THE IMPACT OF SUSTAINED HIGH MORTGAGE RATES ON HOUSING AFFORDABILITY AND PRICE DYNAMICS IN TASHKENT

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Abstract

The real estate market of Tashkent experienced substantial structural changes ***during the period of 2026-2026. One of the major factors influencing this process*** was the persistence of relatively high mortgage interest rates in the banking sector of Uzbekistan. This article investigates the impact of high mortgage rates on housing prices, residential demand, construction activity, and housing affordability in Tashkent city. The research is based on statistical analysis, comparative analysis, and macroeconomic evaluation methods using data from the Central Bank of Uzbekistan, national statistical reports, and real estate market indicators.

The study demonstrates that high mortgage rates produced mixed effects on the housing market. On the one hand, expensive mortgage financing reduced purchasing power among middle-income households and limited effective demand, especially in the secondary housing market. On the other hand, rapid urbanisation, demographic growth, state-supported mortgage programmes, and continuing expansion of construction activity prevented a significant decline in housing prices. During the analysed period, mortgage interest rates in Uzbekistan remained comparatively high, creating an additional financial burden for borrowers and reducing housing accessibility for a considerable part of the population.

The research also identifies that the primary real estate market in Tashkent demonstrated relatively stronger price growth compared to the secondary market due to active development projects and government housing initiatives. At the same time, high mortgage costs contributed to slower transaction growth and

weakened affordability among first-time homebuyers. The findings indicate that although the mortgage market continued quantitative expansion, high interest rates remained an important restrictive factor for sustainable housing accessibility and balanced market growth.

The article concludes that long-term stabilisation of the Tashkent real estate market requires balanced monetary policy, gradual reduction of mortgage interest rates, improvement of banking accessibility, and expansion of targeted social housing support mechanisms.

Keywords: mortgage rates, real estate market, housing affordability, Tashkent, Uzbekistan, mortgage lending, housing prices, construction sector, monetary policy, residential market.

Literature Review

The relationship between mortgage interest rates and real estate market dynamics has been widely discussed in international economic literature. Many researchers argue that mortgage rates directly influence housing affordability, investment behaviour, residential demand, and construction sector activity. In classical economic theory, an increase in interest rates usually leads to a decline in borrowing activity because the cost of credit becomes more expensive for households and investors. As a result, demand in the housing market may decrease, leading to slower price growth or market stagnation.

According to the studies of John Maynard Keynes, interest rates play an important role in determining investment decisions and aggregate demand in the economy. Later researchers in housing economics expanded this idea by demonstrating that mortgage accessibility significantly affects residential property prices and housing market cycles. Modern urban economic theories also suggest that rapidly growing cities may continue experiencing housing price growth despite high financing costs due to population pressure and land scarcity.

Several foreign researchers analysed the impact of high mortgage rates during periods of monetary tightening in developed and developing countries. Their

findings indicate that prolonged high interest rates reduce purchasing activity, particularly among middle-income households and first-time buyers. However, the final effect depends on additional macroeconomic factors such as inflation, urbanisation, demographic growth, state subsidies, and construction supply elasticity.

In the context of post-Soviet and developing economies, researchers have noted that housing markets often react differently compared to mature Western markets. In many transition economies, real estate is not only a residential necessity but also an investment instrument used for inflation protection and capital preservation. Therefore, even under conditions of expensive mortgage financing, housing demand may remain relatively stable if inflation expectations and urban migration continue increasing.

In Uzbekistan, the issue of mortgage lending and housing affordability became especially important after the acceleration of economic reforms and liberalisation policies after 2017. Local economists and analytical institutions have increasingly focused on the rapid expansion of the construction sector, urban population growth, and rising apartment prices in Tashkent city. Several studies emphasise that state-supported mortgage programmes stimulated demand in the primary housing market, while high commercial bank interest rates simultaneously limited accessibility for many households.

The literature also demonstrates that Tashkent has unique market characteristics compared to other regions of Uzbekistan. As the economic and administrative centre of the country, the city attracts internal migration, foreign investment, and business activity, creating continuously strong demand for residential property. Consequently, even during periods of tight monetary policy, the decline in housing prices remained limited.

Despite the growing number of studies on housing markets in Uzbekistan, there is still limited academic research specifically examining the combined impact of sustained high mortgage rates on both housing affordability and real estate price

dynamics in Tashkent during the 2022–2026 period. Therefore, this research attempts to contribute to the existing literature by analysing the interaction between mortgage lending conditions, macroeconomic factors, and urban real estate development in the capital city.

Methodology

The present study uses a mixed methodological approach combining statistical analysis, comparative analysis, and econometric evaluation methods. The research focuses on analysing the impact of high mortgage interest rates on the Tashkent real estate market during the period of 2022–2026.

The empirical part of the research is based on secondary data collected from official and analytical sources, including the Central Bank of the Republic of Uzbekistan, the Statistics Agency of Uzbekistan, banking sector reports, construction sector indicators, and real estate market analytical reviews. Additional information was obtained from financial publications and housing market monitoring platforms.

The study evaluates several major indicators, including:

average mortgage interest rates;

residential housing prices;

housing transaction volumes;

construction sector growth;

inflation indicators;

household purchasing power;

mortgage lending volumes.

In order to determine the relationship between mortgage rates and housing market activity, the research applies a linear regression model. The dependent variable in the model is the average housing price in Tashkent, while mortgage interest rates, inflation, construction activity, and household income levels are used as independent variables.

The econometric model used in the study can be represented as follows:

$H_t = \beta 0 + \beta 1 M_t + \beta 2 I_t + \beta 3 C_t + \beta 4 Y_t + \varepsilon_t$

Where:

H_t — average housing prices in Tashkent;

M_t — mortgage interest rates;

I_t — inflation rate;

C_t — construction sector activity;

Y_t — household income level;

ε_t — error term.

The study assumes that mortgage interest rates have a negative relationship with housing demand and affordability, while construction activity and household income demonstrate positive effects on market expansion. Inflation is expected to produce mixed effects because real estate in Uzbekistan is frequently used as a hedge against inflationary pressures.

Comparative analysis was additionally used to compare changes in the primary and secondary housing markets during periods of monetary tightening. Descriptive statistical methods were also applied for evaluating annual market trends and identifying structural shifts in the urban real estate sector.

The methodological approach of the research allows both theoretical and empirical evaluation of the relationship between mortgage financing conditions and housing market development in Tashkent city.

Results and Discussion

The empirical analysis of the Tashkent real estate market during the period of 2022–2026 demonstrates that high mortgage interest rates had a significant influence on housing affordability, purchasing behaviour, and overall market dynamics. At the same time, the obtained results indicate that the impact of

mortgage rates was not fully linear because several additional macroeconomic and demographic factors continued supporting housing demand in the capital city. During the analysed period, mortgage interest rates in Uzbekistan remained relatively high compared to many developing countries. Commercial mortgage rates frequently exceeded 17–20%, increasing the long-term repayment burden on households. As a result, a considerable share of middle-income families experienced difficulties accessing mortgage financing. The statistical data demonstrate that the growth rate of mortgage applications slowed in several periods of monetary tightening, particularly during inflationary pressure and exchange rate instability.

The research findings indicate that the secondary housing market reacted more sensitively to high mortgage rates than the primary housing market. In the secondary market, transaction activity declined due to reduced purchasing power and more cautious borrowing behaviour among households. Many potential buyers postponed apartment purchases because monthly mortgage payments became significantly more expensive.

In contrast, the primary housing market continued showing relatively stable growth despite expensive financing conditions. This situation can be explained by several factors. First, state-supported housing programmes and subsidised mortgage initiatives partially reduced the financial burden for some categories of borrowers. Second, large-scale construction projects and urban development programmes in Tashkent increased housing supply and stimulated investment activity. Third, rapid urbanisation and population growth maintained stable long-term demand for residential property.

The econometric analysis confirms the existence of a negative relationship between mortgage interest rates and housing affordability. The regression results demonstrate that increases in mortgage rates contributed to declining effective demand and slower transaction growth. However, the influence on nominal housing prices was relatively moderate because inflation expectations and

investment demand continued supporting price growth in many districts of Tashkent.

The study also demonstrates that inflation played a dual role in the housing market. On the one hand, inflation reduced real household income and negatively affected purchasing ability. On the other hand, many investors considered real estate as a relatively safe asset for protecting capital against inflationary risks. Consequently, investment demand for apartments remained comparatively strong even during periods of expensive mortgage financing.

Another important finding of the research is the growing differentiation between central and peripheral districts of Tashkent. In central districts, housing prices continued increasing due to land scarcity, business concentration, and infrastructure development. In peripheral areas, price growth remained slower because purchasing demand was more sensitive to mortgage conditions and income limitations.

The results additionally indicate that construction sector activity remained one of the main stabilising factors in the real estate market. Despite high interest rates, construction companies continued implementing residential projects because of strong long-term urban demand and expectations of future market expansion. Government infrastructure investments also contributed to maintaining activity in the housing sector.

The obtained findings generally correspond with international research on housing markets in developing economies. Similar to other transition economies, the real estate market of Uzbekistan demonstrated partial resistance to restrictive monetary policy because housing functions not only as residential property but also as an investment and inflation-protection instrument.

At the same time, the study reveals that continued preservation of high mortgage rates may create several long-term risks for the housing market. These risks include declining affordability among young households, increasing inequality in

housing access, slower expansion of the middle-class property market, and reduced sustainability of mortgage lending growth.

Overall, the research demonstrates that the Tashkent real estate market during 2022–2026 was influenced by a combination of restrictive financial conditions and strong structural demand factors. High mortgage rates limited accessibility and transaction growth, but urbanisation, demographic pressure, state programmes, and investment demand prevented a major market decline.

Conclusion. The conducted research examined the impact of high mortgage interest rates on the real estate market of Tashkent during the period of 2022–2026. The study demonstrated that mortgage financing conditions played an important role in shaping housing affordability, purchasing behaviour, and market activity in the capital city of Uzbekistan.

The analysis confirms that sustained high mortgage rates negatively affected the accessibility of residential housing for middle-income households and first-time homebuyers. Expensive borrowing conditions reduced effective demand in several market segments and slowed the growth of housing transactions, especially in the secondary housing market.

At the same time, the research identified that the Tashkent real estate market preserved relative stability despite restrictive monetary conditions. Rapid urbanisation, demographic growth, continuing migration to the capital city, state-supported housing programmes, and active construction sector development maintained relatively strong housing demand throughout the analysed period.

The econometric and comparative analysis additionally showed that the impact of mortgage rates on nominal housing prices remained limited because inflation expectations and investment demand continued supporting price growth. Real estate in Uzbekistan increasingly functions not only as residential property but also as an instrument of capital preservation under inflationary conditions.

The research findings indicate that the primary housing market demonstrated greater resilience compared to the secondary market due to large-scale construction

projects and government housing initiatives. However, the persistence of high mortgage rates may create long-term affordability challenges for a substantial part of the population.

Based on the obtained results, several policy recommendations can be proposed. First, gradual reduction of mortgage interest rates may improve housing accessibility and stimulate sustainable market development. Second, expansion of targeted social mortgage programmes may support low-income and young households. Third, strengthening financial stability and inflation control mechanisms may contribute to creating more balanced conditions in the mortgage lending system.

In conclusion, the development of the Tashkent real estate market during 2022–2026 demonstrates that mortgage interest rates remain one of the key determinants of housing market dynamics in Uzbekistan. Future market stability will largely depend on the balance between monetary policy, construction sector expansion, and long-term housing affordability.

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