

ULAANBAATAR CITY REAL ESTATE MARKET



ANNUAL REPORT
2023-2024

- Project “grade”, “class” and “rank” are used interchangeably in this report. The classification category and location zoning category used are according to the methodology created by Tenkhleg Zuuch research firm.
- “We”, “Us”, “Our” pronouns used in this report are referring to Invescore Property LLC only.
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ABBREVIATIONS

CIP - Corporate Income Tax
PIT- Personal Income Tax
GDP - Gross Domestic Product
OTC- Over The Market
FDI - Foreign Direct Investment
WEF- World Economy Forum
SME - Small and Medium Enterprises
Vo-Tech - Vocational and Technical Education Institutions
REIT - Real Estate Investment Trust
FRC - Financial Regulatory Commission
HOA - Home Owners Association
RE - Real Estate
UB- Ulaanbaatar City
FATF - Financial Action Task Force
HAI- Housing Affordability Index
CF - Cash Flow
FPO - Follow-On Public Offer
IPO - Initial Public Offering
IRR - Internal Rate of Return
PEF - Private Equity Funds
TPS- Thermal Power Station
OFPS- Oil-fired power Station
SEPS- Steam-electric Power Station
SS- Sub-station
PMP - Partial Master Plan

Preface

Mongolia's real estate market is a dynamic and evolving landscape primarily influenced by economic factors,

population statistics, household settlement patterns, social trends, and population concentrations.

This report aims to analyze market trends, new projects, product and service development, government policies and regulations that affect stakeholders in the real estate sector of Ulaanbaatar, and the activities, challenges, and opportunities faced by other participants in this industry.

The report provides comprehensive analysis and valuable insights to aid in informed decision-making. Mongolia's unique combination of rich natural and ancient heritage, cultural history, and developing economy renders it a pivotal market that garners the attention of investors and other interested parties who seek economic growth and diversification.

The present report aims to furnish foreign and domestic professional participants, individuals, and developers with a detailed account of the Ulaanbaatar real estate market, encompassing the main trends, processes, tendencies, news, and information that have transpired in the industry over the course of the last year. The report is designed to provide professional decision-making support and enable interested parties to make informed judgments about investing in the Ulaanbaatar real estate market.

The year 2023 witnessed a significant transformation in the Mongolian economy, and the real estate sector played a vital role in this shift. The real estate market has been exhibiting a drive towards reform, characterized by rapid urbanization and overconcentration in Ulaanbaatar and an increase in infrastructure projects. Our report comprehensively examines the key issues of the Mongolian real estate industry, including market trends, investment opportunities, regulatory frameworks, and the impact of the global economy.

We have conducted rigorous research and analysis to provide investors, developers, and decision-makers with the insights and knowledge required to make informed and strategic choices in this dynamic environment. Our goal is to act as a guide, providing optimal information on the Mongolian real estate industry as we continue to explore challenges and opportunities in the evolving market. We are committed to contributing to the sustainable growth of the Mongolian real estate industry and helping our stakeholders make confident and informed decisions.

We express our gratitude to the individuals and organizations who contributed valuable information and insights to this report. Their joint efforts have played a pivotal role in shaping the landscape of the Mongolian real estate industry. As we strive to enhance our expertise and remain at the forefront of the industry, we are confident that our report will serve as a valuable resource to our stakeholders.

*Invescore Property LLC
March, 2024.*



BEST
**"PROJECT
IMPLEMENTER"**
OF THE 2023

Bloomberg
TV MONGOLIA
AWARDS
2023

Projects managed:



Real estate based investment vehicles:

Invescore Property LLC has been offering real-estate based investment products to both domestic and foreign investors through the following forms:

 Buy-to-Let property
(with existing tenant)

 Convertible bond

 Real estate investment fund

 Crowdfunding platform

 Currently available

01

Economic State

- Inflation
- Economic Growth
- Foreign Trade
- Loans Issued by Banks

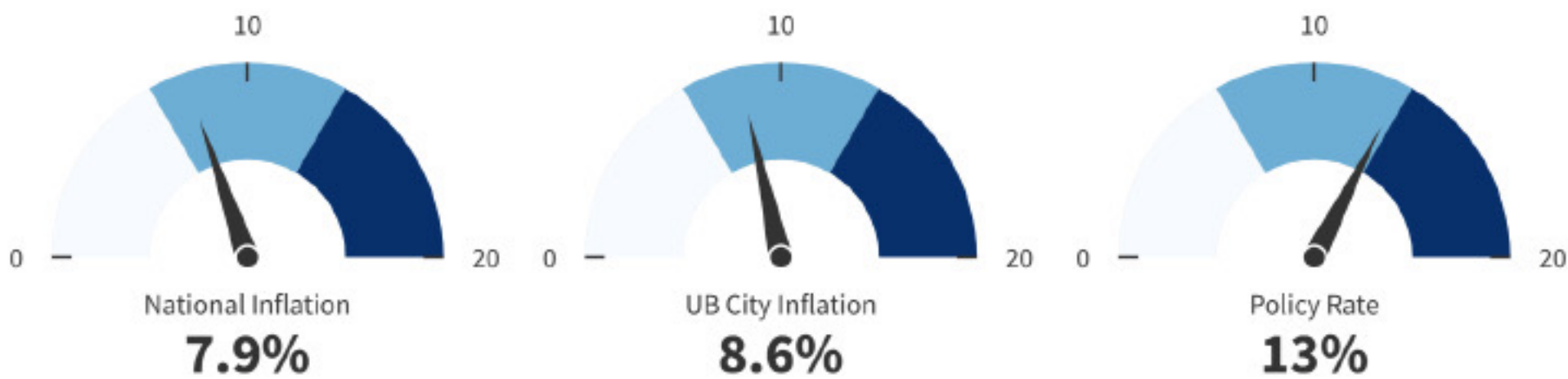
ECONOMIC STATE

In 2023, the macro indicators painted a positive picture with some numerical values reaching record highs, indicating good growth. The increase in foreign currency earnings has been a contributing factor to this growth and it is expected to continue in the coming year. As a result, there is a lot of hope and expectation that the USD/MNT exchange rate will remain stable throughout 2024.

Meanwhile, the state budget for the year 2024 has been approved with historically high expenses. Moreover, the government has pledged to distribute stock dividends, and increase salaries and pensions to state employees. As the money supply affects inflation after 2-3 months, there is a high probability that by fall of 2024, National Inflation will increase rather than decrease. Adding ₮1 trillion to the market tends to increase the inflation rate by one percent.

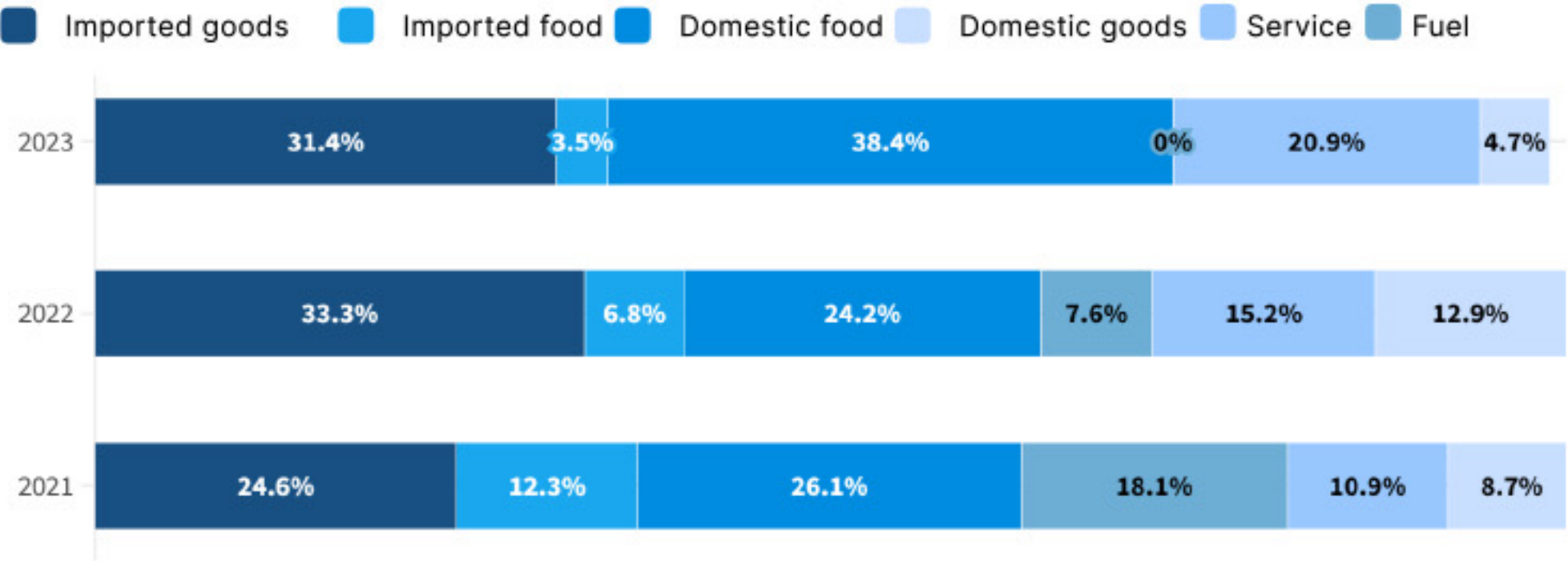
INFLATION

In 2023, the inflation rate finally dropped to single digits, and the growth of prices moderated.



In 2021 and 2022, inflation rates remained consistently above 13%. The primary factor contributing to the increase in inflation during that period was the rise in the price of imported goods. However, in 2023, the domestic food and services group was the main driver of the inflationary trend.¹ The statistical data reveals that meat and pastry products were the primary drivers behind the changes in the consumer price index within the food group.

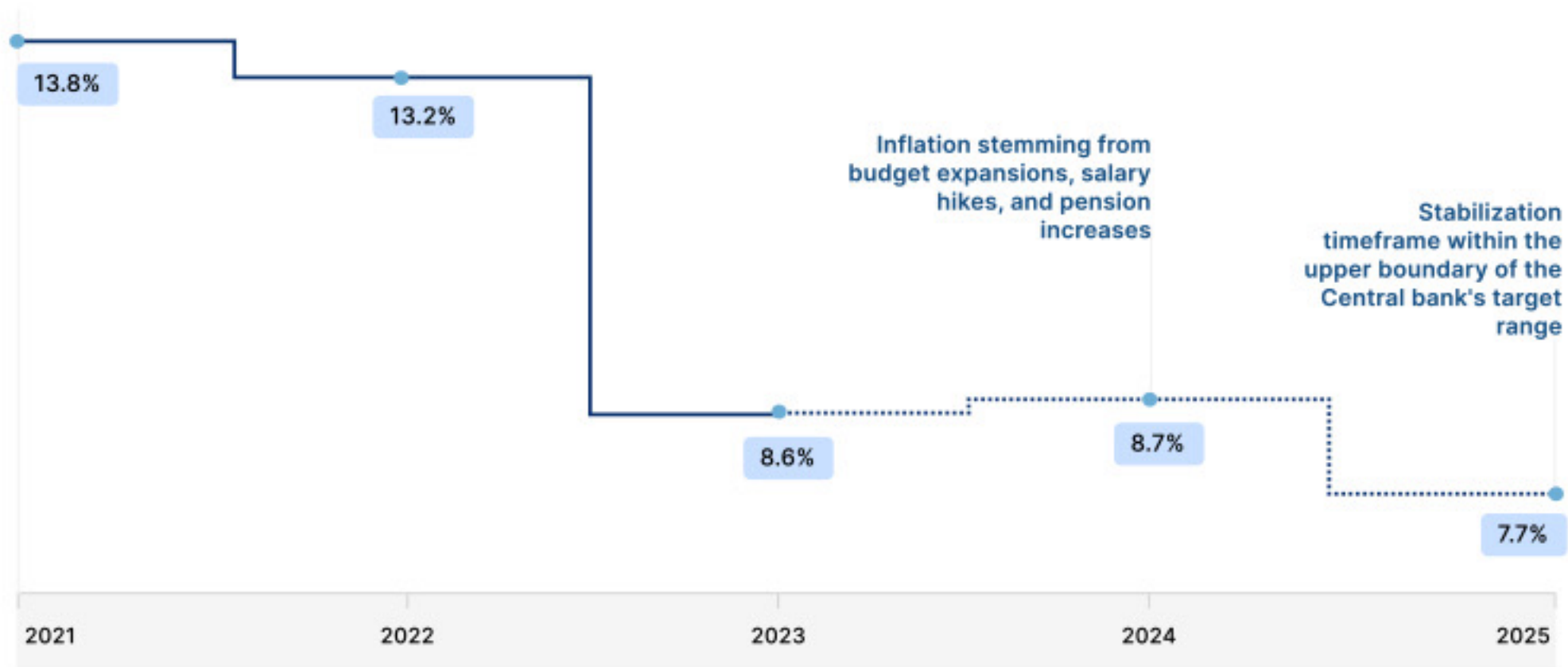
The Influence of the Imported Goods Group on Inflation Growth Is Diminishing While the Domestic Food Group Now Exerting a Dominant Impact



Source: National Statistics Office of Mongolia

The Central Bank of Mongolia projected that the inflation rate will gradually decrease and reach 7.7% by the end of 2025.²

Inflation Forecasts Released by the Central Bank of Mongolia



Source: [Inflation Report - Central Bank of Mongol, 2023/12](#)

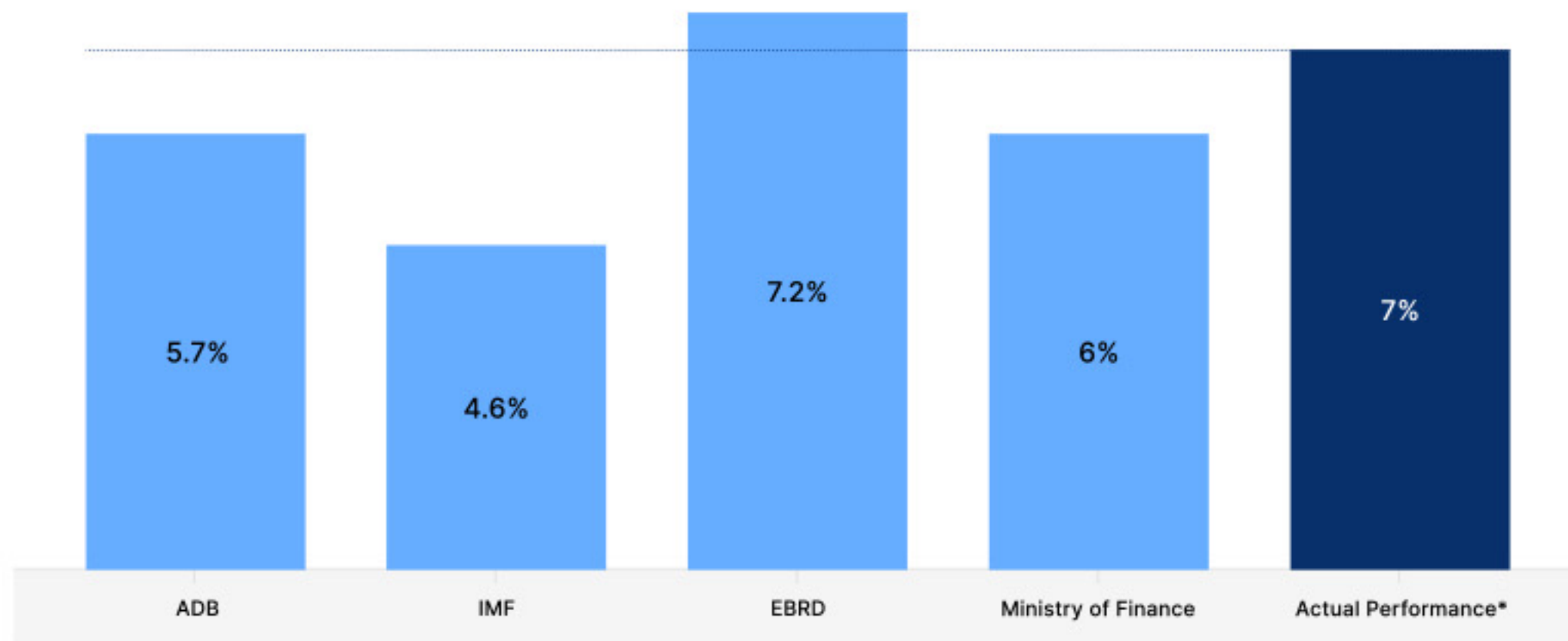
Experts warn that due to promises to distribute cash before the 2024 parliamentary elections and overexpansion of the budget, inflation will not decrease but rather increase, and there is a risk of a shock to the economy.³

“ New money will be supplied in 2024 to implement the government's decisions, such as paying stock dividends to all citizens and increasing wages and pensions. When the number of traded and exchanged goods in the economy has not increased and productivity has not actually increased, it is highly likely that the price per unit of product will rise or that the phenomenon of *"things getting expensive"* will occur by supplying more money.

● ECONOMIC GROWTH

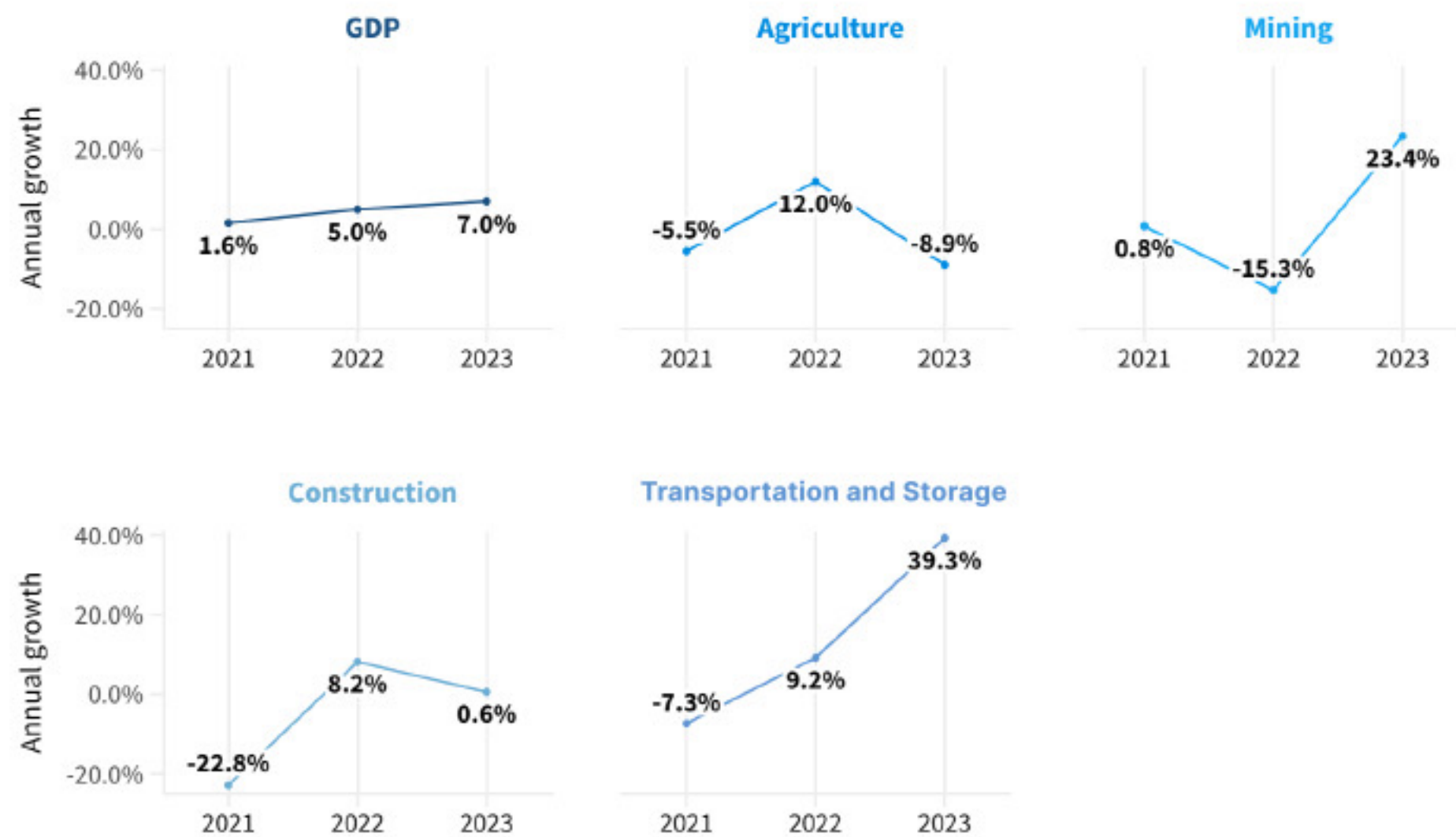
In the year 2023, the economy experienced a stable period and grew by 7.0% from the previous year, surpassing the expectations of international economists. Each sector had a different level of economic growth according to production method estimates. The mining sector had the highest growth rate (+23%) followed by the transport sector (+39%). On the other hand, the agricultural sector experienced a shrinkage of 9%.⁴ Furthermore, in terms of revenue, the tourism industry showed a significant increase, generating \$1.3 billion compared to \$350 million in the previous year (+270%).

Mongolia's Forecasted Economic Growth and Performance in 2023



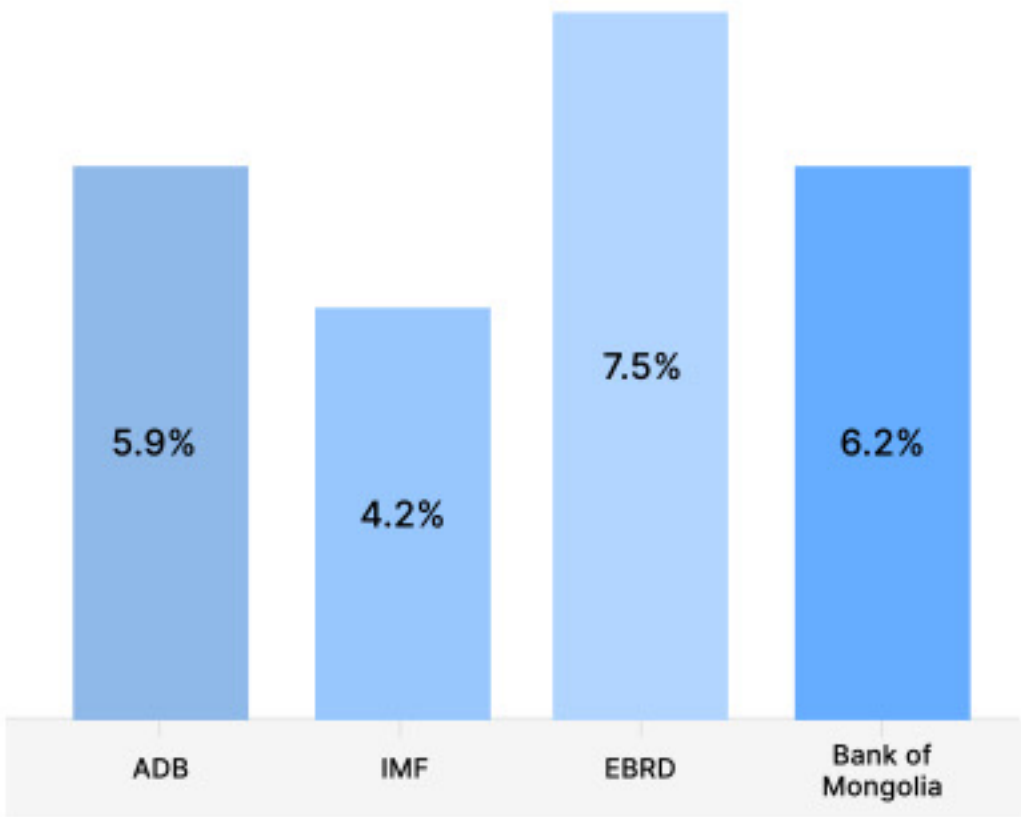
Source: Respective websites from each institution

Economic Growth of Some Industries



Source: [National Statistics Office of Mongolia](#)

Mongolia's 2024 Economic Growth Forecast



Projection of the Bank of Mongolia:

In 2024: 6.2% [3.8-8.6]
An increase in mining output and a weaker fiscal outlook will support domestic economic activity.

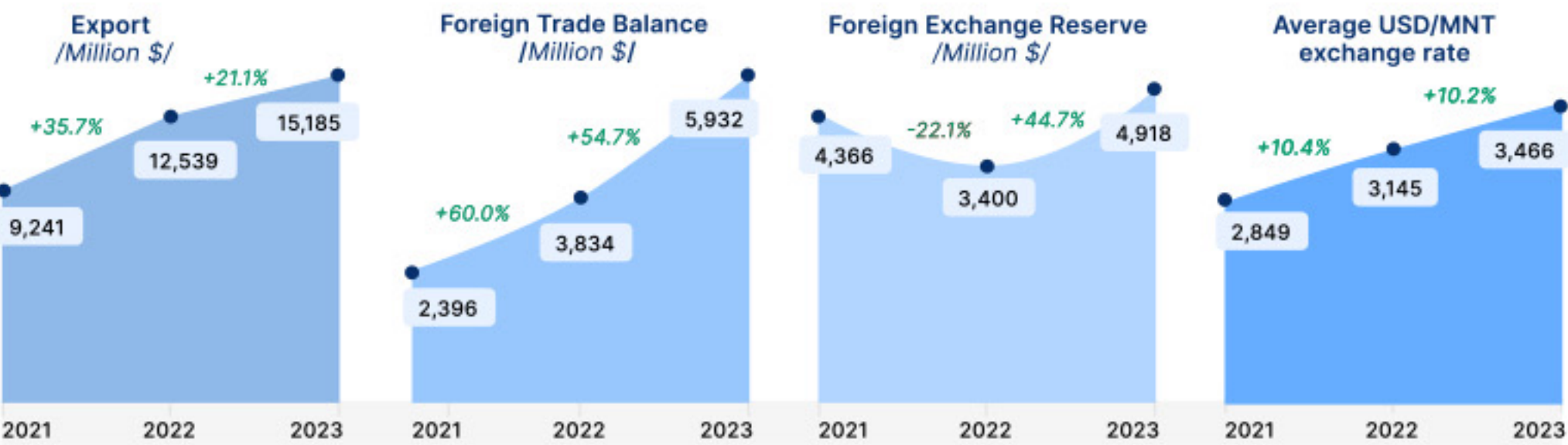
In 2025: 5.3% [2.2-7.9]
Despite the increase in Oyu Tolgoi production and the growth of the mining industry, the decline in foreign investment and tightening of the fiscal outlook will hurt the non-mining sector, and economic growth is expected to slow down.

Source: Respective websites from each institution

FOREIGN TRADE

The improvement in foreign trade turnover in the year 2023 has led to a significant rise in official foreign currency reserves, reaching an all-time high. As a consequence, it is expected that the exchange rate of the US Dollar against MNT will remain stable in the forthcoming year.

Macro Indicators in 2023



Source: National Statistics Office

“ The state budget of 2024 (₮27.4 trillion or \$8.0 billion) is deemed excessive. However, the mining industry's income is expected to reach ₮8 trillion next year, making up 29% of the total budget income.⁵

“ Major international financial institutions, including the World Bank, have predicted that the price of one ton of copper will reach \$15,000 by 2025, which is higher than the price of \$9,000 included in the budget estimate. Thus, our country's economic growth, which mainly depends on the mining sector, is likely to exceed the current forecast.⁶

● LOANS ISSUED BY BANKS

The valuation of the Mongolian Stock Exchange exceeded ₮10 trillion for the first time in 2023 as the largest five commercial banks traded 5-11 percent of their shares to the public and raised ₮473 billion.

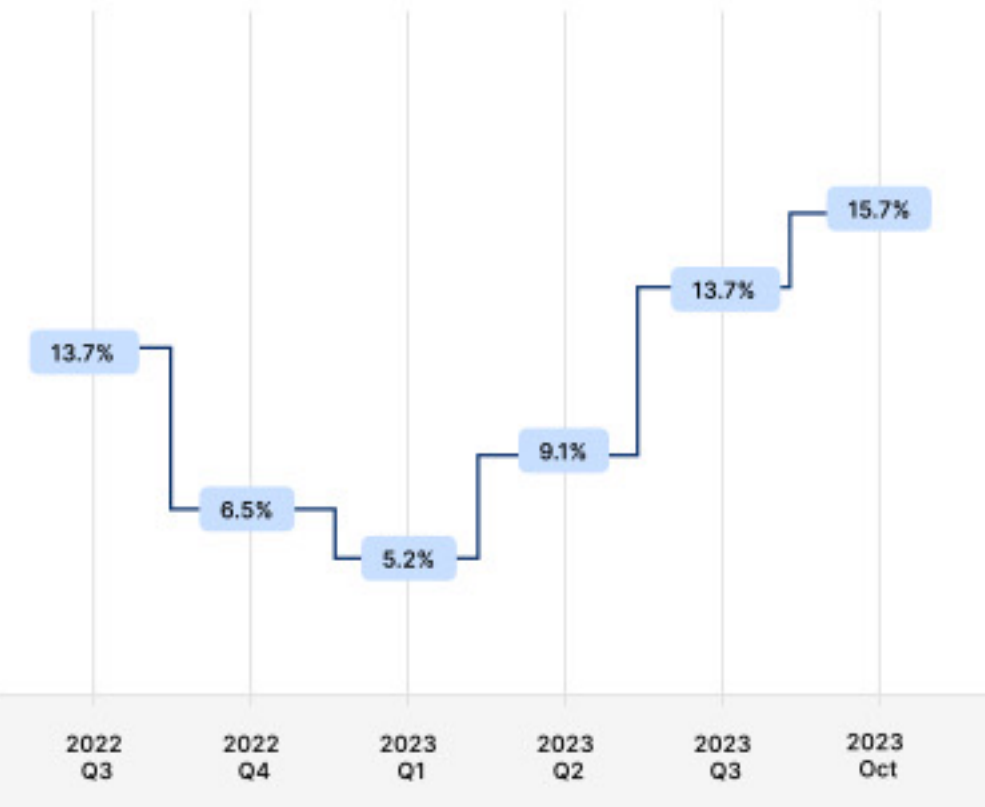
Blackrock, the world's largest investment management company, manages a total of \$10 trillion in assets, almost 3500 times higher than the sum of all securities on the Mongolian Stock Exchange.⁷

In 2023, the banking sector provided loans amounting to ₮41.7 trillion, with total loans growing by 15.7% in the first 10 months of the year, as reported by the Bank of Mongolia in its Inflation Report. The groups affected by this increase include:

Loan Categorization	Contributions to Loan Growth	Business Loan Sector	Contribution to Overall Growth
Consumer and collateralized loans	10.1%	Mining	-1.3%
Mortgage	2.1%	Processing	0.7%
Business loan	3.5%	Construction	0.7%
		Retail	1.4%
		Other services	1.5%
		Other	0.5%
TOTAL LOAN GROWTH	15.7%	Total Business Loan	3.5%

“ About 80% of the new loans in 2023 were granted to individuals as personal, deposit-backed, and state-subsidized mortgage loans. However, in 2024, the Bank of Mongolia stated that it would shift loan requests to the business sector, loosen business loan criteria, and thus increase jobs and improve households' actual incomes.⁸

As of October 2023, the Annual Loan Growth Rate Has Reached 15.7%

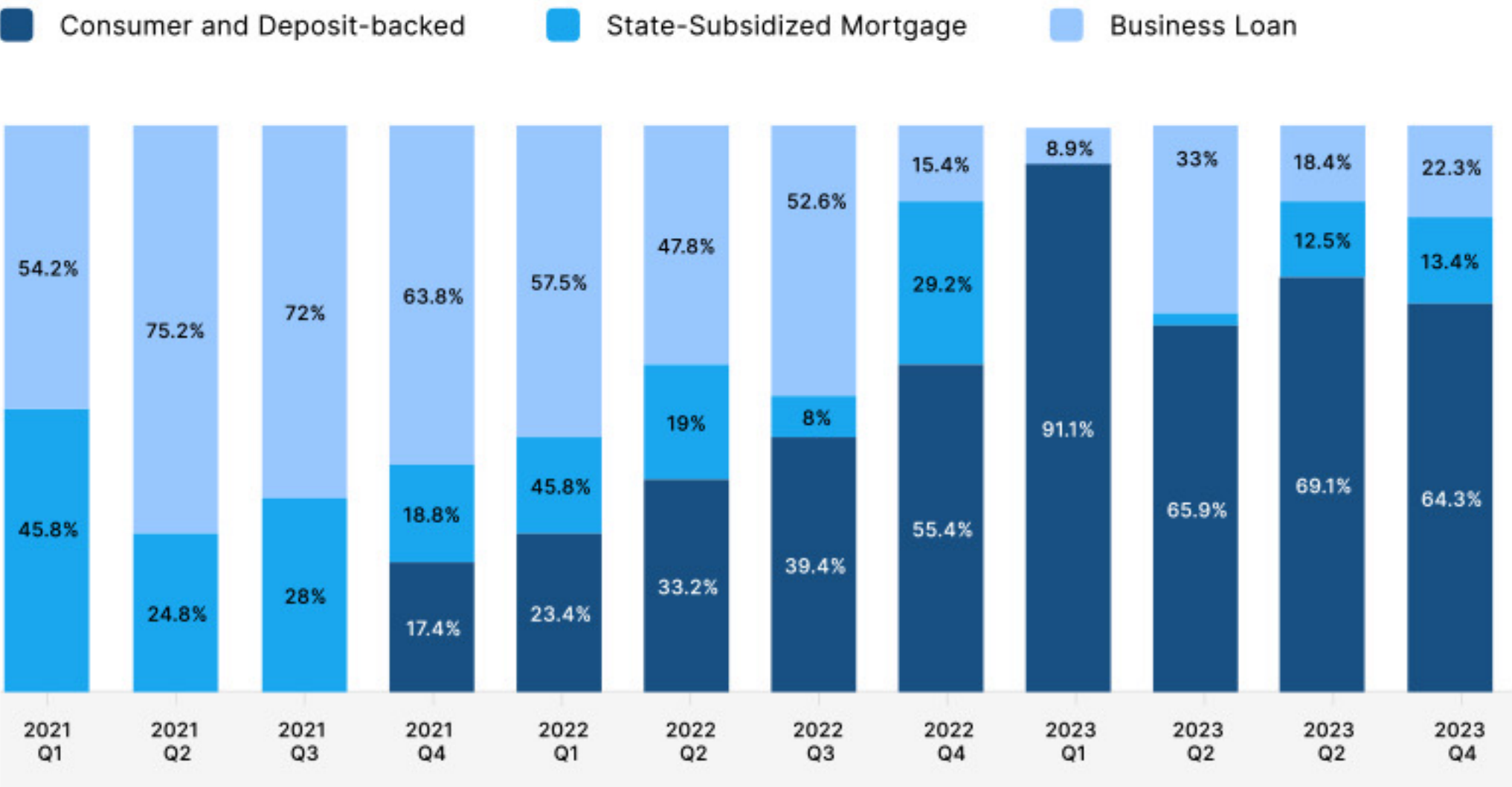


Source: [Central Bank of Mongolia](#)

“ Consumer credit growth accelerated since the second half of 2022, becoming the primary driver of loan expansion, while business loan growth remains sluggish.

The policy interest rate remained steady at 13 percent throughout 2023, and there were minimal changes in the interest rates on newly issued loans and newly collected deposits by banks.

Consumer and Deposit-Backed Loans Predominantly Drive the Growth of Total Loans



Source: [Central Bank of Mongolia](#)

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Business Loan
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Investment Loan
up to 1.0 billion MNT



Business line of credit
up to 2.0 billion MNT



Loan for financial institutions
up to 2.5 billion MNT



Trade finance



Guarantee



Factoring



Invescore Bond
Fixed repayment bond



Trust deposit
1.0 million MNT or more



Invescore Stock
Invescore NBFI's stocks



Invescore ABS
Asset-Backed Securitities

Construction And Real Estate Brokerage Industry Performance

2022

- **Construction Industry**
- **Real Estate Brokerage Industry**

CONSTRUCTION INDUSTRY

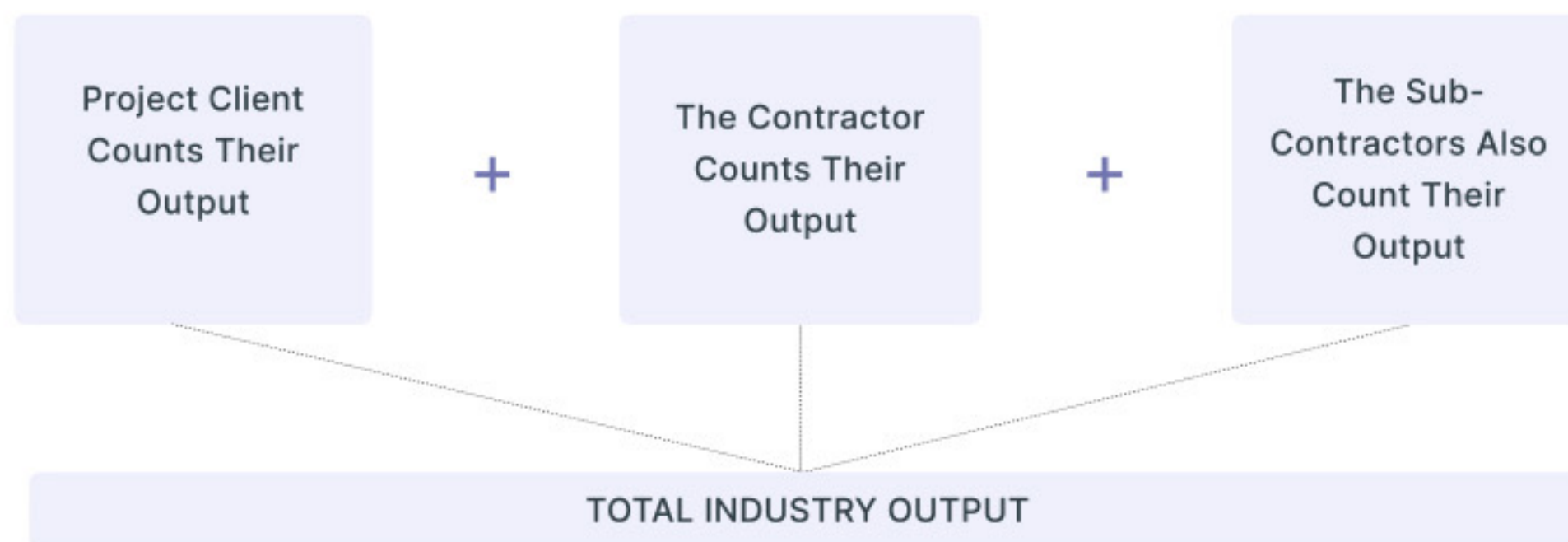
Over the past eight quarters, the construction sector has consistently contributed less than 0.2% to the overall change in Gross Domestic Product (GDP). This indicates that economic growth, in general, does not significantly impact the construction sector. Instead, it affects only a few subsectors related to mining, transportation, and services. This observation is noteworthy as it underscores the need for policymakers to consider sector-specific measures to support the growth of the construction industry.

However, among the total construction and capital repair works calculated by cost, industrial buildings and engineering buildings and structures had the highest growth compared to the same period last year. In addition, state-funded projects are planned to be made mostly into the roads, infrastructure facilities, and structures in the coming year.

The construction cost index increased by about 5% from the previous year, which is lower rate than the general inflation. The USD/MNT exchange rate, transportation, and importing activities are expected to remain stable next year, so the cost of construction will not change much.

● THE NEWLY CREATED VALUE-ADDED OF THE CONSTRUCTION INDUSTRY

METHODOLOGY:



Counting the output of one job multiple times as shown above to determine the final value of goods and services is not accurate. To address this issue, **GDP by production method** is calculated in the following way:



The **construction sector's** contribution to the GDP calculated by the production method reached ₮2 trillion in annual value. However, it is about ₮898 billion in the adjusted value, which **explains 0.0% of the change in the total GDP**. GDP grew by 7.0% year-on-year, while construction output grew by 0.6% only year-on-year.⁹

Gross Domestic Product (GDP) by Production Method



Source: [National Statistics Office of Mongolia](#)

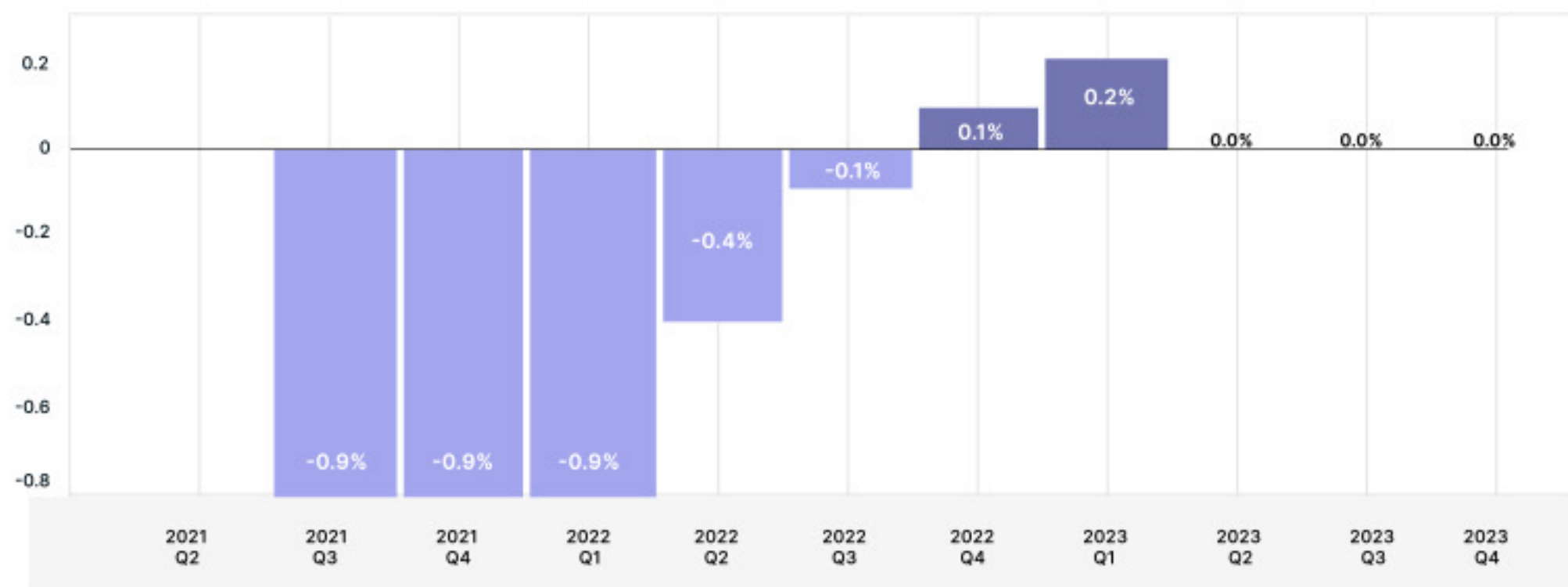
Production of the Construction Industry in 2023



Source: [National Statistics Office of Mongolia](#)

“ This was not only the situation in 2023; during the past eight quarters, the construction sector only accounted for a maximum of 0.2% of the change in GDP, while it had a negative share during the pandemic.

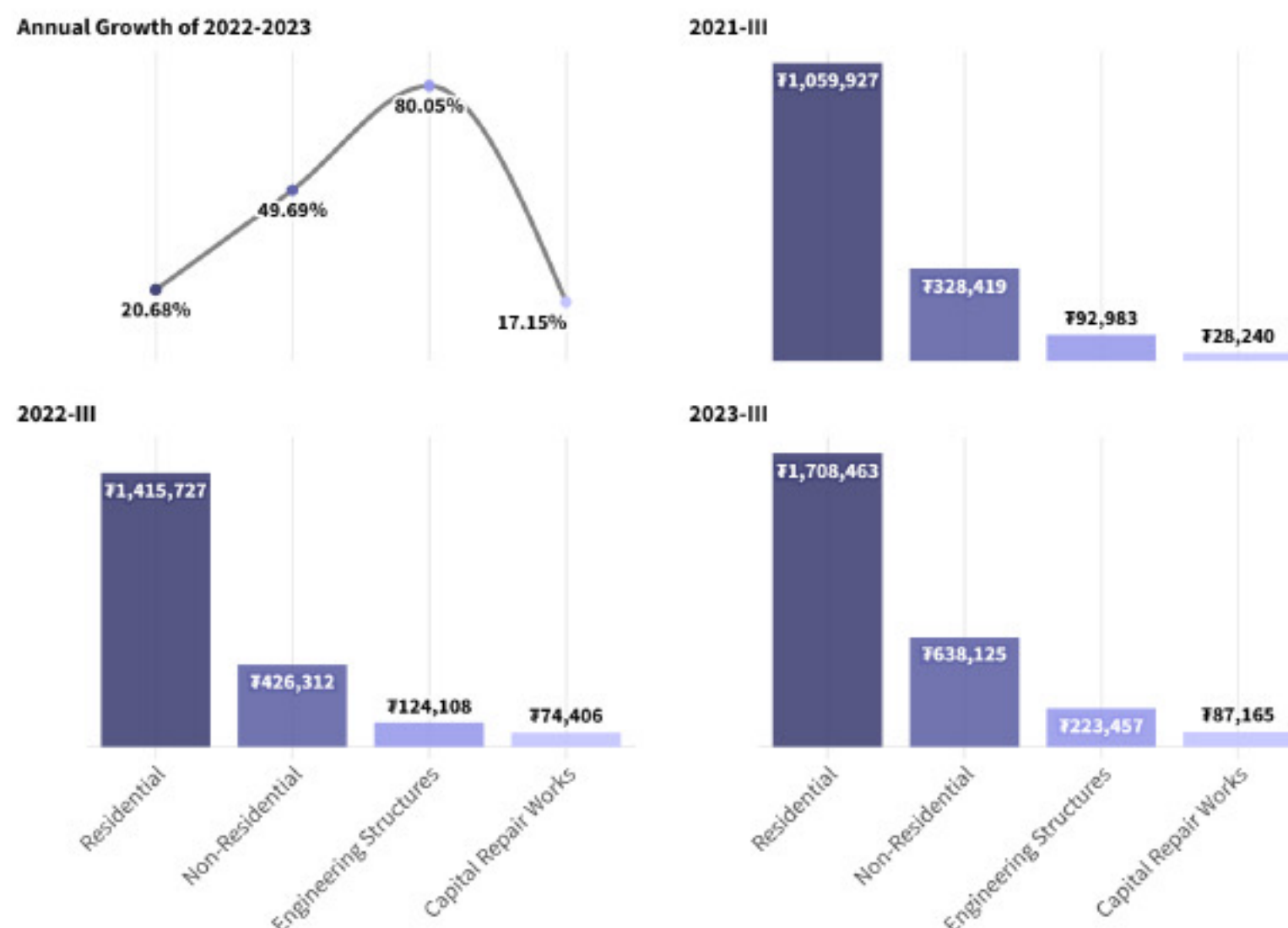
Participation of the Construction Industry in the GDP Change (as a Percentage)

Source: [National Statistics Office of Mongolia](#)

- OVERALL PERFORMANCE OF THE CONSTRUCTION INDUSTRY

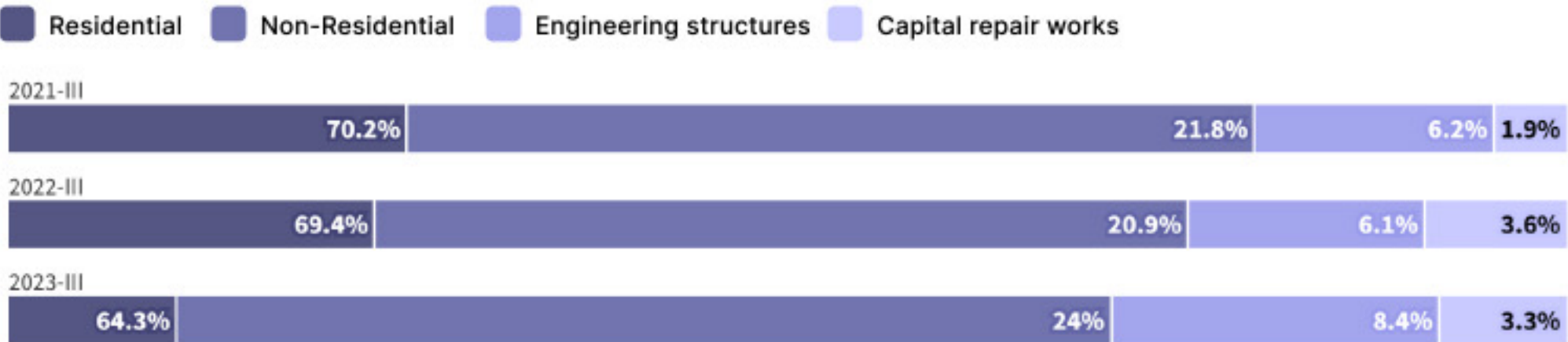
As of the third quarter of 2023, foreign, domestic, public, and private sector enterprises had completed construction, engineering structures, and capital repair works worth ₮5.6 trillion (\$1.64 billion) and ₮2.7 trillion (\$789.2 million) in the UB city. Performance in Ulaanbaatar increased by 30% compared to the same period last year.

Construction and Capital Repair Works in Ulaanbaatar City (in Million ₮)

Source: [National Statistics Office of Mongolia](#)

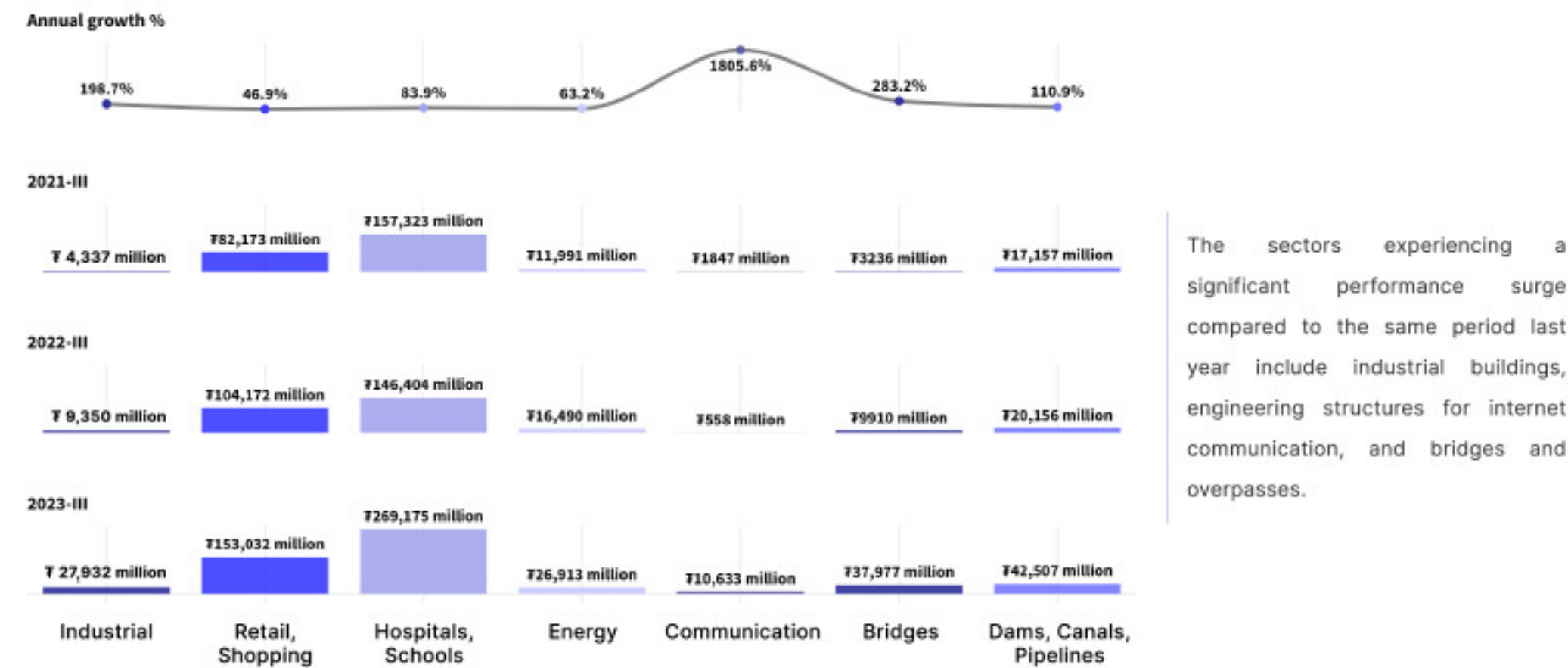
Among the four general groups of the report, the share of residential buildings in the total performance has decreased in recent years, from 70% to 60%, while the share of non-residential buildings has increased from 20% to 25%. The share of engineering structures has increased to nearly 10%, and an increasing picture is observed.

Construction and Capital Repair Works in Ulaanbaatar City



Source: [National Statistics Office of Mongolia](#)

Sector Highlights from Total Construction and Capital Repair Works Done



Source: [National Statistics Office of Mongolia](#)

“ In 2024, a state-funded 1050 projects are planned, mainly in roads, engineering structures, and energy facilities. This is in line with the current scenario of the construction industry, which is faced with the lack of infrastructure and the risk of energy supply, and the plan will be of high fundamental importance in the future. ¹⁰

Key Categories of Projects Planned To Be Carried Out by the State Fund

Categotries	Number of Projects	Total cost /Billion/	Financing in 2024 /Billion/
Roads and Bridges	89	₮ 2,539.1	₮ 622.3
Schools	140	₮ 1,115.0	₮ 375.3
Engineering Infrastructure	71	₮ 911.3	₮ 355.4
Electricity and Heat Supply	46	₮ 572.3	₮ 220.1
Hospital	66	₮ 494.9	₮ 176.8
Kindergarten	128	₮ 401.9	₮ 147.8

In total, there are 1,050 projects with a budget of ₮9.4 trillion, of which ₮3.2 trillion is allocated for financing in 2024.

Source: [Department of Budget Policy and Planning - Mongolia's 2024 Consolidated Budget Proposal](#)

● CONSTRUCTION COST INDEX

During the pandemic, the construction cost index grew by over 30% annually in 2021 and 2022, while the general index grew by 4.8% in 2023, a return to pre-COVID levels indicating a recovery.

Construction Cost Index *(Compared to the Same Period of the Previous Year)*

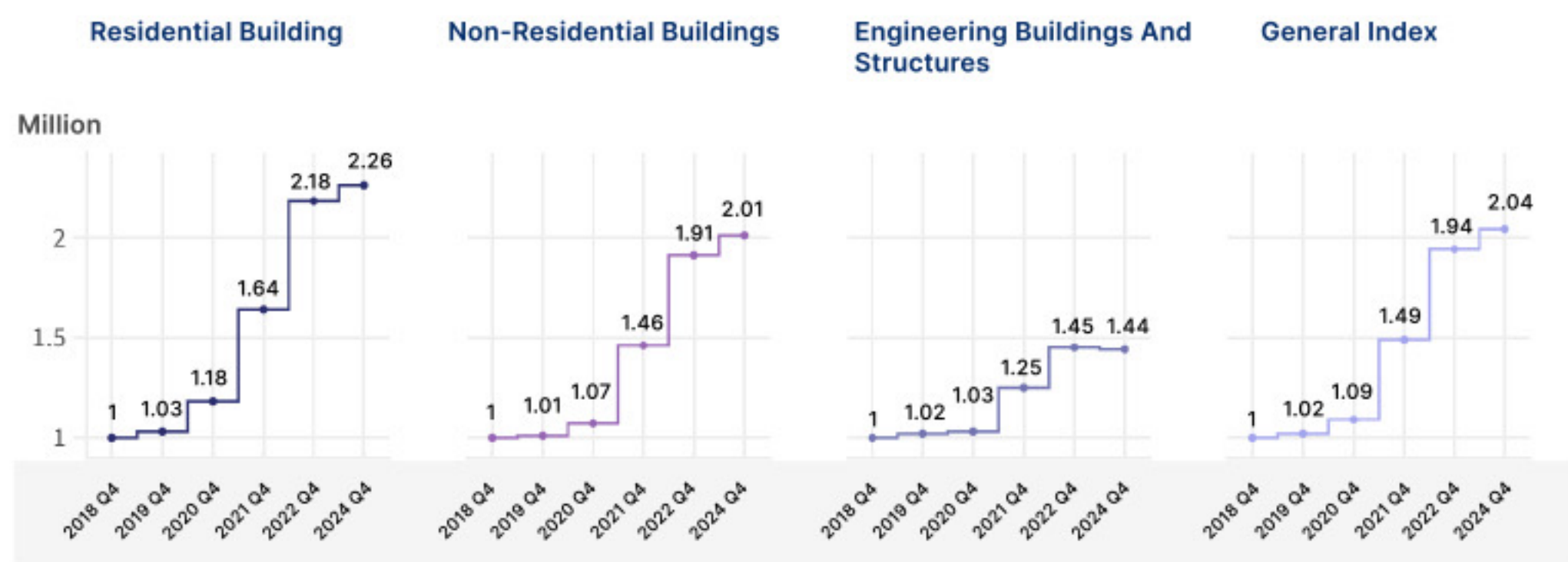
Type	2019Q4-2020Q4	2020Q4-2021Q4	2021Q4-2022Q4	2022Q4-2023Q4
Residential Building	14.8%	39.1%	33.3%	3.8%
Non-Residential Buildings	5.6%	37.0%	30.4%	5.4%
Engineering Buildings and Structures	0.8%	21.0%	16.2%	-0.5%
General Index	7.3%	21.0%	30.5%	4.8%

*The Construction Cost Index represents changes in the price of construction materials, machines, mechanisms, and wages used to construct buildings and structures.¹⁷

Source: [National Statistics Office of Mongolia](#)

“ The Construction Cost Index increased by about 5% from the previous year, which is a lower rate than the general inflation. The USD/MNT exchange rate, transportation, and importing activities are expected to remain stable next year, so the cost of construction will not change much.

Construction Costed ₮1 Million Now Costs ₮2 Million



Source: [National Statistics Office of Mongolia](#)

“ If the same building that costed ₮1 million in 2018 is built in 2023, the cost will be ₮2.04 million, representing a total increase of 104%.

● FOREIGN DIRECT INVESTMENT

In 2023, the total amount of Foreign Direct Investment (FDI) inflows into Mongolia reached \$3.1 billion, a decrease of more than 9% from the previous year. Meanwhile, FDI flows into the construction sector decreased by over 60%, reaching \$25.1 million.

Foreign Direct Investment Inflows 2021-2023



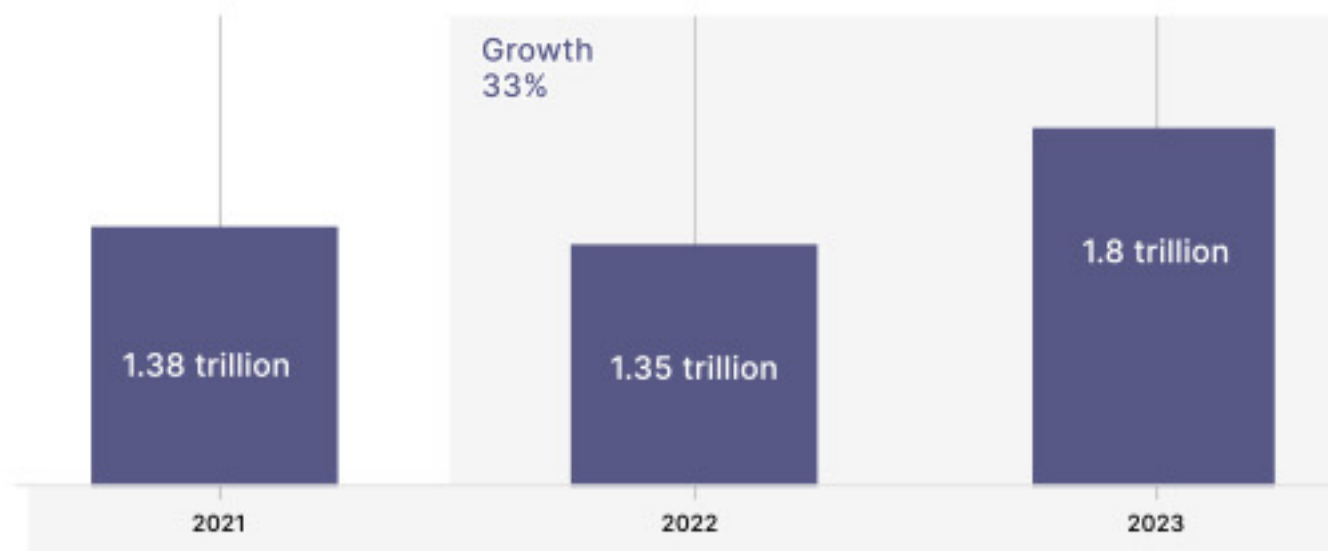
Source: [National Statistics Office of Mongolia](#)

“ On average, Foreign Direct Investment (FDI) in the construction sector over the last 3 years constitutes approximately 1.37% of the total investment flow. In contrast, the mining sector, as the primary economic influencer, comprises around 80% of the total FDI inflow.

NEW LOANS ISSUED BY BANKS

The state's monetary policy has tightened credit criteria in recent years. In 2023, new loans granted by commercial banks to the construction industry amounted to ₮1.8 trillion (\$526.13 million), a 33% increase compared to the preceding year. In total, banks granted new loans worth ₮41.7 trillion (\$12.19 billion), of which 4.3% was allocated to the construction sector.

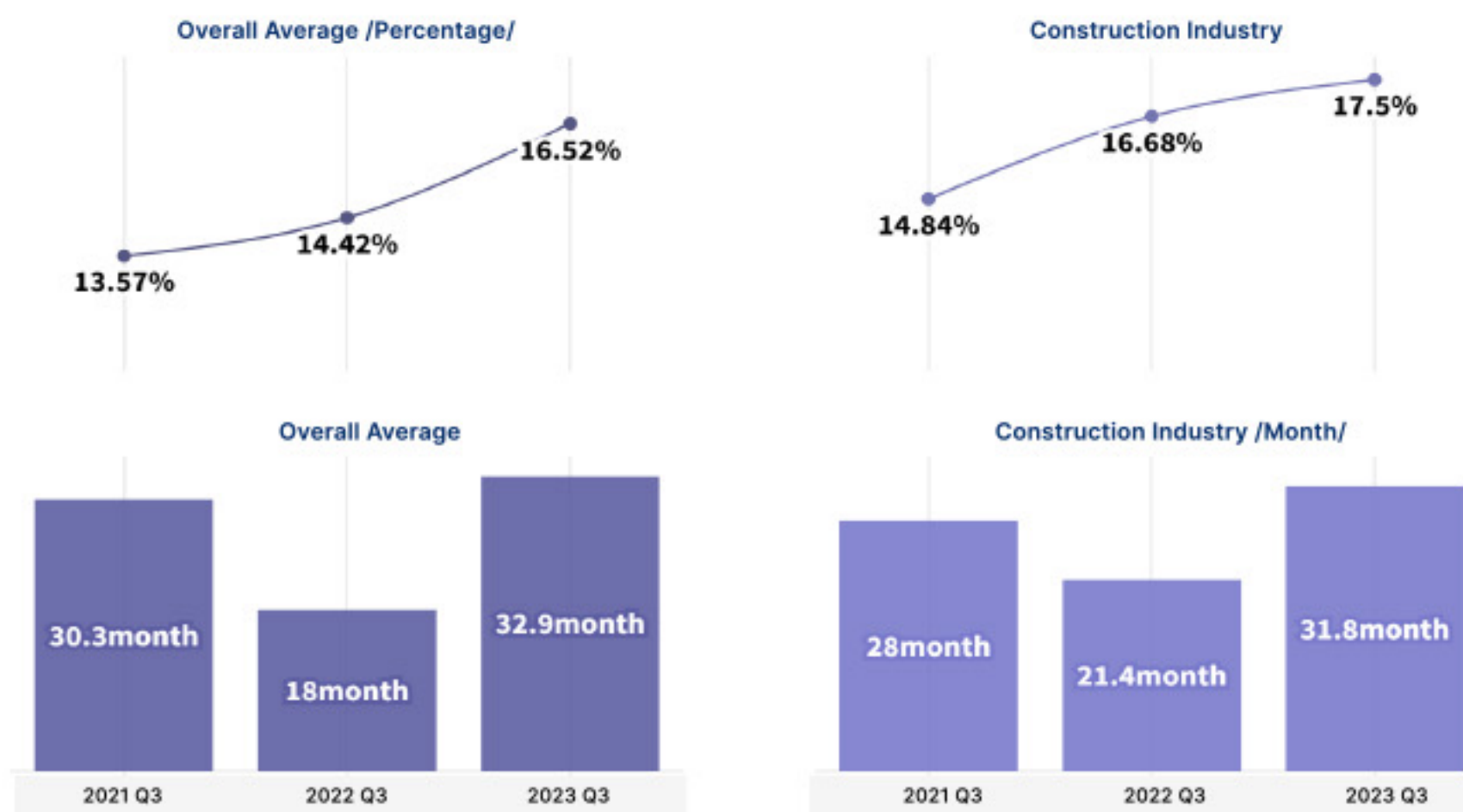
The Total Value of New Loans Extended to the Construction Sector



Source: [Central Bank of Mongolia](#)

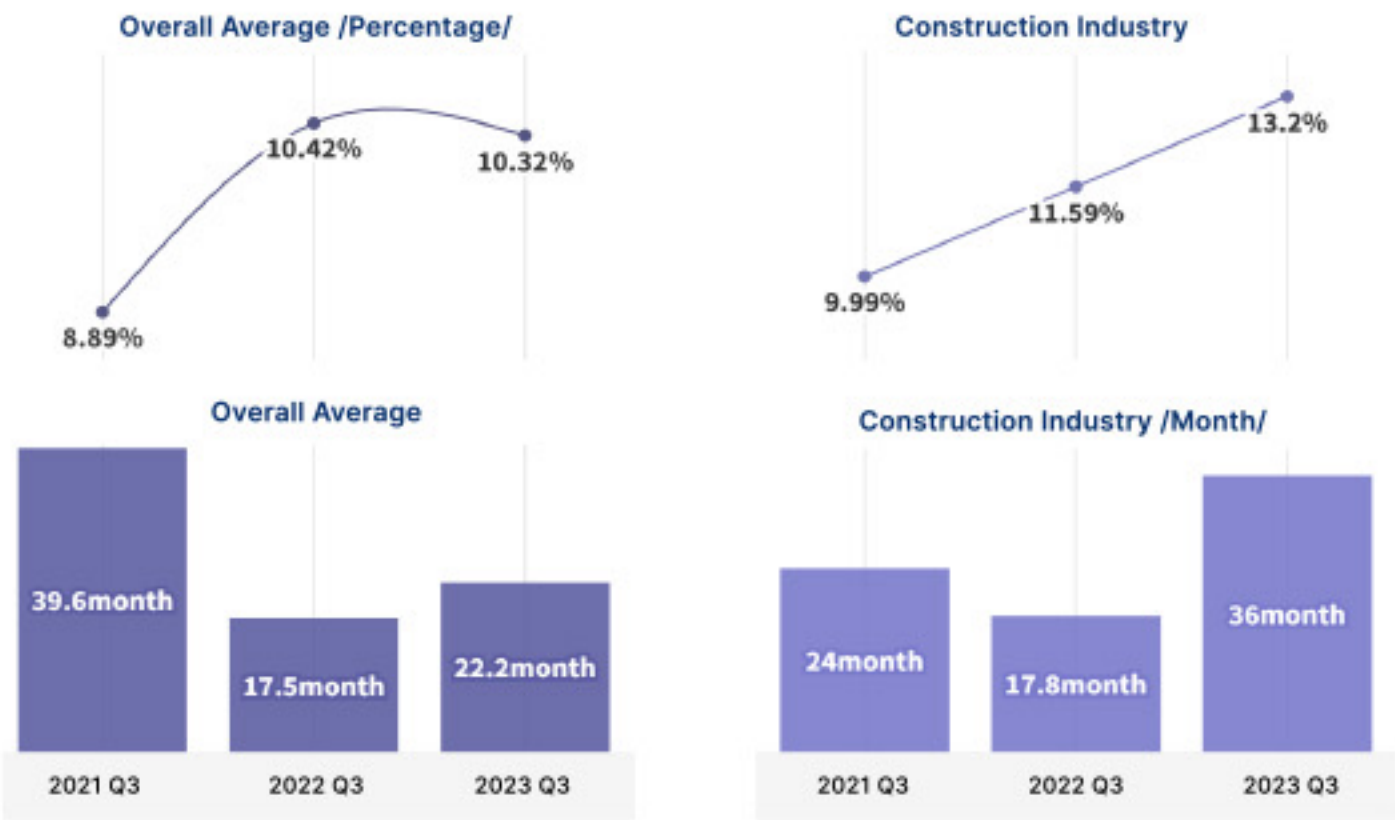
As of the 3rd quarter of 2023, the weighted average interest rate of newly issued MNT loans in the construction sector is 17.5% per annum, with a term of 31.8 months, and the weighted average interest rate of foreign currency loans is 13.2% per annum, with a term of 36 months.

Interest Rates and Loan Duration of Newly Issued Loans (*for Loans Denominated in MNT*)



Source: [Central Bank of Mongolia](#)

Interest Rates and Loan Duration of Newly Issued Loans
(for Loans Denominated in Foreign Currency)

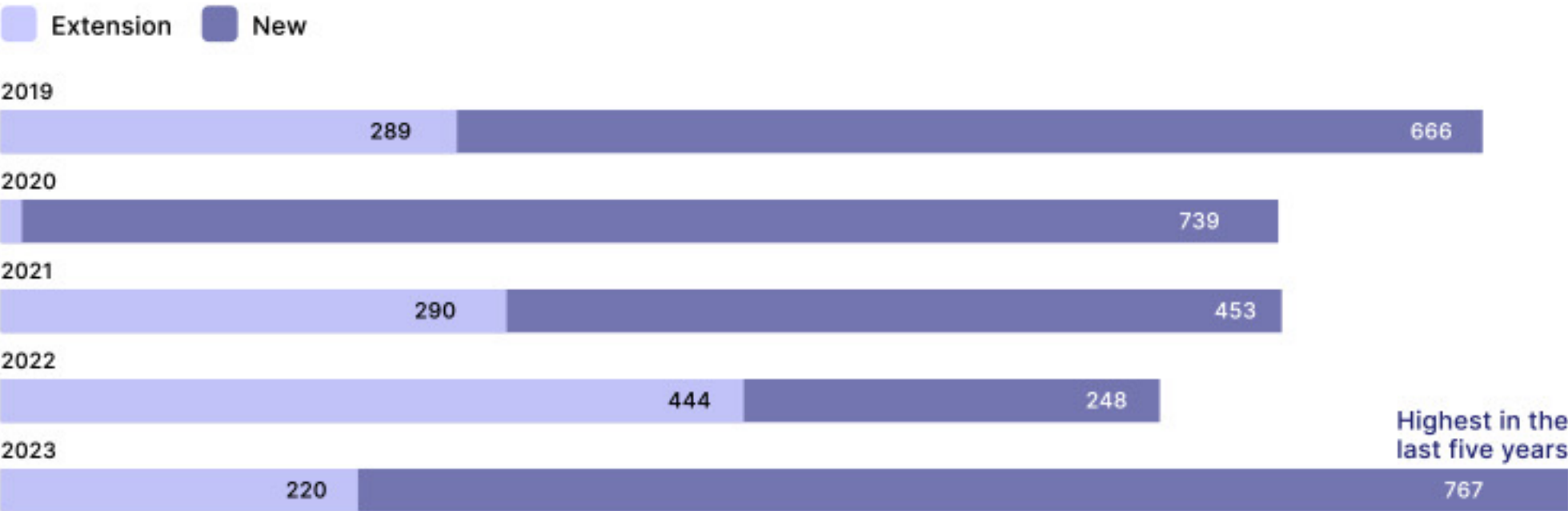


Source: [Central Bank of Mongolia](#)

“ The cost of goods and materials is expected to be stable. The fact that 767 new construction permits were issued in 2023, the highest number seen in the last five years, is a sign that professional construction companies have a positive vision of their industry's future and are confident in their ability to succeed.¹²

In addition to the Bank of Mongolia announcing that commercial banks will expand their business loans and restrict consumer loans from next year, the Government has declared 2024 as the "Year of Supporting Urban and Rural Development". It will pay great attention to developing infrastructure facilities and new urban areas.

New Construction Permits Issued



Source: [The Ministry of Construction and Urban Development](#)

REAL ESTATE BROKERAGE INDUSTRY

Mongolia was added to the Financial Action Task Force's (FATF) watch list in 2019 due to weak anti-money laundering and terrorist financing strategies. In response to FATF's recommendations, the state started licensing real estate brokerage activity in 2020. The "Real Estate Brokers and Dealers in Precious Metals and Stones Department" was established within the Financial Regulatory Commission to enforce this licensing and regulate the trade of precious metals and stones.

Since then, until 2023, the ratio of licensed organizations acting as mediators in the transactions for the sale and transfer of real estate remains less than 20% of all transactions registered by the General Authority for State Registration. In addition, most brokered sales transactions (about 87% in 2023) are still residential property alone.

In 2021, an association was established with a membership of more than 180 real estate brokerage organizations. Through that, standards, rules, and codes of conduct for agents and brokers in the real estate industry were developed, and professional training was provided for industry professionals. However, regulation of real estate brokerage activities to be followed at the national level is not in the picture.

● BROKERAGE ACTIVITY

As of the end of 2023, 308 brokerage organizations are operating in Mongolia with a special license from the Financial Regulatory Commission. More than 192 of them have the right to provide property management services in addition to sales and rental brokerage. At the same time, there are 1,284 registered and professional agents in the FRC, which is a decrease of 211 or 14.1% from the same period of the previous year.

As of the end of 2023, 57,342 agreements for the sale and transfer of real estate were registered at the General Authority for State Registration.¹³ Of these, 10,343 deals, or 18%, were sold through professional real estate brokerage companies registered with the FRC.¹⁴ According to this data, professional companies only accounted for 18% of the total real estate transactions in 2023.

“

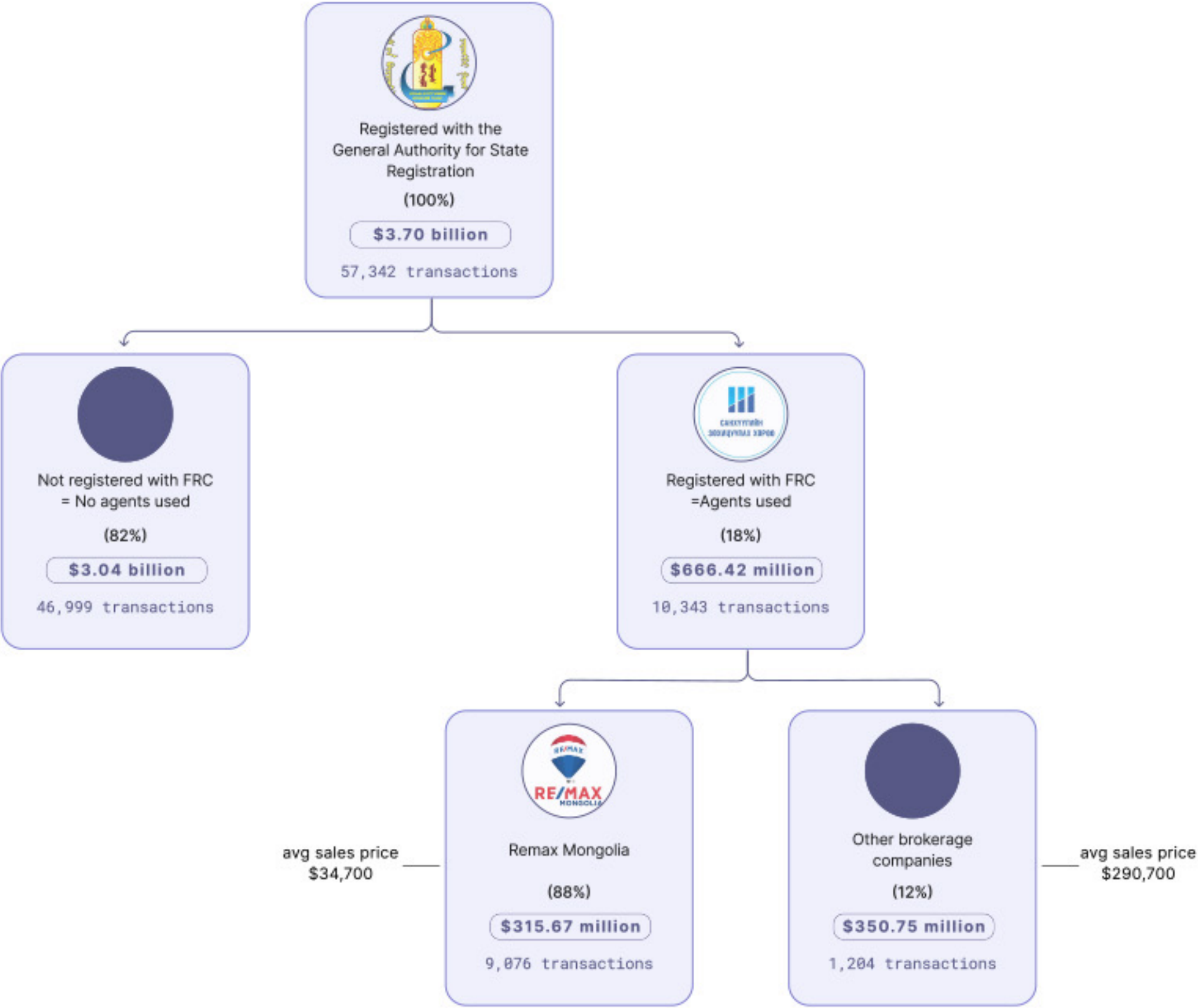
If the total value of real estate sold through real estate brokerage companies is ₮2.28 trillion or \$666.4 million, representing 18% of the total market, it can be estimated that the total sale price of all real estate sold in the market was ₮12.67 trillion or \$3.7 billion.

“ Based on the information provided in the reports presented by the organizations below:

- The average price of the sales completed by Remax Mongolia is \$34,700 (\$315 million/9,076 deals)
- The average sales price of other brokerage companies is \$290,700 (\$350 million/1,204 deals).

Therefore, it can be concluded that Remax Mongolia is a dominant player in the real estate brokerage market, focusing primarily on residential properties, while other brokers seem to focus more on high-value assets such as offices, retail spaces, and high-end residential projects.

Real Estate Sale and Transfer Agreements in 2023
(by the Number of Agreements)



Source: [General Authority for State Registration](#); [Financial Regulatory Commission](#); [Remax Mongolia](#)

● BROKERAGE ACTIVITY PERFORMANCE

As of the end of 2023, professional agents made 10,343 sale and transfer agreements with a total value of ₮2.27 trillion (\$663.5 million) . The total value of the deals sold increased by 34.1% compared to last year. Sales commissions were typically 2-2.8% of the sales price.

Sales Transactions Registered in the FRC Are Classified by Types:

Residential	Retail, Office	Land	Industrial Use
86.7%	11.3%	1.6%	0.4%

During this period, professional agents made 7,430 leases with a total contract amount of ₮178.1 billion (\$52.1 million). Lease deals decreased by 59.9% in contract amount compared to last year. On the other hand, there is a decrease of 28.6% in terms of leased space.

Most of the deals were for real estate with an area of 51-100 square meters, and the commission of the rental brokerage was about 7-8% of the lease contract amount /12 months/ or equivalent to 1 month's rent.

Lease Transactions Registered in the FRC Are Classified by Types:

Residential	Retail, Office	Land	Industrial Use
64.4%	30.1%	0.5%	5.0%

“ In the beginning of 2024, Remax Mongolia dominated the market with 88% of sales brokerage transactions and 47% of the total value of properties sold in 2023.¹⁵ Recently, they have increased their brokerage commission fee to more than 3% of the sales price. As a result, industry participants are closely monitoring the situation to see how other players in the market will respond. They may opt to raise their prices as well or maintain the current rate and try to capture more market share.

● FOREIGN DIRECT INVESTMENT

In 2023, the total amount of foreign direct investment (FDI) inflows into Mongolia reached \$3.1 billion, a decrease of more than 9% from the previous year. Meanwhile, FDI flows into the real estate operations sector decreased by over 74%, reaching \$4.4 million.

Foreign Direct Investment Inflows 2021-2023



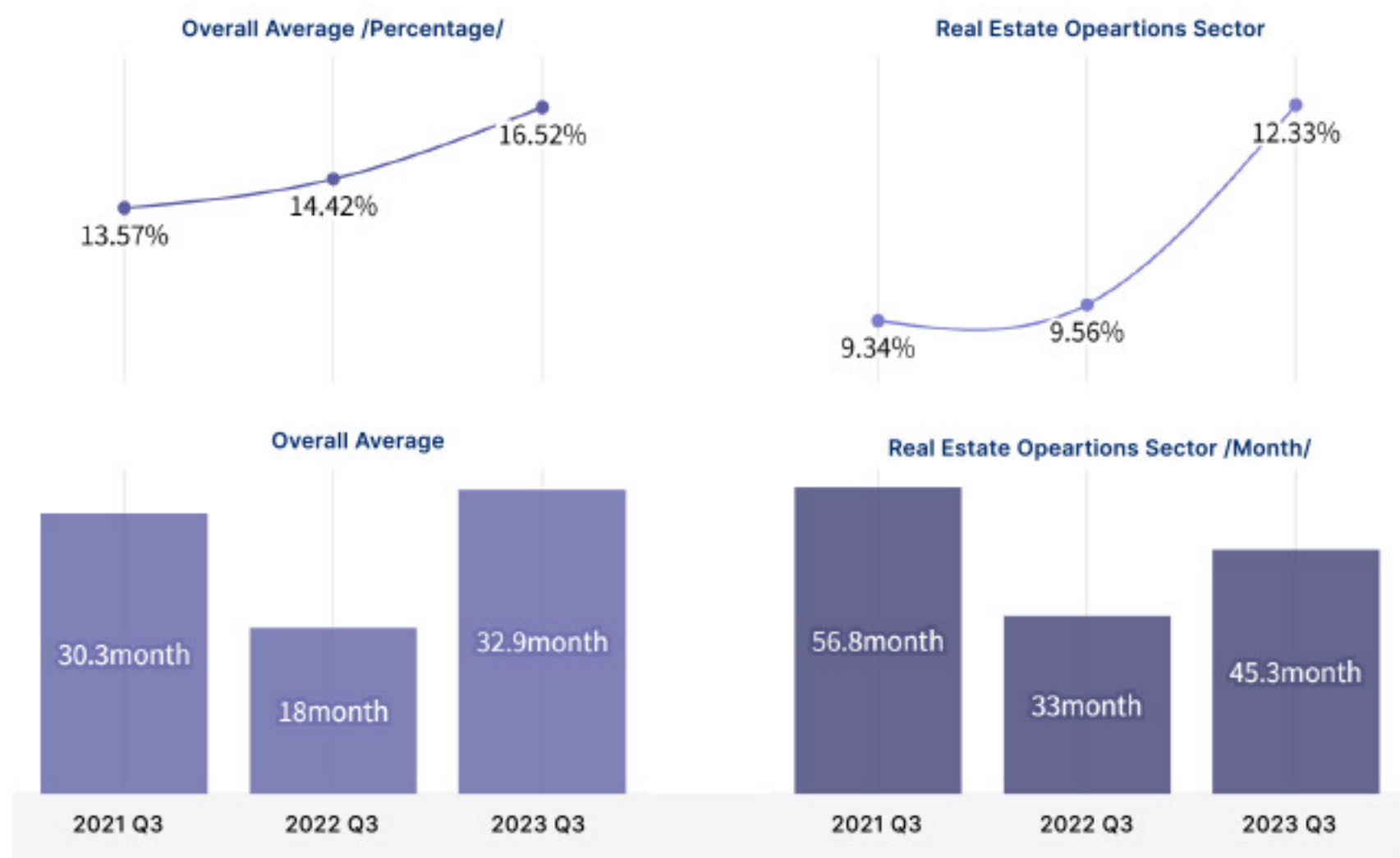
Source: [National Statistics Office of Mongolia](#)

“ On average, Foreign Direct Investment (FDI) in the real estate operations sector over the last 3 years constitutes approximately 0.57% of the total investment flow. In contrast, the mining sector, as the primary economic influencer, comprises around 80% of the total FDI inflow.

NEW LOANS ISSUED BY BANKS

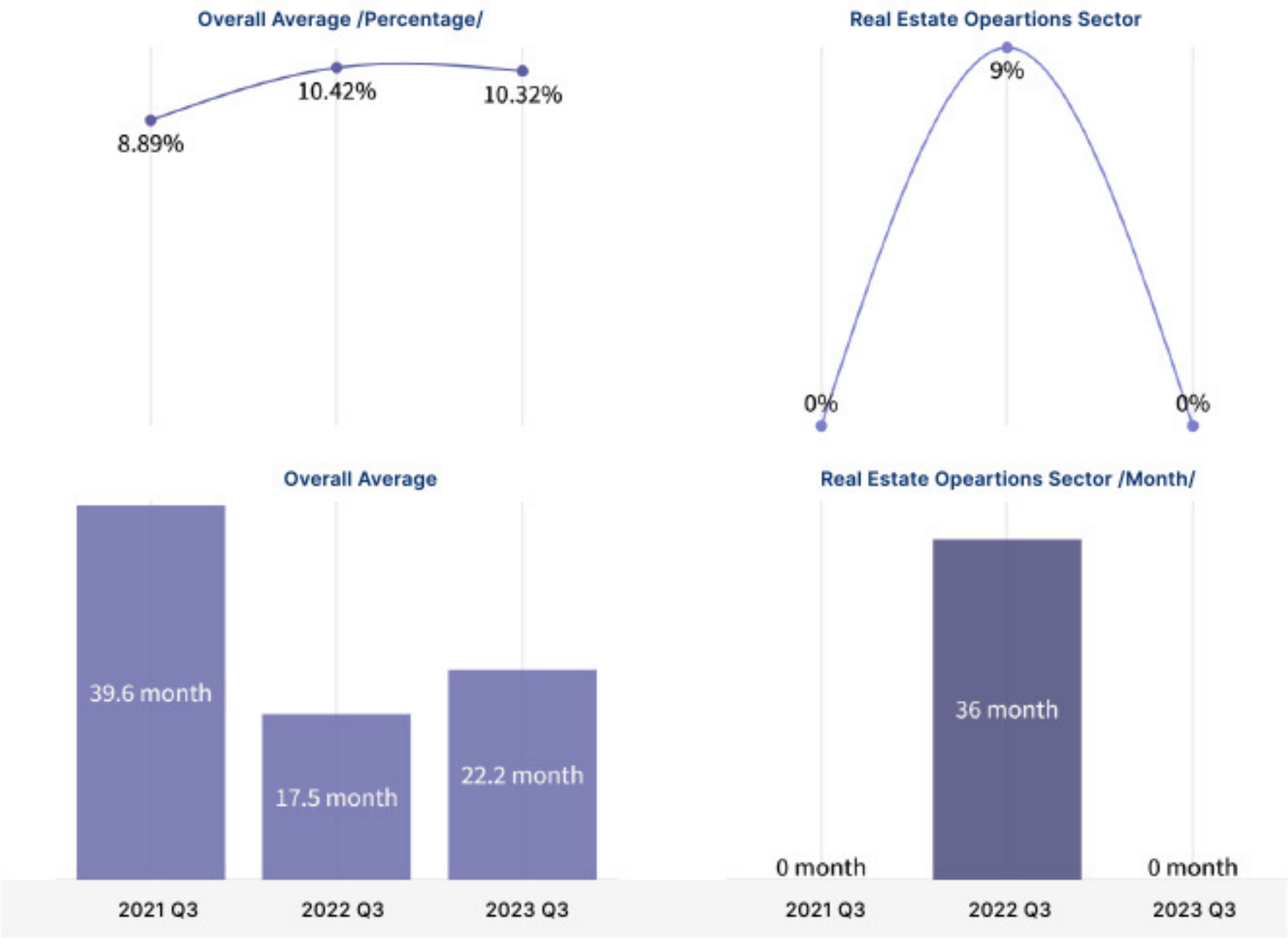
Banks granted new loans to real estate operators totaling ₮2.1 trillion (\$613,818), a 40% increase from the previous year. In total, banks granted new loans worth ₮41.7 trillion (\$12.19 billion), of which 5.2% was allocated to the real estate operations sector. The weighted average interest rate of newly issued MNT loans in the real estate operations sector is 12.33% per annum, the term is 45.3 months, and there are no newly issued foreign currency loans.

Interest Rates and Loan Duration of Newly Issued Loans
(for Loans Denominated in MNT)



Source: [Central Bank of Mongolia](#)

Interest Rates and Loan Duration of Newly Issued Loans
(for Loans Denominated in Foreign Currency)



Source: [Central Bank of Mongolia](#)

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Real Estate Market Overview 2023: Ulaanbaatar City

2023

- The Challenges
 - *Expert Opinion: Insurance for Real Estate Businesses*
- Project Financing and Investment in 2023
 - *Expert Opinion: Real-Estate-Based Private Investment Fund*
- Apartment Sector 2023
- Office Sector 2023
- House Sector 2023
- Featured International Markets

THE CHALLENGES

In 2023, the common real challenges that negatively affect the efficiency and profitability of real estate companies in Ulaanbaatar were not fundamental indicators such as the ability to purchase real estate, the availability of credit and resources, the speed of new supply, innovative concepts, and the trend of tenant migration, but were systematic problems including:

- **Risks caused by violations of planning and standards;**
- **Lack of open data in the industry.**

● RISKS ARISING FROM VIOLATIONS OF PLANNING AND STANDARDS

Overt cases of non-compliance with city planning, norms, and standards have been a common topic of criticism from experts and citizens for many years. However, after last year's shortages, dangerous phenomena, natural factors, and accidents, enterprises and citizens began to conduct a thorough risk assessment and demand responsibility from the appropriate institutions.



In 2023, the damage caused by catastrophic events in the country reached ₮52 billion, an increase of 57% from 2022 and 102% from 2021. This includes 1,796 cases of damaged homes and apartments and 990 cases of destroyed homes and apartments.¹⁶

Number of Disasters and Damages Reported in 2023

Dangerous Phenomena	2021	2022	2023	Annual change
Fire	2,671	3,075	3,054	-0.68%
Heavy Snow and Dust Storms	91	56	75	+33.93%
Heavy Rains and Floods	72	35	107	+205.71%
Earthquake	295	39	86	+120.51%
TOTAL Number of Disaster Incidents	4,053	4,299	4,484	+4.30%
Amount of Damage Caused by the Disaster (Billions)	₮25.8	₮33.2	₮52.1	+56.79%

Source: [National Statistics Office](#)

Summer Risk: Flood

Due to temporary heavy rains in July 2023, the Selbe River flow increased and overflowed, resulting in floodwater entering the basements of many buildings, inundating parking lots, and blocking roads. Furthermore, the Dund Gol flooded and caused the same risk.

In addition, the water level of the Tuul River has reached the flood level of 1966 or 311 cm¹⁷, and famous business and high-class townships are located near it, along with the reservoir area. If the Tuul River floods, there is no guarantee that those buildings will not be flooded.

Reason: Despite the government admitting that successive city mayors and officials have been guilty of arbitrarily issuing land rights and building permits without following the city's general and partial plans, the rivers overflowed their banks due to temporary rains, but there is no legal provision or system to hold them accountable.

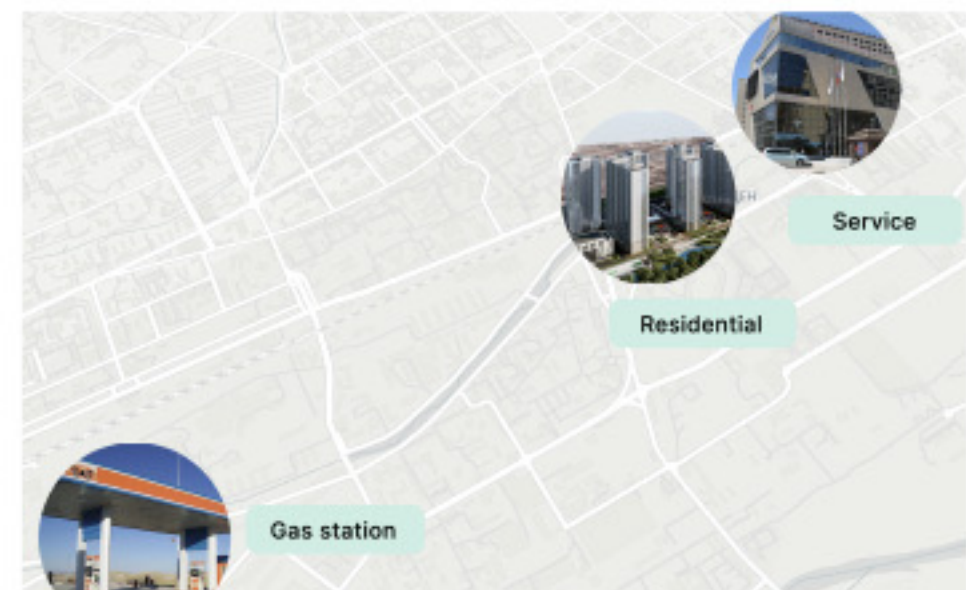
“ The flood-related situation results from urban planning violations of the past 30 years, arbitrary land allocations, and inconsiderate changes in river basins and channels by the officials. - Governor of the capital, Mayor of Ulaanbaatar, Chairman of the special commission of the capital (2023.07.24)¹⁸

Damage: Floods affected one hundred ninety-five buildings, 59 houses, apartments, and fences in 66 khoroos of the capital; 14,132 consumers lost electricity, and there was a risk to citizens' health, property, and engineering facilities. The total damage amount has yet to be determined, and the City Governor's Office has established a working group in this area.

Additionally, due to this incident, no consolidated figures or reports have been presented regarding the extent of damage incurred by business owners and enterprises due to the disruption of business activities.

Further risk mitigation: To restore the flow of the Selbe River, which was at risk of flooding due to repeated rains, an order was issued to forcibly demolish three privately owned projects allegedly blocking the river's flow. As of February 2024, two of them have been removed.¹⁹

Objects Subject to Compulsory Demolition



Within the city of Ulaanbaatar and its satellite cities, there are 314 km of flood-risk areas. 169 km of them have flood dams. Concrete and earthen dams were built in 10.3 km or 30% of the 35 km of the Selbe river. Therefore, the master plan for engineering preparation includes measures to prevent flood risks in four stages until 2040.²⁰

Winter Risk: Lack of Energy Supply

The projections of population growth reflected in the city plans of Ulaanbaatar have always differed from reality. By 2030, the capital was expected to have 1.7 million residents, but this amount was already exceeded in 2023.

While the industrial projects have yet to start, and providing apartment housing to all residents is not even halfway done, the power and thermal plants are working at their maximum production capacity without any reserves. Subsequently, electricity and heating restrictions began. If the supply is not increased, but the load continues to be overloaded, there is a risk that it will become routine to limit the electricity on a fixed schedule in the winter, or the city will freeze when the heating is completely cut off.

“ Therefore, to address and successfully overcome the risk of energy shortages:

- In the short term, measures such as sectional energy limitation and reducing unnecessary peak-hour usage are needed to prevent station overloading and standstills in today's overburdened state.
- In the medium term: Ensure the execution of programs such as the increase and expansion of energy sources and the establishment of sub-centers included in the plan, and work without delay. To do so, provide opportunities for the private sector to invest in the projects rather than relying on the state budget.
- In the long term, new energy supplies implemented by the aforementioned private sectors will require a free market, ending the government's capping of energy prices, to eliminate profit losses.

Reason: Ulaanbaatar's energy consumption has been predicted to increase five years ago and even ten years ago. However, the construction of power stations, which were regularly included in the city's master plan, was not implemented. At the same time, energy shortages and risks have arisen due to an excessive number of violations, such as permission to change the purpose of the building without following the zoning specified in the partial plan or granting permission for multi-story housing in low-rise commercial areas.

Meanwhile, energy shortages and risks have been exacerbated by numerous violations, such as allowing changes in building purposes without adhering to the zoning regulations outlined in the partial plan, or authorizing multi-story housing in areas designated for low-rise commercial buildings.

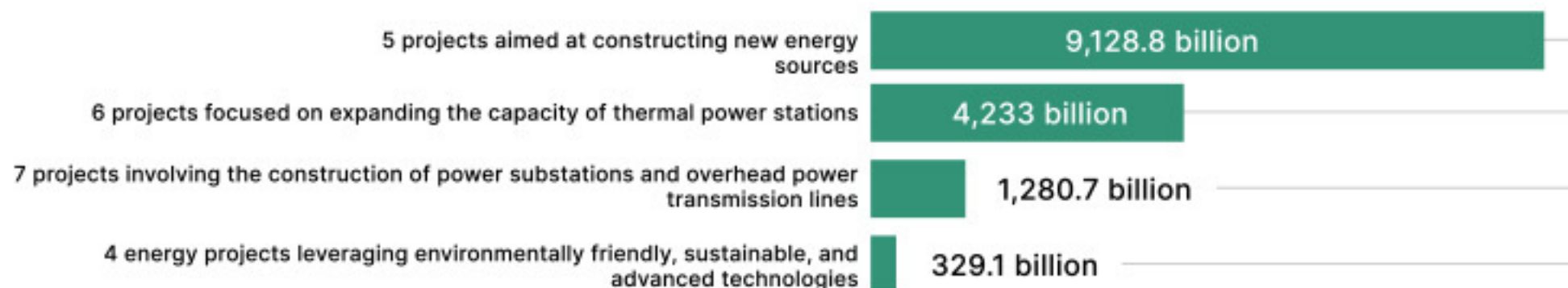
In the winter of 2023, the peak energy load of Ulaanbaatar city surged by 10.9% to 1058 MW, underscoring the heightened risk associated with operating power stations that are over 30 years old due to capacity limitations.

Furthermore, apart from the natural growth of Ulaanbaatar's economy and population, the spike in consumption is also attributable to the government mandating electricity prices, which are set artificially 10% lower than their actual cost. Consequently, consumers lack the incentive to curtail consumption or decrease loads, leading to an artificial distortion in energy supply at non-market prices.

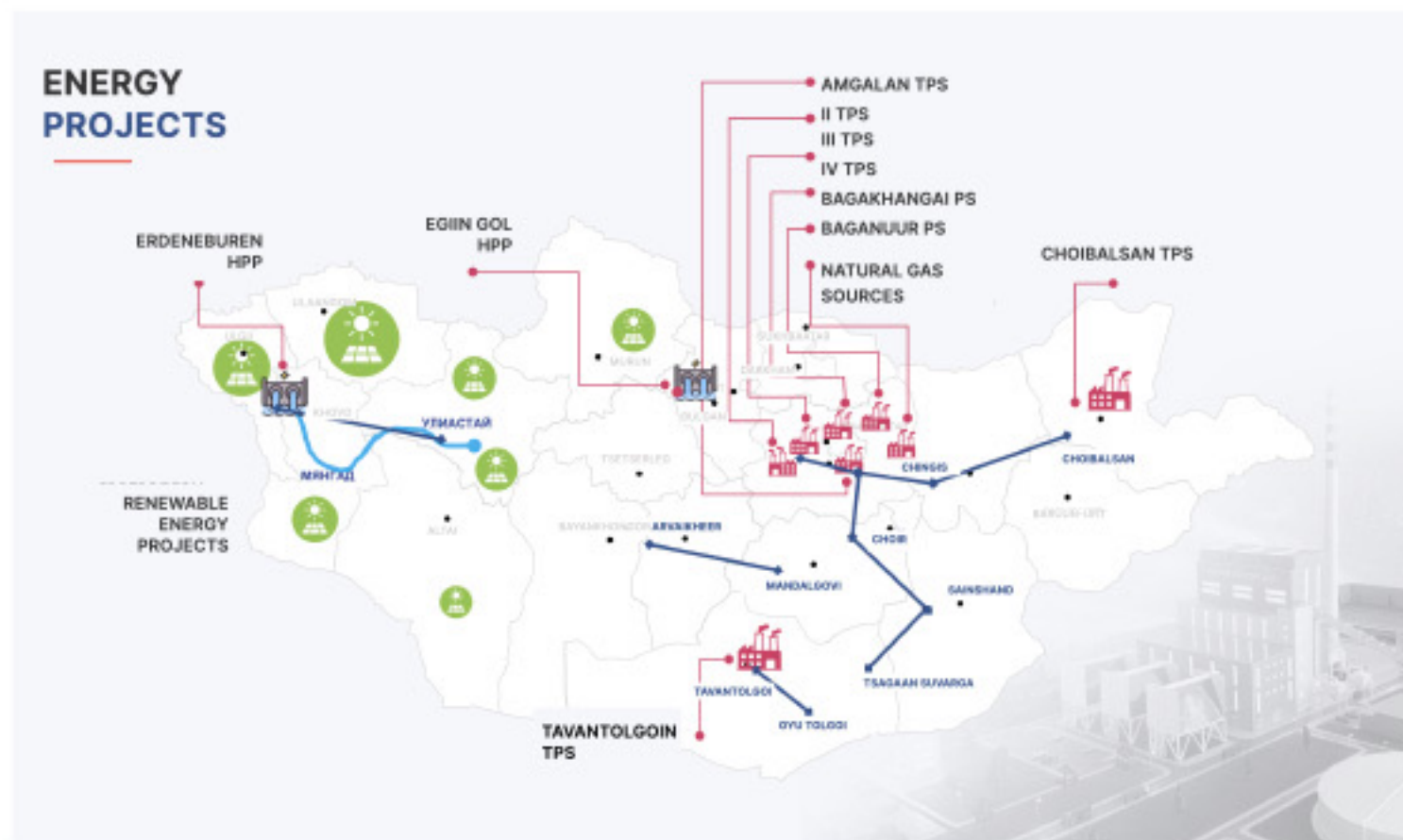
Further risk mitigation: The capital's budget in 2024 did not include a new project to increase energy sources. The soonest source that will be put into operation is the Booriljuot power plant. The first stage of the project, when it is commissioned in October 2024, will supply 150 MW to the power system. When the second phase is completed in 2025, an additional 150 MW will be supplied.²¹

However, the following energy projects and programs will be implemented in the long term until 2030.²²

An Investment of ₮14.9 Trillion Is Required for 22 Projects



Projects Under the Energy Recovery Program



Source: [New recovery policy accelerator center](#)
[NEW RECOVERY POLICY](#)

Expert's Opinion

- **A. Ariunbold – President of the Union of Construction Engineers of Mongolia:**

"Because households lose a lot of heat and use electricity inefficiently, if we stop financing these services with government subsidies and transfer them to the market system, more efficient and optimal solutions will be created. The user should monitor his usage with the meter and pay the bill.

Currently, the heating bill is calculated based on the property's volume in cubic meters instead of usage, and the electricity bill is also paid to the final consumers at a lower price than the cost of importing it. The monthly energy bill of a residential household is lower than the monthly cost of coal used by a household in the ger district, which is a situation that needs to be resolved. Because energy is cheap, households may have little incentive to limit consumption or reduce load." ²³

- **Ch. Khaschuluun – Professor at National University of Mongolia, PhD, Economist:**

"If the government cannot finance power projects under the current financial conditions, there is an opportunity to support and advance the construction of power plants through concession agreements and pure private investment by allowing the private sector. In such a case, large companies will enter this sector, thereby strengthening Mongolia's energy independence and independence from imports." ²⁴

Real Estate Insurance Alone Is Not Sufficient Risk Mitigation

The total assets of Mongolian insurance companies combined are about ₮580 billion, and the risk reserve fund is about ₮270 billion. The penetration of the insurance industry, or the percentage of total premium income as a share of GDP, is 0.6%.²⁵

However, the construction cost of a class A, one-block office building in a class A city location is at least ₮50 billion. Therefore, managing the risks that may arise in the construction and real estate sector only through insurance services and relying on their reserves is unrealistic.

Preventative Measures

One measure to prevent further violations of urban planning and standards is to create and enforce a system of responsibility. As of February 2024, work is underway on revising the "Construction Law" approved in 2016 and currently in force. It will include the accountability system mentioned above so you can vote and participate.²⁶

Also, read an interview with an insurance expert about taking the proper precautions to avoid potential real estate risks. (pg 43)

● LACK OF OPEN DATA

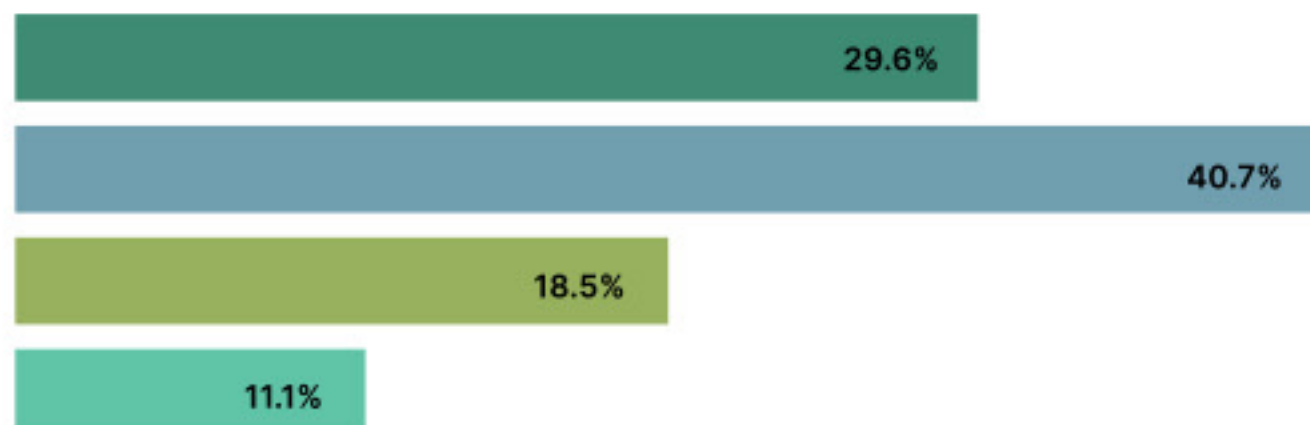
There is a need for more open statistical information and databases regarding Mongolia's construction and real estate industry.

Other than the monthly housing price index, a price table of arithmetic average, there is almost no actual industry data and background data distributed in a timely, multi-year series, database format, or segment breakdown. As a result, the development of experts, analysts and appraisers specializing exclusively in the construction and real estate industry, business services, and investment tools based on their analysis is lagging behind.

According to a February 2024 survey of construction project development companies, only 30% of businesses were satisfied with open statistics and databases presented by government agencies.

Does Open Statistics and Databases Meet the Needs and Requirements of Your Organization?

- ☒ Poor Supply. Before utilizing this data, information is gathered through alternative channels.
- ☐ Undersupply. Detailed data is obtained through alternative channels after reviewing the grand totals from these statistics.
- ☐ Well Supplied. Occasionally, supplementary data is acquired through alternative channels.
- ☐ Completely Satisfied. All required data can be accessed from there.



Source: "Identifying Industry Sentiment" survey- Invescore Property, 2024

According to the proposals submitted by the survey participants, the statistics should have the following characteristics to meet the needs of the business organization:

1. Available to download and analyze as an open database or data table;
2. The values expressed as a total should be broken down in such a way that they can be divided by location, grade, form, age group, and further into customer segments;
3. To report the indicators representing actual transactions, market movements, and market shifts in a time-series (percentage of occupancy, expiration date of lease agreement, segments of properties registered in the General Authority for State Registration, terms of payment for sales, etc.);
4. Companies of the industry can participate in data creation and, constantly develop their database with accurate information, and quickly collect data through a time-saving platform (blockchain database, etc.);

- **EXPERT OPINION: INSURANCE FOR REAL ESTATE BUSINESSES**



Insurance

Enkhtaivan.G

*Chief Executer Officer Director
Coverhill Insurance and Re-Insurance Broker*

- **Let's start by discussing the insurance industry in Mongolia. Is it common to take insurance to reduce risk in Mongolia? What changes have been observed in recent years?**

The insurance industry's growth is typically measured as a percentage of gross premiums in the gross domestic product (GDP). In developed countries, insurance industry premiums represent 7-15% of the GDP. However, in our country, this indicator was only 0.5% ten years ago and has remained at this level, indicating a slow rate of development.

Also, the insurance industry is not represented when looking at the Top 100 companies by sector. The company in the insurance industry may not even be included in the Top 200 companies. However, 13 of America's top 100 companies are insurance companies. Therefore, there is a lot to be done in the insurance industry.

Insurance evolves with economic capacity, income, and investment. According to research conducted by the Chamber of Commerce, the Top 100 companies alone account for 75% of our country's total economic productivity and income. Plus, per capita income is low. Therefore, the need to buy insurance arises more in businesses than individuals in our economy.

- **Let's talk about risk management. Can you explain the concept of risk management in the context of real estate?**

The book defines risk management as "identifying, investigating, controlling, managing, and eliminating risks that threaten an organization's future revenue, or its ability to earn that revenue."

Real estate is subject to damage due to natural phenomena, the environment, and errors, accidents, and unforeseen circumstances that might occur during daily operations.

Identifying potentially risky situations that could harm assets and disturb regular operations is essential. This involves predicting the extent of damage that may occur if a risk situation arises and taking proactive measures to prevent it from happening. It is also essential to develop strategies to minimize the consequences in the event of a risk occurrence. Regular insurance and reinsurance are also recommended to mitigate any financial losses.

- **How do you identify and assess the potential risks of a real estate project?**

I am an insurance and reinsurance professional, so let me briefly explain insurance risk. Real estate projects are divided into development, construction, and post-commissioning stages from an insurance risk perspective.

Many professionals, including engineers, architects, and lawyers, work on various projects where they are responsible for performing calculations and making important decisions. However, mistakes can happen, and these mistakes can lead to financial losses for clients and customers. To mitigate this risk, professionals can obtain professional indemnity insurance. This insurance covers any errors and liabilities that may arise due to the professional's work, thus protecting their clients and customers from economic damage.

Second, construction insurance covers construction risks. Many factors are considered, such as the characteristics and complexity of the construction work, the characteristics of the geography, and the situation that third parties may cause.

Thirdly, it is recommended that a building be insured for property, business interruption, and reinsurance after it is completed.

- **What are the emerging risks in the real estate market, and how can they be addressed?**

In the real estate market, the risks of flood, fire, earthquake, damage to equipment and machinery, and the risk of the lessee blaming the lessor, or the risk of liability, have recently emerged.

Based on the recent example, what can be implemented by the property owner in the case of flooding is to protect the walls of the foundation floor with waterproofing materials and to introduce possible changes in the sewer network to prevent the return of sewage mixed with rainwater through the sewer line. In most cases, having a stock of spare parts in advance to quickly replace damaged parts can prevent business interruption damage from this type of risk.

Another essential feature of real estate operations is the tenant-landlord relationship. Therefore, it is necessary to cover the responsibility to others with appropriate liability insurance.

Therefore, in general:

1. Property insurance;
2. Business interruption insurance;
3. Lessor's liability insurance;
4. Professional liability insurance within the scope of professional property management and agent services;
5. Political Violence insurance should be added depending on the region and geopolitical situation.

- **Besides insurance, are there additional risk mitigation strategies?**

Insurance is not a risk prevention tool. An excellent way to reduce risk is to have professionals inspect your building. After examining the structure, the inspector will identify conditions that increase or may increase the level of risk and then recommend measures to correct, modify, or eliminate them.

- **What should you pay attention to when buying real estate insurance?**

The following points should be considered for property insurance: First, whether the items to be insured are listed and covered without omissions. Second, define your key terms, such as the risk to be covered, your liability, and additional protections. In addition, it is necessary to pay attention to whether the valuation of the insured items is sufficient in real estate insurance.

The property to be insured is generally defined in the insurance contract as the insurance item. It is important to make this as clear as possible and list every part and section of the property. This will prevent difficulties or disputes when obtaining compensation from the insurance.

Also, income from real estate activities should be covered by insurance. When purchasing insurance, it is essential to consider all risk scenarios.

The valuation of the insured items or property and the income to be insured should be accurate and sufficient for repair, restoration, or replacement at the time of compensation.

- **Could you share your experiences where insurance has played an important role in reducing real estate risk?**

During his 12 years working in the insurance industry, I experienced 20 high-value project and real estate insurance cases.

One of our clients, a construction contractor, was faulty in damaging the asset. The reinsurance company worked quickly to determine the cause of the damage, determine the damage and assessment, and decide on compensation from the re-insurers.

Nothing is without problems, and nothing is perfect. The main thing is to solve problems quickly and remain transparent. The client and the investor of the damaged asset valued the contractor's transparency and continued the cooperation. In this case, the insurance case has brought both compensation and long-term trust between those parties.

In another case, the re-insurers quickly resolved a client's compensation. However, the re-insurers made a condition that they would continue to insure only if the insured items or facilities were inspected. In other words, if the insured does not undergo an examination, it means that the re-insurers will no longer insure. Thus, the insured conducted an inspection, and from the results, some serious risk factors were discovered in the property and activities, and the insured immediately corrected and took corrective measures.

From this point of view, a correct and suitable insurance company takes measures to reduce the risks the policyholders face. This is an important value insurance companies offer to society.

In another example, one of our clients had plumbing issues and damaged the properties of the tenant organization. An important case of corporate liability insurance. This example shows the importance of liability insurance and the need for good international standards of civil law remedial legislation and practice.

As another example of reinsurance, one of our clients was re-insured by international companies. This insurance included the condition of damage to equipment and machinery. The equipment broke down, and the spare parts had to be replaced, but due to COVID-19, it took some time to import the spare parts from abroad. In the meantime, business interruption losses began to occur as the plant shut down. Due to good insurance contracts and re-insurers, significant business interruption losses were covered under the contract.

- **What should you pay attention to about settling insurance claims related to real estate? How can we ensure a smooth and efficient process for parties filing a claim? Attention to when buying real estate insurance?**

When an insurance risk occurs, the insured should take measures to prevent the risk and reduce the damage as much as possible. It is also important to document your case and your actions.

If the amount of damage is large and the complexity is high, an internationally qualified and experienced damage appraiser is appointed and employed based on consultation with the re-insurer. After reviewing the damage assessment report, if there is a disagreement or something to be corrected, it will be reported and corrected, and the final report will be issued. Prepare and submit loss claim reports for insurance and re-insurance companies involved in relevant insurance and re-insurance contracts. Good international practice is to have a lead insurer appointed by the participating insurers in the insurance contract or, in the case of re-insurance contracts, by the re-insurers.

In this way, it is important to adhere to good international practices that have been regulated so that the decisions of the main co-insurer are accepted and followed by other co-insurers.

- **Please share more about business interruption insurance.**

Profit generation in business depends on real estate, such as factories, buildings, offices, and the machinery installed in them.

First, business interruption occurs if a natural or operational risk occurs and the building, plant, or facility collapses.

This results in revenue disruption to the business in the form of A) a decrease in net profit and B) an increase in fixed costs. Therefore, when a company insures its property and inventory, adding business interruption protection can protect its revenue from the loss of the insured property or physical damage.

To take the example of a real estate-based business, a hotel earns revenue by selling rooms. They also increase their sources of income by engaging in supporting activities such as trade services, bars, and restaurants. Then, if there is a fire in the hotel and there is a large amount of damage, there will be a situation where the operation will be stopped for a long time, and thus the income will be lost during that period of interruption. Therefore, hotel management should protect its physical assets, such as buildings and equipment, against natural and fire risks and protect its income by ensuring business interruption protection.

The business interruption insurance value is the sum of net profit and fixed costs during the protection period. If the insured wants to insure a 6-month interruption, the sum of net profit and fixed expenses for six months must be reported to the insured. Business interruption protection can also cover the increased work cost, i.e., work and expenses incurred to prevent business operations from being interrupted or reduce interruption time and quickly restore normal operations.

Second: apart from fire and natural risks, machinery and equipment failure is a major cause of business interruption. Therefore, there is a need to insure against the risk of machinery breakdown. In this case, business interruption due to machinery breakdown can be covered by insurance.

- **Would you like to share a story or an interesting case you encountered while applying for real estate insurance?**

One of the biggest challenges in the industry is that the valuation of the property to be insured and the amount of premium they are willing to pay often do not match the premiums of good international reinsurers.

More than the price, the insured should pay more attention to whether he is getting the right and quality insurance, and then he should see whether the premium he intends to pay for the right and quality insurance is consistent or can be the market price.

- **How can risk information be effectively shared between stakeholders, such as customers, team members, and management?**

It is crucial to create a culture and relationship where mistakes and conflicts are not hidden, and information can be openly discussed and shared. The best way to effectively exchange risk and insurance information is to work with a professional insurance broker.

One of our clients is a property management company that used to insure each property separately. However, after learning about better insurance practices, they combined all the properties into one contract. This new contract covers all risk situations and clarifies what it covers. It also covers important assets and interests previously not covered, such as business interruption. Furthermore, the company improved its reinsurance by partnering with reliable international reinsurers.

PROJECT FINANCING AND INVESTMENT IN 2023

- AVAILABLE FORMS OF REAL ESTATE INVESTMENT IN MONGOLIA

By investing in any project or company, you become the "project owner" or "lender to the project." Funds withdrawn from project owners are recorded as "owners' equity," and funds financed by project lenders are recorded as "liabilities".



Types of Project Financing and Investment Opportunities

As of February 2024, there are the following possible tools for raising funds or investing in real estate projects in Mongolia. It includes:

Equity financing (Investors become Owners)	Debt financing (Investors become Lenders)
Buy-to-Let	Bank Loan
Buy a property in your own name and rent it to others to make a profit.	Project loans, credit lines, working capital loans, green loans
Stock Purchase	Bond Purchase
Purchase of shares of the legal entity that is the owner of the real estate project through a securities company (IPO, FPO, closed JSC shares, etc.)	Purchase of debt instruments issued by construction companies through securities companies
Private Fund Unit Trading	Tokens ("Coin")
To purchase units of an investment fund, that owns several different properties, through a securities company.	Lending capital to a company through a licensed platform (usually online)

Real Estate Backed Tokens ("Coin")	Crowdfunding
Acquire shares, unit rights, or capital rights of the project owner in the form of tokens via the cryptocurrency exchange.	Lending capital to a company through a licensed platform (usually online)
Crowdfunding	
You can purchase a project owner's shares, units, or capital rights through a licensed platform (usually online).	

● CAPITALS RAISED BY CONSTRUCTION INDUSTRY IN 2023

Over the past three years, one of the most common ways for construction project developers and managers to raise funds from investors has been to issue debt instruments on the over-the-counter (OTC) market. In 2023, construction industry companies collected ₮52.7 billion (\$15.4 million) from the OTC market, a 66% increase from 2022.

Debt Instruments Traded on the OTC Market in 2023
(in MNT)

Sectors	2021	2022	2023	TOTAL (2021-2023)	% of total
Construction industry	28,012,000,000	31,722,000,000	52,763,000,000	112,497,000,000	7.66%
Financial institution	193,601,000,000	133,890,500,000	485,704,500,000	813,196,000,000	55.37%
Fuel	10,000,000,000	10,000,000,000	40,000,000,000	60,000,000,000	4.09%
Entertainment	-	-	5,000,000,000	5,000,000,000	0.34%
Food industry	21,000,000,000	3,000,000,000	8,700,000,000	32,700,000,000	2.23%
Mining	3,207,000,000	52,966,483,621	24,610,100,000	80,783,583,621	5.50%
Government organization	-	183,500,000,000	-	183,500,000,000	12.49%
Trade and service	-	85,074,999,600	49,000,000,000	134,074,999,600	9.13%
Production	-	-	-	-	0.00%
Health	-	-	4,000,000,000	4,000,000,000	0.27%
Transportation	5,000,000,000	6,000,000,000	22,000,000,000	33,000,000,000	2.25%
Clothing production	10,000,000,000	-	-	10,000,000,000	0.68%
TOTAL on the OTC	270,820,000,000	506,153,983,221	691,777,600,000	1,468,751,583,22	

In 2023, 25 tranches of 11 debt instruments of 11 companies in the construction industry were traded on the OTC market. Their average coupon rate was 19.02% per annum, and the weighted average coupon rate was 19.41%. During this period, the weighted average interest rate of newly issued bank loans was 17.5%.

Debt Instruments of Construction Sector Issuers Traded on the OTC Market in 2023

Nº	Bond name, tranche number	Coupon rate	Capital raised ₮
1	Active Bond 4	18.00%	1,500,000,000
2	Active Bond 5	19.00%	1,500,000,000
3	Domog Bond 2	19.00%	1,500,000,000
4	Domog Bond 3	19.00%	1,500,000,000
5	Master Bond 3.1	20.40%	2,500,000,000
6	Master Bond 3.2	20.40%	2,500,000,000
7	Moncon Bond 2.3.2	20.00%	1,500,000,000
8	Premium Bond 2	19.50%	5,000,000,000
9	Premium Bond 4.2	20.00%	4,933,000,000
10	REIT Bond 10	8.70%	1,130,000,000
11	REIT Bond 9	8.70%	1,200,000,000
12	Alpha Bond 2.1	19.50%	1,000,000,000
13	Alpha Bond 2.2	19.50%	1,000,000,000
14	Alpha Bond 2.4	19.50%	1,300,000,000
15	Alpha Bond 2.5	19.50%	3,100,000,000
16	Atmor Bond 1	22.00%	1,000,000,000
17	Minj Property Bond 2	21.00%	2,000,000,000
18	Minj Property Bond 3	21.80%	2,000,000,000
19	Moncon Bond 3.1	20.50%	3,000,000,000
20	Moncon Bond 3.2	20.50%	3,000,000,000
21	Moncon Bond 3.3	20.50%	2,000,000,000
22	Moncon Bond 3.4	20.50%	2,000,000,000
23	Meru Bond 1	20.00%	2,000,000,000
24	Meru Bond 4	20.00%	1,600,000,000
25	New Yaarmag Bond 1	18.00%	3,000,000,000
	Total	-	52,763,000,000
	Avg per tranche	19.02%	2,110,520,000
	Weighted average	19.41%	-

Debt Instruments of Construction Sector Issuers Traded on the OTC Market in 2023

Nº	Bond issuer company	Bond name	# of tranches	Total capital raised
1	"New Yarmag housing project" LLC	New Yarmag Bond	1	3,000,000,000
2	Active Garden LLC	Active Bond 4	2	3,000,000,000
3	Adorecity LLC	Meru Bond	2	3,600,000,000
4	Alpha Zone LLC	Alpha Bond	4	6,400,000,000
5	Atmor LLC	Atmor Bond	1	1,000,000,000
6	Domog Impex LLC	Domog Bond 2	2	3,000,000,000
7	IC REIT LLC	REIT Bond 10	2	2,330,000,000
8	Master Tunshlei LLC	Master Bond 3.1	2	5,000,000,000
9	Minj Property LLC	Minj Property Bond	2	4,000,000,000
10	Moncon LLC	Moncon Bond	5	11,500,000,000
11	Premium Concrete LLC	Premium Bond 2	2	9,933,000,000
TOTAL			25	52,763,000,000

“ It seems that the construction industry's activity in the OTC market will not decrease even in 2024. As of the first two months of the year, the industry alone has successfully attracted ₮38 billion (\$11.1 million) investments. Railway and civil construction projects are predominant among the issuers in the construction sector. The average coupon rate for debt instruments was 19.05%.

Debt Instruments Traded on the OTC Market as of February 2024

Sectors	2024-02
Construction Industry	37,950,000,000
Financial Institution	23,515,000,000
Fuel	1,500,000,000
Entertainment	2,500,000,000
Food Industry	3,500,000,000
Mining	-
Government Organization	-
Trade and Service	2,500,000,000
Production	1,300,000,000
Health	-
Transportation	-
Clothing Production	-
TOTAL on the OTC	72,765,000,000

Debt Instruments of Construction Sector Issuers Traded on the OTC Market in the First Two Months of 2024

Bond Issuer Company	Bond name	# of tranches	Total Capital Raised ₮
Alpha Zone LLC	Alpha Bond 2.10	1	1,200,000,000
Bodi International LLC	Bodi International Bond 1.1	1	10,000,000,000
Bumbyn Shovkh LLC	Global Town Bond 1.2	6	13,750,000,000
Domog Impex LLC	Domog Bond 2.4	3	4,200,000,000
Mongolian Mortgage Corporation	MIK Bond 1.2	1	8,500,000,000
Khan LLC	Khan Bond 2.2	1	300,000,000
TOTAL			37,950,000,000

● EXPERT OPINION: PROJECT FINANCING METHOD – PRIVATE EQUITY FUNDS



Private, Equity Fund

Tzolmon.Ts

Investment Consultant

Invescore Property LLC

• What is Invescore Property's experience in real estate investing?

The scope of the company's activities is complex real estate management, specifically market research, development of project concepts and business plans, structuring and creating project investment schemes, project management, real estate sales and marketing activities, and property management services.

In terms of offering real estate-based investments in the domestic market, we have experience implementing the traditional buy-to-let model, raising funds through crowdfunding platforms, and being the first to introduce convertible bond products to the domestic market.²⁷

In the coming years, we will plan and implement projects with good medium-term fundamentals. Based on this, we are studying and experimenting with introducing schemes and forms closer to international practices when creating highly efficient investments.

• Which investment form is considered the most efficient during your research?

In the United States, companies implementing real estate projects, whether large or small, establish private, equity funds based on their projects. That is why they are called fund-sponsoring companies. They may choose to cooperate with a securities company, which operates as a broker, and sell your fund rights to their clients.

In short, the party who builds the building communicates directly with the person who invests the money and introduces their business plan, inform when and how much profit they will make, and then the parties sign a contract. In this way, developers are able to attract the necessary funds very quickly and, most importantly, with little difficulty, implement the project on time and create a final product. Of course, within the framework of the law, only "accredited investors" can invest in private funds, but there is no limit on the number of shareholders.²⁸

However in Mongolia, real estate industry needs specialized regulations that are compatible with the industry's business model and that create a business space that does not hinder efficiency. In this way, project developers and real estate management companies will work efficiently and effectively. Because the favorable weather season for construction work is very short in our country, the

primary conditions for profitable real estate investment depend on completing development promptly without a stop in execution.

- **But how does the Mongolian real estate fund work?**

In Mongolia, a regulation requires only licensed asset management companies to establish and manage funds. In addition, a licensed securities company must act as an underwriter for the issuance of securities, even in private markets. Approval from the Financial Regulatory Commission is required for each security to be issued, and another approval is needed to list it on the stock exchange where it will be traded. The issuer, the fund sponsor company, and the investors buying the fund units will join the chain of participants.

As more participants and processes are involved, the time spent and coordination become more complicated, and the cost of paying a 0.5-3% fee to each participant and regulatory body increases. This lengthy process, in turn, decreases the return on investment for the final investors. Ultimately, real estate-based investment instruments may become unattractive to investors, and products may not be competitive with other instruments in the private market.

- **How can a project development company stand out and offer investors a better product when all companies can raise funds directly?**

The fund generates returns through only two channels: rental income and sales income. Both depend on rental occupancy because the sales price is calculated based on the annual rental income.

The occupancy rate of a rental property is greatly influenced by its price level, the quality of its maintenance services, and the level of safety it provides to its residents. Moreover, the ability to offer services that tenants demand also affects the occupancy rate. Therefore, effective day-to-day management or property management is the most critical factor in determining the success of a rental property.

Therefore, fund sponsors often create a competitive advantage by hiring the best asset manager to participate in their projects. The benefits of a professional property management team include the upkeep of a property, which lengthens real estate's lifespan, stable occupancy, and the opportunity for higher rental rates.

- **Do domestic developer companies have a way to directly communicate with investors and raise capital in a closed environment?**

Developers can establish closed joint stock companies that have up to 50 shareholders, according to the law. However, constructing a high-class 1-block project costs approximately ₮50 billion. To attract the necessary funds for this project, each investor will have to bring at least ₮1 billion. Otherwise, the project will come to a halt. When it comes to large-scale projects or infrastructure development, the costs are even higher. It is challenging to find many investors who can invest ₮1 billion long-term in the domestic market. Therefore, having many people contribute smaller amounts of money to quickly and fully finance a development project by working with "crowd power" is more feasible.

- **Are there expectations of regulatory amendments in the near future that will support real estate fund operations?**

The draft amendment to the Securities Market Law and the accompanying amendment to the Law on Investment Funds were submitted near the end of 2023.²⁹ This bill contains several exciting changes.

First of all, it is stated that a private investment fund can be established on the basis of a contract or without the rights of a legal entity. In doing so, the founders are other persons approved by the FRC in addition to the asset management company. It seems that it will be known after the law is passed whether the real estate project implementer can be included in it.³⁰

In addition, the increase in the underwriting company's obligations and responsibilities is considered a very good change.

In the financial market, underwriters often refer to lenders, insurance companies, and securities companies. Generally, it is a relationship in which the underwriter agrees to transfer the client's financial risk to himself and receives an appropriate fee and commission instead. However, domestic underwriters do not always fulfill their primary responsibility of taking financial risks.

On the contrary, more consulting-based services are provided, such as legal audit, document preparation, valuation calculation, and marketing communication with investors and regulatory bodies. In short, underwriters help the process but fail to ensure the successful fulfillment of raising capital.

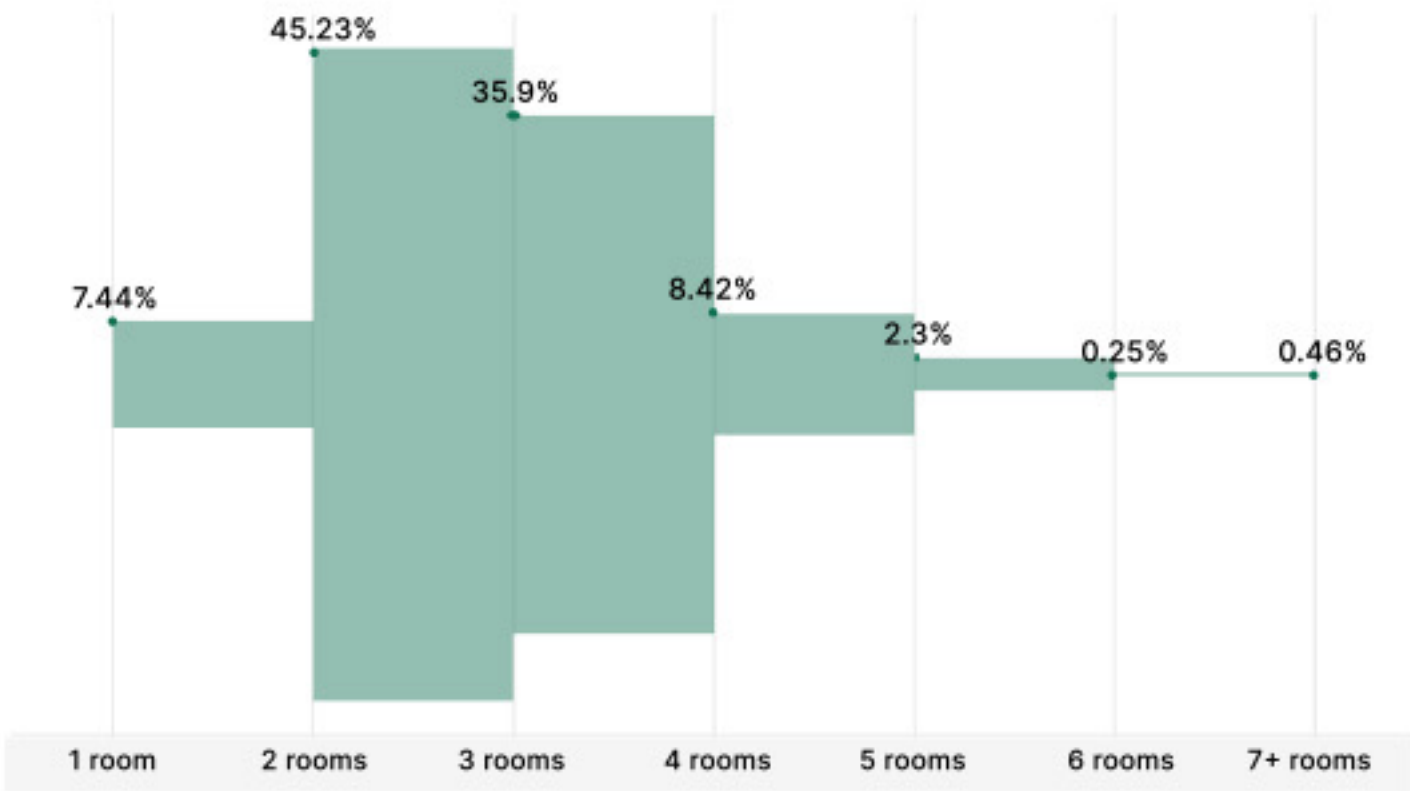
However, to take on this responsibility, the underwriters must first have a large amount of equity capital, and for that to happen, dealer activity and investment banking activity must be ramped up. Overall, the new amendment in the law will bring positive results to all capital market participants in the long run.

APARTMENT SECTOR 2023

NEW SUPPLY

In 2023, 14,578 units of 119 new apartments were commissioned in UB.³¹ Regarding planning, two and three-room or 1-2 bedroom apartments dominated, accounting for 81% of the total supply.

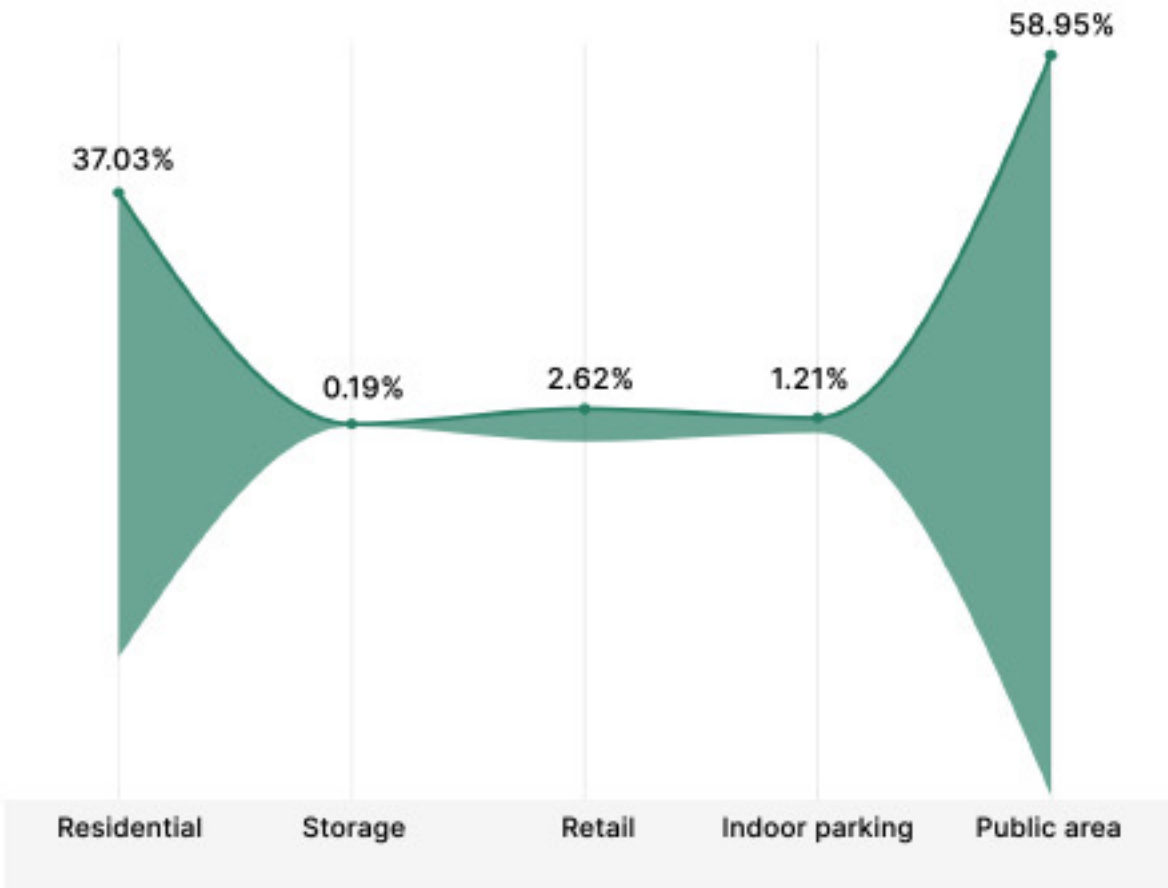
Data on the Total Number of Housing Units Commissioned in 2023



Source: [City Department of Standards and Inspections](#)

The total area of residential buildings that put into operation is 2,955,490 square meters, of which 37% is usable area or residential area. This means the common area accounts for over 60% of the gross building area.

Distribution of Apartment Areas Commissioned in 2023
(Ulaanbaatar City)



Source: [Ministry of Construction and Urban Development](#)

In addition to the average residential area of 75.07 sq.m, newly commissioned apartments have the following stats:

- One elevator among 35 families
- One parking space among 0.97 households
- One indoor heated parking space among 2.5 families
- One open parking space for every 1.6 households.

In addition, according to the information updated on August 3, 2023, 21 of the 52 newly commissioned residential buildings in UB are 16 stories high, and 34 have retail areas on the ground floors.³²

Features of Apartments Commissioned in 2023 (Ulaanbaatar City)

Bayangol



Bayanzurkh



Nalaikh



Songinokhairkhan



Sukhbaatar



Khan-Uul

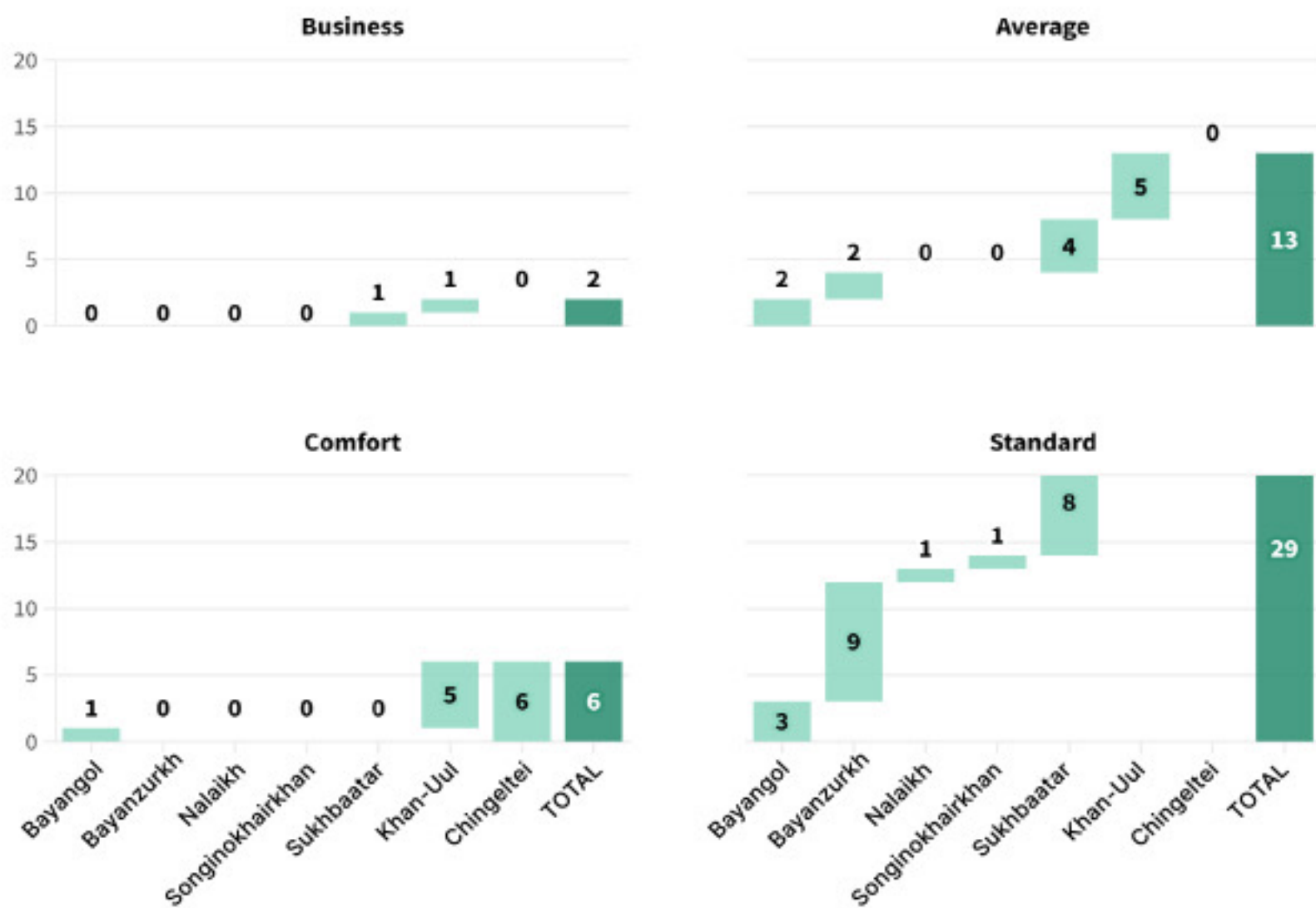


Chingeltei



Source: [City Department of Standards and Inspections](#)

Newly Commissioned Apartments (As of August 2023, by Number of Buildings)



Source: [City Department of Standards and Inspections](#)

“ In 2024: The capital's governor declared 2024 the "Year of Improvement-Construction", ³³ and the law "Reducing traffic congestion in the capital city of Ulaanbaatar and housing residential areas" was approved in December 2023. ³⁴

In this context, it was reported that the government would purchase 158 hectares of land currently owned by 2,000 households in the region around the Selbe River and private sector companies would be authorized to build 12,000 standard-class apartments or a large town equivalent to the current Altai Khotkhon on the land.³⁵

● AVERAGE PRICE

As of December 2023, the average price of a new apartment reached ₮4.0 million (\$1,175 per sq.m), and the average price of an old apartment reached ₮3.6 million (\$1,020 per sq.m), an increase of 15% and 10% compared to the same period of the previous year.³⁶

If you bought a new apartment in 2022 and sold it in 2023, you will get an average profit of 15.19% from the increase in the market price. After taking into account the inflation rate of UB, you will actually get a profit of 6.59%. However, for old apartments, the actual profit rate is 1.86%.

Average Price of New Apartments per sq.m (Million MNT)

District	2022-12	2023-12	Price increase in MNT	UB city Inflation rate	Actual price return in MNT	Price return
Bayanzurkh	₮2.98	₮3.63	21.81%	8.6%	13.21%	
Bayangol	₮3.20	₮3.83	19.69%	8.6%	11.09%	
Khan-Uul	₮3.67	₮4.24	15.53%	8.6%	6.93%	
Songinokhairkhan	₮2.40	₮2.68	11.67%	8.6%	3.07%	
Chingeltei	₮3.19	₮3.47	8.78%	8.6%	0.18%	
Sukhbaatar	₮4.27	₮4.32	1.17%	8.6%	-7.43%	
Overall Average	₮3.49	₮4.02	15.19%	8.6%	6.59%	

Source: [National Statistics Office](#)

Average Price of Old Apartments per sq.m (Million MNT)

District	2022-12	2023-12	Price increase in MNT	UB city Inflation rate	Actual price return in MNT	Price return
Bayanzurkh	₮3.07	₮3.40	10.75%	8.6%	2.15%	
Bayangol	₮2.97	₮3.09	4.04%	8.6%	-4.56%	
Khan-Uul	₮3.52	₮3.91	11.08%	8.6%	2.48%	
Songinokhairkhan	₮2.51	₮2.59	3.19%	8.6%	-5.41%	
Chingeltei	₮3.54	₮3.94	11.3%	8.6%	2.7%	
Sukhbaatar	₮3.93	₮4.31	9.67%	8.6%	1.07%	
Overall Average	₮3.25	₮3.59	10.46%	8.6%	1.86%	

Source: [National Statistics Office](#)

“ In addition to the price increase, if the apartment was rented out to others during this period, an additional 8-10% profit could be made.

On the other hand, in 2022, if the apartment was bought in US dollars and sold back in US dollars in 2023, the total profit from the increase in the market price would be **15.53%**. After considering the inflation rate of UB and currency depreciation of USD, you will actually get a profit of **6.59%**. However, the actual profit rate for old apartments is about 1.89%.

Average Price of New Apartments per sq.m (USD)

District	2022-12	2023-12	Price increase in USD	(+)USDMNT appreciation	(=)Price increase in MNT	(-)Ub city inflation rate	(=)Actual return in MNT	Price return
Bayanzurkh	\$868	\$1,061	22.17%	-0.29%	21.88%	8.6%	13.28%	
Bayangol	\$933	\$1,119	20.04%	-0.29%	19.75%	8.6%	11.15%	
Khan-Uul	\$1,070	\$1,239	15.87%	-0.29%	15.58%	8.6%	6.98%	
Songinokhairkhan	\$699	\$783	12%	-0.29%	11.7%	8.6%	3.1%	
Chingeltei	\$930	\$1,014	9.1%	-0.29%	8.8%	8.6%	0.2%	
Sukhbaatar	\$1,244	\$1,263	1.47%	-0.29%	1.18%	8.6%	-7.42%	
Overall Average	\$1,017	\$1,175	15.53%	-0.29%	15.23%	8.6%	6.63%	

Source: [National Statistics Office](#)

Average Price of Old Apartments per sq.m (USD)

District	2022-12	2023-12	Price increase in USD	(+)USDMNT appreciation	(=)Price increase in MNT	(-)Ub city inflation rate	(=)Actual return in MNT	Price return
Bayanzurkh	\$895	\$994	11.08%	-0.29%	10.78%	8.6%	2.18%	
Bayangol	\$866	\$903	4.35%	-0.29%	4.05%	8.6%	-4.55%	
Khan-Uul	\$1,026	\$1,143	11.41%	-0.29%	11.11%	8.6%	2.51%	
Songinokhairkhan	\$732	\$757	3.49%	-0.29%	3.2%	8.6%	-5.4%	
Chingeltei	\$1,032	\$1,152	11.63%	-0.29%	11.33%	8.6%	2.73%	
Sukhbaatar	\$1,145	\$1,260	9.99%	-0.29%	9.7%	8.6%	1.1%	
Overall Average	\$947	\$1,049	10.79%	-0.29%	10.49%	8.6%	1.89%	

Source: [National Statistics Office](#)

“ Since December 2023, the construction area of the new residential project should not exceed 60% of the total land plot area as at least 20% of the total area must be greenery and parks, and another 20% must be the parking lot.

Since the product requirement has increased, the product price will inevitably increase as well. Therefore, we expect the price of apartments to continue rising in 2024 and beyond. In addition, the price of old housing is expected to increase slightly due to the spillover effect.

● PURCHASING ABILITY OF CUSTOMERS

65% of all state-subsidized mortgage borrowers bought apartments with an area of less than 50 sq.m., so when calculating the purchasing power matrix, it is assumed that:³⁷

- An average apartment has an area of 40 square meters;
- Price per square meter is ₮4.02 million;
- Both family members have the median salary ($2 \times \text{₮2,129,300} = \text{Total household income}$).

Market Price Matrix of Apartments (in MNT)

☐ Avg apartment

Grade	Price/sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	800,000,000	1,000,000,000	1,200,000,000	1,400,000,000	1,600,000,000	1,800,000,000	2,000,000,000
	12,000,000	480,000,000	600,000,000	720,000,000	840,000,000	960,000,000	1,080,000,000	1,200,000,000
	11,000,000	440,000,000	550,000,000	660,000,000	770,000,000	880,000,000	990,000,000	1,100,000,000
	10,000,000	400,000,000	500,000,000	600,000,000	700,000,000	800,000,000	900,000,000	1,000,000,000
Business	9,000,000	360,000,000	450,000,000	540,000,000	630,000,000	720,000,000	810,000,000	900,000,000
	8,000,000	320,000,000	400,000,000	480,000,000	560,000,000	640,000,000	720,000,000	800,000,000
	7,000,000	280,000,000	350,000,000	420,000,000	490,000,000	560,000,000	630,000,000	700,000,000
	6,000,000	240,000,000	300,000,000	360,000,000	420,000,000	480,000,000	540,000,000	600,000,000
	5,000,000	200,000,000	250,000,000	300,000,000	350,000,000	400,000,000	450,000,000	500,000,000
Comfort	4,000,000	160,000,000	200,000,000	240,000,000	280,000,000	320,000,000	360,000,000	400,000,000
	3,700,000	148,000,000	185,000,000	222,000,000	259,000,000	296,000,000	333,000,000	370,000,000
	3,500,000	140,000,000	175,000,000	210,000,000	245,000,000	280,000,000	315,000,000	350,000,000
Standard	3,200,000	128,000,000	160,000,000	192,000,000	224,000,000	256,000,000	288,000,000	320,000,000
	3,000,000	120,000,000	150,000,000	180,000,000	210,000,000	240,000,000	270,000,000	300,000,000
	2,800,000	112,000,000	140,000,000	168,000,000	196,000,000	224,000,000	252,000,000	280,000,000

Required Down Payment (30% of Total) (in MNT)

☐ Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	240,000,000	300,000,000	360,000,000	420,000,000	480,000,000	540,000,000	600,000,000
	12,000,000	144,000,000	180,000,000	216,000,000	252,000,000	288,000,000	324,000,000	360,000,000
	11,000,000	132,000,000	165,000,000	198,000,000	231,000,000	264,000,000	297,000,000	330,000,000
	10,000,000	120,000,000	150,000,000	180,000,000	210,000,000	240,000,000	270,000,000	300,000,000
Business	9,000,000	108,000,000	135,000,000	162,000,000	189,000,000	216,000,000	243,000,000	270,000,000
	8,000,000	96,000,000	120,000,000	144,000,000	168,000,000	192,000,000	216,000,000	240,000,000
	7,000,000	84,000,000	105,000,000	126,000,000	147,000,000	168,000,000	189,000,000	210,000,000
	6,000,000	72,000,000	90,000,000	108,000,000	126,000,000	144,000,000	162,000,000	180,000,000
	5,000,000	60,000,000	75,000,000	90,000,000	105,000,000	120,000,000	135,000,000	150,000,000
Comfort	4,000,000	48,000,000	60,000,000	72,000,000	84,000,000	96,000,000	108,000,000	120,000,000
	3,700,000	44,400,000	55,500,000	66,600,000	77,700,000	88,800,000	99,900,000	111,000,000
	3,500,000	42,000,000	52,500,000	63,000,000	73,500,000	84,000,000	94,500,000	105,000,000
Standard	3,200,000	38,400,000	48,000,000	57,600,000	67,200,000	76,800,000	86,400,000	96,000,000
	3,000,000	36,000,000	45,000,000	54,000,000	63,000,000	72,000,000	81,000,000	90,000,000
	2,800,000	33,600,000	42,000,000	50,400,000	58,800,000	67,200,000	75,600,000	84,000,000

Period It Takes to Save Up Down Payment for a Double Income Family

Nº		Salary
1	Median salary of 1 employee	₮ 2,129,300
2	Median salary of 2 employees	₮ 4,258,600

☐ Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	56 month	70 month	85 month	99 month	113 month	127 month	141 month
	12,000,000	34 month	42 month	51 month	59 month	68 month	76 month	85 month
	11,000,000	31 month	39 month	46 month	54 month	62 month	70 month	77 month
	10,000,000	28 month	35 month	42 month	49 month	56 month	63 month	70 month
Business	9,000,000	25 month	32 month	38 month	44 month	51 month	57 month	63 month
	8,000,000	23 month	28 month	34 month	39 month	45 month	51 month	56 month
	7,000,000	20 month	25 month	30 month	35 month	39 month	44 month	49 month
	6,000,000	17 month	21 month	25 month	30 month	34 month	38 month	42 month
	5,000,000	14 month	18 month	21 month	25 month	28 month	32 month	35 month
Comfort	4,000,000	11 month	14 month	17 month	20 month	23 month	25 month	28 month
	3,700,000	10 month	13 month	16 month	18 month	21 month	23 month	26 month
	3,500,000	10 month	12 month	15 month	17 month	20 month	22 month	25 month
Standard	3,200,000	9 month	11 month	14 month	16 month	18 month	20 month	23 month
	3,000,000	8 month	11 month	13 month	15 month	17 month	19 month	21 month
	2,800,000	8 month	10 month	12 month	14 month	16 month	18 month	20 month

Source: [National Statistics Office](#)

Loan Amount After Down Payment (in MNT)

Qualified for state-subsidized mortgage (<₮160 mln)
Qualified for conventional mortgage (>₮160 mln)
Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	560,000,000	700,000,000	840,000,000	980,000,000	1,120,000,000	1,260,000,000	1,400,000,000
	12,000,000	336,000,000	420,000,000	504,000,000	588,000,000	672,000,000	756,000,000	840,000,000
	11,000,000	308,000,000	385,000,000	462,000,000	539,000,000	616,000,000	693,000,000	770,000,000
	10,000,000	280,000,000	350,000,000	420,000,000	490,000,000	560,000,000	630,000,000	700,000,000
Business	9,000,000	252,000,000	315,000,000	378,000,000	441,000,000	504,000,000	567,000,000	630,000,000
	8,000,000	224,000,000	280,000,000	336,000,000	392,000,000	448,000,000	504,000,000	560,000,000
	7,000,000	196,000,000	245,000,000	294,000,000	343,000,000	392,000,000	441,000,000	490,000,000
	6,000,000	168,000,000	210,000,000	252,000,000	294,000,000	336,000,000	378,000,000	420,000,000
	5,000,000	140,000,000	175,000,000	210,000,000	245,000,000	280,000,000	315,000,000	350,000,000
Comfort	4,000,000	112,000,000	140,000,000	168,000,000	196,000,000	224,000,000	252,000,000	280,000,000
	3,700,000	103,600,000	129,500,000	155,400,000	181,300,000	207,200,000	233,100,000	259,000,000
	3,500,000	98,000,000	122,500,000	147,000,000	171,500,000	196,000,000	220,500,000	245,000,000
Standard	3,200,000	89,600,000	112,000,000	134,400,000	156,800,000	179,200,000	201,600,000	224,000,000
	3,000,000	84,000,000	105,000,000	126,000,000	147,000,000	168,000,000	189,000,000	210,000,000
	2,800,000	78,400,000	98,000,000	117,600,000	137,200,000	156,800,000	176,400,000	196,000,000

Monthly Loan Payment (in MNT)

	Annual interest	Monthly interest	Term
State-subsidized mortgage loan	6%	0.50%	360 months
Conventional mortgage loan	19%	1.58%	360 months

Qualified for state-subsidized mortgage (<₮160 mln)
Qualified for conventional mortgage (>₮160 mln)
Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	12,000,000	5,338,679	6,673,348	8,008,018	9,342,688	10,677,358	12,012,027	13,346,697
	11,000,000	4,893,789	6,117,236	7,340,683	8,564,131	9,787,578	11,011,025	12,234,472
	10,000,000	4,448,899	5,561,124	6,673,348	7,785,573	8,897,798	10,010,023	11,122,247
Business	9,000,000	4,004,009	5,005,011	6,006,014	7,007,016	8,008,018	9,009,020	10,010,023
	8,000,000	3,559,119	4,448,899	5,338,679	6,228,459	7,118,238	8,008,018	8,897,798
	7,000,000	3,114,229	3,892,787	4,671,344	5,449,901	6,228,459	7,007,016	7,785,573
	6,000,000	2,669,339	3,336,674	4,004,009	4,671,344	5,338,679	6,006,014	6,673,348
	5,000,000	839,371	2,780,562	3,336,674	3,892,787	4,448,899	5,005,011	5,561,124
Comfort	4,000,000	671,497	839,371	2,669,339	3,114,229	3,559,119	4,004,009	4,448,899
	3,700,000	621,134	776,418	931,702	2,880,662	3,292,185	3,703,708	4,115,232
	3,500,000	587,560	734,449	881,339	2,724,951	3,114,229	3,503,508	3,892,787
Standard	3,200,000	537,197	671,497	805,796	940,095	2,847,295	3,203,207	3,559,119
	3,000,000	503,622	629,528	755,434	881,339	2,669,339	3,003,007	3,336,674
	2,800,000	470,048	587,560	705,071	822,583	940,095	2,802,806	3,114,229

Required Total Income Requirement (45% of Which Will Be Spent as Loan Payment) (in MNT)

Nº		Wage
1	Median salary of 1 employee	₮ 2,129,300
2	Median salary of 2 employees	₮ 4,258,600

☒ Double income family is qualified
 ☐ Double income family is NOT qualified
 ☐ Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	19,772,884	24,716,105	29,659,327	34,602,548	39,545,769	44,488,990	49,432,211
	12,000,000	11,863,731	14,829,663	17,795,596	20,761,529	23,727,461	26,693,394	29,659,327
	11,000,000	10,875,086	13,593,858	16,312,630	19,031,401	21,750,173	24,468,944	27,187,716
	10,000,000	9,886,442	12,358,053	14,829,663	17,301,274	19,772,884	22,244,495	24,716,105
Business	9,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	8,000,000	7,909,154	9,886,442	11,863,731	13,841,019	15,818,307	17,795,596	19,772,884
	7,000,000	6,920,510	8,650,637	10,380,764	12,110,892	13,841,019	15,571,146	17,301,274
	6,000,000	5,931,865	7,414,832	8,897,798	10,380,764	11,863,731	13,346,697	14,829,663
	5,000,000	1,865,268	6,179,026	7,414,832	8,650,637	9,886,442	11,122,247	12,358,053
Comfort	4,000,000	1,492,215	1,865,268	5,931,865	6,920,510	7,909,154	8,897,798	9,886,442
	3,700,000	1,380,299	1,725,373	2,070,448	6,401,471	7,315,967	8,230,463	9,144,959
	3,500,000	1,305,688	1,632,110	1,958,532	6,055,446	6,920,510	7,785,573	8,650,637
Standard	3,200,000	1,193,772	1,492,215	1,790,658	2,069,100	6,327,323	7,118,238	7,909,154
	3,000,000	1,119,161	1,398,951	1,678,741	1,958,532	5,931,865	6,673,348	7,414,832
	2,800,000	1,044,550	1,305,688	1,566,825	1,827,963	2,089,100	6,228,459	6,920,510

Source: [National Statistics Office](#)

“

From this, it can be seen from the color difference of the last matrix that the demand secured by the **purchasing ability of apartment is directly dependent on the availability and accessibility of state-subsidized mortgage loans**. If the price level of the average house increases by two levels, or the size of the apartment increases by two levels, **a family with two median salaries will not be able to buy an apartment together with a state-subsidized mortgage loan** as they will not be able to meet the income requirements.

To put things into perspective, the time required for an employee with a median salary to buy an average 1-2 bedroom apartment in 2023 is relatively short compared to the other cities in Central Asia.

Ulaanbaatar city, Mongolia			
Average housing price/sq.m	Average 1-2 bedroom apartment size	Median salary of 1 employee	Period to save up
₮4.02m	40 sq.m	₮2.13m	75.5 months
Almaty city, Kazakhstan			
Average housing price/sq.m	Average 1-2 bedroom apartment size	Median salary of 1 employee	Period to save up
₮577,570	40 sq.m	₮283,280	81.6 months
Bishkek city, Kyrgyzstan			
Average housing price/sq.m	Average 1-2 bedroom apartment size	Median salary of 1 employee	Period to save up
109,091 soum	40 sq.m	40,061 soum	108.9 months
Tashkent city, Uzbekistan			
Average housing price/sq.m	Average 1-2 bedroom apartment size	Median salary of 1 employee	Period to save up
13,856,438 soum	40 sq.m	4,551,402 soum	121.7 months

Source: [National Statistics Office of Mongolia](#)

[Bureau of National Statistics - Kazakhstan](#)

[National Statistical Committee of the Kyrgyz Republic](#)

[State Committee of the Republic of Uzbekistan on Statistics](#)

However, according to the closest estimate to reality, the internationally used Housing Affordability Index (HAI), Ulaanbaatar's HAI = 63, which means that the **average household has a real income equivalent to only 63% of the income required to qualify for a simple housing loan**. As of the end of 2023, the U.S. housing sector's HAI = 101, or the average household's income is slightly higher than the income needed to qualify for a loan. However, experts define this period as weak and slow purchasing power.³⁸

Housing Affordability Index of US



Source: [US Fixed Housing Affordability index](#)

Monthly Mortgage Payment for Conventional Mortgage Loan (in MNT)

Type of mortgage	Yearly interest	Monthly interest	Period
Conventional	19%	1.58%	360 months

☐ Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	12,000,000	5,338,679	6,673,348	8,008,018	9,342,688	10,677,358	12,012,027	13,346,697
	11,000,000	4,893,789	6,117,236	7,340,683	8,564,131	9,787,578	11,011,025	12,234,472
	10,000,000	4,448,899	5,561,124	6,673,348	7,785,573	8,897,798	10,010,023	11,122,247
Business	9,000,000	4,004,009	5,005,011	6,006,014	7,007,016	8,008,018	9,009,020	10,010,023
	8,000,000	3,559,119	4,448,899	5,338,679	6,228,459	7,118,238	8,008,018	8,897,798
	7,000,000	3,114,229	3,892,787	4,671,344	5,449,901	6,228,459	7,007,016	7,785,573
	6,000,000	2,669,339	3,336,674	4,004,009	4,671,344	5,338,679	6,006,014	6,673,348
	5,000,000	2,224,449	2,780,562	3,336,674	3,892,787	4,448,899	5,005,011	5,561,124
Comfort	4,000,000	1,779,560	2,224,449	2,669,339	3,114,229	3,559,119	4,004,009	4,448,899
	3,700,000	1,646,093	2,057,616	2,469,139	2,880,662	3,292,185	3,703,708	4,115,232
	3,300,000	1,557,115	1,946,393	2,335,672	2,724,951	3,114,229	3,503,508	3,892,787
Standard	3,000,000	1,423,648	1,779,560	2,135,472	2,491,383	2,847,295	3,203,207	3,559,119
	2,700,000	1,334,670	1,668,337	2,002,005	2,335,672	2,669,339	3,003,007	3,336,674
	2,400,000	1,245,692	1,557,115	1,868,538	2,179,960	2,491,383	2,802,806	3,114,229

Household Income Requirements for Conventional Loans
(45% of Which Is Loan Repayment) (in MNT)

☒ Avg household is qualified ☐ Avg household is NOT qualified ☐ Avg apartment

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	19,772,884	24,716,105	29,659,327	34,602,548	39,545,769	44,488,990	49,432,211
	12,000,000	11,863,731	14,829,663	17,795,596	20,761,529	23,727,461	26,693,394	29,659,327
	11,000,000	10,875,086	13,593,858	16,312,630	19,031,401	21,750,173	24,468,944	27,187,716
	10,000,000	9,886,442	12,358,053	14,829,663	17,301,274	19,772,884	22,244,495	24,716,105
Business	9,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	8,000,000	7,909,154	9,886,442	11,863,731	13,841,019	15,818,307	17,795,596	19,772,884
	7,000,000	6,920,510	8,650,637	10,380,764	12,110,892	13,841,019	15,571,146	17,301,274
	6,000,000	5,931,865	7,414,832	8,897,798	10,380,764	11,863,731	13,346,697	14,829,663
	5,000,000	4,943,221	6,179,026	7,414,832	8,650,637	9,886,442	11,122,247	12,358,053
Comfort	4,000,000	3,954,577	4,943,221	5,931,865	6,920,510	7,909,154	8,897,798	9,886,442
	3,700,000	3,657,984	4,572,480	5,486,975	6,401,471	7,315,967	8,230,463	9,144,959
	3,500,000	3,460,255	4,325,318	5,190,382	6,055,446	6,920,510	7,785,573	8,650,637
Standard	3,200,000	3,163,661	3,954,577	4,745,492	5,536,408	6,327,323	7,118,238	7,909,154
	3,000,000	2,965,933	3,707,416	4,448,899	5,190,382	5,931,865	6,673,348	7,414,832
	2,800,000	2,768,204	3,460,255	4,152,306	4,844,357	5,536,408	6,228,459	6,920,510

Housing Affordability Index (HAI) of Ulaanbaatar on 40 sq.m Apartment

Type Of Loan	Yearly Interest	Monthly Interest	Period
Regular loan	19%	1.58%	360 months

HAI = (Median household income / Income required to obtain a housing loan) * 100.³⁹
HAI>100 indicates enough income het approved for loan

RENTAL MARKET

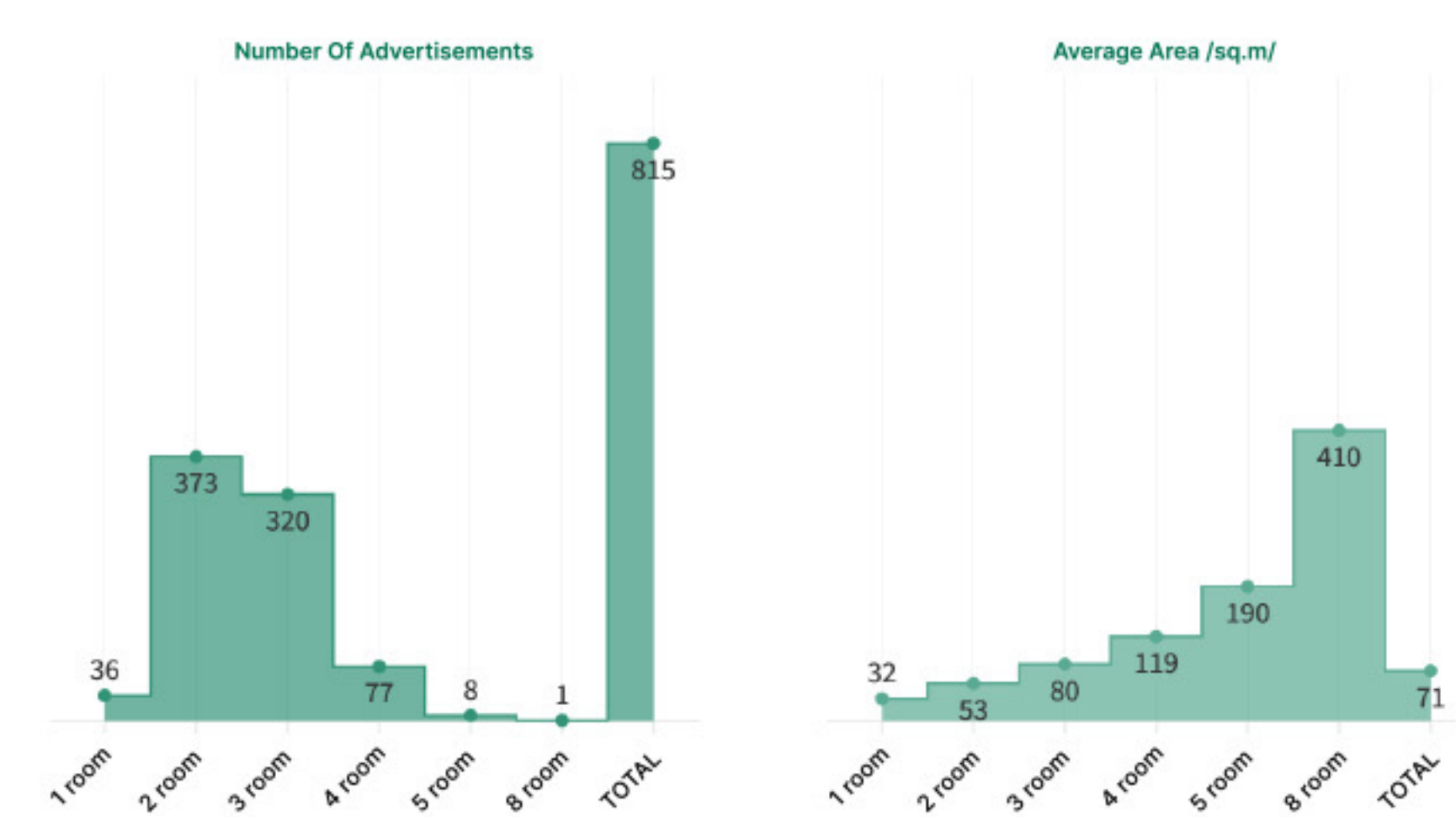
At the end of 2023, the apartment rental price index showed a modest increase of 0.48% year-on-year.⁴⁰ In addition, 815 listings of rental apartments placed on the marketplace between 09/07 and 09/30, the highest demand period of the year, were selected and studied.

85% of all listings were ads for renting 2-3 rooms (53-80 sq.m. on average) or 1-2 bedroom apartments. The monthly rent for a 2-room apartment is about ₮1.6 million, for a 3-room apartment is about ₮2.5 million, and the average rent per square meter is ₮32,000.

“ Comparing the rental price to the selling price of old apartments, the annual gross rental yield is 10.79%, which is higher than the current gross rental yield in the house and office sector.

*Rental Price * 12 / Sale Price = Gross Rental Yield.*

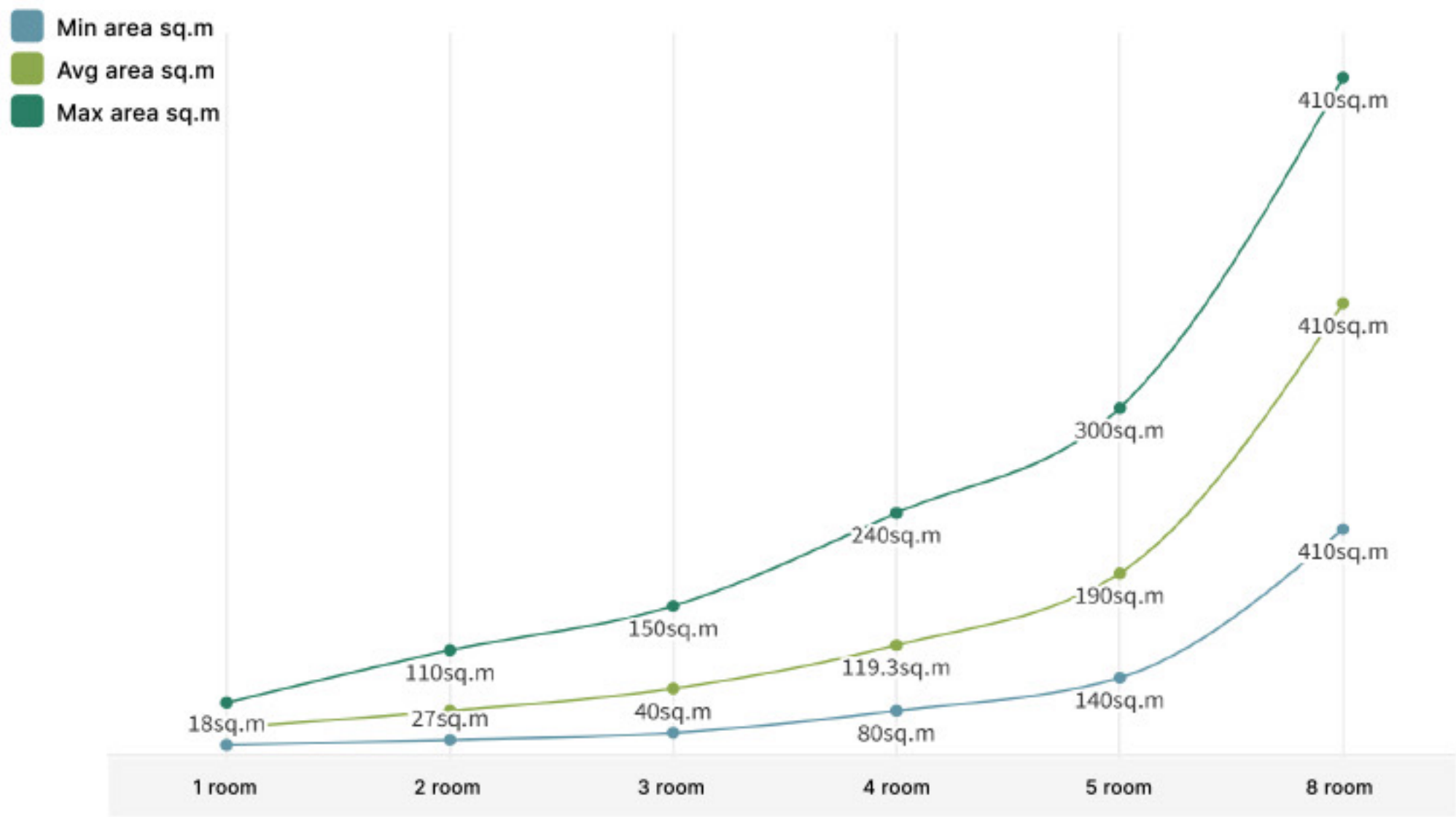
Number of Residential Rental Advertisements During the Peak Period



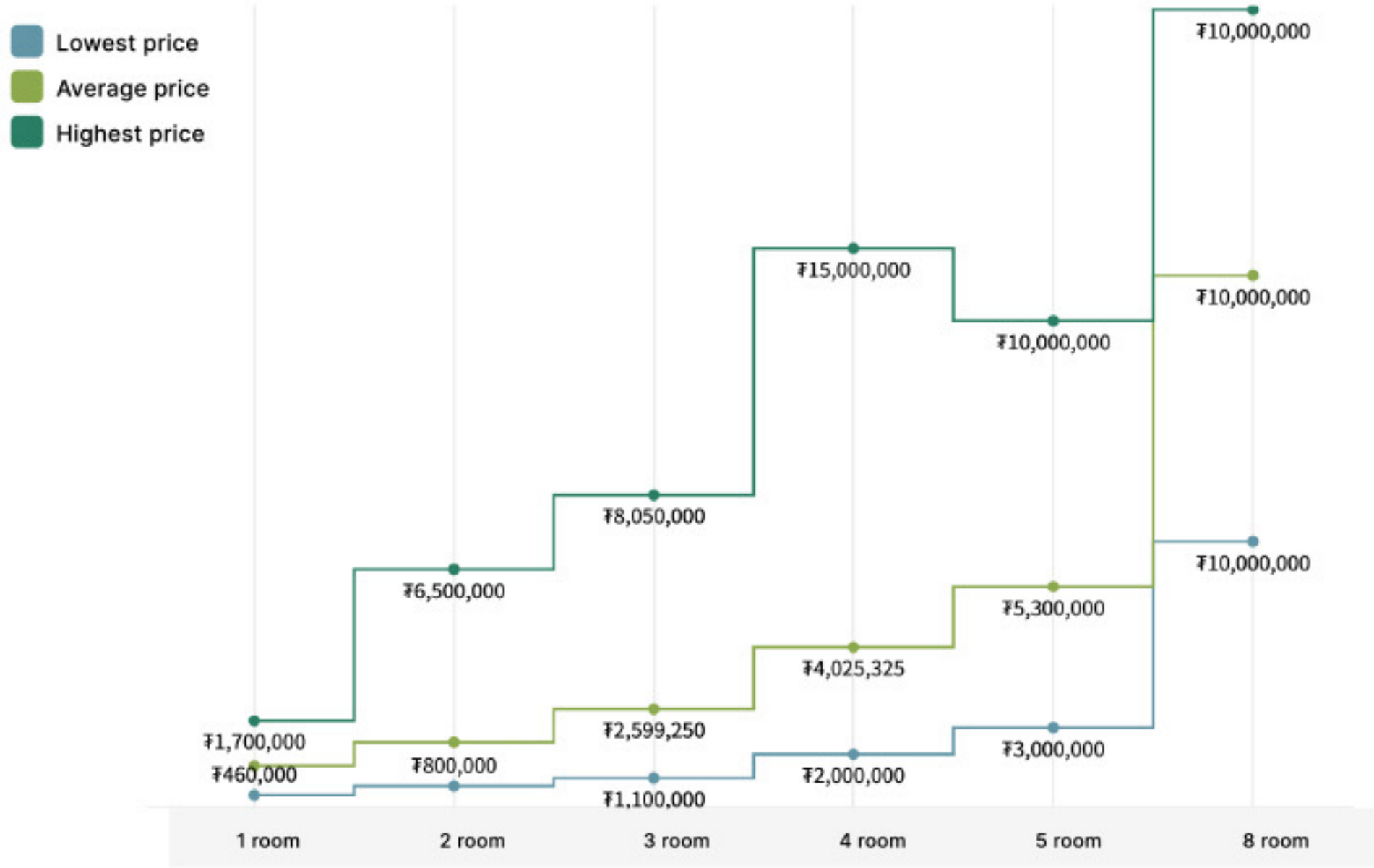
Source: Unegui.mn

Analysis based on listings added during 2023 Sep,07- 2023 Sep,30.

Size of the Apartment Available for Rent



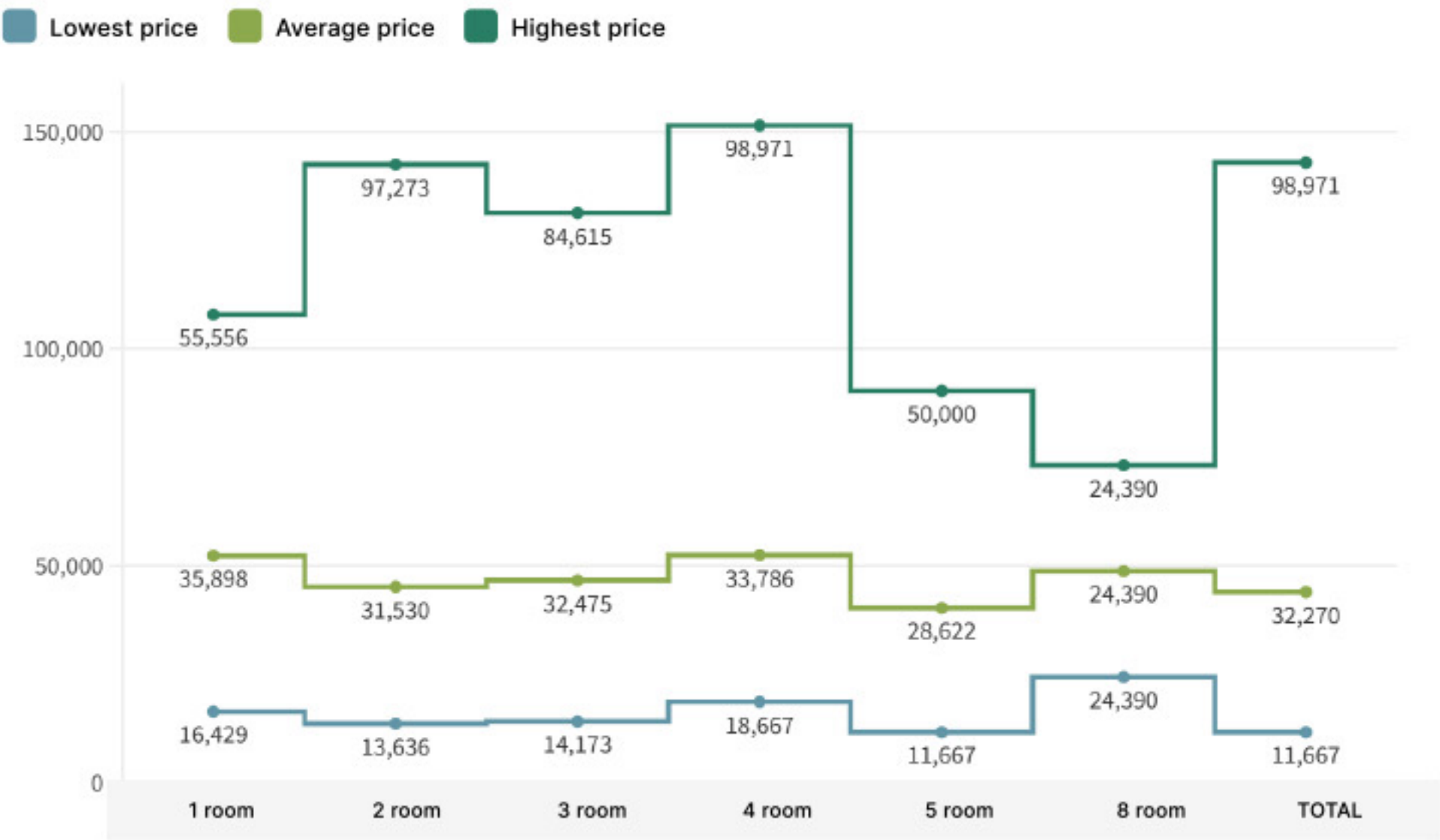
Rental Prices Per Unit for Apartments



Source: Unegui.mn

Analysis based on listings added during 2023 Sep,07- 2023 Sep,30.

Rental Prices per sq.m for Apartments



Source: Unegui.mn

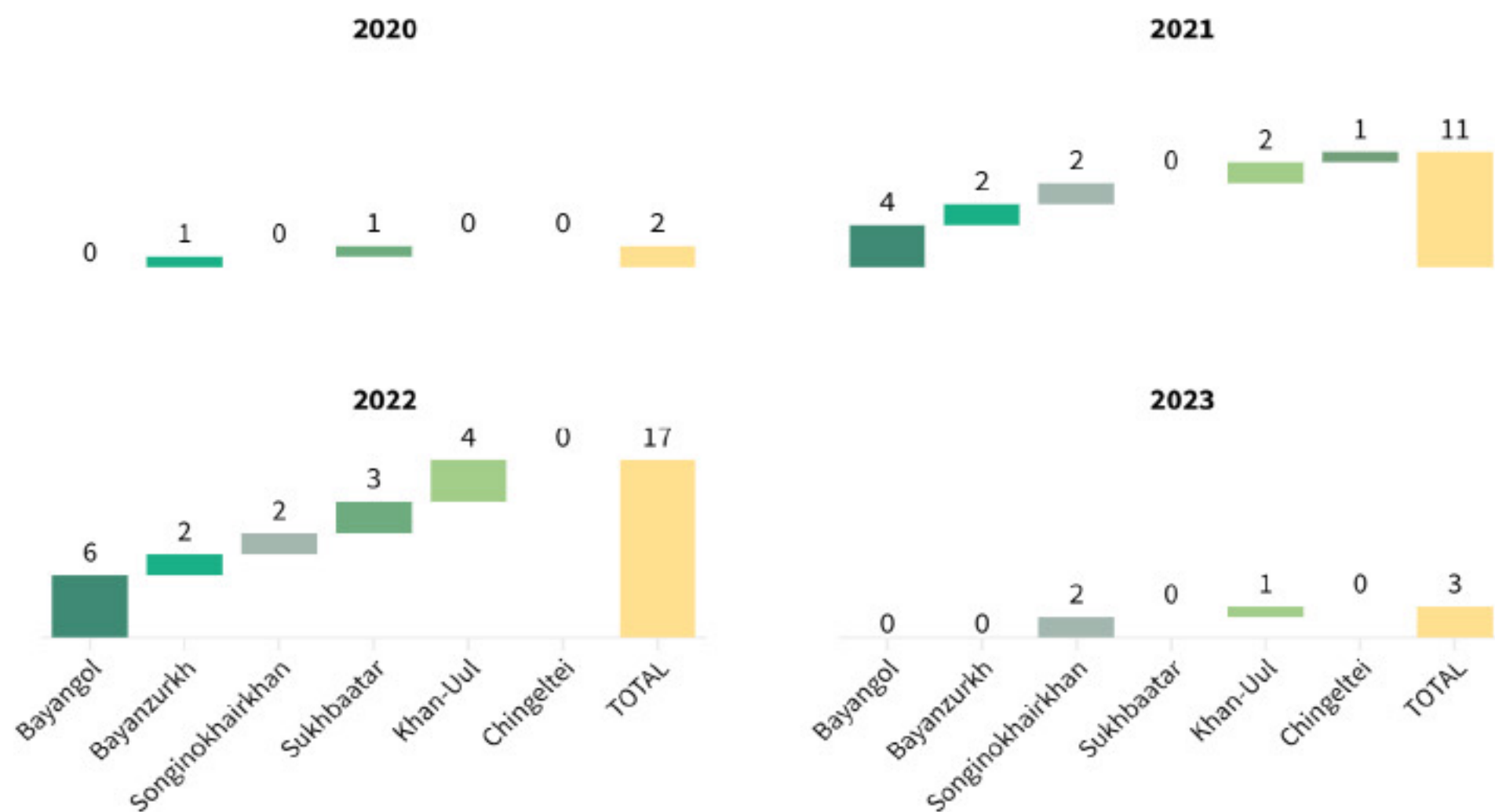
Analysis based on listings added during 2023 Sep,07- 2023 Sep,30.

OFFICE SECTOR 2023

NEW SUPPLY

In 2023, the supply movement in the office real estate sector was low. As of the first eight months, three new projects of 3-5 floors have been put into use. There is no new supply for A or A-grade. However, the stabilization of the occupancy of projects such as IC Tower, Belmonte Tower, and Eco International Tower, which were newly commissioned last year, was a noteworthy event.

Newly commissioned Office Projects (As of August 3, 2023)



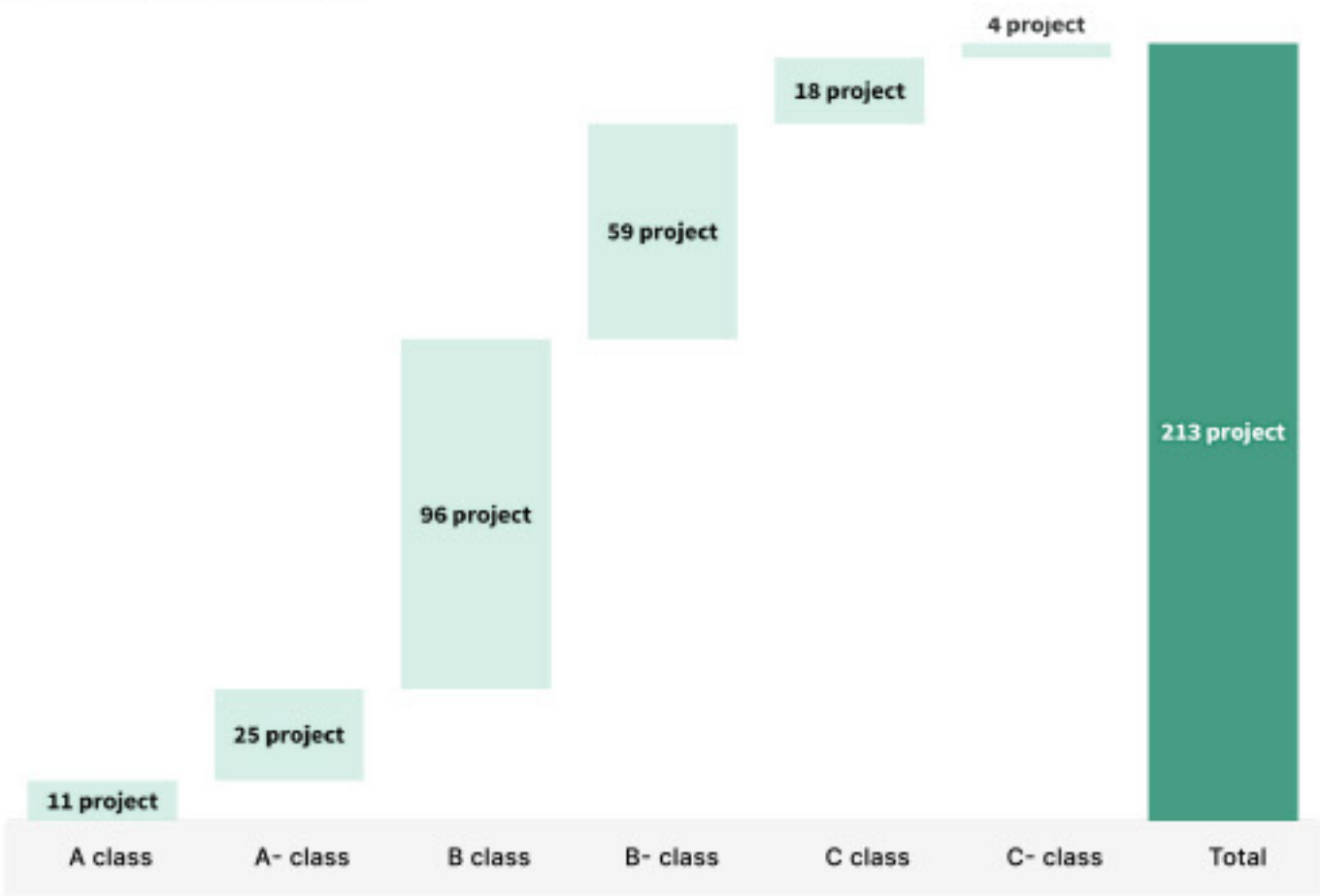
Source: City Standards and Inspection Department

“ As of February 2024, several large-scale A and A-class office projects located in the central business district are under construction. However, as these projects will likely be commissioned in 2025 or beyond, the supply of new projects will likely stay the same in the next 12-18 months.

OFFICE GRADES

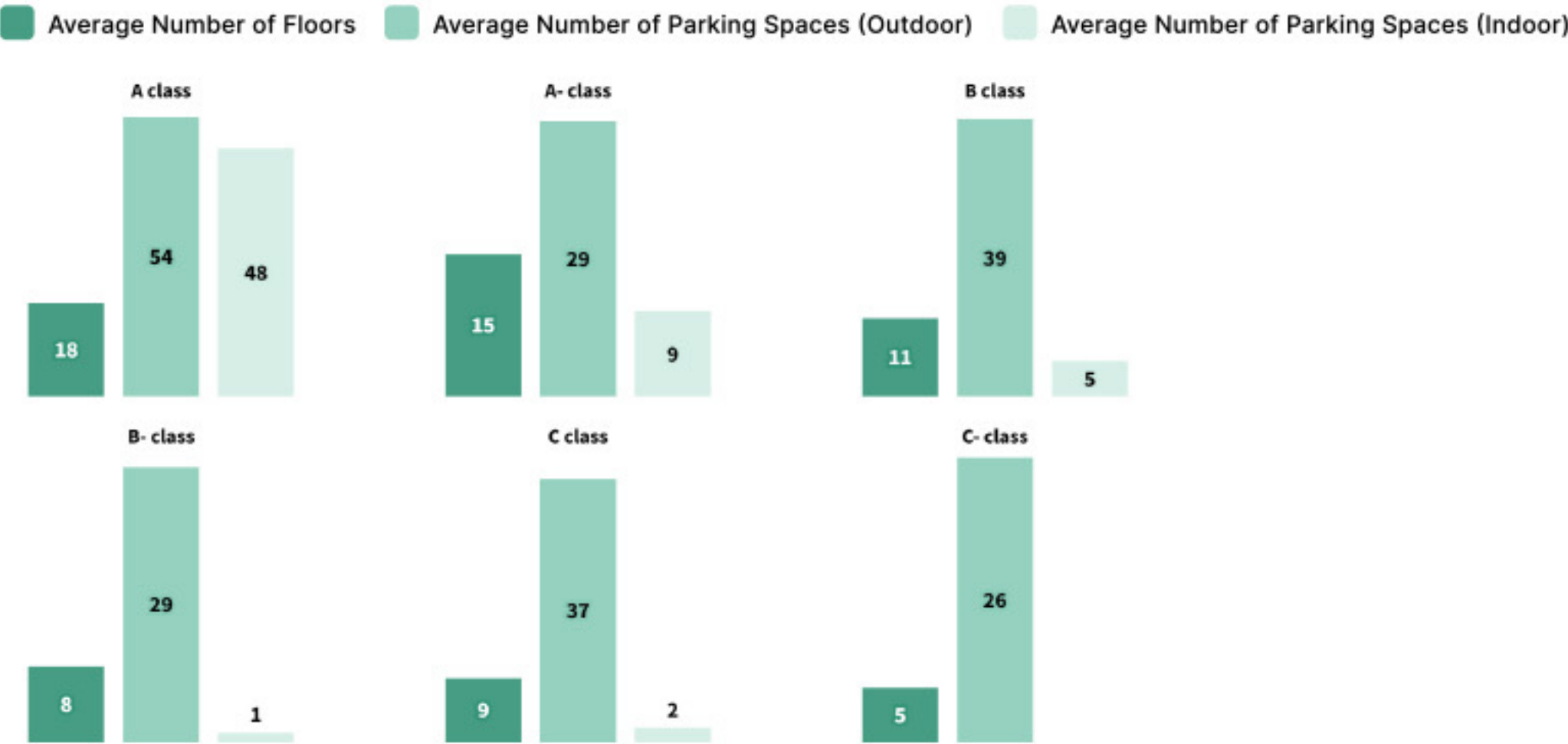
According to the information provided by Tenkhleg Zuuch research company, about 50% of the 213 office projects actively traded on the market are B-class projects. As the grade of the project progresses, the number of floors and parking spaces increases, which is a common indicator.

Total Office Fund in UB



Source: *raw data provided by Tenkhleg Zuuch LLC

Office Grades



Source: *raw data provided by Tenkhleg Zuuch LLC

● AVERAGE PRICE

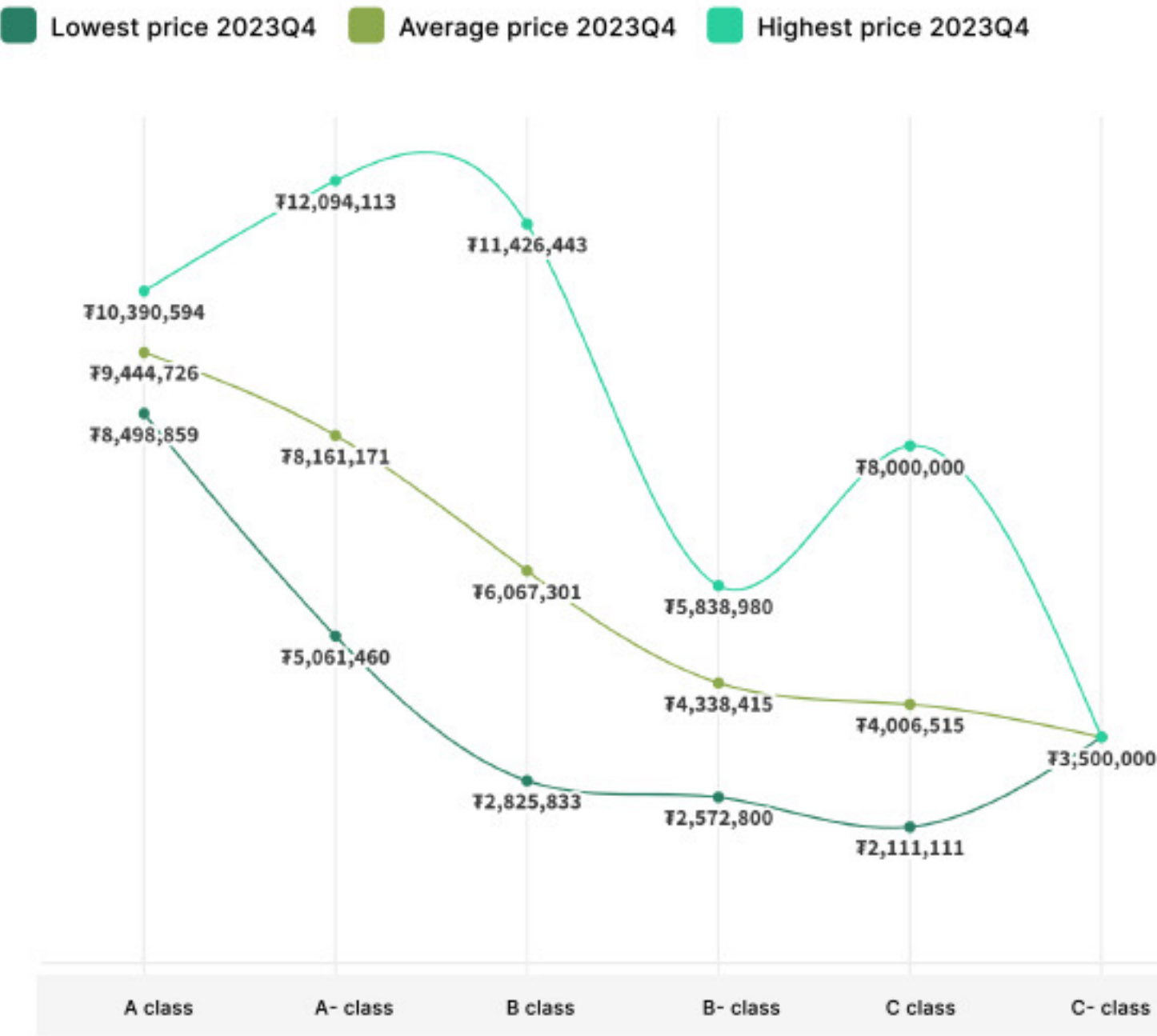
Compared to the same period last year, the sale price of office space increased more in A and A-class projects, while the rental price increased more in C and C-class projects.

“

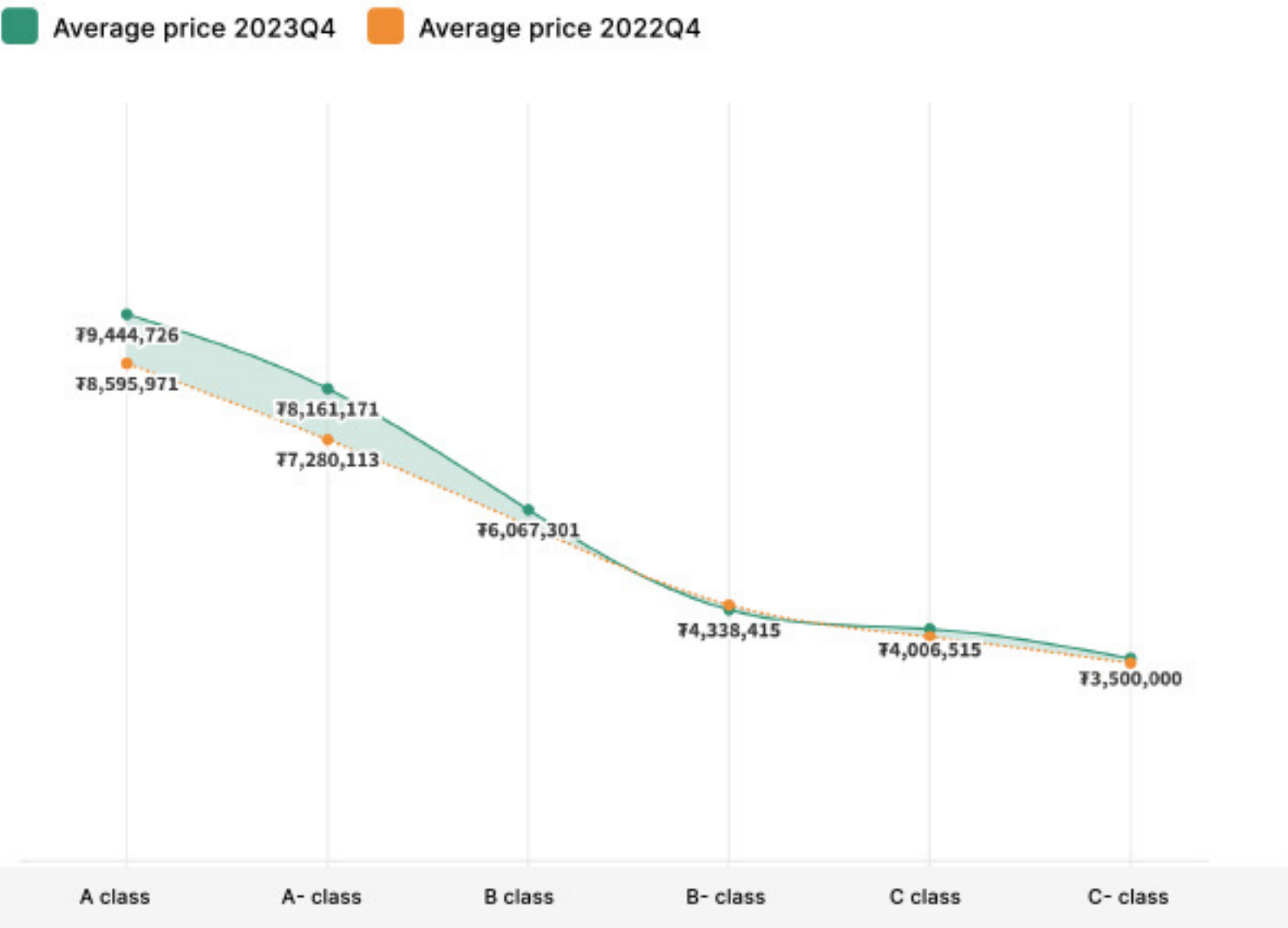
In addition, the gross rental yield calculated from the sum of the selling price and the rental price is 9.5% per year on average, the same as the previous year.

$$\text{Rental Price} \times 12 / \text{Sale Price} = \text{Gross Rental Yield}$$

Sales Prices for Offices 2023Q4



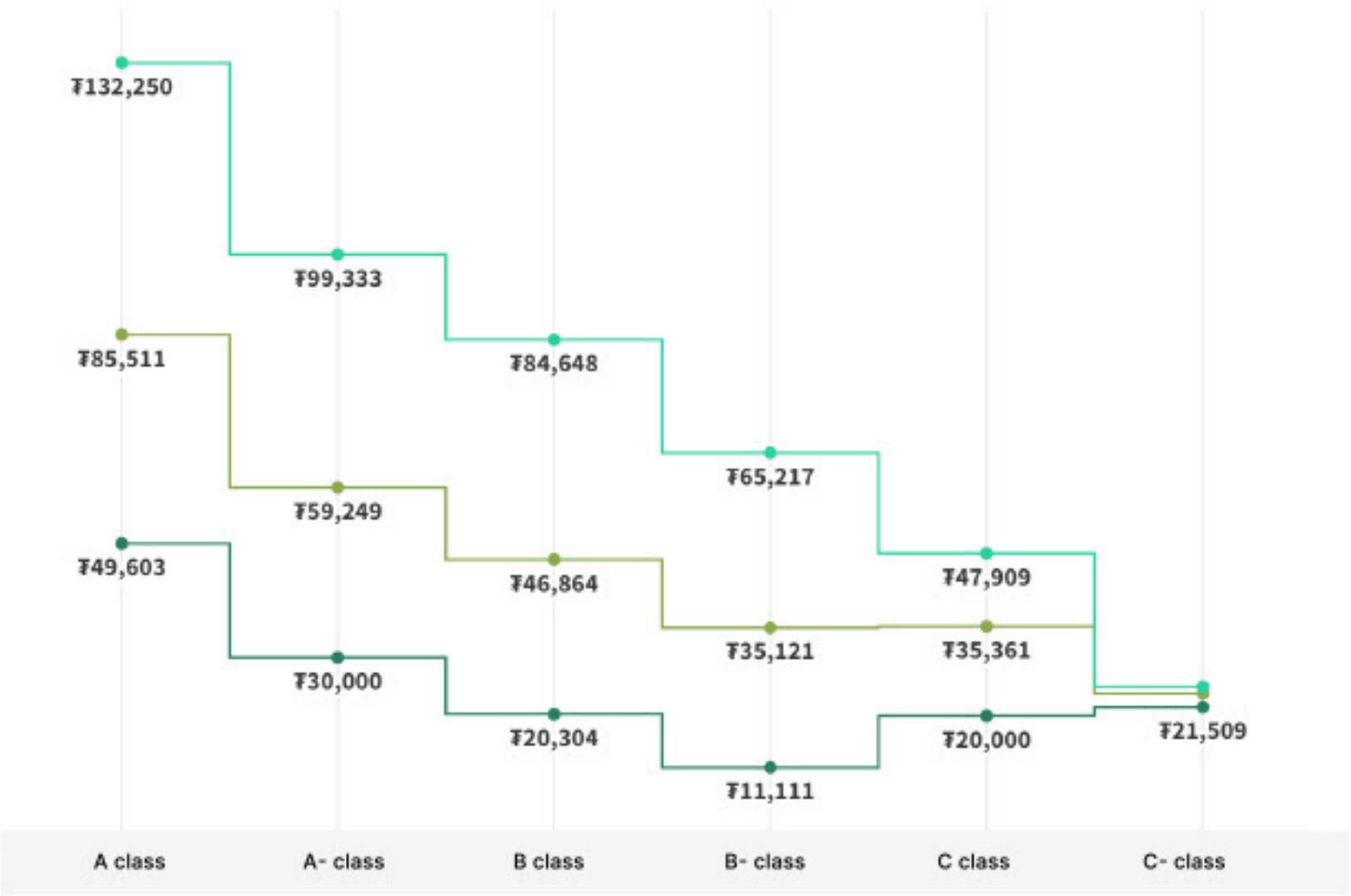
Rise in Average Office Sales Prices



Source: *raw data provided by Tenkhleg Zuuch LLC

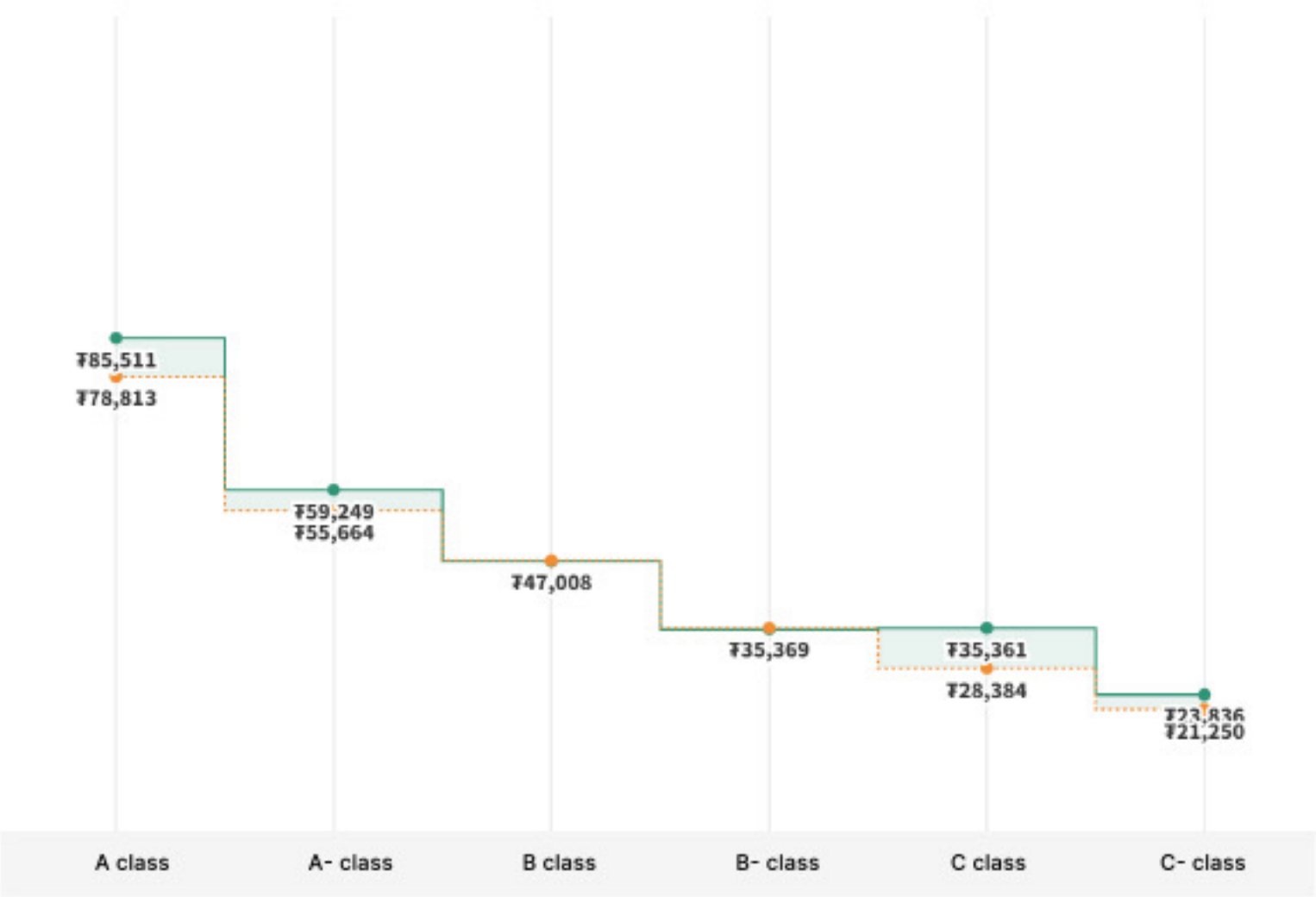
Office Rental Price 2023Q4

Lowest price 2023Q4 Average price 2023Q4 Highest price 2023Q4



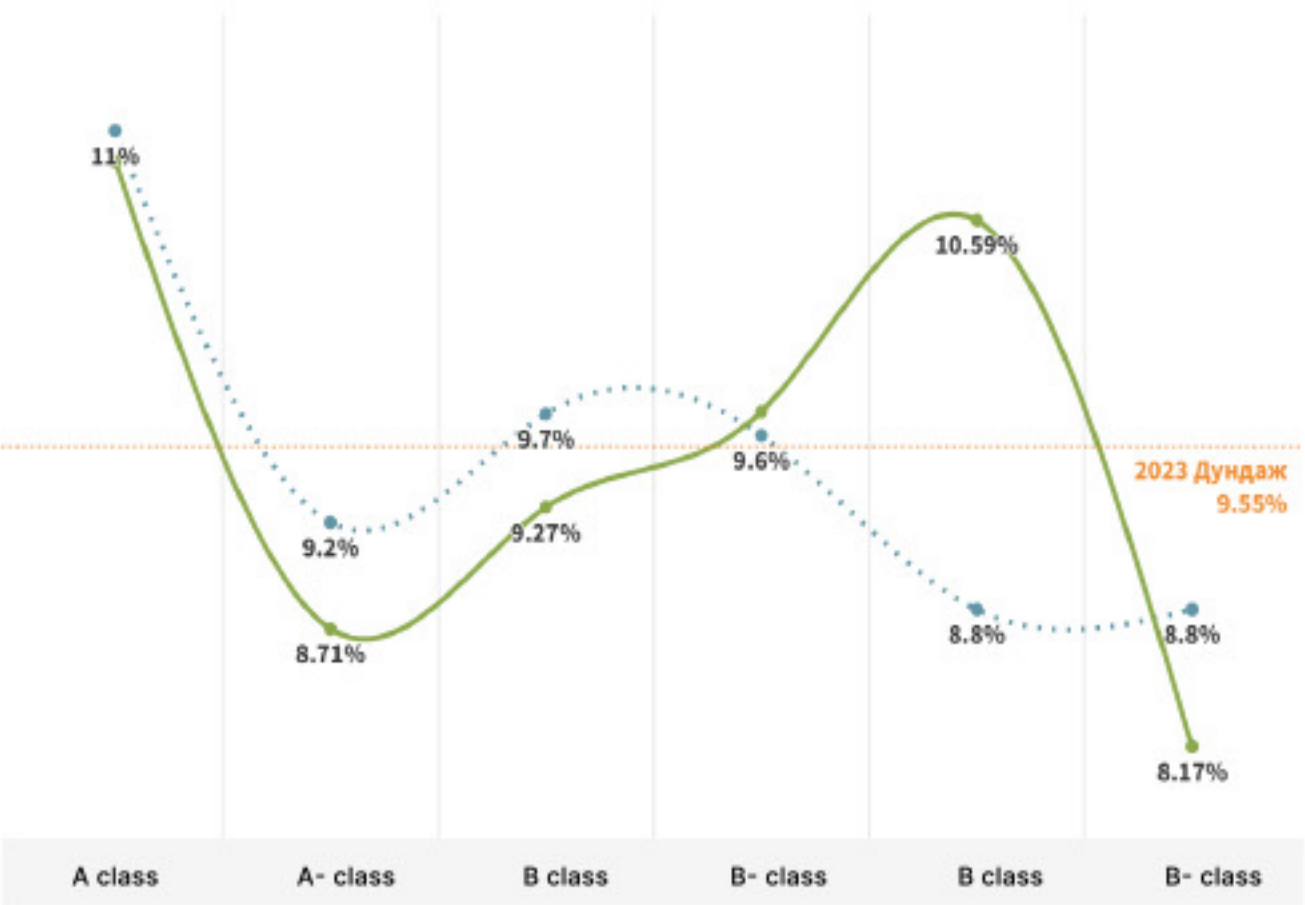
Rise in Office Rental Prices

Avg price 2023Q4 Avg price 2022Q4



Office Gross Rental Yield

2023Q4 2022Q4



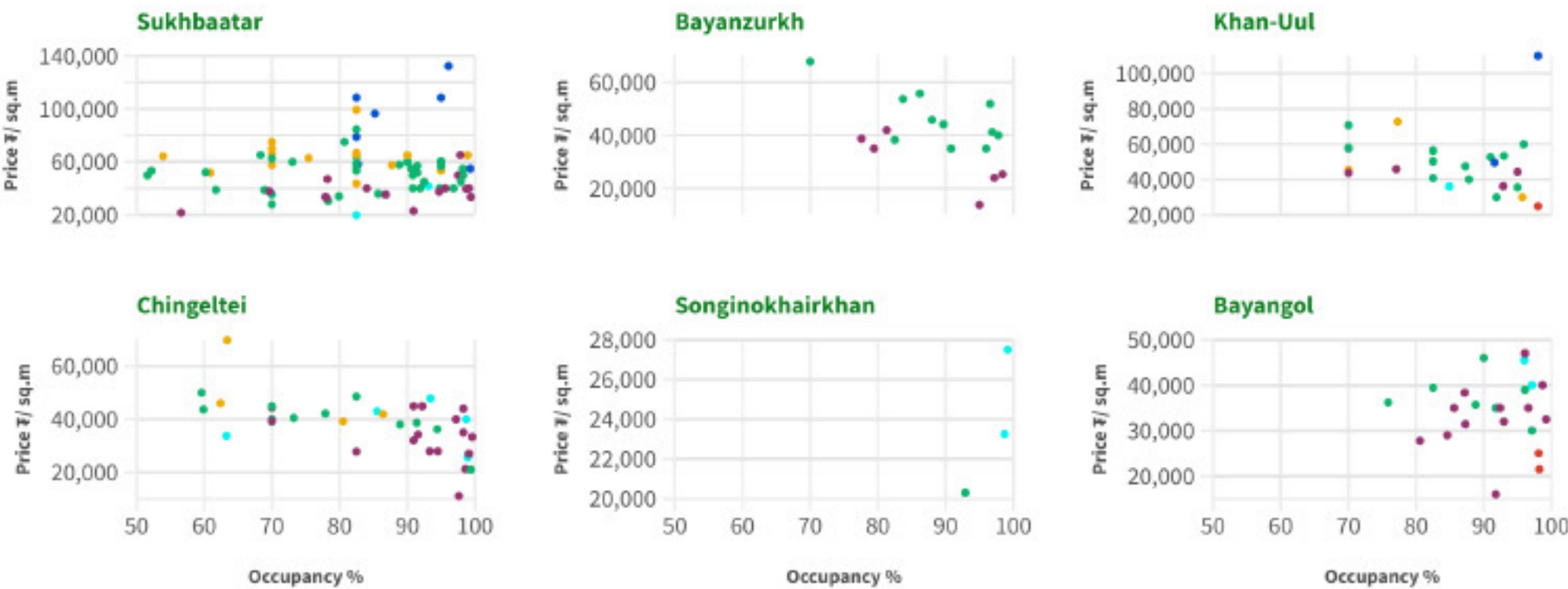
$Rental\ Price * 12 / Sale\ Price = Gross\ Rental\ Yield$

OFFICE OCCUPANCY

Judging by the percentage of office occupancy, despite the overall decrease in this sector's occupancy, the same transition is happening internationally /Bifurcation/ was seen in UB city as well. In other words, although the average occupancy rate has decreased, the sector has, in fact, moved in two different directions.

Rental Price and Occupancy Rate Distribution of Offices in UB City

Grade A Grade A- Grade B Grade B- Grade C Grade C-



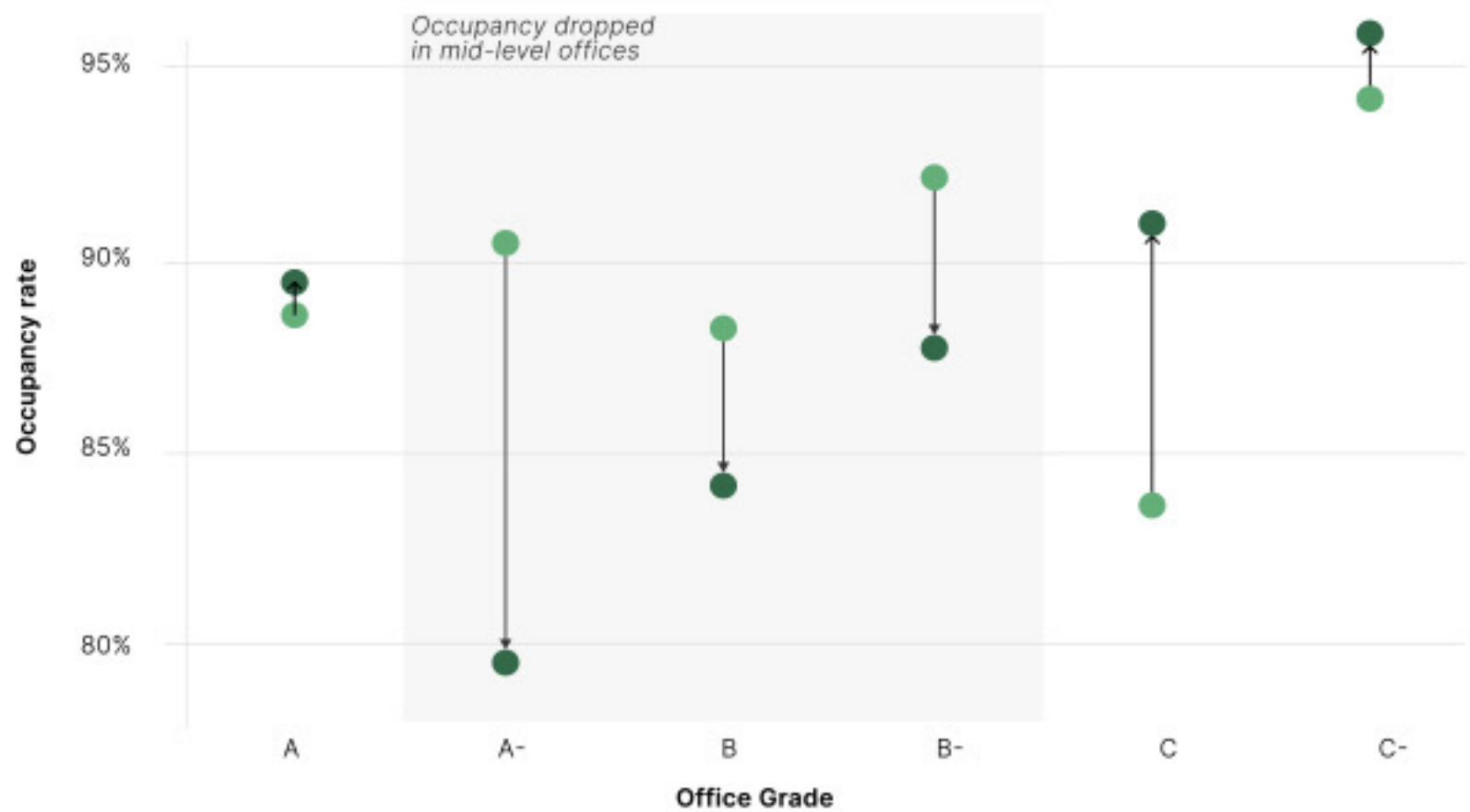
Source: *raw data provided by Tenkhleg Zuuch LLC

“ If the occupier organization has strong finances, it will select and lease the project that will be of the highest quality and the most profitable in the long term, even if the price is high. On the other hand, if the renters' finances are weaker, they choose the most economical project, therefore moving occupancy to both poles while vacancies rise in mid-level projects.

We have previously explained this in the [translated article "Flight to Quality."](#)

Change in Office Occupancy Rate from 2022 to 2023

2022 2023



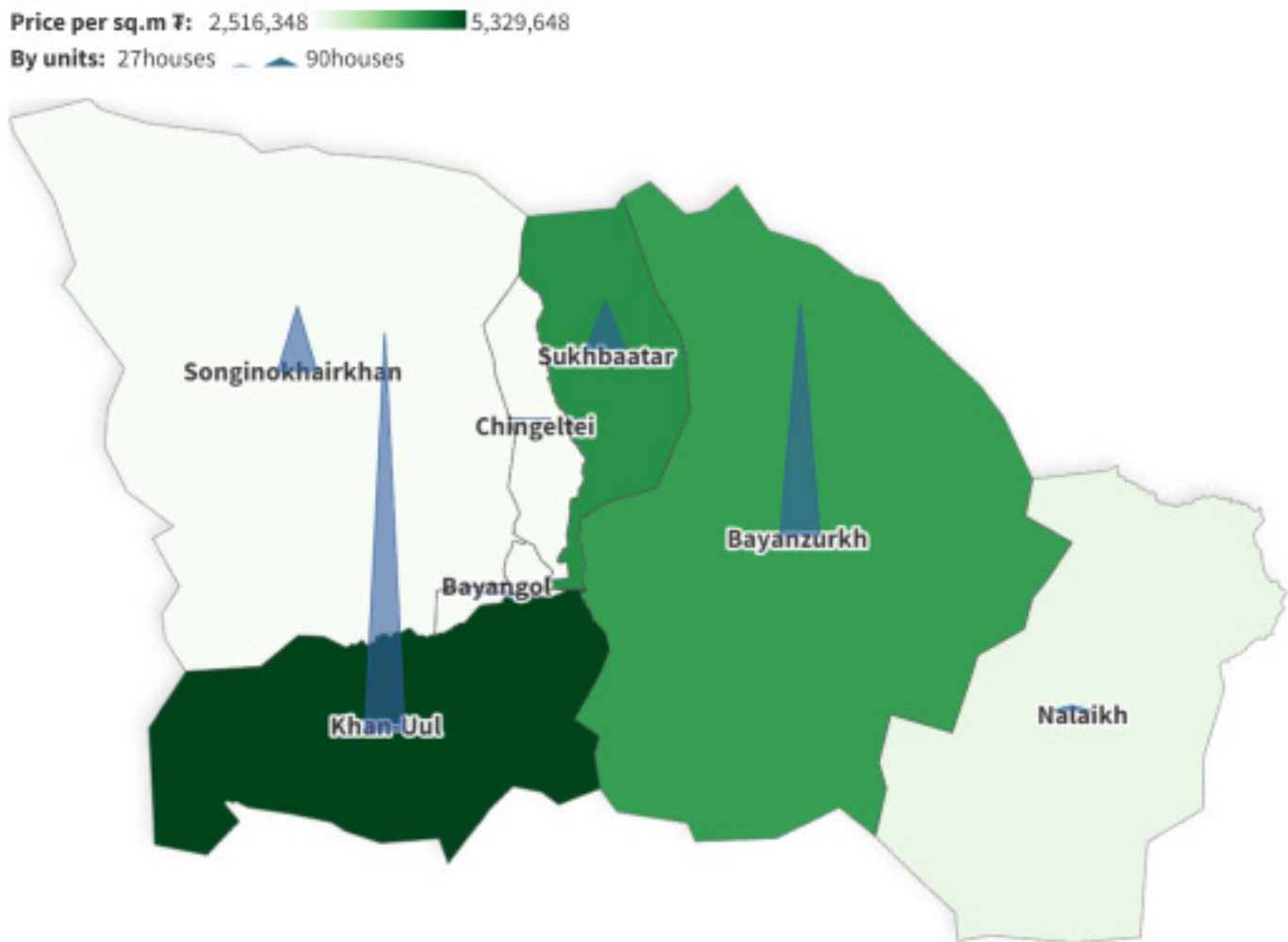
Source: *raw data provided by Tenkhleg Zuuch LLC

HOUSE SECTOR 2023

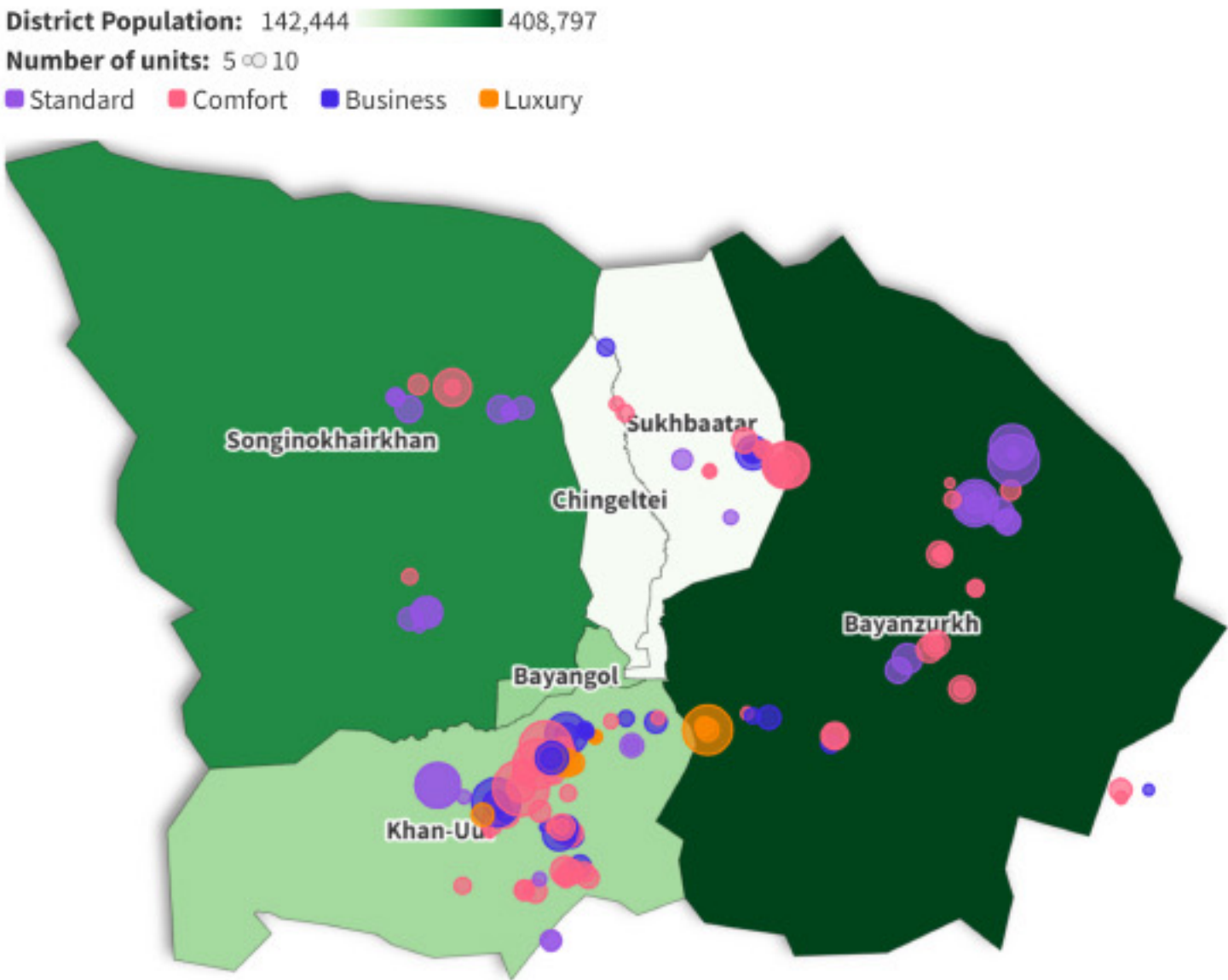
NEW SUPPLY

As of 2023, a total of more than 7,000 units house projects are being implemented. Most of them are located in the southern and eastern regions of the city. The average price of the house is ₮4.7 million per sq.m, and the average sales volume of the projects receiving orders is 71%.

House Projects in UB (by Number of Houses)



House Projects in UB (by Project Grade)

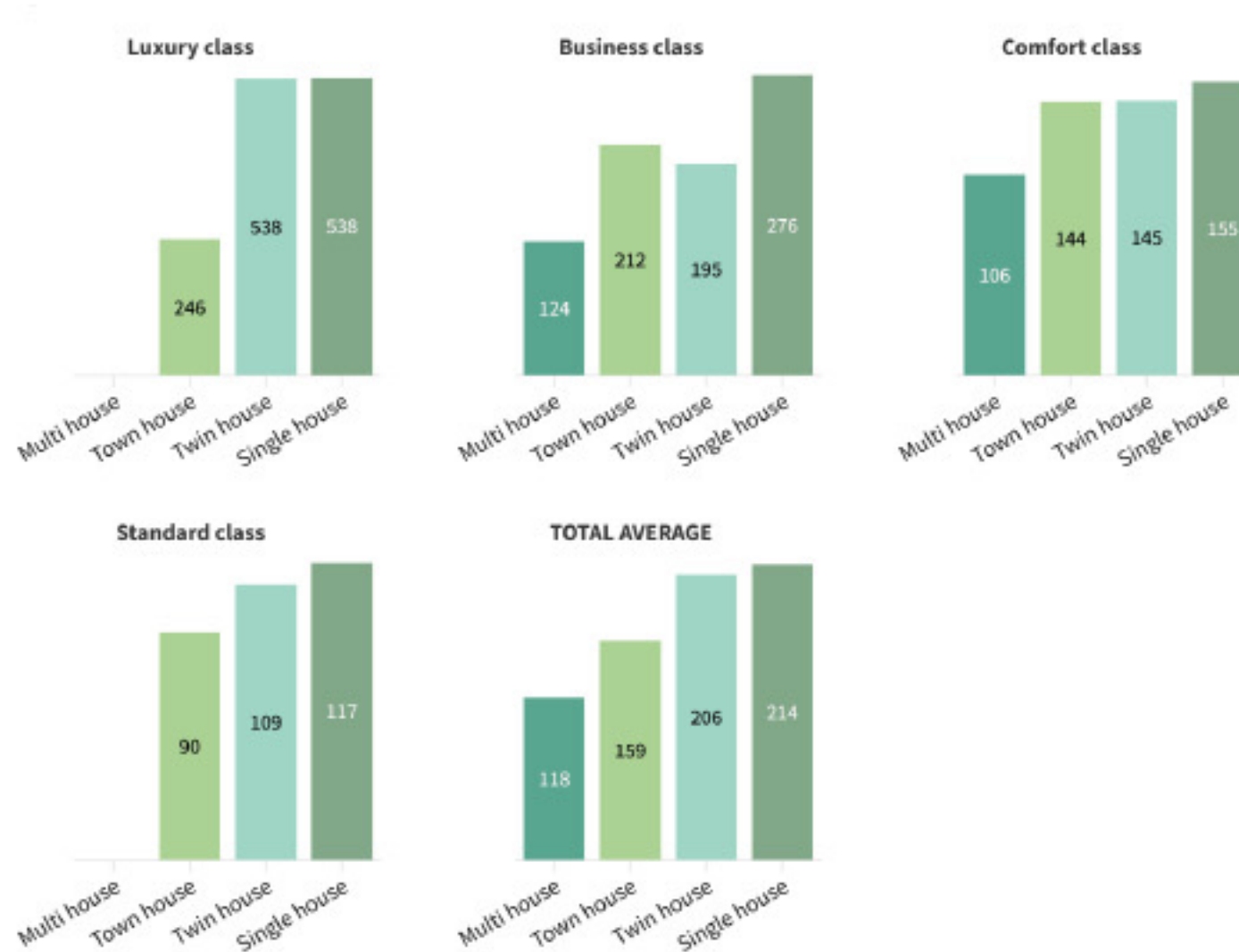


Source: *raw data provided by Tenkhleg Zuuch LLC

FLOOR PLAN

We reported in 2022 that the total area of houses has started to decrease. The trend remained the same in 2023. The largest planned houses are the Baga Tender City project, a high-end project with houses with 8-11 rooms and 554-1200 sq.m., to be commissioned in 2021. The project's sales rate is currently 55%.

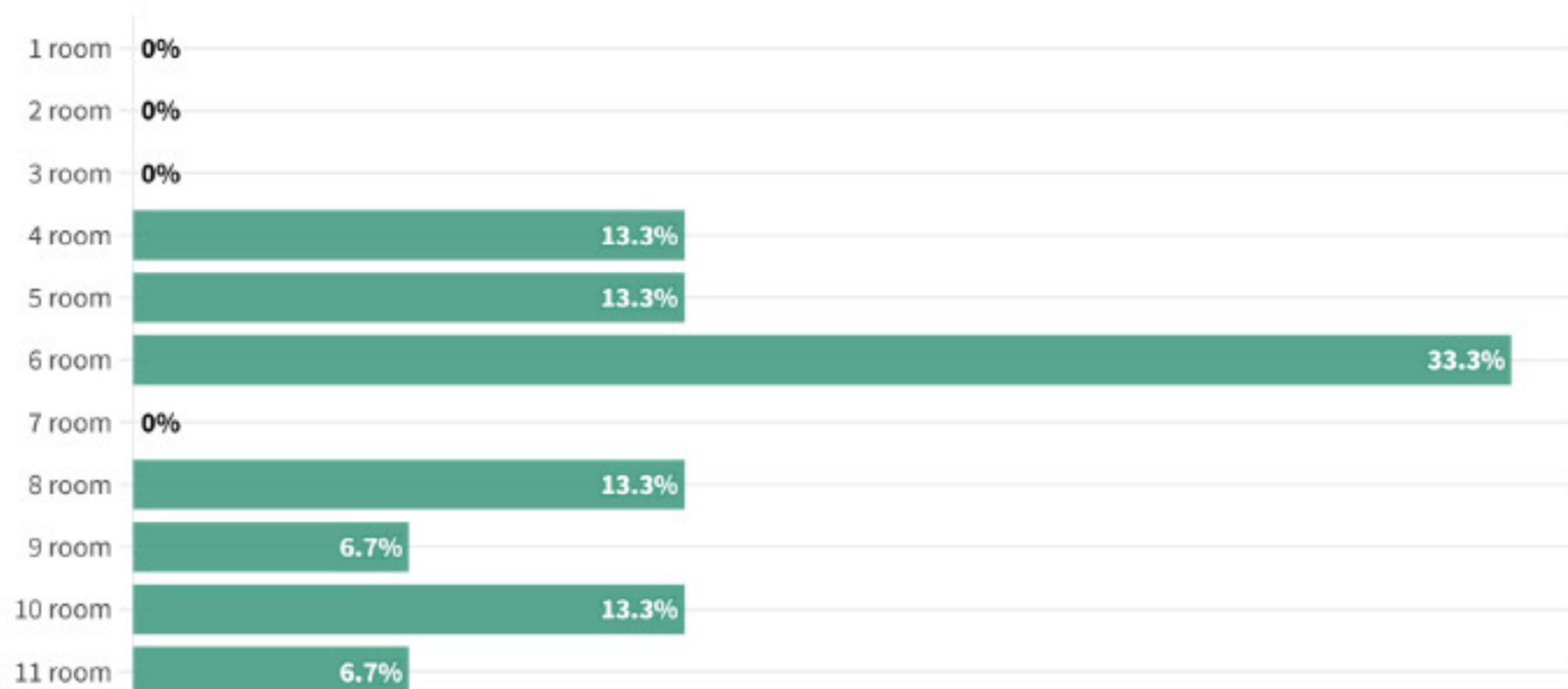
House Area /sq.m/



Source: *raw data provided by Tenkhleg Zuuch LLC

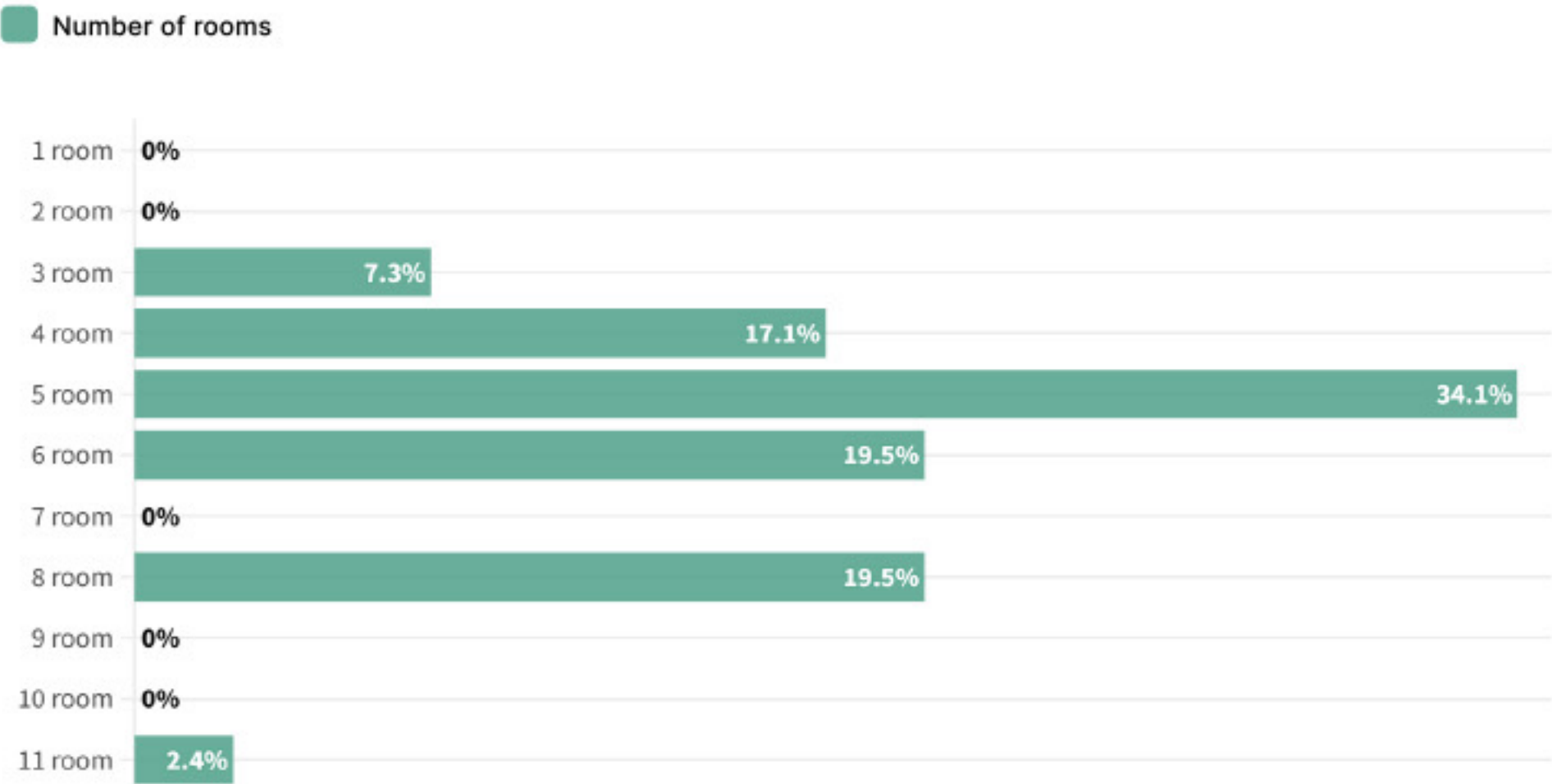
Luxury Grade Houses

Number of rooms



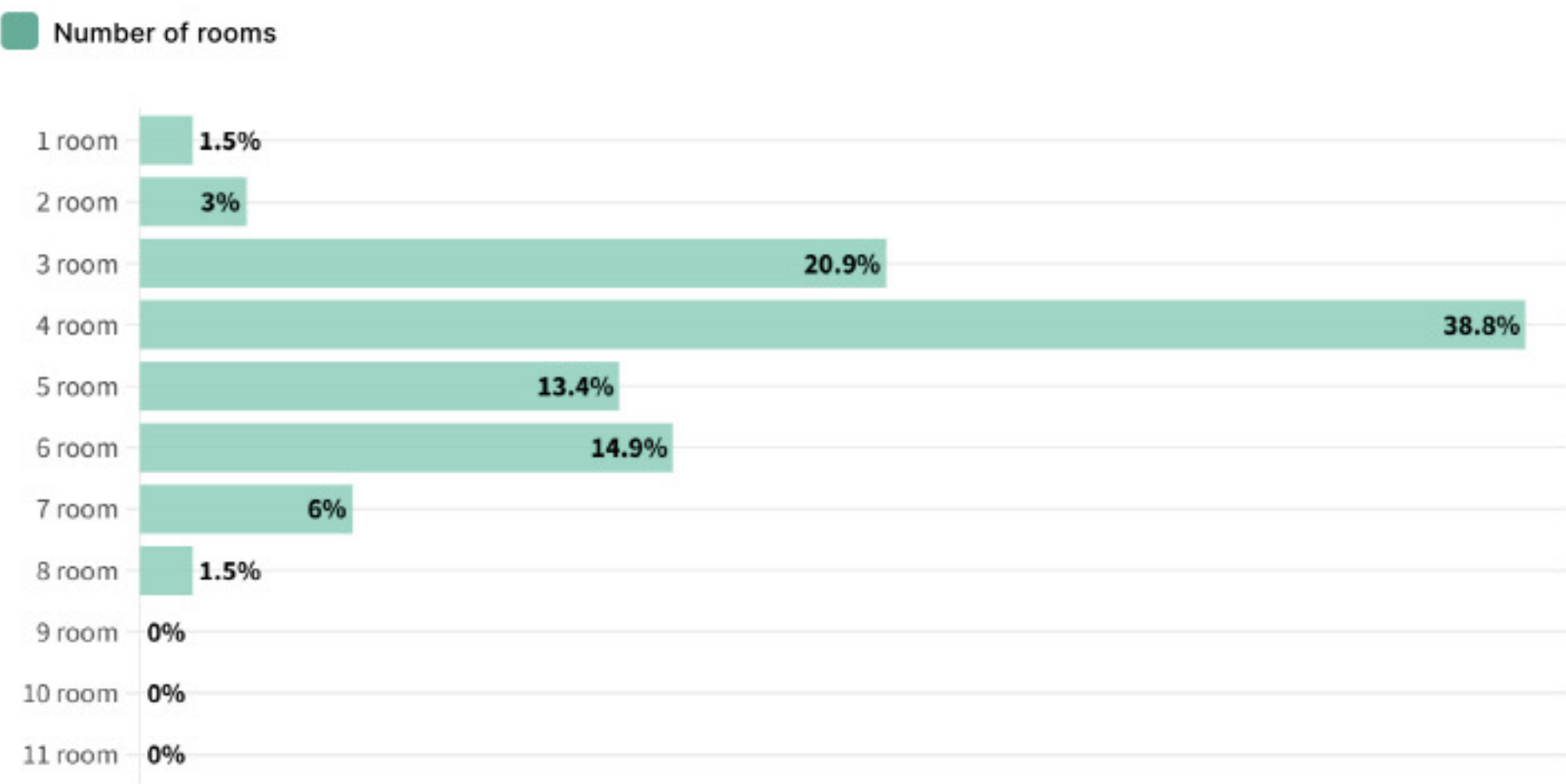
Source: *raw data provided by Tenkhleg Zuuch LLC

Business Grade Houses



Source: *raw data provided by Tenkhleg Zuuch LLC

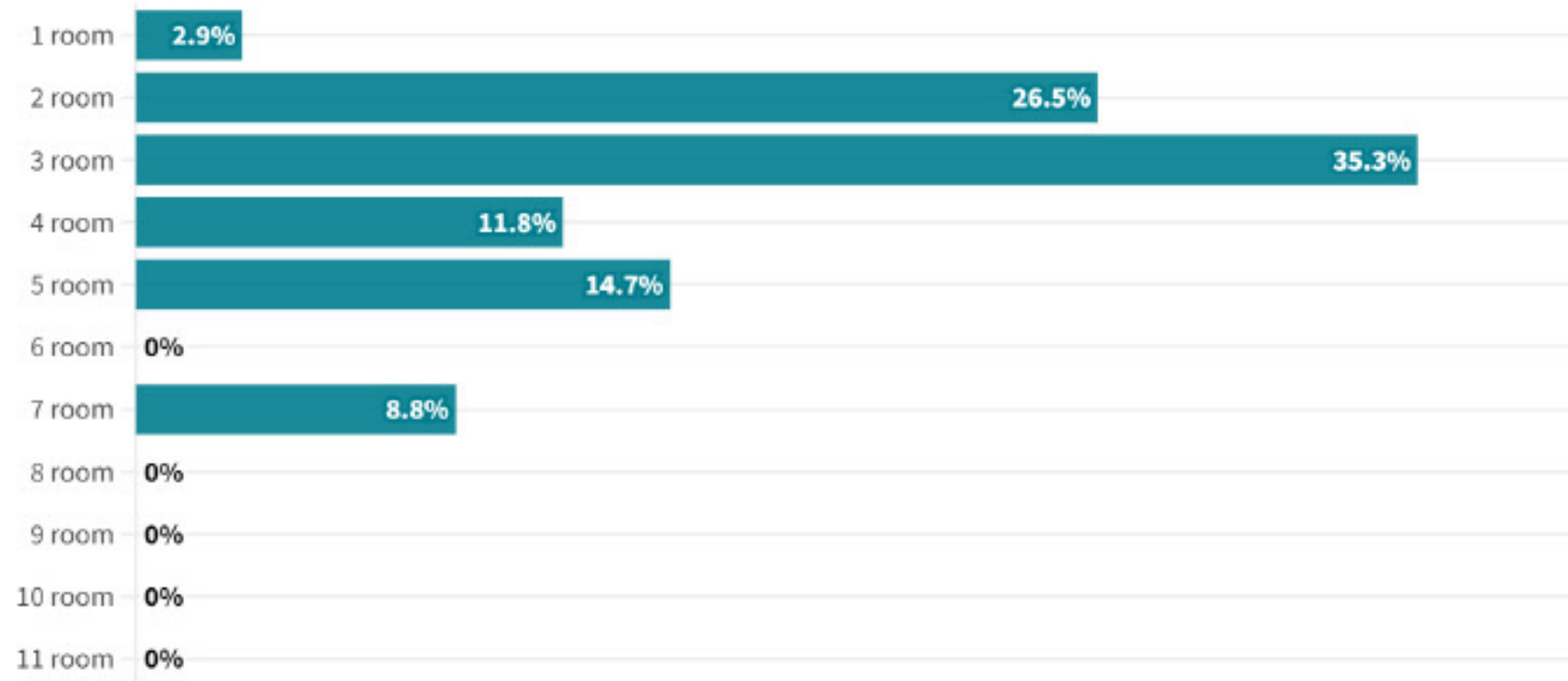
Comfort Grade Houses



Source: *raw data provided by Tenkhleg Zuuch LLC

Standard Grade Houses

■ Number of rooms



Source: *raw data provided by Tenkhleg Zuuch LLC

● AVERAGE PRICE

The average price per square meter of the new houses being ordered is ₮4.7 million, and depending on the grade, one house can be purchased for ₮325 million to ₮4.1 billion.

House Sales Price per sq.m /In MNT/

■ Mulithouse ■ Single House ■ Townhouse ■ Twinhouse ■ AVERAGE

Luxury



Business



Comfort



Standard



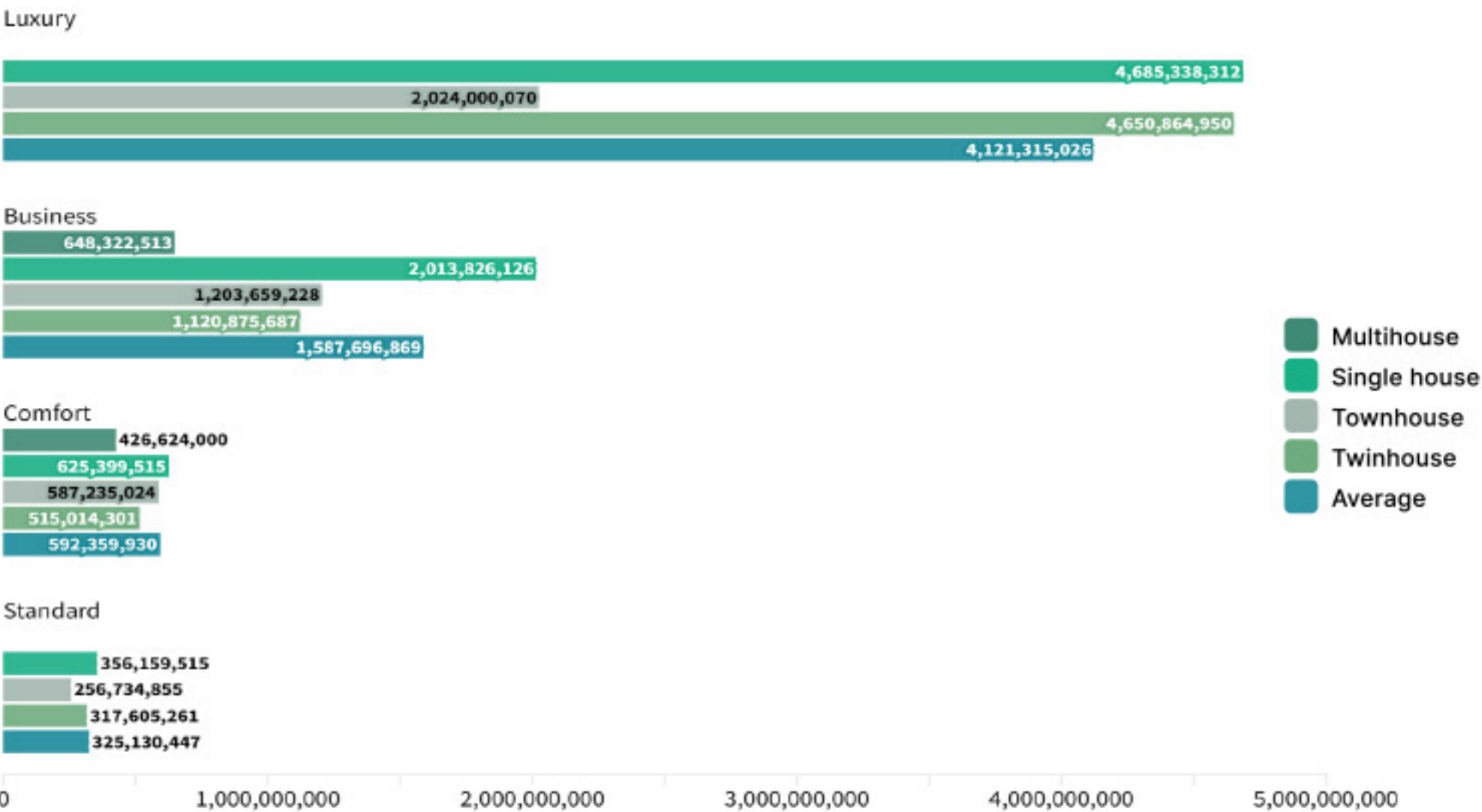
AVERAGE



0 1,000,000 2,000,000 3,000,000 4,000,000 5,000,000 6,000,000 7,000,000 8,000,000 9,000,000

Source: *raw data provided by Tenkhleg Zuuch LLC

House Sales Price Per Unit (in MNT)



Source: *raw data provided by Tenkhleg Zuuch LLC

However, when the data of the houses sold in the secondary market was taken from the open marketplace data, the house prices were between ₮2.8 million and ₮11 million per square meter.

“ When comparing the sales price of representative house projects from each grade with the rental price information of the projects in the secondary market, the gross annual rental yield is 7.7% on average.

$$\text{Rental Price} \times 12 / \text{Sale Price} = \text{Gross Rental Yield}$$

Gross Rental Yield for Representative House Projects

Grade	Project name	Sales price per sq.m	Rental Price per sq.m	Gross Rental Yield	Rental yield
Standard	Khadat 2	2,800,000.00	28,000.00	12.00%	
Comfort	Khiimori	3,662,420.00	22,135.00	7.25%	
Business	River Garden	10,795,455.00	38,889.00	4.32%	
Luxury	Casa Da Vinci	9,693,053.00	60,403.00	7.48%	

Source: calculated based on listings on Unegui.mn

FEATURED MARKET: ALMATY CITY, KAZAKHSTAN

Kazakhstan is currently experiencing an energy supply shortage, natural disasters, and rapid population migration to large cities, which is analogous to the situation in Mongolia.

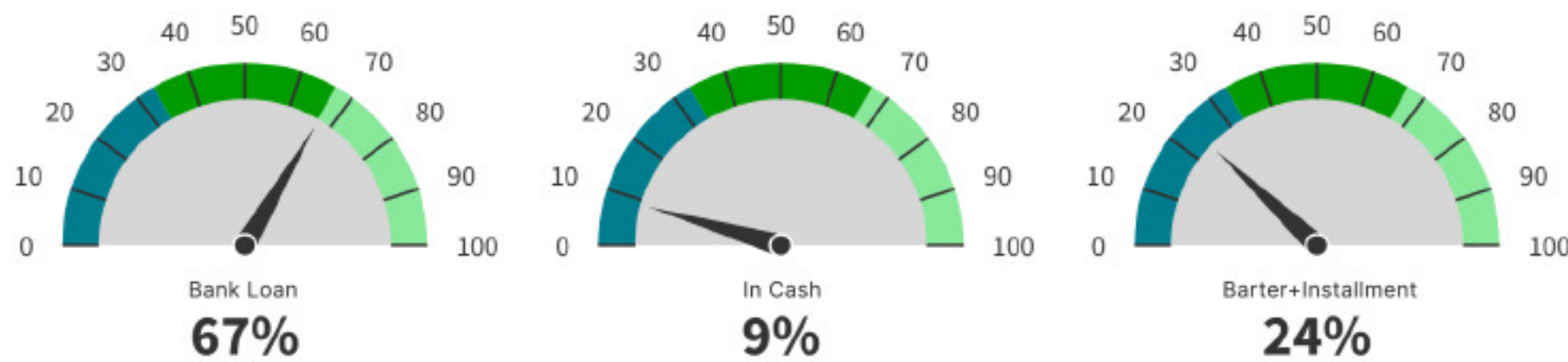
Apart from the apartment and office sectors, the warehouse and logistics facilities industry is the fastest-growing sector in the real estate industry. The current storage fund amounts to 1.3 million square meters, with an additional 470 thousand square meters of new supply currently under development in 2023, which indicates significant growth potential in this sector.

• Apartment

The demand for housing in Kazakhstan remains consistently high due to population growth and urban mobility. As of January 2024, the average price of an old apartment stands at 370,000 tenge or \$822 per sq.m.

City	Avg price/sq.m	Avg price/sq.m
Almaty	722,000 tenge	\$1,605
Astana	477,000 tenge	\$1,060
Shimkent	421,000 tenge	\$936
National average	370,000 tenge	\$822

According to the recent study conducted in the third quarter of 2023, 9% of apartment buyers purchased in cash, paying the entire amount at once. 67% of buyers took out a mortgage for their home. The remaining 24%, in order to buy a new apartment, sold their existing property or buy it in installments.⁴¹



In 2021, the average apartment price in Almaty was 468,000 tenge; in 2024, it was 721,000 tenge, an increase of 54%. Since 2021, discount housing loan programs and regulations such as the possibility of paying for housing in advance using personal pension accounts have been implemented in the country, which has led to a sharp increase in the demand for housing, resulting in a rapid increase in prices.

Due to the surge in demand, project developers have switched to a business model of building quickly and selling quickly. In doing so, a trend has emerged that apartments are mostly sold without interior fixes, and units started to be sold as soon as the building is at the early stage of construction, i.e. as soon as the construction completion reaches 30% according to the law.

As a result, the number of cases harming buyers has increased, such as accepting sales orders without proper authorization and number of frozen buildings when payments have already been received from buyers. In addition, due to the lack of energy supply in 2023, the illegal and unauthorized construction projects in Almaty have been being seriously monitored. As a result, 41 of the 86 facilities were ordered and were forcibly demolished, and 45 are being demolished.⁴²

● OFFICE

As of the third quarter of 2023, office occupancy in Almaty was 98.25%. The occupancy rate has steadily increased for the last four years, meaning the demand is very high. However, not a single office building was put into use in the same year. As such, the office sector has become a supplier's market, with more pricing power in the hands of suppliers.

As a result, the rent price of a class A office reached 20,000 tenge per square meter, and the rent price of class B+ reached 14,000 tenge, which is 13% more than that of an office in Moscow. The most demanded area is about 250 sq.m.⁴³

Class	Avg Rental price/ sq.m	Avg Rental price/ sq.m
Class A office	20,680 tenge	\$46
Class B+ office	13,960 tenge	\$31

FEATURED MARKET: USA

● HOUSE SECTOR

U.S. home sales are expected to hit their lowest level in 30 years in 2023 due to tight monetary policy, higher interest rates, and a reduced supply of new homes.

In 2023, a total of 4 million homes were sold, which is a 19% decrease from the previous year. The median home price was around \$390,000, and only 16% of the home supply was affordable.⁴⁴

Annual Existing-Home Sales: Likely 18% Decline



Source: [National Association of realtors, NAR](#)

The trend of rising interest rates for real estate loans in 2022 continued in 2023, almost doubling at the end of the year, and the average annual interest rate for a 30-year loan was 7.79%.⁴⁵

Average Weekly Mortgage Rates



Source: [Redfin analysis of Freddie Mac PMMS/FRED data](#)

● PERFORMANCE OF REAL ESTATE INVESTMENT FUNDS

In the fourth quarter of 2023, the price of real estate or REIT shares showed growth that exceeded other products in the stock market. For example, the Dow Jones Equity All REIT Index returned -8.4% in the third quarter. Then, its price surged in the last quarter with a total return of 17.9%. Meanwhile, the overall stock market index, the S&P 500, returned 11.7% in the most recent quarter.⁴⁶

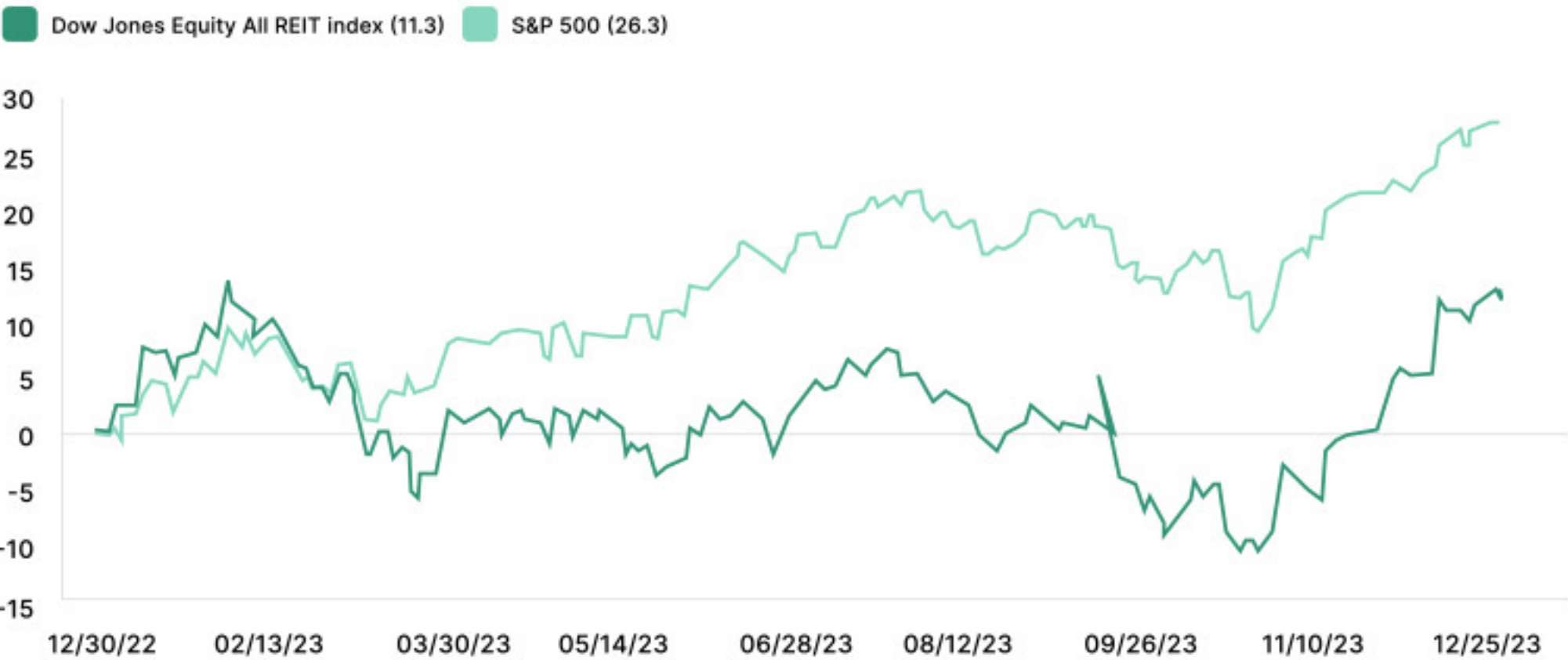
Q4 2023 Total Return (%)

■ Dow Jones Equity All REIT index (17.9) ■ S&P 500 (11.7)



Source: [S&P Global Market Intelligence](#)

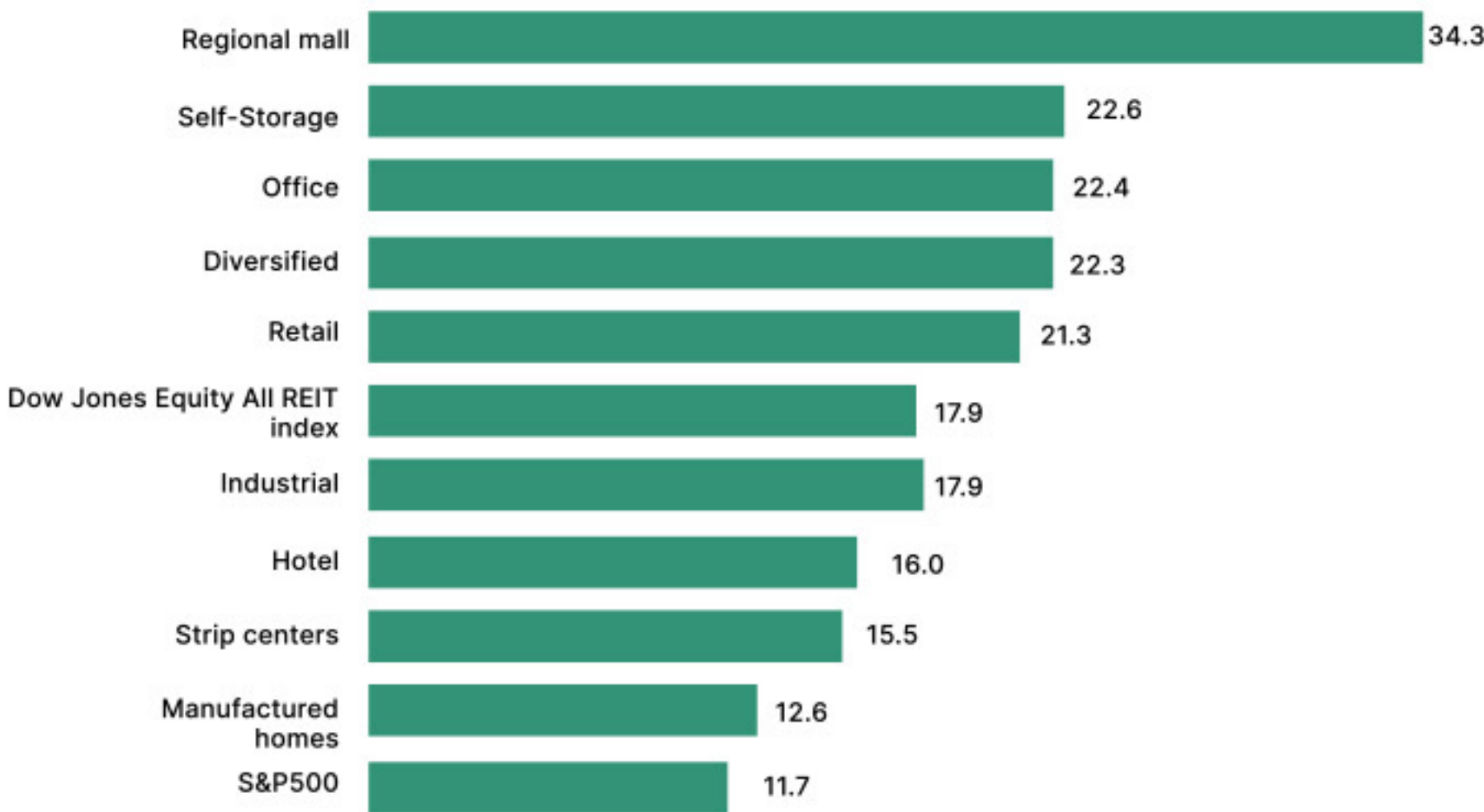
1-Year Total Return (%)



Source: [S&P Global Market Intelligence](#)

All Dow Jones US Real Estate sector indexes closed the fourth quarter in the black. The Dow Jones US Real Estate Regional Malls Index closed the recent quarter with the highest total return, at 34.3%. The self-storage REIT index placed second, with a 22.6% return for the fourth quarter, while the office REIT index followed closely behind with a 22.4% return. On the other end, the Dow Jones US Real Estate Apartments Index ended the fourth quarter with the smallest return of the group, at 8.9%.

Q4 2023 Dow Jones US Real Estate Sector Index total Return Comparison (%)



Source: [S&P Global Market Intelligence](#)

FEATURED MARKET: VIETNAM

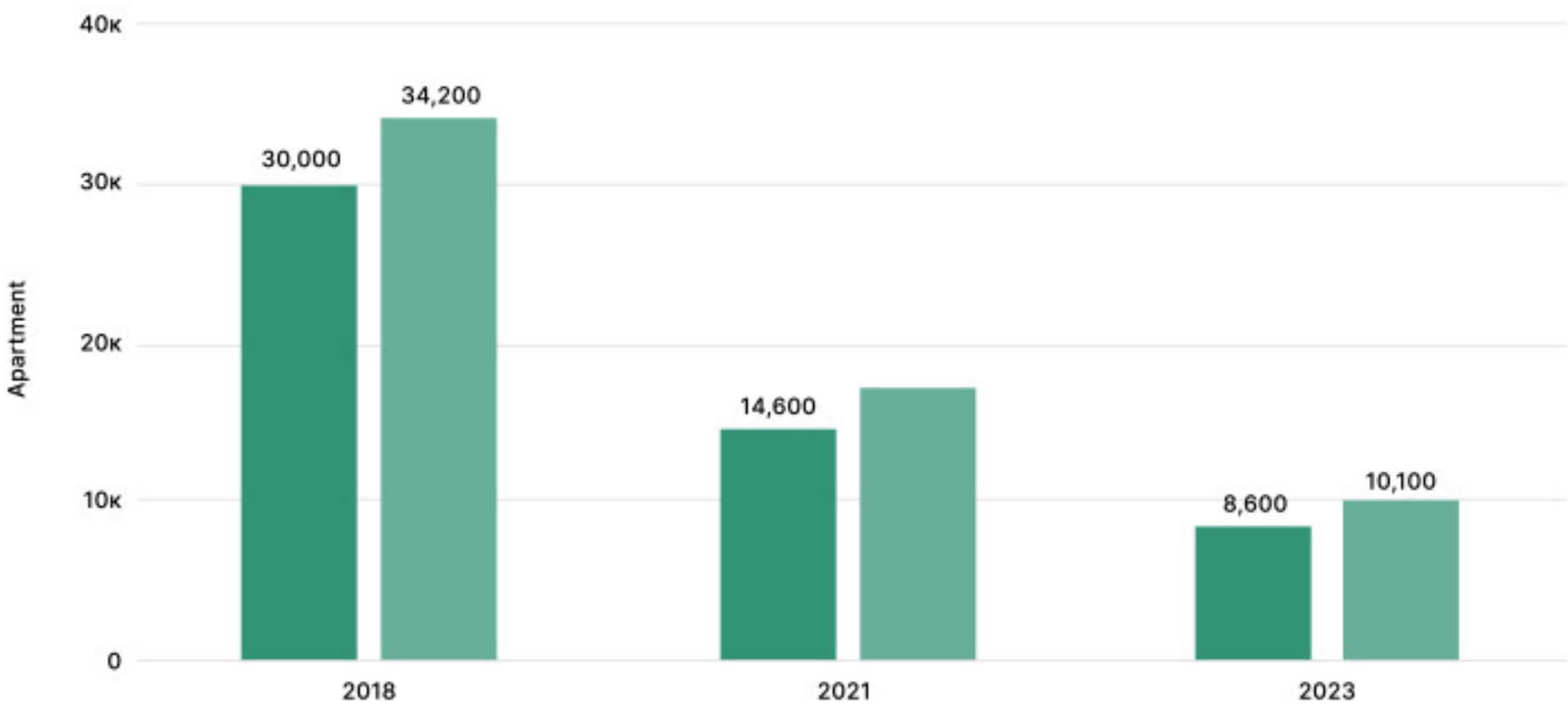
Vietnam, a Southeast Asian nation with an estimated population of approximately 100 million individuals, is actively engaged in a highly competitive regional race with the Philippines, Malaysia, Thailand, and Myanmar to establish itself as the foremost manufacturing hub of the area. The availability of a sizeable working-age demographic and the presence of a solid infrastructure capable of supporting their training and development are the two most crucial factors that will enable Vietnam to achieve its ambitious goal of becoming a production-oriented economy.

● CURRENT LANDSCAPE OF THE INDUSTRY

In line with the trend observed in developing nations, there has been a rise in the number of middle-class individuals relocating to apartments situated in the central areas of cities. This trend has been driven by the large population migrating from rural areas to urban centers. Consequently, the real estate industry has experienced substantial growth up until 2019.

In recent times, the real estate industry of the country has been in a state of turmoil. The pandemic has caused an economic slowdown, and the lessons learned from China's real estate crisis has further decreased public confidence in the domestic real estate industry. Additionally, a large domestic developer was found guilty of committing financial fraud in collaboration with banks and financial institutions having similar interests. This incident has raised concerns about the credibility of the real estate industry. It has also led to revenue interruptions and debt burdens due to poor solvency of the developers.⁴⁷

New Housing Supply in Vietnam



Source: [VNE Express](#)

Although the year 2023 did not end well, international analysts and investors expect that the situation will stabilize next year, and growth will start to be observed from the year after that. Also, in November 2023, the revised Housing and Real Estate Business Laws, which will come into effect in 2025, will support the growth of the industry.⁴⁸

● FEATURED FLOOR PLAN

Vietnamese project developers often develop complexes and mega projects, which include various facilities such as hotels, resorts, houses, retail, and service areas. The most interesting concept for international investors is the "shophouse" or "shoptel".

A shophouse has a wall connected to the adjacent houses like a townhouse and a unique shape where one house is 3-5 stories high, 5-7m wide, and 20-25m long.

The houses usually have entrances along the road or on both sides, and the floors are divided into two wings by placing the stairwell in the center of the house. This way, the house owner can live in one wing and use the other for commercial or service purposes or rent it out. Therefore, the concept of "shop + house" was born.

*For example: The selling price of a 4-story shophouse with a base area of 5m*20m or 10 sq.m is 8 billion Vietnamese Dong or about 325,000 US dollars.⁴⁹*

Example of SHOPHOUSE Model Planning

Outer Design:



Interior Layout Plan:



The Real Estate Industry Outlook in 2024

04

- **Ulaanbaatar City Market: As Envisioned by Domestic Project Developers**
 - *Expert Opinion: Project Management Best Practices*
- **Global Markets 2024 : JLL Research Summary**

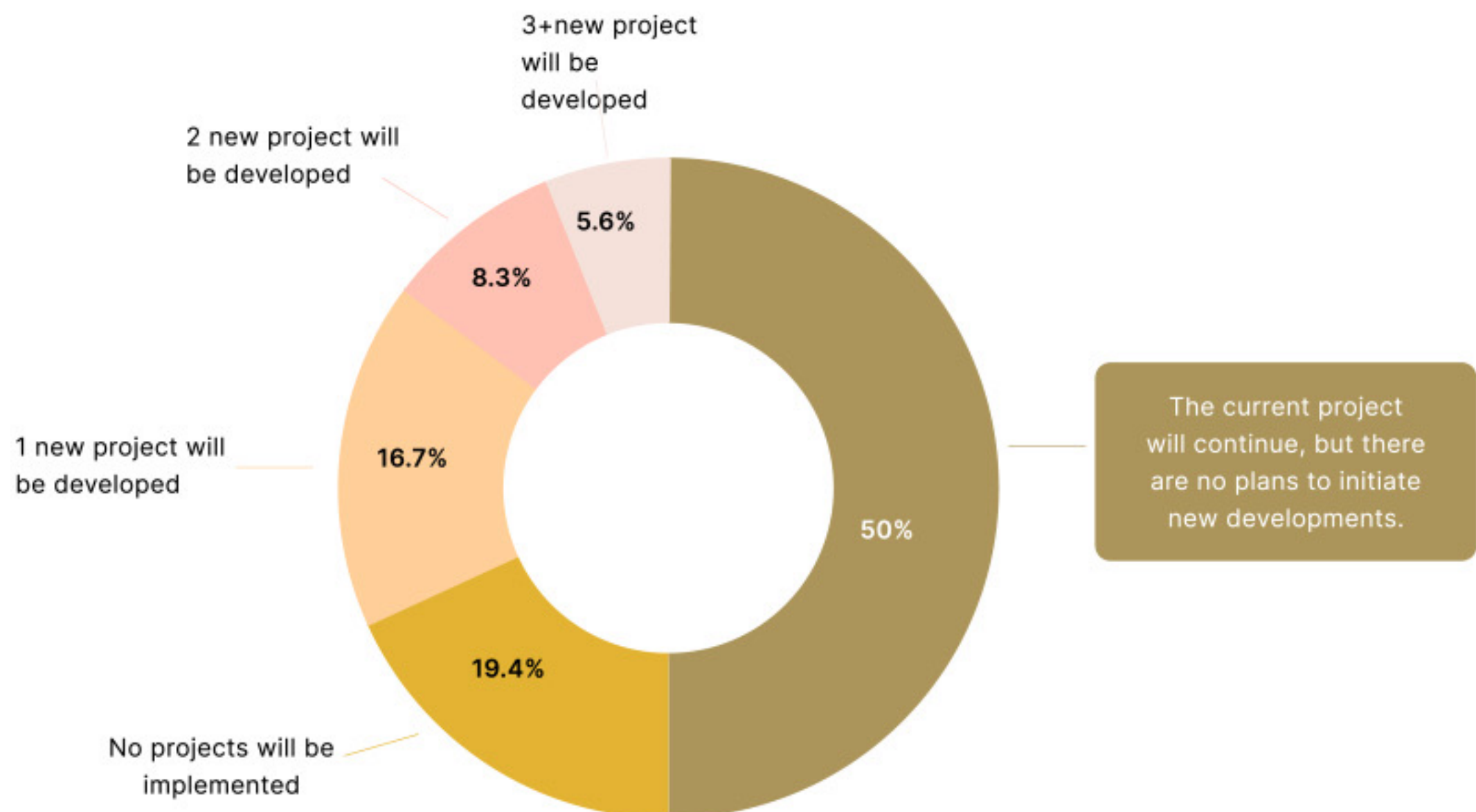
ULAANBAATAR CITY MARKET: AS ENVISIONED BY DOMESTIC PROJECT DEVELOPERS

"Invescore Property" LLC conducted an "Industry Sentiment" survey among domestic project development companies in February 2024. In doing so, we aimed to clarify how confident and positive expectations real estate professional companies are in the future business environment of their industry and also worked to identify some common problems.

● NEW DEVELOPMENTS

In 2023, 767 new construction permits were issued, the highest number not seen in the last five years. We translated that figure as industry players seem very confident in the future of their business. However, according to the results of the industry sentiment survey, 50% of all project developers said "We will only continue the existing project but not start any new project", indicating an opposite.

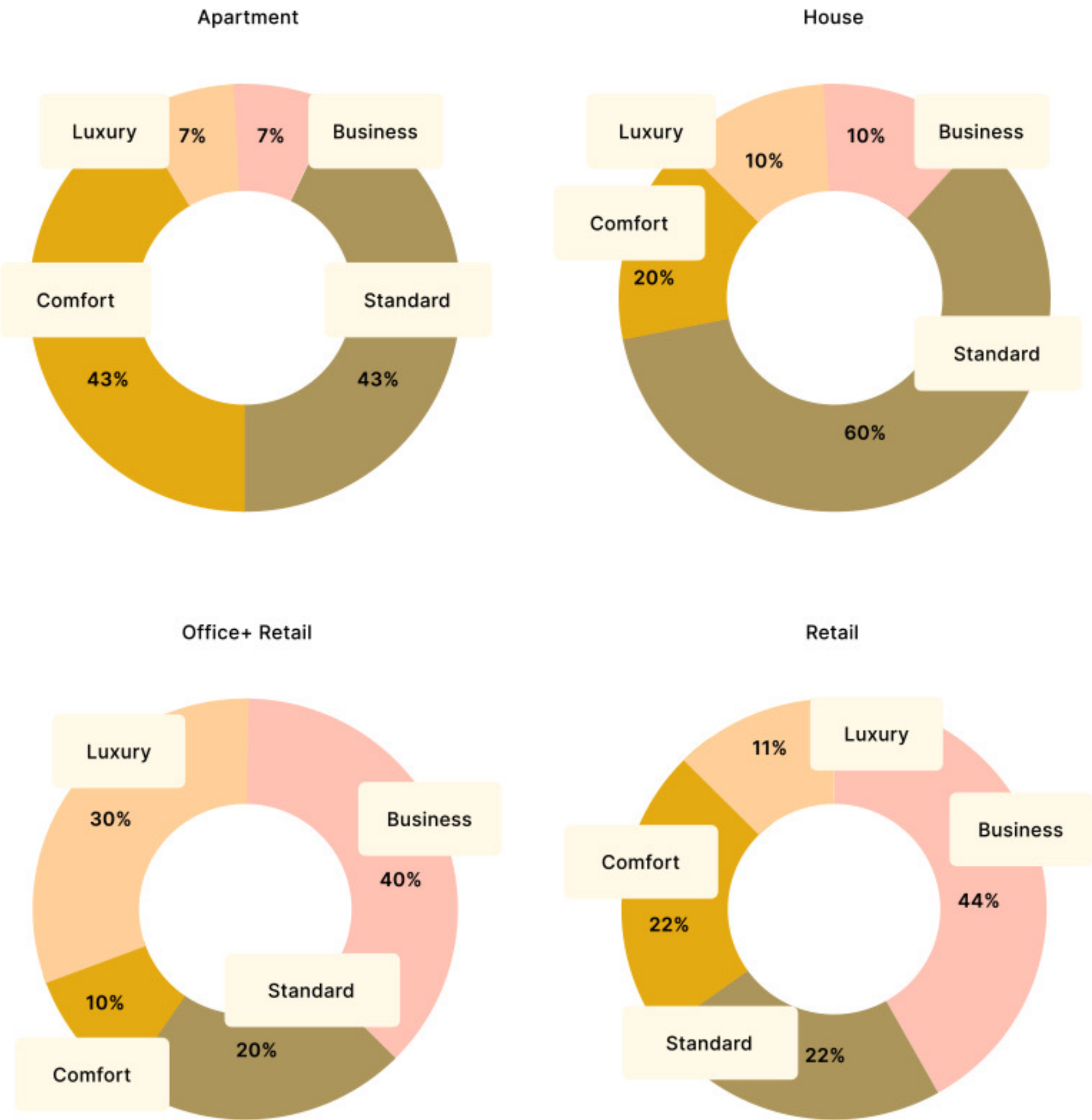
Will Your Organization Develop and Implement New Projects in 2024?



Source: "Identifying Industry Sentiment" survey- Invescore Property, 2024

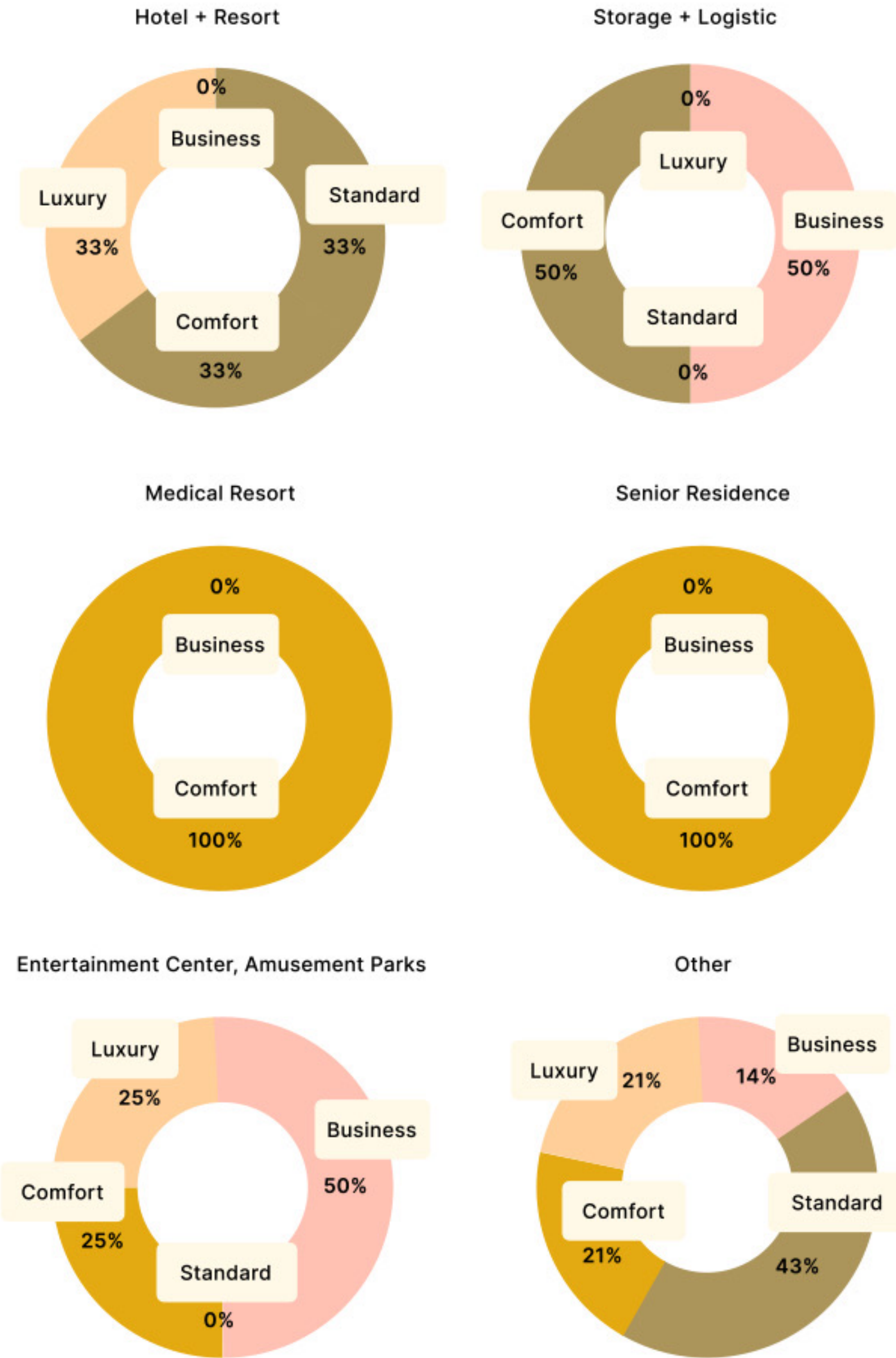
In addition, if the sum of the number of planned projects is classified by sector, residential projects account for 21%, houses for 15%, offices for 15%, and retail and service projects for 13%.

In Which Sector Will Your Organization Develop New Projects in 2024? *(by Grade)*



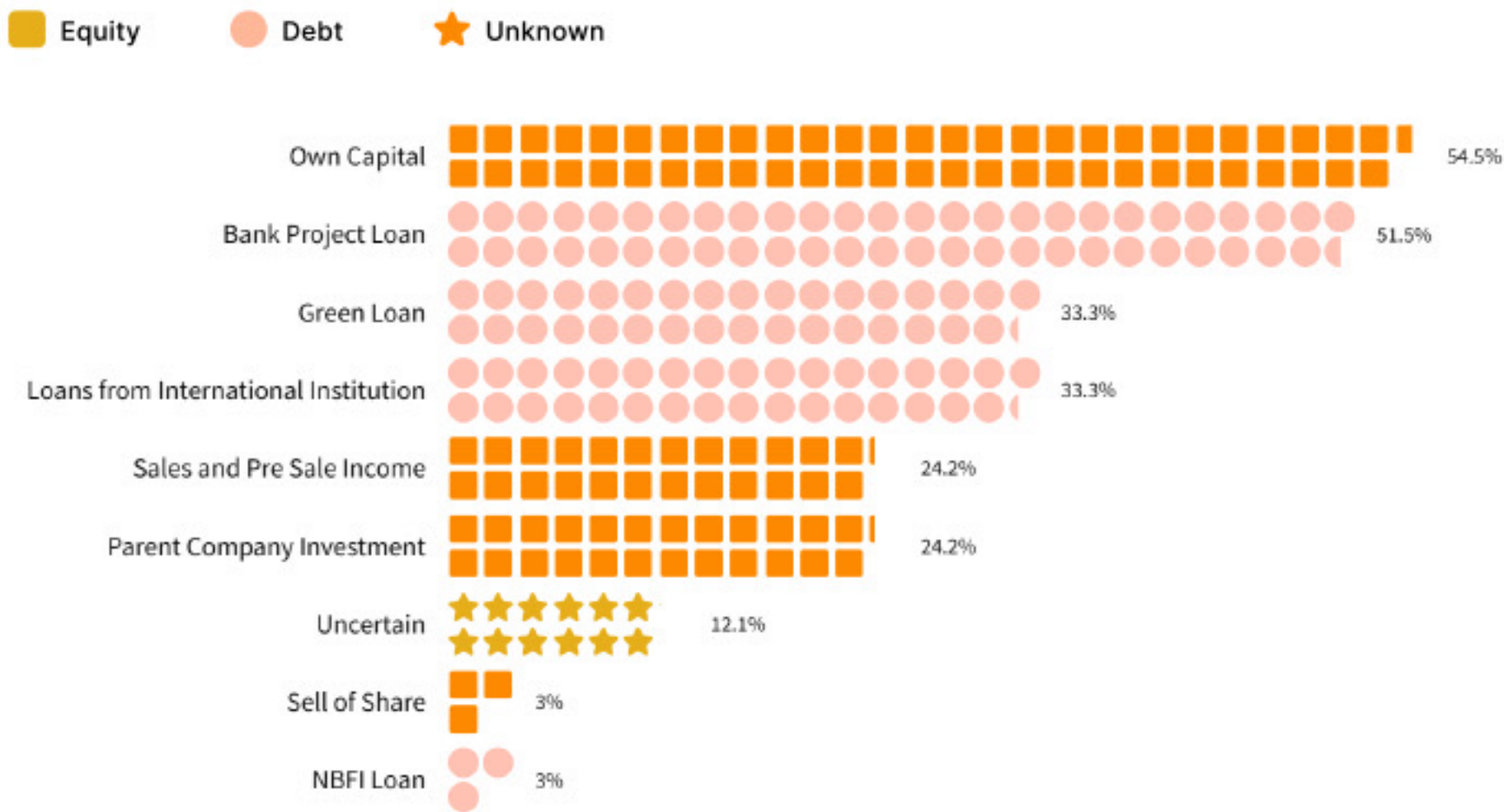
Source: "Identifying Industry Sentiment" survey- Invescore Property, 2024

In Which Sector Will Your Organization Develop New Projects in 2024? (by Grade)
continued



When implementing new projects, the majority of companies, roughly 55%, plan to finance with their own capital and retained earnings. In addition, the companies that plan to attract debt financing expect that the cost of loan sources will be 15-18% per year.

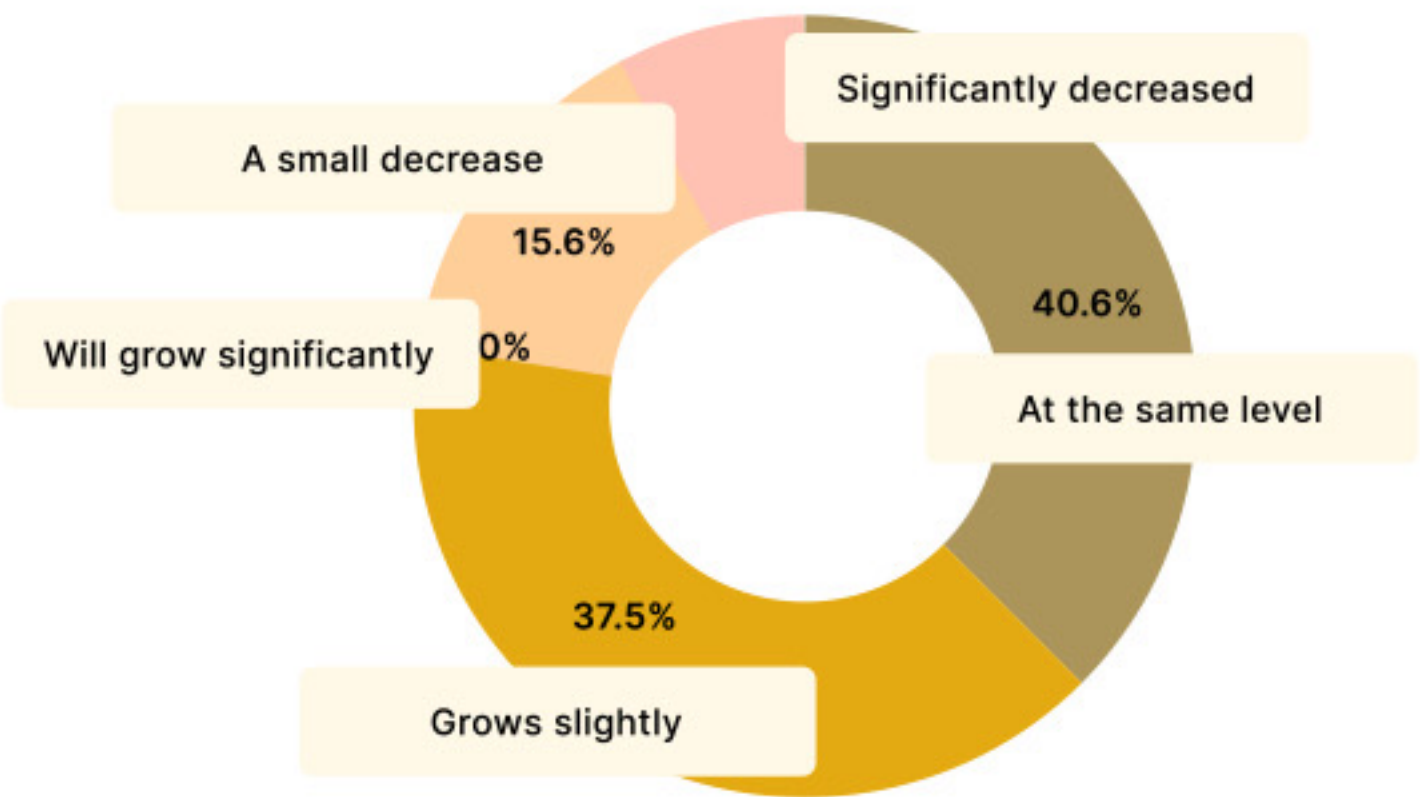
What Sources of Funding Will Your Organization Utilize For Its Development Projects?



● A VISION OF BUSINESS OPERATIONS

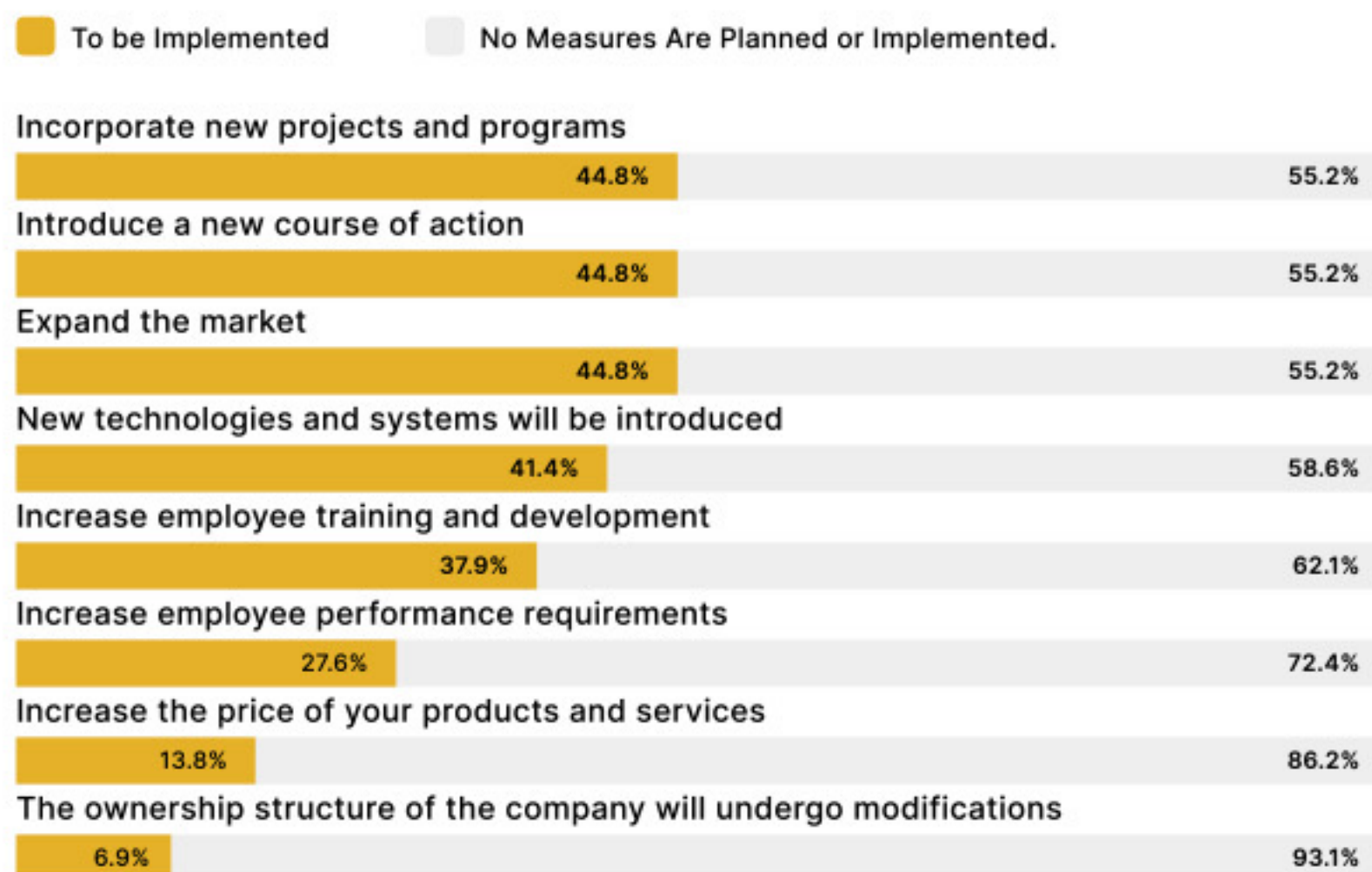
The forecast among project developers is that the prices of construction goods and materials will remain the same or increase slightly in 2024. Also, 16% of all participants expect the material costs to fall slightly. However, the companies do not have positive expectations that the net profit margin in 2024 will increase significantly compared to 2023.

How Will Your Company’s Net Profit Margin Change in 2024 Compared to 2023?



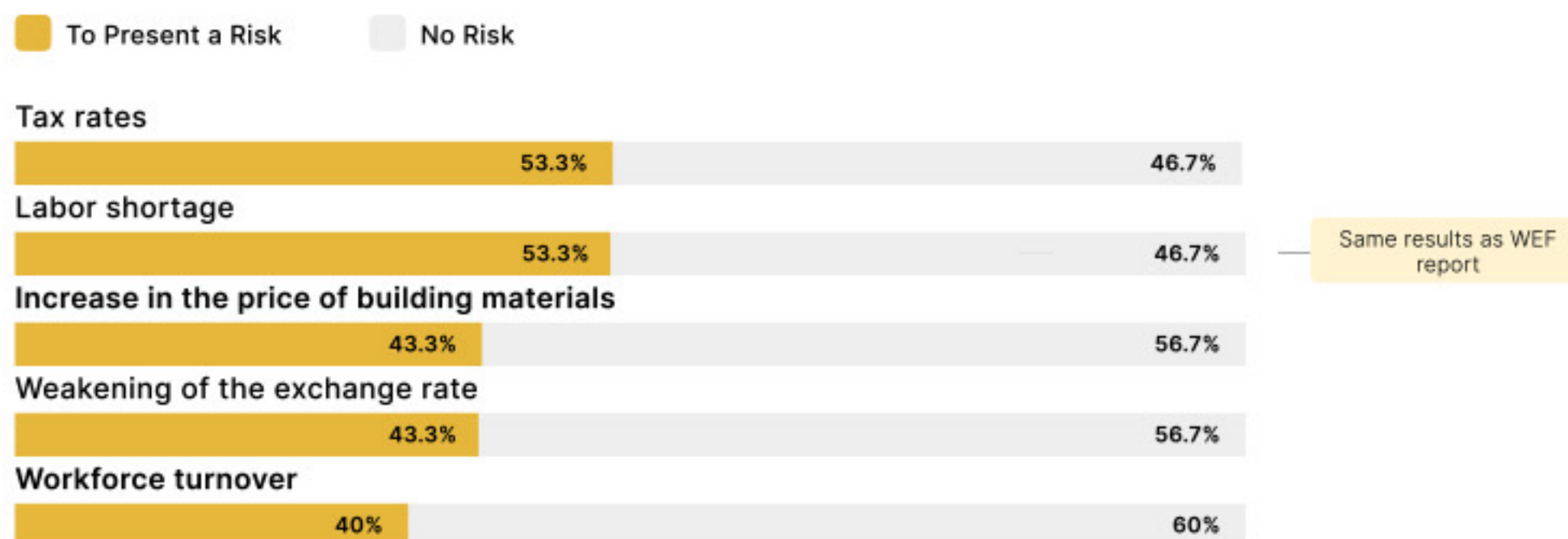
Project developers plan to take specific measures to increase their income in 2024, but among them, the plan to increase the price of their products and services is a small percentage. However, most companies answered that they would play in the "offense" strategy, expanding their market, introducing new services, and increasing their projects.

What Measures Will Your Organization Implement to Boost Revenue in 2024?

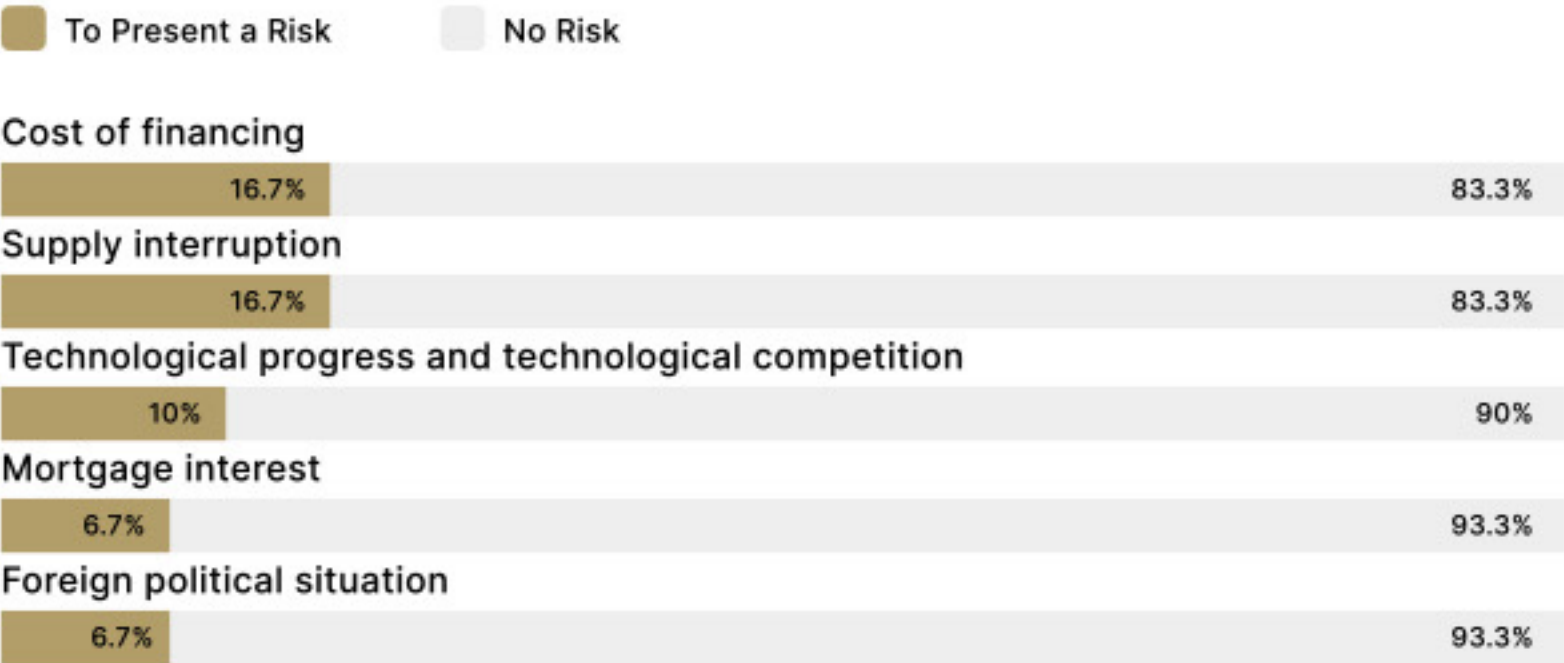


Tax rates and labor shortages rank equally among the factors that may pose a risk to companies' financial performance and profitability in 2024. Project developers highlighted the tax rate and labor shortage as the highest risks faced, which is the same result as the TOP-5 risks named by executives in the "International Risk Report 2024" issued by the World Economic Forum.⁵⁰

Top 5 Risk Factors Affecting Financial Performance and Profitability

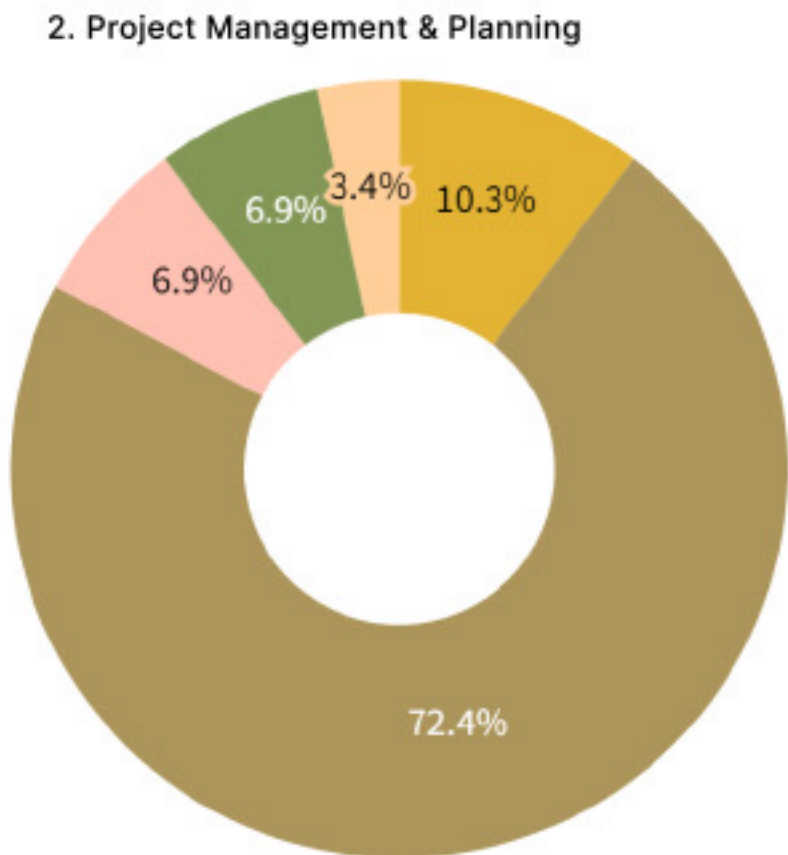
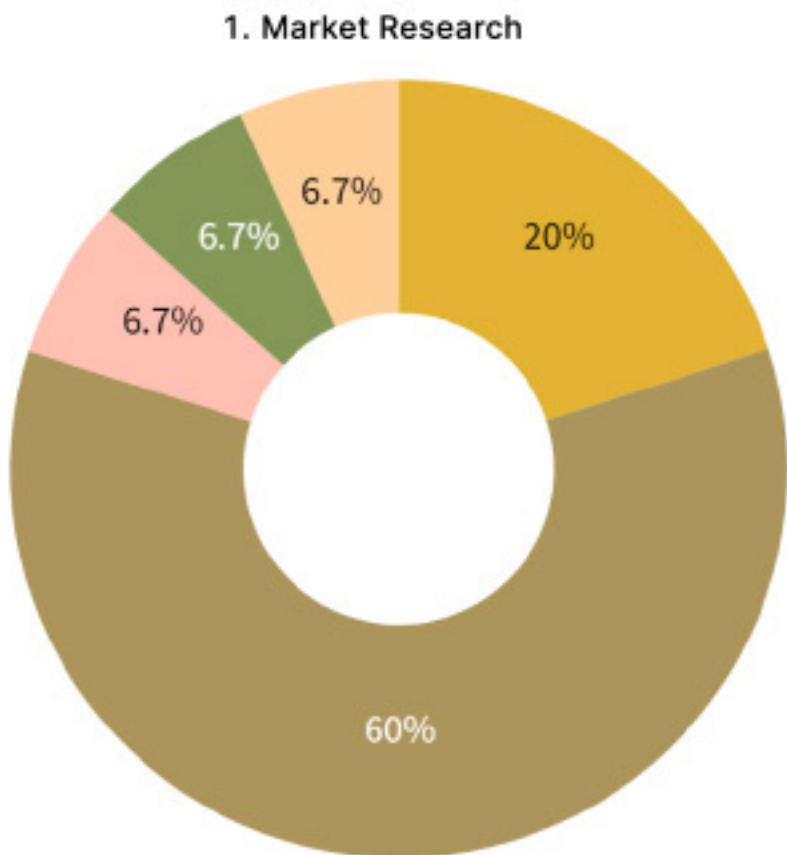


Minimal Risk Factors Affecting Financial Performance and Profitability



On the other hand, the companies pointed out the mortgage loan interest rate and technological progress of competing companies as the least risky factors.

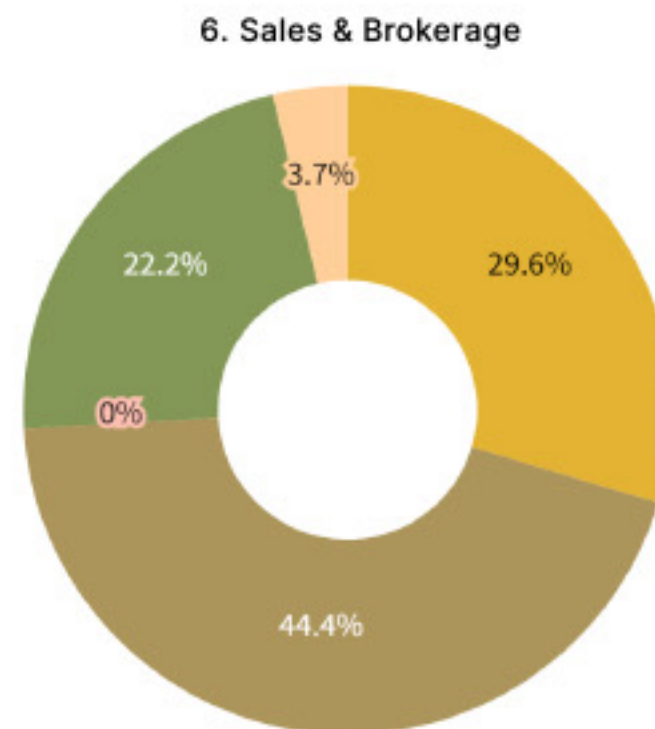
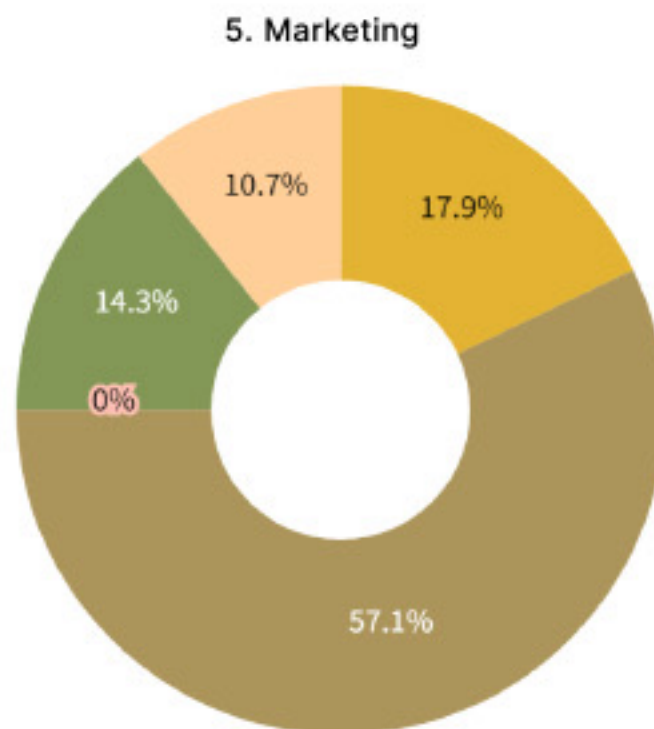
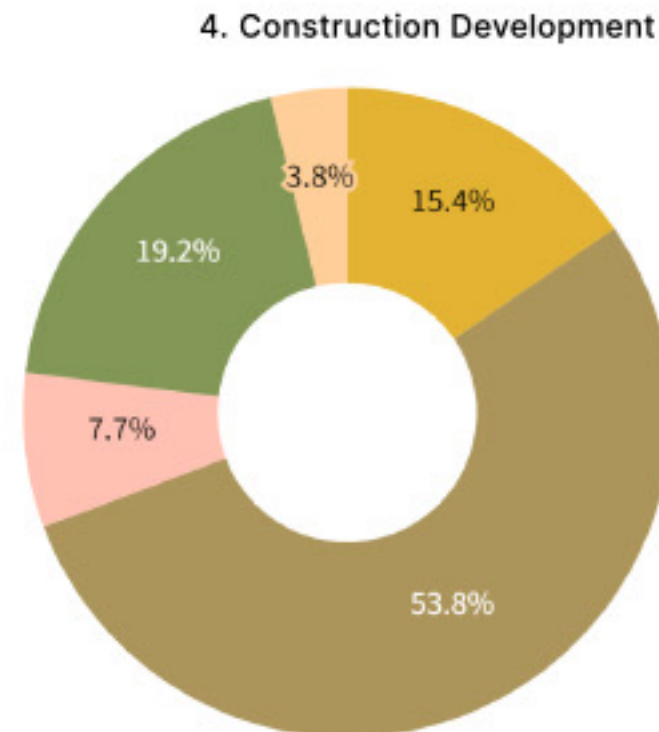
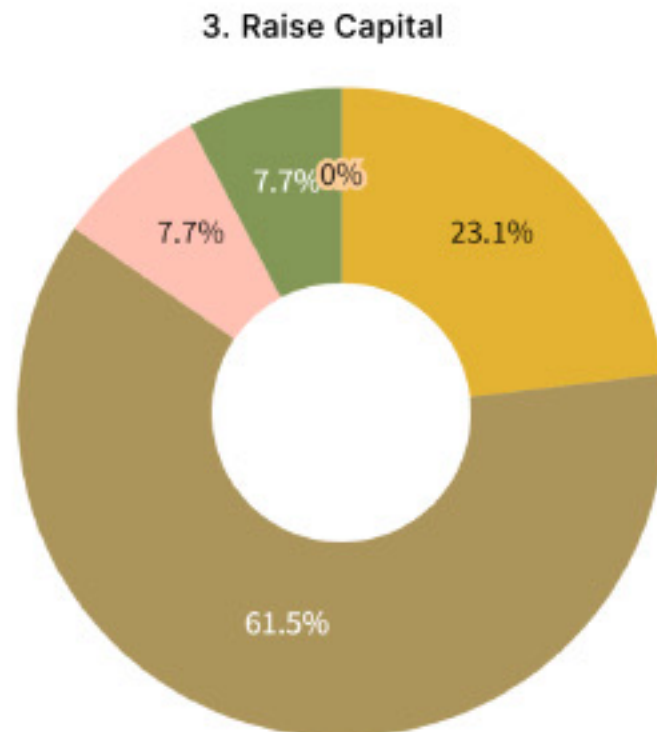
How Do Your Company Manage the Following 12 Functions of Real Estate Management?



Source: "Identifying Industry Sentiment" survey- Invescore Property, 2024

How Do Your Company Manage the Following 12 Functions of Real Estate Management? *continued*

■ Not Necessary
 ■ Managed In-House
 ■ Starting to Manage In-House
■ Managed by Affiliated Company
 ■ Managed by Un-Affiliated Company

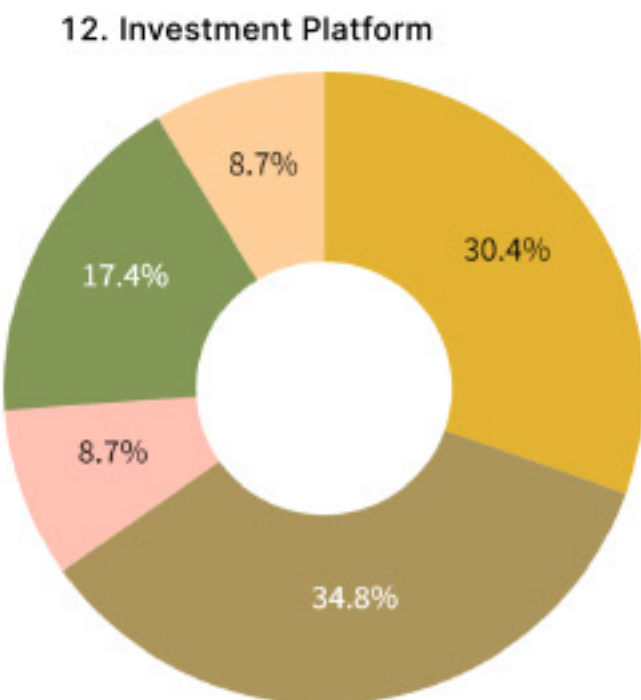
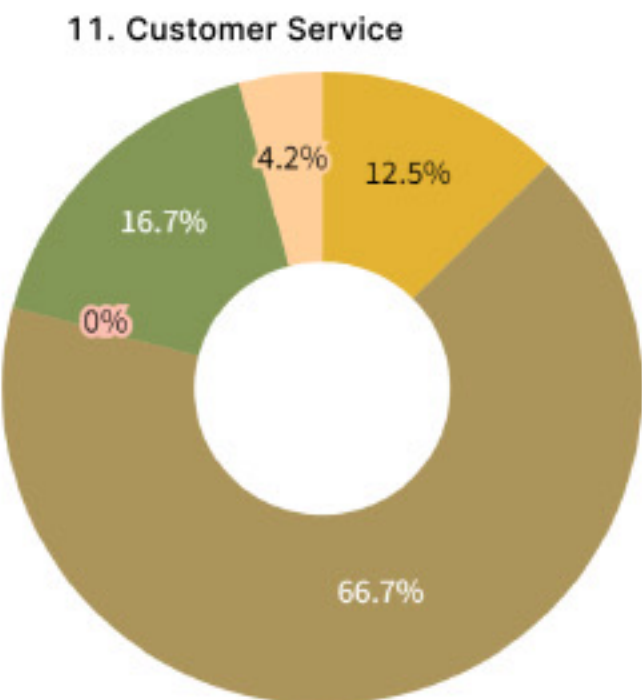
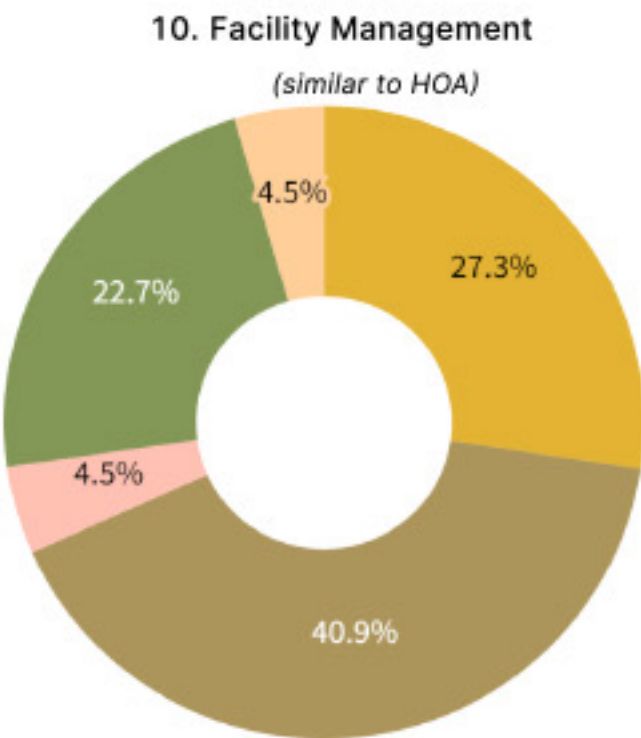
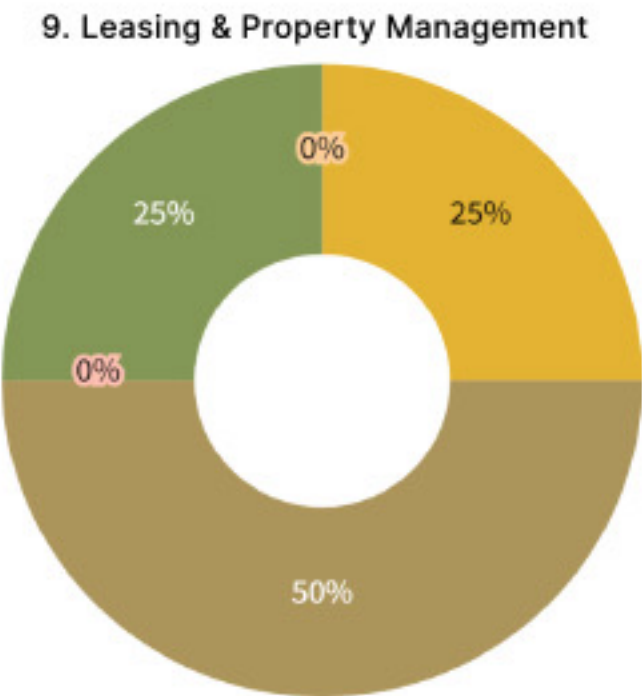
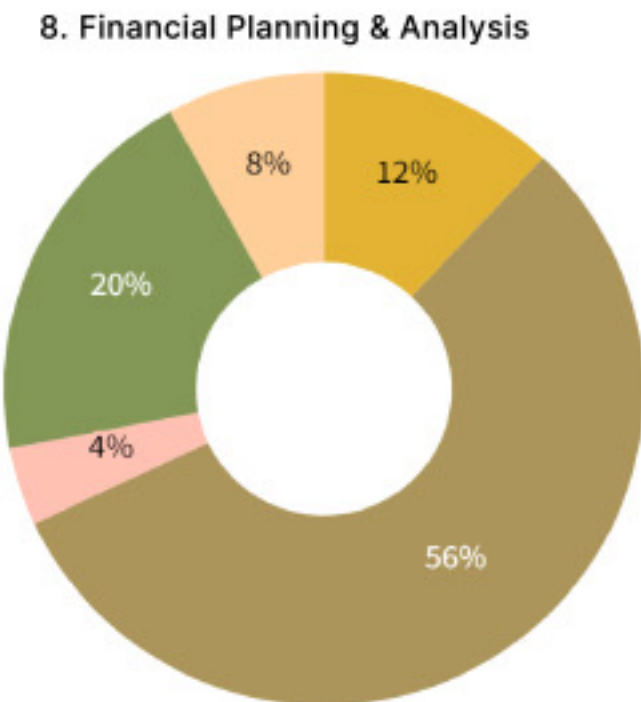
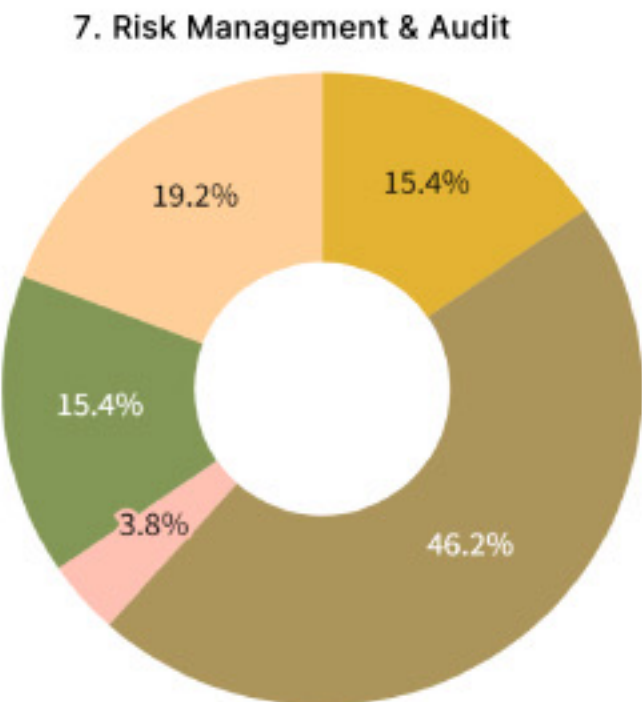


“ To conclude, the survey obtained responses regarding 12 different functions from project developer companies, and for each of those functions, companies answered:

- 50% - The function is managed in-house
- 23% - The function is not necessary
- 20% - The function is managed by an affiliated company.

On the other hand, the functions that answered "Starting to manage in-house" were construction development, raising capital, creating investment platforms, and project management, which showed that the project developers envision becoming real estate managers in the future.

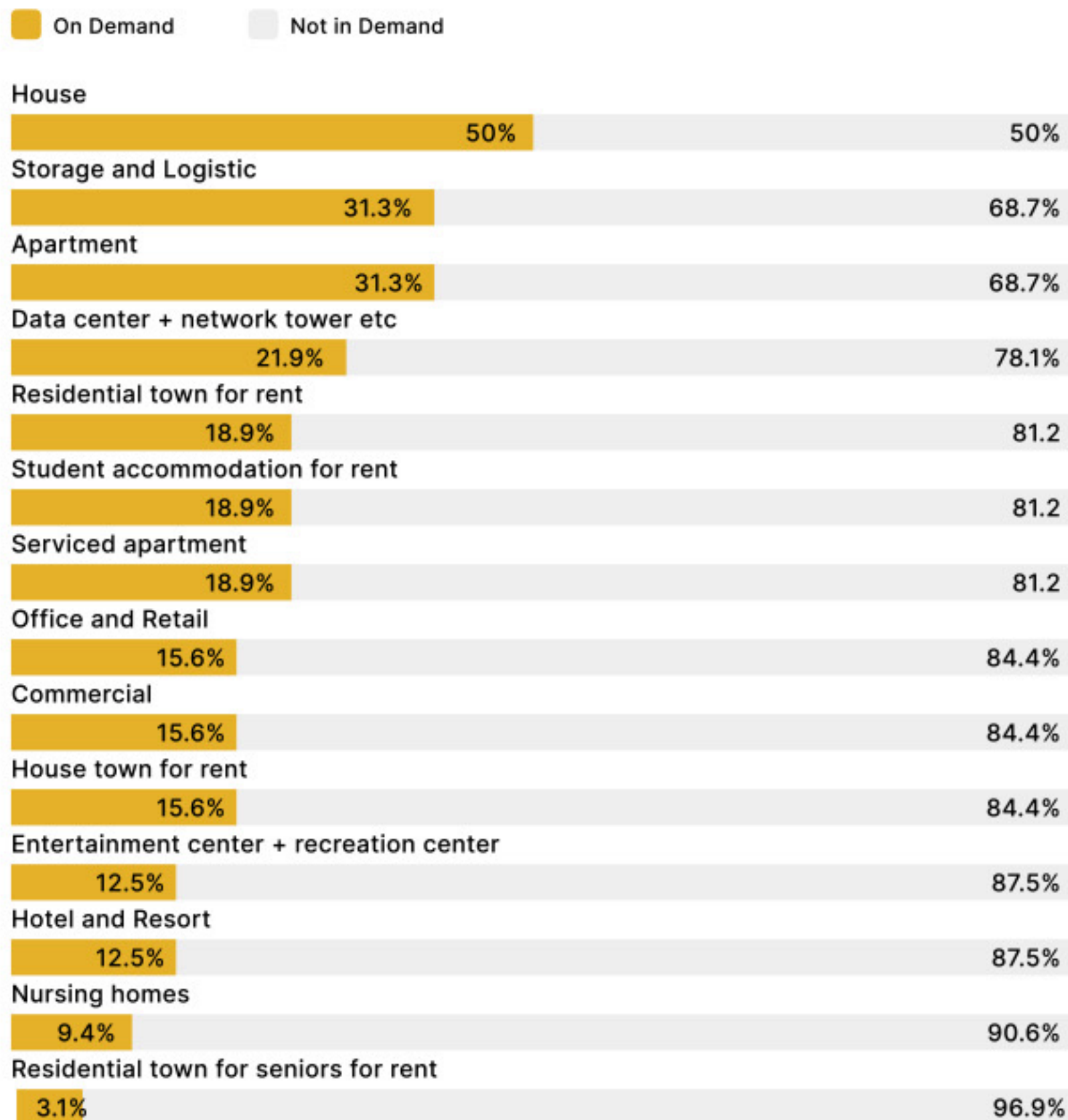
How Do Your Company Manage the Following 12 Functions of Real Estate Management?
continued



● A SECTOR THAT WILL BE IN DEMAND IN THE MEDIUM TERM

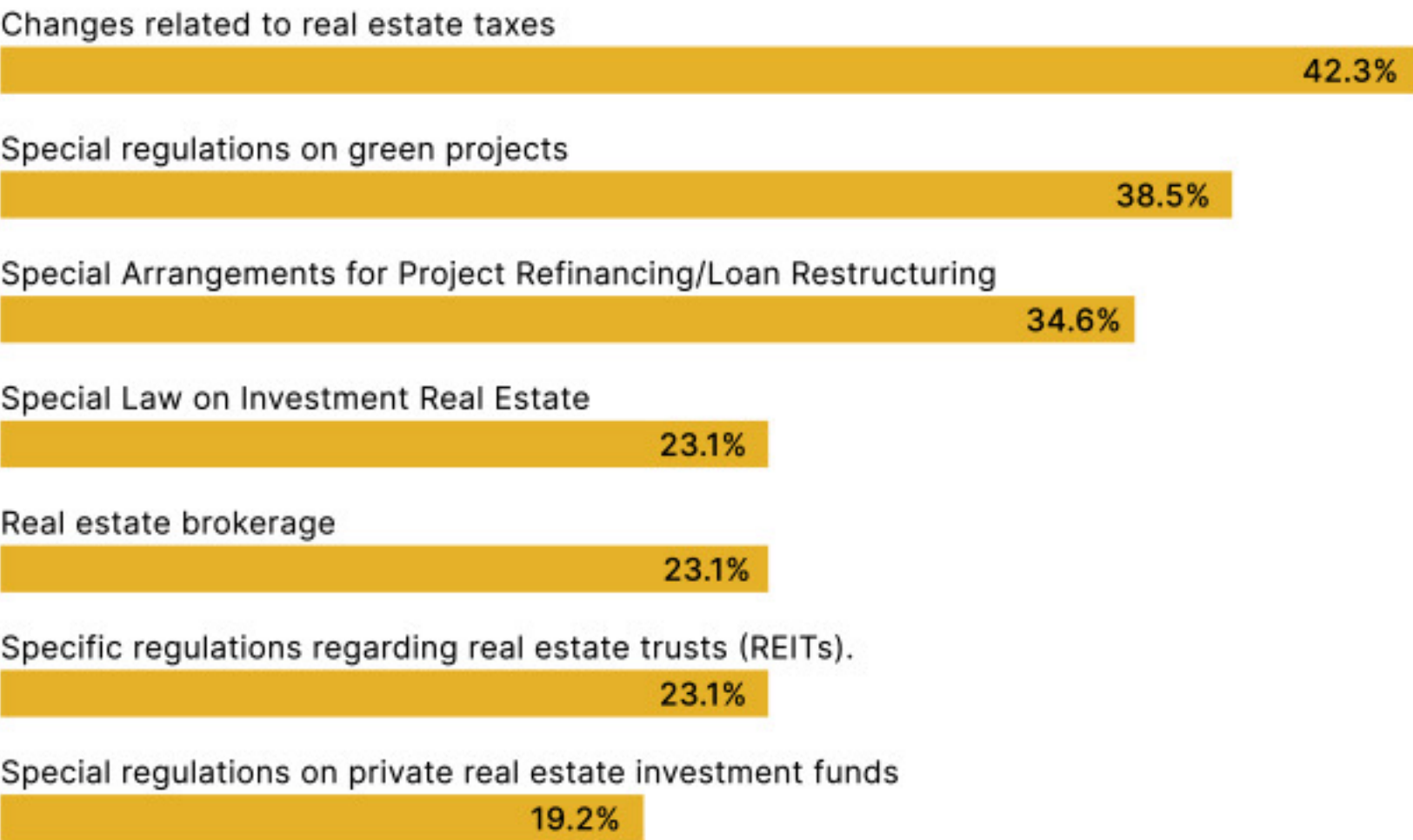
Project developers believe that the house sector, not apartment, will show the highest growth in the general market in the next five years. Also, they named data centers and network towers among the top five sectors with solid growth, which was unexpected. In addition, the selection of warehouse and logistics facilities in the top five was consistent with our mid-term trend.

What Sectors Will Experience the Most Rapid Growth in the Next 5 Years?



Regulatory Updates and Industry Adjustments Required?

 Change is Required.



● EXPERT OPINION: PROJECT MANAGEMENT BEST PRACTICES



Project Management

Lkhagvadorj. P

*Chief Executive Officer
Silver Tower LLC*

- **What is a successful project for you? Could you share your experience with us?**

Between 2018 and 2023, I completed and commissioned the first phase of the Sky Garden Residence developed by Teso Properties. In the second half of 2023, I started working on a new project for Nomin Holding.

In Mongolia, in the last 5-8 years, the market and customers have come to the realization that development is more than just construction work on a random piece of land and selling it for a profit. Instead, it is now acknowledged as a comprehensive project that requires various types of analysis and professionals.

In today's market, it is widely recognized that a successful development project is a collaborative process that benefits all parties involved, including the project developer, contractors, consultants, real estate brokers, and buyers.

First, there is a tendency to view projects from the point of view of creating a lifestyle or ecosystem rather than unthinkingly building a property and selling it.

Second, all parties involved in the development process view the project as mutually beneficial.

Lastly, as more project developers enter the market, they are increasingly focused on quality and differentiation to match the buyer's preferences.

In the past, every newly constructed building was highly sought after and sold quickly without market competition. However, with the changing market, consumer demands and requirements are increasing rapidly. Therefore, it is important to comprehend users' needs and preferences and develop a well-planned project that surpasses their expectations to create additional market value and ensure a successful outcome.

- **How would you break down the stages of the complex project development process?**

In project management, the initial stage is crucial as it involves researching where and for whom the project will be implemented.

Once the project's main location, size, and purpose are determined, the second phase of project planning begins. The ideas and wish lists from the first phase become a reality during this

phase, and technical and economic grounds are established. This phase also clarifies the cost, time, and quality indicators, known as the golden triangle of project management.

The execution phase follows, and having large number of players in the construction industry significantly impacts this phase, resulting in fewer issues and lower risks.

- **What are the errors and risks that may occur in the stages of project implementation?**

Regarding project management, completing the project planning process on time is essential. If this does not happen, it will be necessary to carry it out in parallel with the project execution, which increases the risk of errors during implementation. Another big challenge for project-implementing organizations is to raise funds and manage project costs. In particular, the project is financed by loans with an average interest rate of 18% per year, typical of the construction industry. This is because funding in Mongolia is often time-dependent, and companies implementing the project are careful not to lose time.

Additionally, Mongolia experiences extreme weather conditions, with 210 days out of 365 days are in the heating season. This means that construction workdays are reduced during this period. A day without rain in Mongolia during the summer is equivalent to two days in foreign countries, which makes project time planning critical.

- **How would you describe current market and consumer needs and trends?**

Private companies, particularly project developers, have made significant progress in the real estate industry in the past decade due to customer-centered policies and the experience gained from leading domestic and foreign companies. However, it should be noted that there has been a lack of leadership from government stakeholders in defining policies for the construction industry during this period of rapid growth. Each developer conducts specific research for each project. Nowadays, the influence of green concepts and sustainable development policies has led to the adoption of more user-friendly, lightweight, flexible, and time-saving approaches for users.

- **As a project implementer, what do you see as a solution to reduce congestion in UB?**

As a developer, I believe that UB's primary cause of urban congestion is unprofessional urban planning policies that rely on politicians and the disruption of the land allocation and architectural planning chain. I also support the proposal to develop public transport to reduce congestion. Although no single company can completely solve the traffic congestion in UB, my company implements a comprehensive "CORE" planning approach for residential, work, school, kindergarten, and service areas in our projects.

- **What is your evaluation of the capabilities of our country's professional personnel?**

As a project developer, there is a shortage of personnel working with modern project management methodology at all stages, and we are searching to fulfill that need from foreign markets and outsourcing.

- **What three factors are crucial for the industry's near-term improvement?**

- Introduction of modern project management methodology;
- Constant monitoring and research of changing customer needs and requirements;
- Changing and updating the norms and standards restricting business activities.

- **Can you describe any challenges you faced during the project implementation and how you overcame them?**

I do not recall any significant risks that could affect the entire process because sufficient time was spent in the research and planning phase ahead of the execution. However, the lack of personnel and professional skills in the general construction industry, the problems of transport logistics delays, and construction price increases due to COVID-19 caused twice as much difficulty compared to other sectors

The Sky Garden Residence project was implemented on 6 hectares of land in the Class A area of Ulaanbaatar. At that time, it was considered impossible to implement a project on a plot larger than that in the A-class area. However, my next project, led by Nomin Holding, was to implement a project on 7 hectares of land, which was even more stimulating. A site this size close to the city center will not be available again.

The project I'm working on now plans residential and retail spaces, schools, and kindergartens together. Individuals need to have comfortable and secure living spaces. Young children should also have easy access to educational opportunities, such as schools within a 500-meter radius of their

homes. Additionally, shops and service centers should be located within the same distance to provide convenience. It is crucial to develop a comprehensive and integrated basic concept for social infrastructure that aligns with core planning principles.

- **How can sustainable development policies be implemented in the construction industry?**

In recent years, sustainable development has emerged as a key principle to follow in all industries, including construction. As a result, green energy, environmentally friendly technologies, and sustainable development are being integrated into construction designs. However, using these technologies to implement green concepts in the construction industry has the disadvantage of increasing the cost of construction.

- **Can consumers save money by using sustainable development practices and environmentally-friendly technologies?**

Mongolia has environmentally friendly technologies, but unfortunately, they are not cost-effective for customers in the long run. The Mongolian government has complete control over energy pricing and has set a price ceiling below the appropriate rate. This rate includes the cost of electricity, heat, clean water, and wastewater, which are basic necessities. With that control, it may take the customer up to 20 years to break even.

- **Is this estimate only applicable to apartments? Are sustainable development solutions more cost-effective for house projects?**

It is more applicable to house projects because, in terms of heating charges, an apartment has a fixed cost based on the floor area. In contrast, houses can be more energy efficient because owners can regulate consumption or have an independent source solution.

- **How do you ensure that the value of the project is not lost or enhanced?**

At the beginning of the project, it is most important that the initial project planning is suitable for the region, has the right solution and features, or does not incorporate core planning. Factors such as comfort and safety in the living environment and proximity to children's schools, kindergartens, and service centers are the primary reasons for consumers to choose. Therefore, the core planning and proper planning of the project from the beginning will become the basis for not losing its value in the future.

- **How is risk hedged in the project planning and execution stage?**

During the project planning stage, it is crucial to consider various factors, including social and economic factors, as well as the geological structure and characteristics of the construction site. Based on thorough research and analysis, it is necessary to design a risk plan that can help mitigate any potential risks that may arise during the execution phase of the project. This way, when risks do occur, the team can respond effectively and take appropriate measures. Climate change and political factors are two of the most significant variables affecting construction projects in our country. In order to ensure a successful construction project, engaging in sound planning based on good research is essential.

- **After launching a project, it is crucial to sustain its market presence. What are your thoughts on this?**

Project closure and post-completion operation and service are critical phases of project management. Post-commissioning activities such as operation and service work are crucial to maintaining the project's successful position and value in the market. After successfully implementing the project, the project management team collaborates with the property management team for the first 1-3 years to prevent malfunctions. This lays the foundation for the project's future value in the real estate market.

GLOBAL MARKETS 2024 : JLL RESEARCH SUMMARY

To provide information to our domestic readers, we translated the summary of a report prepared by the research department of JLL, a well-known international real estate research and consulting company. To see the original source of JLL-Global Real Estate Outlook 2024 report, please visit "<https://www.us.jll.com/en/trends-and-insights/research/global/global-real-estate-outlook>".

● KEY 2024 OUTLOOK THEMES:

The Macroeconomic Situation Is Uneven

Markets are still contending with inflation and, in some cases, recession risk. Looking at the final figures for 2023, central banks' policy rates have already reached their peak, so it is expected that most countries will reduce their policy rates from mid-to-late 2024.

The economy of the Asia-Pacific region, including India, is growing, but the European Union, especially Germany, is showing weak growth and even a crisis. When looking at the forecasts made by economists, the range between the upper and lower percentage points of growth is still large, so the actual situation is uncertain and difficult to predict.

Real Estate Sectors Will Return to Normal

Pandemic-related disruption – to consumer shopping habits, international trade, and e-commerce – have now largely settled and will bring logistics demand more in-line with historical growth trends where development pipelines are slowing in more mature markets.

Office Sector

Office utilization has improved globally and has mostly stabilized in Asia and parts of Europe. In the U.S., return-to-office mandates have become more widespread, and we expect utilization to continue to increase incrementally in 2024, and revitalizing CBDs with renewed daytime foot traffic and retail demand. Current office re-entry levels:

- 85% in Asia ;
- 75% in the European region;
- 55% in the US.

Office occupiers are working to upgrade existing facilities and refine space requirements – location, quality, design and amenities – to make the office “commute-worthy,” support return-to-office mandates, strengthen employee engagement, and ultimately drive performance.

One area in particular we see ramping up further in 2024 is occupiers' focus on sustainability. More than 50% of the world's largest companies by market capitalization have announced science-based targets that link their future building demand to a carbon commitment.



05

Mid-Term Trends in Fundamental Indicators

- Ability to Rent > Ability to Buy
- There Is a Growing Need for Entertainment Projects
- The Need for Senior-Oriented Facilities Will Increase
- Needs Beyond HOA = Property Management
- There Is a Lack of Storage and Logistics Facilities

ABILITY TO RENT > ABILITY TO BUY

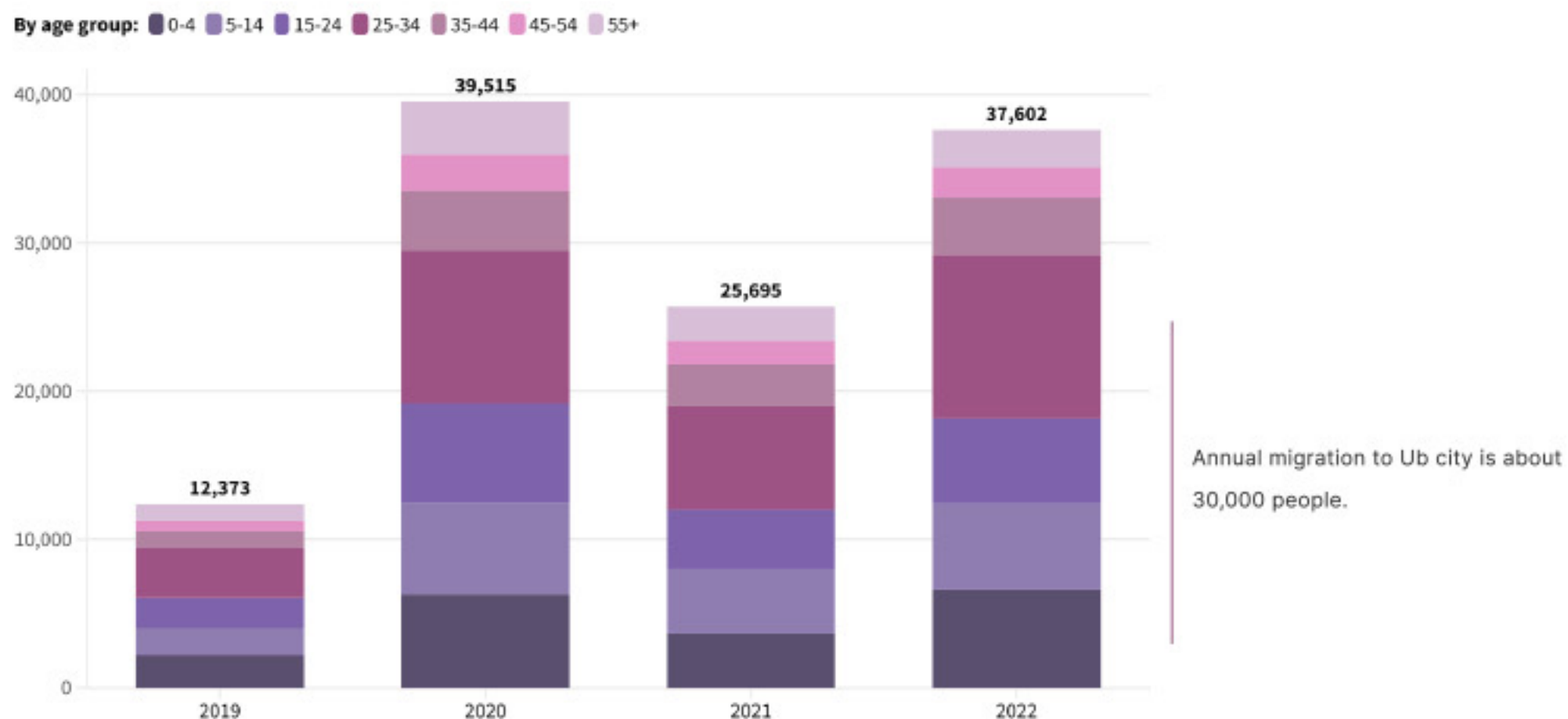
Demand for residential real estate remains high in the medium term, based on regular population movements and the city's modern housing rate of around 50%. However, due to requiring all project developers to reduce the construction area, regardless of the segment, companies will inevitably increase the price of their products to attain their profit margins. In addition, the cost of the main construction materials is unlikely to decrease, so the price of housing will continue to increase. To that extent, the purchasing power, which depends on the household's actual income, will not increase noticeably.

However, in the meantime, the rental market will become more active, professional brokerage companies specializing in this market will increase, and project developers will introduce the concept of apartment and house townships built-to-rent. Specifically, the most sought-after are multi-family apartment townships for rent aimed at the standard segment, full-service apartments, and house townships for rent aimed at the above-average segment.

● NEED FOR RESIDENTIAL REAL ESTATE IS HIGH

Ulaanbaatar city has 1.7 million residents or about 430 thousand households. Less than 50% of all households live in apartments, and the essential need for apartments and houses connected to the infrastructure has been consistently high. In addition, an average of 28,000 people (more than 7,800 families) move to the capital every year, and about 30,000 children (equivalent to more than 8,000 families) are born.⁵¹

Internal Migration to Ulaanbaatar City



Source: [Statistics department of Capital city](#)

In 2023, a total of more than 14,000 new housing units were put into operation, which is the amount that cannot even meet the needs caused by the normal migration of the population. Therefore, the basic need for apartments and houses connected to the infrastructure will not decrease in the medium term.

● DEMAND BACKED BY PURCHASING POWER REMAINS LOW

Standard Segment

According to the housing affordability matrix mentioned in the previous chapter, we saw that average-income households can purchase standard and middle-class apartments only when they have access to state-subsidized mortgages. However, they cannot afford to buy apartments with non-subsidized ordinary loans.

- NOT Available for state subsidized loan & NOT qualified with average household income
- Available for state subsidized loan & qualified with average household income
- Avg apartment

Mortgage Type	Annual Interest	Monthly Interest	Loan Term
State-Subsidized	6%	0.50%	360 months
Conventional	19%	1.58%	360 months
Avg Household Income	₺2,496,305		

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	19,772,884	24,716,105	29,659,327	34,602,548	39,545,769	44,488,990	49,432,211
	12,000,000	11,863,731	14,829,663	17,795,596	20,761,529	23,727,461	26,693,394	29,659,327
	11,000,000	10,875,086	13,593,858	16,312,630	19,031,401	21,750,173	24,468,944	27,187,716
	10,000,000	9,886,442	12,358,053	14,829,663	17,301,274	19,772,884	22,244,495	24,716,105
Business	9,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	8,000,000	7,909,154	9,886,442	11,863,731	13,841,019	15,818,307	17,795,596	19,772,884
	7,000,000	6,920,510	8,650,637	10,380,764	12,110,892	13,841,019	15,571,146	17,301,274
	6,000,000	5,931,865	7,414,832	8,897,798	10,380,764	11,863,731	13,346,697	14,829,663
Business	5,000,000	1,865,268	6,179,026	7,414,832	8,650,637	9,886,442	11,122,247	12,358,053
Comfort	4,000,000	1,492,215	1,865,268	5,931,865	6,920,510	7,909,154	8,897,798	9,886,442
	3,700,000	1,380,299	1,725,373	2,070,448	6,401,471	7,315,967	8,230,463	9,144,959
	3,500,000	1,305,688	1,632,110	1,958,532	6,055,446	6,920,510	7,785,573	8,650,637
Standard	3,200,000	1,193,772	1,492,215	1,790,658	2,089,100	6,327,323	7,118,238	7,909,154
	3,000,000	1,119,161	1,398,951	1,678,741	1,958,532	5,931,865	6,673,348	7,414,832
	2,800,000	1,044,550	1,305,688	1,566,825	1,827,963	2,089,100	6,228,459	6,920,510

Source: [Monthly median wages of employees in establishments](#)

Household Income Required to Apply for a Conventional Loan (45% of Which Will Be Paid as Monthly Loan Payment) (in MNT)

- ☐ NOT Available for state subsidized loan & NOT qualified with average household income
☐ Available for state subsidized loan & qualified with average household income
☐ Avg apartment

Mortgage Type	Annual Interest	Monthly Interest	Loan Term
State-Subsidized	6%	0.50%	360 months
Conventional	19%	1.58%	360 months
Avg household income	₮2,496,305		

Grade	Price per sq.m	40 sq.m	50 sq.m	60 sq.m	70 sq.m	80 sq.m	90 sq.m	100 sq.m
Luxury	20,000,000	19,772,884	24,716,105	29,659,327	34,602,548	39,545,769	44,488,990	49,432,211
	12,000,000	11,863,731	14,829,663	17,795,596	20,761,529	23,727,461	26,693,394	29,659,327
	11,000,000	10,875,086	13,593,858	16,312,630	19,031,401	21,750,173	24,468,944	27,187,716
	10,000,000	9,886,442	12,358,053	14,829,663	17,301,274	19,772,884	22,244,495	24,716,105
Business	9,000,000	8,897,798	11,122,247	13,346,697	15,571,146	17,795,596	20,020,045	22,244,495
	8,000,000	7,909,154	9,886,442	11,863,731	13,841,019	15,818,307	17,795,596	19,772,884
	7,000,000	6,920,510	8,650,637	10,380,764	12,110,892	13,841,019	15,571,146	17,301,274
	6,000,000	4,943,22	6,179,026	8,897,798	10,380,764	11,863,731	13,346,697	14,829,663
Comfort	5,000,000	1,865,268	6,179,026	7,414,832	8,650,637	9,886,442	11,122,247	12,358,053
	4,000,000	3,954,577	4,943,221	5,931,865	6,920,510	7,909,154	8,897,798	9,886,442
	3,700,000	3,657,984	4,572,480	5,486,975	6,401,471	7,315,967	8,230,463	9,144,959
	3,500,000	3,460,255	4,325,318	5,190,382	6,055,446	6,920,510	7,785,573	8,650,637
Standart	3,200,000	3,163,661	3,954,577	4,745,492	5,536,408	6,327,323	7,118,238	7,909,154
	3,000,000	2,965,933	3,707,416	4,448,899	5,190,382	5,931,865	6,673,348	7,414,832
	2,800,000	2,768,204	3,460,255	4,152,306	4,844,357	5,536,408	6,228,459	6,920,510

[Source: Monthly median wages of employees in establishments](#)

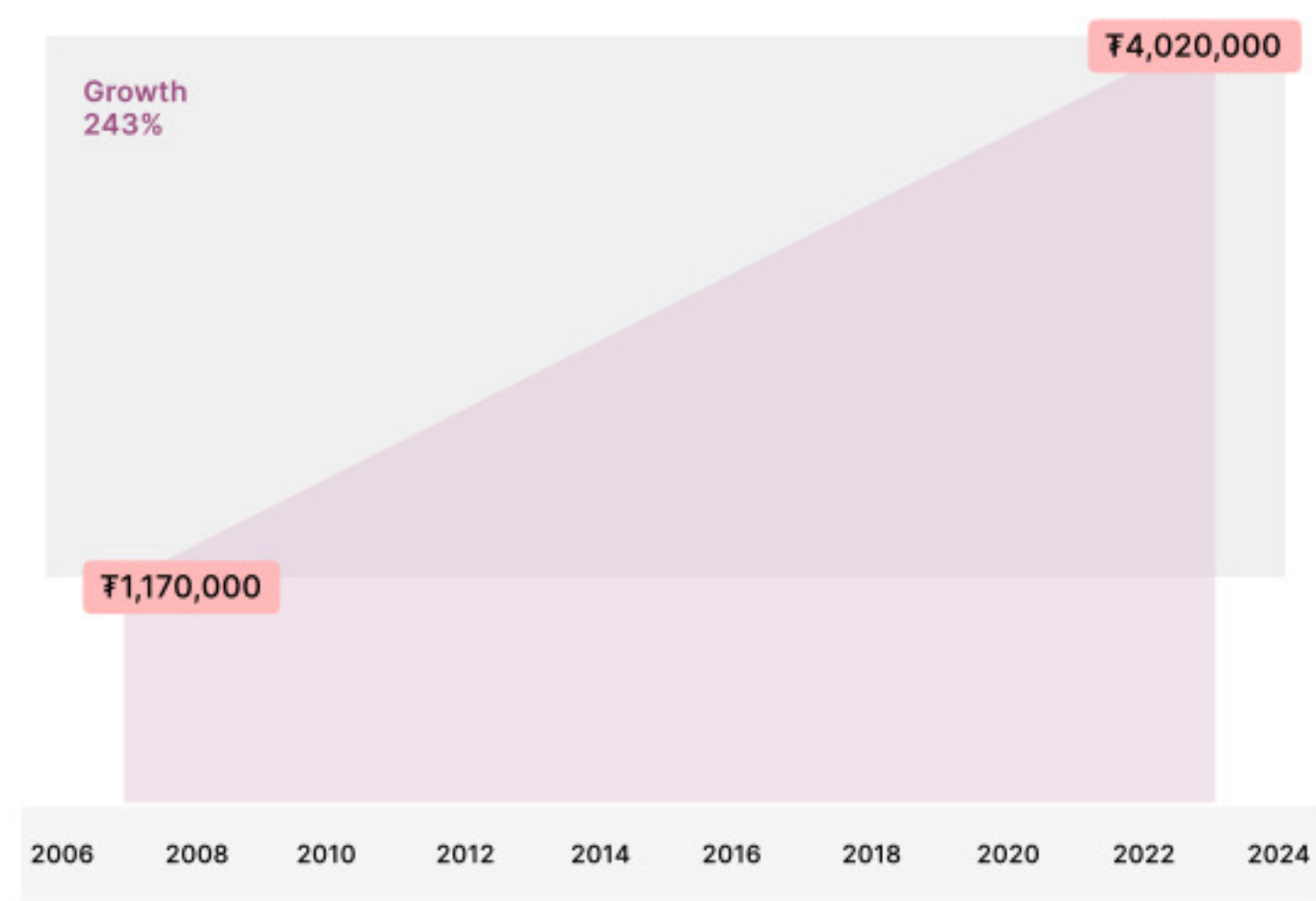
In addition, according to the results of the "Poverty Level-2022" study presented in February 2024, NSC reported that more than 20% of the residents of Ulaanbaatar, or more than 514 thousand people, have consumption below the poverty line.⁵² Also, in the Household Socio-Economic Survey, which included about 23,000 households:

- About 70% of households did not save at all in the last 12 months;
- The remaining 30% answered that they saved an average of ₮3.6 million in the last 12 months.⁵³ This is equivalent to the price of one square meter of a standard apartment.

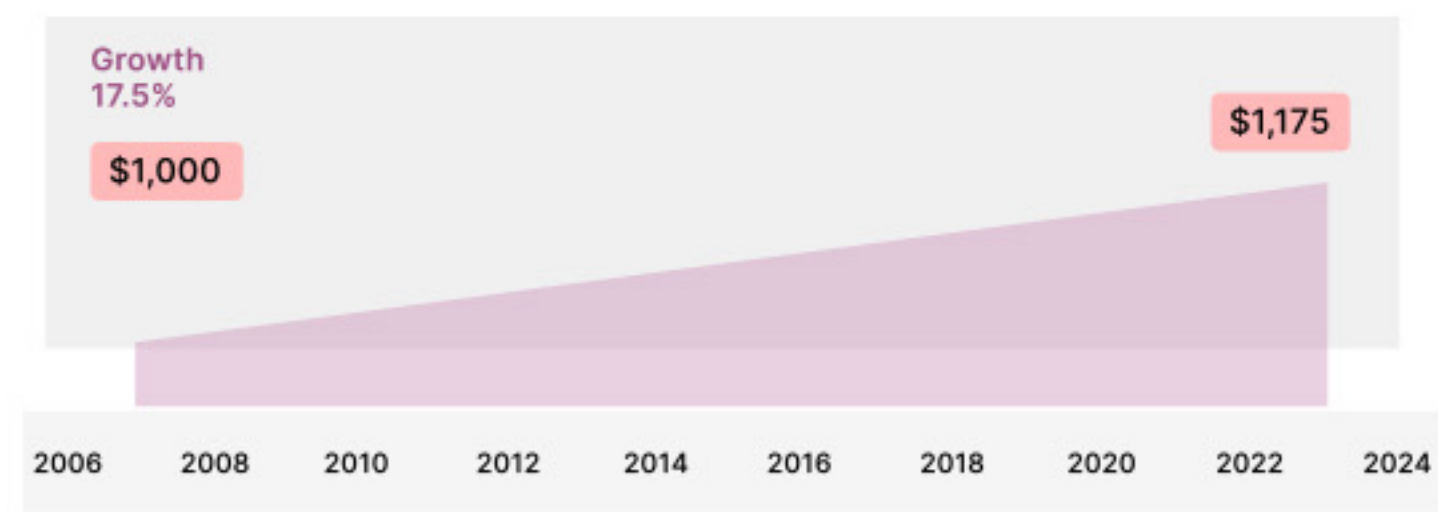
“ The price of the average standard-class apartment reached ¥4.02 million (\$1,175) in December 2023, which seems like a high amount, but compared to the average apartment price of \$1,000 in 2007, it can be seen that the base price has not increased much, but the MNT has depreciated.⁵⁴

Therefore, the sentiment that "housing prices are in a bubble, the bubble will soon burst, and prices will fall" does not correspond to reality. Even in the medium term, it is impossible to predict that household income will increase in absolute terms and, by extension, purchasing power will increase.

Average Housing Price in MNT 2007-2023

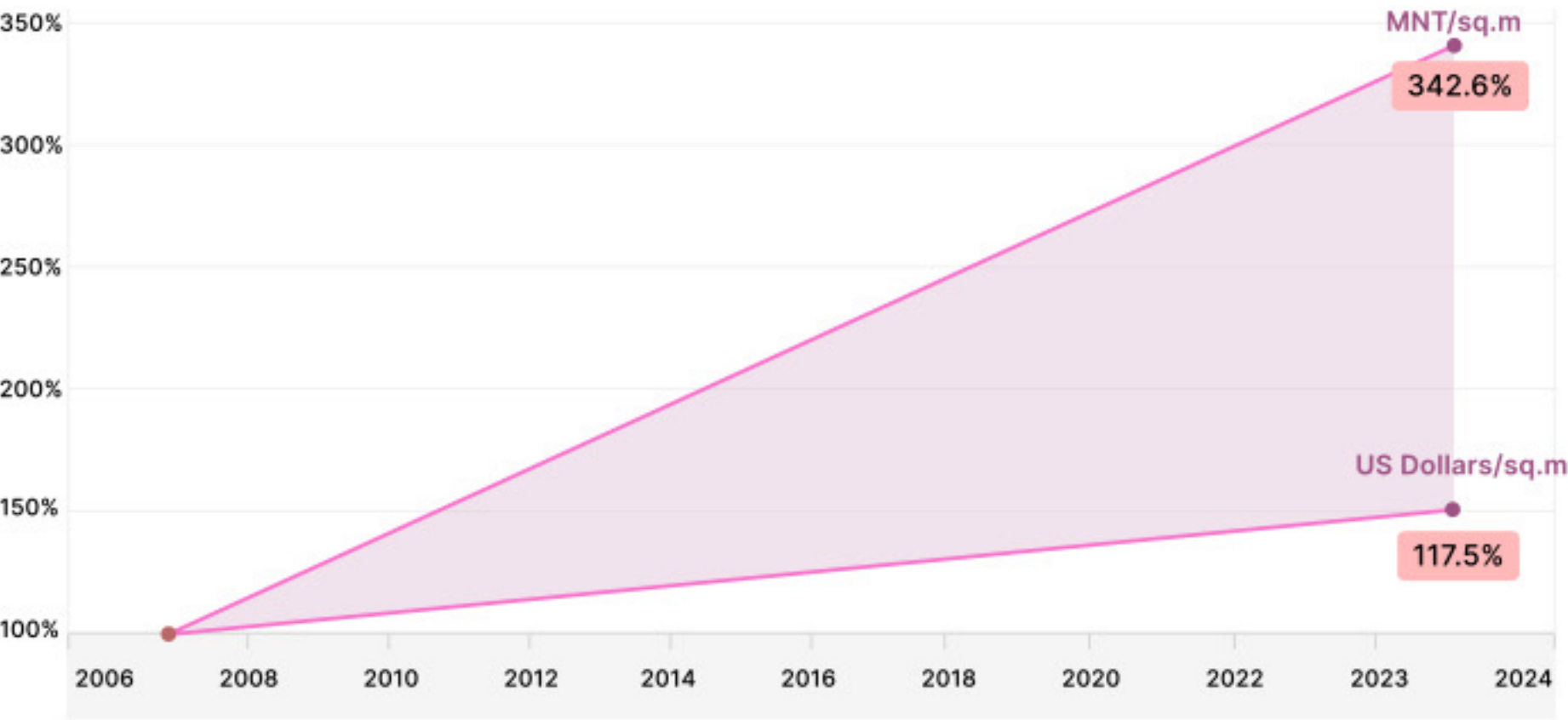


Average Housing Prices in USD 2007-2023



Source: [Japan International Cooperation Agency \(JICA\)](#)

Housing Price Growth Rate 2007-2023 (In MNT and US Dollars)



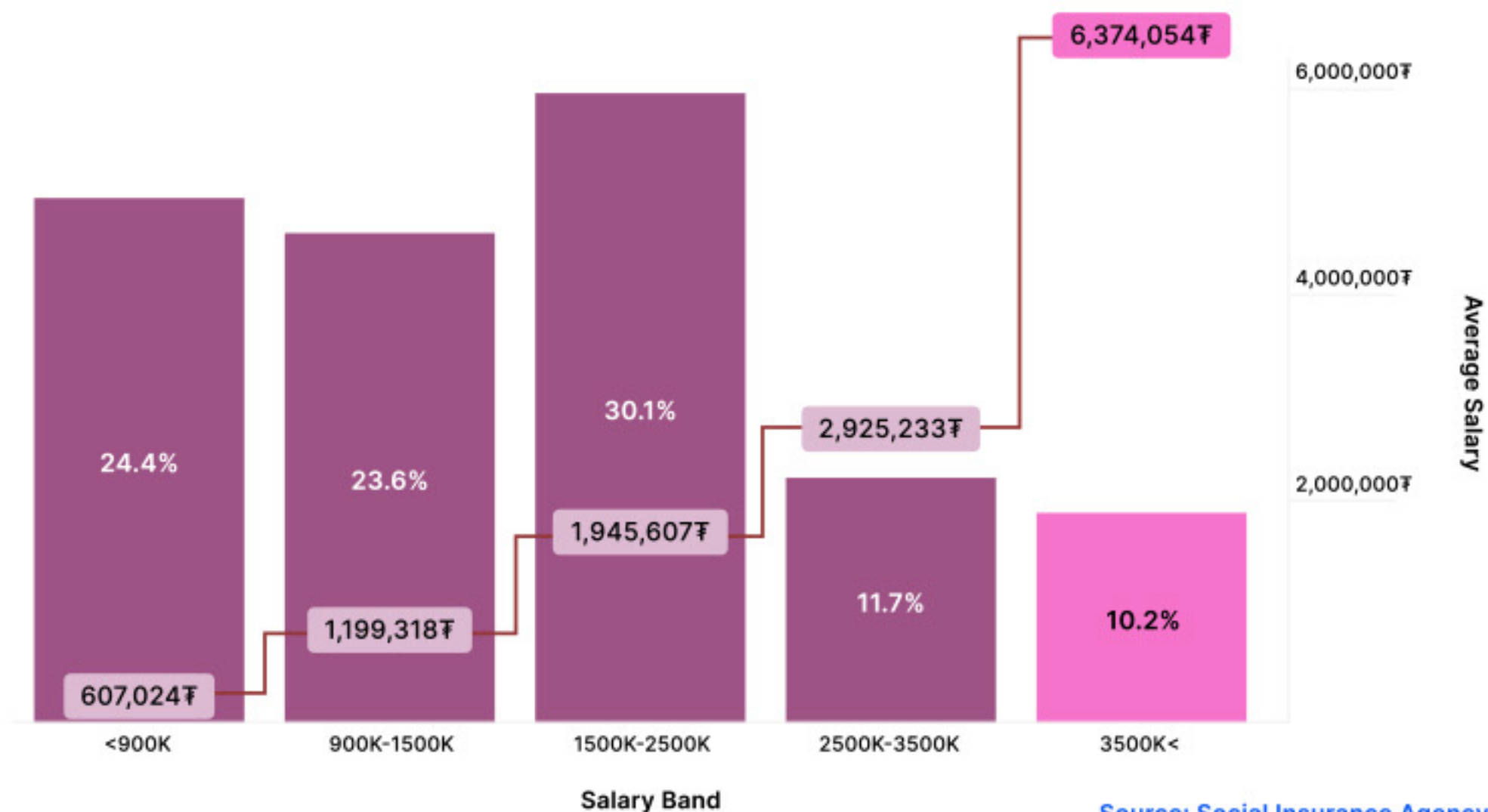
The Explanation of Price Increases of Apartments



Above Average Segment

According to the data on social insurance premiums, only about 10% of the total insured persons, or more than 78,000 thousand employees in the country, have a monthly salary of more than ₮3.5 million or \$1000. Their average monthly salary is ₮6.3 million.

Salary Information of Employees Registered for Social Security Contributions



In the above-average segment, the need for primary residency is met, but some families need secondary housing or 4-season houses. Air pollution in UB city, Mongolian culture and tradition of living close to nature, and children's desire and need to have a space to play lead to the choice of secondary housing in addition to an apartment in the city center.⁵⁵

When we selected a representative from each grade of house projects and analyzed their rent prices compared with their sale prices, the result was that it was CHEAPER TO RENT for all grades. Therefore, there is a significant potential for the rental market rather than demand backed by purchasing power.

House Projects (Sales Price)

Grade	Project	Type	Area size	Total Selling Price	Price per sq.m For Sale
Standard	Khadat	Townhouse	125 sq.m	350,000,000₮	2,800,000₮
Comfort	Khiimori	Townhouse	314 sq.m	1,150,000,000₮	3,662,420₮
Business	River Garden	Townhouse	352 sq.m	3,800,000,000₮	10,795,455₮
Luxury	Casa Da Vinci	Single	310 sq.m	3,000,000,000₮	9,693,053₮

House Projects (Rental Price)

Grade	Project	Type	Area size	Total Rental Price	Price per sq.m For Rent
Standard	Khadat	Townhouse	125 sq.m	3,500,000₮	28,000₮
Comfort	Khiimori	Townhouse	314 sq.m	8,500,000₮	22,135₮
Business	River Garden	Townhouse	352 sq.m	14,000,000₮	38,889₮
Luxury	Casa Da Vinci	Single	310 sq.m	18,000,000₮	60,403₮

House Projects (*Rental Price*)

Grade	Project	Type	Total Monthly Loan Payments	Total Monthly Rent	Monthly Loan Payment per sq.m	Monthly Rent per sq.m	Buy vs Rent?	Renting
Standard	Khadat	Townhouse	3,884,753₹	3,500,000₹	31,078₹	28,000₹	Cheaper to rent	1.1 times cheaper
Comfort	Khiimori	Townhouse	12,764,190₹	8,500,000₹	40,650₹	22,135₹	Cheaper to rent	1.8 times cheaper
Business	River Garden	Townhouse	42,177,322₹	14,000,000₹	119,822₹	38,889₹	Cheaper to rent	3.1 times cheaper
Luxury	Casa Da Vinci	Single	33,297,886₹	18,000,000₹	107,586₹	60,403₹	Cheaper to rent	1.8 times cheaper

“

The amount when buying a house with a loan and making monthly payments was more than the income generated from renting the property to tenants for all grades, meaning it is CHEAPER TO RENT. Moreover, the availability of a management company to maintain occupancy and perform regular maintenance and services is low as well. As a result, professional investors are not inclined towards investing in currently available house projects.

Therefore, if project developers define their business model as "built-to-rent" from the conceptual stage, create an optimal floor plan according to their segment's needs, reduce costs, and choose the right post-commissioning management company, various house townships, including multihouses (similar to multi-family apartments), will be the most sought-after. This sector will be more compatible with the purchasing power of residents of the upper middle segment.

● INSTITUTIONS WILL ENTER BUILT-TO-RENT SECTOR

Among the types of investment properties, the rental housing sector is the most stable, least volatile, and least risky type of investment. In any economic cycle, the demand is maintained and can be described as consumer goods if compared to retail market. Because a certain percentage of the total population is always a renter segment, it is a regular phenomenon, and there are always groups of people in society, such as families who are saving until they buy a house, students, and people who migrate with their jobs.

“

It is advisable to finance the development of rental house projects through an investment fund or a closed joint stock company. These financing options involve professional investors who can invest long-term and have the expertise to evaluate their risks. Rental houses offer a return on investment in the form of increased rental income over time due to inflation.

THERE IS A GROWING NEED FOR ENTERTAINMENT PROJECTS

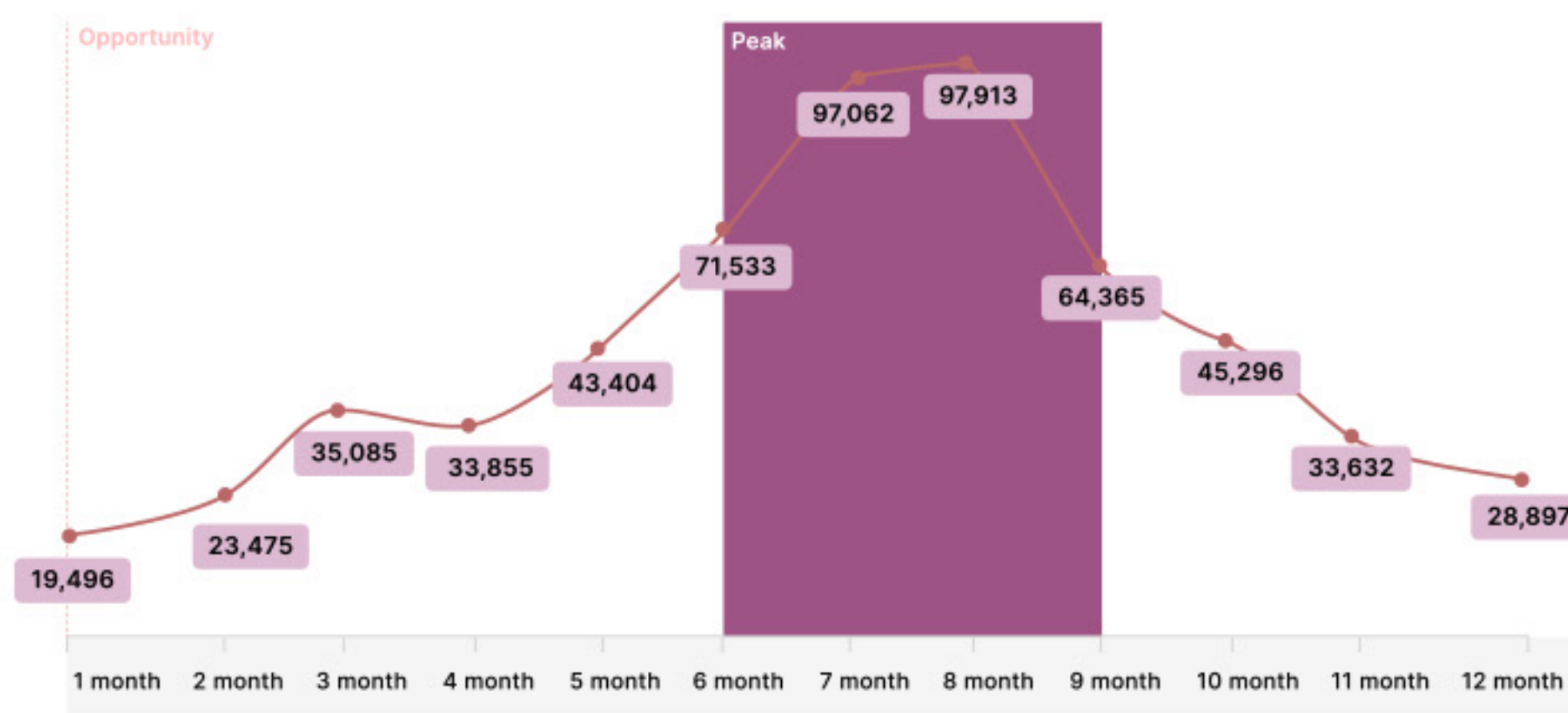
The rapidly growing tourism industry of Mongolia needs to become more competitive and family-friendly, meet the entertainment needs of domestic residents, and develop a recreation, leisure, and entertainment complex that includes specialized services for all ages of the family.

Specifically, in addition to increasing winter tourism, water parks, indoor swimming pools, arcades, hot springs, hotels, shopping centers, casinos, etc., can be concentrated in complex facilities that will meet the needs of domestic families during the four seasons.

2023-2025 has been announced as the "Years to Visit Mongolia" and communication activities to attract foreign tourists have been carried out. Despite not reaching the target of 1 million tourists in 2023, the country received 650,000 and generated \$1.3 billion.⁵⁶ The income of any industry exceeding 1 billion US dollars is considered a sign that the industry will develop intensively and independently.

However, about 85% of tourists came from 5 geographically close countries. In addition, 70% of all tourists arrived in the second and third quarters of last year, or the warm season, which showed that the country failed to create a uniform demand for all four seasons and that improving the competitiveness of winter tourism is necessary.

International Visitor Arrivals to Mongolia 2023

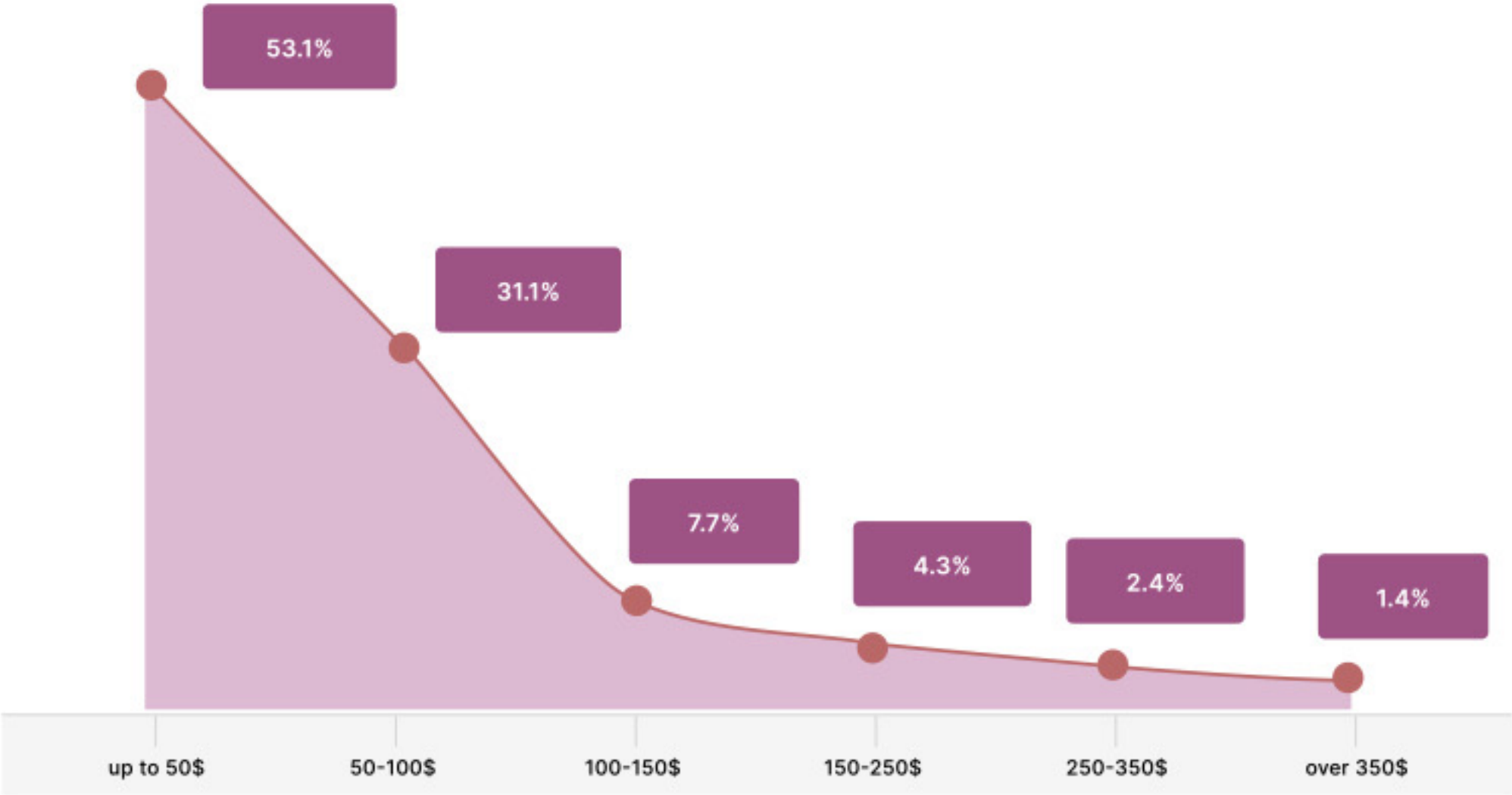


Source: [National Statistics Office](#)

On the other hand, due to non-compliance with the general plan and partial plan of UB city, the policy of zoning the city and creating clusters compatible with the residents' lifestyle was lost. Facilities to meet the health, education, public services, and entertainment needs of residents near the settlement areas have not been provided.

For the city's 1.7 million residents (more than 60% of whom are under 35), there is a lack of specialized facilities with special programs, equipment, and management for all ages of the family, except resorts and spas for use in the summer. Therefore, choosing a place with good natural scenery to spend the weekend outdoors has become common. According to the survey of domestic target group families, they are willing to pay not only \$50-\$100 per person per day for an entertainment center that meets their needs but also want to use it every season.

How Much Will You Be Able To Pay for All-Inclusive Resort Near UB City?
(per person per day)



Source: "Identifying targeted customer behaviour" survey, Invescore Property LLC, 2023

Therefore, more space needs to be provided for complex facilities to improve the competitiveness of the rapidly developing tourism industry and meet the entertainment needs of domestic resident families. To serve both foreign tourist and domestic families, the projects can be cenetred around the Economic Free Zone in New Zuun Mod City, where Ulaanbaatar resident families can plan a weekend getaway (90-min drive) and the tourists can visit straight from the airport (30-min drive).

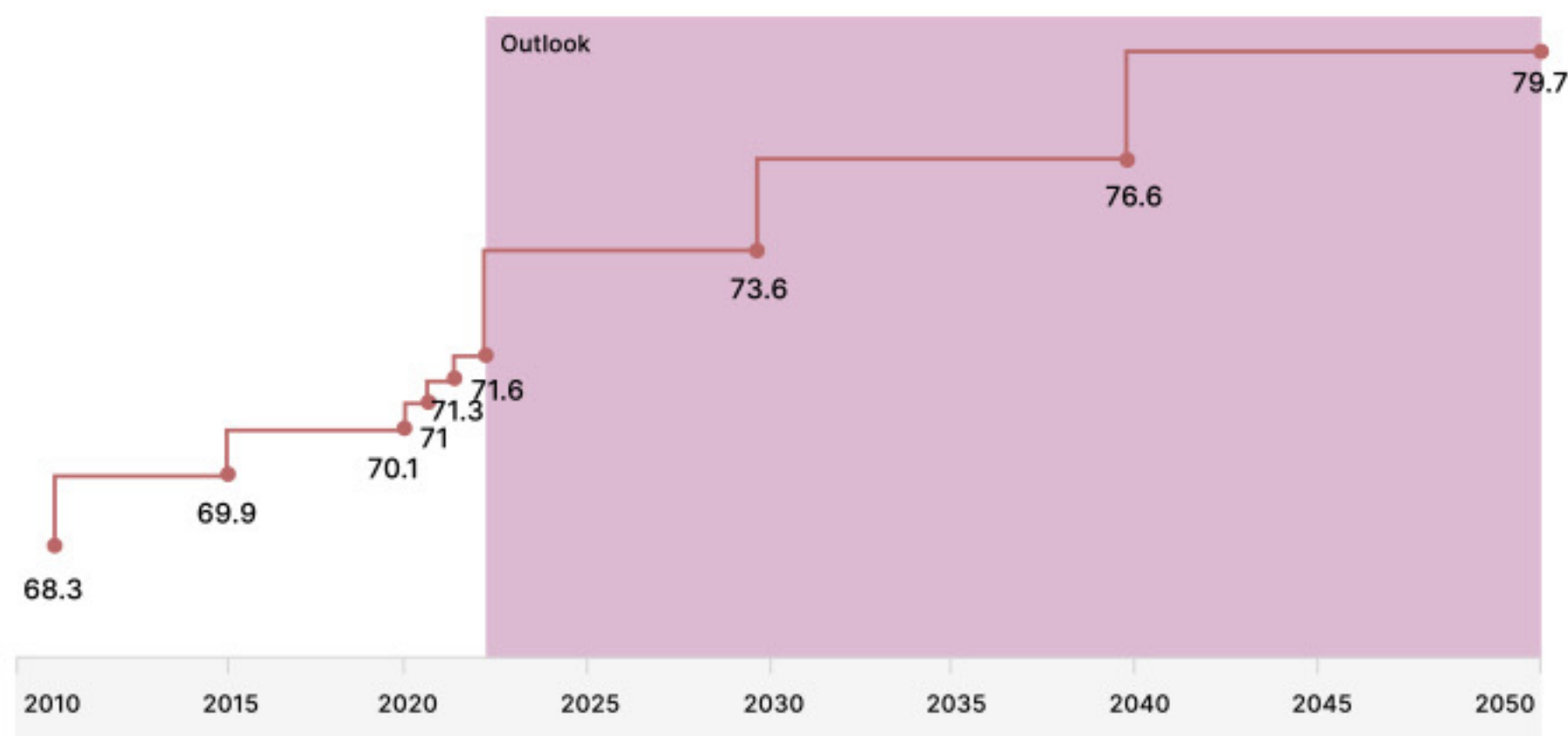
THE NEED FOR SENIOR-ORIENTED FACILITIES WILL INCREASE

Mongolia's demographic trends mirror those of other developing nations. As such, it is imperative to make early preparations for an inescapable future wherein the percentage of individuals aged 0-35 in the population will diminish, while the proportion of those aged 60 and above will rise considerably, as per the forecasts until 2050.

As the elderly population continues to grow, the demand for facilities that cater to their unique needs will inevitably rise. These facilities may include attractions, shopping services, medical facilities, special-purpose residential towns, and 1-story house towns. In order to stay ahead of the competition, project developers should establish partnerships with these service providers and fortify their business models early on. Alternatively, they may opt to introduce international franchise management to gain a leading edge in the market. By doing so, they can position themselves to capitalize on the lucrative senior living industry.

By the standards of developing countries, the average life expectancy of Mongolia's population is steadily increasing. Specifically, the average life expectancy, which was 68.3 in 2011, reached 71.3 in 2022, and is expected to increase to 79.7 in 2050.

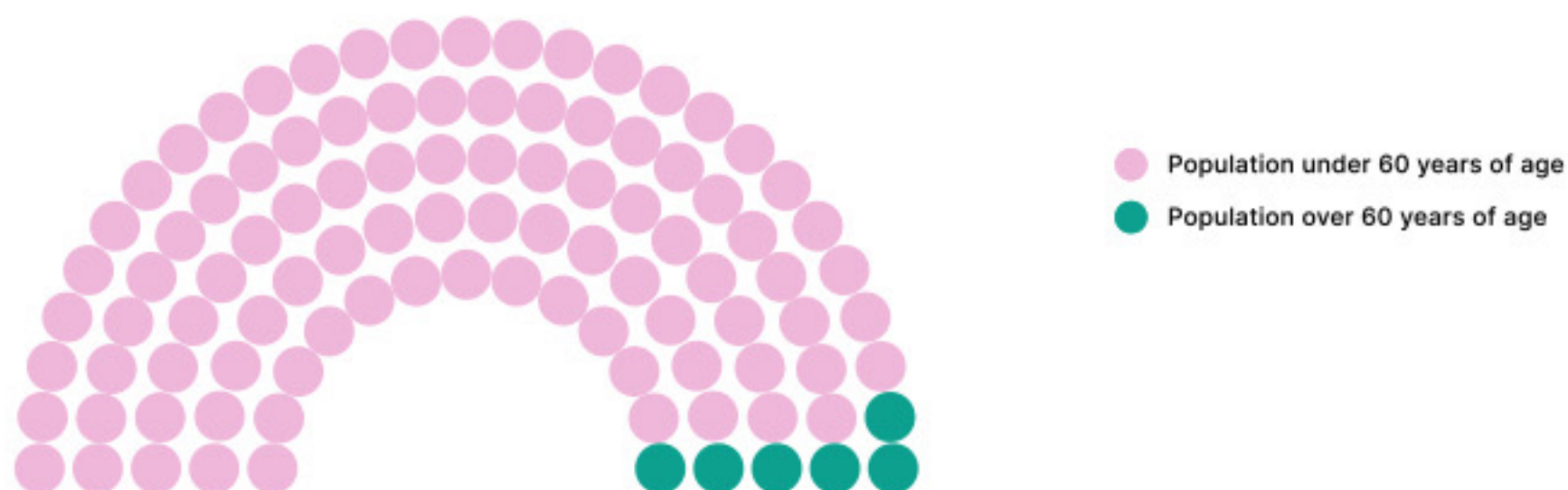
Population Life Expectancy and Outlook



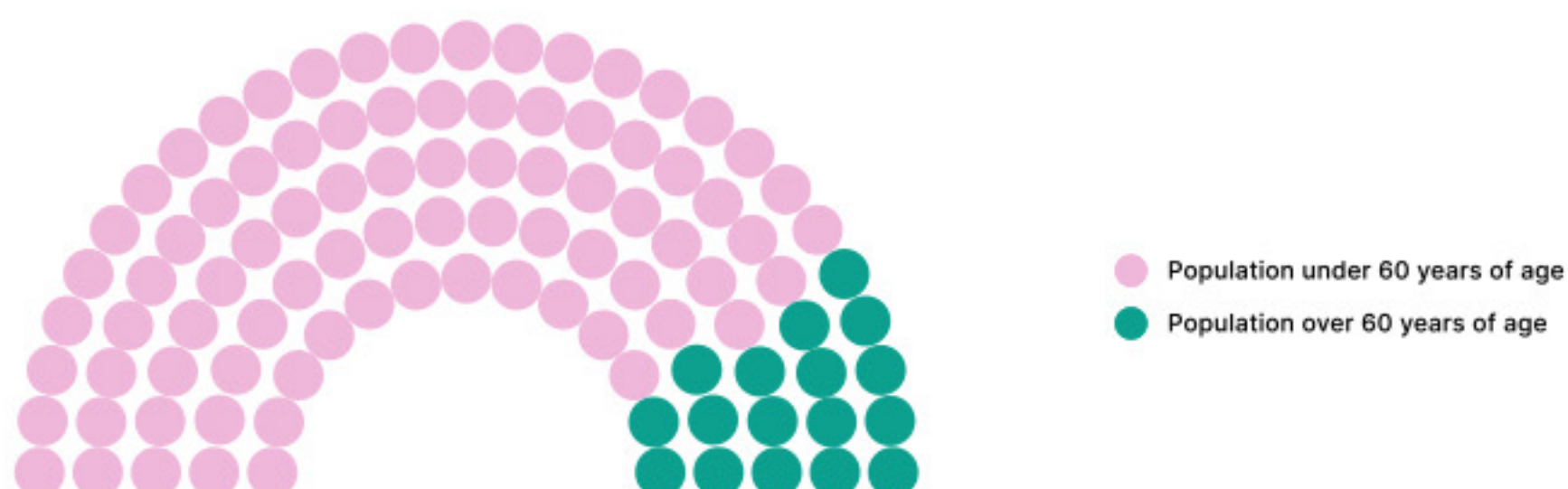
Source: [National Statistics Office of Mongolia](#)

It is noteworthy that the demographic makeup of the population is expected to undergo significant changes in the coming decades. Specifically, the 0-35 age group, which comprised 62% of the total population in 2020, is projected to decrease to 56% by 2050. On the other hand, the over 60 age group, which accounted for 7.5% of the population in 2020, is expected to increase to 17% by 2050. These changes are likely to have significant implications for a range of social, economic, and policy considerations in the years to come.

Mongolian Population by Age Groups in 2020



Forecast of Mongolian Population by Age Groups in 2050



Age group	2020	2025	2030	2035	2040	2045	2050	Chg% 2020-2050	
0-4	12%	10%	9%	9%	10%	10%	10%	↓ 2%	
5-9	12%	11%	10%	9%	9%	9%	9%	↓ 3%	
10-14	9%	11%	10%	9%	8%	8%	9%	0%	
15-19	7%	8%	10%	10%	8%	7%	7%	0%	
20-24	7%	6%	7%	9%	9%	8%	7%	0%	
25-29	8%	6%	6%	7%	9%	8%	7%	↓ 1%	
30-34	9%	7%	6%	5%	6%	8%	8%	↓ 1%	
35-39	8%	8%	7%	5%	5%	6%	7%	↓ 1%	
40-44	7%	7%	8%	6%	5%	4%	6%	↓ 1%	
45-49	6%	6%	6%	7%	6%	5%	4%	↓ 2%	
50-54	5%	6%	6%	6%	6%	5%	4%	↓ 1%	
55-59	4%	5%	5%	5%	5%	6%	5%	↑ 1%	
60-64	3%	4%	4%	4%	4%	5%	5%	↑ 2%	
65-69	2%	3%	3%	3%	4%	4%	4%	↑ 2%	
70-74	1%	1%	2%	3%	3%	3%	3%	↑ 2%	
75-79	0%	1%	1%	2%	2%	2%	2%	↑ 2%	
80-84	0%	0%	0%	1%	1%	1%	2%	↑ 2%	
85+	0%	0%	0%	0%	0%	1%	1%	↑ 1%	

The share of the working age population will decrease

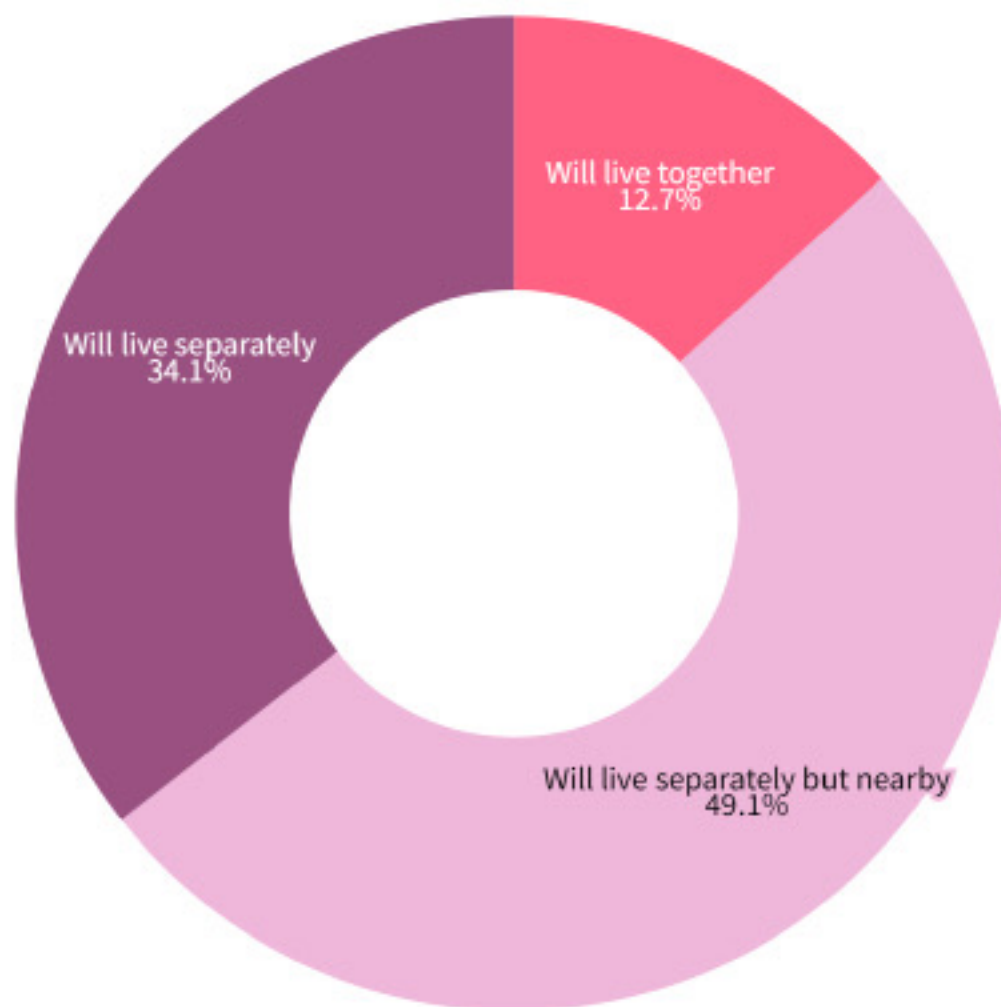
The proportion of the population of retirement age will increase

With the number of elderly people estimated to reach 1.2 million by 2050, there is a clear need for specialized services and facilities that meet their lifestyles, health needs, and comfort.

In many Asian countries, including ours, a cultural tradition exists wherein all family members reside together in under one roof. However, it is essential to take into account the relevant statistics. Among the 1.2 million individuals previously mentioned, a portion may require specialized accommodations, such as nursing homes featuring regular medical care, care homes, high-end full-service apartments, or single-story houses with tailored entertainment programs. These unique needs should be considered to ensure that all individuals receive appropriate care and support.

According to international statistics, 1-3% of all elderly people live in specially designed senior community campuses. In addition, according to research conducted by Invescore Property, the target group was asked the question: "Will the elderly live with their parents in the future?" The answer indicating living separately from elderly parents was quite a lot, which shows the inevitable situation that will arise in the medium and long term.

Will You Reside with Your Elderly Parents in the Future?



Source: "Identifying targeted customer behaviour" survey, Invescore Property LLC, 2023

“ Establishing a senior living community that can compete with international standard services and management is a significant undertaking that requires a substantial investment of time and resources. It is essential to avoid viewing senior living communities as social welfare tools subsidized by the government and instead recognize them as a service for a wider group of customers.

NEEDS BEYOND HOA = PROPERTY MANAGEMENT

Professional organizations specializing in property management are contracted by real estate owners to enhance the value of their property and maintain high occupancy rates. The efficacy of these organizations is evaluated by both property owners and tenants alike, with the aim of meeting the needs of both parties. By utilizing a range of best practices, including regular maintenance, tenant screening, and marketing strategies, these organizations can help both property owners and tenants to achieve their goals.

Over the last few years, there has been a rapid increase in the number of organizations that offer this service. These organizations primarily work on office, retail, and serviced-apartment projects. However, there is potential to expand this type of service to house projects and projects related to warehousing and logistics in the future.

Property management services offer daily security, maintenance, inspection, repair, and coordination services for buildings and structures after they have been put into operation. These service providers are regulated by the Financial Regulatory Commission. As of 2023, there are 192 legal entities that hold special licenses for carrying out such activities.⁵⁷

Comparisons are often drawn between property management activities and those of Home Owners Associations, though the concepts are not entirely dissimilar. The key distinction lies in the fact that Property Management operates as a business entity with professional staff and legal personality, enabling it to undertake a wider range of activities across a broader spectrum of projects.

Professional firms predominantly engage in business grade and high-end projects, such as offices and commercial services. As the industry's regulatory body does not provide consolidated indicators or reports on the leading market players, the official figures and total market capacity remain indeterminate.

“ Although the total market size is uncertain, the steady rise in the number of registered entities that initiate their operations with new licenses suggests that property management seems to offer a competitive profit margin with relatively low barriers to entry and no clear market leaders.

THERE IS A LACK OF STORAGE AND LOGISTICS FACILITIES

In 2023, coal exports reached a historic level, and the financial indicators of the nation's largest e-commerce platform became profitable for the first time. Transport logistics centers, warehouses, and distribution facilities based on foreign trade and online trade will be in demand in the medium term.

The availability of this type of property is clearly in short supply even at the current level of the economy, so the shortage will become an issue as the economy grows in the medium term. Therefore, project developers and investors can quickly adopt international best practices and gain high returns by being the first in the market.

● THE NEED BASED ON THE EXPORT LEVEL

In 2023, the export of coal will reach a historical high of 69 million tons, generating an income of about \$9 billion, and the state budget has projected that the amount of export will be more than 60 million tons in the next year as well.⁵⁸ In addition, in 2023, the restriction on exporting meat was lifted, and the export of this type of product reached 80,000 tons, setting a historical record.

Some Major Export Items 2023

Export Goods	2022	2023	Growth %
Beef (tons)	166.00	242.00	45.4%
Livestock by-products (tons)	250.00	1,001.00	300.4%
Horse Meat (tons)	6,920.00	32,907.00	375.5%
Coal (thousand tons)	31,821.00	69,608.00	118.8%

Export goods	2022	2023	Growth %
Beef (thousand USD)	\$577	\$979	70.00
Livestock by-products (thousand USD)	\$21,057	\$125,407	496.00
Horse Meat (thousand USD)	\$216	\$1325	514.00
Coal (thousand USD)	\$6,503,248	\$8,898,106	37.00

Source: [National Statistics Office of Mongolia](#)

The government's development policy and planning until 2050 include revitalization of the port, diversifying the economy, and neutralizing the overdependence on the mining industry, so it is clear that the variety and capacity of exports will increase in the medium term.

Therefore, project developers and investors have an opportunity to address the shortcomings of export-oriented facilities such as processing plants, special-purpose warehouses, and infrastructure facilities, become market pioneers, participate in the sector's pricing rules, and generate high returns.

● THE NEED BASED ON ONLINE SHOPPING ACTIVITIES

E-commerce is an industry that has snowballed during the pandemic and has since become a regular use. The sector directly depends on Internet connectivity, secure payment solutions, and delivery systems of goods. Our country is weak in the storage and delivery of goods and products, which can be seen from the score of 31 points (out of 100 points) on the Postal Reliability Index.⁵⁹

It is clear that the e-commerce and order delivery industry will grow and not shrink in the future, so the need for facilities for customs-certified warehouses, distribution network points, order packing, and dispatch terminals that meet the standard requirements will arise not only in UB but also in the local areas.

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PROPERTY

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06

Urban Expansion and New Planning

HISTORY OF ULAANBAATAR CITY

The capital, Ulaanbaatar, has a history of 385 years and became the capital of Mongolia in 1912. As a result, the legal basis for becoming the capital city of Mongolia was created by the Constitution of 1924, which was reflected in the Constitutions of 1940 and 1960, which became an important decision for our country with a nomadic civilization to transition to a settled society. The need to plan and develop Ulaanbaatar according to global urban development and planning standards arose.

City of Ulaanbaatar



Since 1954, Ulaanbaatar city has been faced with a general plan five times, developed according to the social and economic development trends of that time, and found its current appearance.

Figure 2 . The First General Plan Was 1945



Figure 4 . III General Plan 1975



Figure 3 . II General Plan 1963

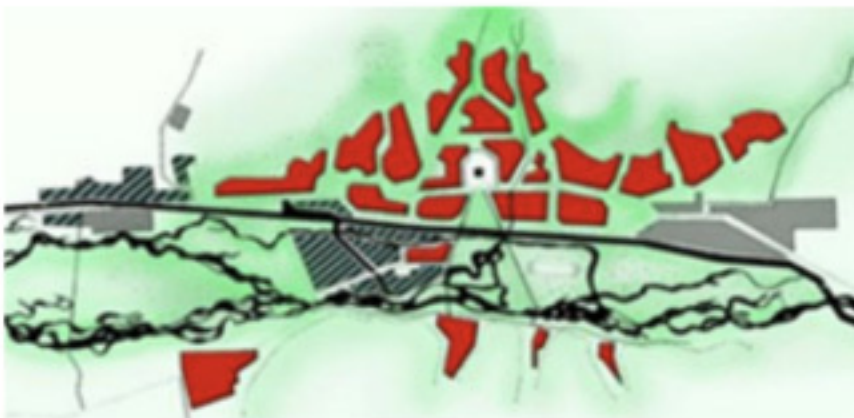


Figure 5 . IV General Plan 1986



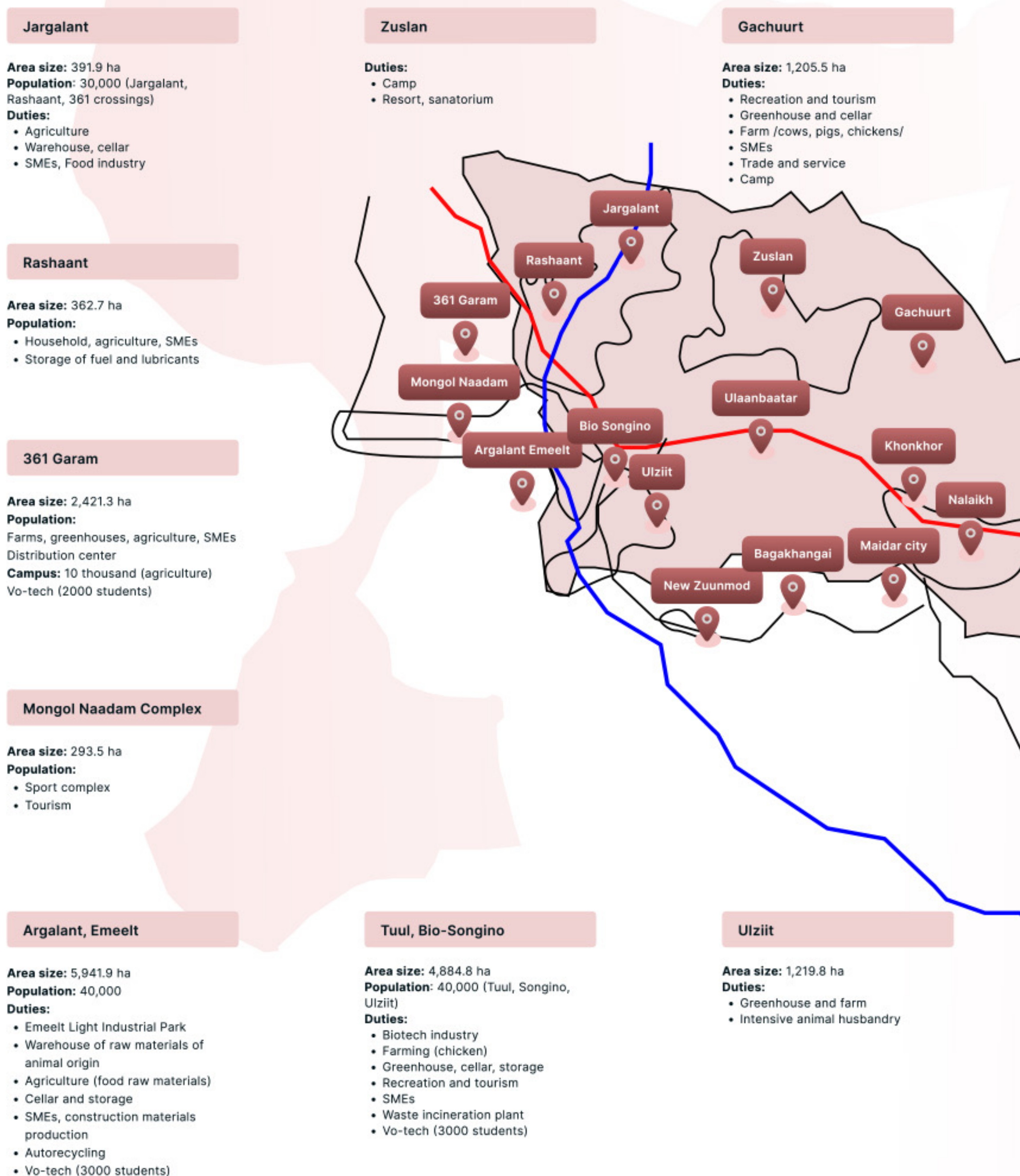
Source: [Ulaanbaatar city development trend until 2030 Volume II](#)

EXPANSION OF ULAANBAATAR CITY

In the development trends of the Ulaanbaatar region, the population is estimated to be 1.76 million in 2030 (reached in 2023 already). It was necessary to develop a new development plan due to the expiration of the implementation period of the urban development document "Clarification of the General Plan for the Development of Ulaanbaatar until 2020 and Development Trends until 2030", the research institute has been revised.

During this period, it is estimated that the population of the region will be evenly distributed in Ulaanbaatar and the satellite towns and villages, and the satellite towns and villages will develop into an area that will take an important place in the country's economy, with industries, trade services, and a comfortable living environment for residents. With the balanced development of the region, migration towards Ulaanbaatar will slow down, and satellite towns and villages will have the opportunity to develop rapidly.

Figure 6. Spatial Planning of Ulaanbaatar Region



Terelj

Area size: 29,870 hectares
Population: 15,000 (in Terelj and Gatsuurt)
Duties:

- Recreation and tourism

Nalaikh-Khonkhor

Area size: 6,162.7 ha
Population: 110,000
Duties:

- Industrial Technology Park of building materials
- Wholesale center / building materials /
- Glass and porcelain factory
- Tourism
- Trade and services, SMEs
- The campus has 5,000 students
- Vo-tech 3500 students
- Logistics center
- Agriculture, farms, greenhouses

Baganuur

Area size: 2,991.6 hectares
Population: 85,000
Duties:

- Industrial Technology Park, Industrial Park
- Mining expansion and coal gasification complex
- Power plant 400 mW
- Farming, agriculture, greenhouses, farming
- Tourism and recreation
- Vo-tech 2000 students
- Children's summer camps

Bagakhangai

Area size: 4,491.3 ha
Population: 16,000
Duties:

- Light industrial park
- Glass Industry Technology Park
- Defense Industrial Park
- Campus 4000 students (defense)
- Farming
- SMEs, trade and services
- Transport logistics, storage, cellar
- Vo-tech 500 students

Maidar City

Population: 40,800
Duties:

- Tourism
- Content production
- Film industry
- Campus: 12,000 students (cultural)
- Museum complexes
- Vo-tech 3000 students
- Children's summer camps

New Zuunmod-Aerocity

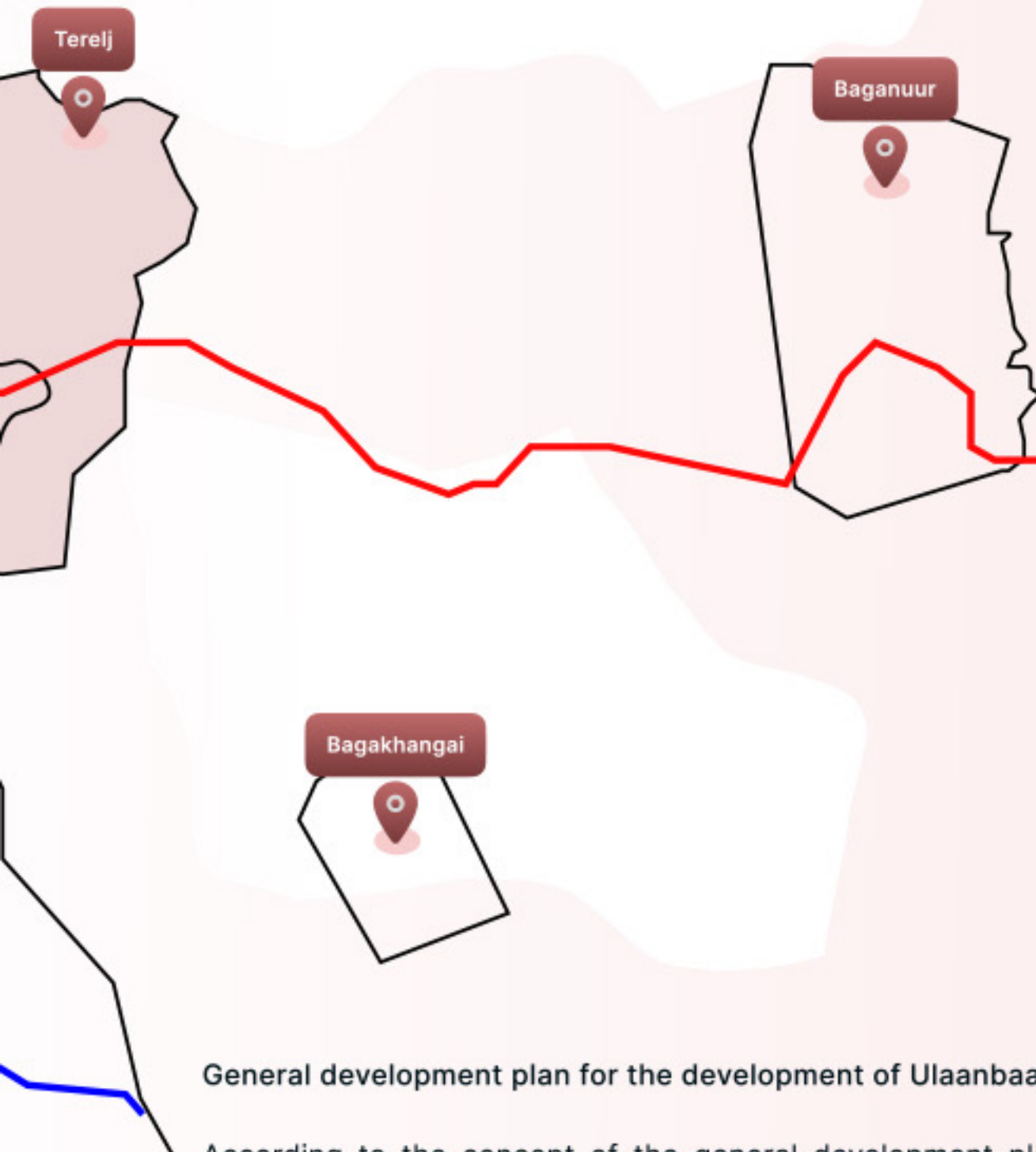
Area size: 12,000 hectares
Population: 34,000
Duties:

- Airport
- Free Economic Zone
- Integrated International Logistics Center
- Dry port
- Cargo center
- High-tech production
- University of Transportation campus (2000 students)

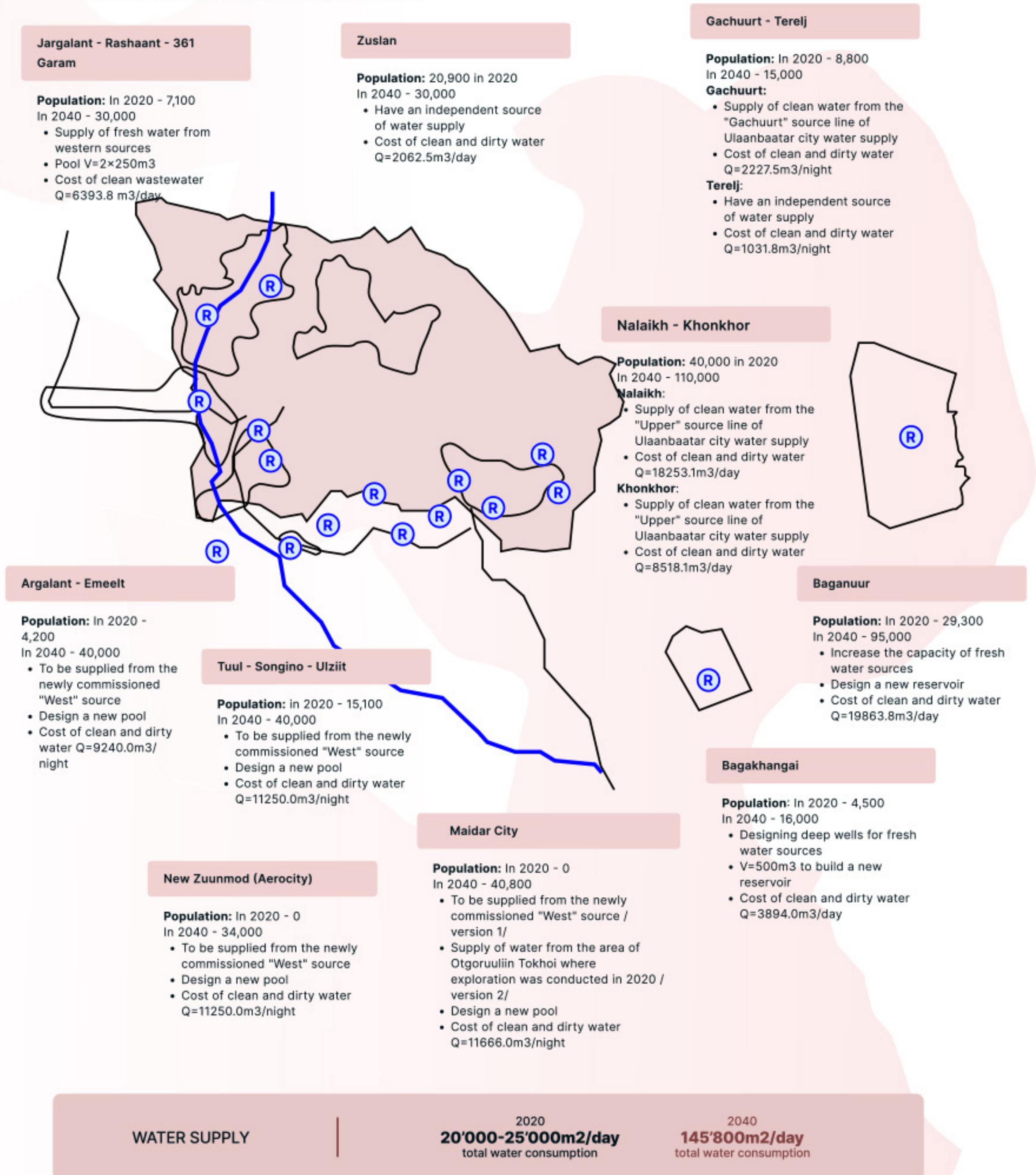
General development plan for the development of Ulaanbaatar until 2040

According to the concept of the general development plan of Ulaanbaatar until 2040, the development of urban settlements in the territory of the capital city will reduce the inappropriate concentration of population and reduce the negative impact on the environment caused by it.

By maintaining the traditional system of Ulaanbaatar, the capital city, and satellite towns and villages that will develop along with it, in 2040, there will be 13 satellite towns and villages with a population of 2,248,000 in the capital's territory.



ENGINEERING INFRASTRUCTURE PLANNING OF ULAANBAATAR REGION



HEAT SUPPLY

Jargalant, Rashaant

- 2020 TPS-2 Gcal/h
- 2030 TPS-70 Gcal/h
- 2040 TPS-115 Gcal/h

Khui 7 Khudag

- OFPS-97.49 Gcal/h in 2030

Argalant - Emeelt

- 2020 TPS-8 Gcal/h
- 2030 TPS-40 Gcal/h
- 2040 TPS-120 Gcal/h

Bio-Songino

- 2020 TPS-10.8 Gcal/h
- 2030 TPS-40 Gcal/h
- 2040 TPS-120 Gcal/h

Ulziit

- SEPS-21.8 Gcal/h
- 2030 PMP-50.08 Gcal/h

Aerocity

- 2020 TPS-36.12 Gcal/h
- 2030 TPS-80 Gcal/h
- 2040 TPS-189 Gcal/h

Maidar City

- 2030 TPS-50 Gcal/h
- 2040 TPS-155 Gcal/h

Gachuurt

- 2020 TPS-1.03 Gcal/h
- 2030 TPS-20 Gcal/h
- 2040 TPS-45 Gcal/h

Khonkhor

- 2030 SS-90 Gcal/h
- 2040 TPS-115 Gcal/h

Terelj

- 2030 TPS-20 Gcal/h
- 2040 TPS-40 Gcal/h

Gorodok

- 2040 SS-87 Gcal/h

Nalaikh

- 2020 SS-60 Gcal/h
- 125 Gcal/h in 2025
- 2030 PMP-378 Gcal/h
- 378 Gcal/h in 2040

Nalaikh Industrial and Technology Park

- 2030 PMP-26 Gcal/h

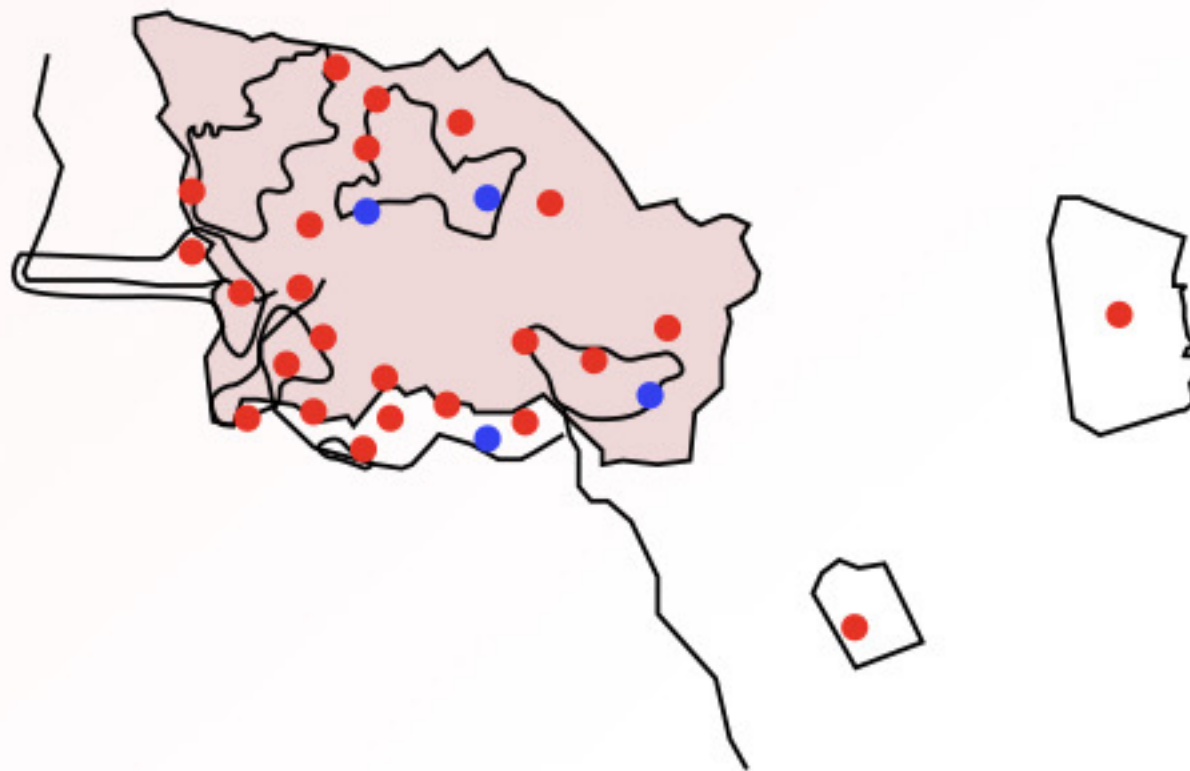
- Existing heat source
- Planned heat source

THERMAL LOAD

2020
157 Gcal/h
138'000 population

2040
2566 Gcal/h
440'800 population

POWER SUPPLY



- Existing heat source
- Planned heat source

INSTALLED CAPACITY

2020
1069 MW
TOTAL

2020
1069 MW
renewable energy

2040
2594 MW
TOTAL

2040
385 MW
renewable energy

ELECTRICITY USE

2020
285.4m kWh
TOTAL

2040
903.9m kWh
TOTAL

SEWERAGE

Jargalant, Rashaant, 361 crossing village

Population: In 2020 - 7,100
In 2040 - 30,000

- Cost of clean wastewater $Q=6393.8 \text{ m}^3/\text{day}$
- Planned treatment plant in Jargalant village $W=31000 \text{ m}^3/\text{day}$
- 361 Garam village planned treatment plant $3500 \text{ m}^3/\text{day}$

Zuslan

Population: 20,900 in 2020
In 2040 - 30,000

- It has an independent sewage system
- Cost of clean and dirty water $Q=2062.5 \text{ m}^3/\text{day}$

Gachuurt - Terelj village

Population: In 2020 - 9,900
In 2040 - 15,000

Gachurt:

- Connect to the centralized sewage system of Ulaanbaatar city
- Cost of clean and waste water

Terelj:

- It has an independent sewage system
- Cost of clean and dirty water $Q=025.0 \text{ m}^3/\text{day}$

Nalaikh city - Khonkhor village

Population: 40,000 in 2020
In 2040 - 110,000

Nalaikh:

- Cost of clean and dirty water $Q=18253.1 \text{ m}^3/\text{day}$

Khonkhor :

- Cost of waste water $Q=8518.1 \text{ m}^3/\text{night}$
- Connecting to the sewage system of Nalaikh District, planning a new treatment plant near Urgach Naran $W=30000 \text{ m}^3/\text{day}$

Baganuur city

Population: In 2020 - 29,300
In 2040 - 95,000

- Cost of waste water $Q=19863.5 \text{ m}^3/\text{day}$
- It is planned to expand the treatment facility in stages $W=20000 \text{ m}^3/\text{day}$

Baga Khangai city

Population: In 2020 - 4,500
In 2040 - 18,000

- Cost of waste water $Q=3704.0 \text{ m}^3/\text{day}$
- The treatment plant built in 2019 will be commissioned and expanded to $W=5000 \text{ m}^3/\text{day}$ in the long term.

Maidar city

Population: In 2020 - 0
In 2040 - 40,800

- Cost of clean and dirty water $Q=11668.0 \text{ m}^3/\text{day}$
- Planned treatment plant $W=15000 \text{ m}^3/\text{day}$

New Zuun Mod (Aerocity)

Population: In 2020 - 0
In 2040 - 34,000

- Cost of clean and dirty water $Q=11250.0 \text{ m}^3/\text{night}$
- Planned treatment plant $W=20000 \text{ m}^3/\text{day}$

Tuul - Songino - Ulziit village

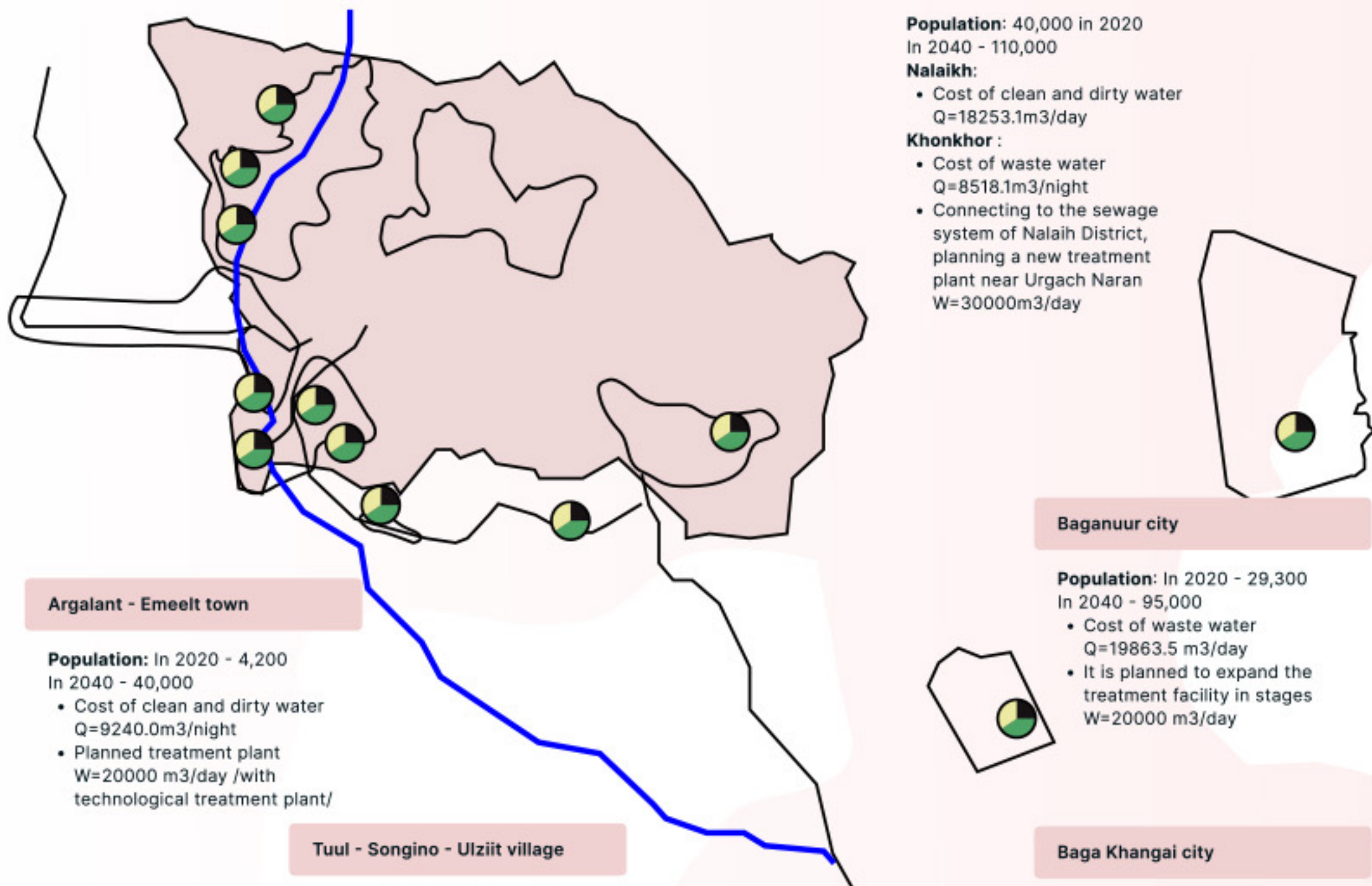
Population: in 2020 - 15,100
In 2040 - 40,000

- Cost of clean and dirty water $Q=11250.0 \text{ m}^3/\text{night}$
- Planned treatment plant $W=5000 \text{ m}^3/\text{day}$

Argalant - Emeelt town

Population: In 2020 - 4,200
In 2040 - 40,000

- Cost of clean and dirty water $Q=9240.0 \text{ m}^3/\text{night}$
- Planned treatment plant $W=20000 \text{ m}^3/\text{day}$ /with technological treatment plant/





Ulaanbaatar city at sunset

Law Amendments Effective Starting from 2024

07

-
- Property Tax Law
 - Income Tax Law
 - Construction Law
 - Law of State Registration of Property Rights

PROPERTY TAX LAW

On December 5, 2023, according to the resolution of the Assembly of Citizens' Representatives of the Capital, the tax rate for real estate located in UB city was newly determined, and the following significant changes were made:⁶⁰

- Fifty-two newly created khoroots and all immovable assets will be classified by location (column I), and tax rates will be imposed at three levels (column II).
- The tax rate for properties that do not meet the requirements for parks, green spaces, and parking spaces specified in the Law on Urban Development may be increased to 1.0% (column III).

Rates of Real Estate Tax in the Territory of the Capital:

(I) Rank of Location	(II) In Accordance With the Requirements of the Law	(III) In Non-Statutory Properties	Effective Date of the Decision
1. Suburban Area	0.6%	Increase 0.6% to 1.0%	Starting from January 1, 2024
2. Close to the City Center	0.8%	Increase 0.8% to 1.0%	Starting from January 1, 2024
3. In the City Center	1.0%	1.0%	Starting from January 1, 2024

Although the Law on Property Tax stipulates that the tax rate can be 0.6-2%, in order not to burden taxpayers, the City Council will maintain the old rate without increasing the base tax rate. However, they will work on updating real estate valuations to be more realistic in the future and expanding the tax income by fully enforcing all taxpayers.⁶¹

INCOME TAX LAW

Following the 2024 Budget Law of Mongolia, within the framework of the goal of supporting urban and rural revitalization, the Personal Income Tax (PIT) and Corporate Tax Laws (CIT) were approved on November 10, 2023, with the following changes:⁶²

Types of Income and Rates of Deductions from CIT and PIT:

Types of Tax-Deductible Income	Location of Property	2024/01/01-2026/12/31	2027/01/01-2029/12/31
Residential properties' sales revenue /CIT/	Baganuur, Bagahangai, Nalaikh District, Darkhan-Uul and central soums of Orkhon Province	50% discount on basic tax rate and amount	20% discount on basic tax rate and amount
Residential properties' sales revenue /CIT/	In other provinces and districts	90% reduction in basic tax rate and amount	50% discount on basic tax rate and amount
Residential properties' rental income /CIT, PIT/	Baganur, Bagahangai, Nalaikh districts and other provinces	90% reduction in basic tax rate and amount	50% discount on basic tax rate and amount

In addition, the following changes have been made to the rate of taxation on income from domestic securities trading within the framework of the goal of economic diversification and support of the capital market accompanying the Budget Law of 2024 mentioned above: ⁶³

- When calculating a non-resident taxpayer's taxable income from the sale of the following securities, the amount purchased initially is deducted (changed from the total amount calculated under the previous law).
- The tax on the income from the sale of the following securities shall be withheld, paid to the budget, and reported by the entity engaged in the central depository and custodian activities of the securities (the previous law stated that the person who traded should pay and report on his own).

Types of Income and Rates of Deductions from CIT and PIT:

Types of Tax-Deductible Income	2024/01/01-2026/12/31	2027/01/01-2029/12/31
Revenues from selling securities traded publicly in the domestic primary and secondary markets and issued by the Government, Provinces, The capital city, and resident tax-payers.	90% reduction in basic tax rate and amount	50% discount on basic tax rate and amount

CONSTRUCTION LAW

The current Construction Law approved in 2016 has been amended 16 times to date. The latest approved version, December 7, 2023, contains the following additional changes. It includes:⁶⁴

- Article 33.1.25 of the law states that the cost of the construction commissioning work shall be determined considering the construction's complexity and size.
- Article 37 of the law stipulates that the developer is responsible for the costs of preparing the plot, development till commission, and the commissioning work (in the previous version, the cost of commissioning work was not included)

The amendment mentioned above is effective from the date of entry into force of the Law on Reducing Traffic Congestion and Housing Housing in the Capital Ulaanbaatar City, December 15, 2023.⁶⁵

As of January 2024, the conclusion of the workgroup "Assessing the Consequences of the Implementation of the Construction Law and Providing Consultative Services for Drafting Laws" concluded that the law needs to be revised.⁶⁶

Therefore, the law's content is expected to change again in 2024 or in the coming years. Project developers and industry participants can also submit their comments to this draft law.

LAW ON STATE REGISTRATION OF PROPERTY RIGHTS

State Registration of Property Rights has been in effect since June 21st, 2018, and the latest modifications were made on Dec 27th, 2023, as follows:

Regarding Registration of Immovable Property

- Per 13.7 of the law: If the basic structure and construction of an apartment building are changed from the original plan, if an additional load is added, an expansion is made, or if the purpose of the technical room of the apartment building is changed, the related changes of the apartment shall not be registered in the state register of rights.

Therefore, it is prohibited by the law for the owner to carry out repairs and services to change the base structure and design of the apartment he owns.

Regarding the Value of Immovable Property To Be Recorded in the State Register

Article 9.1 of the law, the value of immovable property to be recorded in the state register of rights is determined in the following order. It includes:

- When the ownership of immovable property other than land is registered for the first time in the state register of rights, the price specified in the order contract for the property, or if there is no price specified in the order contract, the price determined by the approved budget cost;
- The base price set by the land authority for the first registration of land rights in the state register of rights, and the auction price if there is no base price;
- In the case of the sale or transfer of ownership rights and other related property rights and land rights, the price included in the contract, agreement, or decision on the transfer of rights;
- In case of a pledge on land rights and immovable property, the lien agreement registered in the state register of property rights or the value of the property included in the collateral agreement;
- Price about change entered of rights of the state in the registry to register in law taught according to capital assessment to do rights with by person established price that indicated.

Also, in case of registration of immovable property registration data in the state register of property, the price of the immovable property shall be determined according to the order mentioned above, and the relevant property tax fee shall be based on the amount of the determined price.

In addition, it is stipulated that the price of immovable property shall not be reduced from the last price registered in the state register, except for the registration of changes in the price of immovable property in the case of a change of owner or registration of a lien. In other words, regardless of how the parties agreed on the price in the collateral agreement and the real estate sale and purchase agreement, the Law on State Registration of Property Rights has been amended to adhere to the original price registered in the State Register of the property.

The provisions of the amendments included in the state register of property rights are implemented from December 15, 2023.

Basic Forms of Real-Estate- Based Investments

008

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- Forms of Real Estate Investors: Owner or Lender
 - Globally Approved RE Investment Type:
Public Real Estate Investment Trust
 - Globally Approved RE Investment Type:
Private Real Estate Equity Fund
 - Main 5 Investment Strategies of Real Estate Funds

FORMS OF REAL ESTATE INVESTORS: OWNER OR LENDER

ASSETS = OWNERS' EQUITY + LIABILITIES

Total assets of the company
=
Funding provided by project owners
+
Funding from lenders



By investing in a project or company, you become a "Project Owner" or "Project Lender". To summarize the characteristics and differences between these two forms of investors:

INVESTING AS "OWNER"

Who is it suitable for?

For investors with certain investment experience, who are willing to accept relatively high risk and relatively high returns, and who aim to **GROW their funds** regularly by investing their capital **in the long term**.

What do you get in return for your money invested?

Together with other investors, buying **the shares of the company** that owns the property that has already been built or, implementing the project.

What is the return rate?

The higher the occupancy and rental value of the property, **the higher the dividend** + The higher the selling price of the property, **the higher the value of your shares**.

How and when to get the return?

When the company's rental activity **is stabilized**, it will start **paying dividends** + Earn income by **selling shares to others**, OR if the real estate price has increased enough, the company will **sell the owned real estate** and distribute the profit from the sale to investors.

PRODUCT EXAMPLES

- Shares of REITs traded on a stock exchange or over-the-counter
- Units of Real Estate Equity Funds traded on a stock exchange or over-the-counter market
- Trading of shares of a closed joint-stock company OR trading of partnership rights (Limited Partnership shares)
- By converting company shares into tokens and trading through a crypto exchange (1 token = 1 share, etc.)
- Exchange fund unit rights converted into tokens and sold through a crypto exchange (1 token = 1 unit right, etc.)
- Trading company's shares through crowdfunding platforms
- Trading fund units through crowdfunding platforms

Current Common Conditions

- For projects with real estate in operation: Dividends 8-10% per annum + Price growth 5-15% per annum
- For new construction projects: 25+% annual gross IRR and 3+ years until equity can be re-sold.

Risk

How much profit will be made depends on whether the project will have a high rental occupancy rate and how much the property's market value will increase.

Also, when you want to sell shares to others and make a profit, you may have to wait until a buyer appears. It takes some time.

INVESTING AS "LENDER"**Who is it suitable for?**

For investors who have little investment experience, or who prefer relatively low returns but low risk, and whose main goal is to **PROTECT the funds from inflation** by placing their capital for **1-2 years**.

What do you get in return for your money invested?

You are buying a **bond** that states that company will lend the funds needed for the implementation of the project at an specified interest rate, and will return the loaned capital after a certain period of time.

What is the return rate?

Interest payments at a fixed percentage according to a fixed schedule + At the end of the term, the **original borrowed capital** will be returned.

How and when to get the return?

According to the **percentage** specified in the debenture agreement.

PRODUCT EXAMPLES

- A bond issued by a construction company and sold on a stock exchange or OTC exchange
- Trade by converting bonds into tokens and trade through a crypto exchange (1 token = 1 debt instrument etc.)
- Issuing a token that pledges the project's future revenue and trade through a crypto exchange (1 token = contractual right to benefit from future earnings)
- Raising loan funds through crowdfunding platforms

Current Common Conditions

The annual coupon rate of a new construction project is 17-19% on the OTC, and the initial loaned capital will be repaid after 1-2 years.

Risk

Each repayment is made in a fixed amount on an agreed schedule, so there is little risk.

All construction projects are subject to business risks faced by developers, such as whether they will be completed on time and whether the sales volume will meet the developer's plans.

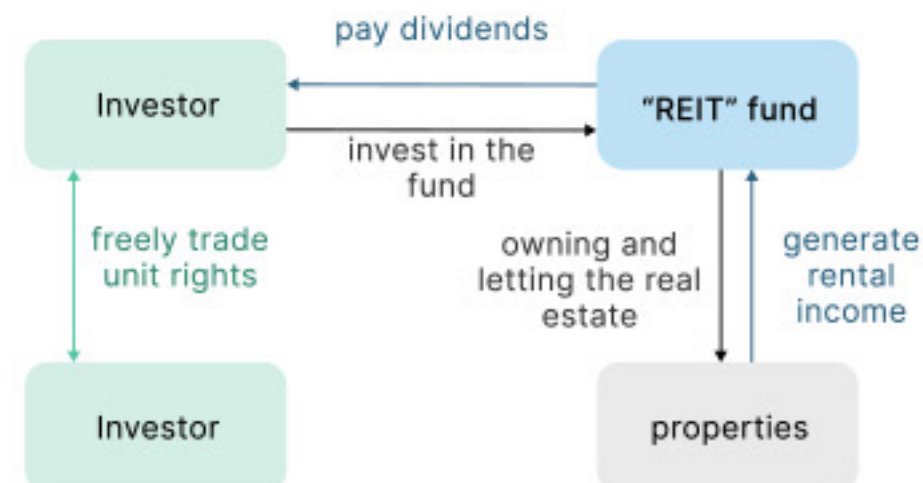
GLOBALLY APPROVED RE INVESTMENT TYPE: PUBLIC REAL ESTATE INVESTMENT TRUST

International name: REAL ESTATE INVESTMENT TRUST

This type of fund aims to earn a profit from rental income from day one. That's why they usually purchase **properties that have been put into operation** with the funds raised from investors buys.

By purchasing units of the fund, the investor becomes one of many owners of the fund itself. However, by extension, the fund owner is an **indirect owner of the properties** which the fund owns.

How Do REITs Work?



Order of Receiving Dividends from REIT Fund Income:

TOTAL RENTAL INCOME
 (-) RENTAL EXPENSES
 = GROSS PROFIT
 (-) OTHER OPERATING EXPENSES
 = NET OPERATING INCOME

→ (90%) DIVIDENDS TO BE DISTRIBUTED TO INVESTORS
 → (10%) RETAINED EARNINGS TO BE RETAINED FOR FUND OPERATIONS

“ As a REIT fund distributes most of its net operating income as dividends to investors, it is a legal entity exempt from income tax on a corporate level.

In Mongolia, there is currently no REIT and there is no regulation related to it.

With the establishment of a public real estate fund, individuals can freely participate in trading through the stock exchange, benefit from the constantly growing real estate market, and have a favorable opportunity to increase their assets.

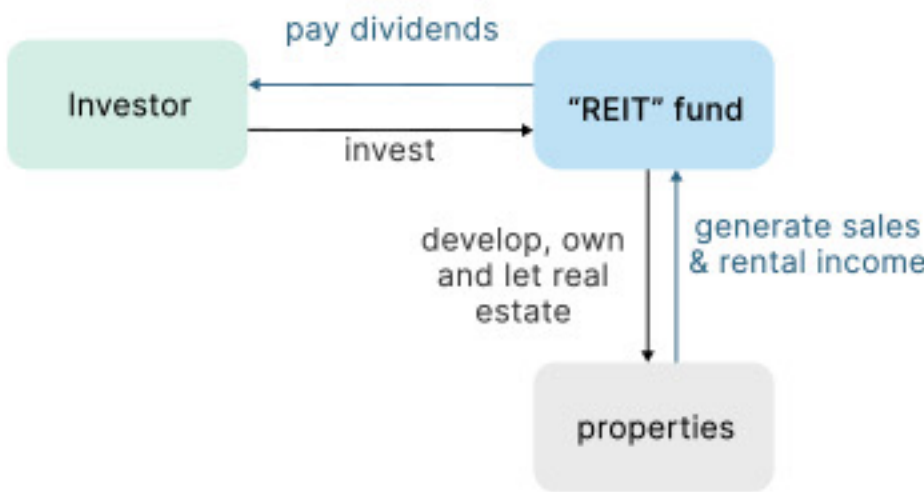
GLOBALLY APPROVED RE INVESTMENT TYPE:
 PRIVATE REAL ESTATE EQUITY FUND

International name: PRIVATE REAL ESTATE EQUITY FUNDS

Mostly traded within a restricted market, it is intended for accredited investors only and needs long-term investment. That's why these funds are usually used for **developing or renewing projects**.

By purchasing units of the fund, the investor becomes one of the fund's owners, but in a different sense, he also becomes the owner of the company that builds its own property.

How Do Private, Real Estate Equity Funds Work?



How Do Real Estate Investors Earn Dividends?

Tasks	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Construction of a new project						
Initial investment	-₮					
Earn rental income and distribute dividends	occupancy stabilization period	(+CF)	(+CF)	(+CF)	(+CF)	(+CF)
The Fund will sell its properties to earn sales revenue						
Return of initial investment						(+CF)
Distribution of additional sales profits						(+CF)

“ As it is not public or exchange-traded, investors cannot actively trade their units with each other, but there may be an additional condition that allows them to sell their units back to the fund sponsor.

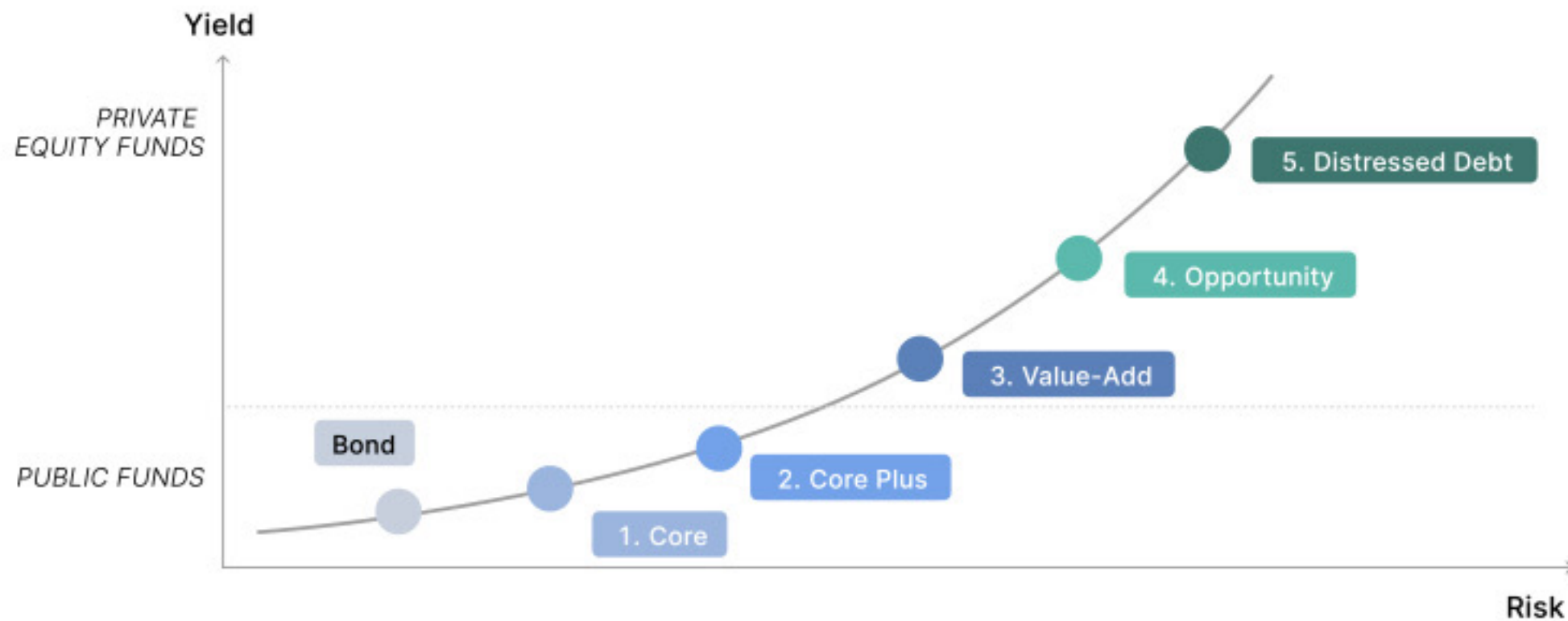
Currently, only private investment funds can own and invest in real estate in Mongolia. Since it is not possible to advertise to the public, securities companies reach out to accredited investors.

With the establishment of private real estate funds, project developers can provide the necessary financing at the beginning of the project, and professional investors have the opportunity to diversify their investment portfolio by including high-yielding real estate sectors.

MAIN 5 INVESTMENT STRATEGIES OF REAL ESTATE FUNDS

While there are many factors to take into account when setting up a fund, there are three key considerations needed to successfully establish the fund and efficiently raise capital from the investors. Those are;

- The first consideration is the **amount of equity** capital to be raised, including organizational fees.
- Second, sponsors must be realistic about the amount of time, energy and **seed funding required** to launch a fund.
- Third, sponsors must have a clear **investment fund strategy**, generally one of the five strategies outlined in the following figure.



“ It is the fund's policy to specialize in one specific type of real estate or focus on one location only, but the investment strategy is one of the five types expressed by the ratio of return and risk shown in the figure above.

Source: [“Creating a Private Equity Fund: A Guide for Real Estate Professionals”](#)

5 Types of Investment Strategies of Real Estate Investment Fund:

** Please note that the IRR below is in USD*

1. **Core.** This type of fund has the lowest risks/rewards. It typically offers 6 to 8 percent net equity IRR to LPs; no/low leverage; and well-occupied, stable, high-quality assets in primary markets and locations. The fund's returns are dominated by the annual income return, not appreciation.
2. **Core Plus:** This type of fund contains high-quality assets in secondary markets/ locations or slightly risky assets in primary markets/locations. It offers 8 to 12 percent net equity IRR to LPs. Moderate leverage — up to 50 percent — is employed to increase equity IRR. This fund offers a relatively high annual income return, with only a fraction of the returns coming from appreciation.
3. **Value-Add:** These funds contain assets improved via re-leasing, operational efficiencies and/or redevelopment; they also include new development. They employ moderate leverage, up to 70 percent. Market/location is secondary to the opportunity to add value. Appreciation is a significant part of the overall investment returns. These funds offer 11 to 15 percent net equity IRR to LPs.
4. **Opportunity:** These funds offer high risks/returns. They involve repositioning and redeveloping poorly operated, vacant or outdated buildings or investing in infill opportunities that others miss. Market/location is secondary to the opportunity. Appreciation dominates the returns, with much of the return occurring at the end of the holding period. These funds typically seek to offer more than 15 percent net equity IRR to LPs.
5. **Distressed Debt:** These funds purchase senior loans, mezzanine loans or nonrated commercial mortgage-backed securities (CMBS) tranches, or make mezzanine loans. They use leverage to increase equity IRR and are not averse to owning if loans default. They offer 8 to 12 percent net equity IRR to LPs, with some uncertainty about the timing of the cash flows.

Source: ["Creating a Private Equity Fund: A Guide for Real Estate Professionals"](#)

“ Calculating IRR

The IRR offered to the investors of the fund is the annualized percentage calculated from the sum of all the cash flows during the investment period.

Example: Fund IRR=10% means:

It does not necessarily mean that the fund will provide a constant 10% annual return in cash dividends each year.
(Scenario 1)

Scenario 1						
	2024/03/31 Year 0	2025/03/31 Year 1	2026/03/31 Year 2	2027/03/31 Year 3	2028/03/31 Year 4	2029/03/31 Year 5
Cash Flow	-₹ 500	₹ 50	₹ 50	₹ 50	₹ 50	₹ 550
Annual return	-	10%	10%	10%	10%	110%
IRR	<u>10.0%</u>					

You can set return expectations similar to Scenario 1 in the figure above for debt instruments or bonds, or on exchange-traded funds. It has low risk or low uncertainty, but with that comes limited returns.

However, even if the dividends are not constant each year, if you add up all of those cash flows and compare them to the original investment amount, it is estimated that the annual internal rate of return will be 10%.

(Scenario 2)

Scenario 2						
	2024/03/31 Year 0	2025/03/31 Year 1	2026/03/31 Year 2	2027/03/31 Year 3	2028/03/31 Year 4	2029/03/31 Year 5
Cash Flow	-₹ 500	₹ 20	₹ 80	₹ 300	₹ 0	₹ 307
Annual return	-	4%	16%	60%	0%	61%
IRR	<u>10.0%</u>					

Cash flows for private, equity funds are more similar to Scenario 2. Cash flow is not constant, the risk is relatively high, but it can generate high returns.



**Invescore Property:
Comprehensive Management
of Real Estate**

09

-
- **Business Operations**
 - **Available Offer for Individual Investors: Buy-to-Let Property with Existing Tenants**
 - **"What to Consider Before Buying a House" Article by Invescore Property**
 - **"Consumer Behaviour of House Buyers" Survey Findings by Invescore Property**

INVESCORE PROPERTY: COMPREHENSIVE MANAGEMENT OF REAL ESTATE

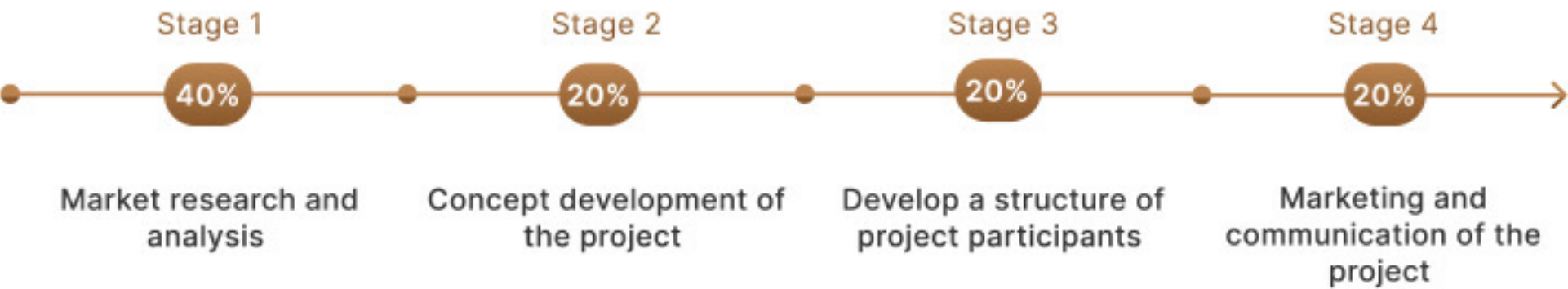
Developer • Manager • Investor

Invescore Property LLC is a subsidiary of “Invescore Financial Group” and was founded in 2017. It is currently operating in Ulaanbaatar with more than 80 employees. Expanding based on market demand and business opportunities, we are currently responsible for the comprehensive management of 3 office projects and 1 serviced apartment project in UB city.

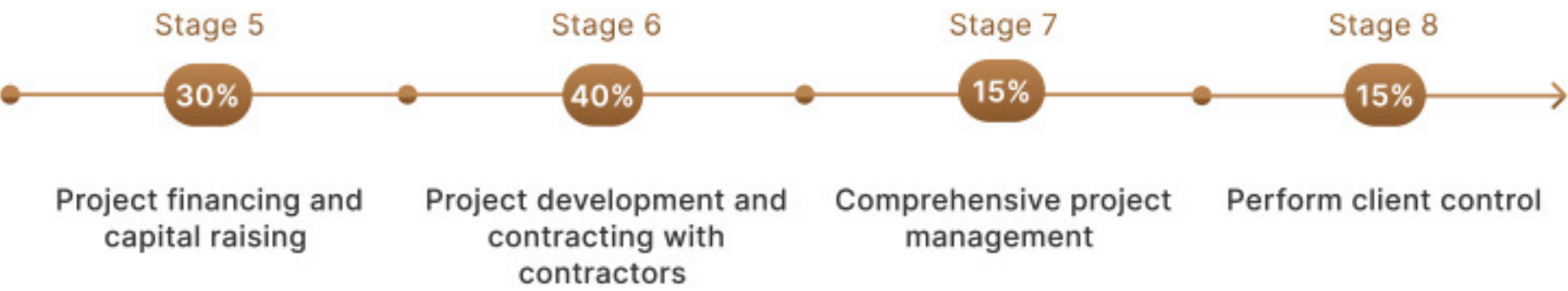
● BUSINESS OPERATIONS

We engage in and manage all stages of the product life cycle of our projects as a comprehensive, fully-integrated real estate management company.

I. PRE-DEVELOPMENT PHASE



II. DEVELOPMENT PHASE



III. POST-DEVELOPMENT PHASE



[Company's brief introduction](#)

- **AVAILABLE OFFER FOR INDIVIDUAL INVESTORS: BUY-TO-LET PROPERTY WITH EXISTING TENANTS**

1. "Ambassador Residence" Serviced-Apartment



Size of property for sale: Furnished 100.35 sq.m

Price for sale: US \$325,100

Annual rent: US \$19,700

Bedrooms: 1

Bathrooms: 1 /Separate bathroom/

Location : SBD, Embassy Street

Tenant: Moved in.

Furniture : Included in the sale price

2. "IC Tower" Office



Sales area: 135.60 sq.m

Selling price: US \$280,496

Annual rent: US \$21,000

Location: SBD, Parisian street

Tenant: Moved in.

Tenant Organization: Human Resources Service
Provider Company

Property Management: Invescore Property LLC

Commissioned: 2022

[What is BUY-TO-LET property?](#)

3. "Khoimor" Office



Sales area: 94 sq.m

Selling price: US \$102,294

Annual rent: US \$8,655

Location: SBD, Green Lake Street

Tenant: Moved in.

Property Management: Invescore Property LLC

Commissioned: 2017

[What is BUY-TO-LET property?](#)

● "WHAT TO CONSIDER BEFORE BUYING A HOUSE" ARTICLE BY INVESCORE PROPERTY

We offer the following advice to those who are planning to buy a house in Ulaanbaatar. It includes:

Location

Location is the most important factor when choosing to buy real estate in Ulaanbaatar and worldwide. Ulaanbaatar has 6 settlement zones. Choosing the best location for your lifestyle is essential, and this choice will probably become a daily part of your life for the next decade.

Therefore, it is recommended that you make your final choice by paying attention to the following points and comparing them with other options. But remember that it is not limited to this.

LOCATION

- Whether the air quality of the area is clean;
 - Take into account the time of travel to and from work and school;
 - The location should not be too steep or sloping;
 - Proximity to major roads, emergency services, and other services;
- Ulaanbaatar is the coldest capital in the world. Some parts of Ulaanbaatar are colder than others. Consider sunlight and wind direction;
 - Check out other upcoming developments near the house you are interested in. The future value of your home will depend on what is built next door to your home;

Infrastructure

Infrastructure is the backbone of any house. If a plumbing system fails or materials are damaged, it can make living uncomfortable. Moreover, inadequate heating and plumbing solutions can increase the owner's running costs and decrease the value of their investment. Therefore, ensuring that your home's infrastructure is in good condition is crucial.

INFRASTRUCTURE

Check that heating, water supply and sewerage are connected to the main distribution system or are likely to be further connected to centralized distribution.

Mongolia's severe winter conditions necessitate high-quality plumbing and insulation.

Verify that heating and piping solutions meet approved standards and are of high quality.

Many project developers have tried various heating solutions without much success.

The majority of projects are not connected to a centralized distribution system, so estimate the monthly costs associated with heating and electricity consumption.

It is also worth realistically predicting how much the cost may increase during the transition period when the government frees up the price ceiling on energy in the medium term.

Size

Living in a house provides personal space and roominess. However, when deciding on the size of your house, focus on something other than having a large foyer or lounge. The appropriate size depends on how frequently you and your family will utilize each area.

It's important to balance the benefits of a spacious living area with the associated heating and maintenance costs. Consider your needs carefully and realistically to determine the monthly bills.

Whether Your House Has a Negative Impact on the Environment

Sustainable homes are designed and built environmentally friendly, reducing their negative environmental impact. When making a choice, you can pay attention to the use of environmentally friendly materials, energy-efficient systems, and renewable energy sources. This solution not only takes care of the environment but also might reduce your monthly utility bills.

Growth in Future Value



Unique Advantages of Housing

Families moving from an apartment to a house expect to live close to nature and create a private space with an independent and separate backyard.

House projects in Ulaanbaatar city are sometimes planned without considering the residents' personal space. Pay attention to whether the boundary walls and fences between the houses and between the private areas of the families are planned correctly and aesthetically.

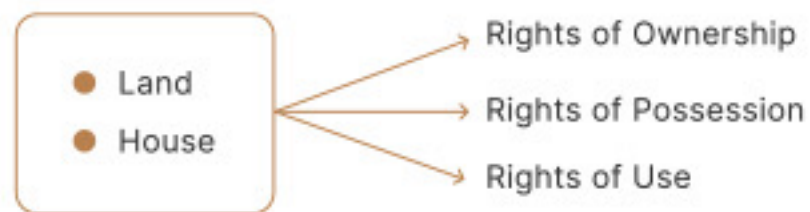
Real Estate + Land =
Generational Asset

Detached House =
Personal Space

Living as a Family in a
Clean, Congested, and
Pollution-Free
Environment

Property Rights

Check the legal status of the property, including land ownership and any legal restrictions. Make sure you have all the necessary permits for construction or alterations.



● “CONSUMER BEHAVIOUR OF HOUSE BUYERS” SURVEY FINDINGS BY INVESCORE PROPERTY

Invescore Property LLC has conducted a consumer behavior survey of more than 200 households, including target consumers who want to buy a house in November 2023 and is publishing the highlights and interesting parts of the survey results.

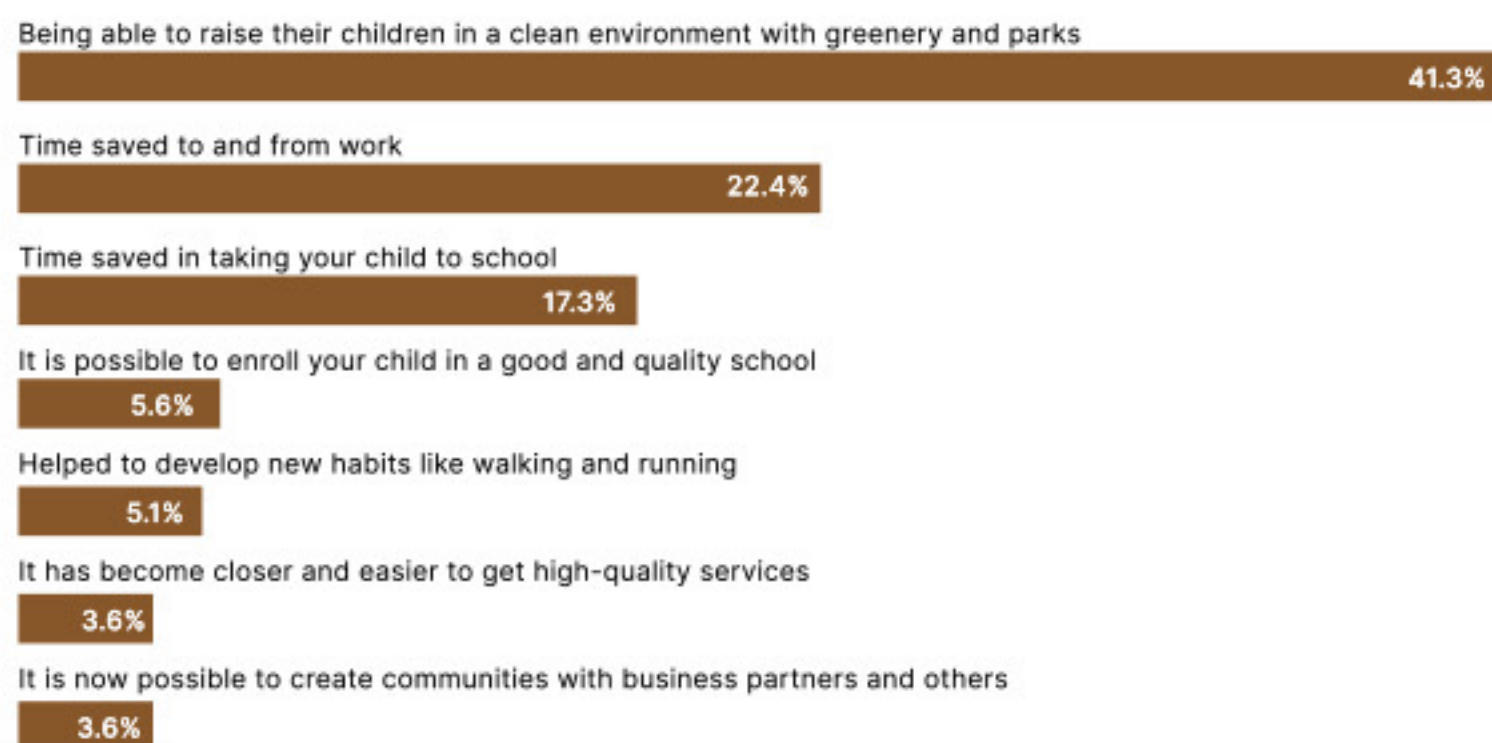
GENERAL

About 70% of the target households were families with 1-4 members and 1-2 children. Most of the apartments we live in now are 80-150 sq.m., 3-room apartments. Families usually have one car, and their children use private vehicles to go to school or walk. Monthly household income is up to ₹10 million.

COMMENT ON CURRENT HOUSING

They believed that "being able to raise their children in a clean environment with greenery and parks" is the most critical value of the apartment they live in now.

What Value Does Your Current Apartment Bring to You?

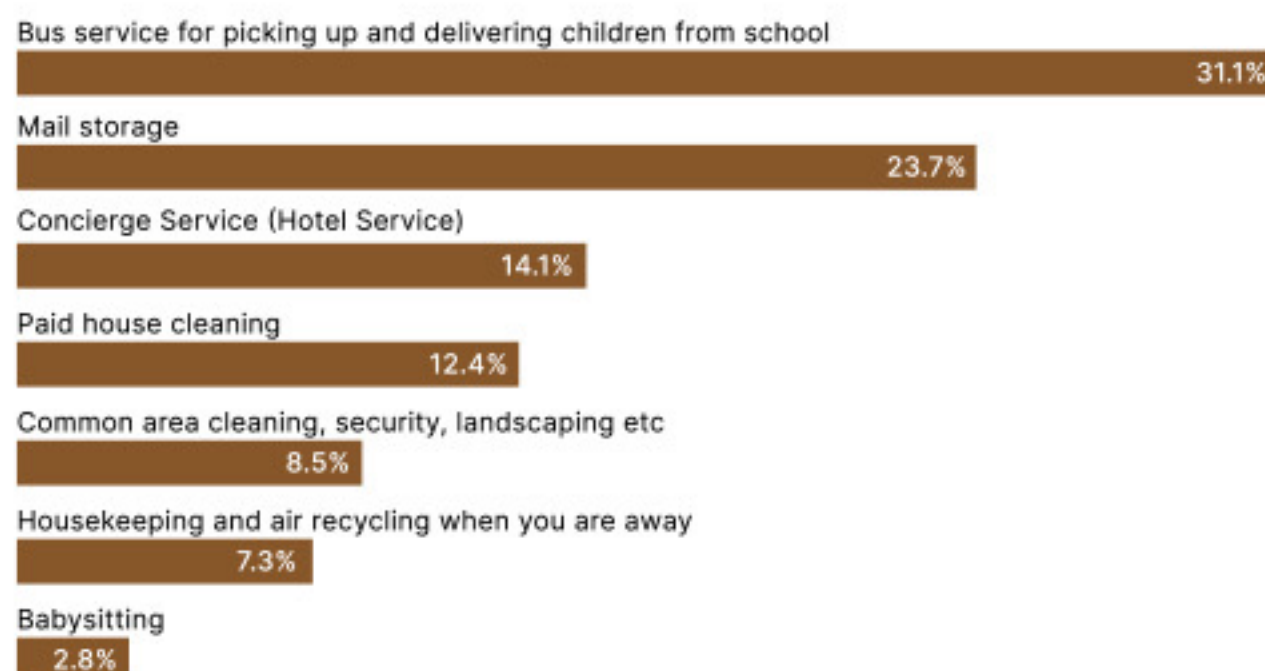


Source: "Identifying targeted customer behaviour" survey, Invescore Property LLC, 2023

“ Also, these residents expressed a real need for the HOA's next-level services beyond the main activities of the HOA such as maintenance, cleaning, and security of the residential building.

Specifically, the need for school buses for children, package and mail storage services, etc., shows that a professional property management company with legal entity rights is needed rather than the current form of HOA.

What Services Do You Need from Your HOA?



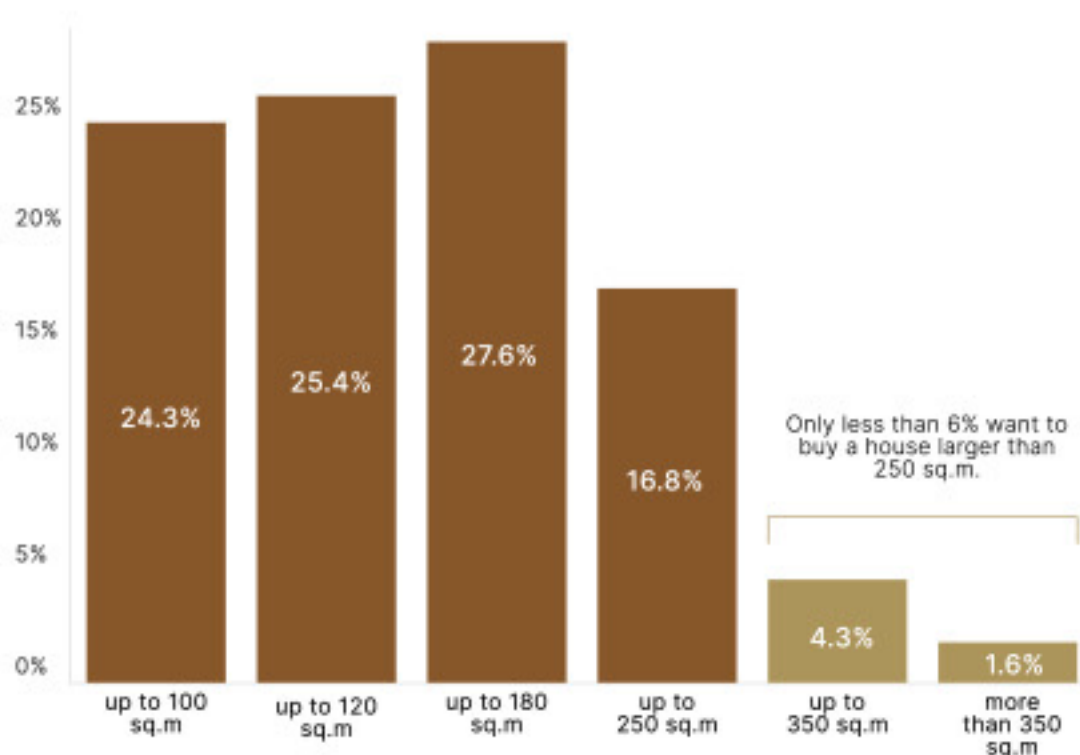
Source: "Identifying targeted customer behaviour" survey, Invescore Property LLC, 2023

REGARDING THE HOUSE TO BUY IN THE FUTURE

43% of the households participating in the survey answered that they would choose a house for their next real estate purchase, and 24% responded that they would choose a serviced apartment.

When choosing a house, the families preferred the location near Bogd Uul and Baga Tengeriin Am. Also, the majority of the respondents did not consider it suitable to have a house with an area of more than 250 square meters.

What Size House Is Right for Your Family?



Source: "Identifying targeted customer behaviour" survey, Invescore Property LLC, 2023

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