

January 15, 2021

Despite the COVID-19 pandemic and the problems in the economy caused by it, the Kazakhstani residential real estate market demonstrated dynamic growth in 2020. The number of transactions with residential real estate for the second year in a row exceeded 300 thousand, the cost of housing in the primary market increased by 5%, while in the secondary market the price growth reached 14%. The main driver of growth was multilateral government support, thanks to which mortgage lending grew by 12% in 11M2020, while since August 2020 the average monthly growth has been 50% yoy. Also, the rise in prices for residential real estate was influenced by the effect of the pass-through of the depreciation of the tenge to the value: over the past three years, the national currency has been depreciating almost continuously, having fallen against the dollar by almost 30% over this period. The inflow of funds from a new source, pension savings, will support further growth of activity in the housing market, and in 2021 we predict an increase in residential property prices by 5-10%.

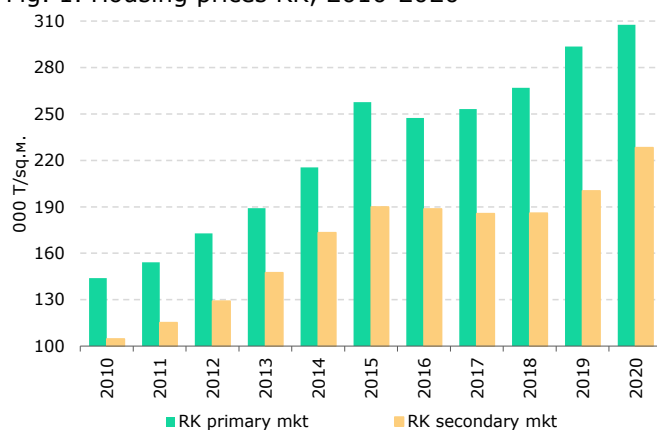
**Significant rise in housing prices in the secondary market**

Despite the recession in the economy, prices for residential real estate in Kazakhstan in 2020 increased in the primary market by 5%, while in the secondary market saw growth that was almost three times higher - at the level of 14%. In 2019, housing prices increased by 10% and 8%, respectively, with a continuous rise in primary housing prices recorded for the fourth year in a row after declining in 2016.

The growth in real estate prices in 2020 was mainly observed in the secondary market and had a pronounced regional character. At the same time, the accelerated rise in prices began in late summer after the completion of the second lockdown. The acceleration in the growth rate of the cost of secondary housing was outlined back in 2019 due to the expansion of affordable mortgage lending in this market segment. A slowdown in price growth in the primary market was outlined in early 2020, at the same time the growth rate of prices in the secondary market exceeded the rate of change of prices in the primary market. As a result of the outstripping growth in prices for secondary housing, the gap between prices in the secondary and primary markets narrowed from 32% at the end of 2019 to 26% at the end of 2020.

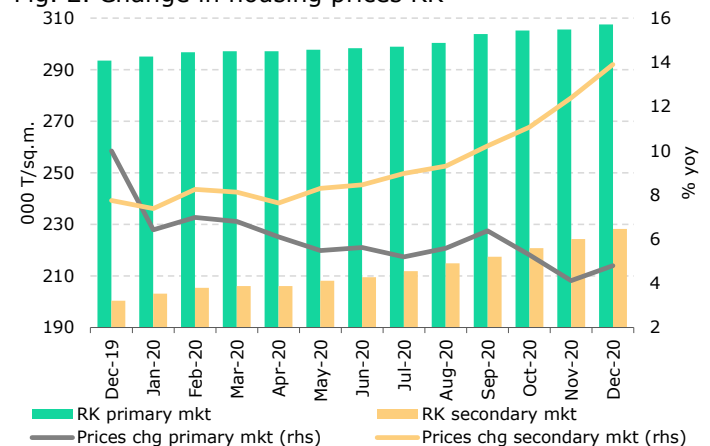
Due to the large-scale support from the state, activity in the housing market against the background of the crisis not only did not decrease, but for some indicators exceeded the numbers of the pre-crisis period. Note that the affordability of residential real estate has also increased for low-income households due to new instruments: mortgages at a rate of 5% and below, housing certificates, subsidies for housing construction.

Fig. 1. Housing prices RK, 2010-2020



Source: BNS

Fig. 2. Change in housing prices RK

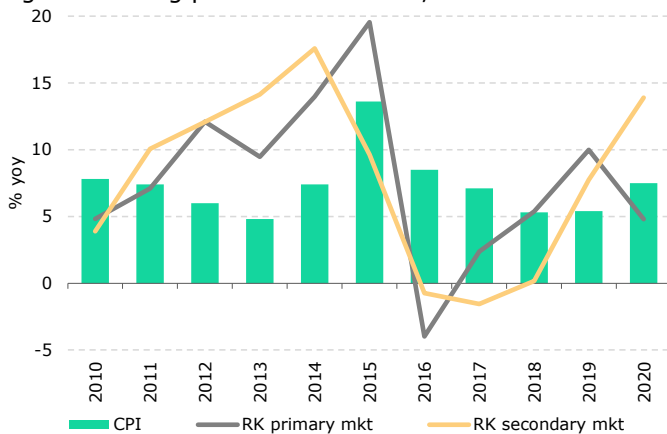


Source: BNS

The rise in real estate prices in 2020 was significantly influenced by the increased inflationary pressure, caused, among other things, by the devaluation of the tenge. The rate of change in consumer prices accelerated by almost 2pp from 5.4% yoy at the end of 2019 to 7.5% yoy in December last year. In 2019, the tenge depreciated by 11% and another 8% in 2020, and over the past three years, the tenge has lost about 27%, which put upward pressure on the value of residential real estate in tenge terms. At the same time, if in the first half of last year the growth of prices on the secondary market averaged 0.7% per month, in the H2 of the year the growth accelerated twice.

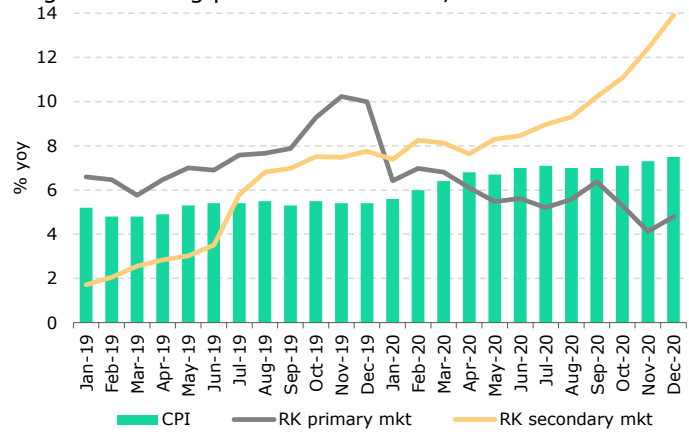
The increase in property prices in the past year is not something exceptional by the standards of previous years. In 2014, in the wake of accelerating inflation from 4.8% to 7.4% and a weakening of the national currency by 18%, prices in the primary market increased by 14%, and in the secondary market - by 18%. In general, since 2010, prices for residential real estate, both in the primary and secondary markets, have demonstrated almost the same growth rate, having increased by 2.1 and 2.2 times, respectively. Note that the gap between prices in the primary and secondary markets in 2020 has returned to the average value over the past 10 years of about 26%, after peaking at 32% in 2019. At the same time, in 2014, the gap between the price of real estate in the primary and secondary markets was minimal, amounting to only 20%. Taking into account the expected increase in opportunities for the population to invest in real estate due to the withdrawal of pension savings, the active implementation of mortgage programs with a focus on the secondary market, as well as a lower price level in comparison with primary housing, the outstripping growth in prices in the secondary market may continue in 2021.

Fig. 3. Housing prices and inflation, 2010-2020



Source: BNS

Fig. 4. Housing prices and inflation, 2019 onwards



Source: BNS

A decrease in the growth rate of prices in the primary housing market in 2020 was facilitated by a decrease in prices in Aktau by 14%, where the negative dynamics of price changes has been traced since 2016. The problems in the Aktau real estate market are most likely related to the deterioration of the economic situation in the region, where oil production dominates, the volume of which stopped growing after reaching a peak 10 years ago amid a significant decline in world prices. Since 2015, the economy of the Mangystau region has shown the weakest growth rates in the entire Kazakhstan, excluding the Kyzylorda region, where similar problems are observed. The migration balance in Aktau is systematically in the negative zone, which reduces the demand for real estate, while the supply of new housing has increased significantly.

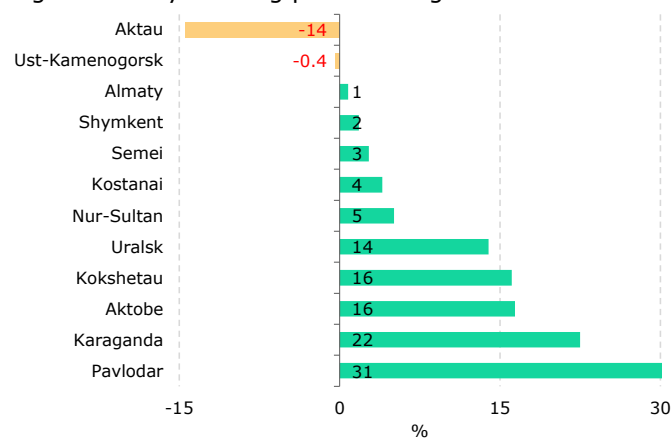
In six cities of the republic, prices in the primary market did not change, while in the rest there was a more modest growth in comparison with prices on the secondary market. The composition of the top three leaders in new housing prices by the end of 2020 has changed somewhat. The first place is still held by the city of Nur-Sultan with T393 thousand per sq.m., with an increase of 5% since the beginning of 2020. The second place was kept by the city of Almaty with T360 thousand per sq.m., but with a more modest growth of about 1%. The city of Shymkent moved to the third place with a cost per square meter of T336 thousand. A modest growth of about 2% was enough for Shymkent to bypass the city of Atyrau, where prices did not change. At the same time, we note that according to krisha.kz data, the average cost per square meter in Almaty increased by 11.9% in 2020 to T457.9 thousand per square meter. In Nur-Sultan, according to krisha.kz, the dynamics were limited to +3.6%, the average price increased to T351.7 thousand per sq.m.

In the secondary market, there was a much greater revival - only in Atyrau, prices did not change, while in six cities the rise in prices was in the range of 1-7%, and in eleven cities there was a strong rise of 11-37%. Thus, in Pavlodar, prices increased by 37% over the year, by 28% in Shymkent, and in the cities of Ust-Kamenogorsk, Karaganda and Uralsk by 25%. Such a significant rise in prices, in our opinion, was caused by the sharply increased demand due to the action of the state programs, which ran against a shortage of supply in the market.

In 10 years from 2009 to 2019, the volume of housing commissioned per 1 inhabitant in Pavlodar and Karaganda was only 0.3 sq.m. on average per year, in Ust-Kamenogorsk - 0.4 sq.m., for comparison, in Aktau in the same period was 1.4 sq.m. Within the framework of the Nurly-Zher state program, the indicator of housing construction per 1 resident of the country is targeted at 1 sq.m. per year. Thus, the real estate market in some cities was not ready for powerful government interventions, which caused a temporary excess of demand over supply.

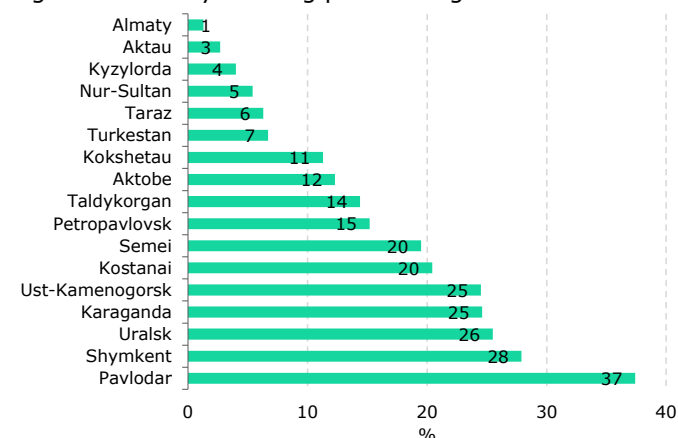
The top most expensive cities of residential real estate in the secondary market has also changed. However, the city of Nur-Sultan, where real estate prices reached T384 thousand per sq.m., moved from second place to first. Almaty moved to the second place, yielding to the capital, with T371 thousand per sq.m. The third place with a significant margin, as in the primary market, went to Shymkent, where the cost of housing was T279 thousand per sq.m.

Fig.5. Primary housing prices change 2020



Source: BNS

Fig.6. Secondary housing price change 2020

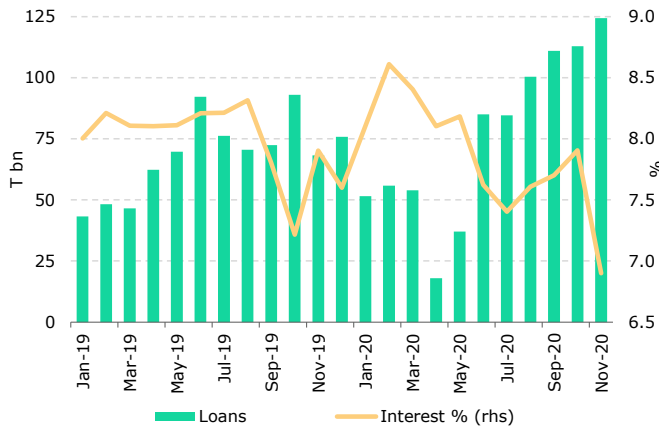


Source: BNS

### State support significantly contributed to growth of activity in the housing market

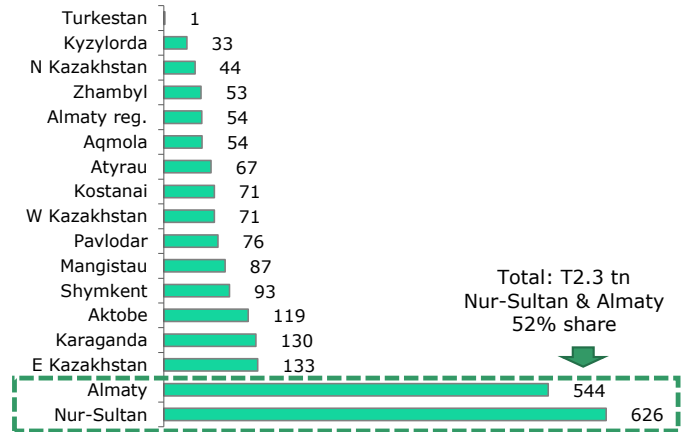
In order to stimulate the development of housing construction, the state also subsidizes mortgage rates. For example, in 2019, T92bn was allocated from the budget for these purposes, and in 2020 it already reached T210bn. The volume of new mortgage loans for 11 months of 2020 increased by 12.4% yoy to T835bn. Note that quarantine measures affected the reduction in the volume of loans, which in April 2020 fell three times compared to March to KZT18 billion. In May, the issuance of loans noticeably increased and reached KZT37 billion. However, the volume of lending began to outstrip the levels of the previous year only from July 2020.

Fig. 7. Given out mortgages and interest rates



Source: NBK

Fig. 8. Bank mortgage portfolio by region (11M2020)



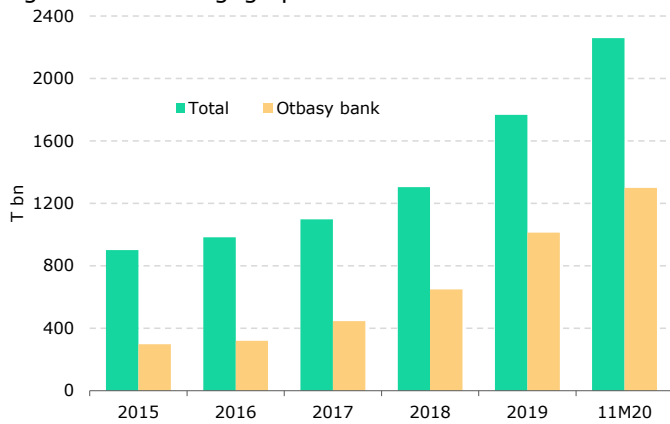
Source: NBK

Starting from August 2020, the volume of mortgage lending exceeded T100 billion monthly and was on average 50% higher than the monthly indicators of 2019. As a result of the growth in lending, the share of mortgage loans in the banks' portfolio increased from 12.7% at the end of 2019 to 15.4% at the end of November 2020, while in 2015 this share was equal to a modest 7%.

Mortgage rates have consistently exceeded 8% in the first 5 months of 2020, but have dropped below this level since June. Note that the interest rate on mortgage loans is more than 1pp below the regulator's base rate, which further stimulates the demand for mortgages.

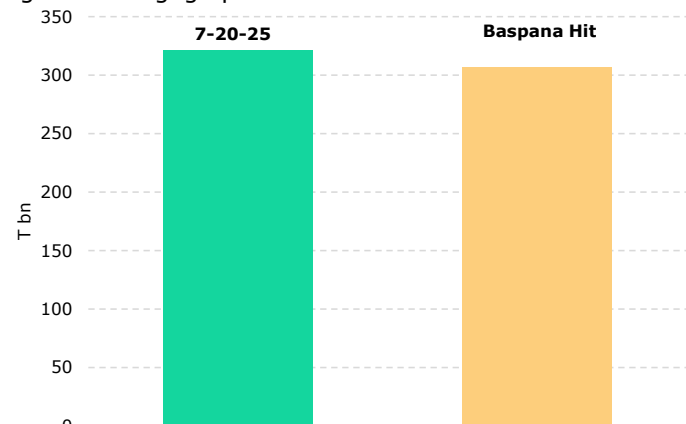
As of the end of 2020, the total loan portfolio under the 7-20-25 program amounted to T321 billion. At the same time, under the Baspana Hit program launched later, aimed at the secondary market, the volume of loans exceeded T300 billion. Last year, the Baspana Hit program was modified and within its framework it also became possible to purchase housing under construction from accredited developers.

Fig. 9. Bank mortgage portfolio



Source: NBK

Fig. 10. Mortgage portfolio of JSC «KFU»



Source: KFU

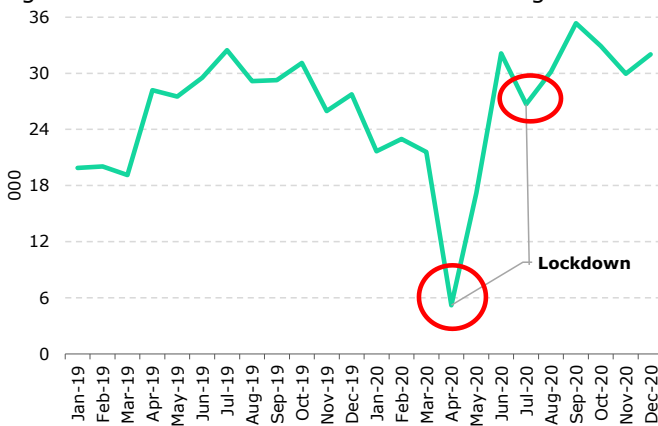
**For the second year in a row the number of housing transaction exceeded 300 thousand**

2020 marks another year after the record-breaking 2019, with over 300,000 residential real estate transactions recorded. During the strict quarantine in April, the number of transactions sank by 76% yoy, in May, the drop eased to -37% yoy, during the second lockdown in July, the number of transactions decreased by 18% yoy. However, starting in June, the number of deals only grew in the range from +3% yoy to +21% yoy. In general, in 2020, 308 thousand transactions with residential real estate were registered in Kazakhstan, which is less than 4% less than in the previous year (320 thousand). There was a moderate decrease in the number of transactions for the purchase and sale of apartments - by 5% yoy and a decrease in the number of transactions with private houses by 1% yoy. The decrease in the number of transactions by 4% yoy in 2020 can be considered insignificant, given the strong growth of 21% yoy in 2019, while in 9 out of 12 months of 2020 the number of transactions was significantly higher than in 2019.

Among the largest cities of the republic, there is an increase in the number of transactions by 11% yoy in Shymkent, a decline by 9% yoy in Nur-Sultan, and in Almaty - a slight decrease of less than 1% yoy. Among the regions, the largest decrease in the number of transactions was recorded in the East Kazakhstan region by 17% yoy, while the highest growth was observed in the Atyrau, Kyzylorda and Turkestan regions by 7% yoy.

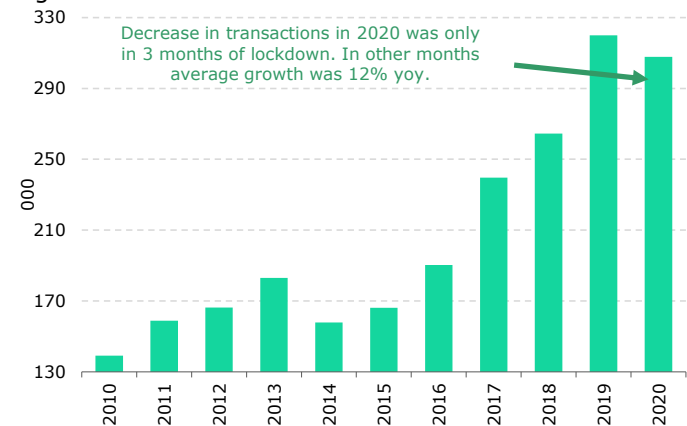
Over a long period of time, it can be seen that a significant acceleration in the growth of the number of real estate transactions began in 2017 (+26% yoy), when the Nurdy Zher housing program was launched, within which an affordable mortgage with a 10% rate appeared, while commercial banks offered mortgages at 15%-20%. In 2018, the 7-20-25 program was launched with even more attractive conditions, and the number of transactions increased by 10% per year. Since this program was launched in the second half of 2018, the main increase occurred in 2019, when the Baspana Hit program was also launched, targeting the secondary market. This helped to raise the number of transactions in 2019 by 21% at once to 320 thousand.

Fig. 11. Number of transactions with housing



Source: BNS

Fig. 12. Number of transactions 2010-2020



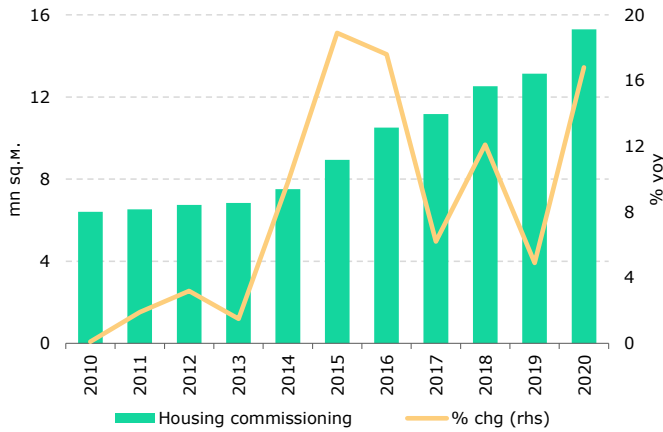
Source: BNS

**Expansion of demand will support investment into residential sector in 2021**

The government views the construction sector as an engine of economic growth. One of the directions of government agencies' anti-crisis programs in 2020 was support for the construction industry, where, unlike many other industries, there was a double-digit growth of output. In January-November 2020, the share of investments in housing construction at the expense of the budget increased from 16% to 21%, amounting to T352 billion. Against this background, investments in housing construction increased from 23% yoy to 33% yoy in 11 months 2020 amounting to T1.7 trillion. In addition, in most regions, the average investment growth was 35% yoy. The decline in investment occurred only in the Atyrau region, which is directly related to the dependence on the income of the oil and gas sector, which decreased as a result of the collapse of oil prices. The largest volume of investments in housing construction was realized in the city of Nur-Sultan - T423 billion and in Almaty - T348 billion. Among the regions, the largest volume of investments was registered in the Almaty region - T129 billion, in Mangistau - T97 billion, in Aktobe - T86 billion

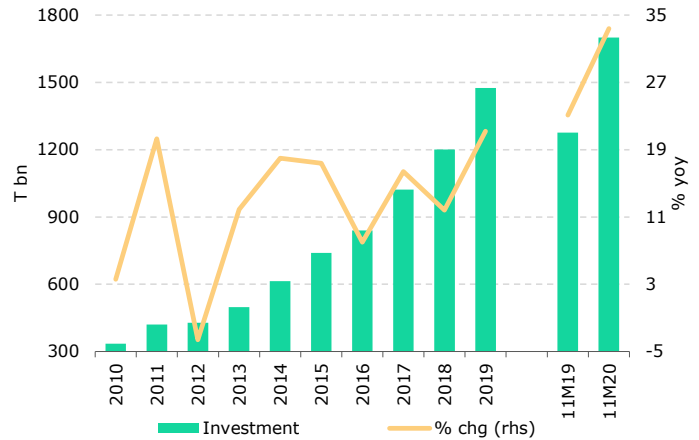
In 2020, it was planned to increase the volume of new housing commissioning by about 15% yoy to 15 million sq. m. For 11 months of last year, in fact, 12.1 million square meters were commissioned with a growth of 9% yoy, which is a great achievement, given the difficulties of the crisis year. In the new year, the positive momentum in the housing segment, in our opinion, will continue to exert its influence, which will lead to the continued growth of investments and volumes of housing construction.

Fig. 13. Housing commissioning



Source: BNS

Fig. 14. Investment in housing construction



Source: BNS

### Housing market outlook for 2021

We believe that due to the continued low mortgage rates and early withdrawal of pension savings, the growth of activity in the housing sector will continue in the foreseeable future with a concomitant rise in the value of residential real estate. This will also be facilitated by the presence of high demand for housing, as evidenced by the almost continuous growth in the number of transactions over the past 10 years.

According to government agencies, more than 700 thousand people will be able to take advantage of the opportunity to withdraw their pension savings for the purchase of real estate, treatment and transfer under the management of independent management companies. In our opinion, the bulk of these funds will be directed to the housing market (purchase of real estate / repayment of the existing mortgage). This measure will certainly accelerate the growth of prices for residential real estate, since effective demand will noticeably increase. The effect of the inflow of pension funds will be partially offset by a reduction in funding allocated from the budget for the issuance of mortgage loans from T210bn last year to T82bn this year.

We assume that residential property prices will rise by 5%-10% in 2021, after which their growth rates will naturally slow down and gradually level off under the influence of fundamental factors and a decrease in the rush demand for mortgages.

However, the growth in housing prices, may remain at a relatively high level due to external factors. So, in 2020, world prices for processed wood increased by almost 2.2 times, prices for resins increased by 45%, prices for copper - by 27%, prices for steel - by 13%. The rise in asset value in 2020 in many countries of the world, including real estate, also became a side effect of large-scale injections of funds into the global economy at the level of \$10 trillion, or 7.5% of world GDP (McKinsey estimate). Of course, the market cannot ignore this conjuncture. For example, in Turkey, real estate prices as of the end of 3Q2020 increased by 27% yoy (comparable to the devaluation of the Turkish lira), in the US - by 15% yoy (in November 2020), in Germany by 12% yoy, in Russia by almost 10% yoy, in Canada by 7% yoy. In 2021, in order to stimulate economic growth, many countries will increase investments in infrastructure, this will inevitably pull demand for many types of raw materials, with a concomitant rise in prices.

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