

July 15, 2020

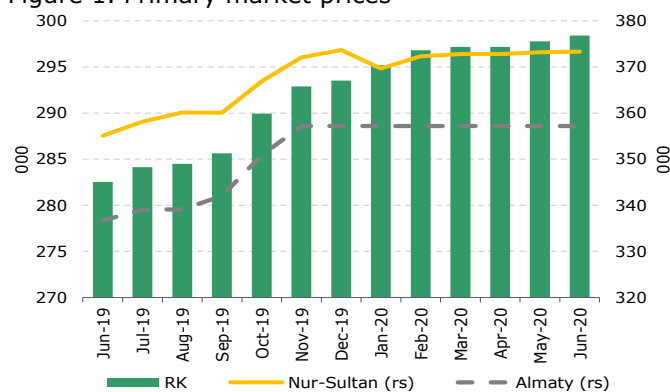
Despite the COVID-19 pandemic and the resulting economic problems, the impact on the real estate market in 1H2020 can be described as rather mild – real estate prices and rental costs have increased by 3-5% since the beginning of the year. On an annualized basis, housing price growth equaled inflation at 7% at the end of June. The drop in the number of transactions and the issuance of mortgage loans by 16-20% yoy was due primarily to quarantine restrictions.

Housing price growth was a modest 3% on average in the primary and secondary markets in the first half of 2020

Prices for residential real estate in the primary market in Kazakhstan increased by a modest 1.7% from the beginning of the year to T298 thousand per sq.m., while prices in Nur-Sultan and Almaty remained unchanged – T373 and T357 thousand per sq.m. The reason for this stagnation is obvious – COVID-19 and its associated economic difficulties. Recall that last year, thanks to the expansion of subsidized mortgages and accelerated economic growth, housing prices in the primary market increased by 10%.

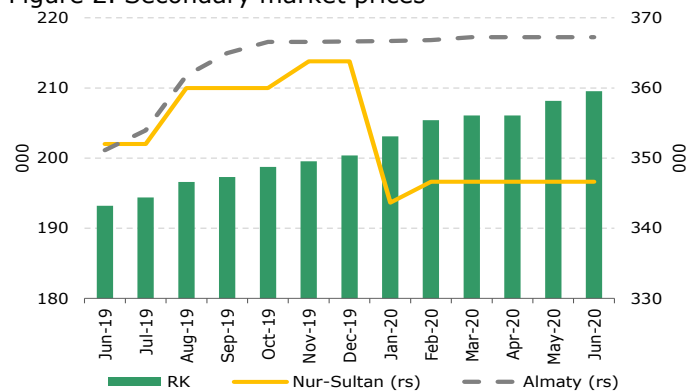
The situation on the secondary market looked slightly better – the price increase in the first half of this year was equal to 4.6%, however, at the same time, housing prices in Nur-Sultan fell by almost 5%, while the cost of housing in Almaty did not change. The difference between the two largest housing markets in the republic is that in Nur-Sultan, prices in the secondary market are 7% lower than in the primary, while in Almaty, on the contrary, housing in the secondary market is sold 3% higher than the primary.

Figure 1. Primary market prices



Source: CS MNE

Figure 2. Secondary market prices

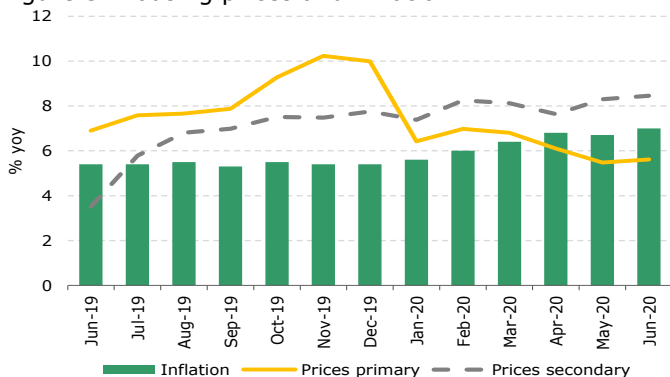


Source: CS MNE

The inflationary pressure at the beginning of this year was significant – prices in the consumer market rose by 0.6-0.7% mom in January and February, after which they accelerated sharply to 0.9% mom in March and April due to external shock. However, already in May, price growth slowed to 0.5% mom and 0.4% in June. Thus, the situation with inflation developed quite dramatically in the first half of 2020, but thanks to a partial restoration of the exchange rate and the intervention of government agencies that lowered fuel prices and utility services, inflation quickly stabilized. According to the results of June, the price increase reached 7% in annual terms. In turn, the annual growth in housing prices was at an identical level (7% on average), in the primary market – growth by 5.6%, in the secondary – by 8.5%.

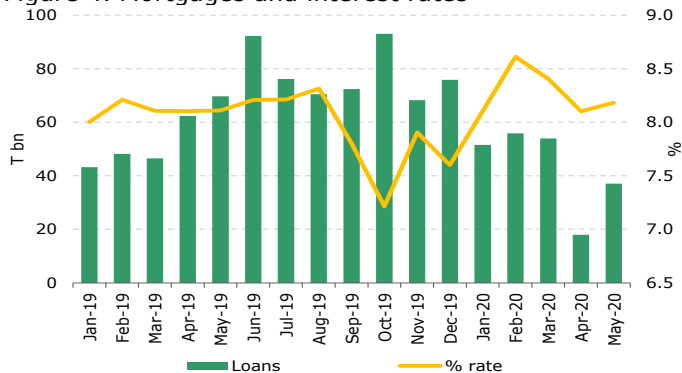
The volume of mortgage loans issued for the first 5 months of this year fell by 20% yoy, while a slight increase in the loan rates to 8.3% from 8.1% a year earlier took place. The volume of loans for the purchase of housing in April predictably fell three times to T18 billion from T54bn in March. In May, the issuance of loans intensified significantly and reached T37 billion, but this is still two times lower than last May.

Figure 3. Housing prices and inflation



Source: CS MNE

Figure 4. Mortgages and interest rates



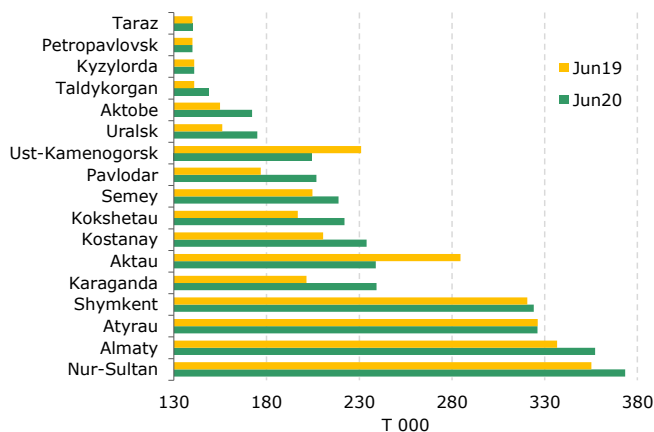
Source: CS MNE

In majority of cities, June property prices are higher in annual terms

In terms of real estate prices (primary market), the city of Nur-Sultan is still the leader with an average cost per square meter of housing at T373 thousand, followed by Almaty with T357 thousand per square meter, and Atyrau (T324 thousand). The lowest cost of housing among cities was noted in Kyzylorda, Petropavlovsk and Taraz – T140 thousand per square meter, while the cost of real estate between the capital and these cities varies 2.7 times. As for price dynamics, in June of this year, housing prices were higher than last June in most cities of the country – in 11 out of 17, in two cities prices were lower (Aktau and Ust-Kamenogorsk), and in four cities prices remained the same.

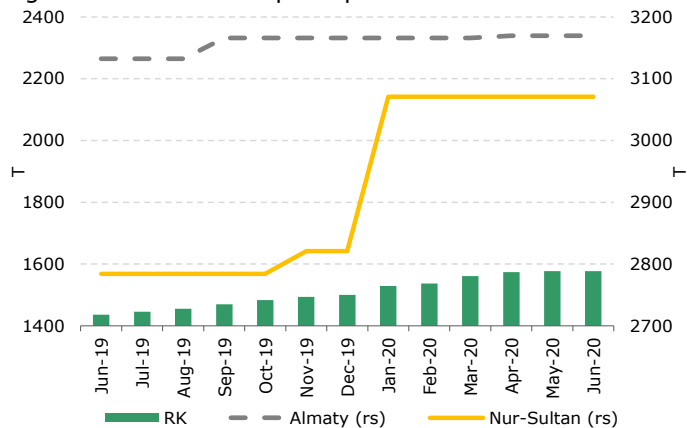
Compared to housing prices, rental prices have risen slightly more – by 5.1% since the beginning of this year compared to 3.1% on average for primary and secondary housing. The growth drivers were Nur-Sultan with Taraz +9% each, Pavlodar +12%, Taldykorgan +33%, while at the same time, there was no decrease in rental costs in any city. The reason for the outstripping growth in rental costs compared with the cost of housing is still unclear, a possible explanation may be a decrease in the affordability of housing because of reduced incomes.

Figure 5. Primary market prices



Source: CS MNE

Figure 6. Rental costs per sq.m.



Source: CS MNE

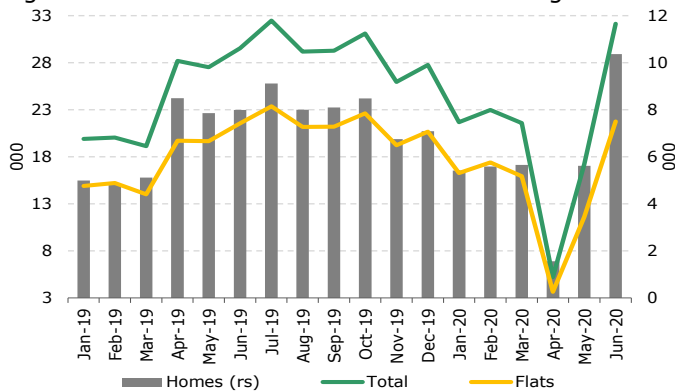
Demand for housing remains at a high level, in June the number of transactions was only 16% lower than last June

In the first half of 2020, 120.8 thousand real estate transactions were registered, with a decrease of 16.3% yoy, transactions with private houses fell by 12.9% yoy, with apartment transactions fell more significantly by 17.6% yoy. During strict quarantine in April, the number of transactions fell by 81.5% versus March and by 75.9% yoy.

At the end of June, the decline in transactions over the half year adjusted to -16.3% yoy, which indicates the presence of a fairly significant demand for housing. Among the largest cities, the largest decrease in the number of transactions in the first half of the year was in Nursultan -30% yoy, in Almaty a decline of 18% yoy, in Shymkent minus 14% yoy, the smallest decrease in transactions was noted in West Kazakhstan region by only 2% yoy.

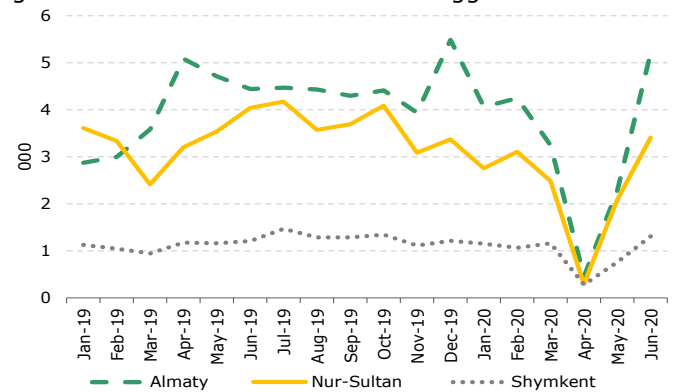
The presence of high demand for housing at reasonable low rates in the coming months will lead to an increase in real estate transactions, although it is obvious that demand will not be able to recover to the pre-crisis level this year. In 2019, the volume of real estate transactions grew immediately by 21% and reached a historic maximum of 320 thousand. This year, the government considers the construction industry as a driving force for economic growth, and plans to increase housing commissioning by about 15% from 13 million sq.m. up to 15 million sq.m. In our opinion, this is an over-ambitious task, given how the situation with coronavirus develops. Nevertheless, it is obvious that substantial injections into housing construction and subsidized mortgages will set the tone in the real estate market and will have a positive effect on overall economic growth by stimulating construction activity, acquiring housing and related fields.

Figure 7. Number of transactions with housing



Source: CS MNE

Figure 8. Number of transactions in biggest cities



Source: CS MNE

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