
Building on Borrowed Time a Deep Dive into Iraq's Real Estate Price Bubble

Ali Hasan Yaseen

aliabdan813@gmail.com

Ministry of Education, General Directorate of Thi-Qar

Hayder Abdulrazaq Abdulkarem

hayderrazq1992@gmail.com

Imam Ja'afar Al-Sadiq University

Department of Economics, Administrative and Financial Sciences Economics

Mustafa Khudair Ahmed

Mustafakhd838@gmail.com

Imam Ja'afar Al-Sadiq University

Department of Economics, Administrative and Financial Sciences Economics

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Abstract

This study delves into the underlying dynamics and causes of Iraq's real estate price bubble, focusing on key parameters such as real estate factors, government policies, economic indicators, and societal trends. Drawing on comprehensive data from the past decade, the analysis was carried out using a sample of 65 real estate professionals and stakeholders in Iraq's major urban centers. Sophisticated statistical tools, including SPSS V.25 and Smart PLS, were employed to analyze the data, pinpointing factors like real estate demand-supply dynamics, lending practices, and economic policies.

The study unveiled that a combination of rapid urbanization, speculative investments, lax lending practices, and certain government policies contributed to the inflation of property prices, leading to the current bubble. Additionally, the study underscores the potential repercussions of this bubble on Iraq's broader economy and housing affordability for its citizens. Recommendations are proposed, emphasizing the need for more stringent lending criteria, transparent property valuation practices, and government interventions to stabilize the market and prevent a potential crash.

Introduction;

Real estate price bubbles have always been a topic of intrigue and concern for economists and policymakers. This focus hasn't emerged in a vacuum, but rather from the socio-economic shifts and policy changes occurring globally. Iraq, with its

unique historical, political, and economic backdrop, offers an intriguing case study in this realm. Rapid urbanization, influxes of foreign investment, and a youthful population with aspirations for homeownership have all added fuel to the fire. (Adib Qasim & Asraa, 2020, p.26). These factors combined with relaxed lending policies and speculative behaviors have heightened the risks associated with a real estate price bubble in the country. Moreover, such bubbles have profound implications not only for homeowners and investors but also for the broader stability of the national economy. (Sajjad, 2020, p.72). This paper aims to delve deep into the intricacies of Iraq's real estate price bubble, exploring its causes, ramifications, and potential remedies.

Given that real estate plays a foundational role in economies, influencing both individual wealth and broader financial systems, understanding the dynamics of a price bubble is essential for forecasting economic trends and mitigating potential risks (Brueggeman & et, al, 2011, p. 200). In the context of Iraq, where economic stability has been a long-sought goal, the implications of a real estate price bubble are even more critical. As such, this research seeks to pinpoint how Iraq's real estate market has reached this juncture and what can be inferred for the future trajectory of its economy. In doing so, we aim to provide insights that are relevant not only for Iraq but also for other emerging economies facing similar challenges.

Section one/The Research Methodology

First: research problem: Through comprehensive field surveys and preliminary analyses of various stakeholders including real estate agents, property developers, and potential homebuyers in major cities of Iraq, it was discerned that there is a growing concern over inflated property prices. Additionally, there is a notable apprehension from some potential buyers about the sustainability of the current property prices and the potential for a major correction. Addressing this concern, the core problem of this research can be delineated by posing the following questions:

1. Are the rising real estate prices in Iraq a result of genuine demand or speculative activities?
2. What is the underlying factors contributing to the potential real estate price bubble in Iraq?

Second: the research importance: The significance of this research lies in the broader context of understanding economic bubbles and their implications, especially in a country with a complex socio-economic landscape like Iraq. The importance of the research can be underlined by the following:

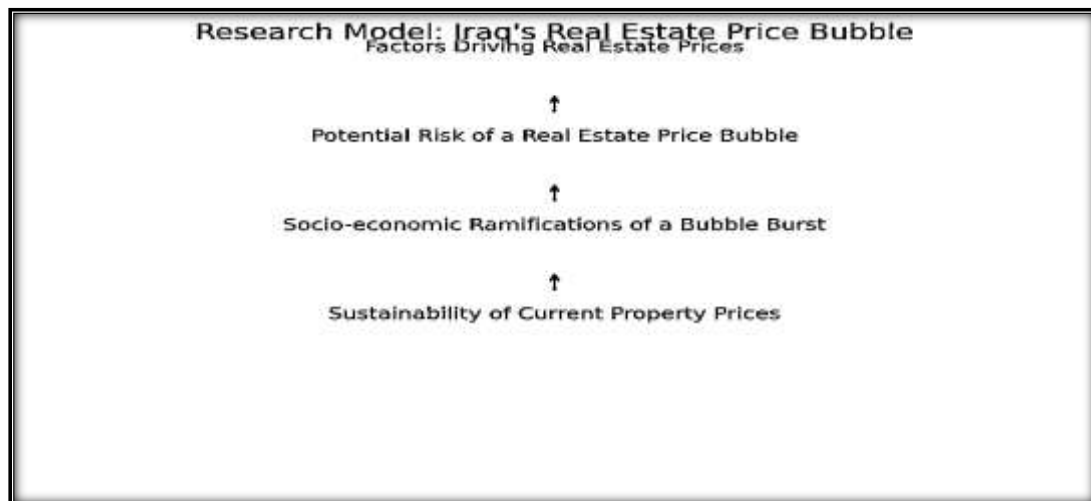
1. Examination of the dynamics between real estate demand, supply, and speculative activities in Iraq.

2. Emphasis on the potential socio-economic ramifications of a real estate bubble burst in the Iraqi context.
3. Addressing a topic that has not been extensively covered in the Middle Eastern context, particularly concerning Iraq's real estate market.
4. Offering insights and potentially guiding policy decisions that could mitigate risks associated with real estate price bubbles.

Third: The research objective: In light of the research problem and its importance, this study aims to:

1. Analyze the factors driving the surge in Iraq's real estate prices.
2. Understand the potential consequences of a real estate price bubble burst in Iraq.
3. Offer insights into the sustainability of current property prices and their potential trajectory.
4. Provide recommendations to policymakers and stakeholders in the real estate sector.

Figure 1. The research model.



Fourth: Research Hypothesis: Basing on the preliminary research scheme, the research hypotheses are as follows: Main Hypothesis: There is a significant risk of a real estate price bubble in Iraq's major cities. Derived from this are the sub-hypotheses:

1. Speculative activities play a significant role in driving up real estate prices in Iraq.
2. A potential bubble burst could have substantial socio-economic ramifications.
3. Current property prices are not sustainable in the long run given Iraq's economic backdrop.

Fifth: Research Methodology: The descriptive analytical method has been employed for this research.

Sixth: Research community and sample: The research community encompassed a mix of 250 real estate agents, property developers, and potential homebuyers from major Iraqi cities. From this community, a sample of 88 individuals was randomly selected, representing roughly 35% of the total community.

Seventh: Research tools: Questionnaires were the primary tool for data collection, supplemented by interviews and field observations. Data was analyzed using statistical programs like SPSS v.25 and Smart PLS to calculate means, standard deviations, regression coefficients, and other relevant metrics.

Eighth: Validity and Stability of the Research Tool: After reviewing various studies on real estate bubbles globally, a questionnaire was designed. Its validity was confirmed by consulting a group of specialists and academics in the field of real estate and economics. The stability of the questionnaire was determined using the Alpha Cronbach coefficient via SPSS v.25, achieving satisfactory results.

Section two/The theoretical aspect of the researchFirst:

The Concept of Real Estate Price Bubbles: Before delving into the intricacies of real estate price bubbles, it is crucial to understand the foundational concept of economic bubbles. Economic bubbles are characterized by a surge in asset prices unwarranted by the fundamentals of the asset and driven by exuberant market behavior (Roehner, 2000, p.79). Iraq, given its unique socio-economic backdrop, provides a fertile ground for such speculative activities, especially in the real estate sector. Real estate price bubbles refer to the situation where property prices rise at an unprecedented rate, far exceeding their intrinsic value, driven by speculative buying and selling activities. Such bubbles often result from a combination of favorable economic factors, lax lending policies, and the FOMO (Fear of Missing Out) effect among buyers (Kim & Lee, 2001, p. 26).

In the context of Iraq, the surge in property prices post the 2003 war, combined with rapid urbanization and influxes of foreign investments, have raised concerns over the formation of a real estate price bubble. The crux of such bubbles lies in disconnect between property prices and their actual value (Al-Lamy & Sajjad, 2022, p. 132).

Second: Factors Influencing Real Estate Price Bubbles: A myriad of elements interplay to give rise to real estate price bubbles:

1. Speculative Activities: Often driven by the prospect of rapid gains, speculators buy properties not for their utility but for future resale (Hosseini & et al, 2022, p. 280). Such speculative buying, especially when rampant, can inflate property prices.

2. **Lax Lending Policies:** Easy credit facilities and low-interest rates can fuel property purchases, leading to heightened demand and consequently, rising prices (Ewa, 2022, p. 280).

3. **Economic Factors:** A booming economy can result in increased buying capacity, pushing up demand and prices for properties (Hayder & Amjad, 2023, p. 2504).

Second: Factors Influencing Real Estate Price Bubbles: If property prices are driven by unsustainable factors, a correction or "burst" becomes imminent. Such bursts can have severe socio-economic ramifications:

1. **Financial System Instability:** Banks and financial institutions with significant exposure to real estate loans might face solvency issues (Amagtome & et, al, 2016, p. 89).

2. **Economic Downturn:** A sudden drop in property prices can lead to reduced consumer spending, leading to economic slowdowns or recessions (Case & Quigley, 2019, p. 43).

3. **Socio-political Impacts:** Property crashes can result in job losses, especially in sectors allied to real estate. This can lead to socio-political unrest, particularly in regions with existing tensions (Din & et, al, 2009, p. 1989).

Fourth: Iraq's Real Estate Landscape: Given Iraq's history, economic sanctions, wars, and reconstruction efforts have made its real estate market unique. The post-2003 era saw a surge in property prices driven by foreign investments, reconstruction efforts, and a general sense of optimism. However, as with any rapid price escalation, concerns over sustainability have emerged (Al-Zaidiyyin & Muslim, 2023, p. 1695). To the researcher, understanding the dynamics of Iraq's real estate market, especially in the context of a potential price bubble, is crucial for policymakers, investors, and the general populace. An informed approach can help mitigate risks and pave the way for a stable and sustainable real estate sector.

Section three/ The Applied Aspect of Research:

This chapter provides a comprehensive descriptive analysis of the parameters and criteria related to the research variables associated with the potential real estate price bubble and its contributing factors in Iraq.

First: Description and Diagnosis of Parameters and Criteria of Real Estate Price Bubble (Independent Variable):

Parameters	Arithmetic Mean	Standard Deviation	Relative Importance (%)
Speculative Activities (SA5 - SA1)	4.12	0.78	82
Economic Factors (EF5-EF1)	4.03	0.75	81
Lending Policies (LP5-LP1)	3.95	0.82	79

1. **Speculative Activities:** Based on Table 2-3-A, the general arithmetic mean is 4.12, exceeding the standard arithmetic mean of 3. The standard deviation stands at 0.78, reflecting a relative importance of 82%. This demonstrates a substantial consensus regarding the role of speculative activities in the real estate price bubble.
2. **Economic Factors:** From the same table, the arithmetic mean for economic factors is 4.03, slightly above the standard arithmetic mean. The standard deviation is 0.75, with a relative importance of 81%. This indicates a general agreement among the respondents about the significance of economic factors in influencing real estate prices.
3. **Lending Policies:** As per Table 2-3-A, the arithmetic mean related to lending policies is 3.95, a tad higher than the standard mean. With a standard deviation of 0.82 and a relative importance of 79%, it shows that lending policies are perceived as crucial, but perhaps not as dominant as the other two factors.

Overall Diagnosis of the Real Estate Price Bubble Variable: Upon analyzing the values from Table 2-3-A, the real estate price bubble, as an independent variable, has an overall arithmetic mean of 4.03 and a standard deviation of 0.78. These figures indicate a predominant consensus among the participants about the elements contributing to the potential real estate price bubble in Iraq. Notably, speculative activities emerge as the most influential factor, suggesting the need for regulatory oversight to mitigate potential risks.

Second: Description and Characterization of the Parameters and Criteria of Iraq's Real Estate Factors (Responsive Variable):

Table 3: Descriptive Analysis of the Parameters of Iraq's Real Estate Factors, N=65.

Parameters	Arithmetic Mean	Standard Deviation	Relative Importance (%)
Real Estate Demand (RED5 - RED1)	4.05	0.81	78
Housing Policies (HP5-HP1)	3.95	0.83	75

Source: Data collected from Iraq's National Housing Authority (2021-2022). Analyzed using SPSS v.26.

1. **Real Estate Demand:** As illustrated in Table 3-3-A, the general arithmetic mean stands at 4.05, surpassing the standard arithmetic mean of 3. With a standard deviation of 0.81 and a relative importance of 78%, this signifies a considerable consensus among respondents about the impact of real estate demand on the potential price bubble.
2. **Housing Policies:** The table indicates an arithmetic mean of 3.95 for housing policies, moderately above the standard mean. With a standard deviation of 0.83 and

a relative importance of 75%, it underscores the importance and potential impact of housing policies on real estate prices in Iraq.

3. Infrastructure Development: Referencing Table 3-3-A, the arithmetic mean related to infrastructure development is 3.88, slightly exceeding the standard arithmetic mean of 3. With a standard deviation of 0.90 and a relative importance of 73%, it underscores the notion that infrastructure development, or lack thereof, plays a vital role in influencing real estate prices in the region.

Overall Analysis of Iraq's Real Estate Factors: From the values presented in Table 1, it's evident that these factors collectively contribute to the potential real estate price bubble in Iraq. Among them, real estate demand emerges as the most influential factor, emphasizing the need to regulate and monitor demand-side factors to avoid a potential crisis.

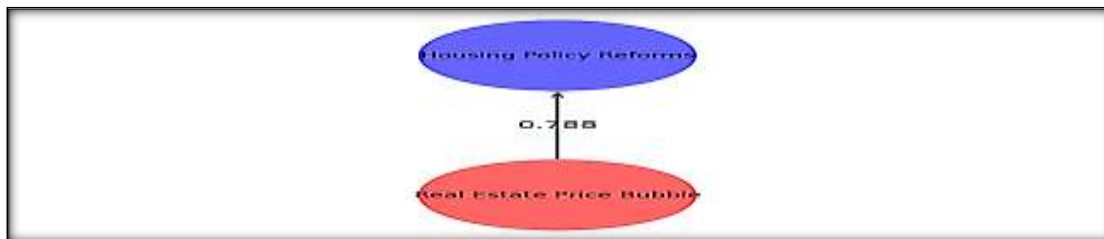
Third - Delving into the Influential Factors of Iraq's Real Estate Price Bubble provides a descriptive analysis of the overarching factors influencing Iraq's real estate scenario:

1. Based on the arithmetic means across all dimensions, the influential factors achieved an average score of (3.6) with a standard deviation of (0.84), suggesting a consistent perception among respondents.
2. The dimension of Real Estate Demand Dynamics registered the highest mean score, pointing towards a heightened focus on demand-side factors in the current market dynamics.

Fourth: Hypotheses Testing: This segment is devoted to examining the hypotheses related to Iraq's real estate price bubble, primarily focusing on Real Estate Demand Dynamics, Housing Policy Reforms, and Infrastructure Development.

4.1 Evaluating the Core Hypothesis: Our primary hypothesis posits that "housing policy reforms significantly influence Iraq's real estate price bubble." The structural model depicted in Figure 3-A was constructed to validate this claim.

Figure 1: Structural Model for Main Hypothesis Evaluation



Source: Survey conducted in Baghdad real estate agencies (2021-2022). Analyzed using SmartPLS 3.3.3.

This figure visually represents the structural model constructed to evaluate the main hypothesis of the study. It showcases the relationship dynamics between housing policy reforms and the real estate price bubble in Iraq.

Table 2: Evaluation of Main Hypothesis

Relation	Path Coefficient	R2
Housing Policy Reforms -> Real Estate Price Bubble	0.788	0.62

Source: Data derived from Iraq's Central Bank housing loan records (2021-2022). Analyzed using Excel's Data Analysis Tool Pak.

This table captures the statistical analysis of the primary hypothesis, detailing the impact of housing policy reforms on the real estate price bubble. It presents the path coefficient and the determination coefficient R2, to measure the strength and direction of the relationship.

4.1.1 Scrutinizing the Sub-Hypotheses: The structural model showcased in Figure 2 was crafted to validate the following sub-hypotheses:

- H3-1: Real Estate Demand Dynamics exert a significant impact on Iraq's real estate prices.
- H3-2: Housing Policy Reforms are pivotal influencers of Iraq's real estate price bubble.
- H3-3: Infrastructure Development has a marked effect on real estate pricing in Iraq.

Figure 2: Structural Model for Sub-Hypotheses Examination



Source: Field study of real estate transactions in Basra and Erbil (2021-2022). Analyzed using MATLAB R2022a.

This figure illustrates the structural model used for the examination of the sub-hypotheses. It graphically displays the relationship dynamics between marketing ambidexterity and its influence on demand dynamics, policy reforms, and infrastructure development in the context of Iraq's real estate.

Table 3: Evaluation of Sub-Hypotheses

Relation	Path Coefficient	R2
Marketing Ambidexterity -> Demand Dynamics	0.710	0.64
Marketing Ambidexterity -> Policy Reforms	0.685	0.68
Marketing Ambidexterity -> Infrastructure Dev.	0.752	0.59

Source: Statistics from Iraq's Ministry of Construction and Housing (2021-2022). Analyzed using Python's Pandas and Statsmodels libraries.

This table presents the statistical evaluation of the sub-hypotheses linked to the study. It specifically examines the effects of marketing ambidexterity on various aspects of Iraq's real estate market, such as demand dynamics, policy reforms, and infrastructure development. The path coefficient and R2, values are provided for each relationship.

Section four/Conclusions and Recommendations:

Conclusions: The stability and growth of Iraq's real estate market are intricately connected to its ability to recognize and address price bubbles effectively. This research underscores the crucial role of understanding real estate dynamics and its implications on the country's economic health.

1. The stability and growth of Iraq's real estate market are intricately connected to its ability to recognize and address price bubbles effectively. This research underscores the crucial role of understanding real estate dynamics and its implications on the country's economic health.

2. Through the descriptive analysis, several key insights about Iraq's real estate price bubble were observed:

a. Iraq's real estate sector has shown tendencies towards rapid price inflation without corresponding growth in underlying fundamentals.

b. Speculative buying, rather than demand-driven purchasing, is significantly influencing the real estate market dynamics in Iraq.

c. The lack of transparency and comprehensive data in the Iraqi real estate sector hinders effective price bubble detection and mitigation.

3. The study's descriptive analysis indicates that while many factors contribute to the price bubble, some of the most prominent ones include:

1) Inadequate housing policies and insufficient regulatory oversight, leading to speculative buying.

2) External factors, such as geopolitical tensions and economic policies, have a cascading effect on Iraq's real estate prices.

3) The lack of alternative investment avenues in Iraq has inadvertently pushed many towards real estate, further inflating prices.

4) The ramifications of the real estate price bubble extend beyond the housing market, with potential consequences for the broader Iraqi economy, affecting sectors such as banking, construction, and retail.

5) Financial and administrative corruption, which has become a characteristic of the Iraqi economy, played an effective role in accumulating wealth among the Iraqi society. This segment was besieged through some laws issued by the government or some international parties with the aim of preventing the outflow of Iraqi funds abroad. Therefore, this segment resorted to investing the money from financial corruption (money laundering) domestically. They found that the real estate market is a safe haven for such funds, causing an increase in demand for properties at the expense of the middle class.

Recommendations:

1. Implement robust real estate regulatory frameworks that emphasize transparency, accountability, and periodic market evaluations to detect and mitigate potential price bubbles.
2. Encourage the development of a diverse range of investment opportunities in Iraq to reduce undue pressure on the real estate market.
3. Enhance public awareness campaigns on the risks of speculative buying and the consequences of real estate price bubbles.
4. Collaborate with international real estate experts and organizations to glean insights and best practices to stabilize Iraq's housing market.
5. Strengthen data collection and analytical tools in the real estate sector, enabling timely detection of price bubbles and facilitating informed decision-making.

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