

Atyrau Market View

Residential

Quick Stats

	Change from	Q3 11	Q4 10
Prices	↔	↔	↔
Absorption	↔	↔	↔

Hot Topics

- In the period Jan-Dec 2011 the total investment in residential construction in Atyrau amounted to KZT 23.1 Bn;
- The total amount of residential space commissioned in Atyrau Province in the period January-December 2011 comprised 594,591 sqm, representing a 8.5% increase compared to the same period of 2010;
- Insufficient supply of good quality residential space to meet the lease and purchase demand;
- Stable residential rental rate levels.

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 263,347 inhabitants (according to officially published data as of 1st December 2011).

The province accounts for about 21% of the total fixed capital investment in Kazakhstan with KZT 1,060,976 Mln invested in Jan - Dec 2011. Approximately 71% of this amount was contributed by foreign investors.

The combined industrial output of Atyrau Province in the period Jan-Dec 2011 amounted to KZT 4,243,207 Mln, which represents practically the same volume compared to the similar period of 2010.

At the same time, in Jan-Dec 2011 the total investments in residential construction increased to KZT 23.1 Bn, which represents approximately 11% increase compared to the same period of the previous year.

The total amount of residential space commissioned in Atyrau Province in the period Jan-Dec 2011 comprised 594,591 sqm, which also represents an increase of 8.5% on a y-o-y basis.

It should be noted that the city of Atyrau itself accounted for 64.7% of the total residential space commissioned in the province during that period, followed by Zhylyoiskiy (19%) and Mahambetskiy (5.1%) districts of Atyrau Province.

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.

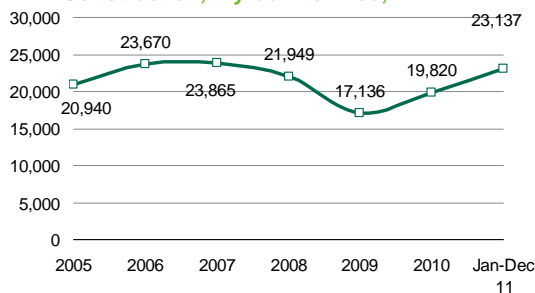
In terms of quality, the market is represented by office buildings and hotels. In comparison, residential developments are significantly more in number, but of poorer overall quality.

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 17-18% per annum, and the 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.

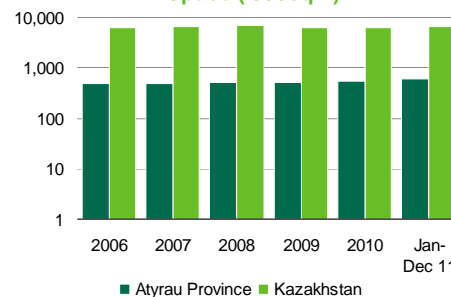
The appearance of affordable housing on the market is likely to contribute to the housing improvements for the people with low and middle levels of income, i.e. the largest portion of the population.

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 – 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 large residential projects but failed to complete them.

The construction of the ‘Nursaya’ and ‘Korkem’ micro-districts is in process under the State Program. The buildings in ‘Korkem’ micro-district are designated for budget employees and socially disadvantaged categories of the population, while the buildings in Nursaya micro-district are designated for use under the mortgage program and lease housing scheme.

In addition, municipal housing is currently under construction under the state program along Zharbusynov Str., Utemisov Str., and Erniyazov. Str. Construction of these developments started in March 2011, and the commissioning is planned for December 2011. Total number of apartments is 162 with a total area of 9,096.8 sqm.

Despite the difficulties in regional economy, Atyrau residential market observes a relative 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 December 2011 comprised 263,347 people. However it is reasonable to presume that the actual population of Atyrau 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.

During the 4th Quarter of 2011 no new residential projects have been commissioned in Atyrau by local private developers. New residential space was commissioned only in the developments completed under the State Housing Program.

Generally, the residential market of Atyrau shows slow activity, which is predominantly caused by the limited supply of new developments under construction. In particular, the market witnesses an acute shortage of lease and sales offers.

This situation has caused a rapid growth of rental rates. For example, at the beginning of the year the range of rental rates of 2-room apartments on the primary market was between USD 1,000 – USD 1,200, while currently the rental quotations vary from USD1,500 - USD2,000.

It should be noted that we have observed a very limited number of residential sale | purchase transactions during the reported quarter. The average sales price of apartments in newly-commissioned buildings comprised USD 1,500 per sqm and higher.

The average selling price ranges on the Primary and Secondary residential markets of Atyrau have not demonstrated any significant changes compared to the previous period, as shown in the table below:

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

Source: Scot Holland CBRE

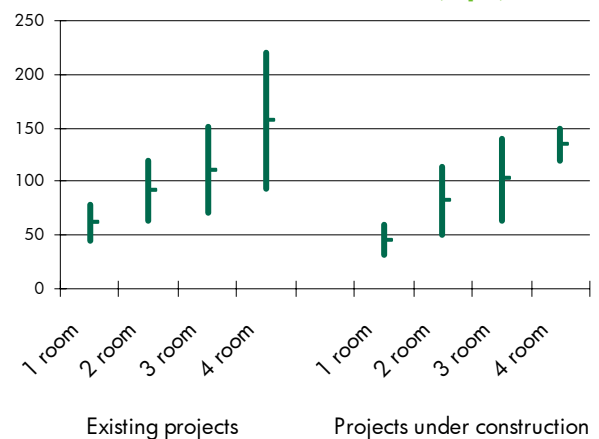
A comparison of apartment sizes in existing projects and developments under construction shows a trend towards decreasing the average apartment areas.

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 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

Apartment sizes depending in relation to the number of rooms (sqm)



Source: Scot Holland CBRE

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.

Atyrau Market View Offices

Quick Stats

	Change from	
	Q3 11	Q4 10
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;
- 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 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. For example, the average monthly nominal salary in Atyrau in November 2011 amounted to KZT 184,671, which is more than 2 times higher than the Kazakhstan average.

Foreign investments in the period January-December 2011 comprised KZT 750,902 Mln, while the investments coming from budget funds amounted to KZT 48,141 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 beginning of 2010 reached the level of 270,000 sqm and remained unchanged during the reporting period.

During Q4 of 2011 no new office buildings were commissioned in Atyrau.

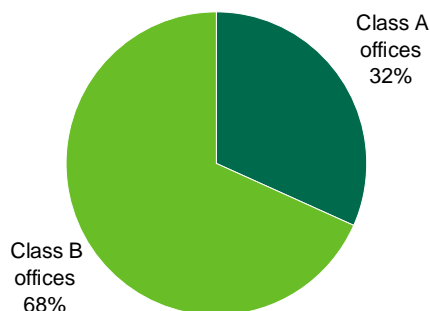
Due to the effects of the financial and economic crisis, property developers in Atyrau are facing problems with delayed completion of new developments.

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.

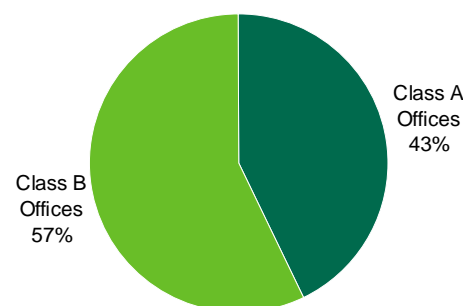
The Atyrau office market is predominantly represented by Class B office space, as illustrated in the pie-chart below. At the same time, the share of Class A business centres is expected to increase with the commissioning of projects in the pipeline (as shown below):

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.

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.

An analysis of the selling prices of office developments in Atyrau in the period January-December 2011 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 the fourth Quarter of 2011 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.

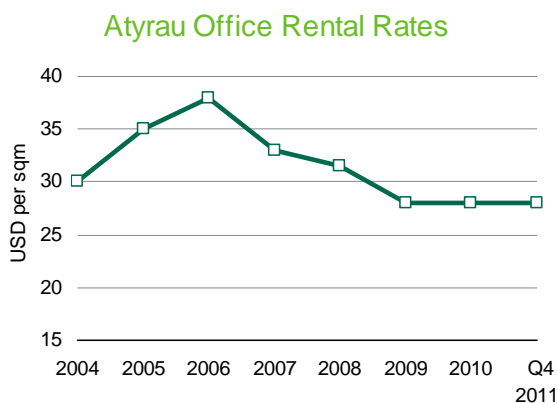
The list of such services/amenities may include (without limitation) security, wet cleaning, additional communication lines, and quite often – office furniture in accordance with the individual tenant’s request.

The difference between 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 own & occupy their own office premises (for example, ‘Schlumberger’, ‘Halliburton’ and ‘Baker Hughes’), while smaller companies tend to lease space in large business centres such as ‘Premier Atyrau’, ‘Atyrau Plaza’, ‘Fronter Plaza’ etc.

We have not observed any major changes of the selling prices on the Atyrau office market in Q4 2011 compared to the previous reported period.

At the same time, the average range of office rental rates on the local market is USD 25-28 per sqm per month.



Source: Scot Holland | CBRE

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 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.

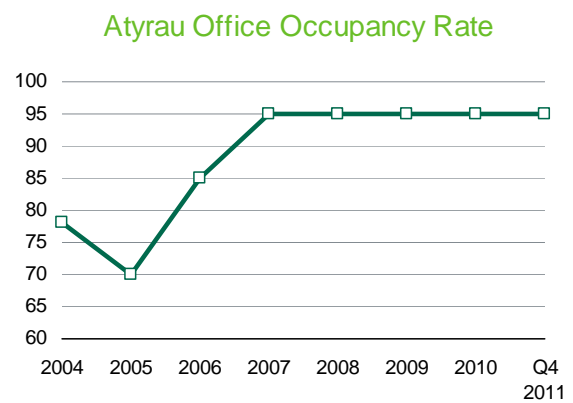
Tenants in the second group of companies are usually content with Class B office space, but would be willing to consider upgrading under acceptable lease conditions.

Some hotels convert at least 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 leads to the preservation of the tenant mix and ensures high and stable occupancy rates of around 90 - 95%.

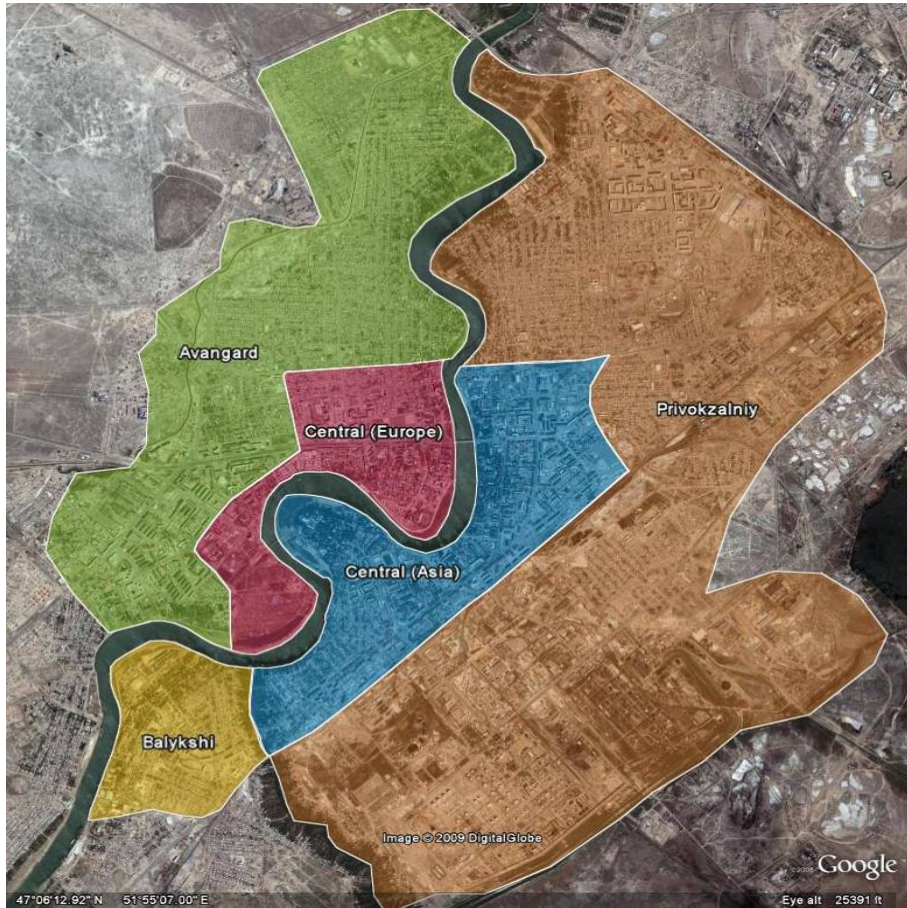
Even when companies move their office premises from one building to another, most often such relocations are not directly associated with prices or rental rate factors.

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.



Source: Scot Holland | CBRE

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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