



**ADA UNIVERSITY**  
**SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS**  
**MASTER OF ARTS IN DIPLOMACY AND**  
**INTERNATIONAL AFFAIRS**

**CAPSTONE PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE**  
**REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN DIPLOMACY**  
**AND INTERNATIONAL AFFAIRS**

**Fostering Foreign Residential Real Estate Investment in Azerbaijan:**  
**Comparative Policy Analysis**

Milena Mahammadi  
Aydan Baghirli  
Nigar Humatova

Contact e-mails:

[mmahammadi16552@ada.edu.az](mailto:mmahammadi16552@ada.edu.az)

[aebaghirli2021@ada.edu.az](mailto:aebaghirli2021@ada.edu.az)

[nhumatova16750@ada.edu.az](mailto:nhumatova16750@ada.edu.az)

Baku, May 1st, 2024

**ADA UNIVERSITY**

Program: MA of Diplomacy and International Affairs

Student's names: Aydan Baghirli, Milena Mahammadi, Nigar Numbatova

APPROVED:

Faculty Supervisor: Lala Jumayeva

Organization Supervisor: Narmin Zeynalli

Dean of the School: Azer Babayev

May 1st, 2024

## **STATEMENT OF AUTHENTICITY**

I have read ADA University's policy on plagiarism and certify that, to the best of my knowledge, the content of this paper, entitled (insert title here), is all my own work and does not contain any unacknowledged work.

Signed: Milena Mahammadi

Signed: Aydan Baghirli

Signed: Nigar Humatova

May 1st, 2024



**Capstone Topic Approval  
Form**

**Students' Names/Surnames:** Aydan Baghirli, Milena Mohammadi, Nigar Humbatova

**Program:** MADIA 2024

**Capstone Project Topic:** Fostering Residential Real Estate Investment in Azerbaijan: Comparative Policy Analysis

A handwritten signature in black ink, appearing to read "Narmin", written over a horizontal line.

**Professional Supervisor:** Narmin Zeynalli

Name/Surname  
me

**Professional Supervisor's contact details**

**Email:**

**nzeynalli@pashadevelopment.az**

**Phone number: +994503700079**

Approved

by

Academic

Supervisor:

Lala Jumayeva

Name/Surname

\_\_\_\_\_  
Signature

**Date:** 26/02/2024  
DD/MM/YY

## **Abstract**

*The real estate industry in Azerbaijan is a significant contributor to the country's economy and has a direct impact on its economic indicators. However, due to the lack of attractive legal and market conditions and underdeveloped infrastructure, there has been a gradual decline in foreign direct investments in the real estate sector. As a result, investing in real estate has become a major topic of discussion. The purpose of this paper is to investigate ways to increase foreign direct investment (FDI) in Azerbaijan's real estate market. It has been found that the lack of attractive regulations, rising prices, skill shortages, and underdeveloped infrastructure are significant obstacles to its growth and investment. To identify the reasons for the low investment rate, the research is divided into three main areas: legal, market, and infrastructure areas. The study highlights key issues that cause low investment rates in each area and proposes three alternative policies to increase investment in each direction. While analyzing the world real estate market for comparative analysis the experience of Türkiye, Armenia, and Russia is used. It has come to light that Azerbaijan's real estate industry is underperforming compared to neighboring countries. The policies offered have been evaluated based on five categories: effectiveness, efficiency, equity, feasibility, and flexibility. This study provides actionable recommendations for investors, stakeholders, and policymakers looking to improve the sustainability and appeal of residential real estate investment in Azerbaijan by analyzing the lessons learned from other countries and determining how well they apply to the case of Azerbaijan.*

**Keywords:** real estate, FDI investments, market, residents, legal regulations, smart technology, chatbot, a unified market platform, mortgages

# Table of Contents

- Chapter 1. Introduction .....7**
- 1.1. *Methodology* ..... 9
- Chapter 2. Problem Description.....14**
- 2.1. *Lack of attractive legal and financial framework for foreign investors in residential real estate* ..... 14
- 2.2. *Insufficient market conditions for boosting residential real estate FDI* ..... 21
  - 2.2.1 *Escalating prices in the real estate sector over time*..... 24
  - 2.2.2 *Inadequate level of Information Transparency within the Real estate market*..... 32
  - 2.2.3 *Deficiencies in professionals within the real estate market.* ..... 34
  - 2.2.4 *Lack of unified online real estate market platform for foreign investors* ..... 36
- 2.3. *Underdeveloped Infrastructure Facilities in Azerbaijan* ..... 37
- Chapter 3. Policy Alternatives.....44**
- 3.1. *Creation of favorable legal framework and investment opportunities for foreign investors in the residential real estate market in Azerbaijan* ..... 44
- 3.2. *Introduction of new market innovations through development project*..... 47
- 3.3. *Advancing infrastructure by enhancement and expansion of physical structures* ..... 49
- Chapter 4. Evaluation of Policy Alternatives .....54**
- Chapter 5. Conclusion and Recommendations .....62**
- References..... 65**

## **Chapter 1. Introduction**

Azerbaijan is paying special attention to fostering its real estate investments, recognizing their crucial role in driving economic growth and development. Real estate investment involves the strategic allocation of monetary assets for long-term growth and income generation. It offers numerous investment options, including equities, mutual funds, fixed deposits, precious metals, and government bonds. The economic and social advantages of real estate investments are increased by FDI. Investments are drawn to the area by the development of its infrastructure, which includes roads, utilities, and urban amenities. In addition to boosting economic growth and lowering unemployment rates, these projects also generate job opportunities in the fields of construction, design, engineering, and property management. All things considered, more infrastructure and job possibilities support a region's economic development (Gondane, 2019).

Local economies are considerably strengthened by foreign direct investment (FDI) in real estate because it provides capital, raises consumer spending, and increases demand for products and services. Economic activity is stimulated by this, which provides revenue for companies and individuals engaged in development. A region's reputation is improved, and international investors are drawn to successful real estate developments, which inspire confidence in exploring more investment prospects. Especially in impoverished areas, real estate investments support urban renewal and development initiatives. They reduce the risks brought on by changes in other asset types and provide chances for diversification (OECD, 2002).

The Foreign Direct Investment (FDI) of Azerbaijan, Türkiye, and Armenia has been analyzed. It is evident that Azerbaijan has experienced a decline in FDI in recent years, while Türkiye and

Armenia have seen steady growth in Foreign Direct Investment. In 2022 Azerbaijan's FDI had - 5,7% decrease, and Türkiye's with Armenia had 1.4% and 5.1% respectively (World Bank, 1970-2022). In the second stage, the real estate market of these countries was analyzed. It was found that Azerbaijan has the lowest residential real estate value compared to Armenia and Türkiye. As the final third stage the FDI in the real estate sector of Georgia and Türkiye are compared and it is obvious that a large portion of FDI of Georgia and Türkiye are FDI in the real estate. By comparing FDI in real estate of neighboring countries of Azerbaijan, it has been identified that Azerbaijan has the lowest development in residential real estate. After the evaluation stage, the main reasons are high prices, access to financing, market transparency, skills shortages, and no united platform are identified. Additionally, the law regulations of the neighboring countries are compared, and key issues have been identified as to why Azerbaijan has a low FDI in real estate compared to neighboring countries.

The main challenge Azerbaijan faces during real estate investments is caused by insufficiently attractive market conditions for potential real-estate foreign buyers/investors in Azerbaijan. Foreign Direct Investment (FDI) in the residential real estate market is relatively limited since the state of Azerbaijan only offers mortgage amounts to nationals of Azerbaijan and does not cover FDI prospects. For example, the lack of online platforms in Azerbaijan poses several difficulties for foreign buyers, such as the inability to compare prices of properties, the broker system's impact on market prices, the inability to make direct purchases, the extra fees levied by brokers, and the requirement for a significant amount of time to spend looking for properties and familiarizing oneself with Azerbaijan's legal requirements (Praneeth, 2022).

The lack of an appealing legal framework for foreign investments is one of the many barriers that limit Azerbaijan's potential as a residential real estate investment destination. Foreign investors or buyers can't purchase real estate in the nation to meet the requirements for permanent residency, which is 200,000 manats or more in local banks (Migration Code of the Republic of Azerbaijan, 2013, July 9).

In comparison to its neighboring countries like Türkiye, Armenia, Uzbekistan, and Georgia, Azerbaijan's performance in the real estate market is poor, as they have favorable legal and market conditions for attracting foreign investors in the real estate market (World Bank, 1970-2022). Dubai is renowned for offering high returns on real estate investment compared to other global markets and is considered the city with the best practices (Lancaster, 2024). Another best practice country that has been used in the research is Singapore which has been announced as "The Best Performing Asia-Pacific Country in Real Estate" (Cosmopolitan daily, 2024). Considering high development in innovations, Western countries are used as the best practices for proposing favorable market conditions in Azerbaijan (Livly,2024).

The research problem of this capstone project is understanding why Azerbaijan's residential real estate market is not sufficiently attracting foreign investors and identifying policies to enhance its appeal.

## **1.1 Methodology**

The aim of capstone project is to identify main challenges behind the insufficient attractiveness of residential real estate market for foreign investors in Azerbaijan, compare it with best practice countries' experiences, and propose suitable solutions for Azerbaijan. By conducting a comparative

policy analysis, the paper intends to identify insufficient attractive market conditions for potential real-estate foreign buyers/investors in Azerbaijan and find solutions by comparing with neighboring countries like Türkiye, Armenia, and Georgia, as well as proposing the best practices like Singapore and UAE. The sources for the paper are collected domestic and international articles on real estate, government publications on the laws and regulations, reports obtained from international organizations and companies like World Bank, PwC, and JLL, analysis of the experts on the real estate, governmental, and non-governmental websites, and newspapers.

The data used for comparative analysis were gathered from various sources. The Foreign Direct Investment data for Azerbaijan, Armenia, and Türkiye were obtained from the World Bank for comparative analysis. Additionally, data on GDP per capita, and PPP of Türkiye was taken to analyze the purchasing power parity of Türkiye and to compare with Azerbaijan. The data on a number of employed populations by statistical classification of Economic Activities (at the end of the year) was retrieved from the State Statistical Committee of the Republic of Azerbaijan and used to analyze people engaged in the real estate market. Also, minimum wages and wages in real estate market data were used to understand the dynamics of the salaries given to experts in Real estate. The real estate market data of Azerbaijan, Türkiye, and Armenia from the Statista were used for comparative analysis to understand the real estate market of neighboring countries of Azerbaijan. Data on the material cost index of construction in Türkiye was taken to evaluate the dynamics of material construction costs. Purchasing Power Parity (PPP) of Azerbaijan data from Ceicdata is used to overview the dynamics of the purchasing power of Azerbaijanis. The residential real estate prices in Türkiye were taken from Fred Economic Data to analyze the dynamics of property prices

and compare them to Türkiye. Various data on legal regulations, the housing market in Georgia, and financial data are taken from government websites of Azerbaijan, Türkiye, and Georgia.

To explore existing policies and regulations related to residential real estate investment in Azerbaijan, a comprehensive literature is reviewed and compared with other countries' experiences. The literature includes policy documents, reports, and case studies.

The primary data was collected via a semi-structured interview data collection technique. As part of the primary data collection, three experts from different fields were interviewed. All three experts were asked two general questions regarding the methods of attracting foreign investors and their collaboration with state agencies. As it was previously mentioned these same questions were asked of all three experts:

- 1) What are the strategic priorities/contributions of \_\_\_\_\_ (name of expert's representing institution) in terms of further enhancing the attractiveness of Azerbaijan as a destination for foreign residential real estate investment?
  
- 2) How can \_\_\_\_\_ (name of expert's representing institution) collaborate with other agencies to create a favorable environment for residential real estate investment in Azerbaijan?

Each expert asked questions related to their field of work. The field experts included the legal, real estate market, and infrastructure to explore the gaps in current policies and identify the areas for improvements. Before starting the interview each of the experts was provided with the consent form and asked to sign it, additionally, all experts have been informed about the capstone project and the purpose of this specific project. At the end of the presentation of the values of the capstone project, all of the experts were informed that there would be an audio recording and in some cases

video recording of the interview to which all agreed. The legal officer, who had experience in both state and private institutions, was interviewed via Zoom on April 24<sup>th</sup>, 2024, with a duration of no more than 45 minutes. He was asked 2 general questions and 7 specific questions related to the legal field. The legal experts were asked questions in the Azerbaijani language. The second expert is a professional from the real estate field having knowledge both in legal and market spheres who has been working for Pasha Development. The interview was conducted in the Pasha Development office which is located in the Crescent office on April 29<sup>th</sup>, 2024. During the interview, the expert was asked both legal and market questions, which in total made 12 questions. During the interview, other members of the Pasha Development team from the Investment department participated as well. After the interview, specialists from the investment department shared their visions and experiences with working foreign investors, highlighting their major preferences and interests in the real estate industry. The third expert is asked for the participation from one of the leading construction companies in Azerbaijan. The interview was held via Zoom in English language on 3 May 2024. The expert was asked 2 main questions and 5 general questions regarding the infrastructure problems and opportunities in Azerbaijan. Specific questions that matched their field of work were asked to all experts individually and have been placed in the Appendix section.

The comparison analysis is conducted to identify similarities, differences, lessons learned, and best practices in promoting residential real estate investment. Further, the most effective and feasible (for Azerbaijan) policy interventions and regulatory frameworks for fostering real-estate investment are extracted to recommend policy reform.

The lack of data on the real estate of Azerbaijan can be considered as the limitation of this research. The data, including property prices, foreign investment inflows, and market trends is crucial for

conducting empirical study in this field. Nevertheless, factors like government regulations, a fragmented real estate market, data privacy, and lack of a centralized database can complicate the data collection efforts. Another limitation of this research is the lack of academic literature on FDI focusing on the real estate market of Azerbaijan. Such articles could provide a theoretical framework and valuable insights to assess and analyze the challenges in the real-estate sector of Azerbaijan.

This capstone paper includes five chapters, discussing different aspects of the research problem. The first chapter describes the significance and objectives of this paper. The second problem explores the current problems in legislation, market, and infrastructure of Azerbaijan which subsequently create barriers to foreign residential real estate investment. The third part of this paper discusses the policies in this field from peer economies. The fourth chapter assesses those policy alternatives, while the fifth chapter concludes with the policy option most favorably applicable to the case of Azerbaijan.