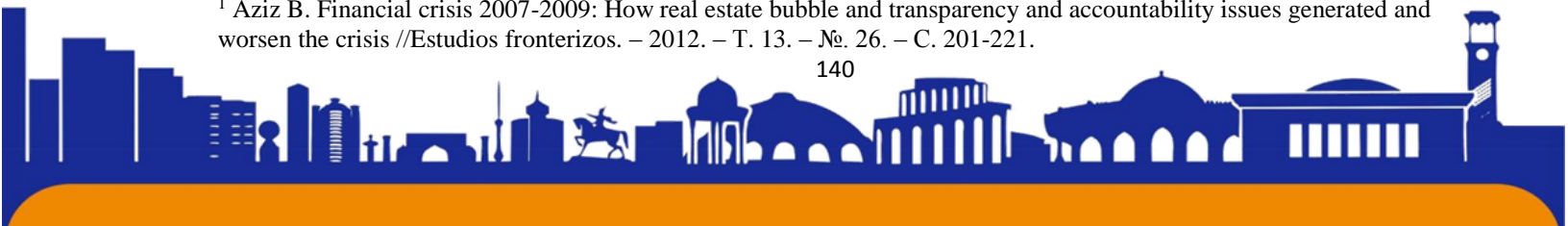
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A price bubble is beginning to build in the real estate market when housing prices rise more quickly than local wages and rents. A "bubble" occurs when assets are consistently valued below their true worth; their presence cannot be established until it collapses. With several interconnected origins and reinforcing processes, the housing price bubble is a complex phenomenon that had a role in the global financial and economic crisis of 2007–2009<sup>1</sup>.

When the population grows and the need for housing increases, a price bubble may form during times when the supply of housing is not keeping up with the demand. The nation's cheap cost of borrowing increases the number of people who can apply for a mortgage loan, increasing demand for homes. Furthermore, speculative speculators who purchase real estate in expectation of price increases run the risk of causing blisters. For those who can afford a home, the "bubble effect"—the idea that "others are doing the same and benefiting greatly"—may serve as a motivator to invest in real estate. There are instances when purchasers who have high expectations for price increase mistakenly think that prices will keep rising forever, which motivates

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<sup>1</sup> Aziz B. Financial crisis 2007-2009: How real estate bubble and transparency and accountability issues generated and worsen the crisis //Estudios fronterizos. – 2012. – T. 13. – №. 26. – C. 201-221.



them to take on additional risk. A "Bubble Index" was created to measure the price bubble in the Uzbek housing market, utilizing the Union Bank of Switzerland (UBS) Global Group's approach to evaluate the possibility<sup>2</sup>.

The weighted average value of the following five standardized sub-indices was used to calculate this index: the ratio of housing prices to average annual income, the ratio of housing prices to annual income from rent, the shift in the ratio of construction work to GDP and mortgage loans to GDP (economic factors), and the difference in prices between the region and the country. The Organization for Economic Co-operation and Development (OECD) Guide to the Construction of Composite Indicators (2008) recommends factor analysis for determining the weights of the sub-indices<sup>3</sup>.

The sub-indices are weighted using factor analysis to represent the largest possible portion of the total bubble risk. Specifically, these elements are given more weight since, for homeowners, fundamental reasons are more essential than economic factors.

Among the "bubble index" indications is the price-to-income ratio indicator, which indicates the number of years the typical wage worker would need to work in order to purchase a two-bedroom apartment in his neighborhood. The price-to-rent ratio establishes the cost of a two-bedroom flat in relation to its annual rental revenue. The more costly house prices are, the greater the ratio.

Purchasing a two-room house takes an average of six to thirteen years, based on the average monthly earnings in the respective locations. In relation to income, the most costly two-room residences can be found in the Samarkand area (13 years) and Tashkent city (10 years). In contrast, houses in the Republic of Karakalpakstan (7 years), Khorezm (7 years), Syrdarya (7 years), and Navoi (6 years) are comparatively less expensive. The Samarkand region's typical yearly salary is five times lower than the cost of the lowest two-room apartment currently available, while the most costly two-room apartment is thirty times more expensive. In Tashkent, these indications appear 6 and 26 times, respectively.

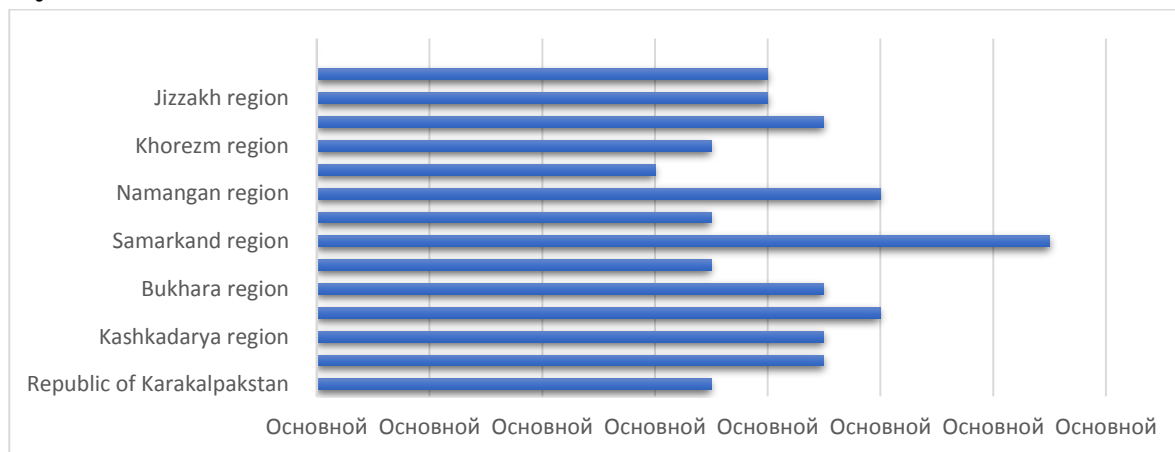
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<sup>2</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.

<sup>3</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.

For instance, in the Khorezm area, purchasing an apartment of the same type costs between 4 and 13 times the typical yearly salary.

**Figure 2.1. Years in which a worker with an income in the amount of an average salary must work in order for an employee to buy a 2-room house on his territory<sup>4</sup>**



Quicker rise in house prices compared to rentals raises the price-to-rent ratio, whereas quicker growth in rental prices reduces the time it takes for rental income to pay the cost of purchasing a property. Tashkent now has the greatest average price-rent ratio for a two-room house (12 years), while Fergana and Khorezm have the lowest average ratios (8 years). It is worth noting that in Samarkand and Namangan, the price-rent ratio is lower than the price-income ratio. This indicates that the average yearly rental income in these localities exceeds the official average wage income.

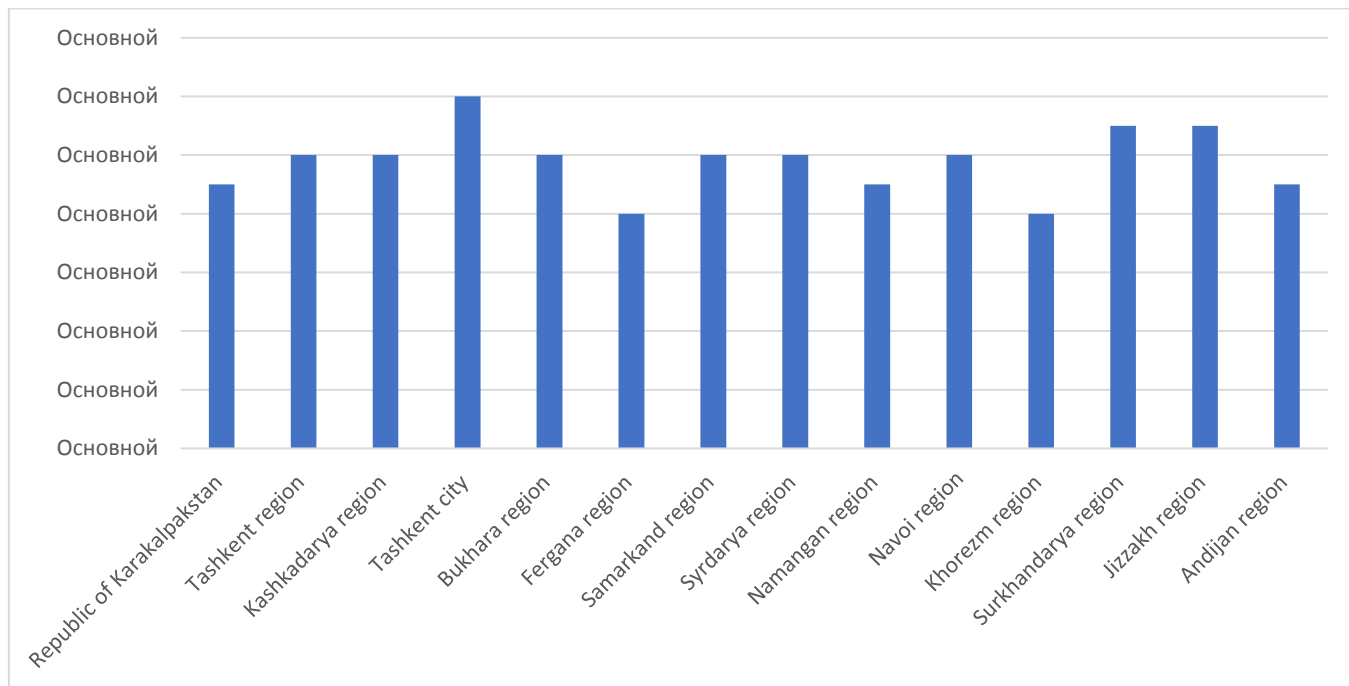
This tendency reflects the enormous population in these places, as well as the considerable demand for home rentals. In contrast, the fact that the price-income ratio is lower than the price-rent ratio in Navoi, Jizzakh, and Syrdarya areas indicates that the average wage in these regions exceeds the revenue from rent.

**Figure 2.2. The number of years it is necessary to rent it to pay the cost of a 2-room apartment<sup>5</sup>**

<sup>4</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.

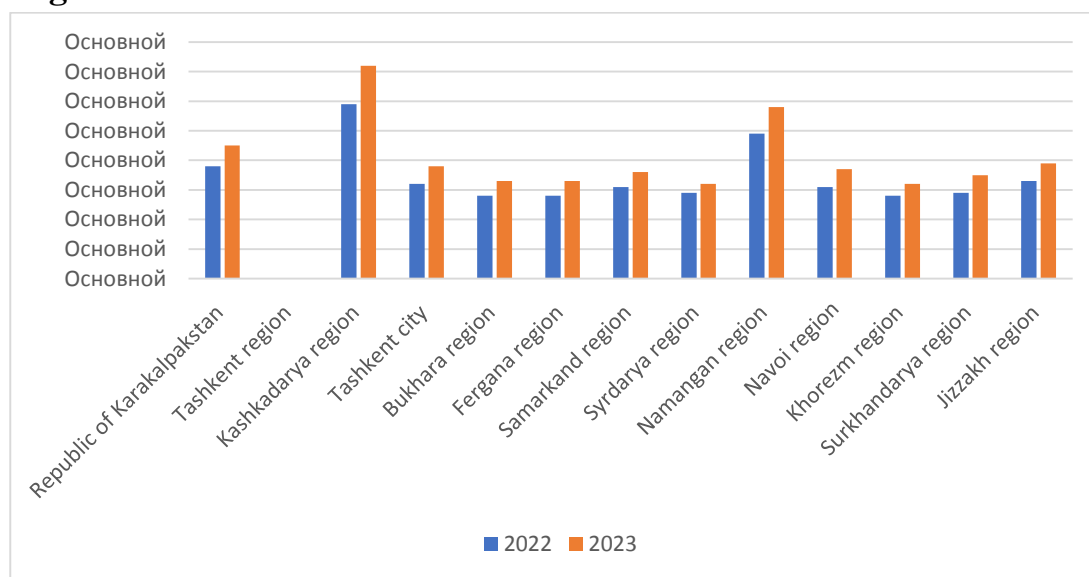
<sup>5</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.





At the end of September 2023, the average nominal wage in Tashkent was 7.2 million soums, 5.8 million soums in the Navoi area, and 4.4 million soums in the Tashkent region, with the rest of the regions falling between 3 and 4 million soums.

**Figure 2.3. As of the end of September 2023, the average nominal salary is in the regions cross section<sup>6</sup>**



<sup>6</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.





Housing Bubble Index. The home Bubble Index data highlights various features of home market valuations across the country.

In order to assess bubble risk in the real estate market, basic metrics like the price-income and price-rent ratios as well as economic metrics like the mortgage-to-GDP ratio must be continuously monitored. This will help to guarantee the establishment and stability of reasonable prices in the market.

**Figure 2.3. Housing price bubble index<sup>7</sup>**



With a score of 1.15, the home price bubble index indicates that Tashkent is getting close to the price bubble zone. It appears from this those prices are diverging from the level of stability. Although rental and home prices in the capital have increased more quickly than income in recent years, increasing the potential of a bubble in the market, construction activity due to economic considerations has "cooled" the situation.

Housing costs in the Surkhandarya region have been evaluated to have significantly increased from their basic value, according to the index result (0,9) for this region.

Prices in Namangan (0.63), Tashkent (0.61), Kashkadarya (0.59), and Samarkand (0.57) are closer to acceptable value, although they are still considered overpriced places. This shows that there is no immediate bubble danger in these places,

<sup>7</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.





but real estate markets are experiencing high prices, which might lead to future instability.

Furthermore, the index results show that house prices in Andijan (0.46), Fergana (0.40), and Syrdarya (0.36) are best formed in connection to elements such as regional average income, rental prices, mortgage loans, and building work<sup>8</sup>.

Housing bubbles pose a substantial risk to growing countries, often due to monetary turmoil and social unrest. While no longer a standalone solution, Islamic finance principles can offer valuable tools to defend those economies from such bubbles. Here's how:

**Rapid price increases:** Unsustainable charge hikes in housing markets, in particular in the foremost towns, indicate speculation in place of actual demand.

**Investment Rush:** An unexpected inflow of traders shopping for properties for quick resale is a sign of a bubble forming.

**Easy Credit Availability:** Lax lending practices with minimum necessities make it simpler to invest, fueling bubbles.

Islamic loan units like Ijarah and Murabaha can offer Shariah-compliant options for Uzbek citizens who prefer to keep away from traditional hobby-based mortgages. This can potentially grow the pool of capable customers and stimulate demand, though not necessarily affordability.

Islamic financing can provide homeownership possibilities to individuals who might have formerly been excluded because of their spiritual beliefs. By supplying Shariah-compliant alternatives, more people can participate in the housing market.

The complexity of a few Islamic devices and potentially higher financing fees as compared to traditional mortgages may lead to slower growth in housing demand. While this could now, without delay, cope with affordability, it may indirectly lessen the danger of an unsustainable housing bubble.

Some Islamic gadgets, like Ijarah, involve a sluggish ownership switch. This fosters a sense of possession and long-term funding for the property, potentially discouraging speculative buying practices that contribute to fast rate increases.

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<sup>8</sup> Makroiqtisodiy va hududiy tadqiqotlar instituti (MHTI). O‘ZBEKISTON KO‘CHMAS MULK VA IPOTEKA BOZORI. Makroiqtisodiy Va Hududiy Tadqiqotlar Instituti. 3. 2023.





Uzbekistan's Islamic finance sector continues to grow. Regulatory frameworks and information for Islamic loan units need further improvement to ensure clean implementation.

However, all of these reasons merely aid growing present measures to avoid hypotheses in property markets: Regulation. This includes tighter loans to buy assets and even a ban on flipping. For instance, retaining ownership for an extended period of time through tax advantages or other means is beneficial to the market. Transparency. Citizens require an obvious and effectively available source of data about housing fees, deal availability, and emptiness quotes. Promoting low-priced homes. Investing in reasonably priced housing, whether through government initiatives, tax breaks for low-cost builders, or novel sorts consisting of cooperative housing, lowers the cost of living.

Islamic finance ideas sell accountable practices that may help save you bubbles: Profit-Sharing: Lenders share income and losses with the borrower based totally on the belonging's overall performance. This discourages creditors from inflating costs as their return is tied to the belonging's long-term period fee. Focus on Asset Value: Islamic financing emphasizes the underlying asset's actual price. Overpaying for a property wouldn't benefit the lender, promoting accountable lending practices. Shared Risk: A shared hazard between lender and borrower encourages both parties to remember the property's fee and long-term affordability. This discourages risky borrowing and speculative shopping. The general financing value of Islamic mortgages (such as rent, profit markup, and ability down payment requirements) is probably higher than traditional mortgages. This ought to restrict affordability for some debtors. Islamic financing does not at once address the underlying causes of high housing charges, along with limited delivery. It more often than not offers Shariah-compliant access to financing, which is now not an answer for basic affordability.

Islamic financing presents a promising avenue for increasing homeownership alternatives in Uzbekistan, especially for those who decide upon Shariah-compliant options. However, it is no longer a silver bullet for fixing excessive housing expenses. Addressing the root causes through increasing housing supply, implementing appropriate guidelines, and promoting responsible lending practices remains crucial for a sustainable and reachable housing marketplace in Uzbekistan. Protecting developing nations from housing bubbles requires a multi-pronged method. By recognizing





warning symptoms, implementing sound rules, and selling sustainable housing solutions, governments can guard their residents' goals of homeownership and prevent financial turmoil. Islamic finance, with its emphasis on shared chance and accountable funding, may be a treasured tool in this enterprise. By prioritizing lengthy-term stability over brief-term profits, developing countries can make sure their housing markets grow to be a pillar of development and no longer a source of vulnerability.

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