

The Residential Real Estate Market in Bishkek, Kyrgyzstan: Current Conditions and Prospects

BY GARY ROSEMAN

THIS ARTICLE REVIEWS THE CURRENT STATE of the housing situation in Bishkek, Kyrgyzstan and examines the factors that influence price and availability, particularly the development of supporting institutions. The topic is relevant because security in and alienability of this asset, which is one of the few widely held tradable major assets in developing countries, is important in the development of vehicles for the accumulation and storage of wealth.

Over the last two years, price increases in residential real estate in Bishkek have generated much attention and analysis among residents of this capital city of Kyrgyzstan. Prices have risen by more than 100% over the months since the summer of 2002. Along with this growth in prices has come development in agency matters and mortgage lending. This article provides an overview of the market in Bishkek and a review of the ancillary changes that will affect the housing market.

BISHKEK

The city of Bishkek, with population of 600,000, is the capital of the Kyrgyz Republic, a mountainous country in Central Asia along China's western border with over 5 million people. Over 90% of Kyrgyzstan, as it is commonly called, is 3,000 feet above sea level or higher. Named Frunze, after a Red Army general who operated in Central Asia, the city was the capital of the Kyrgyz Soviet Social Republic and changed its name to the Bishkek at the time of independence. Before its Soviet status, the city was called Pishpek and served as an outpost for the Russian Army in the 19th century expansion of the Tsarist empire into this region.

In the 1990s, after independence, the city became the base for organizations operating in the newly independent country. The Kyrgyz government made an effort to attract multilateral and aid organizations to the city, where the impact on the population, which was relatively small for a capital city, would be palpable. Organizations like the UN, TACIS, the Organization for Security and Cooperation in Europe, and even Helvetas, which brings Swiss expertise to the country's dairy industry, set up offices in the city. The country's proximity to Afghanistan made it attractive to the U.S. government after September 11, 2001 and the U.S. Air Force soon established a base next to the Bishkek's Manas International Airport, which is less than 25 miles from a Russian air base.

Most households in the capital live in apartments, with single houses becoming more popular. Single-family dwellings are usually located on the outskirts of the city, where residents must have transportation means to reach the city center, given the slowness of the municipal system.

About the Author

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THE MACROECONOMIC SETTING

The Kyrgyz economy has stabilized over the last several years, with annual rates of inflation consistently averaging in the single digits and evidence of long-term economic growth emerging. These factors have in turn promoted stability of the currency against the dollar and euro and gains in the purchasing power of wages and salaries since the end of the 1990s.¹ With the new wealth of many Kyrgyz and few attractive investment alternatives, real estate has become a desirable asset for households with incomes above their spending needs.² The poor state and crowded conditions of much of the Soviet-era housing stock have also stimulated spending on renovation of existing structures, often on an individual basis.

Before independence, Bishkek was a russified city, with the majority of its population ethnic Russians. Currently, that ethnic group is about 20% of the city's population, reflecting a large emigration in the years following independence. With fears primarily of economic uncertainty, rather than ethnic unrest, many Russians with familial or professional connections to other post-Soviet republics emigrated from Kyrgyzstan. This migration resulted in a large quantity of housing for sale on the city's market, with a corresponding slump in real estate prices. At the current time, most Russian would-be emigrants with prospects in other countries have already left, and those who remain face more favorable economic prospects. The days of large out-migration have ended, thus removing large supply shocks that come from excess property caused by the outflow. However, migration to the capital, as is common in developing countries where business opportunities are less available in the smaller cities, adds to a steadily growing demand for housing in Bishkek.

With the beginnings of economic growth and an emerging number of households with incomes to devote to housing of better quality than Soviet-era stock, the process of "euroremont" is more common. This process covers fitting apartments with Western or South Korean appliances and fixtures, in-house hot water heaters, plastic-framed windows that seal better than the wooden Soviet-era frames, and flooring that is more even than the traditional parquet or the heavily coated plank floors. Often these renovated and improved apartments exist in Soviet-era apartment buildings alongside unimproved units. The process of euroremont covers the interior of a unit only and may exist in a building with poor lighting, littered

entrances, unpainted stairwells, and overgrown courtyard areas outside the buildings.

CONSTRUCTION

As stated, increases in available supply are no longer subject to the shocks produced by emigrating residents. Increases in the overall volume of housing in the country have been slow, with little new construction. For example, the amount of new residential space reported by the National Statistics Committee increased by 0.7% in 2002.³ Explanations for this creeping pace in construction have been insufficient financing and deficiencies in the legal framework.⁴

The lack of financing is evident in the bias toward short-term credit in the country. In 2003, nearly 60% of credit issued by the banking sector was short-term, defined as being less than a year in duration.⁵ Consistent with this the lack of long-term credit, mortgage lending is rare and the terms are not as favorable as in the West, with one major participant in the mortgage business offering terms of 50-60% of purchase price financed for a maximum of five years with an annual interest rate of 20%, for a dollar-denominated loan.⁶ Such terms are similar to those on offer from other lenders in Bishkek. Mortgage lending is a new concept in former Soviet republics. To increase the familiarity with the principles and opportunities, Western organizations arrange training seminars with participants from the major Kyrgyz banks. But the practice has not sufficiently increased to address adequately the financing needs of the housing construction sector.⁷ Even the estimate that 10% of current real estate transactions involve mortgage credit⁸ means that new construction must generally be financed by prepaying buyers. These first pay and then wait for a year or more for the building of their housing units, followed by some term in fitting out the units with fixtures and flooring.

Tenancy rights also hinder the development of mortgage lending. The land code prohibits seizure of a residence to satisfy debts. This legal restriction limits the value of a real estate asset as a means of securing credit. However, with the low percentage of the value of an apartment purchase financed, lenders can recover a great portion of the value of a loan by seizing personal assets. Also, some lenders will base their credit decisions on the ability to seize income from a debtor in the event of a default, so that mortgage borrowers are often in some way connected professionally or personally with a mortgage lender.⁹

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Table 1—Average Prices of Apartments in Bishkek, by Type* (Standard Deviations in Parentheses)

Apartment Type	June 8, 2004	Observations	June 15, 2004	Observations
1 Room	7.81 (2.62)	91	8.30 (3.14)	80
2 Rooms	13.06 (4.96)	193	14.08 (4.46)	115
3 Rooms	18.61 (7.07)	137	19.77 (7.51)	130

*The observations for June 8 are from Vechernii Bishkek , pp. 3-7, 10 and the June 15 observations are from Nedvizhimost, pp. 10-12. The differences between the average prices for a given type (1-room 2-room, 3-room) on the two difference dates are not statistically significant.

Legal issues also limit construction. In Soviet times, the state-owned apartment buildings and the land underneath the buildings. With privatization in the 1990s, the housing units passed to individual owners and the land underneath, along with the buildings' common spaces, passed to a partnership in which the residents of the building all owned shares. However, ownership boundaries of the land around the buildings were not clearly defined and disputes have arisen over who owns the right to use the land. The municipal government has in some cases granted or sold permission for construction on land assumed to be owned by the nearby apartment building, but the legal status of these permits has not been decided on the national level. Also, the pipes and power lines leading to an apartment building remain the property of the utility suppliers, but often these entities are poorly funded state entities with limited means for repairing or even maintaining these assets, so damaged pipes or power lines often remain that way for uncomfortably long periods. Land ownership issues prevent the commencement of some construction projects and banks are reluctant to issue credit on properties with tenuous ownership rights to some of the features that affect its value, like bordering space and infrastructure.¹⁰

PRICES

Because of the growing prosperity among a significant number of people, the reduction in emigration, and the lack of new construction, housing prices have risen significantly. Estimates are that prices have doubled in the last 18 months.¹¹ Property in the center is the most desirable. Ground floor units are highly valued. Extras like the quality of refurbishment add significantly to an apartment's

value, as in other former Soviet Republics. Apartments are advertised by the number of rooms, with a one-room apartment corresponding to a studio apartment in the United States, a two-room apartment to a one-bedroom apartment, and so on. Most apartments have three or fewer rooms. Prices (expressed in U.S. dollars per square meter) range from \$200 to \$300 per square meter for local-standard property, with sizes averaging about 27 square meters (290 square feet) for a one-room apartment, 47 square meters (505 square feet) for a two-room apartment, and 72 square meters (775 square feet) for a three-room apartment.¹² As illustrated in the table below, recent data indicate that apartments in Bishkek range in price from about \$7,000 - 8,000 to close to \$20,000. The averages mask a great deal of variety in the location and other amenities of a given property. The data for the table come from two publications in which local-standard properties are usually advertised, thus minimizing the effects of euroremont, or Western-standard property, on the prices below.

Because sale prices are often underreported for tax considerations, advertised asking prices are often the source for construction of price data in a post-Soviet market.¹³ The advertised prices in Bishkek are expressed in dollar terms in denominations of \$1,000, with one place to the right of the decimal, so that an example is \$9,5, which Americans would write as \$9.5, for the price of \$9,500. The two columns of prices are from two weekly real estate periodicals available in Bishkek, *Kvartira* (in English, "Apartment") and *Nedvizhimost* ("Real Estate" in English) from one issue each in the month of June. Both periodicals are primarily advertising and informational vehicles

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for individuals and agents in the city's real estate market (Table 1).

AGENTS

Partly because of the novelty of the profession in Kyrgyzstan, agents have received attention and some blame with the increase in real estate prices. However, as in all economies, agency arose because of the position's role in producing and disseminating information about the market and the provision of specialized procedural information. In an economy where the buying and selling of real estate was a heretofore rare occurrence for the vast majority of individuals, agents provide a valuable service. For example, the time between conclusion of a sale which, for residential sales is often in cash, and the recording of the transfer by the state can be several months.¹⁴ The rights of ownership are not recognized by the state until this recording so, in the meantime, agents are needed to protect the integrity of the sale from unforeseen changes in this interim period. These procedural and paralegal functions of agents induce market participants' willingness to pay agents' commissions.

The need for agents in the Bishkek real estate market arose recently, as in Soviet times the function did not exist. Agents generally work for sellers and charge 3-5% of sales price as a commission. Renters, and particularly short-term foreign visitors, engage the services of agents for finding apartments with euroremont features. In this case, agencies typically charge the lessor one-half of one month's rent for the services, which include bringing together the two parties, providing advice on terms of a lease, and providing information to each party about the reputation and risk of dealing with the other party. Most

agencies will combine commercial and residential real estate operations in the same firm. Because of the sudden appearance of the functions of agents, the Association of Realtors of Kyrgyzstan was founded in June 2002, with sponsorship from USAID and Chemonics, as an umbrella group designed to promote professionalism and training in areas such as appraisal and valuation, codes of ethics, and, because of the novelty of the practice in Bishkek, the use of mortgages. Currently, 11 agencies in Bishkek belong to the Association with 15 or more agents employed by each firm.¹⁵

PROSPECTS

The residential real estate market in Bishkek is in the process of development. For a more vigorously growing housing sector, legal and financial institutions must stabilize. With sound economic growth and low inflation for the past several years, long-term credit will expand if sanctioned by a reliable legal system, and with this expansion, mortgages will continue to develop. This will provide the means for households to own property and for construction companies to have access to funds.

Some institutions conducive to a well-functioning real estate market are developing. Agencies are known and advertised, and the professionalization of the role is proceeding. Awareness of the utility of agents in property transactions is becoming more understood. Privatization has occurred and rights to apartment units are undisputed. With a stable currency and continued economic growth, the advent of a consistently growing demand for housing should, in turn, be met with a continued growth from the supply side.

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ENDNOTES

1. National Statistics Committee, Sotsialno-ekonomicheskoe Razvitie Kyrgyzskoi Respubliki, 2004, p. 116 and National Statistics Committee, Kyrgyzstan in Figures, 1999, p. 227.
2. Vechernii Bishkek, March 26, 2004, p. 8.
3. National Statistics Committee, Sotsialno-ekonomicheskoe Razvitie Kyrgyzskoi Respubliki, 2004, p. 135.
4. While treated separately, the two issues are related. Property rights must be mortgagable (see Olga Kaganova, "Urban Real Estate Markets in Russia: The Current State," Real Estate Issues 18 [1998], pp. 30-35).
5. National Statistics Committee, Sotsialno-ekonomicheskoe Razvitie Kyrgyzskoi Respubliki, 2004, p. 101.
6. Advertisement, Bishkek, June 2004.
7. A. Decker, Conversation, Bishkek, June 8, 2004.
8. Vecherniy Bishkek, March 26, 2004, p. 8.
9. Kaganova (1998) also reports that mortgage loans were difficult to obtain in Russia in the early 1990s unless the borrower had close relations with a bank (p. 33).
10. S. Gradwal, Conversation, Bishkek, June 15, 2004.
11. Vechernii Bishkek, March 12, 2004, p. 6
12. These averages are taken from the apartments in Kwartira, June 8, 2004 that listed sizes. Most of the apartments listed did not indicate area.
13. see Kaganova (1998), pp. 32-34.
14. Discussions of agencies and the public perception are in Verchenii Bishkek, March 12, 2004, p. 6 and March 26, 2004, p. 8.
15. T. Semenchenko, Conversation, Bishkek, June 15, 2004.