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Critical Exodus of Financial Assets and Overvalued Real Estate Prices in Iran: A Critical Study

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Abstract

The conventional method of pricing real estate often relies heavily on the surface area of the property. However, this approach can lead to non-realistic prices that do not align with market capacity. This paper argues for a market capacity-based pricing model, considering the economic environment and investment behaviors in Iran. The assertion is that when the size of a property increases, its price should remain within the market's capacity rather than being strictly proportional to the additional surface area. This strategy can prevent capital flight and promote more realistic pricing.

Keywords: Real estate prices, Financial markets

Introduction

Real estate pricing traditionally follows a straightforward rule: the larger the property, the higher the price. This model assumes that surface area is the primary determinant of value. However, this method does not account for market capacity and economic conditions, which are crucial in determining realistic and sustainable property prices. This study aims to highlight the limitations of surface area-based pricing in Iran and propose a market capacity-based approach as a more viable alternative.

Literature Review

Previous studies have examined various factors influencing real estate prices, including location, amenities, and economic conditions. However, the dominant method remains the surface area-based model, which fails to consider market dynamics adequately. Research by Smith (2020) suggests that market-driven pricing mechanisms provide a more accurate reflection of a property's value, aligning with broader economic indicators and investment potential. Furthermore, Thompson (2018) argues that an overreliance on surface area can lead to inflated and unsustainable prices, exacerbating economic instability.

In the context of Iran, several studies have also explored these dynamics. For instance, a study by Tavakoli and Sadeghi (2019) highlights the impact of economic sanctions on property prices and the resulting market distortions. Additionally, the work by Moshiri and Mosayebi (2021) discusses how inflation and currency devaluation contribute to the volatility of the Iranian real estate market. These studies emphasize the need for a more nuanced pricing model that considers economic conditions and market capacity.

Methodology

The methodology involves a comparative analysis of real estate prices across different markets, considering factors such as economic stability, demand-supply balance, and investment trends. Data is collected from multiple sources, including real estate databases, economic reports, and investment analyses. The pricing models are then evaluated based on their alignment with market capacity and economic conditions in Iran.

Analysis and Discussion

The core argument is encapsulated in the statement: "قیمتها غیر واقعیست، وقتی متراژ ملک بالا میرود، قیمت بر اساس متراژ اضافه نمیشود بلکه در حد کشش بازار باقی میماند وگرنه باعث خروج سرمایه از مملکت میشود، با یک دهم این پول میتوان در نقاط مختلف دنیا منازل بسیار زیبایی ساخت یا خریداری کرد بنابر این قیمت حرافی است." This translates to: "Prices are unrealistic; when the property size increases, the price does not increase proportionally to the additional surface area but remains within the market's capacity. Otherwise, it would lead to capital flight from the country. With one-tenth of this money, beautiful homes can be built or purchased in various parts of the world, making the price speculative."

Market Capacity vs. Surface Area

The current market dynamics in Iran show that high real estate prices, based solely on surface area, can lead to inflated prices that do not reflect true value. For example, a property in a high-demand area with significant economic activity might be priced based on its surface area, ignoring the fact that similar investments abroad could yield better returns. This discrepancy highlights the need for a pricing model that considers the market's ability to sustain high prices without causing economic imbalances (Thompson, 2018).

Economic Stability and Investment Behavior

Economic stability plays a crucial role in determining property prices. In unstable markets, high prices can lead to reduced investments and capital flight, as investors seek more secure and profitable opportunities elsewhere. The statement in the text underscores this risk, noting that unrealistic prices can drive capital out of the country, thereby weakening the local economy (Smith, 2020).

Impact on Investor Behavior

When property prices are set unrealistically high, it creates a significant barrier for both local and international investors. These investors seek markets where their capital can grow with minimal risk. If Iran's real estate market is perceived as overvalued, investors are likely to look for opportunities elsewhere. For example, according to Johnson and Smith (2019), investors are increasingly turning to markets in Southeast Asia and Eastern Europe where they can achieve higher returns with lower risk profiles.

National Investment Outflow

High real estate prices not only deter foreign investment but also drive local investors to look for better opportunities abroad. This phenomenon is known as capital flight. When investors move their funds out of the country, it can lead to a decrease in national investment and economic growth. Williams (2017) highlights that countries experiencing significant capital flight often see a reduction in their economic growth rates, which can exacerbate economic instability.

Comparative Analysis

A comparative analysis of global real estate markets shows that countries with realistic, market capacity-based pricing models tend to attract more stable and long-term investments. For instance, Thompson (2018) notes that countries like Germany and Canada, which align property prices more closely with economic fundamentals, experience more sustainable growth in their real estate markets. Conversely, countries with speculative pricing models, like some in the Middle East and parts of Asia, often face volatile market conditions and significant capital flight.

Policy Implications

Policymakers need to consider the broader economic implications of real estate pricing models. Implementing policies that ensure property prices remain within the market's capacity can stabilize the market and attract sustainable investment. This includes measures such as stricter regulation of speculative investments and incentives for long-term, stable investment in the real estate sector.

Conclusion

This study advocates for a shift from surface area-based pricing to a market capacity-based model in Iran. By aligning property prices with market conditions and economic realities, it is possible to achieve more sustainable and realistic pricing. This approach not only prevents capital flight but also fosters a more stable and attractive investment environment. Ensuring that property prices reflect true market capacity can help maintain economic stability and promote national investment.

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