

Article

# Scientific-Theoretical Foundations of Real Estate Valuation and Market Assessment

Nizamjon Faizullaevich Ishonqulov<sup>1</sup>

Associate Professor at Tashkent International University of Chemistry, PhD in Economics

Correspondence: [n.ishankulov@kiut.uz](mailto:n.ishankulov@kiut.uz)

**Abstract:** The article reflects the institutional foundations and mechanisms of real estate valuation and market assessment in Uzbekistan. In particular, it provides a comparative description of scientific-theoretical views on real estate and its market, valuation principles, characteristics of real estate objects, classification of real estate markets, and mechanisms related to the regulation of valuation activities.

**Keywords:** real estate value, valuation, real estate market assessment, digital economy, mechanism, regulatory mechanism, regulatory instruments, valuation activity subjects.

## Introduction

In countries that have transitioned to a market economy or are in the process of fully transitioning to this economic system, real estate and its market, as key segments of the capital market, play a crucial role in the development of economic relations. The real estate market constitutes a significant portion of the total wealth of countries worldwide. It is worth noting that market relations cannot be imagined without the existence of a real estate market.

The global real estate market grew from **\$3,694.47 billion in 2022** to **\$3,976.18 billion in 2023**, with a **compound annual growth rate (CAGR) of 7.6%**. By 2027, the real estate market is expected to reach **\$5,209.84 billion**, growing at a **CAGR of 7.0%** [7]. Additionally, the importance of the real estate market and its associated financial and economic relationships continues to increase, as it underlies economic activities related to industrial sector operations, housing provision, and overall economic organization. From this perspective, improving the methodology for real estate valuation and market assessment remains a significant issue.

In Uzbekistan, special attention is being paid to determining the true market value of real estate through valuation, protecting legal rights and interests in real estate, and expanding the participation of professional actors in the real estate valuation services market. The country has set tasks for continuing institutional and administrative reforms to ensure the inviolability of private property and the freedom of entrepreneurial activity while upholding the rule of law [1].

To fulfill these tasks, priority is given to:

- Establishing a unified database of real estate transactions,
- Enhancing the taxation system by determining the cadastral value of real estate based on international experience,

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- Aligning international valuation standards with national real estate valuation standards to ensure fairness and accuracy in property valuation.
- Review of the Literature
- The scientific-theoretical aspects of valuation activities, including the institutional foundations and mechanisms for assessing real estate value and its market, have been studied by various foreign and local economists, as well as practitioners.
  - In particular, American economists J. Friedman and N. Ordway, in their book *"Analysis and Valuation of Income-Producing Real Estate"*, describe the real estate market as an interconnected system of market mechanisms that ensure the creation, transfer, operation, and financing of real estate [2].
  - Among CIS economists, S. N. Goveiko emphasizes the necessity of integrating digital economy elements into real estate market valuation activities. This includes using modern IT technologies (such as cloud computing, blockchain technology, and data mining) to collect, process, access, and update essential valuation data. Additionally, the use of databases containing property characteristics, Big Data, and artificial intelligence technologies is crucial for enhancing the valuation process [3].
  - Considering the level of development and dynamic changes in the real estate markets of different countries, it is important to note that state support and administrative regulation play a significant role in this area. In every country, some degree of government intervention is expected in real estate market development, particularly in the residential sector. However, the level of state support varies across countries, which leads to differences in the formation of the housing systems in developed and developing nations.
  - According to A. N. Asaul, S. N. Ivanov, and M. K. Starovoirov, the fundamental principle of real estate law is based on the concept of "superficies solo cedit", meaning that land and the structures built upon it cannot be separated. As a result, classifications for real estate have been developed to clarify property rights and ownership issues. The ancient Romans established a system of real estate rights that has been refined over time in line with modern legal and economic principles. However, their initial approaches to real estate market regulation remain foundational to state governance [8].
  - Among Uzbek economists, A. Nabikhodjaev proposes using the inflation index in calculating the capitalization rate for income-based real estate valuation. He emphasizes that the selected currency should align with the inflation index used in the calculation. Core inflation, as he highlights, reflects price dynamics in goods and services without accounting for administrative and seasonal factors, making it a key indicator for free market price changes [4].

#### **Research Methodology**

This article employs various research methods, including **scientific abstraction, comparative analysis, expert evaluation, economic observation, monographic studies, sociological surveys, and analysis of their results.**

#### **Results and Discussion**

Investigating the **scientific-theoretical foundations of the real estate market** is crucial for developing relevant hypotheses about market development, analyzing valuation methods, and making investment decisions. Below, we examine the scientific-theoretical approaches of both foreign and local scholars regarding real estate and its valuation.

The importance of the **real estate market** lies in its fundamental role in economic activity, industrial sector operations, and housing provision. At the core of these economic relationships are the **real estate market and its associated financial-economic interactions.** In this regard, the following section presents the scientific-theoretical approaches of foreign and local economists concerning the **real estate category.**

Notably, **N. V. Gorodnova and N. Mavrina**, in their research on the economic aspects of managing the real estate market, state:

*"Historical records of the real estate market indicate that legal approaches to real estate transactions existed before economic interpretations of the market. The category of 'real estate' was legally defined as early as the era of the Roman Empire. In that period, property was classified into two major categories: movable and immovable assets. Within the Romano-Germanic legal tradition, Roman law regarded all existing land plots, **underground natural resources, and all human-made structures on owned land** as 'real estate.' The primary characteristic of immovability was assigned to land itself. Furthermore, all elements existing on land, whether **natural or artificial**, were considered an integral part of the land and referred to as 'res soli'. According to this approach, any object that was **firmly attached** to the land (either naturally or artificially) was deemed an inseparable part of the land itself" [5].*

Additionally, after analyzing the **scientific-theoretical foundations** and perspectives regarding the concept of real estate, a comparative table summarizing these viewpoints is presented below.

**Table 1**

**Comparative Description of Scientific-Theoretical Views on the Real Estate Market and its Valuation**

Surname and name of scientists	Definitions given by scientists, expressed feedback
Jack Friedman	The real estate market is a set of specific mechanisms through which property rights and related interests are transferred, prices are set and space is allocated between various competing land uses.
John William	Examination of price actions in the real estate market requires the isolation of information by categorizing the market. Market characteristics consist of dominant attributes, which determines demand and determines the boundaries of other markets.
Tarasevich E.I.	The real estate market is a system of agreements in which buyers and sellers come together to determine the exact price at which a certain exchange of goods can be carried out, such as real estate.
Volkov D.L.	The real estate market is an economic and legal space in which the interaction of the supply and demand of all buyers and sellers of real estate, which exists at a certain time, and with which the totality of all current operas is carried out.
Balabanov I.T.	The real estate market is a system of economic relations arising from the sphere of capital investments in real estate and operas related to real estate. This relationship consists of the sale and purchase of real estate between investors, the mortgage, the lease of real estate to a trustee, and x.k.
Smirnova I.V.	The real estate market is a local formation, since its objects are real, specific and their value largely depends on the external environment (political, economic, social, environmental situation in the country and region) and is segmented, since different users have different characteristics.
Gryaznova A.G.	The real estate market refers to the purchase and sale of various properties. The condition for assessing real estate is to

	take into account the peculiarities of the activities of the real estate market.
Asaul A.N.	The National (Domestic) real estate market is a set of development asynchronies, prices and risk levels, efficiency of investments in real estate and, in particular, legislative status, political and Social markets.
Khomitov K.Z.	The real estate market is a system of organizational measures between sellers and buyers that unite to determine the concrete price of real estate and, as a result, real estate exchange can occur."
Abdukarimova D.R.	Real estate market assessment – is carried out by determining the comparative measures for the results of the assessment obtained with various assessment approaches, in which the appraiser must take into account the purpose of the assessment and the use of the assessment results in moderation, the nature of the object of assessment, the type of value and the volume and quality of information used when applying

In English-speaking countries, the term "**real estate**" is expressed using two different phrases, each carrying distinct meanings:

1. "**Real Estate**" – This term refers to a **tangible immovable object**, which can be directly translated as "**physical property**" (a material entity).
2. "**Real Property**" – This term denotes **ownership rights over immovable property**, with a literal translation meaning "**legal ownership of a physical object**" [5].

#### **Components of Real Estate**

In international research, the "**real estate**" category is generally considered a physical asset encompassing four key components:

1. **Land plot;**
2. **Immovable structures built on the land;**
3. **Natural resources beneath the land;**
4. **Airspace above the land.**

#### **Nature of the Real Estate Market**

The real estate market, as part of the broader economic market, involves **ownership relations between the state and economic entities** concerning **acquisition, creation, and production of real estate assets as commodities**. These assets enter the market in **objective circulation** in accordance with market laws and conditions.

In general, the **real estate market** serves as a legally regulated environment where property-related transactions take place under **civil law**. Within this environment, economic players engage in structured transactions based on **supply and demand**, with market-driven **prices reflecting their mutual economic interests** [9].

#### **Difference Between "Valuation of Value" and "Market Valuation"**

In the field of real estate, the terms "**valuation of value**" and "**market valuation**" are distinct yet interrelated. Both processes are crucial in **making economic decisions** regarding real estate, but they differ in their **purpose and implementation methods**. The differences between these two concepts are outlined in **Table 2** below.

**Table 2**

#### **Differences Between Real Estate Value Assessment and Market Assessment**

Aspects	Real estate value assessment	Real estate market assessment
Goal	Determination of the cost of a particular real estate	Analysis of the general state of the real estate market

Coverage	One or more specific objects (apartments, offices)	General state of the market (prices, liquidity, supply and demand)
Methods used	Method of comparison, method of income, method of reconstruction	Trends analysis, liquidity analysis, macroeconomic factors
Data from	Accurate and complete data for value estimation	General market trends, economic analysis
Influencing factors	Condition of the object, location, construction standards	Macroeconomic factors, inflation, construction potential

#### Real Estate Value Assessment vs. Market Assessment

**Real estate value assessment** is the process of determining the **current economic value** of a specific property. This valuation is typically based on several factors, including **location, size, condition, maintenance status, and market demand**.

On the other hand, **real estate market assessment** refers to analyzing the **overall market trends** related to real estate, including **sales, rentals, and investment activities**. This process considers factors such as **market conditions, trends, liquidity, price dynamics, and broader economic influences**.

#### Key Indicators Defining Real Estate Properties

The indicators that define the **nature of real estate objects** can be categorized into **general indicators** and **property-specific indicators**.

For example:

- **Land in rural areas** serves as a foundation for **human habitation and the socio-territorial development** of a nation.
- **Land as a source of income** forms the basis of **agricultural production**, functioning as an **independent yet complex investment asset** linked to built structures and economic activities.
- It represents a **part of national wealth**, serves as a **taxable asset**, and is the **only real estate object classified as a natural resource**.

#### Specific Characteristics of Real Estate Objects

Apart from **general characteristics**, real estate objects possess **specific features** depending on their **type and function**. These **unique characteristics** are determined by specific **quantitative and qualitative indicators** of the given property (**Illustration 1**).

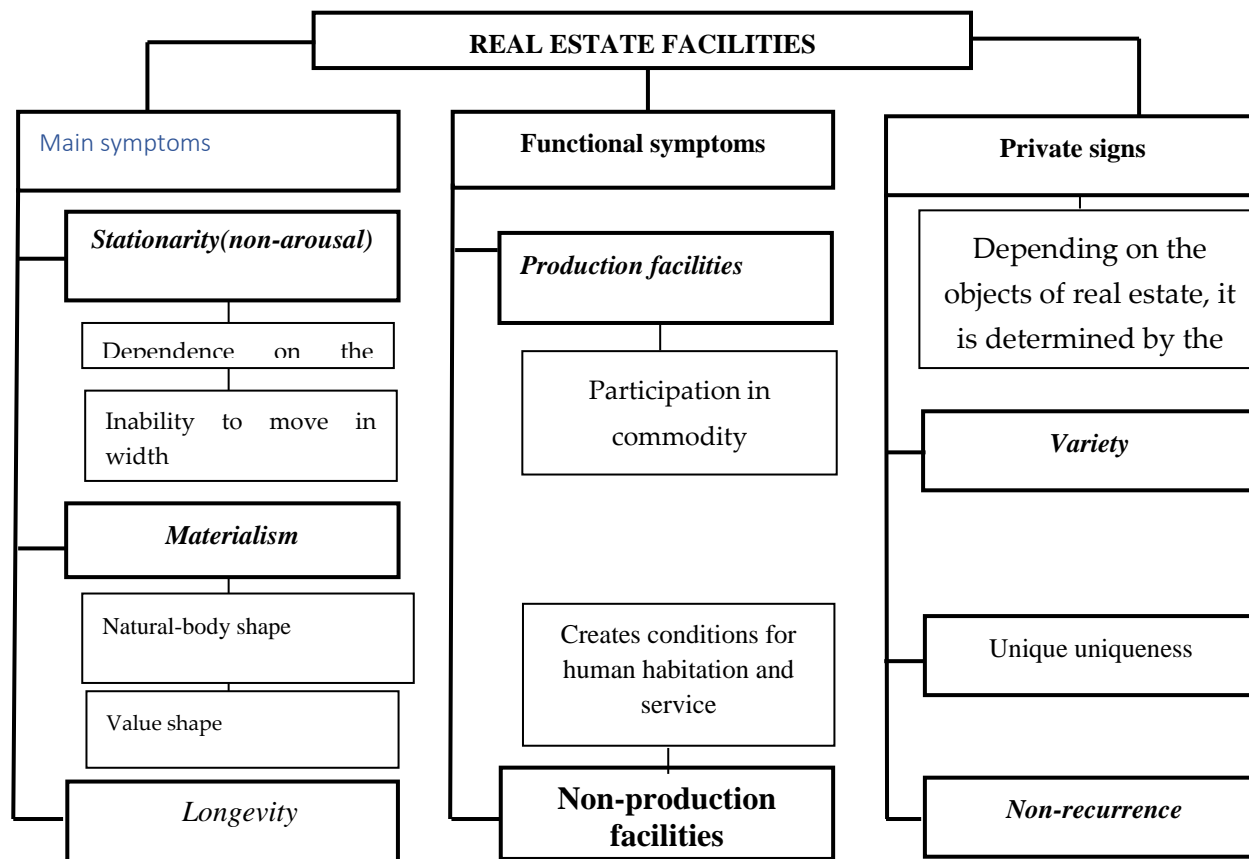


Figure 1. Characteristics of Real Estate Objects

Real estate objects hold high economic value because they are intended for long-term use and are not consumed in the process of utilization. As a rule, real estate objects are characterized by structural complexity, and maintaining them in proper condition requires significant expenditures.

The **physical lifespan** of a real estate object is the sequence of processes from its formation according to the project to its termination (utilization). The **life cycle stages** of real estate objects are as follows: **pre-project, design, construction, operation, and termination**.

1. **Pre-project (initial) stage** includes analyzing the real estate market, selecting a real estate object, forming a project strategy, conducting investment analysis, formalizing initial permitting documents, and attracting investment credit resources.

2. **Design stage** involves developing the financial scheme, organizing financing, selecting the engineering and architectural team, and managing the design process.

3. **Construction stage** includes selecting a contractor, coordinating construction works, and overseeing construction quality, cost estimates, and other expenditures. At this stage, real evidence emerges regarding how well the constructed object aligns with the logically justified requirements of the real estate market segment's lifespan. Additionally, in this stage, the issue of increasing potential consumers' capital investments is resolved, as the growth in supply and benefits indicates strong market acceptance.

4. **Operation stage** involves maintaining and servicing the object, as well as conducting repairs. The operation management system for real estate covers multiple functions, including equipment operation, material accounting, fire safety, security, communication management, waste disposal and recycling, relocations, modifications, reconstructions, emergency response, maintenance and current repairs, furnishing, and object security.

5. **Termination stage** refers to the complete elimination of the object's initial and subsequently formed functions, either through demolition or the creation of conditions for its complete redevelopment. This stage requires substantial expenses, marking the final ownership

costs of the real estate object. If the object is entirely transitioning to a new form, the costs incurred fall under ownership expenses associated with the new function.

Additionally, when characterizing the structure of the real estate market, it is appropriate to use **three main approaches**:

- **Institutional approach**
- **Object-type approach**
- **Reproductive approach**

In this regard, Article 178 of the **Law of the Republic of Uzbekistan "On Valuation Activities"** defines the following legal norm: *"The real estate market is an economic and legal domain where all current supply and demand from real estate buyers and sellers interconnect, and all ongoing real estate-related transactions take place. The real estate market reflects the sector of capital investment in real estate objects and the system of economic relations arising in real estate transactions. These relations emerge among investors in the processes of real estate purchase and sale, mortgages, and leasing of real estate objects."*

Based on the considerations above, it can be concluded that the **real estate market** is an **integrated category** with the characteristics of goods, investment, and service markets. It is a **financial-economic system** associated with **real estate rights, real estate objects, property rights over them, purchase and sale processes, determination of market value, management, and value enhancement**.

Our definition of the real estate market ensures **economic transparency** and **clarity in real estate transactions**, which plays a crucial role in improving **valuation methodologies** and enhancing the economic significance of real estate market assessments.

Scientific research on **the theoretical foundations of real estate and valuation activities** is vital in fully revealing the essence of the market's unique characteristics. Below is a classification of the **real estate market characteristics** based on scientific research results.

**Table 3: Characteristics of the Real Estate Market**

Classification symbol	Features
Localization	- absolute inaction; - price dependence on location.
Type of competition	- imperfect, oligopoly; - few buyers and sellers; - identity of each object; - Limited Price Control; - the fact that entering the market requires large capital.
Flexibility of offers	- with low demand and increased prices, the supply increases less; - the demand can be very variable.
Degree of openness	- transactions will be of a personal nature; - public information is often incomplete.
Product competitiveness	- determined in many ways by the influence of the external environment; - uniqueness of individual preferences of buyers.
Zoning conditions	- regulated by civil and land law, taking into account Water, Forest, environmental and other special rights; - regulated by the interconnection of private and other forms of property.
Registration of transactions	legal complications, restrictions and conditions
Price	- includes the value of the object and related rights.

In the real estate market, based on its characteristics, the processes of **real estate creation, utilization, and exchange**, as well as **market management**, are carried out. The real estate market has a **complex and multi-sectoral structure**, which can be classified according to various criteria.

Considering the **threefold nature** of real estate as a commodity, three **key sectors** have developed and actively operate in the real estate market:

- **Development of real estate objects (creation);**
- **Management of real estate objects (utilization);**
- **Circulation of rights to pre-existing real estate.**

The analysis of **theoretical foundations** and **scientific research** indicates that the factors influencing the functioning of the real estate market, its key characteristics, and its unique parameters have not been fully studied. In this regard, it is appropriate to **consider the regulation of the real estate market from a macroeconomic perspective**, as well as **its relationship with capital and mortgage markets**, taking into account **regional factors** and **valuation activities**.

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