



Kyrgyz Republic: Overview of the Real Estate, Construction, and Building Materials Sectors



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***Note: 1 square meter ≈10.764 square feet*

SUMMARY

This report gives a by sector overview of the real estate market in the capital of the Kyrgyz Republic – Bishkek – and developments and trends in the resort center of the country – Lake Issyk-Kul. This report also provides information on construction companies and building materials that are produced and imported. In addition, this report identifies possible opportunities for US companies in the construction and real estate business.

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REAL ESTATE MARKET OVERVIEW

Residential Development in Bishkek

Bishkek has experienced tremendous growth of residential construction over the past 4-5 years. The growth of new apartment buildings almost doubled in 2002, compared to 2001, and has since been experiencing average growth of 30% per year. The total number of investments into residential construction in Bishkek as a percentage of total investments in construction increased from 6% in 2002 to 26% in 2005 (from \$7.5 million to roughly \$50.0 million), and this tendency shows signs of continuing. Over 70 up-scale residential projects have been built over the past 4 years in Bishkek. Roughly the same number are either in planning or already under construction.

Prices for residential space have also increased over the last 4 years, from \$200 per square meter in 2002 to \$500-\$600 per square meter today. The price of one square meter of residential space in the new apartment blocks ranges from \$430 to \$600 unfinished (installed metal/plastic windows, prepared walls for painting or wallpaper, no appliances, no electrical outlets, plain electrical wiring) as of September 2006. Finished apartments can reach \$650/sq.m in the newly constructed apartment blocks. Fully furnished apartments in newly constructed buildings can be sold at a rate as high as \$1,100/sq.m., with an average of \$800/sq.m. New single-family homes entering the market are in the same price range as apartments in newly constructed apartment blocks. Nevertheless, prices for single-family homes are on the ascend due to the substantial rising price of land. Prices for Soviet-era apartments are on average \$450/sq.m. Overall apartment prices have been rather stable for the last year. With the exception of regular seasonal fluctuations there has been no major increase in the trend.

	\$/sq.m
Up-Scale Apartments (unfinished)	\$430-\$600
Up-Scale Apartments (finished)	\$500-\$650
New Single-Family Houses	\$550-\$650
Old Soviet-Era Apartments (average)	\$440-\$460
Construction Cost	\$320-\$400
Finishing	\$65-\$140

Table 1. Prices and Cost Breakdown for residential space in Bishkek.

Industry experts note that the market is starting to develop an oversupply of residential space due to the fact that the flow of new construction has been very high for past few years. Many construction companies are having trouble selling apartments at the pace they used to 2-3 years ago. Analysts say that construction projects need better business planning and scheduling due to low profit margins (about 10-15%). Most construction companies use loans to finance their projects. This makes projects even more risky, which is why the need for qualified consultants has increased over the last year.

No economy-class residential developments exist in Bishkek at this point in time. The Kyrgyz government has initiated the construction of such economy-class compounds and recently approved a massive project by the South Korean company "Artis-Global". The

project involves the construction of 1,400 apartments with on-site shops, childcare, and an athletics field among other amenities. Preliminary prices for such apartments will be about \$350/sq.m.

While sales prices for up-scale apartments and houses have been growing since 2002, the rental prices for this kind of residential space has either stayed the same or even declined due to the extensive supply of newly constructed comfortable housing. The rental prices for up-scale houses range from \$1,500/month to \$3,000/month, with some exceptions of \$4,000 or \$5,000/month. Rental prices for apartments start from \$400 and have the same high end as up-scale houses (i.e., about \$3,000/month). Another reason why rental prices have not gone up is that there is a limited number of expats living in Bishkek. It is this group that makes up most of the demand for such housing. Most expats living in Bishket represent non-governmental organizations, embassies, international charitable projects, or the US airbase.

Mortgage System Development

The mortgage system in the Kyrgyz Republic has been very underdeveloped up until 2004. Although there was one bank that offered mortgage loans in 2002 and 2003, no official record of such loans that have actually been given out exists (according to the official National Bank Bulletin). In 2004 things started to move forward.

2004	\$ 1,886,023.96
2005	\$ 7,747,886.16
2006 January-July	\$14,428,798.82
2006 Forecast	\$24,735,083.70

Table 2. Mortgage loans given out by commercial banks 2004-2006.

As indicated in Table 2, there has been incredible growth of over 300% a year in the number of mortgage loans given out. Mortgage interest rates have become more affordable too, decreasing from over 20% a year to 15%-17% a year. The average loan term has also increased from 3 years to 10 years. In addition, there are now over five banks (out of the 20 operating in the country) that offer mortgage loans, instead of just one in 2002-2003. Development of the mortgage system could possibly drive up prices for residential space in Bishkek. The reason this has not happened yet is because of the unstable political and economic situation in the rest of the country.

The current trend in the mortgage system is that people prefer long-term mortgage loans to short-term loans. In 2004, loans for a term longer than one year constituted 80% of all mortgage loans. This has since increased to 96% in 2006. This trend indicates that people are now using loans more for their own residencies, rather than for business purposes. This trend also suggests extensive growth of a broad-based middle class.

Mortgage loans are only being given out by banks with foreign capital endowments. EnergoBank, with almost 90% ownership of Kazakh ATF Bank, Halyk Bank with 100% ownership of Kazakh Halyk Group, KICB (Kyrgyz Investment and Credit Bank) with ownership of EBRD, Aga-Khan Foundation, German Investment and Development Corporation, International Financial Corporation, and the Kyrgyz Republic, FinanceCreditBank (FCB) with ownership of Kazakh Alliance Bank, and KyrgyzCredit Bank

with an involvement of Italian investor in the Kyrgyz Republic. The opening of a Russian bank "Inbankproduct" is underway.

Hotels

The hotel market of Bishkek is comprised of two to five star hotels. Hyatt recently opened the Golden Dragon (locally owned), which was just recently granted 5-star status. The other two big hotels are considered to be four-star hotels. Among these include the Ak-Keme (JV Kyrgyz-Malaysian) and the Silk Road Lodge. Three-star hotels are represented by Hotel Dostuk and Hotel Issyk-Kul. In addition to these, there are also numerous small hotels and guesthouses of different size and quality.

The annual occupancy rate for five-star hotels is in the 45%-50% range. The smaller hotels have a larger annual occupancy rate of around 70%-75%. On the demand side, hotel representatives mention that this year the occupancy rate has declined slightly. While this might be true, tour agencies claim that half of the hotels in Bishkek have increased their rates because of overwhelming demand.

Hotels at Lake Issyk-Kul

The hotel business is also largely represented in the resort center of the Kyrgyz Republic – Lake Issyk-Kul. Several local and foreign investors have implemented a number of resort projects along the lakefront. It is very popular to build cottages and sell them, having one or two small hotels on the site to keep the compound operating the whole year, especially during the summer season. Raduga 1 & 2, the Karven Village, and several others represent such developments. The demand for such properties is mainly comprised of people from Kazakhstan and Kyrgyzstan. Most of the resort hotels are left-overs from the Soviet times. Some have gone through an extensive renovation and modernization, the bulk of hotels still need renovation.

The flow of tourists in summer 2006 has more than doubled, amounting to around one million people (more than twice than during the summer season of 2005). This is partially because of the long, sunny days this summer and the growing demand of neighboring Kazakhstan for having a vacation somewhere not far from home.

Currently, there are no hotels with international brand names at Lake Issyk-Kul resorts. This fact creates a niche for major hotel and resort management companies from the USA. The price of land along the lakefront has also increased quite substantially, from \$800/100sq.m in 2004 to \$1,800/100sq.m for land with existing infrastructure. The actual price may vary depending on the state of infrastructure development on any give piece of land. Once complete, the new Almaty-Issyk-Kul road will bring a huge flow of people from Kazakhstan to either buy property along the lakefront or just go on a vacation there.

Office Space Development

There have been several office space developments in Bishkek over the past 4-5 years, representing both Class-A and Class-B business centers. Hyatt is still considered the Number One Class-A business center, because of the facilities and amenities that it includes. At the same time it is the highest priced business facility, charging around \$28/sq.m per month. Hyatt has a well-known name abroad and it has a right for setting higher prices because foreign businesses trust their quality. The other Class-A business

centers are represented by Dordoi Plaza, a business center on Orozbekova crossing Toktogula streets. These two business centers charge around \$12-\$15/sq.m per month. The Bishkek Tower business center, located in the southern part of Bishkek, was originally remodeled from a 12 storey unfinished Soviet apartment building and is also popular among businesses. Although at the time it was built it was considered the best business center in the city, with the flow of the new office buildings it has become a solid Class-B+ business center. It is worth mentioning that classification is usually given 'best in place' rather than by international standards.

The demand for office space has been quite large for the past two years. In 2004, \$12/sq.m was considered the highest price. Now, businesses are ready to fight for such a price in the Class-A business centers because the current average prices are \$15/sq.m/month. The occupancy rates in such business centers are at 100%, except for Hyatt.

Retail Centers and Shopping Malls

In 2002, there were only two shopping centers – TSUM and Beta Stores. Another four shopping centers have since entered the market. Some, like Dordoi Plaza, have been very successful. The recently opened Vefa Center is a huge complex with a grocery store (called "Ramstore"); numerous apparel shops, cafes, and restaurants; two Dolby-surround movie theatres; and well-planned parking. Time will show how successful this project will be, but the outlook looks positive. Nevertheless, two apartment towers built above the shopping center have proven disappointing: the original apartments in these towers came fully furnished at price of \$1500/sq.m. Such a high price for residential living space has simply never existed before in Bishkek. Sources say that apartments in Vefa Center have been mostly sold out for office space.

The two other shopping centers, Silk Way and Caravan, have some mistakes in the original planning despite the fact that they are all located in nice downtown districts. These two shopping centers also lack strong management. The rental prices in modern shopping centers in Bishkek range from \$15-40/sq.m per month. There are a number of trading centers that specialize on construction materials and furniture. These include MegaComfort, Baumarkt, and others.

Warehouses

The market for this type of real estate is underrepresented in Bishkek. Many companies continue to use old Soviet-era warehouses left over from the 1980s. Most are located in the Eastern Industry Zone. Although there is demand for new warehouses, the construction costs associated with building modern warehouses with links to rail networks is still prohibitively high. For this reason, the warehouse sector can only develop as other sectors of the economy grow.

Land

It could perhaps be stated that the market for land in both Bishkek and Issyk-Kul is the single real estate sector where prices have truly gone up.

In some parts of Bishkek the price of land has grown by 300% compared to prices in 2004. Currently, prices can reach up to \$20,000/100sq.m with an average of \$12,000/100sq.m in

the center of the city. Prices for land near Lake Issyk-Kul (as mentioned previously in section on hotels) have grown quite substantially, from \$800/100sq.m in 2004 to \$1,800/100sq.m in 2006. Sources say that land has already become so difficult to buy on the lakefront that land on the opposite side of the road (non-beach side) is starting to being sold.

Industrial Construction

Industrial construction is mainly represented by big government-funded projects like road construction and the building of electric transmission lines and hydroelectric stations. Thus, National Electric Stations OJSC has signed a long-term cooperation agreement with Chinese State Electric Network Company in which Chinese investors plan to build several hydroelectric stations in the South of the country, lay electric transmission lines in Kashgar, construct a coal-powered thermoelectric station, and the refurbish the Uchkurgunski hydro and thermoelectric stations of Bishkek. These projects are still in negotiation and have not been signed yet.

In June 2006, two contracts were signed between the Kyrgyz and Chinese governments. Both of them involve the construction of the Cement Plant in the southern Kyrgyz city of Kyzyl-Kiya. An American company will perform a feasibility study on the construction of 500 kV "Datka-Kemin" direct electric transmission line between south and north of the Kyrgyz Republic.

MARKET PLAYERS

Construction Companies

Currently there are around 80 construction companies operating in Bishkek. About 30 of them appeared after the Tulip Revolution of March 24th. Around 10 are the biggest construction development companies in the country. Each has built more than three big projects in the city. All of these companies have investors from Turkey, Kazakhstan, China, Iran, South Korea and Kyrgyzstan. Ninety percent of all construction companies specialize on building up-scale apartment blocks 5 to 12 stories high, with the average range being 7-9 stories. There are very few companies specializing in building private single-family houses. The industry leader is Eristyle, which has built two big compounds with well-planned infrastructure. The bulk of new up-scale single-family houses in Bishkek are mostly being developed by either "one-day" construction companies, which are organized just to build one house, or through direct hiring of workers, who are not part of any construction company. This is primarily done to avoid taxation.

There is only one well-known construction company that specializes in commercial site development. It is a Turkish-owned company called "Ozgun Insaat", which had recently finished the shopping mall/residential complex Vefa Center. Ozgun Insaat is also known for building a business center in Tajikistan. Other business and shopping centers were built by companies that are mostly specialized in residential construction, or just the one-day construction companies without any history in commercial development.

Production of Construction Materials

Bricks, cement, slate, glass, stone tiles, and insulation materials are produced in the Kyrgyz Republic. Major producers of bricks are the Tokmok, Belovodsky and

Krasnoyarskiy' brick plants. These companies are former state-owned, now privatized companies.

The Kant Cement Plant in Chui Region produces cement and slate. It is the only major producer of cement, not only in the Kyrgyz Republic, but also in the Central Asian region. Another cement plant is to be built in the south of the Kyrgyz Republic.

A Kyrgyz-German joint venture InterGlass was created in Tokmok for production of glass and glass products. This company has all chances to compete with major glass producers in Europe or Asia. In 2002, another local company, "Besser Central Asia", started to produce bricks and pavers and has proven that their products decrease the cost of construction by about 20%. They use equipment and technology of the American company "Besser". Besser bricks have been very popular in the ongoing construction of up-scale residential houses, cottages, small office buildings, and even supermarkets.

More than 30 companies produce doors and windows (wooden and plastic) using German and Turkish technologies. These companies include Gunel, Evroplast, Windoors, Dordoy, Chelebi, and Vitrage. In addition, a number of small companies and individuals produce wooden products such as planks, windows, and doors.

Import of Construction Materials and items of décor

All sanitary engineering, flooring, kitchen furniture and equipment, furniture and most of the renovation materials are imported from China, Russia, and Europe. For the past few years the number of importers and resellers of all kinds of sanitary engineering, renovation materials and flooring has dramatically increased. The specialized bazaars have been expanding since 2002 and a number of big specialized supermarkets have opened for business. Among these include MegaComfort, Baumarkt, and Taatan. The biggest importer of sanitary engineering, flooring materials, and renovation materials is represented by the long-standing company Keramin. According to Keramin, specialists work with two or three companies originating from USA, but these companies amount to no more than 3% of total sales. The biggest and possibly the only provider of wooden materials is "Olivia", which imports wood from Russia and Kazakhstan. Metal is imported primarily from Russia by AsiaMetTrade.

OPPORTUNITIES FOR U.S. COMPANIES

Opportunities in Bishkek

1. Providing management services to office and shopping centers, as well as hotels. Some newly built shopping centers already have a lot of problems in planning and management that lead to the outflow of tenants. This creates an opportunity for professional US commercial estate management companies seeking business opportunities abroad. Though office buildings and hotels companies seem to be in less need of professional services, the option of building a business center or a hotel and then providing the professional Western-style management is a possibility.
2. Providing consulting services to development and construction companies. The issue of project feasibility is very important right now because of the low trend of price increase in modern residential development.
3. Exporting different construction materials as well as sanitary engineering equipment and furniture. The market is filled with items from Europe, China, and Russia.

Although such goods might be expensive, there is a demand for them. Unlike a few years ago, people are now more concerned about quality, rather than just price. Therefore, there is an opportunity for US companies to export their products to Kyrgyzstan. The number of renovated Soviet apartments increases everyday. It might also be useful for American companies to focus on the region as a whole with product distributors in Kazakhstan, Uzbekistan and Kyrgyzstan. This approach can help diversify the risk.

Opportunities in the Lake Issyk-Kul region.

1. Construction of hotels along the Issyk-Kul lakefront. Since the number of tourists is increasing each year, and the construction of the Almaty-Issyk-Kul road is underway, an opportunity exists for potential US investors to build a compound with partial sale of cottages and a hotel. The price for land and cottages has increased substantially in recent years.
2. Since no hotel with an internationally recognized brand name exists in Issyk-Kul, it would be a great opportunity to attract tourists not only from Kazakhstan and Russia, but also from the whole world. US companies can either offer management services to the existing resort complexes or start to build their own hotel and then provide the professional Western management services.

Opportunities in Industrial Construction

1. Construction of hydroelectric stations is one of the major sectors of industrial construction in the Kyrgyz Republic in which US construction companies may become interested.
2. Feasibility studies in evaluating business proposals for building hydroelectric stations are also part of the business that US companies can explore.
3. Road construction is another sector where US companies can seek opportunities. Kyrgyz government usually announces open tenders for bidding on the big construction projects that are financed by international donors.

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