Against the background of increasing general inflationary pressure in the context of the continuation of state housing programs, the influx of pension savings into the residential real estate market caused a significant acceleration in price growth, which increased by 10.0% in the primary market since the beginning of the year and by 17.2% in the secondary market (+13.6% on average). The number of transactions with residential real estate objects in the first half of this year reached record levels, increasing by more than 2 times compared to the indicator of 1H2020. At the end of June this year, the population has already used T1.4 trillion to improve housing conditions at the expense of pension savings. We note that the total volume of investments in housing construction for the whole of 2020 amounted to T2 trillion. At the same time, these funds were mainly used for real estate transactions on the secondary market. The population has already used most of the available amount of pension savings this year. In the near future, their inflow to the residential real estate market will significantly decrease. We believe that the market prices for residential real estate will begin to stabilize in the second half of this year with an increase of 3%-5% to the current values, and in general, the growth for the year will be 17%-19%.

The growth of housing prices in the 1st half of this year exceeded the growth for the whole of 2020.

A significant price surge in the residential real estate market marked this year's first half. The trend towards accelerating price growth, outlined in previous years, has intensified this year and was especially pronounced in regions with a lack of housing supply. The increase in prices in the first half of this year was also caused by speculative price changes on the part of property owners and developers in anticipation of an influx of pension savings of citizens and a general increase in inflationary pressure in the economy. A sharp increase in effective demand led to an increase in prices already at the national level.

At the end of June, the price growth in Kazakhstan's primary real estate market amounted to 10.0% since the beginning of the year. In the city of Nur-Sultan, the price increase was higher (+10.8%) than in the whole republic, while in Almaty, there was a more restrained growth (+9.0%). In the secondary market of the republic for the same period, an increase of 17.2% was recorded immediately to T267 thousand/sq. m. In Nur-Sultan, there was a significant increase of 17.8% since the beginning of the year, while in Almaty, the increase was much more modest and amounted to 7.9%. As a result, in the first half of this year, the growth rate of prices in the primary market (+10.0%) has already outstripped the price growth for the whole of last year (+4.8%). In the secondary market, the price growth rate (+17.2%) also exceeded the annual growth rate for 2020 (+13.9%).

Fig. 1 Dynamics of prices in the housing market of the Republic of Kazakhstan (primary and secondary market)
After the January jump in prices, the monthly dynamics indicate a gradual slowdown in price growth. So, in January of this year, there was the most significant increase in prices on the primary market (+3.8% mom) in the republic, which amounted to a more modest 0.9% mom in June. In January, in the city of Nur-Sultan, housing prices rose by 3.4% mom, while in June, prices increased by only 1.5% mom. In Almaty, a similar picture was observed – an increase of 2.6% mom in January with a slowdown to 0.4% mom in June.

Considering their overall increase by 17.2% since the beginning of the year, the situation with prices on the secondary market is clearly speculative. However, the monthly price dynamics also slightly weaken the January momentum of residential real estate prices. In January, prices on the secondary real estate market in Kazakhstan increased by 7.2% mom, but their growth slowed to 1.2% mom in June. In Nur-Sultan, the price increase in January by 10.4% mom was replaced by a significant slowdown in their growth to 1.3% mom in June. In Almaty, prices increased by 3.5% mom in January, but their growth weakened to 0.6% mom in June. Obviously, on the expectations of the inflow of pension money into the housing market, residential property owners and construction companies speculatively increased the offer prices in January. However, real effective demand subsequently gradually began to exert a stabilizing pressure on prices. As a result, the pace of price changes after the January jump became more moderate, but there was no return to last year's prices.

Fig. 2 Price changes in the primary housing market in January-June 2021

![Graph showing price changes in the primary housing market](image1)

Source: BNS

A significant increase in prices has already caused concern of the authorities, as prices are rising almost everywhere. This is facilitated by large-scale budgetary and monetary measures to stimulate the economy against the background of continuing quarantine restrictions. The countermeasures of state bodies in the current situation are aimed at limiting the growth of prices for building materials and instructions from the Antimonopoly Department to construction companies to reduce prices for housing under construction by 4-15%. Still, so far, these actions have not had the desired effect.

At the same time, a significant increase in real estate prices is observed under the influence of accelerating inflation. Since the beginning of this year, inflation in the Republic of Kazakhstan has reached 4.6% (4.2% in 1H2020), and for almost a year, it has not fallen below the level of 7% in annual terms. A noticeable increase in prices is observed for most components of the consumer basket. At the same time, external price shocks play a significant role in this process. So, since the beginning of this year, the oil price has increased by 50% to $75 per barrel. In addition, the increase in the price of agricultural products in foreign markets continues. Such a global trend of increasing the cost of fuel and food through foreign trade channels is also reflected in domestic prices in Kazakhstan, affecting the construction industry. In parallel, there is an increase in prices for preferential housing under state programs – by about 12% since the beginning of this year in some regions.

Fig. 3 Changes in prices on the secondary housing market in January-June 2021

![Graph showing changes in prices on the secondary housing market](image2)

Source: BNS
The growth of residential real estate prices itself also acts as a trigger for the growth of inflation expectations, which, in turn, attracts new buyers to the market who are seeking to "protect" their savings from depreciation. Along the chain, the growth in demand for residential real estate caused a multiplicative effect of price growth in related markets, particularly in the construction materials market, the prices of which increased due to the growth of both world prices.
and the depreciation of the national currency. According to state agencies, construction materials of Kazakh production have become more expensive by 16% in the four months since the beginning of this year.

One of the reasons for the significant increase in prices on the residential real estate market was the lack of supply of new housing in certain regions. As a result, the increased demand under the influence of state incentives led to a significant increase in prices on the secondary market. For example, the volume of housing commissioning per 1 inhabitant in Aktau and Atyrau from 2009 to 2019, a year on average, was equal to 1.4 sq. m., and the dynamics of real estate prices was below the rate of inflation. In turn, in such cities as Shymkent, Pavlodar, Karaganda, and Ust-Kamenogorsk, the commissioning of new housing was no more than 0.4 sq.m. on average per year. The accelerated dynamics of prices in these cities indicate that such a volume of new housing was insufficient. In addition, a significant increase in the cost of building materials against the background of high rates of consumer inflation, which significantly exceed the current targets of state agencies, will continue to affect the rise in the cost of new housing.

![Fig. 6 Dynamics of price changes in the housing market (2010-2021)](image)

**Source: BNS**

![Fig. 7 Dynamics of price changes in the housing market by city (secondary market)](image)
In 1H2021, the population withdrew 1.4 trillion of pension savings for improving housing conditions

According to the UAPF, at the end of June this year, the fund's depositors withdrew about 1.4 trillion from their pension accounts to improve their living conditions. At the same time, the peak of pension "surpluses" withdrawals occurred in February of this year, when the number of transfers from the UAPF reached almost T600 bn. In March, the amount transferred to the population was twice less – T300 bn, and in June, only T114 bn. Based on the decrease in the amount available for withdrawal and a significant increase in the cost of residential real estate, further payments to depositors for improving housing conditions are likely to continue to decline.

The total number of depositors who took the opportunity to withdraw part of their pension savings to improve their living conditions amounted to 272 thousand people. Initially, the total potential withdrawals from the UAPF were estimated at 2.5 trillion and were available to 761 thousand depositors. The pension savings transferred to investment management companies amounted to T4.2 bn (1.9 thousand people), and transfers for health treatment – T10.9 bn (10.4 thousand people).

The pension funds were mainly used for the purchase of residential real estate in the secondary market

According to the intended purpose, about T1 trillion or 73% of the amount of all withdrawn pension savings for improving housing conditions were allocated by depositors to purchase housing without a mortgage, T229.6 bn (17%) for partial and full repayment of mortgage loans, T122.2 bn (9%) for obtaining a mortgage. The population spent about T8 bn (1%) on other housing needs – purchasing a land plot, constructing an individual private house, etc.

It is noteworthy that a significant part of the citizens who used their pension savings purchased residential real estate without attracting mortgage loans (150 thousand), while only 29 thousand people issued a mortgage. As you know, persons who purchase housing entirely at the expense of pension savings have the right to resell this housing without restrictions regarding the period of ownership. At the same time, 96% of the total number (95% in total by sum) of transactions for the purchase of housing (without a mortgage) were carried out on the secondary market (data of the Chairman of the Management Board of Otbasy Bank JSC in March 2021). Thus, it is obvious that the population preferred to direct most of the funds from their pension savings to the secondary residential real estate market, while only about a tenth was directed to the primary market, including through mortgage loans.

We assess the impact of funds withdrawn by the population from the UAPF on the growth of prices for residential real estate as significant, which provoked a jump in prices at the beginning of this year. The price growth rate exceeded the trend of previous years, given that the amount of inflow of released funds for the market was quite significant (T1.4 trillion). In the secondary market, where pension savings were mainly directed, a large volume of unrealized housing supply has been formed in recent years, which was purchased. Thus, the available housing stock in the market partially offset the impact of excessive demand provoked by the influx of pension savings. In addition, inflation expectations at the macro level have overlapped with the dynamics of prices in the housing market.
The increase in prices for residential real estate is global in nature

Despite the restraining effect of COVID-19 on the economy as a whole, the increase in residential real estate prices is a widespread phenomenon in the world, including occurring under the influence of increased inflationary pressure. In Russia, inflation reached 6.5% yoy in June, having almost doubled since the end of last year. In the US, the inflation rate accelerated to 5.4% yoy in June, which is the highest value in more than a decade.

In many countries, stimulating fiscal or monetary government support measures contribute to price growth. In particular, in the European Union, housing prices in the current year for the 1st quarter increased at the fastest pace since 2007 (+6.1% yoy). In turn, according to the FRS, global residential real estate prices, net of inflation, increased by 6% yoy in 1Q2021 – the highest growth in 45 years. In the Russian Federation, the growth of housing prices in the 1st quarter of this year reached 11% in annual terms. One of the reasons for this growth in the Russian Federation is the preferential mortgage introduced last year at 6.5%. As a result, the growth of mortgage lending last year amounted to 22% yoy. In Kazakhstan, the volume of mortgage loans issued in 2020, despite the pandemic, also increased significantly by 18%. According to The Economist, the price growth in the residential real estate market is at its peak, and the situation is expected to stabilize in the future. Given the growing concerns about increasing inflation in the world, it is quite natural to expect an upward correction in interest rates, which, by the way, is already being observed in the American market. Accordingly, the tightening of monetary conditions will naturally reduce activity in the market.
High demand for mortgage loans against the background of attractive interest rates

In January-May 2021, the volume of mortgage loans issued increased almost 3 times yoy from T216 bn to T592 bn. As a result, for 5 months of this year, the volume of mortgage loans issued was at the level of 60% of the indicator for the whole of last year (T968 bn; T818.3 bn in 2019), which was also affected by pension funds withdrawn from the UAPF. Thus, as expected, the withdrawal of pension funds stimulates the demand for mortgages. However, depositors sent more than three times fewer funds to obtain mortgage loans than to repay mortgage loans. This is noticeable because, in February-March of this year, the portfolio of banks mortgage loans decreased by 1.9%-3.6% from the January indicator, which reflected the early and planned repayment of mortgage loans by borrowers at the expense of pension savings. As of the end of May, the mortgage loan portfolio has grown again and reached 2.5 trillion (+148 bn since the beginning of the year).

![Fig. 11 New mortgage loans (for the period)](image1)

![Fig. 12 The bank mortgage portfolio and the rate %](image2)

Source: NBK

The weighted average mortgage rates, including under the influence of state programs, decreased in 2020 and reached a local minimum of 6.9% in November. Since then, the rates have only been increasing, and by the end of May 2021, they increased to 8.3%. Nevertheless, mortgage rates remain attractive, being below the NBK’s base rate (9%).

![Fig. 13 Base rate and mortgage rates](image3)

Source: BNS
Record growth in the number of residential real estate transactions in 1H2021

Due to the increased demand, the number of residential real estate transactions in the first half of this year has broken records for five consecutive months, starting from February. In February of this year, the first record was set at 41.1 thousand transactions (+79% yoy). The previous record for the number of transactions was recorded in September 2020 at 35 thousand transactions. The first record was updated again in March of this year, when the number of transactions immediately jumped 2.4 times yoy, reaching 52.7 thousand. In April, the series of records continued with the release of a new peak in the number of transactions of 59.7 thousand. In general, for 6 months of this year, the number of transactions amounted to 277 thousand, which is 2.3 times higher than in the same period of 2020. In addition, 277 thousand transactions for the first six months of 2021 already correspond to 90% of the total number of transactions for the whole of 2020.

Due to the seasonal lull that traditionally occurs in the summer, we can expect a slight decrease in the number of transactions in July and August. Still, in the autumn, activity in the residential real estate market, in our opinion, may increase. The indicator of 2019, when a record number of 320 thousand transactions were concluded, is likely to be surpassed in 2021.

In January-June, the number of transactions in the Mangystau region increased 6.6 times (35.7 thousand) and exceeded the indicators of the capital Nur-Sultan (33.3 thousand). The Mangystau region also turned out to be the leader in the number of withdrawals from the UAPF, which amounted to T334 bn (25% of the total volume). In addition, in terms of the number of payments per depositor, the region also took first place – T7.3 mn, which was almost 60% higher than the indicator of Nur-Sultan and twice the average value for the republic.

The expansion of demand will support investment in residential real estate

As expected, the high demand for housing, supported by retirement savings, further intensified the boom in investment in housing construction. In the first six months of this year, investments in housing construction increased to T989 bn (+26.6% yoy) T770 in the same period of 2020 (T606 bn for 6M2019). It should be noted that double-digit investment growth has been observed over the past few years and is only getting stronger.
The growth of investments is automatically reflected in the growth of the volume of new housing commissioning. So, 6.6 mln square meters were commissioned in January-June of this year, 8.3% higher than the same indicator last year. From 2010 to 2020, almost 100 mln square meters of housing were commissioned, and the housing stock increased by 37% to 373 mln square meters over the same period, while the population of the republic grew by only 15%. The current pace of housing construction continues to show double-digit growth. Thus, according to the forecast of state agencies, the volume of housing construction this year will increase by 20% compared to last year, which creates a completely adequate supply in the housing market.

**Prospects for the growth of residential real estate prices in 2H2021**

We believe that the situation with housing prices will stabilize in the second half of this year. According to our assessment, in 2H2021, housing prices will continue growing, but the growth rate will significantly decrease. We expect that prices for residential real estate in Kazakhstan will increase by an additional 3%-5% in the second half of this year.

Our assessment is based on the assumption that the main factors that provided the largest inflow of funds to the residential real estate market in the first half of the year will continue to influence the rest of 2021, but with a more moderate effect.

Firstly, the inflow of pension money to the residential real estate market will continue. Still, the volume of inflows will significantly decrease compared to the indicators of the first half of the year. In total, according to our estimate, in the second half of the year, the population will use about T0.3-T0.5 trillion of pension savings (compared to T1.4 trillion in 1H2021).

The second significant driver of price growth is mortgage lending, which showed a significant increase in 5M2021 (x2.7 times yoy). We believe that the growth of mortgage lending will gradually slow down as the pent-up demand that arose due to last year's lockdowns weakens, as well as a result of some increase in loan rates and the completion of the "Baspana HIT" program, the limit for which, according to the NBK's expectations, will be reached this year. In the second half of this year, we expect a reduction in the volume of new mortgage loans to the level of 0.4 trillion (T0.6 trillion for 5M2021).

Another important factor is the decrease in the attractiveness of buying real estate after the price increase in the first half of the year. We believe that a significant increase in the cost of residential real estate reduces the affordability and attractiveness of purchasing housing at the current price level until there is a significant increase in household income. High prices will put additional pressure on both the demand for new mortgage loans and the need to withdraw pension savings.
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