



Kazakhstan: Real Estate Market in Almaty

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Summary

Kazakhstan's real estate market has been rapidly growing over the past five-six years especially in its three major cities: Almaty, Astana and Atyrau. During this period prices for residential and commercial property in these major cities have spiked upwards by over 900%. Focusing on Almaty, the country's largest city, this report discusses market developments and major trends evident throughout much of the country's real estate sector.

Market Highlights

Factors determining real estate market growth in Almaty are the following:

- GDP growth was over 9% for the last five years, moreover most observers expect this sustained growth to continue over the next few years.
- Increased availability of real estate mortgages to the wider population.
- Demand for housing and offices is higher than available supply.
- Real estate is viewed by many Kazakhstanis as the safest and often the only investment instrument due to the lack of other investment alternatives such as a strong local stock market.
- Expenditure potential has grown with income and the number of highly paid employees and owners of businesses.

Almaty Overview

Almaty is the largest city in Kazakhstan, and was the capital, until 1998. Its officially registered population is 1.2 million people however by unofficial estimates Almaty's population is about 1.8 million, which includes workers and foreigners who stay long term in the city.

Despite migration of some of Almaty's population to the new capital, Astana, Almaty remains Kazakhstan's financial, business, scientific, and cultural center. It is also gaining an image of growing importance with high investment attractiveness, which increases the inflow of people into the city. According to realtors, most Almaty citizens who have moved to Astana did not sell their apartments in Almaty, but instead preferred to keep them; thus Almaty's real estate market has not been markedly impacted.

Today real estate development in Almaty is booming in three directions – luxury residential, offices and trade/entertainment centers. The city is changing rapidly and becoming more modern. Three years ago only 3-4 companies were in the market, but as it matures, new firms are emerging and now external and internal investors are driving the market upwards.

Mortgage System helps development

Setting a model for other CIS countries, Kazakhstan has begun to develop a mortgage loan system available for a majority of the nation's working population. Accordingly, in 2003 the volume of mortgage loans given in Kazakhstan totaled US\$100 mln. In 2004 the amount was up to US\$350 mln, and in 2005 - US\$ 1 bln. In 2006, this index is forecast to increase to US\$ 1.4-1.5 bln. About 80 percent of real estate transactions are financed through mortgages, while four years ago this level was only 20-25%. Currently almost half of all mortgages issued in Kazakhstan are issued in Almaty, and about 20% in Astana. Annual interest rates vary from 4.5% to 15%, and the longest term is 25 years.

General Development Trends

Analysts predict that Almaty's real estate prices will further expand by about 15-20% a year through the next few years. The major factor determining prices growth is the increasing cost of land, since for example, almost none is available in the center of Almaty. All construction sites, which were started in the late 1980s and were frozen due to lack of financing during the 1990's economic slowdown after the Soviet Union break up, have been sold to private developing companies, and now are actively being redeveloped. For new development in the city center, many old apartment buildings are being demolished with compensation for the owners for the loss of their apartments. The current compensation for owners of apartments in the center of Almaty stands at \$1700 per square meter.

Almaty mayor Imangali Tasmagambetov has recently announced that the city will promote construction of large housing complexes while completely banning the construction of stand-alone buildings, which overloads the existing city infrastructure. Under the new approach, development companies will be given larger areas for construction of housing complexes, and mini districts. They also will be responsible for creating relevant engineering and social infrastructure; including district schools, hospitals, police stations, etc. Analysts comment that only the largest companies will survive in this market, as most of the smaller firms are forced out.

Real estate Market segments

Elite and Business Class Housing

Construction of "elite" residential buildings is currently the most active residential real estate segment, comprising about 75% of all construction projects in Almaty. Five years ago a square meter in a newly built "elite" apartment was sold at \$650. Now the price has reached \$3,000 per square meter. Indeed most apartments are sold when construction is only on the level of the foundation ditch. While the building is erected, the sales continue and apartments grow in price, and the price difference between non-built and finished apartments can be over 100%.

At the same time, likelihood of a real estate bubble increases as time goes on. According to some real estate consultants, the booming construction of luxury residential apartments, which was going for the last seven years, has almost saturated the existing demand for this type of housing. However, the boom continues involving more developers and investors at least for the time being. In this respect, analysts indicate that up to 30% of elite apartments are purchased not for living but for rent or resale as investment instruments. Apartments in Almaty are considered a good investment and attract buyers not only from Almaty but wealthy businessmen, from all over Kazakhstan.

Business class housing, which offers apartments at \$1000-1500 per square meter, is much less represented in Almaty, so that demand in this segment greatly exceeds existing supply. But, this segment is gaining activity, as more investors look into it. Projects are being implemented in the Western and South-Western parts of Almaty, which were not considered viable for real estate investment recently. Now these districts are becoming more popular with middle class as infrastructure develops. For example, a U.S.-based Riva Construction has started a pilot project of business class housing compound in this district.

Economy Class Housing Property

Construction of economy class housing is much behind elite and business construction. However, this segment has had the highest demand for the last fifteen years, when middle class housing had not been built due to the economic slow down of the 1990s. Growing incomes and increasing urbanization have stimulated demand for this type of housing. Currently 47% of the whole population lives in rural areas but as more Kazakhstanis relocate to cities, this process will further increase.

State Housing Program

Kazakhstan's government also is implementing a "State Housing Program" for 2005-2007, under which at least 12 million square meters of inexpensive economy housing is stated to be built. Under this program, only certain categories of employees engaged in the "socially important" areas such, as teachers and doctors and whose salaries are paid out of the budget may purchase relatively inexpensive housing typically costing \$350 per square meter. However, in Almaty, the local government has had difficulties attracting construction companies interested in building at the requested cost of \$350 per square meter, and it has voiced concerns that its program would not be implemented. There is a great shortage of social housing and many people tend to buy apartments rather than spend years in hope that government will provide them with subsidized housing. Using local banks' mortgages, a large portion of the working population can afford to purchase one-two bedroom apartments at \$500-1000 per square meter, and this group is considered to be one of the best prospects for near future.

Cottage towns in the city suburbs

This segment is the most dynamic and attractive for developers. Most cottages are purchased when they are being built. Prices for an unfinished cottage vary from \$700 to \$3000 for a square meter, depending on location and design, although finished cottages in prestigious locations may

cost \$2-4 million. Analysts indicate that 30-40% of cottages are purchased for investment purposes to be offered for rent. Rental prices vary from \$3,000 to \$6,000 per month.

Construction of cottage towns will continue and become even more active because, given the increasing lack of vacant land in the city. Builders currently specializing on elite housing in prestigious city districts are starting to look at increasing the number and size of projects in the suburbs.

Business Centers

The market segment for commercial real estate is as over heated as the elite housing segment. As of January 2005, about 4.6 million square meters of real estate were used as offices, which included class A offices - 6% of the market (newly built under European standards buildings); class B - 30%, and class C - 64% of the market, mostly comprised of old Soviet style administrative buildings. Growing supply of new class A business centers during the last five years has not been able to satisfy the increasing demand.

Rental prices grow at approximately 10-15% a year and currently stand at the following:

\$ 40-50(Class A) per square m

\$ 30-40 (class B) per square m

\$20-30 (class C) per square m

Construction of new offices will grow at 6-8% a year. At the same time, many of the class C offices are started to be renovated.

Shopping and Entertainment centers

Local development companies are actively investing into construction of shopping malls, which are used as not only trade but also entertainment centers. The first shopping mall in Kazakhstan, Ramstore, was built in 2000, and soon became very popular with the local population. Shopping malls are introducing a new culture of spending spare time with children and friends in shopping centers. The most popular stores have cinema theaters, numerous fast food cafes and restaurants. Kazakhstanis were used to shopping at open-air markets, where prices are considered low. However, this tendency is beginning to be reversed - markets are disappearing from city streets and being replaced by modern supermarkets and shopping malls.

Analysts indicate a retail boom. Since 2000, about 15 new shopping malls opened in Almaty and four more are planned for later this year. Increase in consumption levels are also determined by boom in residential construction, which stimulates expenditures on new furniture, home appliances etc. Retail turnover is projected to grow by 15-22% over the next 2-3 years.

According to real estate specialists, the cost of one square meter of land in Almaty varies from \$3,000 to \$70,000. The cost of real estate construction averages \$650-\$1,450. Rental rates for retailers vary from \$40 to \$80 per square meter per month, with projected future increases of 3-5% a year. Development of shopping malls is moving to the outskirts of the city due to the lack

of vacant land in the center of the city. Newly emerging cottage towns also offer good opportunities for development of entertainment/trade centers in the suburbs.

Warehouses

This market segment is at its initial stages of development and is mostly represented by shabby, old warehouses built during Soviet times, while modern, well-equipped facilities are significantly under-represented. The deficit of high quality warehouses, which already is high, is further increasing due to the rapidly growing wholesale and retail activity. For example, according to experts' estimates, demand for class B warehouses is approximately twice the existing supply, while demand for class A facilities and associated services exceeds the supply by two fold. This segment is one of the best prospects for real estate developers and investors.

Opportunities for U.S. Companies

Investment

There is no lack of commercial banking financing opportunities in Kazakhstan; however, loans are still expensive varying from 11 % to 16 % for a 5-7 year terms. Many development and construction companies look for foreign investors. Foreign companies, particularly from United Arab Emirates, Malaysia, Turkey, and Great Britain are actively studying the market. South Korean investors are also active and already implementing projects in the elite housing segment and announcing additional projects to start in 2006.

There is also some U.S. involvement in this sector. For example, currently a subsidiary of an American company, Linkbase Incorporated, Almaty registered Riva Construction, is developing two residential compounds in Almaty. According to Linkbase, this will be a pilot project for his company, and if it proves profitable, it will further invest in Almaty real estate market.

Retail brands and franchises

The U.S. Commercial Service Almaty receives inquiries from shopping mall managers and developers engaged in construction of new trade/entertainment centers seeking to attract U.S. retail brands or purchase a franchise. The most frequently requested include the following: clothing and shoes, retail and specialty stores, fast food restaurants, recreation services, and children's services.

The urgency of the problem is reflected in willingness of major developers to unite to be able to attract international brands and franchisers not as individual shopping centers but as an industry. This process is headed by Astana Motors, who is currently developing large shopping/entertainment centers in Almaty, Astana and Shimkent and is ready to act as an intermediate in negotiations between international companies and local entrepreneurs.

Project design and Management

Good opportunists for U.S. companies exist in offering project design services to Kazakhstani real estate developers. The U.S. Commercial Service Almaty also receives requests from property owners seeking U.S. partners experienced in providing property management services; including security, maintenance, landscape design, etc. Local demand for these services highly exceeds the existing supply. Developers have to create an affiliate company but many owners would like to use professional international companies specializing on property management.

For example, U.S. architectural firms Skidmore, Owings & Merrill (SOM) and Leslie E. Robertson Associates (LERA) have provided architectural and structural design services for Capital Partners, one of the leading commercial and residential developers in Kazakhstan. Capital Partners is now implementing an ambitious real estate project in Almaty, Esentai Park, a mixed-use center featuring a hotel, offices, shopping/entertainment mall, five-star serviced residences and fitness facilities. Esentai Tower, 162 meters high, will be the highest building in Almaty. Capital Partners is also in partnership with Marriott to bring its hotels into Kazakhstan.

French company, Design Architectural, also has designed another ambitious project, Mega Center, for the local commercial developer, Astana Motors. Mega Center is planned to be “a city within a city” comprising 150 shops, service centers, a large skating ring, an indoor climbing wall, children’s entertainment center, food court with 15 restaurants and parking for 1100 vehicles.

U.S. Commercial Service Almaty Services

The Commercial Service in Almaty is ready to support U.S. exporters and investors interested to explore business opportunities in Kazakhstan’s real estate market, whether by providing additional market research or contact information, answering specific questions on the business climate here, or through fee-based services to identify possible partners, buyers, or check potential partners’ bona fides.

U.S. exporters interested in exploring business opportunities in Kazakhstan are advised to contact the U.S. Commercial Service in Almaty.

For More Information

The U.S. Commercial Service in Almaty, Kazakhstan can be contacted via e-mail at: Oksana.Chukreyeva@mail.dco.gov; Phone: 7 3272 50-48-50, 50-49-50; Fax: 7 3272 50-49-67 or visit our website: www.buyusa.gov/kazakhstan

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