

Atyrau Market View

Residential

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Q2 2010

Quick Stats

	Change from	
	Q1 10	Q2 09
Prices	↔	↓
Absorption	↔	↓

Hot Topics

- Generally, the Residential stock of Atyrau is of poorer quality compared to the Office and Hotel market segments;
- In Jan-May 2010 the total investments into residential construction almost doubled compared to the same period of 2009;
- The sales/purchase market players are predominantly local individuals and companies (legal entities);
- Despite complicated economic conditions, the Atyrau residential market displays a relative increase of demand.

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 lies on the right bank of the Ural River in Europe, whilst the other part is located in Asia.

Atyrau, known as the 'oil capital' of Kazakhstan has 233,144 inhabitants (according to officially published data as of the May 1, 2010).

The province accounts for about 30% of the total fixed capital investment in Kazakhstan with KZT 403,624 Mln invested in Jan - May 2010. Approximately 76.2% of this amount was contributed by foreign investors.

The combined industrial output of Atyrau Province in the period Jan-May 2010 amounted to KZT 1,222,221 Mln, which represents a 23.5% increase compared to the same period of 2009.

At the same time, in Jan-May 2010 the total investments in residential construction amounted to KZT 6.4 Bn, which represents a 97.5% increase compared to the same period of the previous year.

The total amount of residential space commissioned in Atyrau Province in Jan-May 2010 comprised 93,776 sqm, of which 91,646 sqm were commissioned by private individuals. The index of actual volume of commissioned residential space amounted to 97% y-o-y.

It should be noted that the city of Atyrau itself accounted for 64.8% of the total residential space commissioned in the province during that period, followed by Zhylyoiskiy (12.8%) and Mahambetskiy (9.8%) Districts of the province.

Atyrau is considered primarily a city where you 'go to work', as a result of which the demand for purchasing residential property is almost completely internal, and sales transactions take place almost exclusively between local individuals and 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 dominated by office buildings and hotels. In comparison, residential developments are significantly more in number, but of poorer overall quality.

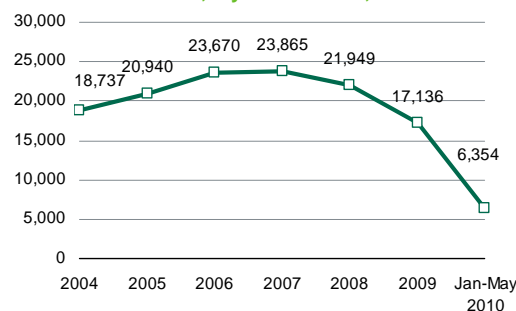
Under the current complicated economic conditions, mortgage lending has become practically the only opportunity for people to purchase an apartment or other housing unit.

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 17-18% per annum, and a required down payment is 30-40% (depending on the condition of the housing unit). The credit period varies from 10 to 25 years.

When choosing a mortgage credit, in the first place most potential borrowers consider the interest rate level.

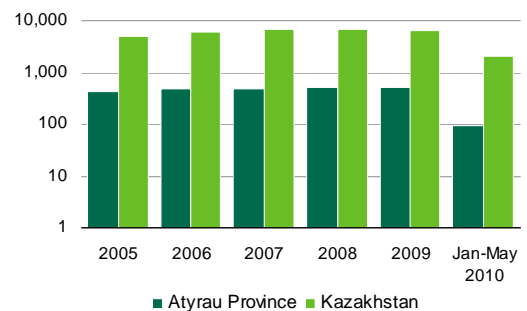
The appearance of affordable housing on the market is likely to contribute to the housing improvements for the people with low and middle levels of income, i.e. the largest portion of the population.

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 – early 2010, due to the current economic conditions. The global financial crisis had a significant negative effect on the activity of major construction companies, which had started the development of large residential projects but failed to complete them.

The construction of the ‘Nursaya’ micro-district is in process under the State Program. The buildings in this micro-district are designated for use under the mortgage program and lease housing scheme.

In addition, the construction of the new ‘Korkem’ micro-district next to the ‘Almagul’ micro-district started in 2009. The buildings in this project were also designated for budget employees and socially disadvantaged categories of the population. The total budget allocations for the construction of this district comprise KZT 1,155.5 M, and 7 buildings have been commissioned to date.

It is planned to complete 450 municipal apartment units in the ‘Almagul’ microdistrict and in Datov Str. by the end of summer 2010 with funding from the local budget.

The construction of 8 residential buildings with a total of around 800 apartments started in the Nursaya District in 2010. It is also planned to construct 1,186 municipal apartments with a total area of 65,000 sqm by the end of 2010. Given the lack of vacant land plots within the city borders, these housing units are planned for construction in the areas where old and unserviceable residential houses are demolished.

The construction and commissioning of new residential buildings requires the supply of additional power and water capacities, as well as the set-up of maintenance services to handle public-service issues. Currently problems with the transportation, engineering and social infrastructures of the new Atyrau districts are being approached and gradually handled. Hundreds of kilometers of roads, 180 courtyard areas, as well as the numerous streets of the Atyrau city and other population centres of the province were constructed and repaired. A total of 754 km of gas lines were laid, and new water and power lines are being constructed.

Despite the difficulties in regional economy, Atyrau residential market observes a significant increase of the residential demand. The reasons behind growing demand include active incoming migration, leading to the rapid increase of Atyrau population.

As mentioned earlier, according to official statistics the population of Atyrau city as of May 2010 was 233,144 people. However it is reasonable to suppose that the actual population of Atyrau is significantly larger due to the inflow of workers from other cities of Kazakhstan, foreign employees and inexpensive labour force from other CIS countries.

During the second quarter 2010 no new residential projects except those completed under the State Housing Program have been commissioned in Atyrau.

The average selling price ranges on the Primary and Secondary residential markets of Atyrau are indicated in the table below:

	Selling Price Range, USD per sqm
Primary market	1,200 - 2,300
Secondary market	550 - 950

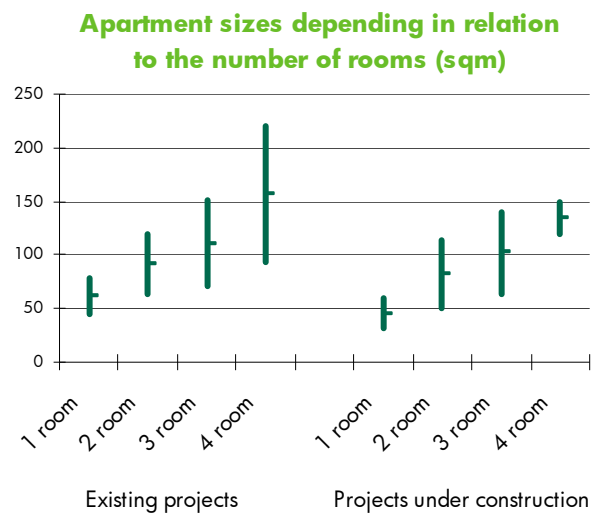
Source: Scot Holland CBRE

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

It should be noted 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 mass-market, 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 CBRE



Source: Scot Holland CBRE

However, it should be noted that this trend is 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 large-sized housing units.

Atyrau Market View Offices

Quick Stats

	Change from	
	Q1 10	Q2 09
Rental rates	↔	↓
Occupancy	↔	↔

Hot Topics

- The Atyrau Office market shows no significant changes of selling prices and rental rates in comparison with previous Quarter figures;
- 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;
- Office sales/purchase transactions are rare, represented mostly by local companies buying premises on ground floors of residential buildings, or in business centres with strata ownership;
- One of the current market characteristics is low supply of office space.

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. For example, the average monthly nominal salary in Atyrau in April 2010 amounted to KZT 157,333, which is more than 2 times higher than the Kazakhstan average.

Foreign investments in the period January-May 2010 amounted to KZT 307,693 Mln, while the investments coming from budget funds amounted to KZT 20,163 Mln.

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 headquarters, and the subsequent tender by AgipKCO for a build-to-suit office building.

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 end of 2009/ beginning of 2010 reached the level of 270,000 sqm. According to the information available no office buildings have been commissioned in Atyrau year-to-date.

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.

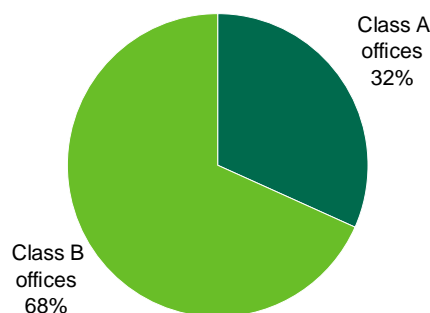
In fact, most local companies are simply branches of 'parent companies' headquartered in Astana and Almaty, looking to rent offices rather than purchase property in the region.

The Atyrau office market today is predominantly represented by Class B offices, as illustrated in the pie-chart below.

When looking at business centres in the pipeline, or currently under construction, it should be noted that most projects are classified as Class B, with an average total gross area (TGA) of 2,900 sqm and an average building height of 5 floors.

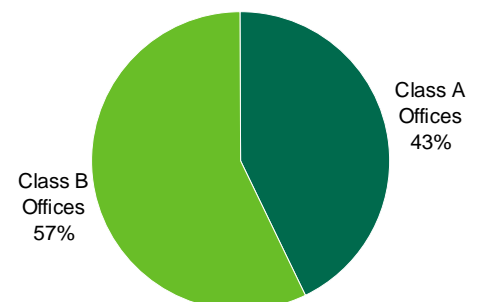
At the same time, the share of Class A business centres is expected to increase with the commissioning of several projects currently in the pipeline (as shown in the pie-charts below):

Existing Class A and B Office Ratio



Source: Scot Holland | CBRE

Class A and B Offices Under Construction



Source: Scot Holland | CBRE

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. In addition, oil companies themselves have contracts with the KZ government, which are periodically re-negotiated by the Kazakh side, thus impacting many potential Class A and B office tenants.

Sales of offices are not as active in Atyrau, as they are 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.

An analysis of the selling prices of office developments in Atyrau in the period January-June 2010 shows that they are in the range USD 1,800-2,000 per sqm, depending on the location, year of construction, and condition of the building. This leads us to the observation that the average selling price remained quite stable during Jan-June 2010 and there are no tendencies to price decrease or increase 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 USD15 to USD50 per sqm per month.

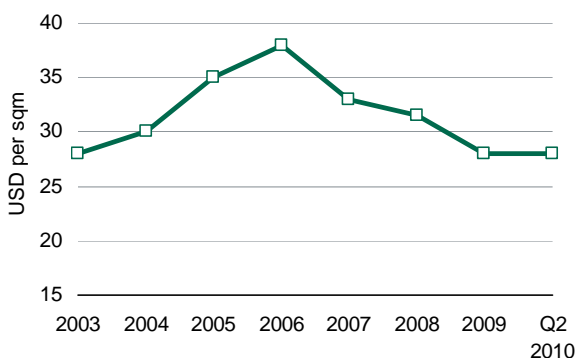
The list of such services/amenities may include (without limitation) security, wet cleaning, additional communication lines, and quite often – office furniture in accordance with the individual tenant’s request.

The difference between average rental rates in Class A and 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 own & occupy their own office premises, while smaller companies tend to lease office space in large business centres such as ‘Premier Atyrau’, ‘Atyrau Plaza’, ‘Fronter Plaza’ etc.

We have not noted any major decrease of selling prices on the Atyrau office market in Q2 2010, although a slight decrease of rental rates could be observed in some existing business centres, bringing the market average to USD 25-28 per sqm.

Atyrau Office Rental Rates



Source: Scot Holland | CBRE

Office sizes may vary significantly, from 25 to 8,500 sqm depending on the specific company size and number of employees.

Basically, there are 3 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 residential buildings.

In such an environment, consideration to the tenant mix is very important, as some tenants may not be happy to be in close proximity to their competitors. Building two office towers with common engineering facilities, building management services, parking etc. could be a viable solution of such issues.

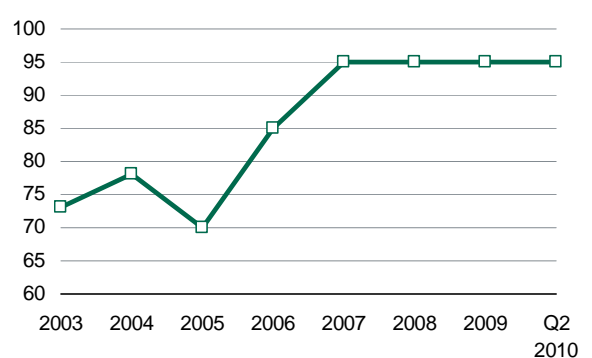
Tenants in the second group of companies are usually content with Class B office space, but would be willing to consider upgrading under acceptable lease conditions.

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 leads to the preservation of the tenant mix and ensures 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.

Atyrau Office Occupancy Rate



Source: Scot Holland | CBRE

Planning and logistics difficulties, in combination with frequent payment delays, put many contractors and developers in financially difficult situations. Those having more substantial internal financial resources are usually able to survive, despite frequent cost overruns and additional delays. In other cases, contractors and developers with less financial capabilities fail to survive during crisis times and are forced to simply withdraw from the market.

Most of the construction activities in Atyrau Province involve projects for oil & gas companies, such as building employee housing solutions, industrial premises, logistic terminals, civil works and pre-fabricated building installations. Currently, these construction activities take place mainly in the following 2 locations: the 'Tenghiz' and 'Kashagan' oil fields.

At the same time, the construction activities and volumes in Atyrau city are smaller in scale compared to the oil fields. The best workers tend to be attracted to oil-related construction projects outside of Atyrau, because the wages in such projects are much higher than the wages in projects within the city limits.

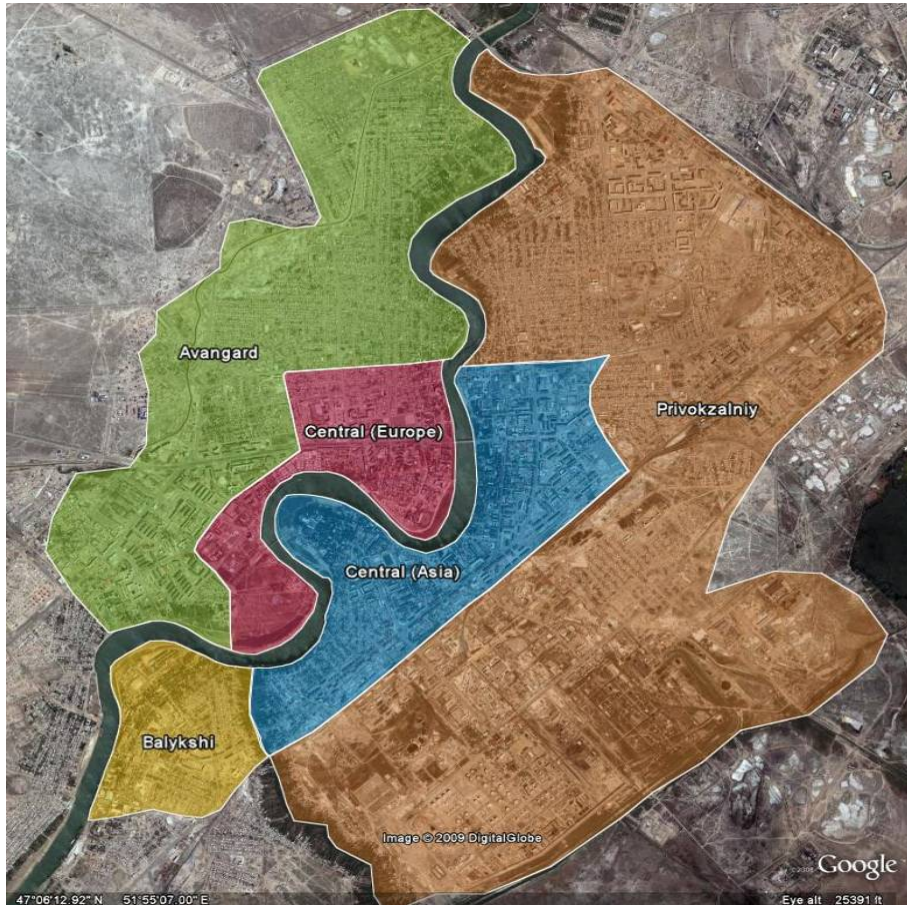
As Atyrau is becoming increasingly more congested and expensive, the labour problem is worsening, and subsequently the quality of construction has failed to improve significantly.

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

Increasingly, large companies prefer occupying entire buildings as the sole tenant, which is the case with 'Schlumberger', 'Halliburton' and 'Baker Hughes'. This could be done either as a standard lease of an existing office structure, or on a build-to-suit basis.

In conclusion, we would like to note that despite the consequences of the economic downturn and liquidity problems in the banking and financial sectors, the construction activity on the Atyrau office market has kept a relatively stable pace and - to the best of our knowledge - none of the planned developments under construction has been suspended or cancelled.

Map of Atyrau Market Zones



Source: Google, Scot Holland CBRE

- **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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