

Atyrau Market View

Residential

Quick Stats

	Change from	
	Q2 09	Q3 08
Prices	↓	↓
Absorption	↓	↓

Hot Topics

- Generally, the Residential stock of Atyrau is of poorer quality compared to the Office and Hotel market segments;
- In Jan-Aug 2009 the total investments into residential construction were 55.5% lower compared to the same period of 2008;
- The sales/purchase market players are predominantly local individuals and companies;
- Due to business specifics, the rental market is dominated mainly by foreign-owned and foreign-managed companies, such as the Chagala Group.

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, covers a total territory of 35 sq km and has 152,300 registered inhabitants (2006 census).

The province accounts for 26% of the total fixed capital investment in Kazakhstan with KZT 662,505 Mln invested in Jan - Aug 2009 alone, which represents a 20.9% growth on a y-o-y basis. More than half of this amount was contributed by foreign investors.

The combined industrial output of Atyrau Province in the period Jan-Aug 2009 amounted to KZT 1,197,456 Mln, which represents an 19% increase compared to the same period of 2008.

At the same time, in Jan-Aug 2009 the total investments in residential construction amounted to KZT 6.5 Bn, which means a 55.5% decrease compared to the same period of the previous year.

A total of 1,115 apartments with 158,359 sqm of residential space were commissioned in Atyrau province in Jan-Aug 2009, which represents a 47.9% decrease compared to the period Jan-Aug 2008.

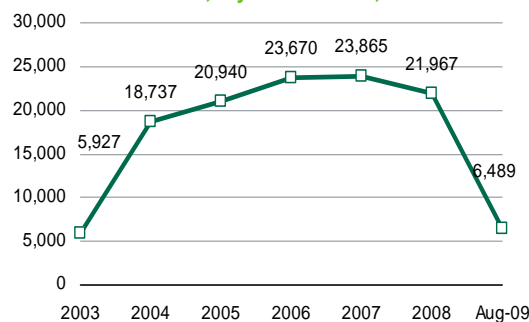
It should be noted that the city of Atyrau itself accounted for 60.6% of the total residential space commissioned in the province during that period, followed by Zhylyoiskiy (11.6%) and Mahambetskiy (8.2%) Districts of the province.

Atyrau is considered very much 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.

In contrast, the rental market is dominated mostly by specialised foreign-owned and foreign-managed companies, such as the Chagala Group. In fact, some of the 'big name' developers well-known in Almaty and other cities have not entered the Atyrau market at all. In terms of quality, the market is dominated by Hotels and Office buildings. In comparison, residential developments are significantly more in number, but of poorer overall quality.

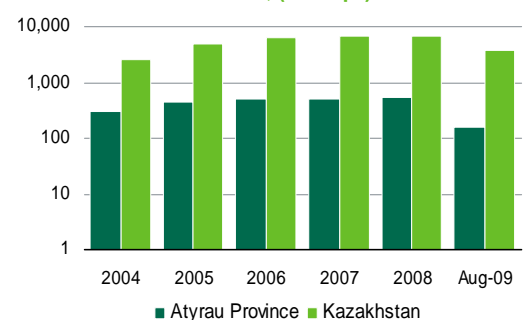
Mortgage lending remains an expensive and relatively unaffordable instrument for the population, with average interest rates of 17-18% per annum, and a required 30-40% down payment. The credit period varies from 10 to 25 years. People eligible for the 'State Housing Program' implemented through ZhilStroySberBank enjoy better loan conditions, such as a 4% interest rate.

Investments into Residential Construction, Atyrau Province, KZT Mln



Source: Kazakhstan Statistics Agency

Commissioning of Residential Space, 2003-2009, ('000sqm)



Source: Kazakhstan Statistics Agency

The volumes and rates of construction of residential developments, community facilities and infrastructure projects kept the same pace during the 3rd Quarter of 2009, showing very little or no change in comparison with the previous Quarter.

It must be noted that no new residential projects were commissioned in Atyrau during Q3 of 2009, and the only 2 residential developments planned for commissioning by year-end will be located in the central European Part of the city.

Despite the current economic difficulties, the city authorities are successfully implementing the State Housing Construction Program. As part of this program, it is planned to commission around 16,000 sqm of residential space in 2009, with approximately 90 apartments provided as leasable housing.

The facilities developed in Atyrau under the State Housing Construction Program include the 'Almagul' microdistrict with a total built-up area of 19.5 ha located on the left bank of the city, as well as the 'Nursaya' microdistrict.

Four buildings of the 'Nursaya' microdistrict are planned for commissioning in Q4 of 2009. Currently, all major construction works in these 4 buildings have been completed, and the buildings are undergoing exterior and interior finishing, connection of utility networks, landscaping etc. The sizes and layout of the apartments are fairly modest, and are aimed at meeting the requirements of middle-class buyers. According to the State Housing Construction Program, apartments in these buildings will be sold under a dedicated mortgage lending program, and also used as leased housing.

The underdevelopment of the transport, utility and social infrastructure in the newly-built districts is considered the main challenge for residential developers in Atyrau. It is planned to construct around 100 km of roads and bridges, which would ensure direct transport connection between the Airport, the 'Nursaya' development areas, the 'Old City', the 'Almagul' microdistrict and the railway station. With the construction of bridges, there are plans to develop the central part of the city with an area of 500 ha, which may be potentially attractive for private investors.

One more fact worth noting is that the average Residential construction cost in Atyrau Province has decreased from KZT 58,000 per sqm in Jan-Sep 2008 to KZT 51,700 per sqm in Jan-Aug 2009.

This decrease was obviously caused by the reduced demand for construction materials on the market throughout 2008 and the first 3 Quarters of 2009.

The average selling price levels on the Primary and Secondary residential markets are shown in the table below:

	Selling Price Range, USD per sqm
Primary market	850
Secondary market	650

Source: Scot Holland | CBRE

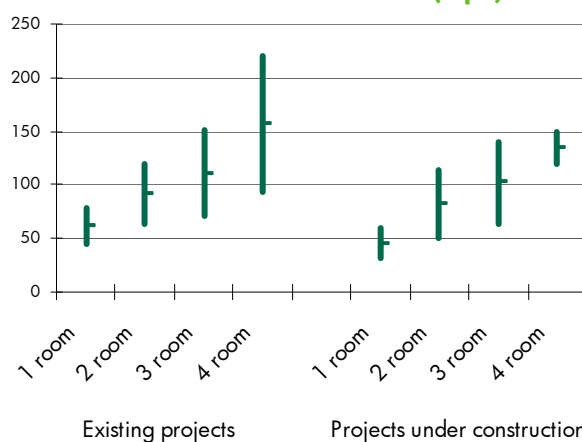
A comparison of apartment sizes in existing projects and developments under construction shows a trend towards decreasing the average apartment areas.

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

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



Source: Scot Holland | CBRE

Atyrau Market View Offices

Quick Stats

	Change from	
	Q2 09	Q3 08
Rental rates	↔	↓
Occupancy	↔	↔

Hot Topics

- The Atyrau Office market shows no significant changes of selling prices and rental rate levels 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.

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 Province in July 2009 amounted to KZT 131,023, which is almost 2 times higher than the Kazakhstan average.

In January-August 2009, foreign investments accounted for 81.9% of total fixed capital investments in Atyrau Province, followed by proprietary funds of legal entities (14.3%) and budget funds (3.1%).

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 driven by the rapid growth and expansion of the companies in the city's oil 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 then 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. The total annual volume to be added to the office market during 2009 is expected to be approximately 20,000 sqm.

Due to the effects of the current 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 property in Kazakhstan, according to the existing country legislation.

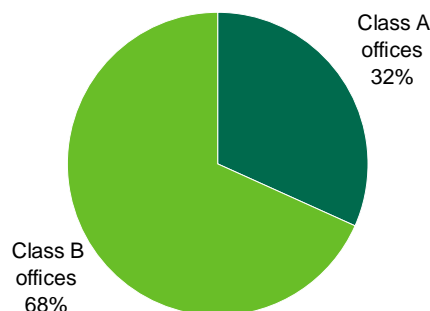
In fact, most local companies are simply branches of 'parent companies' headquartered in Astana and Almaty, looking to rent offices rather than purchase property in the region.

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.

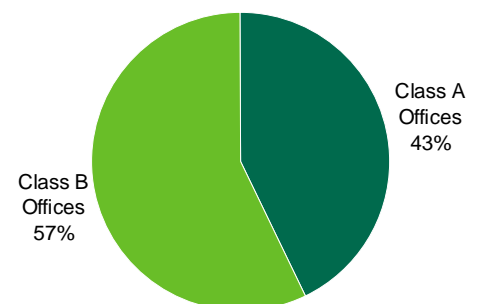
At the same time, the share of Class A business centres is expected to increase with the commissioning of several developments currently in the pipeline (as shown in the pie-charts below):

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 Office premises 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 new residential buildings, or in business centres with strata ownership.

An analysis of the selling prices of office developments in Atyrau in the period January-September 2009 shows that they are in the range USD 1,800-2,000 per sqm. This leads us to the observation that the average selling price remained quite stable during Jan-Sept 2009, and changed very insignificantly in Q3 compared to the previous Quarter. 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.

Some Class A business centres, such as 'Isker' and 'Seven Stars' keep relatively high rental rates in the range USD 40-50 per sqm per month, including VAT but excluding service and utility charges. However, other market players and building owners are more flexible in terms of rental rates and lease conditions.

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 still occupy their own offices, while smaller companies tend to lease office space in large business centres such as 'Premier Atyrau', 'Atyrau Plaza', 'Isker', 'Fronter Plaza' etc.

We have not noted any major decrease of selling prices on the Atyrau office market in Q3 2009, 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.

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 space in Atyrau:

1. International oil & gas companies. They are major, long-term occupiers, and 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.

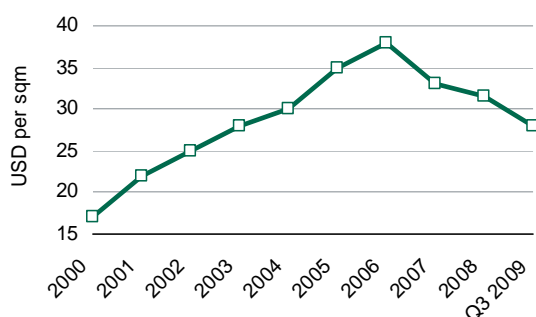
In such an environment, consideration to the tenant mix is very important, as some tenants may not be happy to be in close proximity to their competitors. Building two office towers with common engineering facilities, building management services, parking etc. could be a viable solution of such issues.

Tenants in the second group of companies are usually content with Class B office space, but would 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%.

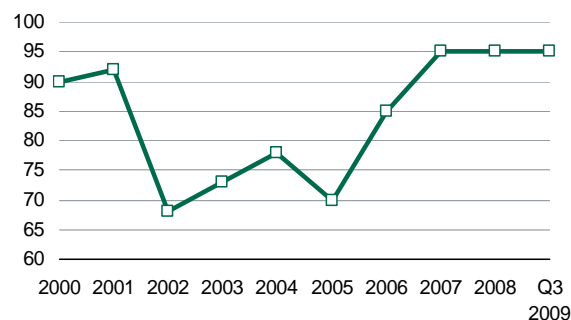
Even when companies move their office premises from one building to another, most often such relocations are not directly associated with prices or rental rate factors.

Atyrau Office Rental Rates,
2000 - Q3 2009



Source: Scot Holland | CBRE

Atyrau Office Occupancy Rate,
2000- Q3 2009



Source: Scot Holland | CBRE

Weaknesses in procurement and logistics create significant problems for many construction companies in Atyrau; as most of them do not employ logistics and customs clearance specialists, delivery of construction materials is often delayed, which directly affects the schedule of the entire project.

Such 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 for such projects are much higher than the wages for projects within the city.

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.

Many 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 is done either as a standard lease of an existing structure, or on a build-to-suit basis.

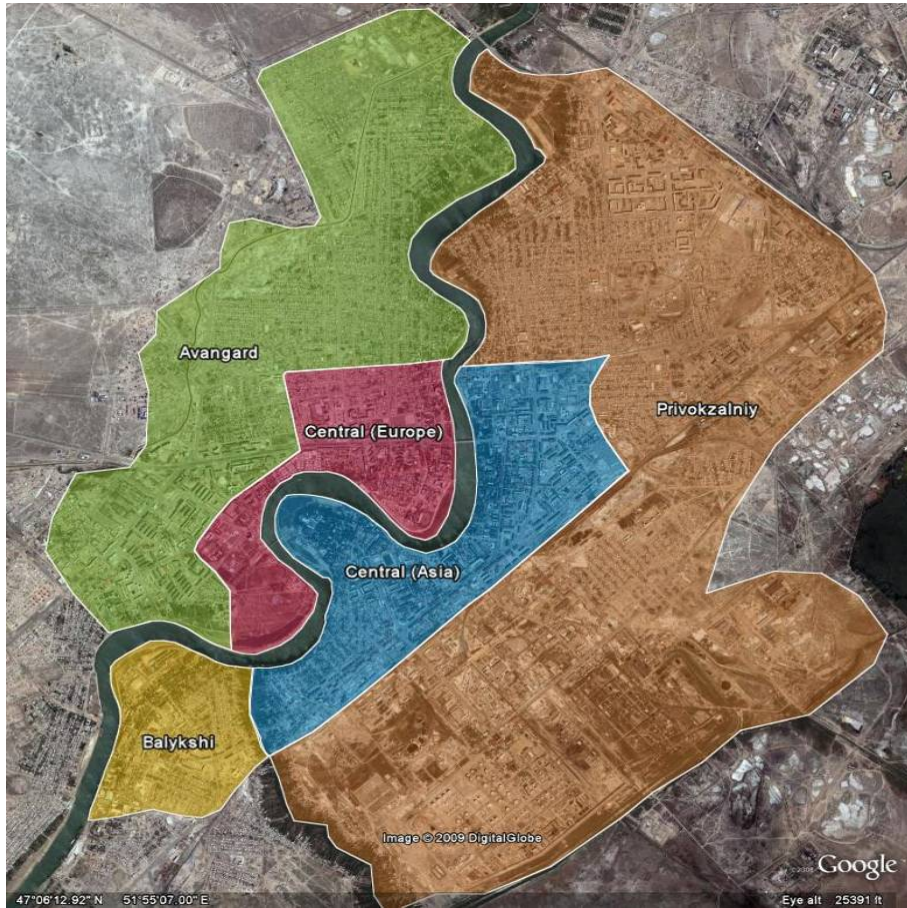
Q3 2009 evidenced commissioning of the only 1 business centre in Atyrau. It is a 7-storey Class 'B' office building located at the very centre of the Asian part of the city, i.e. the intersection of Mahambet Str. and Abay Str. The total gross area (TGA) of the building is 3,200 sqm, and the gross leasable area (GLA) comprises 2,500 sqm. The office premises have a European-style fit-out and modern communication system; there is a parking area for 40 slots. Rental rate is approximately USD 35 per sqm.

The office buildings planned for commissioning by the end of 2009 are as follows:

- Class "B" Office building in the centre of the Asian Part of the city, at 8-A Moldagaliyeva Str, with a TGA of 2,500 sqm and a height of 5 floors.
The estimated rental rate in this building will be USD 30 per sqm per month.
- Class "A" Office building in the centre of the Asian Part of the city, at 2 Telman Str., with a TGA of around 1,800 sqm.
The estimated rental rate in this building will be USD 25 per sqm per month.

In conclusion, we would like to note that despite the current economic downturn and liquidity problems, 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

For more information regarding the Market View, please contact:

Scot Holland | CBRE Strategic Consulting

Eugene Dolbilin
Partner
Scot Holland |
CB Richard Ellis
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
eugene.dolbilin@cbre.kz

Peter Goranov
Senior Manager
Strategic Consulting and
Valuations
Scot Holland |
CB Richard Ellis
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
peter.goranov@cbre.kz

- **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.

DISCLAIMER 2009 Scot Holland | CB Richard Ellis

The information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by Scot Holland | CB Richard Ellis clients, and cannot be reproduced without prior written permission of Scot Holland | CB Richard Ellis.