

UNDER THE ROOF OF YOUR OWN HOUSE

How state mortgage lending programs support the real estate market

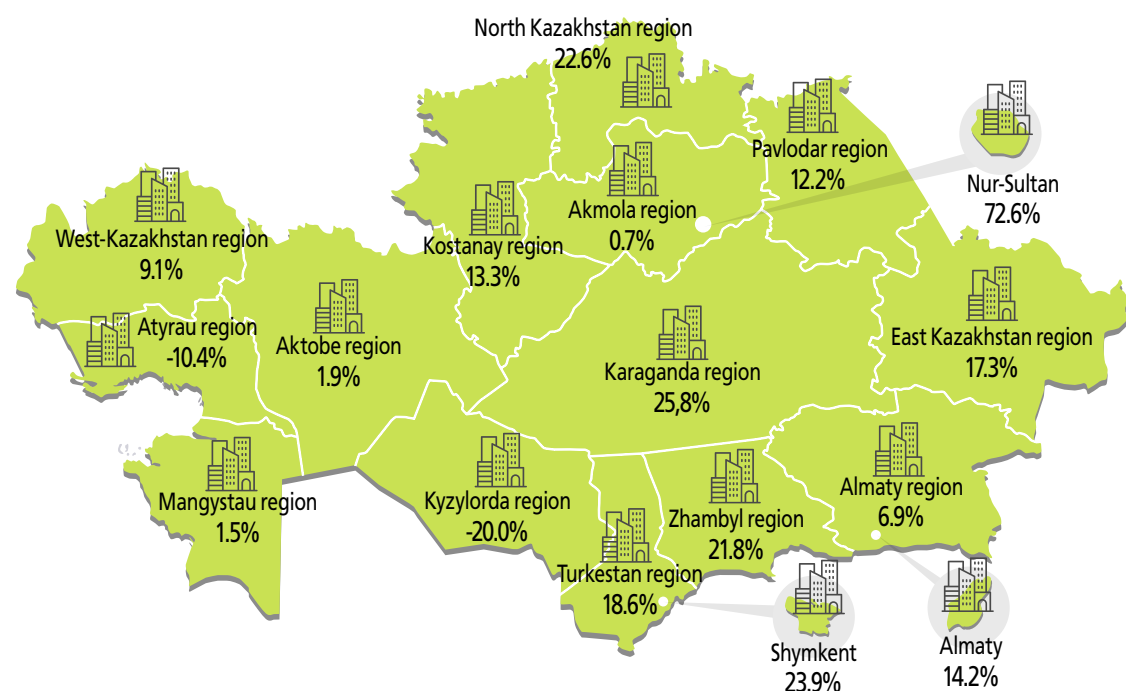
The purchase of real estate has become a dire and urgent issue for the citizens of Kazakhstan. The restrictions set by the pandemic have caused a crisis in the real estate market due to the slowdown and reduction in the number of construction companies. Despite the fact, the mortgages have increased in the number as well as the variety of programs for affordable housing.

The State Housing and Communal Development Program “Nurly Zher” was approved by Resolution No. 1054 of the Government of the Republic of Kazakhstan dated 31 December 2019.

The program is an initiative to provide housing the Kazakhstan citizens. Due to this program, 20.7 million square meters of housing will be commissioned in Kazakhstan by 2025, and the housing provision per citizen will be 26 square meters.

The amount of square meters commissioned between 2019 and 2020 increased, at the same time, the highest percentage of growth observed in the cities of Nur-Sultan, Shymkent, as well as the Karaganda, and Zhambyl regions. In Kyzylorda, on the other hand, the number of commissioned sqm decreased by 20% and resulted in 609 sqm.

INCREASE IN THE NUMBER OF DWELLINGS COMMISSIONED FROM 2019 TO 2020 BY REGION



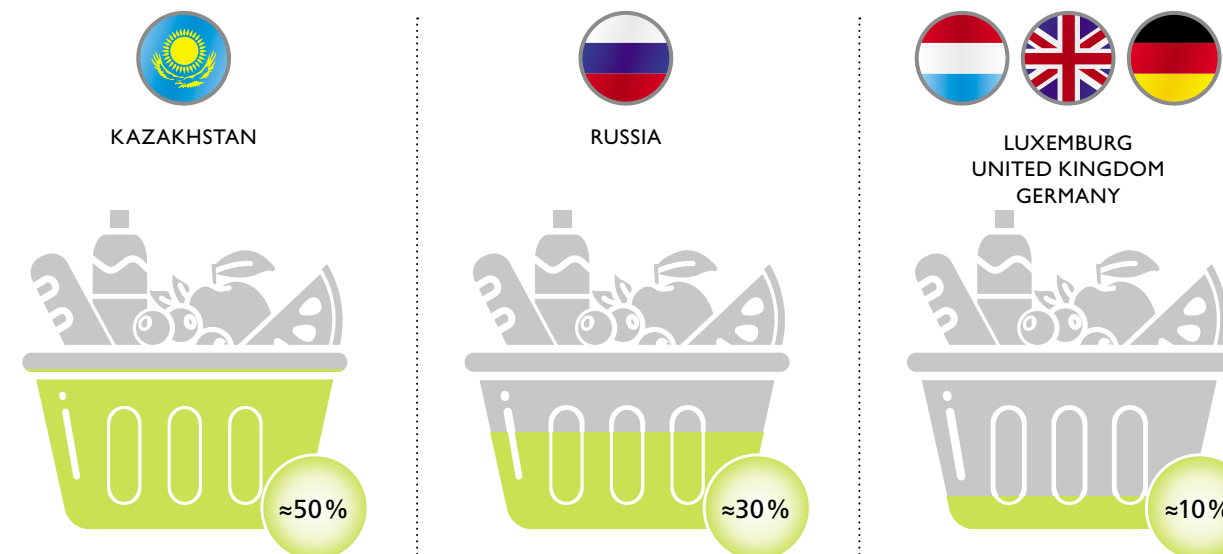
SOURCE: BAKER TILLY ANALYSIS, BUREAU OF NATIONAL STATISTICS OF THE STRATEGIC PLANNING AND REFORM AGENCY OF THE REPUBLIC OF KAZAKHSTAN

According to the Kazakhstan’s Real Estate Federation, the number of construction companies in the country has almost halved during the pandemic. However, demand for real estate increased by an average of 20% compared to 2019, despite the slowdown and stop of construction work.

According to RIA groups, household spending in different countries is an

indicator of a country’s prosperity and level of development. Kazakhstan ranked 40th out of 40 countries in Europe in terms of the share of household expenditure on food, with a score of 49.4%. This indicates that half of a Kazakh family’s budget is spent on food. A similar trend is seen in CIS countries, while in countries such as the Netherlands, and the United Kingdom the indicator is 10%.

SHARE OF FOOD EXPENDITURE BY COUNTRY FOR 2020



SOURCE: “RIA RATING” AGENCY

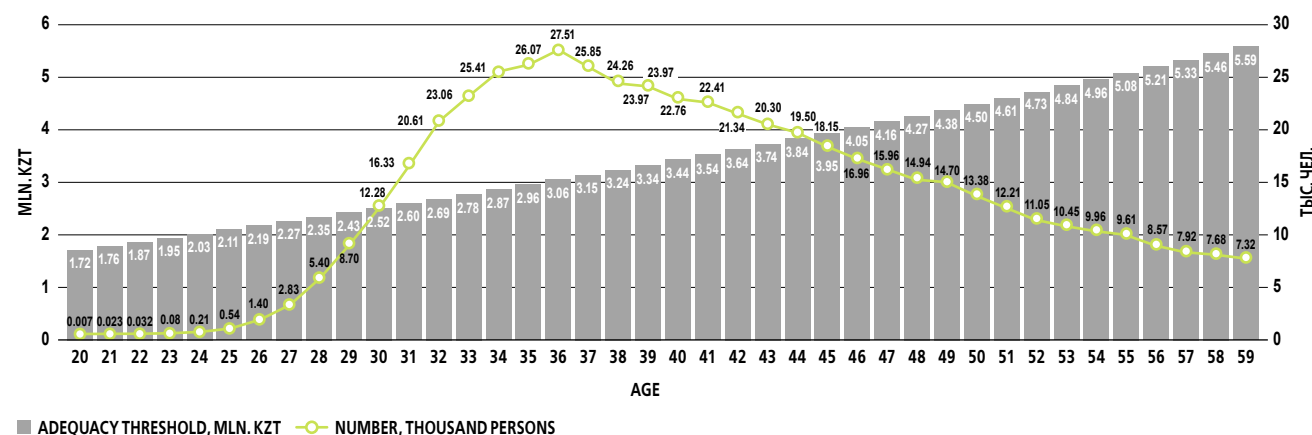
The population of Kazakhstan have to spend the vast majority of their real incomes on food. This, in turn, does not allow the population to make long-term savings, including for the purchase of real estate.

The main advantage of buying the housing under the state program is affordability – the prices are about 30% below market value, which in the case of the worse quality and less attractive location make the subsidized housing more affordable for the population, particularly for the socially vulnerable.

With the new “innovation” of the real estate market, the adoption of a law allows people to use their pension fund to buy real estate, for medical and investment purposes.

According to Halyk Research, the rise in demand, has resulted in an increase in prices by 14% for secondary housing and 5% for primary housing market. The extent to which this has affected the purchasing power of the population can be seen in the analysis of the following graph:

NUMBER OF UAPF CONTRIBUTORS AND CORRESPONDING SUFFICIENCY THRESHOLDS IN 2020



The sufficiency threshold is considered to be the minimum amount required, which, taking into account future regular 10% pension contributions to the UAPF, will provide minimum pension benefits until the age of 82.

SOURCE: MINISTRY OF LABOUR AND SOCIAL PROTECTION OF THE REPUBLIC OF KAZAKHSTAN

The population between the ages of 20 and 40 who are willing to buy a house without a mortgage, meeting the sufficiency threshold, is represented by 1.5% of the total population.

Out of the 531,000 people who could use their pension fund, only 412,000 have the option of investing their pension money in housing, as 119,000 have withdrawals below 1m KZT, according to the data provided by the EPPF.

In compliance? With the presidential decree released from 8th of July 2020 the number of housing programs was decreased and the following changes to the structure of state institutions were implemented:

Picture KMC is the united operator of residential construction in Kazakhstan having joined with JSC Baiterek Development and JSC FGCBK. JSSBK was re-registered

GOVERNMENTAL INSTITUTIONS OF THE LENDING MARKET



SOURCE: BAKER TILLY ANALYSIS

as Housing Construction Savings Bank Otbas Bank on 20 December 2019 and was merged into KFU by the NBRK Baspana IO on 25 December 2019.

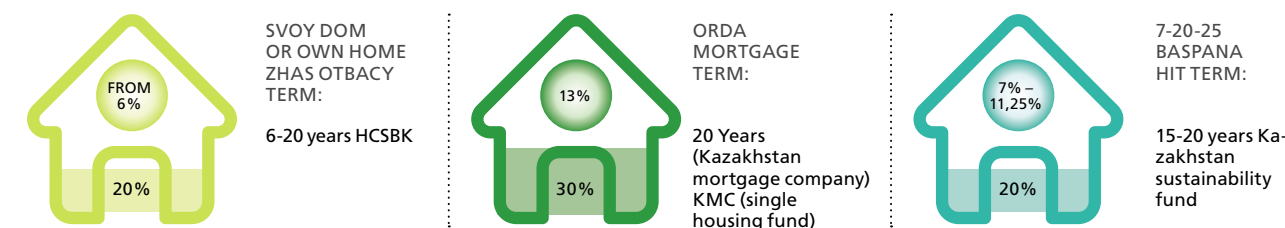
The reorganization and reduction of the mortgage programs increased the efficiency of the lending market and is based on the example of Singapore's

Housing and Development Board model (Housing and Development Board).

The current market for mortgage programs consists of a wide variety of

housing loan programs. The following programs have been selected based on their popularity among the population of Kazakhstan.

STATE LENDING PROGRAMMES AND LOANS



SOURCE: BAKER TILLY ANALYSIS

“Otbasy Bank” is the main operator among the programs designated for the purchase of property using the retirement pension fund. The Bank offers various initiatives to provide affordable housing to a certain part of the population, for example programs like: “Jas Otbasy, Svoy Dom, 5-10-20, Voennyi produkt. However, an essential criterion for application eligibility is to having an active deposit account at the bank.

The KMC, or the Unified Housing Operator, was developed to stimulate and optimize the mortgage lending market. The distinctive feature of this fund is the exceptional terms of mortgage programs, for example, Orda provides the opportunity to purchase property worth up to 65 million tenge.

Kazakhstan’s Sustainability Fund is the operator responsible for supporting the financial condition of the second-tier banks and initiatives to increase affordability housing for Kazakh citizens through programs with favorable conditions. The Baspana Hit and 7-20-25 programs provide the opportunity for citizens to purchase their property through the second- tier banks in both the primary and secondary housing markets.

These programs stimulate the development of the real estate market, creating demand for construction and new housing despite rising prices and low purchasing power of people in Kazakhstan.

Concluding a series of real estate market analyses, with considerable experience in consultancy and valuation services and being well placed to act as an external consultant, the Baker Tilly team is pleased to provide its services in the preparation of marketing analyses, market surveys, project marketing, feasibility studies in order to raise finance. We are a CBK accredited consultants for external evaluations in industries such as: chemicals, building materials, warehousing, logistics and shipping, agriculture and food processing.

Baker Tilly is among the top 10 international networks and service providers in audit, consulting, financial advisory, risk management, accounting and tax. Baker Tilly operates in 146 countries and its clients include companies operating in various industries, predominantly in finance, insurance, professional science and technology, manufacturing, real estate development and wholesale and retail.

The article author: Dana Akylzhanova, Baker Tilly