

## TERRITORIAL FACTORS IN REAL ESTATE VALUE STUDY THE EFFECTS

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**Abstract.** The real estate is an integrate part of the economic development of the country. Essential economic changes have direct impact on the real estate market. In recent years that saw the economic crisis there occurs a need to analyse the factors that exert impact on the real estate price. The authors of this article analyse the factors that have impact on the real estate price. The article reviews the global analysis of the factors that influence the real estate market and gives a glimpse of the conceptual model of Lithuania's real estate market development in 2000-2019. The research part of the article presents the public poll carried out in Vilnius concerning the real estate as one of the main social factors as well as one of the factors reflecting the quality of life.

**Keywords:** real estate, housing price, market, public opinion poll, factor analysis.

**Introduction.** The increasing opening of the national economy triggers the expansion of the fields of intensive knowledge and technology application and the transformation of public consciousness and ways of thinking. These changes are less scary for skilled people with the greatest intellectual potential; usually such people live in the largest towns and surrounding districts. All these processes have caused changes in the previous systems of towns, districts and villages, as territorial units, and disturbed their balance.

Regardless the efforts of the states to promote sustainable development, in many cases the emerging phenomena condition the development of some districts and the lagging behind of other districts and even the occurrence of socially negative locations. In any case, maintaining balance and harmony of processes during the changes in economic relations is not easy. Although according to the open economy concept it is considered that external factors have positive influence on the development of individual countries, this impact is uneven and controversial, especially with regard to the transition economies. Economic, social and ecological processes take place in a complex context of globalisation, competition and climate changes, and it is not easy to assess the impact of these processes on the environment and people.

One of the main elements of this transition economy reform is land privatisation, which resulted in the lower land use intensity and large areas of land lying waste. Alongside the structural economic changes characteristic of the modern post-industrial world, such as falling agricultural and industrial production and increasing share of services, this determines the negative economic and social outcome. Even so, it is obvious that the decreasing impact of human activities on the natural environment and live nature produces positive outcome: falling production results in reduced agricultural pollution and in the expansion of protected areas. For example, in Lithuania the forest area has been annually increasing by about 1%, while timber volume has been annually increasing by nearly 1.5%. The areas of protected and protective forests have expanded by about 1.8% of their total volume.

**Classification of the factors that have impact on the real estate market.**

In Central and Eastern Europe the reasons for the rapid real estate price variations are usually looked for by analysing the following fundamental factors: interest rate decrease, loan availability, housing supply and demand ratio, changes in housing market participants' expectations, administrative restrictions of supply, etc. These factors have varying degree of impact on the real estate market of any country. Very abrupt rise in the real estate prices usually predetermines the development of financial markets conditioned by loans for housing acquisition. Works dedicated to the real estate market analysis group the factors that have impact on that market with regard to different profiles. For example, S. Vanichvatana (2007) singles out the following macro- and microenvironment factors: macroeconomic – GDP and employment, loan rate and foreign exchange rate, stock price indexes, geo-factors (population, age); while macroeconomic factors are mostly related to construction environment, i.e. the issued construction permits and the number of built houses, the construction price indexes, etc.

It is obvious that most of these group factors are interrelated. R. J. Schiller (2005), who thoroughly analysed global financial markets and their fluctuation, carried out an exhaustive analysis of the housing price fluctuation. Analysing housing market fluctuation dynamics in USA since 1890 he noticed that the well-known rational housing price factors, such as loan rate, construction prices or population growth, sometimes failed to correspond to the housing price fluctuations. Carrying out his analysis he found out some other factors that had impact on the fluctuation of securities and housing prices. V. Azbainis and V. Rudzkien\_ (Azbainis, Rudzkien\_, 2011) carried out research on theoretical integration of the real estate market development approach with the empiric variable analysis, and constructed a conceptual model of Lithuania's real estate market development in 2000-2009. The authors distinctly singled out two factors; the first of those factors could be called the rational factor related to the real prices of housing, while the second of them could be called the irrational factor reflecting consumers' expectations. The first factor consists of 4 variables: loans issued to bank clients, the total number of constructed apartments, the average price of a large panel apartment in a residential district of Vilnius, and the average annual inflation. The main variable of this group is the average price of large panel apartments, and together with other variables it exerts impact on the first factor. The second factor consists of three variables, and the most important one of them is the derivative or irrational indicator, i.e. the consumer confidence index. Based on the obtained result, the model of the real estate market development was produced.

**Conclusions.** Sudden changes in the real estate prices, price rise, its impact on national economy, and price bubble analysis are all important for the real estate theory and practice. As real estate is used not only for the direct needs (often it serves as an investment), there is a need to analyse the factors that have an impact on the real estate market. Analysing the factors that possibly had impact on the Lithuania's real estate prices in 2000-2019 seven main factors were singled out, namely:

loans issued to bank clients, billion LTL; the total number of apartments built, pcs.; consumer confidence index; the average interest rate on loans issued in litas (%); the average price of large panel apartment in a residential district of Vilnius; the real change in GDP (%); the average annual inflation (HICPs) (%).

Evaluating Vilnius with regard to sustainable development, the article was based on the data of the representative public poll where residents had evaluated the quality of life against 22 affirmations; the evaluation was performed within the five-point scale. The following factors were grouped into three fields characterised by similar features: the field *Home* is reflected by 5 variables, the field *Work* – by 2 variables, the field *Recreation* – by 4 variables. The remaining and the largest group of 11 features consisted of general type environment quality variables.

To reduce the amount of data, the factor analysis method was applied, and it allowed replacing the information contained within many factors by one variable. The eigenvalue analysis resulted in one distinct factor singled out in the three groups – Home, Work and Recreation. The variables of the largest group – quality of environment – were singled out into two factors. The first was related to health and safety, while the second reflected the attractiveness of the downtown area and the aesthetical values of the district.

Thus, five factors were singled out of the available data: home, work, recreation, safety and health, the downtown area and aesthetics. Based on that, the model of factors that have impact on the real estate price was produced. The model reflects the opinion of the residents of Vilnius and it will be used for further research on the real estate market.

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