

WHAT FORCES DRIVE THE REAL ESTATE MARKET OF KAZAKHSTAN?

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Introduction

The main resource of any state is considered to be not its technology, natural resources or territory but the inhabitants. If a state can develop the human resources, it will be able to use other resources in a rational way. That is why the key purpose of the government should be creating of the comfortable environment for the resident, so that he could fully realize his potential and yield a maximum benefit for the whole society and the state. In this situation the presence of private dwelling plays a huge role. It can provide for activities of the human in different spheres at full value. So, approach of the government should be directed to establishment of optimal economical conditions in which any resident would be able to get his or her private dwelling. Also provision of the population with housing can improve the demographical situation, less crimes level, prevent stratification of the society, decrease protesting mood within the society etc.

Basic characteristics of the real estate market

In the world practice governments have worked out several models of providing people with dwelling: ranging from free distribution among the residents (USSR example) to the practice of giving mortgage credits with floating interest rates (USA, Europe, Japan). Each method has had some positive aspects alongside with disadvantages. Nowadays mortgage becomes a dominant solution for distribution of dwelling in many countries.

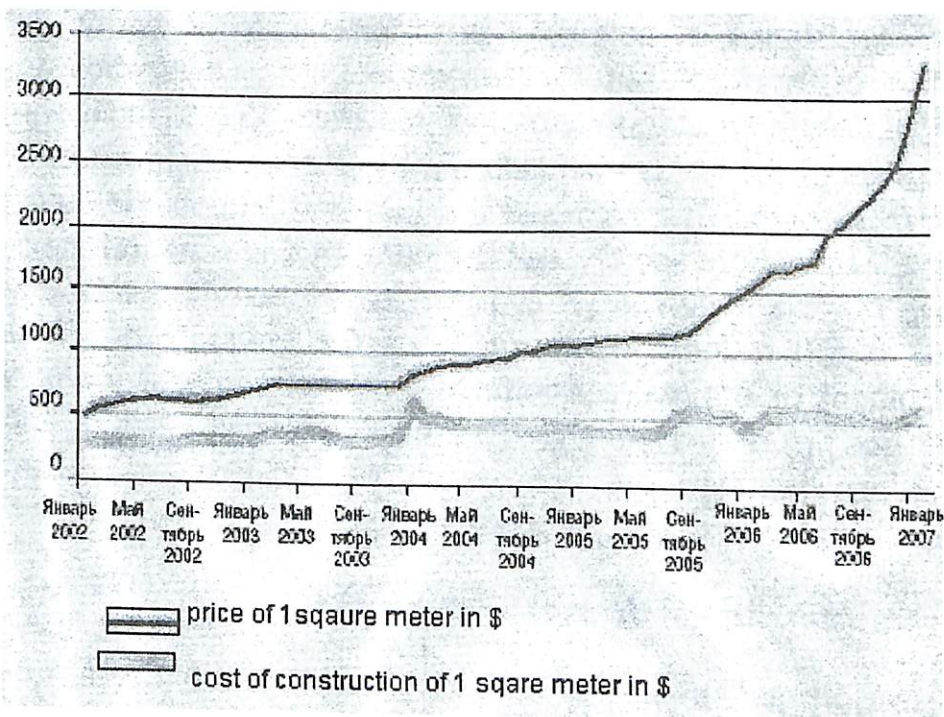
Generally, mortgage system is considered to be the best way of provision people with dwelling, but there is one negative regularity: it causes the real estate prices to rise. So, by the time, dwelling is becoming more and more inaccessible. But the weakest spot of the mortgage system is raising interest rate at the periods of economical recession. Monthly, payments are going up simultaneously with the possibility of the borrower to lose the job which leads to credit's default. That is what happened in USA in 2007.

Kazakhstan's economy was growing steadily during last decade and in last five years economical growth has compiled an average of 9 % per year. This fact made it very attractive for foreign investors. The banks got access to overseas funding and became able to credit the construction sector and broaden the mortgage programs. Alongside with huge inflow of so called "oil dollars" and inflationary pressure in the country, banks' mortgage credits were the key factors of future prices of the real estate growth. The real estate market became a very profitable business in many cities of Kazakhstan. In a very short period price of dwelling in Almaty had grown to very high levels. Many residents have been involved into this market. But the real estate market also bears huge risks which can be reflected on the whole Kazakhstan's economy¹.

Price shaping factors

Prices for real estate in Kazakhstan are only partially related to the costs. Even if construction materials are growing faster in price, then the inflation does, the cost of dwelling is significantly less than the price for which it is sold. For example, in 2002, cost compiled 57% of the market price of dwelling, but in 5 years this number

Average price of dwelling in Almaty and cost of construction(for 1 sq m)



dropped to 18%.

So, let's look intently to other price shaping factors. Starting from 1998, prices for oil, one of the basic components of Kazakhstan's export, were growing steady and money inflow to the economy increased. Government got use of this situation by putting a part of this money to the National Fund and rest money went to the real estate market. So, this vigorous steam of "oil dollars" pumped up the prices for real estate, mainly because of non-existence of antispeculatory regulations. After 2004 this tendency was reinforced by another powerful steam - foreign borrowings. In result, the price of 1 square meter of dwelling in Almaty had grown from \$100 of 1997 to enormous \$3500 of 2007². Amount of speculations at the real estate market of Kazakhstan increased till the crisis of 2007, but after they have decreased rapidly. Good proof could be amount of made deals with the real estate in Almaty: until the July of 2007 there were approximately 12000 deals per month, but now this number does not exceed 500³.

Dwelling accessibility indexes

In Kazakhstan, total volume of dwelling makes up 262 millions square meters, and the population is 15.56 millions⁴. The number determining provision of population with dwelling is equal to 16.8 square meters per person⁵. According to the governmental program of dwelling construction development this number must be lower that 18 square meters and this standard comes from USSR times.

The situation was much worse in the beginning of 1990-ies, when the provision level was equal to 15 square meters per person, but starting from 2000 this number

grows steady. We can compare Kazakhstan's statistics with some other world countries (look at the table below).

Provision of dwelling per capita⁶

<i>Russia</i>	<i>20.8</i>	<i>Great Britain</i>	<i>35</i>	<i>Germany</i>	<i>50</i>
<i>Poland</i>	<i>18</i>	<i>Sweden</i>	<i>43</i>	<i>USA</i>	<i>60</i>
<i>Portugal</i>	<i>28</i>	<i>France</i>	<i>43</i>		

The accessibility of dwelling level can be a good determinant of the demand for dwelling which, in own turn, may be helpful in calculation of market price. The accessibility level can be computed as follows:

(One flat area × average price for 1 square meter) ÷ (yearly average income of working people in the family)

For example, if price of 1 square meter of dwelling was \$3500 in 2007 and average income of Almaty resident was \$700 per month we can calculate accessibility of 2-rooms flat (54 meter square): $(54 \times 3700) \div (700 \times 12 \times 3)$ (probable number of working people in the family))

This yields a result of 7.5 and the interpretation is: to buy a 2-room flat the whole family must work for 7.5 years and, without any other spending, save the money. But in reality it is impossible, since there are always some autonomous spending, such are food, clothing etc. So, the level might be much higher. If the autonomous spending excess 75% of income, coefficient of accessibility of dwelling becomes 30 for our example and if income is less than \$700 per month, theoretically, the family won't be able to buy a flat in their whole lives. A good illustration for this case may be the situation in Kazakhstan in 2007.

Factors influencing demand for the real estate in Almaty

I tried to determine some factors which, in my opinion, shape demand for the dwelling in Kazakhstan and in Almaty in particular. I could distinguish five factors which are listed below.

1. Growing Economic Activity: increasing extraction of oil and gas in Kazakhstan has strong impact on the construction sector. Huge capital inflow gives impulse to the non-trading sectors, such are construction and services. Also these sectors of the economy do not have strong competition with import and can develop rapidly, but are very dependent on oil prices.

Impact on the real estate prices: factor of fast growth.

2. Demography: steady growing population of Almaty, which is basically solvent, increases the demand for real estate. But the key factor is the solvency of the residents.

Impact on the real estate prices: moderate growth factor.

3. Increasing incomes of citizens: average salary in Almaty is around \$600⁷, which is one of the highest levels in Kazakhstan.

Impact on the real estate prices: moderate growth factor.

4. "Banks factor": increasing accessibility of mortgage credits to people definitely is one of the most crucial factors influencing the demand for the real estate. Banks

also invest money to the construction sector of Kazakhstan. So, we can consider “banks factor” as one which has double impact on the real estate market.

Impact on the real estate prices: factor of fast growth.

5. Investing property – buying dwelling to rent it: This kind of speculations is really conducive for developing mortgage credits sector, but when the prices of the real estate grow faster than the rent profits, the buyers’ payment for mortgage exceeds the profits. For those, who are interested in final purchase of the dwelling for own use, it’s a normal situation, but others, who are interested in getting profits from rent, this process may cause to sell the dwelling. In the real estate market of Almaty number of people who are intended to finally get the flat prevails, that is why prices for rent do not increase much, when the mortgage interest grows.

Impact on the real estate prices: strong positive. May become negative in case of mass capitalization (purchasing for own use) of the dwelling.

6. Fiscal terms: taxation in Kazakhstan creates favorable conditions for investments into the real estate. Despite of increasing taxes for resale of dwelling, imperfect legislation has not lead to desirable results.

Impact on the real estate price: moderate growth factor, may become negative in case of tightening of tax legislation in Kazakhstan.

Factors influencing supply of real estate in Almaty

As we know demand provides for supply and this fact is reflected in case of the real estate market of Kazakhstan. Besides matching demand with supply effect I also tried to consider other supply shaping factors for the real estate and differentiated four of them.

1. Construction expenses: these expenses are still at an acceptable level because of increasing domestic production of construction materials in Kazakhstan.

Impact on the real estate prices: has a weak impact. In case of more dynamic changes in prices of the construction materials will positively influence at the prices for the real estate.

2. Governmental regulations: limitations on construction, seismological limitations, and bureaucracy - all of these may decrease the overall supply. Last changes in legislation for Almaty city⁸, which put restrictions on purchase or sale of land within the Almaty oblast, definitely became the factor for increasing prices at the real estate market.

Impact on the real estate prices: can have strong positive as well as strong negative impact depending on type of regulations.

3. Expected returns on the real estate investments: this factor is conditioned by the previous ones. Joint impact causes expectations about future prices growth perspectives and attracts potential buyers (investors).

Impact on the real estate prices: can have either strong positive or strong negative impact.

4. Expected return on alternative investment (other than real estate): opportunity cost associated with possible income from investments into shares of companies, joint-stock corporations, treasury stocks, etc.

Impact on the real estate prices: moderate impact (either negative or positive).

Model of probable price shaping

To determine the factors that shape the prices of dwelling in Almaty, I used 5 variables:

X₁- amount of the mortgage credits given to the people by banks (measured in millions of US dollars per month)

X₂- amount of the dwelling constructed (measured in 1000 of square meters per month)

X₃- amount of the banks' investments to the construction industry (measured in millions of US dollars per month)

X₄- amount of average salary of Almaty resident (measured in US dollars per month)

X₅- probable amount of lacking dwelling (measured in 1000 of square meters for a definite month). I calculated it as the difference between the desirable amount of 22 square meters of dwelling per person² and actual provision of people with dwelling. To define this number fluctuations of the population of Almaty and changes in total amount of dwelling available must be defined. Then I divided the total amount of dwelling by number of Almaty city residents for each month.

Y (dependent variable) in the model represents the average price of one square meter of dwelling in Almaty. I took 13 observations (from the May of 2007 to the May of 2008). After running the regression by Excel we got the following results:

<i>Regression statistics</i>				
Multiple R	0.977440278			
R-square	0.955389497			
Adjusted R-square	0.923524851			
Standard error	137.2837279			
Observations	13			
	<i>Coefficients</i>	<i>Standard error</i>	<i>t-statistics</i>	<i>P-value</i>
Y-intercept	-6247.148252	14793.27248	-0.422296572	0.68547684
Variable X 1	1.00549482	1.549586549	0.648879419	0.53711528
Variable X 2	-8.332783615	5.816473363	-1.432617859	0.19507386
Variable X 3	0.300679329	0.360575883	0.833886413	0.43187659
Variable X 4	15.60560013	24.3800144	0.640098068	0.54248440

Variable X 5	-0.608839104	3.047734771	0.199767745	0.84734155
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Dispersion analysis				
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>
Regression	5	2825397.169	565079.4339	29.98274378
Remainder	7	131927.7537	18846.82196	
Total	12	2957324.923		

$$Y = -6247,14 + 1,005X_1 - 8,33X_2 + 0,3X_3 + 15,6X_4 - 0,6X_5 + E$$

Now we can try to interpret the results. R-square is 95,5%. It is pretty good result of the coefficient of determination. X_1 , which represents the amount of the mortgage credits given to the people has a positive coefficient or, by other words, one dollar given by the banks as a mortgage to people increases the price of dwelling by 1,005 dollars. X_2 has a coefficient of -8,33 which means that increasing amount of dwelling constructed decreases the price. So, if there is an excessive supply, prices should drop down. X_3 , which represents the amount of banks' investments to the construction industry in the model has a positive influence on the real estate prices, one dollar increase in the investments will raise the prices by 30 cents. X_4 (amount of average salary of the resident per month) has the strongest impact on prices, coefficient of 15,6 means that one dollar change in amount of salary causes the real estate prices to change by almost 16 dollars. Finally, I defined that lack of dwelling (X_5) positively influences the prices. If the shortage of dwelling decreases, prices will also go down. "E" is an error term which may include impact of the speculations of inefficient determination of the prices by construction companies.

Conclusion

Definition of factors of the demand and the supply acting at the real estate market may be helpful in defining trends for last years development and can be used in making some predictions about the future. Current crisis in the real estate market which started in 2007 may not only be harmful for the market, but also treat it. For example, the crisis can eliminate some disadvantages which existed in the real estate market of Kazakhstan. These are: high level of speculations, nonreliable construction companies, lack of government regulations etc. In result, dwelling should become more accessible for the citizens.

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1 At the end of 2007 construction industry in Kazakhstan compiled 9,4 % of the GDP and 30,2% with the interfacing industries

2 Statistics of kn.kz

3 According to Almaty BTI statistics

4 According to Statistical agency of Republic of Kazakhstan for 2007 year

5 Calculated by division of total dwelling available by the number of people

6 Source: UNECE 2004

7 According to Statistical agency of Republic of Kazakhstan

8 Source: Kazakhstan Today information agency. Kazakhstan’s prime minister’s ordinance (24.04.2007).

9 The desirable standard according to The Master Plan for the Almaty Development, approved in December 2002.

Резюме

Эта статья освещает некоторые аспекты Казахстанского рынка недвижимости. Целью данной работы является выявление и анализ факторов формирующих рынок недвижимости. Построение модели помогает определить главные условия формирования цены для Алматинской недвижимости.

Түйін

Мақалада Қазақстандағы жылжымайтын мүліктегі рынокқа жарық түсіріледі. Бұл мақаладың мақсаты – жылжымайтын мүліктегі рынокты қалыптастыратын факторларды айқындап, анализ жасау, модель құрыстыру, Алматыдағы жылжымайтын мүліктегі бағаларды қалыптастыратын басты шарттарды анықтауға көмектесу.

Özet

Bu makalede Kazakistan’daki taşınmaz mallar piyasası ele alınmaktadır. Makalenin amacı taşınmaz mallar piyasasını oluşturan faktörlerin ortaya konulması, analizinin yapılması ve bir model kurulmasıdır. Almatı’daki taşınmaz malların fiyatlarının oluşturulmasında rol oynayan önemli şartların neler olduğu üzerinde durulmaktadır.