

Quick Stats

	Change from	
	Q3 13	Q4 12
Prices	↔	↑
Absorption	↔	↔

Hot Topics

- During the period January - December 2013 the total investment in residential construction in Atyrau Province amounted to ca. KZT 26.5 Bn;
- The total amount of residential space commissioned in Atyrau Province during the period January - December 2013 comprised 515,900 sqm, representing a 0.1% decrease compared to the same period of 2012;
- Insufficient supply of good quality residential space to meet the lease and purchase demand;
- Some decrease of residential rental rate levels in comparison with the previous year, with a minor increase of residential selling prices on the primary and secondary markets.

OVERVIEW

Atyrau City is the capital of the Atyrau Province of the Republic of Kazakhstan. One geographical peculiarity of the city is that one part of it is situated on the right bank of the Ural River on the European continent, whilst the other part is located in Asia.

Atyrau, known as the 'oil capital' of Kazakhstan, currently has ca. 270,000 inhabitants (according to officially published data).

Atyrau province accounts for approximately 17% of the total fixed capital investment in Kazakhstan, with KZT 1,037,614 Mln. invested during the period Jan - Dec 2013. The major proportion of the invested amount was contributed by foreign investors.

The combined industrial output of Atyrau Province during the period Jan-Dec 2013 amounted to KZT 4,581,159 Mln., which represents the largest share (25,2%) of the Kazakhstan total.

At the same time, the total investments in residential construction reached a level of ca. KZT 26.5 Bn. The share of disbursements in residential construction comprised 2.5% of the total fixed capital investment.

The total amount of residential space commissioned in Atyrau Province in the period Jan-Dec 2013 comprised 515,900 sqm. It should be noted that the index of physically commissioned residential space increased on a year-on-year basis and comprised 100.1%.

Because of the fact that Atyrau is considered primarily a city where you 'go to work', the demand for purchasing residential property is almost completely internal, and sales transactions take place almost exclusively between local individuals and registered companies (legal entities).

In contrast, the residential rental market is dominated mostly by specialised foreign-owned and foreign-managed companies.

In terms of quality, the market is represented by office buildings and hotels. In comparison, residential developments are significantly more in number, but of poorer overall quality.

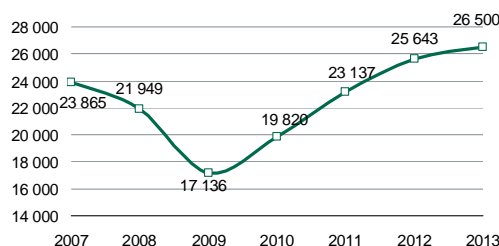
Under the current economic conditions, mortgage lending has become practically the only opportunity for people to purchase an apartment or other housing unit.

It should be noted that several second-tier banks have entered the mortgage lending market with their mortgage programs since the beginning of the year, however mortgage lending remains an expensive and relatively unaffordable instrument for the population. The average interest rates are in the range 12.5 – 18% per annum, and the required down payment starts from 10% of the price of the property.

On average, second-tier banks are willing to grant mortgage loans with a down payment of 30-40% (depending on the purchased housing unit). The credit period can vary in a period between 10 and 30 years. When choosing a mortgage credit, in the first place potential borrowers consider the interest rate level.

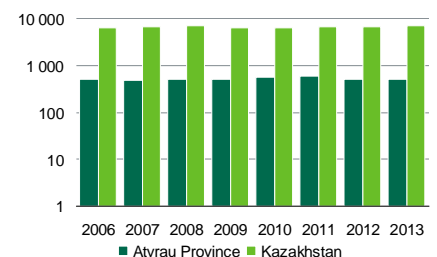
The appearance of affordable housing on the market is likely to contribute to the housing improvements for the people with low and middle levels of income, i.e. the largest portion of the population.

Investments into Residential Construction, Atyrau Province, KZT Mln



Source: Kazakhstan Statistics Agency

Commissioning of Residential Space ('000sqm)



Source: Kazakhstan Statistics Agency

The volumes and rates of construction of residential developments, community facilities and infrastructure projects decreased in late 2009 – 2010, due to the economic conditions. The global financial crisis had a significant negative effect on the activity of major construction companies, which had started the construction of residential projects but failed to complete them for lack of financing.

Despite the difficult economic conditions in the region, the Atyrau residential market observes a relative increase of demand for residential space. Among the reasons behind the growing demand is the active positive migration, leading to a stable increase of the population of the city.

As mentioned earlier, according to official statistics the population of Atyrau comprised ca. 270,000 people. However, it is reasonable to presume that the actual population is significantly larger due to the inflow of workers from other cities and regions of Kazakhstan, foreign specialists and inexpensive labour force from other CIS countries.

In general, the residential market of Atyrau displays slightly increased volumes of residential construction, which – in our opinion - is predominantly caused by the implementation of the various Government programs for housing construction.

Regarding the residential rental market, the amount of foreign visitors decreased somewhat since the beginning of 2012, which lead to a certain decrease of the level of demand for renting residential properties, and subsequently lowered rental rates. For example, while at the beginning of the year the rental rates of 2-room (1-bedroom) apartments on the primary market were in the range USD 1,500 – USD 2,500 per month, currently the rental quotations vary from USD 1,000 to USD 2,000 per month.

It should be noted that we have observed a rather limited number of residential sale/purchase transactions during the reported Quarter. The average sales price of apartments in newly-commissioned buildings comprised approximately USD 1,400 - 1,500 per 1 sqm.

The average selling price ranges on the Primary and Secondary residential markets of Atyrau have not demonstrated any significant changes during Q4 2013, as indicated in the following table:

	Selling Price Range, USD per sqm
Primary market	1,200 - 2,700
Secondary market	650 – 1,500

Source: Scot Holland LLP

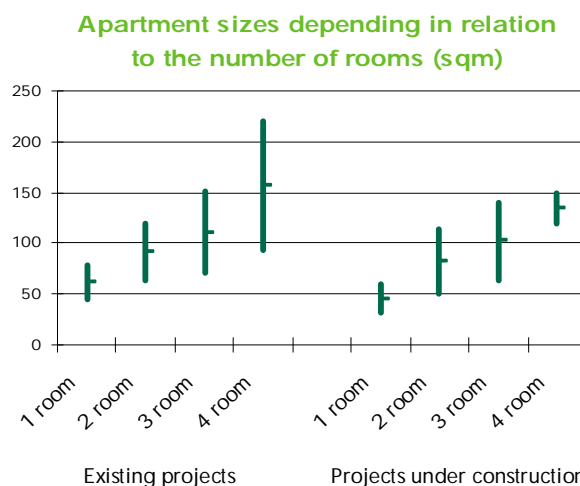
A comparison of apartment sizes in existing projects and developments under construction shows a trend towards decreasing the average apartment areas.

We would like to point out that this trend can be observed not only in Kazakhstan, but also in many other countries around the world.

In our opinion, this tendency is a sign of orientation towards a more affordable mass-market housing, and should be taken into consideration by local residential developers.

Average Apartment sizes related to the number of rooms (sqm)		
	Completed	Under Construction
1 room	61	45
2 rooms	92	81
3 rooms	111	102
4 rooms	156	135
5+ rooms	228	-

Source: Scot Holland LLP



Source: Scot Holland LLP

However, it should be noted that this tendency is generally not applicable to Elite-class residential projects with apartments rented by expatriates in the oil & gas sector, who usually come to Atyrau accompanied by their families and therefore seek more expensive and larger-sized housing units.

Quick Stats

	Change from	
	Q2 13	Q3 12
Rental rates	↔	↔
Occupancy	↔	↔

Hot Topics

- The selling prices and rental rates on the Atyrau Office market show no significant changes in comparison with the previous period;
- The existing Office supply is mainly represented by a mix of lower-class and smaller-size class B and C office buildings, typical for most regional cities in Kazakhstan;
- One of the basic characteristics of the Office property market of Atyrau is the limited supply of office space of good quality and meeting international standards.

OVERVIEW

The population of Atyrau is growing thanks to a number of young professionals relocating there to take advantage of the highest salaries in the country, as well as the benefits offered by oil companies.

Thus, the average monthly nominal salary in Atyrau in the period January - December 2013 amounted to ca. KZT 190,000, which is more than 2 times higher than the average for the Republic of Kazakhstan.

As mentioned earlier, foreign investment still represents the dominant share of the total volume of fixed capital investment in Atyrau.

These factors affect the development of the general city infrastructure (whether residential and hospitality, educational and medical, or community facilities), along with increasing the existing office stock.

Historically, the development of the office segment in Atyrau has been closely linked with the rapid growth and expansion of companies in the oil & gas sector.

Because of this, there were practically no Class A office developments prior to 2001. However, the situation started changing with the completion of the TCO.

From that point on, the office market started growing together with the rapid expansion of oil production activities, and went from shortage of office space before 2001 to oversupply after 2002.

At the beginning of 2009, the total existing office stock in Atyrau was approximately 250,000 sqm.

Given the annual addition of approximately 20,000 sqm in 2009, the total volume of office space in Atyrau as of the beginning of 2010 reached the level of 270,000 sqm and remained unchanged during the reported period.

During Q4 of 2013 no new office developments were constructed or commissioned in Atyrau.

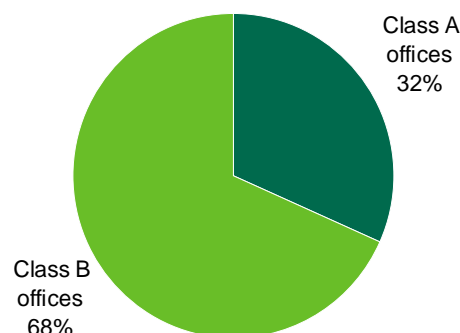
Due to the effects of the financial and economic crisis, property developers in Atyrau are facing problems with delayed completion of new developments.

In addition, the Atyrau region is well known for the strong presence of foreign-owned companies, which do not have the right to purchase & own property in Kazakhstan according to the existing country legislation.

In fact, most local companies are simply branches of 'parent companies' headquartered in Astana and Almaty, looking to rent offices rather than purchase property in the region.

The Atyrau office market is predominantly represented by Class B office space, as illustrated in the pie-chart below. At the same time, the share of Class A business centres is expected to increase medium- to long-term

Existing Class A and B Office Ratio



Source: Scot Holland LLP

It should be noted that Office space demand, particularly for Class A and B premises, is directly linked to contracts with large oil companies. These contracts are often pending, terminated, renegotiated, frozen, etc.

Sales of offices are not as active in Atyrau as they may be in Almaty for example. It is mostly local firms purchasing office space either on the ground floors of residential buildings, or in business centres with strata ownership.

The analysis of the selling prices of office projects in Atyrau during Q4 2013 shows that they are in the range USD 1,800 - 2,000 per sqm depending on location, year of construction and condition of the building. This leads us to the observation that the average selling price remained quite stable during the reported period without any significant tendencies towards price decreases or increases on the office market.

However, considering the fact that no office premises are currently offered for sale in Atyrau, we would regard these selling prices more as a market indicator, rather than as actual transaction prices.

Owners of business centres of large and medium size predominantly prefer to lease office premises to different companies for a long term. Rental rates are also dependant on location, infrastructure, and amenities available and may vary widely from USD 20 to USD 50 per sqm per month.

The list of such services/amenities may include (without limitation) security, wet cleaning, additional communication lines, and quite often – office furniture in accordance with the individual tenant’s request.

The difference between the average rental rates in Class A and Class B offices is in the range 20 – 25%.

There have been no significant changes on the lease market during the reported period. Most major companies tend to lease space in larger-size business centres such as ‘Premier Atyrau’, ‘Atyrau Plaza’, ‘Fronter Plaza’ etc. For example, the ‘Baker Hughes’ company leases office space in the ‘Renko’ business centre.

We have not observed any major changes of selling prices on the Atyrau office market during Q4 2013 compared to the previous reported period.

At the same time, the average office rental rates on the local market are in the range USD 25-35 per 1 sqm per month.

Office sizes may vary significantly from 25-30 sqm to more than 8,000 sqm depending on the specific company size and number of employees.

Basically, there are 3 major types of companies occupying Class A office premises in Atyrau:

1. International oil & gas companies. They are major, long-term occupiers, and very often for them it makes more sense to own their offices, rather than rent;
2. Service and project management companies (oil & gas sector), construction/engineering/design companies, ‘Big 4’ consulting firms, international accountancy and law firms. They usually lease a few hundred square meters. For these types of companies, visitor flow is not as important as interaction between each other, with the HQs, and with their field offices. A large well-located business centre with good communications would provide higher value to such tenants, and would help achieve economies of scale.
3. Banks – most of them have retail banking, so direct access at street level to their premises is essential. They can either buy or lease premises, both in business centres and on the ground floors of residential buildings.

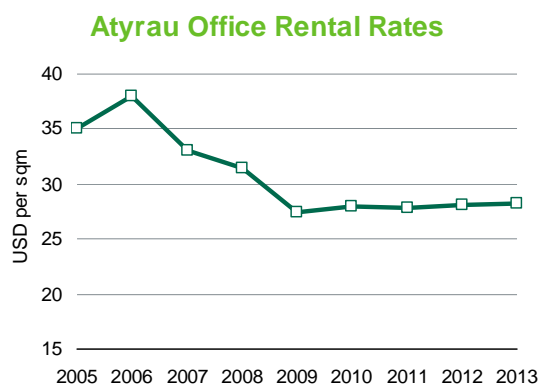
Tenants in the second group of companies are usually content with Class B office space, but would be willing to consider upgrading under acceptable lease conditions.

Some hotels convert a part of their hotel room allocation to office space. The reverse option – a mixed-use development providing hotel rooms and “serviced apartments” in addition to office space - is also becoming popular.

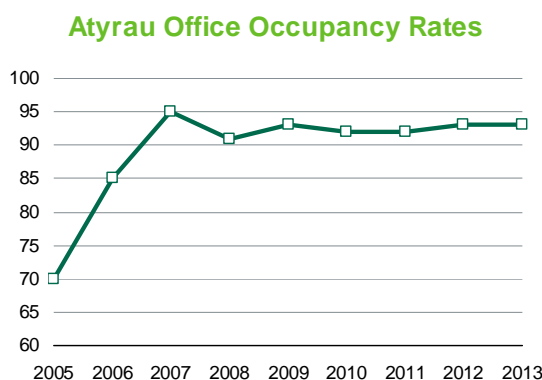
The office segment of the Atyrau real estate market appears to be somewhat less affected by the current economic conditions, compared to the office markets in other major Kazakhstan cities like Astana and Almaty. As a result, existing business centres manage to keep relatively stable prices and rental rates, which in turn lead to the preservation of the tenant mix and ensure high and stable occupancy rates of around 90 - 95%.

Even when companies move their office premises from one building to another, most often such relocations are not directly associated with prices or rental rate factors.

One of the major current characteristics of the office market is deficient supply, leading to high occupancy levels of existing business centres. Despite the fact that construction of office buildings in several districts of the city is currently in progress, the final completion dates of these projects are still not determined and confirmed.

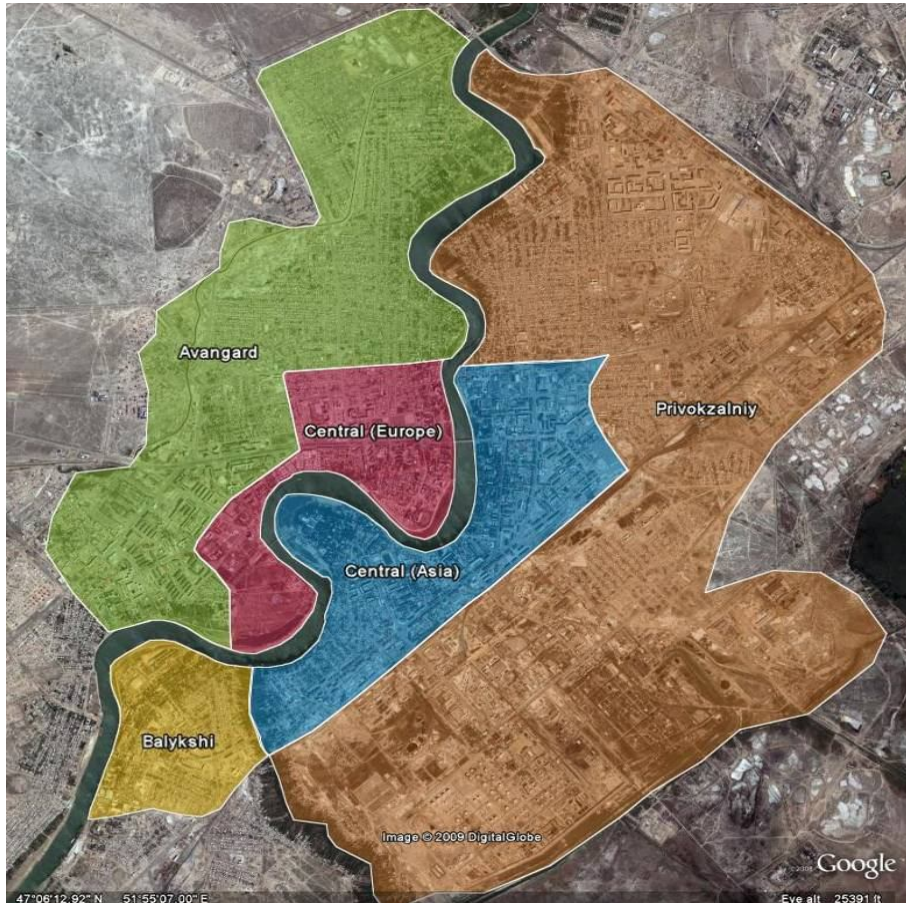


Source: Scot Holland LLP



Source: Scot Holland LLP

Map of Atyrau Market Zones



Source: Google Earth, Scot Holland LLP

- **Avangard** – comprises the North-West part of Atyrau; mostly residential properties (medium quality); few newly-built multifamily houses; intensive construction of individual developments in the northern part of the district ('Nursaya', Nursaya-2 micro-districts) and construction of 'economy' class multifamily houses (Zhety-Kazyna); basic retail properties, baked goods plant, social support facilities, and some office buildings – in green on the map.
- **Privokzalniy** – comprises the North-East part of Atyrau; predominantly old panel-type multifamily residential properties and individual houses; newly-built economy class developments (Almagul microdistrict); also some warehousing premises and industrial bases; wholesale commerce at 'Dina' open market – in brown on the map.
- **Balykshi** – comprises South part of Atyrau; multifamily residential buildings and individual houses; warehousing facilities and industrial bases, fish cannery; basic retail with no contemporary office developments – in yellow on the map.
- **Central (Europe)** – comprises Central Western part of Atyrau; multifamily residential buildings of 'business class', prestigious developments, contemporary office and retail properties; few individual developments (the 'Old City'); plus some projects in progress – in pink on the map.
- **Central (Asia)** – comprises Central Eastern part of Atyrau; prestigious multifamily residential properties plus some individual housing; contemporary office and retail premises; warehousing and industrial bases, Atyrau oil refinery, chemical plant – in blue on the map.

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For more information regarding the Market View, please contact:

Scot Holland LLP
Strategic Consulting

Eugene Dolbilin
Vice President
Scot Holland LLP
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
eugene.dolbilin@cbre.kz

Peter Goranov
Director
Strategic Consulting and
Valuations
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
peter.goranov@cbre.kz