



Profit From Real Estate And Economic Development

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ABSTRACT

As the main branch of the economy of Uzbekistan, the real estate sector has a significant impact on macroeconomic growth. According to our hypothesis, the first stage of the working life of economic participants is low-income, and the second stage is high-income. Then, relying on the overlapping generations model, we analyze how the behavior of different income groups through real estate affects the macroeconomics. The results show that when real estate market supply changes, it affects economic growth, but the extent of the impact depends on the relationship between the real estate and consumer markets. Furthermore, when economic actors prefer their current state of well-being more, the relationship between real estate stocks and their prices is negative, regardless of new growth or growth in real estate stocks. there will be a correlation. Finally, we conclude that an increase in real estate taxes can effectively reduce housing prices, but the effect of transaction taxes on housing prices is still inconclusive.

Keywords:

real estate market, real estate price, government regulation, macroeconomic fluctuation, economic growth.

Many uncertain external conditions, such as the current complex and changing international economic situation, the strong recovery of the Russian economy, the gloomy outlook for trade disputes between Uzbekistan and Russia, and significant risks in some emerging market economies affected its stable operation. economy. Uzbekistan's economy has faced significant challenges from the domestic side, as well as threats such as devaluation pressure on the yuan, increased financial risks, and a sharp slowdown in investment growth, all of which threaten the orderly development of the national economy.

The real estate sector is the main branch of the economy of Uzbekistan and has a significant impact on macroeconomic fluctuations in Uzbekistan. It not only makes up a large part of the gross domestic product, but

it has also become an important tool for regulating the state's economy. This is a result of the close relationship that exists between the country's credit and financial systems, especially since consumer debt rates are persistently high. The government's macro control over real estate has also been expanded from "strictly limiting excessive house price growth" to "strictly limiting house price growth", which is the government's current effort to clearly shows that their actions are aimed at stabilizing real estate prices¹.

The impact of real estate on economic growth has always been one of the most important areas of economic research.

¹ Center for Effective Economic Policy (CEEP) (2019), "Uzbekistan Economy: Statistical and Analytical Review for the 1 quarter of 2019". No. 5, July 2019.

Previous studies have mainly investigated the relationship between real estate and economic cycles, real estate bubbles and asset prices, and the various effects of real estate prices, where verification of the results has depended on empirical analyses. Relevant theoretical studies have primarily relied on computable general equilibrium (CGE) and dynamic stochastic general equilibrium (DSGE) analyses. In this article, we will try to create a new theoretical model and then conduct an in-depth real estate analysis based on this model.

The article examines how factors such as uncertainty in consumption and investment and population change affect macroeconomic fluctuations, mainly through real estate. As a result of the need to analyze how the real estate sector is affected by macroeconomic fluctuations, the paper's research relies on the Cross-Generation Model (OLG Model). In addition, in order to analyze how the behavior of different income groups affects real estate, we assume that the first stage of economic actors' life is low-income, and the second stage is high-income, and then how it affects real estate we will analyze. Different income groups influence the macro economy through real estate based on the OLG model².

The detailed layout of the paper is as follows. Section 2 of the paper reviews the relevant literature on real estate bubbles and asset prices, along with real estate and macroeconomic fluctuations. Section 3 proposes a theoretical hypothesis and then builds its theoretical model based on this assumption. Section 4 analyzes the impact of housing supply on the intertemporal consumption of economic entities. In Section 5, the consumption choices of economic entities in the first and second stages of life under conditions of real estate supply uncertainty are rigorously analyzed. Section 6 analyzes how changes in the number of renters and home buyers affect the real economy. Section 7 analyzes the impact of housing price changes

on the economy, and finally, Sec. 8 summarizes the results of the model analysis³.

Scholars have studied the impact of real estate cycles on macroeconomic fluctuations using a variety of methods. They analyzed patterns in real estate cycles and explored whether these real estate cycles corresponded to the modern macroeconomic cycle. Drawing on non-arbitrage asset pricing and consumer asset pricing models, they also investigated real estate bubbles and different forms of asset pricing. In addition, they consider factors that affect real estate prices from various perspectives, including loan interest rates, mortgage rates and down payment ratios, real estate taxes, real estate development and construction costs, focused on population impact.

Meen revealed the impact of market speculation on real estate prices. Real estate is both a consumer good and an investable asset. In turn, the price of real estate assets is closely related to the expectations of real estate owners about the income they can receive from the real estate during the period they own it. To support his conclusions, Meen conducted an empirical analysis of the Swedish real estate market. The results showed that real estate prices are related not only to the income and operating costs of home buyers, but also to the construction costs of developers and especially to consumer expectations⁴.

The research findings will provide real estate stakeholders, policy makers and other practitioners with a better understanding and knowledge of real estate marketing and investment opportunities in Uzbekistan. It provides useful and convenient information for real estate development scholars in Uzbekistan. It helps scientists to solve identified problems and take advantage of possible opportunities in real estate market and investment matters. It

² International Monetary Fund (2014a), ““Staff Report for the 2014 Article IV Consultation and Request for Purchase Under the Systemic Transformation Facility”. Washington, DC.

³ Lord, M., S. Alzhanova and A. Moiseev (2018), “Measuring the Economic Impact of Tariff Reforms: An Analytical Tool for Uzbekistan's WTO Negotiations”. Cabinet of Ministers and Ministry of Foreign Economic Relations of the Government of Uzbekistan. United States Agency for International Development.

⁴ Republic of Uzbekistan (2020), “Living Standards Strategy for 2018-2020 and Period Up to 2023”.

helps real estate investors understand the challenges and management of real estate investment in Uzbekistan. The findings offer implications for local government policymakers in their work on real estate development issues from the individual, company level to corporate real estate management. After investigating the problem at a grassroots level, the results will be useful in addressing social and economic development through the real estate market and investment. The results allow the researcher to recommend ways to offer local real estate agents, brokers and consumers an opportunity to compete and benefit more from rural and urban economic development in Uzbekistan⁵.

In order to differentiate the relationship between different income groups and the real estate market, it was assumed that economic entities go through two stages, i.e. youth stage and old age stage, and the products produced in these two stages are perishable goods. To facilitate the analysis, we first assumed that the population growth rate in this economy is zero. We also assumed that the real estate market opened after the end of the previous stage, before the start of its next stage, and that economic entities take over the activities of buying and renting houses in the real estate market.

At the first stage, young economists enter the economy, but due to their youth, they do not have enough funds to buy housing, and they can solve housing problems only by renting. In addition, economic entities participate in production at this stage. But since their products are perishable, they decide to transfer their consumer surplus to savings (or investment) and use these savings in the second stage. Between the first and second stages, young economists age, but since they have a certain amount of savings, they can afford to buy a house. In addition, in order to analyze the specific characteristics of housing investment and consumption, we divide

different types of housing purchased by economic entities in the housing market into two types. One type is used by economic entities for personal consumption, and the other is used for rent, for rent. In the second stage, other young economic actors can also enter the economy, but with less wealth, they can only rent a house from their old colleagues, who can then use part of this rent to exchange with these actors with young economic actors partial results, which allow older actors to maintain a certain lifestyle and level of consumption during this phase.

In addition, there is a real estate market that opens only between the first and second stages. In this economy, only older actors who have entered the next phase will own a home, and they can choose between owning it or renting it. There is also a depreciation rate associated with the housing, and the housing is fully depreciated in the first phase. Thus, within our built economy, the amount of housing depends on the supply of housing in the real estate market. At each stage of the economy, older actors can rent their homes to young people for rent, and then use the rent to exchange with young people for the young's consumables. In the first stage, young actors participate in production and distribute their wealth through the real estate market to choose appropriate consumption or housing⁶.

Thus, if the real estate market and the consumer market offer are negatively correlated, then when the real estate and consumer markets change, economic entities will increase the consumption of the first stage tend to decrease and increase the second stage. While real estate market and consumer market supply are positively correlated, the housing rental ratio and temporary consumption of perishable goods are not perfectly positively correlated. We cannot accurately determine the growth of intertemporal consumption of economic entities. Intertemporal consumption of economic entities is related to the relationship between the housing rent ratio and intertemporal consumption of perishable

⁵ State Committee of the Republic of Uzbekistan on Statistics (2020), "Statistical Review of the Republic of Uzbekistan. January-September 2020.

⁶ World Bank (2015), Global Economic Prospects 2015: Trade, Regionalism and Development. Washington, DC.

goods. If the real estate market and consumer market supply are positively correlated, then the housing rental ratio and the intertemporal consumption of perishable goods will be perfectly positively correlated ($\gamma=1$ and the covariance is equal to housing supply gap) and economic entities increase consumption in the first stage and reduce the second stage.

In Uzbekistan's real economy, the population is continuously growing. In addition, the one-child policy has resulted in a situation whereby when these only children begin to choose between renting and purchasing a house, their parents' support enables them to, like their elders, choose to purchase a house, rather than simply choosing to rent a house as did the young people analyzed above. The economic behavior of these only children is like that of the elderly. Therefore it is necessary to analyze how changes in the numbers of tenants and home buyers affect the real economy. Suppose that the population is no longer measured in terms of economic actors but in terms of families instead⁷.

The above analysis is built on the analytical framework of overlapping generations, holding that the rent from rental housing is the income from housing investment. However, in the real economy, some economic actors buy houses to chase the income from rising housing prices. Next, this paper will further analyze the various impacts of changes in housing prices on the economy.

Two markets exist in this economy: a consumer goods market and a housing market. Economic actors conduct transactions in these two markets in order to determine their optimal amounts of consumption and housing. The two markets are both open in every stage. According to the conclusions of sequential trading, we know that each economic actor will determine his own optimal consumption and housing, so we assume that there exists a representative economic actor whose personal choices can represent the choices of the whole economy. Next, we will first analyze the

situation in which housing stocks do not change, and then compare the similarities and differences between the invariable and variable housing stock situations.

Assume that to achieve his maximal utility our representative economic actor chooses between the consumption sequence $\{C_1\}_{\infty t=0}$ and the owner-occupied housing sequence $\{E\}_{\infty t=0}$. The economic actor's utility function is as follows:

$$E_0 \sum_0^{\infty} \beta^t [U(E_t)] \quad (0 < \beta < 1) \quad (1)$$

where β is referred to as the economic actor's subjective discount rate. The economic actor's utility function contains consumables and housing, wherein C_1 is referred to as the consumption of the t th stage, and E_1 is referred to as the consumer's use of housing in the t th stage. In this economy, where a real estate market exists, the economic actors trade real estate in this market to obtain trading revenue and to maximize their long-term utility.

Conclusion

If the supply of the real estate market and that of the consumer market are interchangeable, then when supplies in the real estate market and consumer market fluctuate, economic actors will then tend to reduce their current consumption in order to increase that of the future. This will lead to a certain degree of economic growth. When supplies in the real estate market and those in the consumer market are mutually complementary, and the housing rent ratio and future consumables are not in positive correlation, we are not able to clearly determine what will be the future economic growth and increases in consumption. Moreover, if the supplies of the real estate market and those of the consumer market are mutually complementary, and the housing rent ratio and future consumables are in positive correlation, economic actors will increase their current consumption while reducing their future consumption. This will result in a fall in economic growth.

When choosing between self-occupation and renting out, if economic actors more greatly prefer future housing and consumption, as the number of self-occupied homes rises, future demand for owner-occupied homes will

⁷ Zettelmeyer, J. (2019), "The Uzbek Growth Puzzle," IMF Staff Papers, Vol. 46, No.2, June 2019.

increase. If economic actors do not prefer in the future to occupy their homes, once they prefer the future as opposed to current consumption and the number of self-occupied homes rises, the demand for future occupied housing will actually decrease. In addition, we also found that even if there is an increase in the number of home buyers in the real estate market that this increase will not necessarily drive up the actual number of housing purchases. This is because a portion of the group that is newly occupying their homes will possibly supplant the extra demand for owner-occupied homes. Finally, the conclusion that the increase in the number of owner-occupiers leads to additional demand for the future real estate market remains true only when economic actors prefer future welfare.

It needs to be mentioned first that, when economic actors' future consumption and owner-occupied housing are combined, as house rents rise in the economy, economic actors will become increasingly likely to reduce their future owner-occupied housing. This will result in an increase in real estate market supplies. Additionally, we also found that housing prices are negatively correlated with owner-occupied housing. When the economy is in a steady state, if economic actors prefer owner-occupied housing, they will have more room to assess the amount of available housing and housing prices. In addition, when economic actors prefer their current welfare situation, they will have less means to take into account future housing. In terms of housing prices, capitalized housing, and consumerized housing stock, capitalized real estate stock is positively correlated with real estate prices. That is to say, consumerized real estate stock is negatively correlated with real estate prices, regardless of whether there is new housing supply or not. Finally, with respect to how taxes affect real estate prices, we found that an increase in property taxes can effectively lower housing prices. But, it is still hard to tell how transaction taxes affect housing prices.

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