

Experts Warn of Real-Estate Bubble in Kazakhstan

Author: [Ivan Voitsekhovskiy](#)

Overpriced housing and expensive mortgages could drive home-buyers out of the market, causing a major slowdown if not collapse of the real-estate sector.

Over the last four years, Kazakhstan's economy has boomed as revenue from exports of oil, copper and grain have continued flooding in.

Most people have benefited, with the average income per capita up by 22 per cent and salaries increased by more than a third in 2007, according to official figures. The growth in spending power, along the modernisation of the banking system and the introduction of mortgages, has resulted in massive growth in the real-estate market.

However, experts say the main players in the market – property developers, banks and the authorities – are fixing prices at an artificially high level. They warn that as the rise in house prices is accelerating at a much faster rate than wages, this growth is unsustainable and the bubble could burst at any moment.

They draw comparisons with the situation in Japan, where the economy soared in the late Eighties and peaked in the early Nineties, but then fell steadily in what become known as the “lost decade”.

The growth in the Kazak real estate sector comes after years of stunted development during the economic crisis which followed the collapse of the Soviet Union. Nowhere can the construction boom be seen more clearly than in the former capital Almaty, which remains the economic and financial centre of the country, and to which migrant workers flock from across Kazakhstan and abroad in search of higher salaries and better jobs.

When Astana became the capital in the second half of the Nineties, resources were redirected there, and development in Almaty and other major regional centres was neglected in spite of the rising need for new homes and offices.

After mortgages became available in 2004 for the first time, the construction industry began to grow by 30 per cent a year. In the last couple of years, 40 per cent of all mortgages in Kazakhstan were taken out by residents of Almaty.

Besides measures to regulate land ownership and ease permission procedures, the government is running a programme to build affordable housing for civil servants and young families, with prices set at 350-450 US dollars per square metre and a loan scheme on soft terms over 20 years.

But this investment in the lower end of the market has had little effect on overall prices, construction has now become the most profitable economic sector after oil and gas.

Official figures show that housing prices in April were 50 to 70 per cent higher than in the same month of 2006. In 1999, a two-room apartment in Almaty cost just a few thousand dollars, but today the same money would not buy one square metre of property.

At about 600 US dollars a month, wages in Almaty are significantly higher than in the rest of Kazakhstan. But even a good salary of 1,000 dollars will not cover repayments on a 20-year mortgage on a two-room apartment costing 3,000 dollars per square metre.

There is concern that most potential buyers have been priced out of the market by the discrepancy between wages and loan repayments.

Aidarkhan Kusainov, head of the Almagest consultancy company, says the real-estate market began to overheat in the second half of 2006. Buyers are now forced to take out larger loans and repay the sum over a longer period.

“In mid-2006, housing became inaccessible for buyers who were not prepared to take on the risk of a ten-year mortgage, and they left the apartment-buying market. And at the end of 2006, those people who were prepared to take out a mortgage for 20 years left the market. At present, the market consists of speculative trading,” he said.

Meruert Mahmutova, director of the Public Issues Analysis Centre, warns that an unrestrained increase in mortgage lending will lead the country into crisis.

She warns that if bubble bursts it will cause chaos throughout the whole financial sector, which is funding mortgage lending by borrowing abroad.

“Excessive debts in the private sector exacerbates the vulnerability of the tenge [Kazak currency]. The Asian crash [of the Nineties] showed that a boom in foreign lending to the private sector may end not only in a weakening of the currency, but also in a bank crisis,” she said.

Bulat Kusainov, a leading academic at the Institute of Economics, suggests that there will be problems whether prices continue to rise or if fall abruptly following a crash.

“If the bubble bursts, banks that have borrowed abroad won’t be able to repay the money, and may end up being taken over by foreign banks. A crisis in the banking system will consequently result in the crisis of the entire economy. But if the bubble continues to grow, the eventual fall will be even more painful,” he said.

There is also a worry that corruption is pushing prices up artificially. When Kazakhstan broke away from the Soviet Union, a new class of well-connected businessmen snapped up prime pieces of land when prices were at their lowest.

Construction companies had to bribe officials to get land sales approved, and the market began to be saturated with luxury housing developments - the most profitable sector for builders, thus making it even more difficult for average customers to afford housing.

Alexander Kalinin, deputy chairman of the Kazakhstan Realtors’ Association, believes that price-fixing is

prevalent throughout the property market. When major companies come out with forecasts that the market is about to experience more growth, the construction firms raise their prices.

Kusainov suggests the authorities should step in to curb such behaviour, although that is easier said than done. "The anti-monopoly committee must combat the artificial overstatement of prices on the real estate market. But since there are high levels of corruption, nobody will be able to do that," he said.

But the construction companies deny that the prices are set too high, arguing that the inflation is a result of increasing demand that is outstripping supply.

"In the last year alone, our corporation has finished 1,207 apartments," said Oleg Nam, the president of KUAT, the largest construction company in Kazakhstan.

He says that in Almaty, home-buyers are rejecting Soviet-era housing and even housing stock from 10 to 15 years ago, and going after new properties.

"Despite what sceptics say, demand for housing is on the rise, especially among young families," he said.

According to Nam, the main difficulty facing his company is not selling houses, but finding the capital to invest in developments in the first place.

Many bankers agree that price rises are fuelled by genuine demand.

"This year, the average cost of real-estate in Kazakhstan, including Almaty, will grow by 25 per cent," predicted Aida Gapparova, the head of the mortgage department at the bank TuranAlem.

Gapparova insists this growth is healthy and fears of a crash in the property market are unfounded. "There are none of the economic preconditions for a fall in prices," she said.

She says town planners have carefully projected a sustainable level of growth over the next few years, to replace demolished housing and keep up with demand from buyers.

Kusainov is not predicting gloom, either. Instead, he says that the market will begin to cool off, wages will rise more slowly, and people will gradually be forced to reduce their spending.

"It will take time to get used to the fact that the economy is not going to keep growing at double-digit figures, and nor will salaries and bonuses," he said.

A slowing in the market will in turn lead to higher interest rates, so that people will struggle to make repayments, according to Kusainov.

"There will be a deterioration in the quality of bank loans which were taken out in the hope of a general growth in incomes and a continuation of the consumer boom of previous years. People will simply get tired of handing over a third or more of their incomes to the banks," he said.

Kusainov thinks property developers who took out loans to finance their schemes will also be affected by higher repayments. They will be in a greater hurry to sell properties and will not be able to hold out for higher prices from buyers, meaning prices will start to drop.

“The resulting stagnation on the real-estate market, even over a six-month period, would flood the market with apartments, because if prices stop rising, it will reduce the effectiveness of investments,” he said.

Ivan Voitsekhovskiy is an independent journalist in Almaty.

Location: Africa

Focus: Central Asia

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