MONGOLIA

REAL ESTATE REPORT 2017





THE CIRCUS RESIDENCE

About

Circus Residence I is a mixed use development for middle-income residents located in the heart of Ulaanbaatar. The development comprises of 10,220 sqm of residential space and 1,946 sqm of luxury retail space, with average units sized at approximately 90 sqm. Based on current plans, the residential space will comprise approximately 74% of total GSA, with retail space comprising 14% and parking, 12%. The site is immediately adjacent to two of the best public schools in Ulaanbaatar. The Group is cwurrently awaiting final permit approvals and construction is due to commence in March 2017.

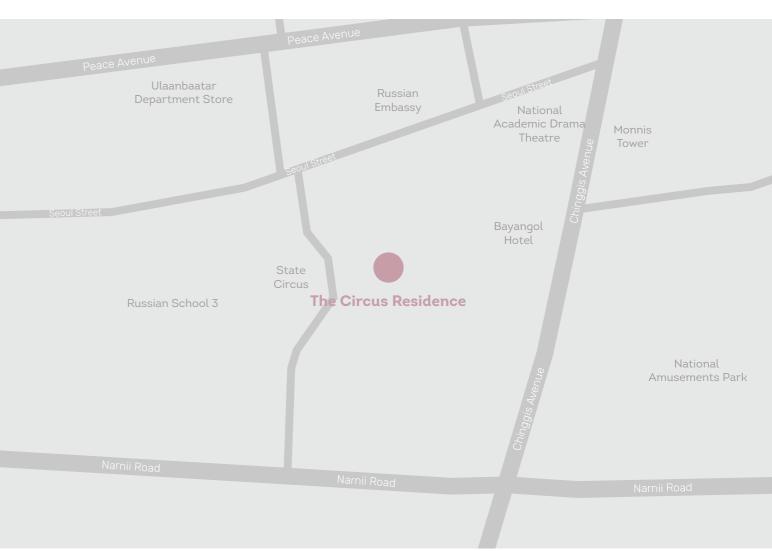
If you are interested in the Circus Residence, please feel free to contact us at the following:





PREMIUM MIXED-USE DEVELOPMENT IN THE HEART OF ULAANBAATAR





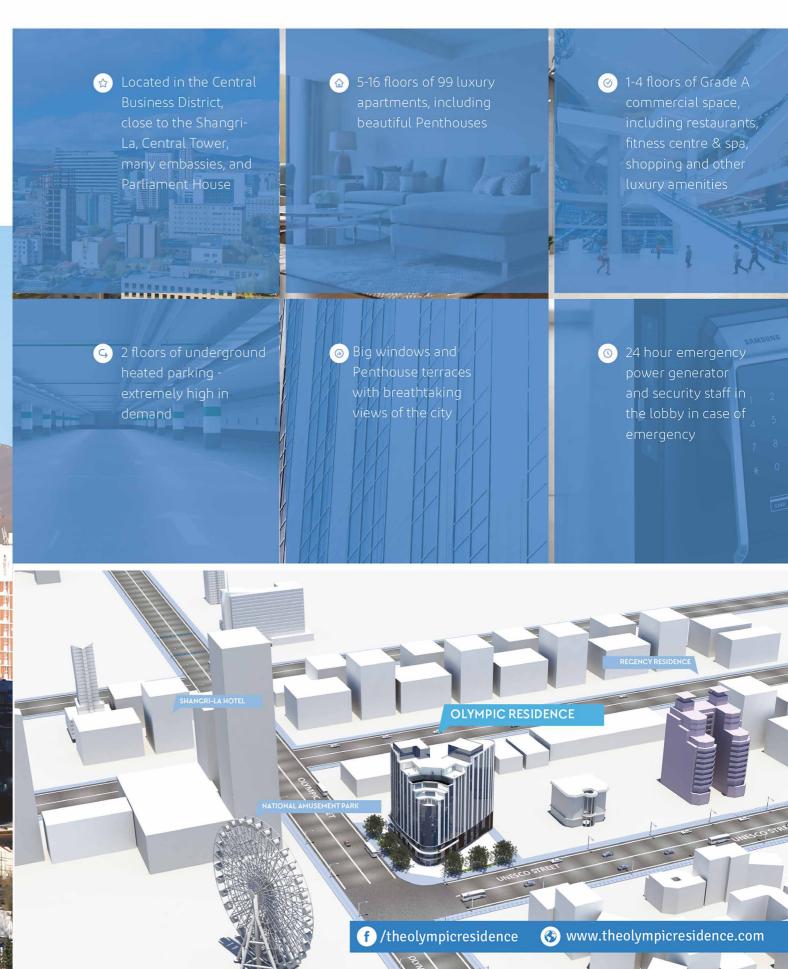
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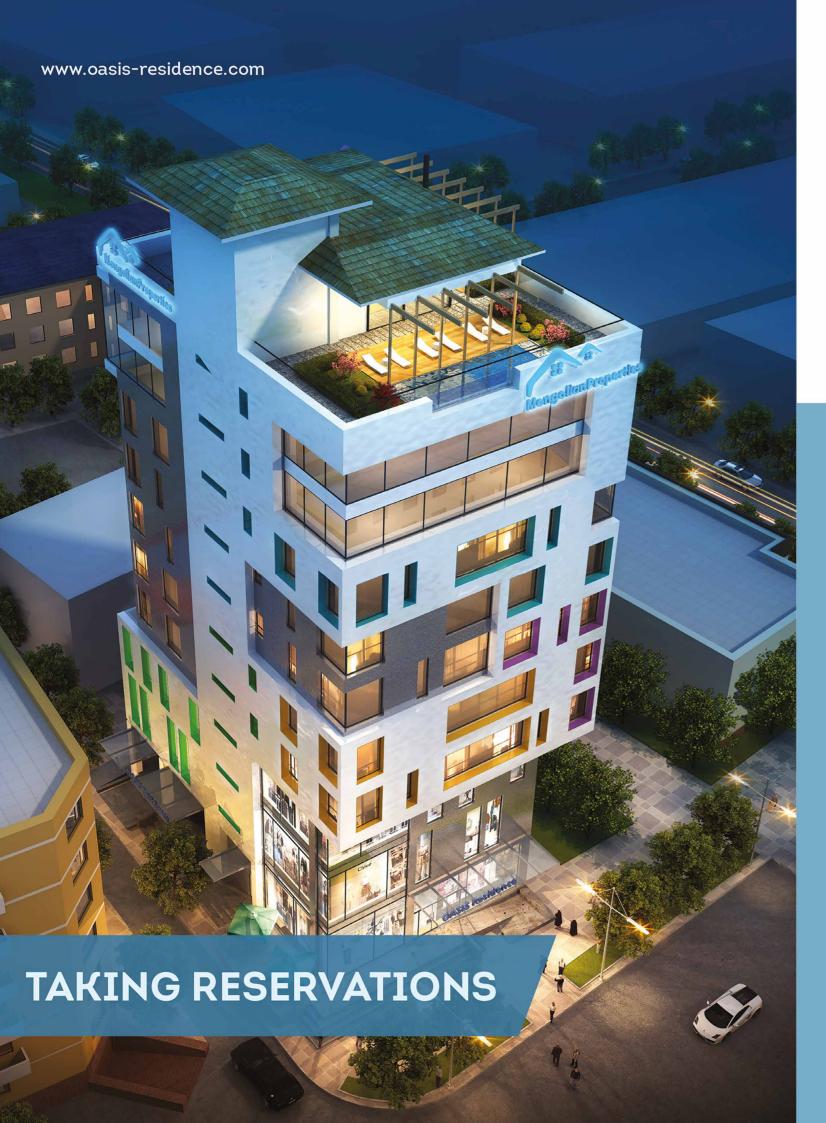
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Define your lifestyle by living in an award-winning property in a central location with stunning architecture and unparalleled view of the city and Bogd Khaan mountains for your infinite pleasure.

THE OLYMPIC RESIDENCE FEATURES:









Oasis Residence is a middle-income residential development located in the heart of Ulaanbaatar's entertainment district. The development will have three floors of retail space (comprising approximately 720 sqm in GSA and approximately 26% of total GSA), six floors of residential apartments (comprising 18 apartments and approximately 1,787 sqm of residential GSA and approximately 64% of total GSA) and will provide underground parking (comprising approximately 280 sqm of GSA and approximately 10% of total GSA), an attended lobby and security.

If you are interested in the Oasis Residence, please feel free to contact us at the following:

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Web: www.oasis-residence.com

Ulaanbaatar MONGOLIA Cambodia

MONGOLIA COUNTRY DATA

Country Background	
Capital city	Ulaanbaatar
Currency	Tugrik
Language	Mongolian
Population	3.0 million (Word Bank, 2016)
Land Area	1,564,110 km²
Government Type	Parliamentary Republic
Legislature	Unicameral 76 seats
President	Kh. Battulga
Prime Minister	J. Erdenebat

Economic Indicators	
GDP	11.0 billion US\$ current prices (World Bank, 2016)
GDP Growth	1% (World Bank, 2016)
GDP Per Capita	3,650 US\$ (World Bank, 2016)
Foreign Direct Investment	94 million US\$ (World Bank, 2015)
Total Reserves	1.32 billion US\$ (World Bank, 2015)
Main Imports	Petroleum, Cars, Electricity, Flour
Main Exports	Copper, Coal, Crude oil, Iron ore, Zinc, Gold
Imports of Goods & Services (% of GDP)	44.7% (World Bank, 2015)
Number of Tourists	404,000 (World Bank, 2016)
Consumer Prices Inflation	0.5% (World Bank, 2016)
US\$ Exchange Rate	2,401 MN₹ per US\$ (Bank of Mongolia, Jun 04, 2017)

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THOUGHTS FROM THE CEO

Dear Reader.

It is a pleasure to present our annual Mongolian real estate report. After economic turbulence, the country is repositioning, rebuilding and laying the foundations for growth. A widely welcomed IMF package was announced in February 2017 and the markets responded positively. Mongolian government bonds are keenly priced and an expansion in land available for mining, is leading observers to suggest eight percent growth in the coming years.

People were tense in the run-up to the IMF deal. Public finances were in poor shape and to deliver promises – and preside over economic growth – Mongolia needed to draw on the support of its partners. Its success in fulfilling obligations, however, has led to a substantial package of nearly US\$3.5bn.¹ The government's adept achievement of a supplementary 2017 budget, restraint of central bank quasi-fiscal activities, and review of assets held by major financial institutions, is encouraging.

Asides the importance of the IMF package, there is a sense Mongolia is moving from the doldrums toward a brighter economic future. The country relies on the performance of key commodities, in particular, coal, gold and copper. In the first quarter of 2017, the value of Mongolian coal exports increased over 445%.² More importantly, all Mongolian mineral exports increased 58% in the same period, when compared with the previous year.³ This has led to a nearly 46% increase in the foreign trade surplus.⁴

Mongolia's future in mining does not end there, though. The Mining Ministry recently announced the country will be more than doubling the amount of land available for exploration.⁵ For a nation with an extraordinary mineral endowment, this opens up vast coal reserves, estimated to be the fifteenth largest in the world, not even to mention other commodities lain under the ground.

But, in order to fulfil Mongolia's full economic potential, it is crucial to at last move to facilitate and invest in infrastructure. In the last boom, good strides were made linking the country through its main arterial roads. Whilst more still needs to be done in that crucial area, all eyes now turn to rail. Government must re–affirm its support for the Tavan Tolgoi railway, and do all possible to assist the Chinese in their 'One Belt, One Road', (OBOR) initiative.

OBOR is exciting for Mongolia. Designed to increase the passage of freight from China to Europe (transiting Mongolia), there was a significant increase in trade along this route in January and February 2017, and the Chinese are ambitious for further investment. At a recent conference in Beijing, President Xi Jinping, welcomed Mongolian active

participation, and the government in Ulaanbaatar responded by suggesting the passage of freight trains could increase over two fold between 2016 and 2017.6

Alongside infrastructure, there must be movement toward a more balanced economy. This topic has long since occupied spectators, columnists and captains of industry, but now, it really feels like progress is being made. Whether European Bank for Reconstruction and Development (EBRD) support for wind power and agro-business, Russian cooperation on renewable energy, Indian talks on uranium, or the oil refinery at Sainshand. These may not yield significant tax receipts immediately, but they show a welcome degree of proactivity.

In our specialist area, real estate, things are heating up. The market seems to have bottomed out, and those holding assets in the bad years, or refraining from acquisitions, are returning to market. Our management business reports nearly 100% occupancy in a number of city center buildings, and waiting lists for the very best. We have now sold all but a handful of units in our flagship development, the Olympic Residence, and will move to fully complete later in 2017. In retail, units long left empty, are filling up, the land market is seeing more transactions, and a return of multinationals to Ulaanbaatar, should herald better demand and less voids in the city's office towers.

In all, though institutions are still pointing to relatively muted growth in 2017, the tide certainly feels to have turned. This is felt on the ground, but also affirmed by international observers. Moody's has confirmed a CAA1 rating and a stable outlook. Fitch believes financing risks are for now attenuated. Maverick Philippine President, Rodrigo Duterte, has even suggested the country could join the Association of Southeast Asian Nations (ASEAN). Whether it takes until 2019 to reach eight percent growth, or whether as we believe, it comes sooner, Mongolia is soon to re-occupy its place as one of the fastest growing economies in the world.

I very much hope you enjoy our analysis and look forward to assisting you as you navigate the Mongolian market.

Faithfully



Le M Cashell

Lee M Cashell
Chief Executive Officer
Asia Pacific Investment Partners & Mongolian Properties

- 1 IMF (2017)
- 2 National Statitics Office of Mongolia (2017)
- 3 Ibid
- 4 Ibid
- 5 Reuters (2017)

- 6 UB Post (2017)
- 7 Moody's (2017)/ Fitch (2017)
- 8 ABS-CBN (2017)

ABOUT US

About APIP www.apip.com

Asia Pacific Investment Partners (APIP) is a research-driven emerging and frontier markets real estate business. With a strong property development track record in Mongolia, the company was co-founded in 2001 by Lee Cashell, Chairman and CEO, and Tsendsuren Bordukh, President.

Real estate development is the group's principal business. To date APIP, has focused on luxury and middle-income residential properties, as well as mixed used developments in Ulaanbaatar, Mongolia. We have completed approximately 53,000 sqm of gross floor area (GFA) across five developments in the city. The group currently has approximately 38,000 sqm in GFA, under construction on one site. In addition, the group owns through land-use or land-possession rights, a substantial land bank of eight lots in prime locations in and around Ulaanbaatar, on which the directors believe over 450,000 sqm in GFA can be built.

- f www.facebook.com/apipcorp
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About Mongolian Properties – a subsidiary of APIP

www.mongolia-properties.com

Founded in 2001, Mongolian Properties (MP) is one of the largest real estate agencies in Mongolia, with offices in Ulaanbaatar and approximately fifty employees. The agency provides the group with valuable market intelligence for land acquisition and project planning, as well as a sales and leasing platform used to market developments.

MP provides a full suite of after-sale property management services. These include leasing, valuations, interior design, furnishing and maintenance. Additionally, we are able to offer a managed property rental service. Clients tend to be a mixture of local owner occupiers, overseas relocation companies, corporates and diplomatic missions looking to house expatriate staff. We are also able to offer short and long term rentals, real estate sales and purchase, research, consulting, legal, architectural and construction assistance.

MP develops landmark properties in Ulaanbaatar as a part of APIP. Notable completions include Park View Residence (2007), Temple View Residence (2010), Regency Residence (2010) and The Village @ Nukht (2014). The Olympic Residence is shortly due for completion, and Circus Residence I, II and III will complete in 2018 and 2019, together with Park Place in 2020.

As a leading developer in Mongolia, we have won awards for our projects and are well known for providing high quality services. MP won the "Highly Commended Real Estate Agency in Mongolia" from Asia Pacific Property Awards in 2013, the "Best Real Estate Agency of 2010–2015" from Forbes Mongolia in 2016, and "The Entrepreneur" award in the real estate field from the Mongolian National Chamber of Commerce and Industry in 2016.

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CAREERS - Join Our Team

Investment in education and training is imperative for Mongolian Properties LLC. We believe that the suitability of an applicant cannot be evaluated solely on the basis of examination grades and a written application. The personal impression of the individual behind the papers is essential in order to make an adequate evaluation.

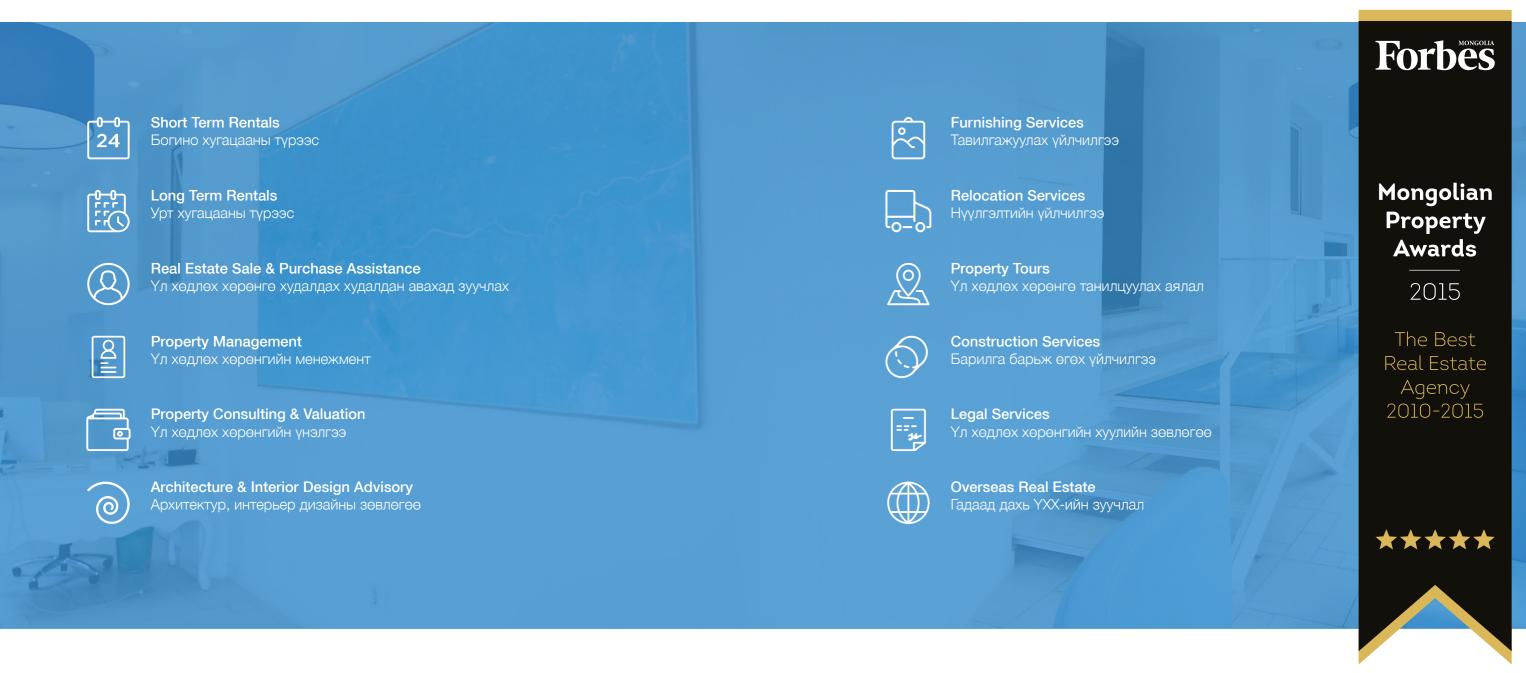
Anybody, who has the qualification that is formally required for a certain position (i.e.: Real Estate Agent), can expect to be invited to a personal interview with us. To join our team, please send your CV to hr@apipcorp.com







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TOP 5 REASONS TO INVEST IN PROPERTY IN MONGOLIA

1. Mongolia's economy grew at an average 7.7% per annum in the past decade and is expected to reach 8% by 2019¹

In 2009, the government of Mongolia signed an investment agreement with Oyu Tolgoi mine, leading, in part, to a growth rate of 17.3% in 2011.² The second phase of the investment agreement was signed in December 2015 with Rio Tinto, with an additional US\$ 4.4 billion to finance the underground operations at the mine.³ The deal is encouraging for Mongolia's economic prospects since Oyu Tolgoi is expected to produce up to 30% of its annual Gross Domestic Product (GDP) once it reaches full production capacity in 2021.⁴

to 30% of its annual Gross Domestic Product (GDP) once it reaches full production capacity in 2021

Mongolia has a small, but growing,

nouveau riche, and an entrepreneurial





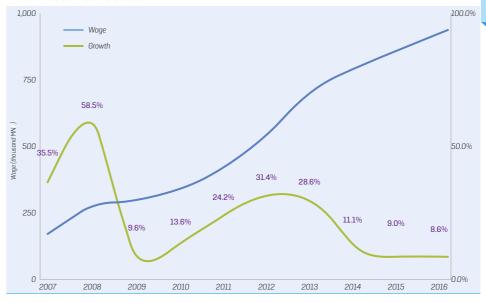
Source: World Bank

2. Continued demand for real estate

GDP growth has dramatically increased the purchasing power of locals with incomes increasing over eightfold in the past decade.⁵ Mongolia has a small, but growing, nouveau riche, and an entrepreneurial and political class, demanding international–standard, luxury accommodation. Wages have kept pace with overall GDP growth and mortgage penetration in Ulaanbaatar is only 17.2%, and 10.2% nationwide.⁶ Therefore, expected macroeconomic growth, together with the continuation of the government mortgage program, should sustain demand for residential apartments in Ulaanbaatar in the near term.

- 1 IMF (2017)
- 2 World Bank (2017)
- 3 Turquoise Hill Resources (2017)
- 4 Economist (2012)
- 5 National Statistics Office of Mongolia (2017)
- 6 Ibid

Broad Based Income Growth



Source: National Statistics Office of Mongolia

3. MONGOLIA HAS STRONG PROPERTY RIGHTS AND AN APPEALING TAX SYSTEM

Mongolian property laws are comprehensive and well-drafted with excellent protection of title and ownership rights. Employing a 'floating freehold' system, the constitution and other major laws provide both foreign and Mongolian citizens with inalienable freehold rights to immovable property. There is no distinction between local and domestic purchasers in the legal system in terms of property rights.

Additionally, in an effort to attract and sustain the inflow of foreign capital into the country, the Mongolian government has implemented one of the most generous foreign investor tax regimes in the world. This benign and simple system creates an organic environment for business to grow. The rates of taxation in Mongolia are some of the lowest in Asia. The following four taxes are applicable to property purchases:

Type of Tax	
Personal Income Tax	10-25%
Withholding Tax	2%
Immovable Property Tax	0.6% - 1%
Capital Gains Tax	0%

Source: Mongolian Properties

4. COMPARED TO OTHER EMERGING MARKETS, MONGOLIAN REAL ESTATE IS COMPETITIVE IN TERMS OF RENTAL YIELD AND AFFORDABILITY

As the political and economic capital of Mongolia, Ulaanbaatar is expanding fast. Unlike peer cities in Asia, however, capital prices are competitive, and rental yields, high. With a growing number of expatriates in the city on a temporary basis, the leasing market is buoyant for high-end units.

There is no distinction between local a domestic purchasers in the legal syste a terms of property rights

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Luxury Residential Price & Yield Ranking

S35,000

S25,000

S25,000

S15,000

S10,000

S10,00

Source: CBRE & APIP

With a democratic political system, Mongolia is arguably the most stable

5. MONGOLIA IS DEMOCRATIC AND POLITICALLY STABLE

With a democratic political system, Mongolia is arguably the most stable state in Central Asia. In order to attract foreign investment, the government has adopted best-in-class legislation, to create a favorable business environment. As a result, the country continues to advance in all international institutional surveys and studies as shown in the table below. The one exception, is the 'Doing Business Report' from the World Bank, where corporate disputes with government in recent years may have adversely affected the score. We hope this will improve next year, as the new government is showing itself receptive to international investment.

Measure	Previous	New	Change
Transparency International "Corruption Perceptions Index"	80	72	-8
World Bank "Doing Business Report"	56	64	+8
United Nations "Human Development Index"	95	90	-5
The Economist "Democracy Index"	63	61	-2
World Economic Forum "Global Competitiveness"	104	102	-2

Source: Public Filings



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HOW TO BUY A PROPERTY IN UB



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Your real estate agent is your window into the property market in Mongolia. A knowledgeable and experienced real estate agent should be able to find multiple solutions to your needs in a timely manner and negotiate the best price on your behalf.



Think About What You're Looking For

Be sure to speak with your agent about your individual property needs. Will it be for an investment, or do you plan to live in the property? What is your budget? Will you be living alone, or with your family? All of these questions are important to consider before looking for a property.



See the Property

It is important to check whether the building is connected to the central heating, water and sewage system. If it is not connected, think about how much it will cost you in long term, i.e.: your electricity fee will skyrocket to heat your apartment in winter.



Check the Certificate

Every apartment owner has an "Immoveable Property Ownership Certificate", which serves as a proof of ownership. Your real estate agent can check the certificate to ensure that it is genuine and that the owner is credible. This process should take no more than one or two days.



Sign the Sales and Purchase Agreement

Once you've made all the necessary arrangements with the owner, both seller and purchaser will go to a notary office in a district in which the property is located. For instance, if the property is located in Sukhbaatar district then the "Purchase agreement" must be notarized within the same district's notary office. Both parties are required to bring their passports and the original "Immovable Property Ownership Certificate". Notary fees are generally around MN $\mp 10,000 - MN \mp 300,000$ (US\$5 - US\$150) depending on the property value.

Costs related to the notarization of the contract and registration to the District's Immovable Property Registration Office must be paid by the Buyer. Notary will draw up a standard contract, which will then be stamped and signed by both seller and purchaser. After you sign the contract, you are expected to pay the outstanding balance in accordance to your contract to receive the certificate.

Brought to you by MongolianProperties



Paying Property Sales Tax of 2%

After signing the Sales and Purchase agreement, the Seller must pay the property sales tax equivalent to 2% of the property value and the receipt will be needed later when submitting documents to the District Immoveable Property Registration Office to apply for the ownership transfer and obtain the new ownership certificate.



Changing Ownership

Once the property sales tax has been paid, go with your agent to the District Immoveable Property Registration Office, where your agent will assist you in filling out the form for ownership transfer and new ownership certificate. Obtaining a new certificate normally takes three to five working days to process and the following basic documents are required:

- Notarized passports' copies
- · Copy of Sales and Purchase Agreement
- Bank receipt that proves you have paid the Property Sales Tax of 2%
- · Fee receipt (urgent MN₹ 40,000 and regular fee MN₹ 20,000)
- Application form (your agent will assist with this)



Paying the Agency Fee

Most Real Estate agencies do not charge buyers or tenants. In most transactions, the lessor or the seller pays commissions and/or fees.





Once the certificate is filed, the current tenant of your new property is allowed approximately one week to move out. Withhold a small amount of money on your final payment until you can conduct a thorough inspection of the property on the day of moving in to insure against any unforeseen property damages. Once you have checked the apartment and have been given the keys, you may pay the remaining amount.



Changing the Locks

The first thing that should always be done when you move into a property is to change all the locks.

HOW TO RENT A PROPERTY IN UB



Find an Experienced Real Estate Agent - visit Mongolian Properties!

Your real estate agent is your window into the property market in Mongolia. A knowledgeable and experienced real estate agent should be able to find multiple solutions to your needs in a timely manner and negotiate the best price on your behalf.

Also, using a professional real estate agency would save you from being scammed. For instance, the person you are speaking to might not have the authority and full right to rent the apartment, so always make sure you work with a trusted advisor.

Think About What You're Looking For



Be sure to speak with your agent about your individual property needs. Will it be for an investment, or do you plan to live in the property? What is your budget? Will you be living alone, or with your family? All of these questions are important to consider before looking for a property.

See the Property



It is important to check whether the building is connected to the central heating, water and sewage system. If it is not connected, think about how much it will cost you in long term, i.e.: your electricity fee will skyrocket to heat your apartment in winter.

Check the Certificate



Every apartment owner has an "Immoveable Property Ownership Certificate", which serves as a proof of ownership. Your real estate agent can check the certificate to ensure that it is genuine and that the owner is credible. This process should take no more than one or two days.

Sign the Rental Agreement



Rents are quoted in MNT, as US\$ quoted contracts are illegal in Mongolia and are payable monthly in advance and the typical rent deposit is one month gross rent payable by the tenant together with the first month rent, before moving in. The responsibility for utility fees is open to negotiation.



Paying the Agency Fee

Most Real Estate agencies do not charge buyers or tenants. In most transactions, the lessor or the seller pays commissions and/or fees.

Moving In



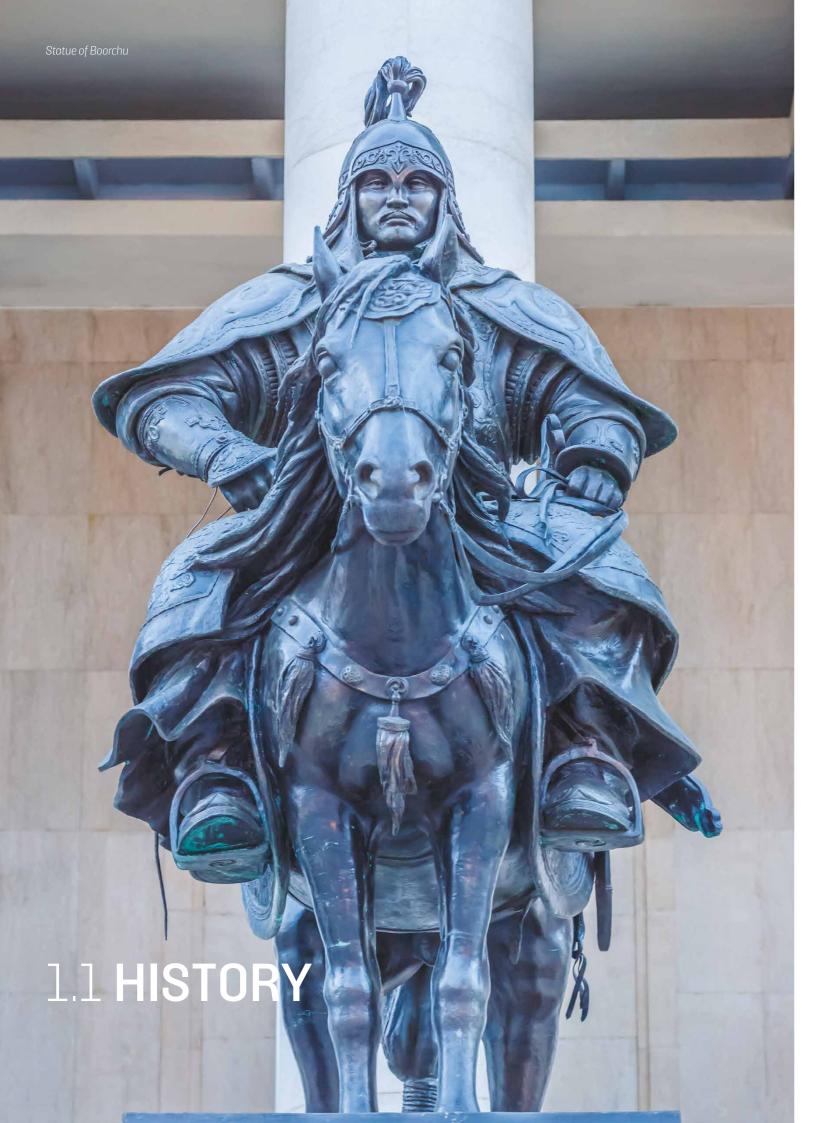
Once you signed the contract, make sure you check whether all the furnitures and the property itself is in good condition, as later it might cause a problem later on. If you find anything wrong with the apartment, please make sure to document it on the contract and take a picture of it as an evidence.



Disposal of leases

Early termination by the tenant is subject to landlord's approval, with one month written notice and subject to penalty payment. Damage cost will be deducted from the deposit.





EXECUTIVE SUMMARY

Mongolia's most famous leader, Chinggis Khan, founded the Mongol Empire in 1206. At its peak, it stretched from modern day Iraq to the Korean peninsula. Though brutal on the battlefield, he was an admired leader in the civil realm, promoting trade, technology, and religious tolerance, contributing to a period of political stability. Mongolia fell under the control of the Qing dynasty at the end of the 17th century, and remained in this state until the early 20th. In 1911, Mongolia was absorbed by the Soviet empire, becoming the second communist nation in the world, and the first in Asia. During the Perestroika time of the Soviet Union, Mongolia's only ruling party stepped down, and democratic elections were held later the same year. Since 1990, Mongolia has embraced democratic ideals and free market principles.

democratic ideals and free market principles

1.1.1 HISTORY OF MONGOLIA

The territory of modern day Mongolia has been occupied by human inhabitants since the Paleolithic era. Archeological evidence indicates agricultural practices arrived as early as 5,000 BC. With the introduction of the horse in the third millennium BC, prehistoric Mongolia underwent a major revolution. Horse dependent pastoral nomadism rapidly became the primary mode of existence in the region and has remained so in the modern era.

At various points in history, the nomads of Central Asia have united to form prominent warlike confederations, usually centered around a great chieftain or warlord. The first of these formed the Hunnu Empire, brought together by Modun Shanyu in 209 BC. This soon emerged as the greatest threat to the Qin Dynasty, forcing the latter to construct the Great Wall of China. The Hunnu Empire, lasting from 209 BC to 93 AD stretched from Manchuria to Lake Baikal in the east and stretched south as far as today's Inner Mongolia and northwestern China. As the Hunnu weakened, the Xianbei (93 - 234), a nomadic tribe from eastern Mongolia and Manchuria took control of Hunnu lands and resumed assaults, forcing the collapse of Han Dynasty and leading to the unification of China in 220 AD. The Rouran Empire ruled an even larger area during 330 - 555 before being defeated by the Turkic Khanate (555 - 745). They were followed by the Uyghur Khaganate (745 - 840) and the Kyrgyz. The Khitan Empire (906 - 1125) controlled what constitutes current Mongolia, portions of Russia, northern Korea and North China.

Chinggis Khan is known as the founding father of Mongolia since he conquered and united the Mongols in 1206. He is celebrated for his wisdom and civilizing influence. Chinggis and his warriors eventually came to rule over an empire that at its peak extended from modern day Iraq to the Korean peninsula. Chinggis and his descendants rarely receive credit for their non-military accomplishments. For example, once established, the Mongolian empire and the descendent Yuan Chinese dynasty, fostered trade and technology while promoting religious tolerance, resulting in a period of political and economic stability. During this period, merchants could safely travel the Silk Road from Baghdad to Beijing without fear of pillage or robbery. The security offered by the Mongol Empire fostered an unprecedented era of cultural interaction between East and West, allowing technology and ideas to flow between the two, promoting innovation that paved the way for the enlightenment.

The Khitan Empire (906 – 1125) controlled what constitutes current Mongolia, portions of Russia, northern Korea and North China

Chinggis and his warriors eventually came to rule over an empire that at its peak extended from modern day Iraq to the Korean peninsula

1.1 HISTORY

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Mongol Empire

Chinggis Khan's grandson, Khubilai Khan, conquered China and established the Yuan Dynasty. Shortly after the collapse of the Yuan Dynasty in the 14th century, the Mongols retreated to Mongolia. From the 16th century, Tibetan Buddhism spread across Mongolia, thanks to the Manchurian Qing Dynasty. Shortly after, Mongolia came under the domination of the Qing Dynasty in 1691.

After the collapse of the Qing Dynasty in 1911, Mongolia declared independence under Bogd Khaan. Although, until the 1921 revolution, the de facto independence of Mongolia was not firmly established. Mongolia came under the strong influence of the Soviet Union, and in 1924, the Mongolian People's Republic was declared.



Mongolia under Soviet rule in the early 20th century

For close to seventy years, the country was dominated by Moscow. The 1989 Democratic Revolution led a peaceful shift to a market economy and marked the end of Soviet rule. Before Soviet rule, many Mongolian people were illiterate nomadic herders, and a large part of the male labour force was composed of monks, contributing little to the economy. In 1931, a centrally planned system saw the construction of the Trans–Mongolian Railway, the improvement of communication systems and substantial growth in domestic and foreign trade. Banking and finance sectors were developed, and industrial centers were built in Baganuur, Choibalsan, Darkhan and Erdenet.

1.1.2 MODERN DAY MONGOLIA

On December 10th, 1989 (International Human Rights Day), a small crowd of around two hundred political dissidents began protesting in front of the government palace on Sukhbaatar Square. Slowly but surely, Mongolians from all walks of life began traveling to the capital to gather in political opposition to the regime. What started as a small peaceful protest eventually became too large to ignore and on March 9th, 1990, Mongolia's ruling communist party quietly stepped down. This outcome was a result of pressure from Moscow and a desire to avoid repeating the Tiananmen Square atrocities that had shaken Beijing the previous year.

Unlike most other former Soviet satellite states, Mongolia's democratic revolution was uncharacteristically peaceful. No military conflicts took place and no blood was shed. Historically, the literacy rate and gender equality have been two strong determinants of success in transitioning to a free market oriented democracy — and Mongolia's level of education was very high. Mongolia entered a new political era with its considerable human, social and intellectual capital intact — a fact that would prove useful during the challenging years to come.



Protests outside parliament circa 1990

Unfortunately, Mongolia's economic system did not pass through the transition as easily as its political system. Already one of the poorest nations in the world, the withdrawal of Soviet subsidies caused Mongolia's GDP to decline by more than 20%. Rampant inflation set in and there were severe food shortages that required state managed rationing. It took Mongolia nearly eight years to return to its pre-independence levels of economic activity.

During the lean years of the 1990s, Mongolia frequently relied on financial support from multilateral organizations, primarily the IMF and World Bank. In exchange, Mongolia embraced many of the best practices of the Washington Consensus–era, including legal and institutional frameworks espoused by technical experts and economists. As a result, Mongolia's current legal and tax code are surprisingly pro–business and forward looking.

Mongolia entered a new political era with its considerable human, social and intellectual capital intact

The withdrawal of Soviet subsidies caused Mongolia's GDP to decline by more than 20%

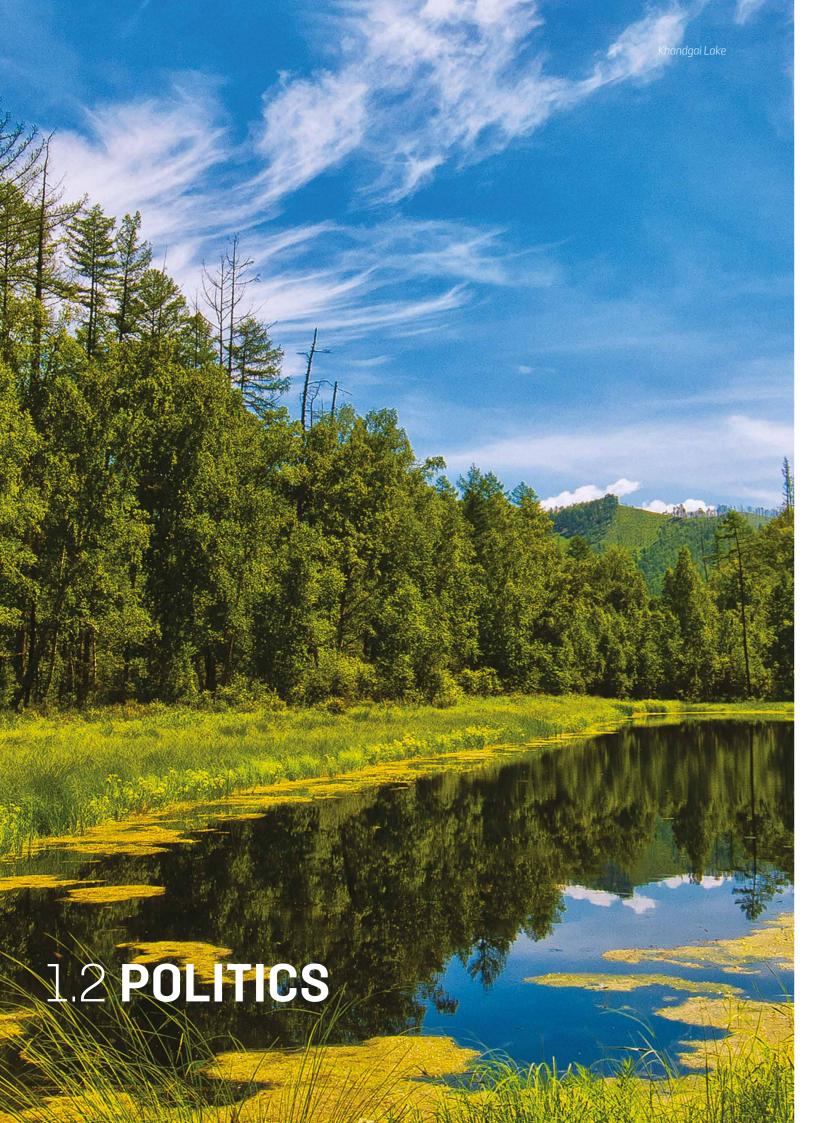
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1924, the Mongolian People's Republic

Mongolia came under the strong

was declared

In 1931, a centrally planned system saw the construction of the Trans-Mongolian Railway, the improvement of communication systems and substantial growth in domestic and foreign trade



EXECUTIVE SUMMARY

Mongolia is a parliamentary republic with elections for the executive and legislature held every four years. The majority party in the unicameral system selects the prime minister, and the president is elected directly by the public. The Ikh Khural, or Parliament of Mongolia, is made up of 76 members. Mongolia's largest political parties have relatively similar political platforms and ideology, meaning parliament rarely suffers paralysis. The main political parties of Mongolia are the Mongolian People's Party (MPP), the Mongolian People's Revolutionary Party (MPRP) and the Democratic Party (DP).

The 2008 parliamentary elections were followed by accusations of corruption, which led to violence and protests. As a result, the MPRP's (current MPP) official headquarters were burnt down. Just months after the political crisis, the government completed negotiations on an agreement with Rio Tinto to develop the mine at Oyu Tolgoi. The 2012 parliamentary elections passed without incident and saw the DP take control of the Ikh Khural. The 2013 presidential elections saw DP candidate and incumbent Tsakhiagiin Elbegdorj win with 50.23% of the vote. As the election cycle came to a head, heated populist political rhetoric was employed in order to win votes. Much of this rhetoric was directed towards the Foreign Direct Investment (FDI)–powered flagship Oyu Tolgoi mine. Since the election, Mongolia changed its tune and attempted to appease foreign investors by revoking the controversial Strategic Entities Foreign Investment Law (SEFIL). Great progress was made in fostering relations with major international investors, and encouraging the development of the mining sector.

Mongolia held its most recent parliamentary election on June 29 2016, in which the MPP emerged as clear victor winning 65 of the 76 seats by a landslide, and only giving up nine seats to the incumbent DP, one seat to the MPRP, and one seat to an independent candidate. The MPP now controls parliament as well as the government of Mongolia, but the national election cycle is not over yet. In fact, there are presidential elections in 2017 for a four-year term. Despite the MPP's dominant win in the parliamentary election, the presidential contest is expected to be a tight race. The three parties with representation in parliament have declared the names of their candidates for the upcoming election which will be held on 26 June 2017.

1.2.1 INSTITUTIONAL STRUCTURE

Mongolia's political system is a parliamentary republic and also described as "semi-presidential". The president is the nominal head of state and is directly elected every four years. However, the president's executive and legislative powers are fairly limited. The prime minister and his appointed cabinet control most of the executive functions of the state through jurisdiction over various ministries. The prime minister is appointed directly by the majority party that wins the largest number of seats in the unicameral parliamentary election. Parliament contains 76 seats and direct elections are held every four years.

Semi-presidential regimes of this type are common in the former Soviet Bloc, and have often resulted in authoritarian regimes with powerful executives who become virtual dictators. Mongolia is an exception to this trend and has managed to build one of the longest lasting and most successful democracies in Central Asia.

Mongolia's largest political parties have relatively similar political platforms and deology, meaning parliament rarely suffers paralysis

Preat progress was made in fostering elations with major international Investors

The MPP now controls parliament as was the government of Mongolia

1.2 POLITICS

The prime minister is selected from the majority party in Mongolia's unicameral legislature

Executive Branch

Executive power is split between the prime minister, who is the main driver of policy, and the president, who is commander-in-chief of the military and acts as Mongolia's ceremonial head of state. He or she also holds veto rights over laws passed by the legislative body. However, the president's veto can be overruled by a two-thirds majority vote from parliament. The prime minister is selected from the majority party in Mongolia's unicameral legislature (the Ikh Khural or Parliament of Mongolia). While the president has the right to nominate the prime minister, the Ikh Khural ultimately decides who takes office.



Parliament of Mongolia

The president is elected directly by the public every four years. To win, a candidate must earn more than 50% of the vote. If no candidate earns 50%, the top two candidates must compete in a runoff election. Presidents are allowed to serve up to two terms in office. Once in office, the president is constitutionally obliged to renounce membership of any political party to which they were previously affiliated. Despite the office drawing its mandate from the people as opposed to parliament, legislative checks on the position are in place. If a two-thirds majority of the lkh Khural deems the president to have abused the position, or violated their oath of non – partisanship, he or she faces removal from office.

Legislative Branch

The Ikh Khural, the parliament of Mongolia, consists of 76 members. 48 members are elected directly from election districts while the remaining 28 seats are allocated via a system of proportional representation. The country's electoral convention stipulates that a legislative election is only considered valid if 50% of the electorate turns up to the ballot box, placing emphasis on the importance of participation. The body is charged with drawing up and approving new laws in conjunction with the government, which also passes a yearly national budget with a simple majority. Super majorities of two thirds are required to overrule the presidential veto and ratify constitutional change.

1.2.2 PARTY SYSTEM OVERVIEW

The Madisonian dispersal of power across branches of government tends to lead to accusations of political ineffectiveness, with decisive action being replaced by stagnation and paralysis. Mongolia has largely avoided the ineffectiveness frequently associated with the regimes of the United States and France, because Mongolia's largest political parties have relatively similar political platforms and ideology. The balance of power between legislative and executive branches safeguard against dictatorship, while not severely constraining policy effectiveness.



DP (left), MPP (middle) & MPRP (right)

Mongolia's largest political parties have

The Mongolian People's Party (MPP)

The Mongolian People's Party (MPP) is Mongolia's oldest political organization. Formed in 1921 to facilitate the Mongolian revolution, the party enjoyed a monopoly of power through the country's socialist period, and had a majority in the lkh Khural until 1996. Despite a lasting commitment to its socialist origins, since the democratic transition, the party has embraced liberal economic reforms and democratic principles. The commitment towards modernization in the democratic world is demonstrated by the group's decision at its 26th Party Congress in 2010 to remove the 'Revolutionary' component of its name, which was supported by 99.3% of delegates. It should be noted that from the minority of members who did not support the amendment, a splinter organization was created, headed by the group's former leader and ex–President Nambaryn Enkhbayar. This splinter party claimed the name Mongolian People's Revolutionary Party (MPRP) and was awarded legitimate party status on June 24th, 2011, by the Mongolian Supreme Court. The two entities should not be confused.

The Democratic Party of Mongolia (DP)

Founded by those who pioneered the democratic revolution of the 1990s, the Democratic Party of Mongolia (DP) was the product of the merger of the Mongolian National Progressive Party and the Mongolian Social Democratic Party. These two parties were the ruling coalition in the Ikh Khural after democratic forces first gained a parliamentary majority in 1996. The party describes itself as a conservative party promoting the continuation of Mongolia's transformation into an open and democratic society, and encouraging the facilitation of the country's economic development. This commitment was demonstrated by the group's influential role in securing the Oyu Tolgoi investment agreement in 2008. However, the party's effectiveness has been subject to constraints stemming from its continued changes in membership and composition. The party's

Super majorities of two thirds are

Q

1.2 POLITICS

current composition stems from a series of mergers and splits since 1990. The party's constant changes have cost them elections in the past, since its main rival, the MPP, is one of the most structurally consistent and ideologically unified political organizations in the country. The DP controlled the presidency and prime minister's office through its majority of the seats in Parliament between 2012 to 2016.

MPRP (Mongolian People's Revolutionary Party)

The Mongolian People's Revolutionary Party (MPRP) is a left wing political party. Nambaryn Enkhbayar, who served as the Prime Minister of Mongolia from 2000–2004, the Speaker of Parliament from 2004–2005 and the President of Mongolia from 2005–2009, established the party in 2011. He is the first person to have held the top three positions in Mongolian government. The party received approval to use the old name of the MPP from the Supreme Court of Mongolia, with Enkhbayar as its current leader. The MPRP platform promotes the implementation of integrated policies aimed at creating human–centred social welfare and pro–development economic growth. Through a nation and citizen–oriented public governance system, it believes the country and its people will achieve prosperity and progress.

1.2.3 PREVIOUS GOVERNMENTS

lambaryn Enkhbayar is the first person to have held the top three positions in

Mongolian government

The MPP won the parliamentary and presidential election in 1992, but was defeated by the Democratic Party in 1996. It won again in 2000, as well as in 2004, but with reduced representation. Since 2004, numerous prime ministers have been appointed from the coalition government, starting with Tsakhiagiin Elbegdorj in 2004, Miyeegombyn Enkhbold in 2006, and Sanjaagiin Bayar in 2007.

In 2008, the MPP won a majority of parliamentary seats, however, allegations of electoral fraud by the opposition led to the first ever riots, where five people were killed and an MPP building was burned down. After a short period of political posturing, all members of the opposition party, including Elbegdorj himself, were sworn into parliament. Sanjaagiin Bayar was elected prime minister of a coalition government, supported by both the MPP and the DP. The parliament was able to form a majority and signed some of the most important political policies in the country's young democratic history. Notably, the two parties worked together to negotiate the terms of the Oyu Tolgoi Agreement just months after the crisis, which effectively kick–started FDI into Mongolia and the headline-grabbing growth figures the country has witnessed in recent years. In October 2009, Prime Minister Sanjaagiin Bayar resigned from office for health reasons and was replaced by Sukhbaataryn Batbold, the previous minister of foreign affairs. The long tenure of the MPP in the presidency ended when the Democratic Party figure Tsakhiagiin Elbegdorj won the presidential election in May 2009.

The election in 2012 utilized the proportional representation system to encourage smaller parties and independent candidates to be voted to parliament. Nevertheless, dominant forces like the DP gained 34 seats, representing the largest parliamentary grouping, while the MPP came close behind, with 26 seats, and the Justice Coalition — a combined effort from the MPRP and the MNDP — acquired 11 seats. The minority Civil Will Green Party and independent candidates, obtained two and three seats respectively. On August 25th,

Prime Minister Norovyn Altankhuyag, chaired the first cabinet meeting of the country's sixth government.

In 2014, however, Mongolian Prime Minister Altankhuyag Norov lost a no-confidence vote over his handling of the economy and stepped down along with the rest of his cabinet. Two weeks after the removal of Prime Minister Altankhuyag, Mongolia's parliament approved a new prime minister after lawmakers voted 42–2 to appoint acting cabinet secretary Saikhanbileg Chimed to the job. As part of his acceptance speech, Mr Saikhanbileg stated his top three priorities were "the economy, the economy and the economy."

Mr Saikhanbileg stated his top three priorities were "the economy, the economy and the economy

1.2.4 THE CURRENT GOVERNMENT

The seventh parliamentary election held on 29th June, 2016, saw the MPP win a landslide victory with 65 seats in the State Great Khural. With eleven competing parties, the MPP won 85% of seats in the legislature. Meanwhile, the DP, which was previously the party of government, won only nine, a significant decrease from 2012. One seat went to the MPRP, and another to independent candidate (and former folk singer), Samandyn Javkhlan.

Pre-election polls did not call the election. Instead, they suggested a competitive fight between the two major parties, rather than the landslide to follow. Analysts have concluded the result owed more to disappointment with inadequate leadership and the abrupt economic slowdown, than an emphatic endorsement of the MPP's manifesto. One consequence of the transfer of power was a positive reaction from the international investor community, since historically the MPP has been receptive to FDI. Helpfully, there was a relatively smooth transition, rather than some of the more disorderly exchanges of power in the past. The MPP's mandate, will enable it to achieve some of its campaign promises — foremost, revision of the state budget and reassessment of the previous government's fiscal policy.

On taking power, the MPP under the direction of former Finance Minister, Jargaltulgyn Erdenebat, formed the cabinet with only members of his own party. Besides his initial four nominations, Prime Minister Erdenebat's candidates for ministers were successfully approved by parliament. This process drew certain criticism. Pundits reminded Erdenebat of his promise to create a 'professional government' on the basis of merit, rather than partisanship. The clear contention was cabinet ministers were in office by virtue of party affiliation.

Notwithstanding criticism, the Prime Minister was defiant. In his acceptance speech, Erdenebat expressed his belief the economy of Mongolia was in a difficult situation, and his intention was to stabilize it by recourse to reforms away from dependence on global commodities. His bold statements, though welcome, may be difficult to achieve. Lackluster growth in 2016 and modest forecasts for 2017, will require him to be imaginative and committed in meeting bond payments during the course of his term

To help the economy recover, the government is cooperating with foreign states and international financial institutions to seek long-term loans, expand trade deals and

10

initiate industrial and infrastructure projects. In February 2017, a deal was announced with the International Monetary Fund (IMF) and other parties including the Asian Development Bank (ADB), South Korea and Japan. By April 2017, the IMF's representative in Mongolia, Neil Saker, announced the satisfaction of preconditions. The consequence is the IMF will loan US\$425 million payable over ten years, and the ADB, South Korea and Japan will lend US\$3bn at favorable rates. The IMF money is understood to be used for balance of payment support, while donor money will assist in the reduction of the budget deficit.



government of Mongolia consists of sixteen ministers, thirteen of whom lead independent ministries

Chaired by Prime Minister Erdenebat. J, the

Prime Minister Jargaltulgyn Erdenebat

Names of Ministries	Ministers
Prime Minister	Erdenebat.J (''MPP'')
Deputy Prime Minister	Khurelsukh. U (''MPP'')
Minister of Mongolia and Secretary of Cabinet	Munkhbat. J (''MPP'')
Minister of Environment & Tourism	Oyunkhorol. D (''MPP'')
Minister of Foreign Relations	Munkh-Orgil. Ts ("MPP")
Minister of Finance	Choijilsuren.B ('MPP'')
Minister of Justice and Internal Affairs	Byambatsogt. S ("MPP")
Minister of Mining and Heavy Industry	Dashdorj. Ts (''MPP'')
Minister of Defense	Bat-Erdene. B (''MPP'')
Minister of Construction and Urban Development	Munkhbayar. G (''MPP'')
Minister of Education, Culture and Science	Batsuuri. J (''MPP'')
Minister of Roads and Transportation Development	Ganbat. D (''MPP'')
Minister of Labor and Social Welfare	Nomtoibayar. N (''MPP'')
Minister of Food, Agriculture and Light Industry	Sergelen. P ("MPP")
Minister of Health	Tsogtsetseg. A (''MPP'')
Minister of Energy	Gankhuu. P (''MPP'')

This publication was delayed in order we could detail the outcome of the presidential election. The initial poll was held on 26th June, however, no candidate received a majority and so a subsequent vote was held on 9th July. This situation led to a run-off between the former Prime Minister and current leader of the Mongolian People's Party (MPP), Miyeegombyn Enkhbold, and Khaltmaagyn Battulga of the Democratic Party (DP). In the election that followed, Battulga won the presidency with 55% of the vote. The new president has an impressive back story, rising from humble beginnings to become a successful wrestler and later, a businessman and politician.

Battulga's political career began with his election as a Member of Parliament for the Bayankhongor province– a position he was re–elected to in 2008. He is known for mild economic nationalism, stressing the importance of all Mongolians benefiting from the country's natural resources. Recognizing infrastructural constrains to economic development, Battulga has expressed support for development of the road and railway

network, as well as the diversification of the industrial and employment base of Mongolia. In particular, he has highlighted the role of agriculture in reducing dependency on commodities.



President Khaltmaagyn Battulga

Though at times critical of the intentions and influence of foreign countries, Battulga has worked closely with a number of multinationals to help foster economic development. As minister with oversight for infrastructure and industrial projects, he drew on international expertise– through relationships with, inter alia, BNP Paribas, Samsung and Deutsche Bank. Critics of his statements sometimes overlook

his direct interaction with representatives of companies from a range of nations including, France, Singapore, China, India and Russia. Battulga was also closely involved in the memorandum of cooperation reached between the Mongolian and Japanese governments in 2015 on the subject of the financing and development of major rail projects.

Time will tell as to whether Battulga is able to prove the figurehead Mongolia needs, but his pro-business views and obvious charisma, seem at first glance, positive. Even if there are bumps along the road, the architecture of both the IMF deal and Rio's agreements, serve to ensure continuity amongst political change. The presidential veto is an important tool at the executive's disposal, however, parliament's ability to initiate and amend legislation acts as a valuable counterbalance in the system.



EXECUTIVE SUMMARY

Since the revolution of 1990, Mongolia has been adopting democratic ideals and free market principles, creating a stable business environment for the recent mining boom. As a result, the economy grew 17.3% in 2011, 12.3% in 2012, 11.6% in 2013 and 7.9% in 2014.¹ Since, there has been a decline in GDP growth, owing to a mixture of slumping global commodity prices, diminished Chinese demand and reduced FDI. Yet, international organizations, especially the IMF, are predicting growth of 8% by 2019.² If achieved, this will again place Mongolia as one of the fastest growing economies in the world. There is much reason for optimism: the country is investing in meaningful diversification, the pricing of Mongolia's main commodities is strengthening, and Rio Tinto, alone, has committed to spending US\$3.4bn between 2017 and 2019.³ In a relatively small economy, the effect of this could be seismic.

To benefit from improving sentiment, however, is to understand the reasons for the recent economic malaise. FDI inflows, that started as a trickle, became a torrent, before slowing, with the introduction of a controversial 2012 investment law. This, combined with poor commodity prices, investor disquiet with emerging markets, and diminished expenditure at Oyu Tolgoi, hit the economy hard. In the years that followed, there was an attempt to improve the foundations to benefit from growth in the future. In October 2013, parliament passed a new investment law which was more supportive of foreign organizations, and which revoked earlier, punitive provisions. Though welcome, it did not immediately stem the tide, as investors waited to observe progress at Oyu Tolgoi, to determine whether to enter the market.

In 2015, there was a real breakthrough. The new prime minister, worked with Rio Tinto to resolve differences, leading to the finalization of a financing package by the end of the year. This US\$6bn of investment, is crucial to Mongolia. In part, in and of itself, and, more profoundly, because of the signal it sends to other would-be investors. The challenges are still significant, however. With high levels of public debt, much-needed structural reforms, and muted growth projected for 2017, much is to be done. But since the announcement of an IMF package in February 2017, the doubling of land available for exploration, and a rally in key commodities, there is a sense Mongolia may again be on the cusp of something remarkable.

International organizations are predicting growth of 8% by 2019

- 1 World Bank (2017)
- 2 IMF (2017)
- 3 Turquoise Hill Resources (2017)

OVERVIEW

Since the second millennia B.C., nomadic pastoralism has constituted the primary mode of existence in Mongolia. Despite intervening centuries of conquests, political upheaval, and technological development, the traditional nomadic herding economy continues to shape Mongolia today.

The discovery of mineral deposits has attracted large levels of FDI into the mining sector, resulting in the boom of recent years. This has transformed the country, literally and figuratively. Previously, the economy was heavily dependant upon the Soviet Union, until its collapse in the early 1990s. The resulting state was one of recession, insufficient goods, and hyperinflation until the early 2000s. Since, a free market economy and widespread privatization have assisted economic development. This initially began through importing goods, and exporting raw livestock–related products, mainly to China. The economy started picking up in the mid 2000s, due to increasing gold production and high copper prices. Yet in 2008, the global financial crisis took hold and commodity prices fell, with inflation reaching 36% – the highest level in a decade. In 2009, IMF aid helped Mongolia recover from the crisis and the Oyu Tolgoi agreement was signed in October 2009.

The Oyu Tolgoi agreement was signed October 200

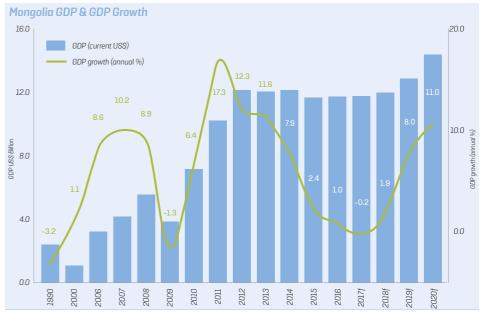


Traditional Mongolian nomadic life

Since the signing of this agreement, the economy experienced double digit growth until 2013, when the country experienced a slowdown in FDI due to the recent changes in the investment laws, a decrease in commodity prices, and standoff over Oyu Tolgoi's Phase II expansion. Fortunately the impasse was overcome and a financing package was signed in December 2015, amounting to over US\$6bn.

1.3.1 GROSS DOMESTIC PRODUCT

Mongolia may have never registered on the radar of international investors if it were not for the explosive rates of GDP growth the country experienced from 2011–2014. The economy expanded at a staggering 17.3% pace in 2011.⁵ Growth remained extremely strong before moderating and slowing in 2015 and 2016. The growth rate for 2017 is projected to be -0.2% according to the World Bank, though the ADB anticipates a rate of 2.5%.⁶ The reduction in growth rates over the past few years is partly due to political issues and disputes between the government and Rio Tinto, explored in detail later in the chapter.



Source: World Bank

The 2012 election cycle gave rise to political conflicts and legal reforms that led to constraints on foreign investment in the minerals sector. The period 2012–2016 also witnessed the slowdown in China, which placed downward pressure on global commodity prices, thus limiting the profitability of Mongolian mineral exports. With new investment-promoting legislation, cost-reducing infrastructure projects, and rebounding mineral prices in China, there is potential for Mongolia to rediscover strong growth. Mongolia, compared with other emerging countries, outperformed in terms of GDP growth in the past few years, with the exception of 2015 and 2016. In the future, the IMF has expressed its hope of assisting the creation of a less cyclical economy in Mongolia, whereby an eight percent per annum growth rate is maintained.⁷

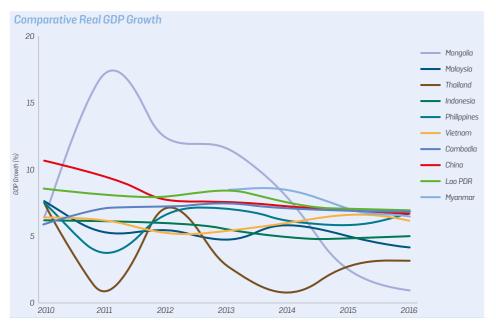
7 Mongolia London Business Forum (2017)

The economy expanded at a staggering 17.3% page in 2011

4 National Statistics Office of Mongolia (2017)

⁵ World Bank (2017)

⁶ Asian Development Bank (2017)



Source: World Bank

The country's past and future erformance is heavily linked to the mineral resource sector The country's past and future performance is heavily linked to the mineral resource sector. Mongolia is now estimated to hold more than US\$1.3 trillion worth of assets.8 The massive Oyu Tolgoi copper–gold mine, alone, in the southern Gobi Desert, is estimated to contain more than 37 million tonnes (81 billion pounds) of copper and more than 1,431 tonnes (46 million ounces) of gold.9 Presently, there are many reserves thought to be unidentified, let alone, extracted, and in the mid–term this could make a sizeable contribution to Mongolian GDP.



Source: National Statistics Office of Mongolia

However, it would be a mistake to view Mongolia purely as a natural resource economy. Mining and related activities make up less than 20% of GDP, and it remains a largely

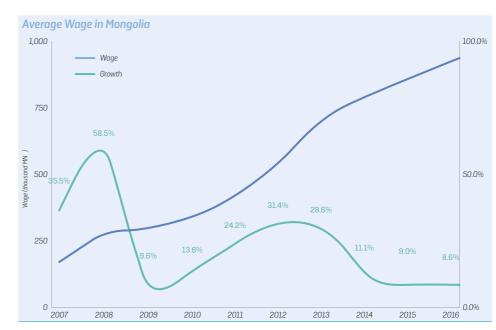
- 8 DW (2015)
- 9 Turquoise Hill Resources (2017)

agrarian nation.¹⁰ The mineral sector has served primarily as a liquidity-generating engine, but has spilled over, stimulating demand in other sectors of the economy. In fact, in recent years the pace of expansion in the retail, information, communication, real estate and financial sectors has been significantly faster than in the mining sector.¹¹

Regardless of the political situation, Mongolia has improved in many other areas. These include Transparency International's Index, the United Nations Human Development Index and the Economist's Democracy Index and Global Competitiveness Rankings. The only area where it has fallen is in the World Bank's Doing Business Index. Though disappointing, the reforms announced since the IMF package, should help Mongolia become more competitive and climb in these rankings once again.

Measure	Previous	New	Change
Transparency International "Corruption Perceptions Index"	80	72	-2
World Bank "Doing Business Report"	56	64	+8
United Nations "Human Development Index"	95	90	-5
The Economist "Democracy Index"	63	61	-2
World Economic Forum "Global Competitiveness"	104	102	-2
		Source	Public Filings

The Gini coefficient, which measures inequality in income distribution, stands at 36.5 out of 100 for Mongolia, placing it next to most developed countries like the United Kingdom and Canada. Despite perceptions of widening income equality, broad economic expansion has trickled down to the general populace. Average monthly wages have increased over eightfold in the past decade, which has led to the rise of a burgeoning consumer economy. Mongolia has seen development of retail malls, restaurants serving foreign cuisine and luxury housing. Consequently, real estate prices have soared.



Source: National Statistics Office of Mongolia

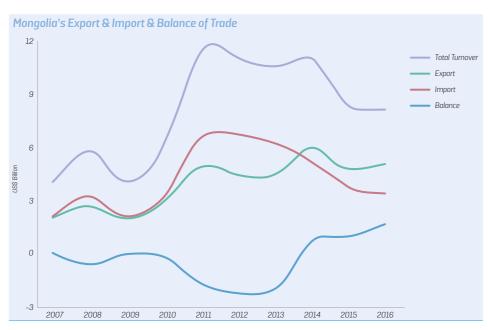
- 10 National Statistics Office of Mongolia (2017)
- 11 Ibid
- 12 Ibid
- 13 Ibid

The mineral sector has served primarily as a liquidity-generating engine, but has spilled over, stimulating demand in other asectors of the economy

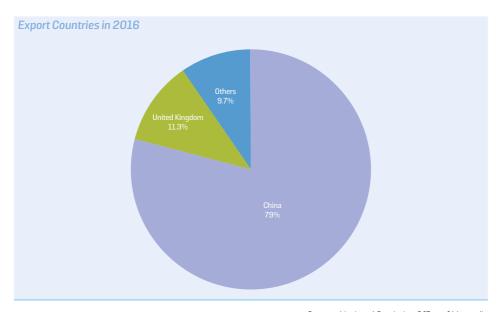
Mongolia exported 79% of its commodities to China, making it heavily dependent on demand from its southern

1.3.2 FOREIGN TRADE

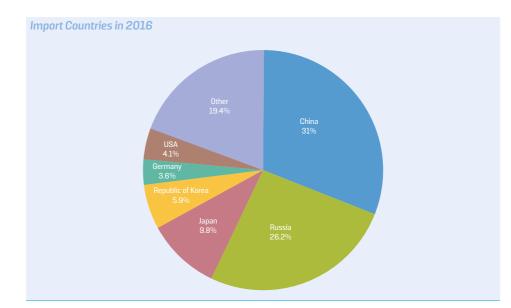
The 2016 total trade balance was US\$1.6bn in surplus.14 The total turnover stayed relatively the same, decreasing only 2.3% on a year-on-year basis. 15 The total value of exports increased by 5.3% in volume compared with the preceding year, amounting to US\$4.9bn.16 Imports, meanwhile, fell 11.5%, equating to US\$3.4bn.17 Mongolia exported 79% of its commodities to China, making it heavily dependent on demand from its southern neighbor. 18 Imports are sourced from countries such as China, Russia, Japan, Germany, Korea, and the USA. Mongolia's lack of diversification in export products – and trade partners – leaves the economy vulnerable should there be economic difficulties in China, or a diminution in overall demand for commodities.



Source: National Statistics of Mongolia



Source: National Statistics Office of Mongolia



Source: National Statistics Office of Mongolia

The Impact on Mongolia of China's "One Belt, One Road" Policy

China's "One Belt, One Road" Policy

The Chinese government's "One Belt, One Road" (OBOR) policy is effectively a broadbrush political initiative led by Xi Jinping designed to provide a simple and cohesive conceptual framework for a wide range of interlinking policies with different economic and political objectives.

At one level the initiative is part of the Chinese tradition of creating easily digestible political slogans to direct the actions and thoughts of the Chinese public and private sector. Within this context, it is also a cornerstone of the Chinese government's strategy to boost the Chinese economy, promote internal cohesion and loyalty to the Communist Party, and increase China's influence as a global political player.

OBOR specifically aims to increase connectivity between the Asian, European and African continents. The intention is for this increased connectivity to enhance trade flows and spur long-term regional economic growth and development. Based on information provided by Xinhua, China's state news agency, OBOR comprises two main routes, one by land and one by sea, with numerous side-branches along the way, as depicted in the map opposite.19

These two routes ultimately connect China with Europe, Africa and Southeast Asia via a land route running from inner China to Southern Europe, and a sea route connecting the port of Shanghai with the end point of the land-based route in Venice, via India and Africa.

However, this representation is largely conceptual and OBOR is in fact an umbrella concept which includes a potentially huge volume of current, planned and future infrastructure projects, accompanied by a host of bilateral and regional trade agreements.

14 Ihid

15 Ibid

17 Ibid 18 Ihid

19 Xinhua (2017)



Source: Xinhua

Ongoing and planned projects will focus on the development of a wide array of assets, including ports, roads, railways, airports, power plants, oil and gas pipelines, refineries, and free trade and special economic zones, as well as a supporting IT, telecoms and financial infrastructure.

To date, it is estimated that circa US\$250 billion of projects have either been built already, have recently started construction, or have been agreed on and signed in relation to OBOR.²⁰ Some of the core elements of the OBOR initiative (such as a focus on infrastructure investments in underdeveloped Western China and Central Asia) long predate the public announcements re OBOR in 2013, but OBOR bundles all ongoing and planned efforts (such as the China–Pakistan economic corridor and the Bangladesh–China–India–Myanmar corridor) under one unifying framework.

It is estimated that OBOR will include up to US\$1 trillion of outbound state financing from the Chinese government over the next 10 years, and the government has created specific vehicles to help allocate this money to appropriate projects, including the New Silk Road Fund (NSRF) and the Asian Infrastructure Investment Bank (AIIB), together with additional allocations by China's state owned banks.²¹

OBOR is intended to be a way to stimulate trade with China's neighbours, increase export demand for Chinese goods and services (in particular those relating to construction and engineering), help internationalize the Chinese currency, and create international goodwill.

It should be noted that China has a problem of serious overcapacity in many of its industries and OBOR offers a way to offset part of the existing domestic overcapacity by exporting engineering and construction capabilities, materials and equipment, and technology.

China hopes to spur further demand for its goods and services by enhancing connectivity and trade between various regions across Asia, Europe and Africa, and OBOR is also a way for China to develop a more significant leadership role on the international stage.

In its current form, OBOR directly impacts 65 countries, circa 4.4 billion people, and around 30% of the global economy, with a total infrastructure investment requirement of circa US\$5 trillion.²²

China – Mongolia – Russia Trilateral Economic Corridor

Mongolia plays an important role in OBOR via the concept of a trilateral economic corridor between China, Mongolia and Russia. As with OBOR as a whole, the concept of a trilateral economic corridor provides an umbrella framework which has the potential to generate significant benefits to Mongolia's economy through facilitating both existing and future projects via enhanced cross–border cooperation, trade, and financing between Mongolia, China and Russia.

It should also be noted that the concept of a trilateral economic corridor is consistent with Mongolia's own "Steppe Road" initiative, which is designed to boost the Mongolian economy through various infrastructure projects, including a new highway to link Russia and China, an electric railway extension of the existing Mongolian railway system and the construction of an oil and gas pipeline through Mongolian territory linking Russia and China. On May 2, 2017, the Mongolian Cabinet approved a draft memorandum of understanding between the governments of Mongolia and China on coordinating and aligning the Steppe Road and OBOR initiatives. The current guidelines for implementation of the trilateral economic corridor include the establishment of seven special economic zones designed to boost trade and foreign investment. In addition, work has begun on a feasibility study for a free trade pact between China and Mongolia.

These initiatives are expected to bring new opportunities for development in a wide range of areas such as mining, energy, infrastructure (including railways and roads), logistics, transportation, agriculture, livestock farming, light industry, tourism, construction and real estate.

Notably, Mongolia has abundant raw materials and mineral resources such as coal, copper and iron ore needed by China, which serves as a basis for mutually beneficial cooperation between the two countries. In addition, Mongolia boasts 73 million heads of livestock farmed by about 200,000 herder households in the vast Mongolian countryside. However, the country's poor infrastructure constitutes a significant trade barrier and, within the framework of OBOR, improved infrastructure is expected to lead to a strong boost in trade for Mongolian exporters.

Mongolia's location between Russia and China also offers it an opportunity to boost transit trade, logistics and transportation between these two countries. The trilateral economic corridor initiative includes two initial pilot schemes. The first connects Erenhot – Zamyn Uud (on the China–Mongolia border) with Manzhouli in Inner Mongolia and Eastern Russia, and the second involves constructing a special trade zone at Erenhot – Zamyn Uud. The aim of these pilot schemes is to boost both traditional trade and

20 Ibid

21 Ibid

22 Ibid 23 Ibid

25

Chinese, Russian and Mongolian rail authorities have all confirmed plans to improve railway transit cooperation

The consensus target of both Mongolia and China is to raise bilateral trade volume to a target of \$10 billion by 2020

e–commerce through improving interconnectivity and facilitating cargo clearance and transportation.²⁴

Chinese, Russian and Mongolian rail authorities have all confirmed plans to improve railway transit cooperation, boost railway freight volumes, research the building of a trilateral transportation & logistics company, and promote development of railway transport capacity along the Ulaan Ude – Naushki – Sukhbaatar – Zamiin Uud – Erenhot – Jining corridor. In addition, discussions have focused on how to link Central Asian natural gas fields to China and the Republic of Korea by transiting via Mongolia. Overall, the consensus target of both Mongolia and China is to raise bilateral trade volume to a target of \$10 billion by 2020.²⁵

Opportunities for Mongolian Businesses & Investors

The OBOR initiative is expected to provide a strong boost to the Mongolian economy and to create a wide range of opportunities for both Mongolian businesses and investors in Mongolia.

One of the most straightforward ways for investors to benefit from the OBOR initiative's impact on Mongolia is via real estate investment in Ulaanbaatar. The combination of high rental yields with the expected rapid rise in house prices in Ulaanbaatar in response to a growing economy provides a unique opportunity to generate premium returns with relatively low risk. Real estate investment in the special economic zones to be set up under the OBOR initiative is also expected to be highly lucrative with demand for quality housing expected to rise sharply in response to the influx of new business, capital and skilled workers.

The infrastructure projects to be implemented as part of the OBOR initiative provide extensive opportunities for infrastructure related businesses, including not only construction companies, but also suppliers of technology, equipment, components and raw materials, and engineering, procurement, logistics and transportation companies. In addition, it is expected that the infrastructure projects and special economic zones will create significant spillover effects benefiting all aspects of the surrounding economies as demand for goods and services and the availability of capital increase rapidly.

While China has very strong financing capability it also hopes to cooperate with the Mongolian government, companies and investment funds, to create joint financing opportunities for shared projects and public-private partnership (PPP) initiatives. As a result, it is anticipated that a wide range of opportunities will emerge relating to investment into the infrastructure projects and special economic zones themselves, into the businesses contracted to design, build and cater to them, and into the financing vehicles set up to finance these initiatives.

Once the infrastructure projects and special economic zones develop to a point where they are able to facilitate smoother trade, a boost in trade volume is also anticipated with particular benefits for businesses and investors operating in mining, agriculture and livestock farming. As a result of the influx of foreign nationals and transient workers

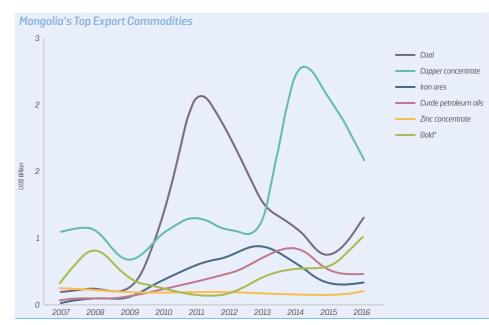
24 UB Post (2017)

25 Oxford Business Group (2016)

connected with these projects together with the general uplift in disposable income among Mongolian nationals, strong benefits are also anticipated for the tourism, hospitality and service industries.

The challenge for investors remains, as ever, in sorting the wheat from the chaff and forging meaningful partnerships with local operators who have the sophistication, knowhow and connections to really benefit from these opportunities and drive meaningful IRR at an acceptable level of risk.

Mongolia's main exports consist of mineral ores used to produce industrial commodities and precious metals. Copper is historically – and currently – the most significant commodity in Mongolia, due to the mine at Erdenet as well as recent developments at Oyu Tolgoi. Coking coal was the most significant in terms of both volume and value between 2010–2013, due to the developments of several coal mining companies. In late 2016, and early 2017, the value of Mongolian coal exports has also increased significantly, suggesting this may be an important determinant of economic output in the near term. Other significant sources of export revenue include: gold, iron and zinc concentrates from ore, and crude oils. These exported resources amount to US\$1.5 billion combined.



Source: National Statistics Office of Mongolia *Gold, unwrought or in semi-manufactured forms

Copper, coal and gold made up the lion's share of exports, and in total these amounted to US\$3.3 billion.²⁹ In 2016, Mongolia exported US\$1.6 billion of copper concentrate, US\$973 million worth of coal, and US\$758 million worth of gold products.³⁰ The coal price rebounded at the end of the 2016 but the copper price decreased since 2014.³¹ Exports

26 National Statistics Office of Mongolia (2017)

27 Ibid

28 Ibid

29 Ibid

30 Ibid

31 Ibid

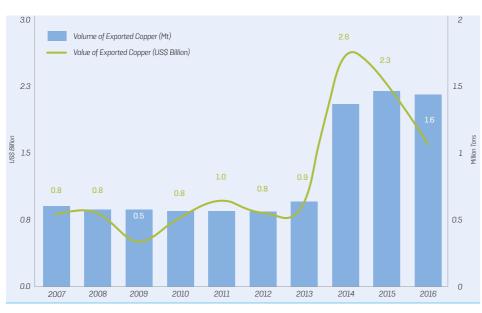
Mongolia's main exports consist of mineral ores used to produce industrial commodities and precious metals

of secondary importance include other minor metal concentrates as well as textiles produced from wool and cashmere.

Mongolia's Copper Exports

The export value of copper declined last year, due to the decrease in the realised copper price, although the volume stayed relatively similar. The highest recorded average exported copper price was in 2014 with US\$1,867 per ton and in 2016, it is around US\$1,029 – the lowest since 2009.32 The volume of copper exported increased twofold in 2014, and the value of copper exports increased commensurately. $^{\rm 33}$

				Сорре	r price				
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$1,335	\$1,434	\$855	\$1,355	\$1,682	\$1,460	\$1,460	\$1,867	\$1,543	\$1,029



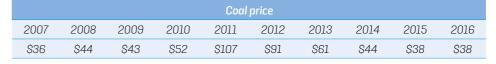
Source: National Statistics Office of Mongolia

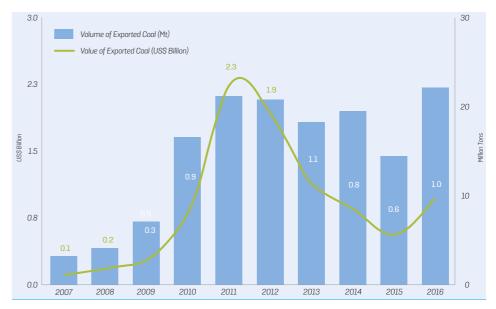
Mongolia's Coal Exports

The export value of coal is on its first upward trajectory since 2011.³⁴ In 2016, Mongolia exported 25.8 million tons of coal, the highest volume in history, with an average realised price of US\$38 – much below prevailing norms. 35 The coal price in China has increased dramatically since September 2016, due to environmental issues, which caused many of the coal mines to shut down. The highest recorded average exported coal price was in 2011 at US\$107 and the export value in that year reached US\$2.3 billion.36



³⁴ Ibid



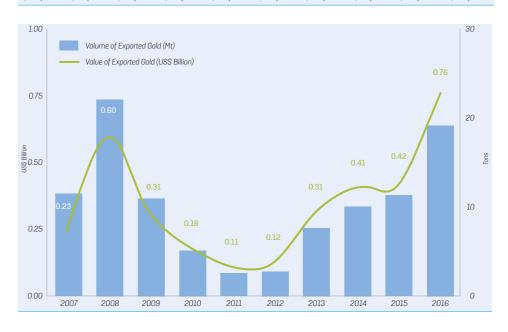


Source: National Statistics Office of Mongolia

Mongolia's Gold Exports

The export value of gold in 2016 was the highest in history at US\$758 million, and the volume has been increasing gradually since 2011.³⁷ The highest recorded average exported gold price was in 2012 at US\$43,676 per ton and in 2016, it stood at around US\$39,500.38

				Gold	prices				
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$20,248	\$27.144	\$28,300	\$34.965	\$42.549	\$43.676	\$40.524	\$37.218	\$40.333	\$40,767



37 Ibid 38 Ibid The export value of gold in 2016 was the

³⁵ Ibid

³⁶ Ibid

Source: National Statistics Office of Mongolia *Gold, unwrought or in semi-manufactured forms

In Depth – The performance of Mongolian commodities in 2016 and early 2017

In simple terms, if there is strong demand for minerals then Mongolia benefits. After a challenging half decade, Mongolians are daring to believe earlier successes may be repeated.

As the world fixated on Donald Trump's victory in the US presidential election, two of Mongolia's key exports were on the up: coal and gold. Coal enjoyed an excellent Q4 2016, and export volumes for December 2016 were 126% greater than in the same month of the preceding year.³⁹ The performance for January and February 2017, was even better. Exports were up 289% compared with the preceding year, and the value of these exports, up 689%.⁴⁰ In the near term, Mongolia can expect to continue to benefit from its proximity to the world's largest consumer.

To say coal is back in favor, may be premature, however, it is certainly not on the wane in the manner some policymakers hoped. Indeed, in March 2017, prices for Chinese thermal coal reached a three year high.⁴¹ Even when pricing softens, Mongolian coal has experienced significant volume increases over the past twelve months which are predicted to be sustained.



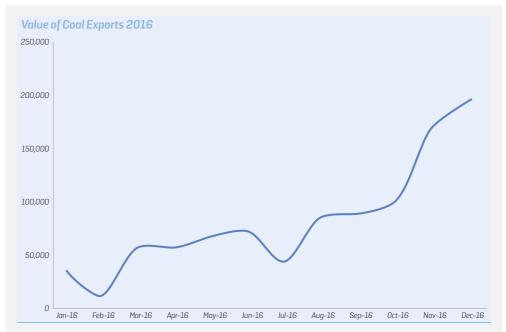
Source: National Statistics Office of Mongolia

39 Ibid

continue to benefit from its proximity to

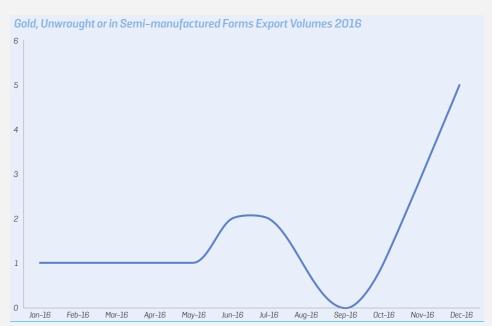
40 Ibid

41 Reuters (2017)



Source: National Statistics Office of Mongolia

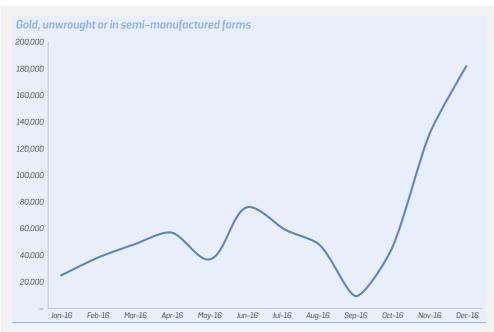
Gold – which accounts for 17% of Mongolian exports – also had a stellar 2016.⁴² Volumes were up 178% in December relative to the previous year.⁴³ It seems unlikely this rate can be sustained – and indeed, early 2017 figures, reinforce a cautious assessment. Nonetheless, there was a dramatic improvement in 2016 and if some of this increase is harnessed, gold will assume an important role as Mongolian moves toward recovery. As a result of robust pricing and production, the value of Mongolian gold exports was similarly strong for this period. And more exploration may build momentum. Canada's Erdene Resources, recently announced one of its gold zones, discovered in October 2016, had some of the highest reserves, and longest mineralized intervals, seen to date. If Erdene and others continue to find promise in the steppes, the gold industry could flourish.



Source: National Statistics Office of Mongolia

- 42 National Statistics Office of Mongolia (2017)
- 43 Ibid

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Source: National Statistics Office of Mongolia

The story with copper – which accounts for 42% of Mongolia's exports – is more nuanced. In the year to February 2017, prices were up nearly 29%, and major international mining conglomerates predicted a continued uptick.⁴⁴ Mongolia – as the country with the twelfth largest copper reserves in the world – hoped to benefit if fundamentals continued to improve .⁴⁵ Over the course of 2016, however, exports peaked in August and did not recover in the latter part of the year. Whilst broadly discouraging, overall volumes were still up nearly 6% in total.⁴⁶ We believe this is likely to be a short term dip as exploration at Oyu Tolgoi – the most significant copper project online – is engaged in drilling through lower grade areas this year. After completion, it will move to higher quality reserves, leading to a significant uptick in performance in 2018, and especially, 2019.

The Canadian mining company, Kincora, is also making positive noises. Its CEO recently described Mongolia as 'one of the last frontiers' for serious extraction in the world, and is increasing its exploration activities.⁴⁷ Some hope Kincora's positivity may be a sign of a shift toward a more even balancing of activity between major multinational organizations. In fact, Kincora now believes itself to be more 'aggressive' than even Rio Tinto.⁴⁸ More encouragingly still, some have begun to draw parallels between Chile in the 1970s at the start of its journey toward becoming the world's largest producer. This positive story not even to mention the aspirations and successes of Xanadu and Centerra Gold.

Commodity pricing is a complex area, and not one a real estate firm should opine upon without caution. This said, even by cautious assessment, Mongolian exports are performing significantly better than recent history. If a little bit of this preferential pricing and demand can feed into the Mongolian economy, then the prospects for the coming years may be better than first imagined.

- 44 Ibid
- 45 Frontera News (2017)
- 46 Ibid
- 47 Reuters (2017)
- 48 Ibid

From the steppes to Selfridges – a Mongolian success story

Economic diversification is at the forefront of discussions about Mongolia's future. The commodity story is well–documented, but the country's resources extend far beyond coal, copper and gold. We recently interviewed Nancy Johnston, the founder of Tengri, a Mongolia – sourced business, making inroads into some of the most famous department stores in London.

1. Can you briefly describe the history of Tengri and how it came into being?

I travelled to Mongolia in 2013, a lifelong dream I had carried for twenty years. The vast landscapes, the nomadic herders' way of life, the strength and self-reliance of the Mongolian people (young and old) living off the land and animals in such a remote and isolated place all captivated me.

I first saw a yak while I was living with a herder family — I immediately fell in love with the animal and Mongolian way of life. It was beautiful to experience the delicate existence living off the land. I was very much inspired by Mongolia and these experiences are distilled into the core of the Tengri brand.

What I also discovered was that Mongolian yak, the nomadic way of life and the future of wild animals are threatened by rapid industrialisation and desertification of the land, largely because of the over-intensive grazing of non-indigenous cashmere goats.

The textile industries in Mongolia depend on government subsidies, but yak fibres are a sustainable and eco-friendly alternative to cashmere. Just because the world doesn't know much about the amazing qualities of yak fibres, there isn't a significant demand for it. We work with the herders in the Khangai region of Mongolia and the Khangai Yak, an indigenous breed, is the source of a noble yarn, so named for its superior natural qualities. It's as soft as cashmere, warmer than merino wool, breathable, odour-resistant, water-resistant, thermo-regulating, hypoallergenic, and less prone to pilling and fluffing than other fibres.

As for our name, the word 'Tengri' means a pantheon of sky gods that govern human existence and natural phenomenon on earth. When you travel through Mongolia, you're always under the endless blue skies and you see blue ribbons around trees, rocks and other spiritual places honouring Tengri. As a name, it just felt right. Tengri was also the name of my friend's cat in Mongolia and I liked the meaning so much that I borrowed it!

2. What is so special about yak fibres?

The Khangai Yak – For thousands of years, Mongolia's nomadic herder families have been stewards of the land and animals such as the semi-wild yak of the Khangai Mountains. Tengri creates sustainable luxury yarns from Khangai Noble Yarns® – an indigenous breed of Mongolian yak found in this mountainous region. The herders handcomb each yak once a year, and the precious fibres are sorted by hand. These majestic animals are registered and traceable as part of our work with the local government to ensure the highest standards and respect for wildlife, environmental protection and conservation.

A noble yarn as soft as cashmere, warmer than merino wool, breathable, odour-resistant, water-resistant, thermo-regulating, hypoallergenic, and less prone to pilling and fluffing than other fibres

Virgin Fibres – Baby Khangai Yak Fibres – the world's softest, rarest yak down fibres – are lovingly hand–combed from Khangai Yaks when they shed their first winter coats.

Natural Rarity – Khangai Yak fibres are gently hand–sorted into four natural colours: cocoa, tan, silver and platinum. The rarity of the silver and platinum fibres makes them extremely valuable.

The Khangai Microclimate – Khangai Yak endure very warm summers and bitterly cold winters (temperatures range from +40 to -40 degrees Celsius), with micro-fluctuations in temperature occurring in a single night. The Khangai Mountains' unique microclimate intensifies the growth of the softest down on the yaks' underbellies. This down not only wards off the cold, it also keeps the yak cool in +400 heat. The Khangai Yak fibres from this region are the softest all of yak fibres produced in Mongolia.

Comparison to other luxury fibres

Khangai Yak fibres are as soft as cashmere, warmer than merino wool, light and breathable, resistant to pilling, hypoallergenic, with the strength and durability associated with cervelt (red deer down). These fibres also have amazing natural thermo-regulating properties and are odour and water-resistant. (See me in my yak fabric dress in 39C heat and Deri, one of our ambassadors, in a Tengri yak sweater on Everest)

Although Khangai Yaks are combed more often than vicuña (once a year compared with every three years for vicuña), the comparable fibre yield is less, making Khangai Yak fibres rarer than vicuña. 100 grams of fibre combed off each yak.

Sustainable sourcing & supporting the UN Global Goals

According to the United Nations Development Programme, ninety percent of Mongolia is fragile dry–land, under constant threat of increasing desertification, putting wildlife and biodiversity at risk of permanent extinction.

Tengri yarns are produced with 100 percent transparent supply-chain provenance.

3. The Mongolian cashmere sector is relatively well established. What lessons can be learnt for your product?

Tengri is not about mass market, but niche prestige and pure luxury consumer goods.

Unlike the status quo, we design, develop and produce products where the starting point is quided by and restricted by nature.

This starting point drives innovation and value–add downstream of the value chain to reach a premium end product. Our product lifecycle can take 18–24 months to produce and we actively seek consumers who appreciate carefully considered products produced by skilled craftsman at heritage manufacturers.

The Mongolian cashmere industry on the other hand has reached unsustainable levels, has been set up to be centred on supplying the industry as a commoditised product to be sold into fast fashion and mass market.

While we arguably offer an alternative sustainable solution to cashmere, we are operating on a completely different value chain and market, so much of the lessons learnt are from further afield, such as the vicuna industry from South America and the ankole longhorn cow from Uganda.

4. It is striking that in a short time frame you have had involvement with Selfridges and Huntsman. How did this come about?

Tengri offers a transparent and very elegant solution to addressing the increasingly negative environmental impact of the fashion industry on our planet. We also offer a unique product, rare fibres and a story that really helps to define luxury in today's very crowded and murky luxury consumer market. We are dedicated to nurturing strong relationships with key institutions and the Tengri story and ethos are very attractive. We operate as a co-operative of extremely talented individuals — our networks and power to communicate the Tengri story are unique for a company of this size and young age.

5. What are your plans for the future of the brand?

As a lifestyle brand, we're exploring collaborations beyond fashion and developing projects in interiors, furnishing, automotive and aviation. We've recently collaborated with prestige bed maker Savoir Beds to create a bed of unrivalled comfort, made with heritage craftsmanship and applying new technologies to our premium and rare yak fibres.

Tengri is moving into the innovation of natural materials beyond yarns and textiles, adding value to materials through innovative partnerships in our supply and value chain development and business modelling.

Watch this space for further news and developments in the world of sustainable luxury powered by nature and technological innovations!

6. As a company vested in the success of rural Mongolia, what role do you feel companies like yours can play in assisting the country as it moves to diversify its economic base?

Much of Mongolia's natural resources are untapped and there is huge potential in this region to help long-term sustainable economic growth focusing on developments in the luxury goods market. We measure from a quadruple bottom line is profit, people, planet and purpose.

Tengri's social enterprise with nomadic herders supports the United Nations Sustainable Development Goals 8, 12, 15 and 17 by promoting sustainable economic growth, ensuring sustainable production patterns, protecting and promoting sustainable natural ecosystems use and combating desertification through our global partnerships for sustainable development. Use of Khangai Noble Fibres supports biodiversity and conservation of wildlife.

Our business is listed in Sustainia100 as one of the top sustainable business solutions in the world. I'm really proud to have been one of the first to publicly take the Business for Biodiversity pledge at the UN Convention on Biological Diversity last October. I would encourage more companies to pledge their business as a force for good.

ecently collaborated with prestige bed aker Savoir Beds to create a bed of vivalled comfort, made with heritage aftsmanship

Huge potential in this region to help long-term sustainable economic growth

provenan

Tengri yarns are produced with 100

Assessing the potential of uranium mining in Mongolia

The potential contribution of uranium to the Mongolian economy has featured prominently in the press. This largely owes to recent discussions between the Indian and Mongolian governments about collaboration and possible trade. Narendra Modi has made plain his aspiration to increase six fold, Indian generation of energy from nuclear sources, and so Mongolia, and its plentiful, untapped reserves, are of interest. ⁴⁹ According to the 'Red Book' compiled by the Nuclear Energy and International Atomic Energy Agencies, however, uranium has been the source of interest in Mongolia since the Second World War.⁵⁰ What is more, there were numerous occurrences recorded between 1945 and 1960. As Mongolia is believed to hold substantial reserves, it is reasonable to question why it cannot be better harnessed to contribute to economic growth.

In the period 1970–1990, a joint arrangement between Mongolia and the Soviet Union led to exploration of a large swathe of the country. During this process, it was classified into four different areas – Mongol-Priargun, Gobi-Tamsag, Khentii-Daur and Northern Mongolia.⁵¹ As a consequence, nine uranium deposits were identified, and there were hundreds of investigations.⁵² The fall of the Soviet Union, however, and more pressing concerns in the transition to democracy, led to a hiatus in the development of the Mongolian uranium industry.

In recent years, there has been increased activity. The 'Red Book', reports most exploration occurred in 2013–14 in the Zuunbayan basins located in the south east of the country.⁵³ The expenditure on this was around US\$14m, a 19% increase when compared with the US\$11.6m in 2013.54 There was also an uptick in prospecting and drilling in the same period. What is striking, is international estimates suggest Mongolia has the thirteenth largest uranium reserves, but no processing facilities. Currently, production is non-existent in the country, but this is beginning to change with the development of a number of mines.

Emeelt Gurvansaikhan Coge-Gobi Name of Production mines Center Production Planned Planned Planned Center Classification Start-up date 2018 2018 2019 Source of Ore Deposit name Gurvanbulag Kharaat Khairkhan Gurvansikhan Ulziit DulaanUul Zoovch Ovoo Sandstone Sandstone Sandstone Sandstone Sandstone Deposit type Volcanic Resources 8 580 7288 8 4 0 6 2 4 7 9 2611 6259 67706 (tU)

49 UB Post (2017)

50 Nuclear Energy Agency (2016)/ International Atomic Energy Agency (2016)

51 Ibid

52 Ibid

53 Ibid

54 Ibid

	Centre #1		Cen	tre # 2		Centi	re#3
Grade (% U)	0.162	0.026	0.071	0.034	0.036	0.022	0.022
Mining Operation:							
Type (OP/UG/ ISL)	UG	ISL	ISL	ISL	ISL	ISL	ISL
Size (tonnes ore/day)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Mining Recovery (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Processing Plant''							
Acid/ Alkaline	Acid	Acid	Acid	Acid	Acid	Acid	Acid
Type (IX/SX)	IX	IX	IX	IX	IX	IX	IX

Source: Nuclear Energy Agency and International Atomic Energy Agency

The Mongolian government is taking pro-active steps to try and foster this sector. It has launched a new program covering areas, including:

- Exploration and mining, with the intention of reducing Mongolian government investment, in favor of encouraging foreign involvement in the sector;
- Undertaking surveys to ensure flora, fauna and people are protected from potential issues associated with uranium;
- A drive for further and more intense collaboration between the Mongolian government and international organizations engaged in the nuclear industry;
- 'Starting uranium geological surveys of sandstone-type deposits or occurrences' within Mongolia 55; and
- Introducing a level of cohesion and coordination to the exploration of uranium throughout the country.

The clear hope is with a drive to diversify the Mongolian economy – both in terms of exports and trading partners – there could be good progress in the coming years. India and Mongolia signed a civil nuclear agreement in 2009, but the process amounted to little given the lack of a clear regulatory agreement. 56 Geopolitical considerations and economic turmoil are also likely to have played a part. Modi's visit in 2016, and the 2017 recommencement of talks, however, suggest his ambition to generate 63,000 MW is genuine, and Mongolia's 1.39m tonnes could provide a consistent, reliable supply for the future.57

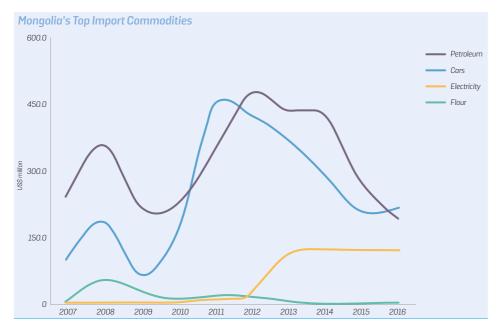
Modi's ambition to generate 63,000 MW is genuine, and Mongaolia's 1.39m

55 Ibid

56 UB Post (2017)

57 Ibid

Mongolia has the thirteenth largest



Source: National Statistics Office of Mongolia

Mongolia relies on imports, including fuel, electricity, durable goods and certain dietary staples, such as flour. A decline in the value of commodities in recent years, led to Mongolia operating a trade deficit. Domestic consumption increased during the commodity boom, but took time to subside, in spite of economic difficulties. Indeed, only since 2015, has there been reduced demand for imports.⁵⁸ The trade balance has therefore adversely affected the current account. Previously, FDI and foreign exchange offset this, however, with a reduction in investment, the currency depreciated. Pressure on the current account has steadily improved since 2014.⁵⁹

Sainshand Oil Refinery: a more sustainable energy future

If Mongolia is to thrive, it must push for energy independence. Currently, a lack of refinement capabilities means the country produces around eight million barrels of crude oil per annum but exports most of it to China, only to then spend large sums importing fuel from Russia. 60 More and more countries are realising that to attain self-determination, control of access to energy is crucial, since without it, they are vulnerable to the whims and agendas of others. As a country with such a fraught history in this regard, it is right Mongolia is considering means to better insulate itself in the coming years.

The experience of the economic crisis has brought this reality into stark focus. And so with this in mind, the Mongolian cabinet approved plans at the close of 2016 to pursue a refinery at Dornogovi. At the time, Oxford Business Group estimated it would cost US\$700m with a further US\$264m to be spent on a pipeline.⁶¹ If delivered, however, it had the capacity to fulfil Mongolia's diesel and petrol needs in the medium term.⁶² It

58 National Statistics Office of Mongolia (2017)

59 Ibid

Mongolia produces around eight million

60 Yahoo! Finance (2017)

61 Ibid

62 AKI Press (2017)

would serve the additional purpose of reducing dependence on its powerful neighbors both to the north and south.

In March 2017, Mongolia's parliament approved plans for the refinery. The government reached an agreement with the Import–Export Bank of India for a US\$1bn loan for the development in Sainshand. Although, this is undoubtedly a significant sum, forecasts suggest turnover per annum will be in the order of US\$1.2bn, with net profits amounting to US\$43m. As such, all things being equal, the capital expenditure should be covered in a period of eight to ten years. These projections are on the basis it will have an annual processing capacity of 1.5m tonnes, leading to the output of 670,000 tons of diesel, 107,000 tons of liquefied natural gas and 560,000 tons of petrol.

Such moves by Mongolia are important for two reasons: firstly, it makes economic sense. Secondly, it shows a longer-term perspective on some of the issues afflicting the country, and a willingness to work with a raft of strategic partners to create a more balanced and sustainable economy. Indeed, cabinet suggests this could reduce import costs by US\$1bn per annum.⁶⁷ More significantly, it could lead to an increase in GDP of 10%.⁶⁸ Even if the effect is not as marked as these projections suggest, it adds another thread to Mongolia's economic fabric, which could prove valuable in ways not only financial.

A last point to consider – in the same way as increased land for mining exploration – is the true scale of Mongolia's resource endowment. The Ministry of Mining and Heavy Industry has estimated the country may have as much as 332m tons of oil reserves, yet only, around 7% (43m) are allowed to be extracted. Depending on the shape and tenor of Mongolia's emerging economic future, there may be still more scope to grow this sector and enhance Mongolian prosperity.

1.3.3 FISCAL POLICY

During the mining boom, Mongolia benefited from robust economic growth, placing it in a position to use taxation to achieve solvency and sustainable public finances. Unfortunately, in recent years, fiscal policy has deviated from its ideal path and public debt has started accumulating at a rapid rate. In theory, public expenditure is meant to be countercyclical — with the government running surpluses when commodity prices are high, and financing deficits from the saved funds when commodity prices are low. In reality, spending tends to be procyclical and more closely related to the electoral cycle than the price of global commodities.

2012 saw an acceleration of expenditure going into, and coming out of, the elections. The year finished with a record deficit, equal to 6.8% of GDP.⁷⁰ Around 30% of expenditure was used for social transfer and subsidy programs.⁷¹ In response, the legislature passed

63 Ibid

64 Ibid

65 Ibid

66 Ibid

67 Ibid

68 Ibid 69 Ibid

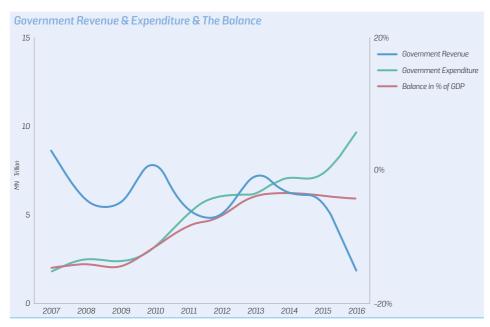
70 National Statistics Office of Mongolia (2017)

71 Ibid

In March 2017, Mongolia's parliament approved plans for the refinery

Spending tends to be procyclical and more closely related to the electoral cyclo

a new Fiscal Sustainability Law (FSL) requiring the structural budget deficit to not exceed 5% of GDP by 2015. Further, it suggested a tightening to 2% by 2018, including budgetary projects financed by the Development Bank of Mongolia (DBM). Though the deficit was 3.7% in 2014 and met the target of 5% in 2015, by 2016, it had reached 15.4%.



Source: National Statistics Office of Mongolia

The fragile fiscal outlook becomes more concerning when off-budget expenditures are included. In 2012, the government issued US\$1.5 billion in international bonds, known as Chinggis Bonds, in order to finance large-scale infrastructure projects.⁷³ DBM placed several deals, starting with US\$580m in Euro Bonds in March 2012, paid in early 2017, followed by the purchase of a US\$290m 10-year Samurai Bond in December 2013.⁷⁴ Consequently, DBM borrowed in total US\$452.5m from international banks in 2014 and 2015.⁷⁵ In addition, the government directly raised US\$161m for eight years in June 2015.⁷⁶ The Trade & Development Bank (TDB) of Mongolia additionally raised US\$500m from the international markets in May 2015 and successfully paid its government quaranteed US\$115m Dim Sum Bond in January 2017.⁷⁷

Government Guaranteed or Government Related Deals Due in the Coming Years

Offering Year	Issuing Entity	Amount	Туре	Due
Nov 2012	Government of Mongolia	US\$1.5B	Chinggis Bond	2018 & 2022
Dec 2013	Development Bank of Mongolia	JP¥ 30B or US\$290m	Samurai Bond	2024
Aug 2014	Development Bank of Mongolia	US\$300m	Syndicated loan	2017 & 2019
Aug 2014	Development Bank of Mongolia	US\$162m	Loan from China Development Bank	2022
May 2015	Trade & Development Bank of Mongolia	US\$500m	Government Guaranteed	2020
Jun 2015	Government of Mongolia	CNY 1B or US\$161m	Dim Sum Bond	2018
Jun 2015	Development Bank of Mongolia	US\$20m	Bilateral Loan Agreement	2023
Apr 2016	Development Bank of Mongolia	US\$75m	Loan Agreement	2018
Dec 2016	Development Bank of Mongolia	MNT235b or US\$115m	Loan to construction housing for ASEM	2020
Mar 2017	Government of Mongolia	US\$600m	Government Bond	2024
May 2017	Government of Mongolia	US\$440m	IMF Program	2020

Mongolia, once Asia's golden child, has had an image problem in recent years. The minerals have lain under the ground, but commodity pricing and a lack of FDI, have conspired to dent investor confidence. In March 2017, this dramatically changed. The sovereign exchanged state-guaranteed bonds and also offered a new tranche to investors. Part of this US\$600m package was priced 3% inside a shorter issue in 2016.⁷⁸

82% of holders of bonds from the DBM, exchanged into new seven year notes at par.⁷⁹ There was a new issuance of around US\$124m also marketed with the aim of raising new funds.⁸⁰ The issued guidance set the yield at 8.25%, however, this eventually closed at 7.625%.⁸¹ Whilst it would have been possible to set the guidance rate at a lower level, the issuer erred on the side of caution, in part to reward existing bond holders.

It is not overly surprising an international package provoked a positive response in international capital markets. The extent of the change in apparent perceptions of Mongolia's prospects, however, is rather more striking. In March 2016, the Mongolian government sold \$500m of five-year bonds at a rate of 10.875%, and although oversubscribed, the rate of interest represented a perception of very significant risks.⁸² The transformation, is heartening for Mongolian industrialists and politicians alike.

The transformation, is heartening for Mongolian industrialists and politicians

⁷² Ibid

⁷³ Mongolian Bankers Association (2017)

⁷⁴ Ibid

⁷⁵ Ibid

⁷⁶ Ibid

⁷⁷ Ibid

⁷⁸ Reuters (2017)

⁷⁹ Nasdaq (2017)

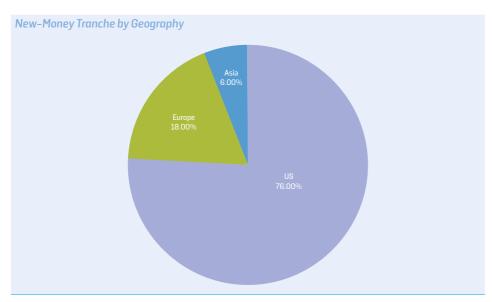
⁸⁰ Ibid

⁸¹ Ibid

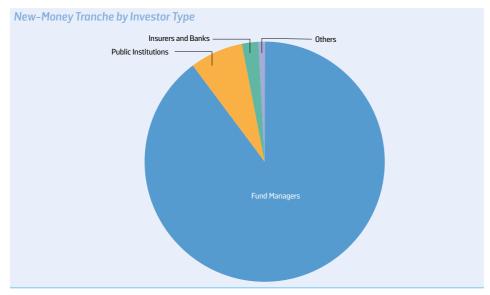
⁸² Ibid

By way of comparison, the 2016 issuance had orders of c. US\$750m for US\$500m of available notes.⁸³ The 2017 issuance, however, saw investors place orders in excess of US\$3bn, for a much smaller issuance of less than US\$125m.⁸⁴ Detractors claim the better pricing and appetite is a reflection of the IMF implicitly standing behind Mongolia. This analysis is simplistic. All parties to the package are at pains to remind onlookers this is a Mongolian reform program and as such, if there is a failure to deliver on obligations then responsibility will reside with the government in Ulaanbaatar.

Nasdaq analysed the distribution of buyers. Overwhelmingly US based, there was also a strong representation amongst those based in Europe. 85 Fund managers were dominant accounting for 90% of purchasers, with only small representations amongst public institutions, banks and insurers. 86 Observers are cautiously hoping the pricing achieved on the first tranche can be replicated in the coming months and years.



Source: Nasdag



Source: Nasdag

83 Ibid

be replicated in the coming months and

84 Ibid

85 Ibid

86 Ibid

It is, of course, early to imply Mongolia is now in favour amongst global bond investors. There are significant structural challenges, but by any estimation this was a positive start. At the time, pre-conditions were still attached to the package, and it is only now they have been satisfied. Looking ahead, much now is down to policy makers in Ulaanbaatar. If the country is seen to achieve its shared objectives with the IMF and exercise fiscal restraint, it is possible future bond issuances will be more keenly priced. A gentle but steady movement toward international rehabilitation will offer the Mongolian government a fighting chance of sustaining balanced economic growth in the future.

IMF Package

The last months of 2016, were characterized by concern, both at home and abroad, as to whether Mongolia could convince the IMF and other stakeholders, to offer financial assistance. The country let off a collective sigh of relief in February 2017, when a staff-level agreement was reached.⁸⁷ Hard work – and flexibility – on both sides, had enabled a successful conclusion to a complex, multifaceted negotiation.

In early February, a delegation of IMF officials closely engaged with Mongolian authorities, in trying to marry potential financial assistance to a menu of economic policies designed to revive a flagging economy and repair a large hole in public finances. Led by Koshy Mathai, it eventually announced a deal which would involve an Extended Fund Facility (EFF) of around US\$440m alongside assistance from key strategic partners.⁸⁸

Both the IMF and the government of Mongolia have been keen to emphasise this is the country's plan for recovery, not an internationally imposed set of policies. The Mongolian government has an 'Economic Stabilization Program', which is aimed at increasing the sustainability of debt and restoring economic credibility. The IMF package is designed to support this process, alongside further assistance from the ADB, World Bank, Japan and South Korea. It also involves the extension of a 15-billion-yuan currency swap with China by three years.

In Mathai's statement, there were takeaways familiar to Mongolia-observers. He stressed its promising future, on the basis, not only of mineral wealth, but potential to diversify into agriculture and tourism.⁸⁹ Noting Mongolia's young and dynamic population, Mathai highlighted the need for fiscal consolidation, and a departure from the previously expansionary economic policy which had been a major contributory factor to Mongolia's difficulties.⁹⁰

One characteristic of the reforms is the attempt to galvanize public support by avoiding blanket austerity. Targeted social spending, for instance, is to be maintained, with funds from the Child Money Program used to pay for food stamps for society's most vulnerable. In an attempt to ensure those with the broadest shoulders contribute most to the country's recovery, a progressive rate of taxation is due to be introduced.

Reforms to the banking system are also integral to hopes of a more sustainable economic future. The Bank of Mongolia (BOM) is to refrain from quasi-fiscal activities,

87 IMF (2017)

88 Ibid

89 Ibid

90 Ibid

The Mongolian government has an 'Economic Stabilization Program', which is aimed at increasing the sustainability of debt and restoring economic credibility.

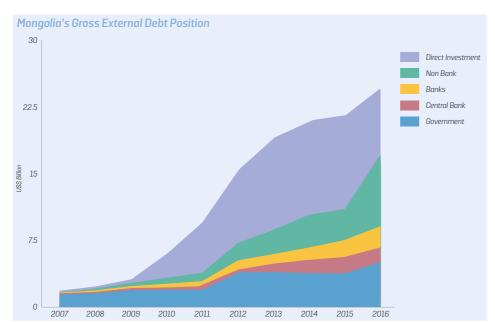
and the mortgage fund, is to only operate a revolving facility. The DBM, meanwhile, is due to act in an independent, commercial manner — a role enshrined in recent statute. In particular, effective stress–testing of the loan books of Mongolia's banks, will enable restructuring to ensure resilience in coming years.

In order to ensure there is a continuation of fiscal discipline, an independent Fiscal Council is to be established, to provide forecasts and advice on new policy proposals. Meanwhile, monetary policy is expected to remain relatively tight, but this does not preclude the possibility of allowing a cut to the policy rate if economic conditions improve. Importantly, there is to be a flexible movement of the currency, free from interference by government.

The best intentions of politicians, and the most finely tuned structure, however, will only be maintained, if there is a return to growth. To this end, the IMF seems positively predisposed to statements and actions taken by the Mongolian government. Inter alia, these include directly attempting to attract new investment to major mining projects, investing in infrastructure and taking the first tentative steps toward diversification. It will be of some comfort to international investors that the plans to achieve these objectives were developed in conjunction with the ADB.

The consequence of the package of support — and the plans of the Mongolian government — is strong growth of eight percent is expected by $2019.^{91}$ IMF projections suggest by that time foreign exchange reserves will be back at 2012 levels, providing insulation in the event of exogenous economic shocks. 92 It would also place Mongolia in a better position in terms of reducing the level of the public debt.

By April 2017, the IMF's representative, Neil Saker, confirmed Mongolia had met all necessary pre-conditions. ⁹³ The government had passed a supplementary 2017 budget, undertaken a review of the quality of assets held by its banks, and confirmed the BOM's departure from quasi-fiscal activities. Swift satisfaction of these requirements bodes well for the success of the overall program in months and years ahead.



Source: Bank of Mongolia

Strong growth of eight percent is

bodes well for the success of the overall

93 Ibid

In January 2015, the Government budget included DBM's non-commercial projects, which amounted to a total of MNT794 billion, but commercial projects remained outside the budget. 94 According to the World Bank, public sector debt had risen to 85% of GDP in 2016. 95 This includes the Bank of Mongolia's debt as well as SOE debt, in addition to the general government debt – the majority in foreign denominations. This, combined with the current account and currency depreciation difficulties noted above, along with the fact that most revenue is in local currency, put the government in a rather vulnerable position. The FSL stipulates that the ratio must not exceed 40% by 2018.96

However, the debt ceiling terminology has been refined and narrowed, from "public debt" to "general government debt", excluding SOE debts that are not under government guarantees, as well as government guarantees that are collateralised by borrower's government bond holdings. This has allowed the government to seek further external borrowing without breaching FSL by using non–government entities, particularly major commercial banks which are the principal holders of government bonds.

January 2014 saw Mongolia get its first taste of CNY denominated dim–sum bonds, the TDB raising around CNY700m or US\$115 million at a 10% yield.⁹⁷ According to the Bank of Mongolia, Mongolia's total external debt was around US\$24.6 billion at the Q4 of 2016 or two times GDP.⁹⁸ Mongolia's strong tax base and growth fundamentals should allow the government to correct its fiscal position, provided the FSL is respected and politicians can resist the lure of continued off–budget spending moving forward.

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1.3.4 MONETARY POLICY

Mongolia's financial sector grew from a centrally planned, Soviet-style single bank system to its present composition of fourteen commercial banks, seventeen licensed insurance related companies, 62 stock & brokerage related institutions, 518 Non-Banking Financial institutions (NBFIs), and about 280 Savings and Credit Co-operatives (SCCs).⁹⁹ All banks are under supervision by Bank of Mongolia ("BoM") the country's central bank, while all NBFIs, SCCs and brokerage and insurance companies report to FBC.

Bank of Mongolia's (BoM) mandate is focused almost entirely on maintaining price stability in the local economy through careful monitoring of local consumer prices and similarly in the external sector, through market-oriented management of the exchange rate. The capital account is open in Mongolia, which means there are no restrictions on the flow of the capital in and out of the country. In 2012 the bank successfully introduced a price control program, which brought inflation down below 10% for the first time in nearly three years. However, BoM learned a harsh lesson during the 2009 financial crisis when it tried, unsuccessfully, to intervene in the foreign exchange market. The bank emerged from this ordeal with severely reduced reserves, and BoM's directors learned not

94 Bank of Mongolia (2017)

95 World Bank (2017)

96 Bank of Mongolia (2017)

97 Ibid

98 Ibid

99 Mongolian Bankers Association (2017)

100 Ibid

Bank of Mongolia's mandate is focused almost entirely on maintaining price stability in the local economy

⁹¹ IMF (2017)

⁹² Ibid

to fight the market head-on and instead intervene on a more subtle and limited scale, as during the 2013 exchange rate spike.



Source: World Bank



Source: Bank of Mongolia

The local financial community received a jolt in July 2013 when Savings Bank (anointed the "Best Managed Bank in Mongolia" by The Asian Banker magazine just a few months earlier) announced that it was insolvent and would be taken over by the Mongolian government and restructured. It was later revealed that the bank had made several large failed loans to its parent company, Just Group. Savings Bank was undoubtedly a small outlier case of poor corporate governance, but its failure raised concerns regarding the rest of the banking sector, which witnessed a 40% year-on-year expansion in loan volume during the first half of 2013.¹⁰¹ Mongol Bank has since taken steps to tighten supervision and increase reserves and there appears to be little systemic risk.

year-on-year expansion in loan volume



Source: Bank of Mongolia

Between March 2013 and March 2015, the exchange rate depreciated by 40% against the US\$ in response to a large balance of payments deficit. 102 The currency depreciated again 24% between June and November of 2016 and the BOM hiked the policy rate to 15% in August 2016, due to the monetary conditions. ¹⁰³ In December 2016, it was lowered to 14%. The currency rate movement has been less volatile since then. The RMB15 billion currency swap agreement with People's Bank of China was signed on February 2017 for three years and due to the refinancing of the US\$580 Eurobond, the external liquidity risks have been reduced significantly. 105

One of the fastest growing areas of Mongolia's financial sector is the local mortgage market. In July 2013, the government announced a new subsidized loan policy that reduced the average mortgage interest rate to 8% (from 20%).¹⁰⁶ The initial capital allocation was around \$675m, provided by the Chinggis bonds for the policy. 107 The parliament also started discussing whether to decrease the 8% interest rate mortgage to lower rates of 5%. The BOM provided MNT350 billion to the commercial banks. 108 Outstanding policy loans provided by the BOM have reached MNT4 trillion. 109

The mortgage program currently makes up 77.5% of the total mortgage loan and the remaining 22.5% is financed by the banks' own assets. 110 The policy has lowered marketwide rates, effectively increasing disposable income for middle – class families. Housing prices in the lower and middle range of the market have appreciated in response to this policy. The average interest rate for mortgage loans declined dramatically from

102 Bank of Mongolia (2017)

103 Ibid

104 Ibid

105 Reuters (2017)

106 UB Post (2012)

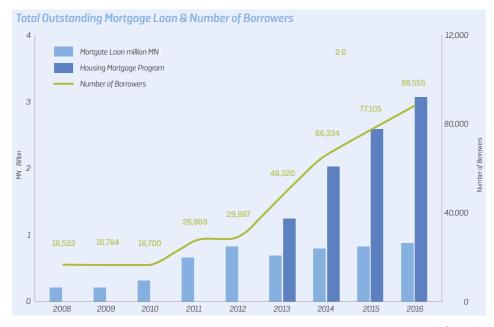
107 Ibid

108 Bank of Mongolia (2017)

109 National Statistics Office of Mongolia (2017)

101 Ibid 110 Ibid

16.6% in mid 2013 to the current 10.3%.¹¹¹ The loans in arrears are 2.5% of the total, and non-performing loans (NPLs) are 1.4% of the total outstanding mortgage loan book as of December 2016.¹¹² The weighted average years of the mortgage loan is currently 16.8 years with 88,555 borrowers reached.¹¹³



Source: Bank of Mongolia

The banking landscape in Mongolia: major players and barriers to new market entry

Mongolia's earlier mono-banking system saw resource allocation according to government frameworks. In the early 1990s, however, macroeconomic conditions altered the system, resulting in a two tier framework by 1991, where the Central Bank and several state-owned commercial banks, operated simultaneously. The Asian Crisis in 1998–1999, however, led to full privatization by 2000, and with it, the operation of sixteen commercial banks. 114

In the early phases of the Mongolian banking system, approximately thirty banks were established, and almost half of them filed for bankruptcy or underwent restructuring. Although, both government, international and local agencies have implemented notable financial reforms designed to leverage and facilitate a more robust system, eighteen banks have failed as of 2016. This mainly owes to misalignment and inconsistent strategies that have failed to meet micro and macroeconomic conditions.¹¹⁵

Today, the Mongolian banking sector has became the core of the financial system. Banks in Mongolia are unarguably important financial institutions, however, there are still challenges for both banks themselves as well as borrowers. For instance, micro, small and medium-sized enterprises in Mongolia comprise 98% of total businesses and only

- 111 Bank of Mongolia (2017)
- 112 Ibid
- 113 National Statistics Office of Mongolia (2017)
- 114 ADB (2008)
- 115 Bank of Mongolia (2017)

10% (or 37,000) have regular access to bank loans. This is particularly problematic since the World Bank Enterprise Survey found the main impediment to operating a business in Mongolia is access to finance. The survey found the main impediment to operating a business in Mongolia is access to finance.

It is a paradox that despite Mongolia having the highest bank penetration rate in the world – one branch per 15,257 residents – the inadequate development of other financial services means the majority of Mongolian enterprises struggle to access capital. This is a phenomenon observed in academic studies – in developing countries a dominance of banks means frustrated development and diversification in the financial sector. Interestingly, no Mongolian bank stocks are listed on the Mongolian Stock Exchange.

Mongolian Banking Sector Asset Size

Year	2007	2008		2009	2010	2011
Total*	3,384	3,650		4,422	6,246	9,372
Year	2012	2013	2014	2015	2016	2007 –
						2016
Total*	11,992	20,884	22,582	21,557	23,310	+589%

Note: In billion tugriks Source: Bank of Mongolia

The Mongolian banking sector is one of the fastest growing sectors in the country and has showed remarkable expansion over the last decade in terms of asset size: the growth rate between 2007–2016 was 589%. ¹²¹ In 2012, total banking assets were equal to 86% of the country's GDP while this number grew to 103% in 2014. ¹²²Three major banks – TDB, Khan Bank and Golomt Bank – made up 71% of the total assets in the sector: 28%, 25% and 19% respectively as of the first quarter of 2016. ¹²³ The remaining 29% of assets are shared by eleven banks. ¹²⁴ Although, the banking sector in Mongolia seems to be highly concentrated in the hands of three institutions, a competitive assessment using an econometric model rejects collusive behaviour by banks. Banks in Mongolia operate in a highly competitive environment according to an empirical study: competition increased in interest income generation (79%) although competition slightly decreased in non-interest income generation such as transaction payments. ¹²⁵

The lending interest rate at 19.02% is high relative to the world's mean rate of 11.5%. This reflects prevailing economic risks, inflation and the stability of fiscal policy. What it also means, however, is an innate vulnerability, since customers have to pay high interest rates even when commodity prices decrease sharply. The majority of those taking out loans are from a few sectors, such as property development, mining and trading –

116 World Bank (2012)/ ADB (2015)

117 World Bank (2015)

118 ADB (2015)

119 Beck et al (2013)

120 ADB (2015)

121 ADB (2015)

122 Ibid

123 Mongolian Banks Association (2016)

124 Ibid

125 Bulgansaikhan (2016)

126 World Bank (2014)

The Mongolian banking sector is one of the fastest growing sectors in the country

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amounting to 65% of the total.¹²⁷ Therefore, these sectors are particularly adversely affected during a downturn, and so there is often an increase in NPLs. In recent years, this has posed a real threat to the integrity of the banking system, however, in the last two quarters, there has been a steady improvement. This applies both in terms of profit generation and a decrease in NPLs by MNT 17 million. ¹²⁸

In summary, banks are vital to the financial sector and broader real economy. It is the fastest growing sector, though still highly concentrated and lacking diversification. This said, the financial system's dependence on banking is in keeping with other countries in a similar stage of development. Looking ahead, it is worth observing the very real risk of NPLs in recent years is beginning to be resolved, contributing to the overall health of the system.

Foreign Banks presence in Mongolian banking sector:

Foreign banks have two means of participating in the Mongolian banking system:

- 1. Direct investment through the acquisition of shares of existing banks
- 2. Opening representative offices in Mongolia

Eight banks (of the fourteen operating in the economy) have foreign investments while three major players (Khan, TDBM and XAC) have foreign shareholders.

	Local Banks	Foreign Shareholders:
1.	Khan Bank (54.4%)	 41.30% Sawada Holdings Co.Ltd (Tokyo, Japan) 13.10% H.S. International (Asia) Limited (Hong Kong) (100% subsidiary company of Sawada Holdings in Hong Kong)
2.	Xac Bank (71.3%)	 16.8% ORIX corporation (Japan) 12.91% EBRD (EU) 10.52% National Bank (Montreal, Canada) 17.2% International Finance Corporation (IFC) 10.15% Ronoc (Ireland) 3.73% Tridios Fair Share Fund
3.	Trade Development Bank of Mongolia	19.9% United Banking Corporation4.78% GS Mongolia Investments Limited, Goldman Sachs

Source: Bank of Mongolia

Since 2008, foreign banks have opened representative offices in Mongolia in order to conduct market research, offer bridging services and provide cost-competitive loans to local entities. In 2016, there were four representative offices for foreign banks operating in Mongolia.

	Foreign Bank representatives	Dates since	Intermediated amount
1	ING Bank (closed down)	August 2008	USD 236.9 million
2	Bank of China	December 2012	USD 63.3 million
3	Sumitomo Mitsui Banking Corporation	July 2013	USD 148.8 million
4	Bank of Tokyo Mitsubishi UFJ	December 2013	USD 138 million
5	Industrial and Commercial Bank of China	January 2017	USD 0
		Total:	USD 587 million

Source: Bank of Mongolia

Until recently, foreign bank activity in Mongolia was governed by the Banking Law of Mongolia, the Law on Foreign Investment of Mongolia, the Company Law of Mongolia, the Regulation on Licensing of the Bank and its units which are issued by the Bank of Mongolia. Foreign banks operating in the country have to fulfil the following criteria:

- 1. At least one representative office of the given bank operating in Mongolia as required by Banking Law of Mongolia;
- 2. If 33% of the total shares are owned by a state entity this has to be regulated by the Law on Foreign Investment of Mongolia (sections 21 and 22); and
- 3. Alongside meeting criteria required by the Banking Law of Mongolia, meet further requirements set out by the Regulation on Licensing and its units 2.3 and 2.4.

Realising the high demand for large-scale financing on the one hand, and the enthusiasm of foreign investment banks for Mongolian operations, the new Investment Banking Law will be discussed in the Parliament of Mongolia, and has a high chance of ratification despite detractors citing its overlap with the Banking Law of Mongolia. This law is perceived to have potential, since it allows foreign banks to enter the market and get a license for investment banking. The authors of the law believe it will provide legal conditions for foreign investment banks to operate in Mongolia but with some restricted and limited areas of the market.

For instance, foreign banks are expected to finance large-scale projects, conduct international transactions, provide bank guarantees and purchase and sell securities. However, the investment banks will not have the right to provide savings accounts to retail banking customers.

The sponsors of the bill believe allowing foreign investment banks to participate in the economy will not only introduce much needed competition but also fill a gap in the current system. Presently, local entities struggle to finance projects of between US\$50m-\$100m, and this could be offered by foreign players. The statutory fund (required equity fund) for foreign investment banks is expected to be no less than MNT 500 billion, in order to provide services to projects costing over MNT 100 billion.

Allowing foreign investment banks to participate in the economy will not only introduce much needed competition but also fill a gap in the current system

1.3.5 INVESTMENT

The composition of financing sources underpinning investment since 2010, shows Mongolia is heavily dependent on FDI, and a sharp drop has dampened fixed investment since 2013. With FDI sharply falling over the last few years, public investment financed by the government budget and DBM has rapidly risen, relying on domestic and external debt financing.

Foreign investment has been directed primarily into the minerals sector but the rising tide of FDI has spread outward to contractors and service providers, lifting all sectors of the economy. Significant amounts of foreign capital have also been injected into the construction, wholesale and retail sectors. Investments into the mining sector have declined dramatically due to the decrease in commodity prices, however, total investment into the construction sector has increased fivefold since 2009, and

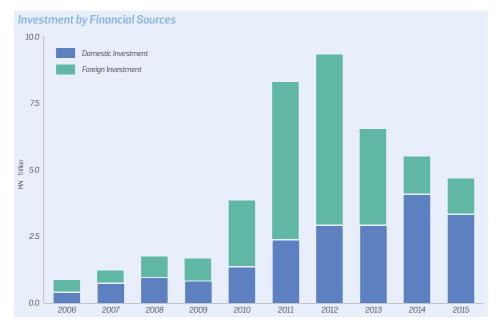
primarily into the minerals sector but the rising tide of FDI has spread outward to contractors and service providers

127 Mongolian Bankers Association (2017)128 Ibid

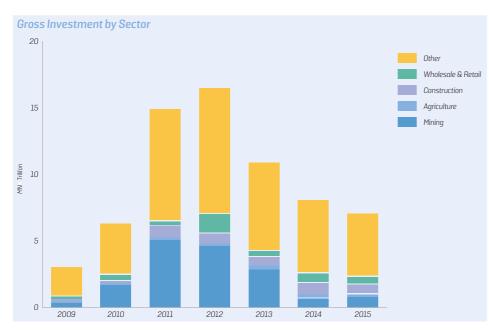
banking is in keeping with other countries

in a similar stage of development

wholesale and retail sector investments, have almost doubled since $2009.^{129}$ Although agriculture constitutes a large part of GDP, investment remained low at only 1.1% of the total at the time of the last release of figures, in $2015.^{130}$



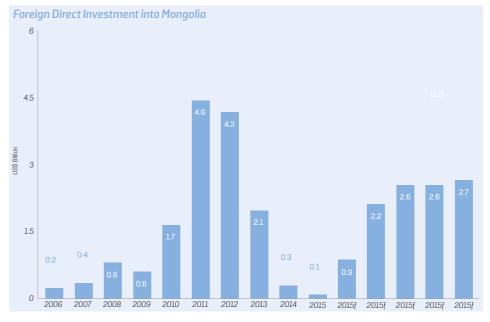
Source: National Statistics Office of Mongolia



Source: National Statistics Office of Mongolia

The single largest foreign invested project — also the single largest project in Mongolia's history — is the Oyu Tolgoi copper gold mine. The OT project is responsible for a large portion of the FDI that has entered the country over the past several years. The sudden decline of foreign investment since 2012 is due in large part to the winding down of expenditures related to the open pit first phase of OT's construction. The global retreat of capital from emerging markets as developed economies recover is another factor that contributed to the fall in FDI.

129 National Statistics Office of Mongolia (2017) 130 Ibid



Source: World Bank

This sentiment came to a head in early 2012, when the Aluminum Corporation of China Limited (CHALCO), a Chinese state-owned company, made a bid to acquire control of SouthGobi Resources, a major local coal producer. China already buys more than 90% of the coal that Mongolia produces, and Winsway Coking Coal, another Chinese company, is the biggest player in the purchasing and transportation market for Mongolian coal. In the build-up to the 2012 parliamentary elections, most members of parliament were eager to show their nationalist credentials and score populist points in order to gain votes. As a result, in May 2012, just a few weeks before the parliamentary elections, Mongolia passed the now infamous Strategic Entities Foreign Investment Law (SEFIL) by a wide margin. The law stated that any foreign investment of over US\$75 million or any foreign investment of any size that targets the mining sector or other sectors deemed "strategic" must be reviewed and approved by Parliament.

As a result, in 2013, FDI dropped more than 50% year-on-year, and in 2014, it further declined 84% from its 2013 level – amounting to just one third of a billion dollars. In 2015 it further declined to US\$94 million (which in 2011 was US\$4.6 billion). World Bank estimates FDI should pick up in 2016 with around US\$0.9 billion and in 2017 with US\$2.2 billion. In 2015 with 2016 with 2016 with 2016 with 2016 with 2016 with 2017 with US\$2.2 billion.

Cognizant of the dropoff in FDI and its dramatic negative impact on the economy, Mongolia's Parliament called an emergency session in late September 2013. While no regulations were passed during the session, a number of bipartisan proposals were floated regarding legislative changes that might help to lure capital back to Mongolia. During the first week of the regular fall session starting in October, parliament passed a new investment law designed to encourage FDI. The new law supersedes all prior investment laws, canceling the controversial SEFIL, and erases many of the former distinctions between foreign and local investors – limiting restrictions to foreign state owned firms. It is based on "stability agreements" that lock in tax rates, royalty payments and other regulations for investors of capital that exceed predetermined thresholds.

World Bank estimates FDI should pick up in 2016 with around US\$0.9 billion and in 2017 with US\$2.2 billion

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¹³¹ World Bank (2017)

¹³² Ibid

¹³³ Ibid

The stability agreements delivered under the law provide investors with a guarantee that the profitability of their projects will not be subject to the whims of future elected governments, thus significantly reducing sovereign risk. The exact length of the stability agreement guarantee depends on the amount of capital invested and the region where the project is developed, with capital invested in Mongolia's less developed provinces receiving preferential treatment. Its world-class mineral reserves hold incredible allure and will almost certainly be developed by one source of financing or another.

1.3.6 FOREIGN RELATIONS

Against a backdrop of plummeting FDI, a local currency free-fall, and negotiations stalled at Oyu Tolgoi, 2014 saw a number of high-profile visits from neighboring heads of state. Xi Jinping became the first Chinese President to visit Mongolia in more than a decade, pledging to double trade to \$10bn by 2020 with a focus on infrastructure, transportation and financing requirements. South Korean Foreign Minister Yun Byung-se followed with cooperation agreements on bilateral trade and national security, and Russia's President Vladimir Putin also visited. Such visits have been important to gradually reassure overseas investors that Mongolia is open for business.

The Tugrik showed signs of stabilizing off the back of Xi Jinping's 2014 visit, rallying for the first time to around MNT1,820 to the US\$. However, the Tugrik continued its decline in 2015 and stabilized around MNT1,950 to US\$. The Chinese president increased the value of the currency swap agreement between the central banks from CNY10bn to CNY15bn, bolstering Mongolia's weak external position. Hastened perhaps by western sanctions, Putin agreed to lift import duties on Mongolian meat to help develop the agricultural sector. On September 2015, Mongolian President Elbegdorj visited China and met with Chinese President Xi Jinping. Both parties agreed to increase cooperation and signed eleven trilateral agreements on future infrastructure projects as part of China's "new silk road" venture to improve economic links. Xi Jinping has stated current China-Mongolia relations are the "best in history".

In November 2015, the Mongolian Parliament approved the much-needed US\$1bn loan from Export-Import Bank of China with a majority vote of 84% in favor of the agreement. Under this plan, Mongolia would spend US\$ 703.5m for the "Egiin Gol Hydro Electric Station Project", US\$102.5m for constructing the overhead power lines for the "Ulaanbaatar Mandalgovi Power Plant", US\$40m for modernizing the heat generation facility at the "Erdenet Power Plant", US\$40.8m for the expansion of the roads at the Gatsuurt crossroad, US\$66.2m for building a meat processing factory and the remaining US\$20m for professional training centers. The agreement terms are favorable to Mongolia with a 2% annual interest rate over 20 years; Mongolia will start paying it from the year 2022.

In May 2015, Narendra Modi, the first Indian Prime Minister to visit Mongolia, held wide-ranging talks with his counterpart Chimed Saikhanbileg, where the two sides inked fourteen agreements covering defence, cyber security, agriculture, renewable energy and the health sector. Mr Modi announced that India would provide a US\$1 billion Line of Credit to support the expansion of Mongolia's economic capacity and infrastructure. This

credit will be a long term investment from India, supporting areas in mining, healthcare, pharmaceuticals and dairy.

Mongolia hosted the 11th Asia–Europe Meeting (ASEM) on July 15–16, 2016. The summit was attended by the European Council President, Donald Tusk, European Commission President, Jean–Claude Juncker, and High Representative, Federica Mogherini, as well as the leaders from about fifty European and Asian countries. It was one of the biggest events Mongolia has hosted in terms of promoting the country to the world, as well as attracting foreign investment. Mongolia signed a US\$500m soft loan agreement with the Chinese Government during this summit to finance the airport highway and railroad, as well as fourteen other documents.

In 2017, there have been further positive developments in terms of interaction with other international partners. Russia has signed a number of cooperation agreements, talks have resumed with India, and summits have been held with both the Chinese and Kuwaitis. Further, South Korea and Japan are also parties to the broader package put together with the IMF, and are committed to fostering economic development.

The real legacy of Genghis Khan: China today.

A very brief history

Genghis is, of course, the founder of his nation, and of the world's greatest land empire. In Mongolia, pride in him knows no bounds. He was also responsible for deaths by the million. In terms of leadership, he was a phenomenon, starting from almost nothing, rising to lead clan, federation, nation and empire. But his significance goes beyond all that, reaching down the centuries to affect today's China, and thus the world.

Genghis had no imperial agenda. What drove him was what drove other Mongolian chiefs in the 12th century: a desire for security and wealth. Security lay in allies, who could be paid only in booty, which for feuding clans in a pastoral–nomadic economy meant herds of animals, fighting men, women, and weapons. Young Temujin, as he was born, turned out to be a genius at steppe politics. It took him 20 years to unite Mongolia's clans and tribes. In 1206, as khan, he was granted his unique title of Genghis (its much disputed meaning was probably an obsolete Turkic term for 'fierce').

Amazingly, he rose to a new level of leadership, seeing that he would need something more than an old-fashioned tribal chiefdom — proper government, taxation, records, bureaucrats. To this end, he employed talent wherever he found it and imported a script from one of his new subjects, the highly literate Uighurs. That's the script you see today on banknotes, formal documents and in regular use in Inner Mongolia.

What next? More of the same, with allies to be rewarded with yet more booty, which would be found by trade with the world of Islam to the west and by conquests south, in today's China.

What we now call China was nothing like today's. Wars and invasions and ancient tribal regions had divided it into many parts, mainly Jin (ruled by the Jürchen from Manchuria) in the north–east, Tangut–ruled Western Xia (in the west), the Chinese Song empire in the south, Tibet and Yunnan.

Xi Jinping has stated current China— Mongolia relations are the "best in history"

What we now call China was nothing like today's

Jin, with its capital in what is today Beijing, was the No 1 enemy and Genghis's prime target. But Jin, with many well-fortified cities, was too strong for an army of nomads. Genghis first aimed at Western Xia to crush Jin's main ally, then, with his flanks secure, he galloped across the Gobi to attack Jin. That meant taking out several cities and fortresses on the way and besieging Beijing. A brutal siege ended in 1215. That success gave him troops and — most crucially — powerful new weapons, like explosives, siege-bows, catapults and battering rams. His army became a snowball, gathering pace with every city taken. Most of north north China fell to him, and the rest would have fallen, if there had not been a surprising development.

In 1218, a large Mongol trade delegation of 100 or so arrived at the border of the Islamic kingdom of Khwarezm, with its Silk Road emporia like Samarkand and Bukhara. The governor of the town, Otrar, chose to see the delegation as a threat, and killed them all – and then, when Genghis's sent three envoys to talk, the governor killed those as well.

Genghis, offended beyond measure, turned from China on the west. The invasion of the Islamic world was a disaster without precedent. Cities fell, millions died, the Mongols seized much of today's Central Asia, Iran and Afghanistan. In 1215, Genghis returned to complete the conquest of north China.

And on this campaign, in the summer of 1227, on the verge of extending his conquests into the Chinese heartland, he died, probably of typhoid. The campaign came to a sudden halt. He was rushed back to his homeland in northern Mongolia for burial in a secret grave.

His heir, his third son Ogedei, assumed the task of conquest, and took another great step forward. To date, the Mongols had been on one vast looting expedition, with unprecedented results. Success demanded an explanation, conquest needed a proper justification – in short, an ideology.

It ran like this: obviously, god – in the form of the Mongol sky-deity Khökh Tengri, the Blue Sky – was on the side of the Mongols. Their success proved it. What limits might Tengri set? Apparently none. The conclusion was clear: the whole world had been given to the Mongols, and it was their divine duty to make all nations on earth acknowledge this astonishing fact.

Of course, by hindsight, it was completely daft and doomed to failure. But we should remember that no-one – certainly not the Mongols – had any idea of the world's true size and complexity.

So on they went. A nasty civil war ended with Genghis's remarkable daughter-in-law, Sorkaktani, hijacking power for three of her sons. Expansion continued, into southern Russia, to the gates of Vienna, to the fringes of Egypt, and further into north China. In 1260, Sorkaktani's son Kublai, based in north China, became Great Khan, taking over his grandfather's mantle, and with it the grand vision of world rule.

His first task was to establish himself. He did this by building his first capital Xanadu (Shang Du, 'Upper Capital' as it is in Chinese), extending his ideology by turning Buddhist (which brought Tibet under Mongol control), and rebuilding Beijing. Then came the conquest of the rest of China. A vast invasion ended in 1279. Then, in line with his divinely inspired ambitions, would come the rest of the world.

At this point, he came up against reality. Several invasions – Vietnam, Burma, Japan (twice) – all ended in disaster. Indeed, the 1281 armada against Japan failed when a typhoon destroyed his 4,000 ships – the greatest sea-borne invasion until D-Day and the greatest naval disaster ever.

But those disasters still left an astonishing legacy: China pretty much as we know it today. The Mongol empire itself fell apart, as Genghis's squabbling heirs went their own ways, but Kublai made himself a Chinese emperor, with a Chinese dynasty, the Yuan. His realm united all China, from the rich belly of the east to the mountains and deserts of the west. No later dynasty reversed his acquisitions. That is why Yunnan and Tibet and the Western Regions of Xinjiang are ruled from Beijing today.

True, Mongolia itself broke away from China in the early 20th century when China was weak. But the Chinese take a long view. Many Chinese see all Mongolia — not just Inner Mongolia, which has been in the Chinese sphere for well over a century — as a part of China. If history has a force, they think, it will one day bring Mongolia back into the Chinese fold. It is a thought that makes Mongolians extremely nervous.

JOHN MAN writes on Inner Asia, in particular Mongolia and north China. After studying languages at Oxford, he did post-graduate courses in the History and Philosophy of Science (Oxford) and Mongolian (SOAS, London). His book, Genghis Khan: Life, Death and Resurrection is a best-seller in 22 languages. Other books in print include Attila the Hun, Kublai Khan, The Terracotta Army, The Great Wall, Xanadu (published in the US as Marco Polo, to accompany the Netflix TV series) and The Mongol Empire. Saladin appeared in April 2015, and his latest, Amazons, in June 2017. In 2007, he was awarded Mongolia's Friendship Medal for services to Anglo-Mongolian relations.

1.3.7 EXTRACTIVE INDUSTRY

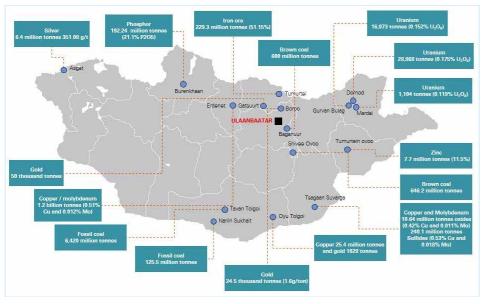
During the Soviet era, Russian geologists were well aware of Mongolia's vast mineral potential but for strategic reasons, few deposits, aside from the Erdenet Mining Corporation (EMC) copper mine in the north of the country and a few coal occurrences near the capital, were ever developed. Today the EMC remains a key constituent of government revenue and is one of the largest copper deposits in the world. Following the transition to capitalism, the sector began to develop gradually and organically, on a small and often informal artisanal level. Following the discovery of several world-class deposits in recent years, a number of large multinational corporate miners have entered the market. The result has been an explosion of FDI, which has made mineral exploration and extraction the new driving engine of the Mongolian economy.

Those disasters still left an astonishing legacy: China pretty much as we know it today.

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Location and the Resources of Strategic Deposits

To date, more than 1,170 mineral deposits and in excess of 7,654 mineral occurrences have been identified and to date there have been approximately 1,800 mining licenses issued in Mongolia. 135 Of these, sixteen are considered Strategic Deposits by the State, meaning the type and scale of these sites are considered to have a potential impact on national security, national and social development, or have the potential to produce more than 5% of total GDP.¹³⁶ The state can own from 34% to 50% of the shares of an investment made by a license holder in Strategic Deposits, depending on the source of exploration funding. There are an additional 39 deposits under consideration for classification as Strategic Deposits. 137

	Strat	egic Deposits of Mor	ngolia	
Strategic Deposit	Type of Mineral	Resources & Reserves	Company	State or Private
Oyu Tolgoi	Copper & Gold	Copper 44.6 million tonnes, Gold 1,914 tonnes	Turquoise Hill Resources, Rio Tinto, Erdenes Oyu Tolgoi (Erdenes Mongol)	State & Private
Erdenet	Copper & Molybdenum	Copper 1.2 billion tonnes at 0.51% Cu, Molybdenum 240.1 million tonnes at 0.018% Mo	Erdenet Mining Corporation (Erdenes Mongol)	State
Tsagaan Suvarga	Copper & Molybdenum	10.64 million tonnes oxides at 0.42% Cu & 0.011% Mo, 240.1 million tonnes sulphides at 0.53% Cu and 0.018% Mo	МАК	Private

license holder in Strategic Deposits

The state can own from 34% to 50% of the shares of an investment made by a

> few. To date, the largest deposits discovered have been found in the southern Gobi desert region. However, less than 27% of the country's surface area has been properly explored. Many more discoveries are expected in the coming years, especially in the relatively

> It is estimated Mongolia hosts more than US\$1.3 trillion in mineral reserves. 138 This

	Strat	egic Deposits of Mo	ngolia	
Strategic Deposit	Type of Mineral	Resources & Reserves	Company	State or Private
Tavan Tolgoi	Coking coal	Coal 6.4 billion tonnes	Erdenes Tavan Tolgoi (Erdenes Mongol) & Energy Resources & Tavan Tolgoi JSC	State & Private
Nariin Sukhait	Coking coal	Coal 125.5 million tonnes	Qinghua-MAK- Naryn Sukhait & MAK	Private
Baganuur	Brown coal	Coal 600 million tonnes	Baganuur JSC (Erdenes Mongol)	State
Shivee Ovoo	Brown coal	Coal 646.2 million tonnes	Shivee Ovoo JSC (Erdenes Mongol), State Grid Corporation of China	State & Private
Mardai	Uranium	Uranium 1,104 thousand tonnes at 0.119% U308	CNNC China	Private
Dornod	Uranium	Uranium 28,868 thousand tonnes at 0.175% U308	Khan Resources, Mon Atom	Private
Gurvan Bulag	Uranium	Uranium 16,073 thousand tonnes at 0.152% U308	CNNC China	Private
Tumurtei	Iron	Iron 229.5 million tonnes at 51.15% Fe	Darkhan Metallurgical Plant	State
Buren Khaan	Phosphor	Phosphor 192.24 million tonnes at 21.1% P205	Talst Margad LLC, Tefas Mining LLC, Sutaikhentso LLC (China), Topruokhentso LLC (China)	Private
Boroo	Gold	Gold 24.5 thousand tonnes at 1.6g/ton	Centerra Gold	Private
Gatsuurt	Gold	Gold 50.0 thousand tonnes	Centerra Gold	Private
Tumurtein Ovoo	Zinc	Zinc 7.7 million tonnes at 11.5% Zn	Tsairt Mineral LLC	Private
Asgat	Silver	Silver 6.4 million tonnes at 351.08g/ton Ag	Mongolrostsvetmet LLC	State

Source: Public filings & APIP estimates

buried wealth includes deposits of copper, gold, silver, thermal and coking coal, iron, molybdenum, uranium, tungsten, tin, fluorspar, and the full suite of rare earths, to name a underdeveloped western regions. In 2016, 83% of the total export was mineral products, totalling US\$4.1bn.139

135 Public Filings (2005-)

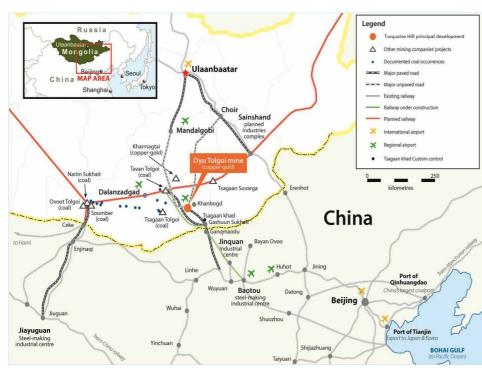
136 Ibid

137 Ibid

138 UB Post (2016)

139 National Statistics Office of Mongolia (2017)

Mongolian leaders are eager to diversify their revenue base and export to new markets Due to the downturn in commodity prices, Mongolian mining companies are currently struggling in terms of revenue. The market competitiveness of these mining companies is worsened by the lack of infrastructure development, especially for the bulk commodities of coal and iron ore. The much-debated development of a railway from Oyu Tolgoi and Tavan Tolgoi mines to the Chinese border has been postponed several times due to a lack of government approval and lengthy bureaucratic procedures. To date, the majority of mineral ore exports are trundled to the Chinese border across miles of unpaved desert terrain in large trucks and lorries. Inefficient transport raises the price of Mongolian exports and limits the country's ability to compete as a low cost producer in distant markets. Mongolian leaders are eager to diversify their revenue base and export to new markets. There are also a number of discussions in the development of downstream industries at Sainshand Industrial Complex, which will house coking coal plants, a copper smelter, iron pellets, cement plant and coal gasification.



Oyu Tolgoi mine & its current infrastructure

Major Players in the Extractive Industry Space

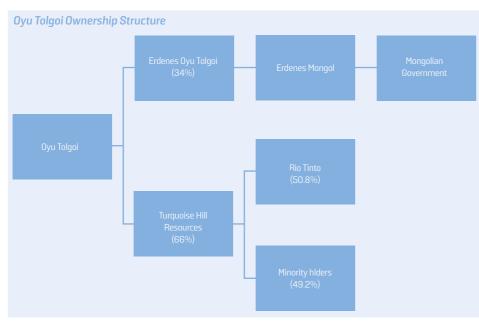
Copper has undoubtedly played a crucial role in the development of Mongolia's mineral sector. Copper, namely the Erdenet Mining Corporation, has been the key commodity of Mongolia for a number of years until coal exploration and production picked up since 2009. However, due to the commodity price downturn, coal companies decreased their production and copper became the most produced commodity in Mongolia — with exports rising significantly since 2013 and the development of Oyu Tolgoi. Recent figures, however, suggest a renewed role for coal.

	Major Prod	ucing Players and th	neir Results	
Company	Deposit	Resources & Reserves	Production	Sales Revenue
Oyu Tolgoi (Rio Tinto & Erdenes Mongol) NYSE:TRQ	Oyu Tolgoi	Copper 44.6 million tonnes & Gold 1,914 tonnes	201,300 tonnes of copper & 300,000 ounces of gold in 2016	US\$1.2B in 2016
Erdenet Mining Corporation (Erdenes Mongol)	Erdenet	Copper 5.2 million tonnes, Molybdenum 114 million tonnes	546,190 tonnes of copper and 5,206 tonnes of molybdenum in 2015	US\$532m in 2015 (MN¥1.064T)
Petro China Daqing Tamsag	Block XIX & XXI	2.4 billion oil reserves	6.9 million barrels in 2014	US\$220m in 2014
Energy Resources (Mongolian Mining Corporation) HKEx:0975	Ukhaa Khudag (Tavan Tolgoi) & Baruun Naran	391 million tonnes of coal reserves	3.0 million tonnes in 2016	US\$120m in 2016
Erdenes Tavan Tolgoi JSC (Erdenes Mongol)	Baruun Tsankhi (Tavan Tolgoi)	7.4 billion tonnes of coal and 1.4 billion tonnes of coking coal	3.8 million tonnes in 2015	US\$119m in 2015 (MN₹238B)
Bold Tumur Eruu Gol (Iron Mining International)	Bayangol	725.5 million tonnes of iron ore	3.7 million tonnes of iron in 2015	US\$96m in 2015 (MN₹193B)
MAK (Mongolyn Alt)	Nariin Sukhait	257.6 million tonnes of coal resources	3.2 million tonnes in 2015	US\$63m in 2015 (MN₹127B)
Altan Dornod Mongol		NA	1.5 tonnes of gold in 2014	US\$63m in 2014 (MN₹114B)
SouthGobi Resources TSX:SGQ	Ovoot Tolgoi, Soumber & Zag Suuj	114 million tonnes of coal reserves	3.38 million tonnes of coal in 2016	US\$58.5m in 2016
Baganuur JSC MSE:BAN	Baganuur	812 million tonnes of coal	3.7 millions tonnes of coal in 2015	US\$56m in 2015 (MNT101B)
Tsairt Mineral (NFC & Metalimpex)	Tumurtiin Ovoo	NA	100,000 tonnes of zinc in 2015	US\$51m in 2015 (MN₹102B)
Altain Khuder	Tayan Nuur	NA	1.2 million tonnes of iron in 2015	US\$34m in 2015 (MN₮69B)
Mongolrostsvetmet	Bor–Undur, Bargilt & Zeregtsee	NA	199,000 tonnes of iron & 79 kg of gold in 2014	US\$28m in 2015 (MN₹57B)
Monpolymet		NA	851 kg of gold in 2015	US\$28m in 2015 (MN₹56B)
MoEnCo (Mongolia Energy Corp) HKEx:0276	Khushuut	460 million tonnes of coal resources	578,300 tonnes of coal in 2016	US\$20m in 2016 (HK\$156m)
Shivee Ovoo MSE:SHV	Shivee Ovoo	646.5 million tonnes of coal	1.7 million tonnes of coal in 2015	US\$19m in 2015 (MN₹38B)
Sharyn Gol MSE:SHG	Sharyn Gol	NA	750,000 tonnes of coal in 2015	US14m in 2015 (MN₹28B)
Dongsheng Petroleum	Block 97	NA	441,000 barrels of oil in 2014	US\$14m in 2014
Darkhan Metallurgical Plant JSC	Tumurtei	230 million tonnes of iron ore	3.3 million tonnes of iron in 2014	US\$13m in 2014 (MN₹24B)
Tavan Tolgoi JSC MSE:TTL	Tavan Tolgoi	194.5 million tonnes of coal resources	0.8 million tonnes of coal in 2015	US\$12.6m in 2015 (MN₹25B)

Major Producing Players and their Results					
Company	Deposit	Resources & Reserves	Production	Sales Revenue	
Qinghua MAK Nariin Sukhait	Nariin Sukhait	NA	0.3 million tonnes of coal in 2015	US\$6m in 2015 (MN₹12B)	
Boroo Gold (Centerra Gold) TSX:CG	Gatsuurt	12 million tonnes of gold	No production in 2016	No revenue in 2016	

Source: Public filings & Mongolia Extractive Industry Transparency Initiative (EITI)

The value of copper exports decreased 2% to 1.5 million tonnes, and revenues decreased around 29% to US\$1.6bn in 2016. 140 Copper exports nonetheless contributed 40% of the total export value. 141 The internationally–renowned 0yu Tolgoi gold and copper mine, often referred to simply as 0T, is the third–largest operating copper mine in the world and is situated 80km from the Chinese border. The project is managed through a joint venture between a consortium of international investors led by Rio Tinto who have a 66% stake in the project, whilst the Mongolian government–owned Erdenes Mongol controls the remaining 34% through its subsidiary Erdenes 0yu Tolgoi. 0yu Tolgoi deposit contains more than 44.6 million tonnes of copper and 1,914 tonnes of gold and produced 201,300 tonnes of copper and 300,000 ounces of gold according to 2016 estimates. 142



Source: Public filings

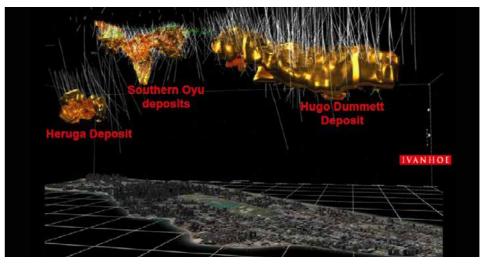
The exploration of Oyu Tolgoi mine started in 2000 with Ivanhoe Mines. The Phase I investment agreement was signed in 2009 and the extraction of ore at OT began in February 2013. The first commercial shipments of copper concentrate commenced in July of the same year. Currently, only the Southern Oyu open-pit section of the mine is in operation. The Phase II investment agreement for the underground mine, which was on hold for nearly two years, was finally signed in December 2015. Development of the much larger Hugo North underground section of the mine, where more than 70% of the ore is located, started in early 2016. 143

140 National Statistics Office of Mongolia (2017)

141 Ibid

142 Turquoise Hill Resources (2017)

143 Ibid



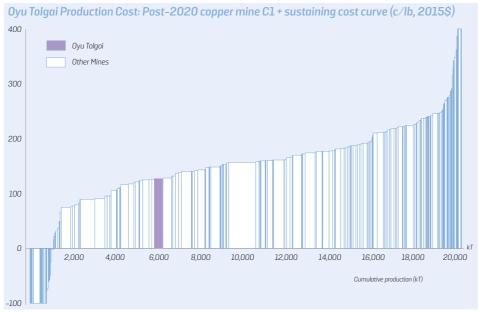
Deposits at Oyu Tolgoi after 10 years of drilling shown to scale over Manhattan, New York

The controversy with Oyu Tolgoi started in 2011, at a time when Mongolia and the government were riding high on an economy stimulated by record levels of FDI. Parliamentary members demanded a renegotiation of the investment agreement with Rio Tinto, requesting that royalty payments should be increased to 20% from the 5% initial stipulated in the agreement. As the economy slowed in 2012 and 2013 amid legislation rashly passed by the government in response to a Chinese SOE takeover attempt of SouthGobi Resources, the government's challenges to Rio became more vociferous. This culminted in Parliament submitting 22 points of dispute to Rio Tinto in July 2013 as well as the revocation of 106 exploration licenses from various companies, which removed their right to undertake any exploration activities. US\$4.1bn in project finance organized with the World Bank, US-EXIM, and other commercial lenders was delayed. In January 2013, the government also revoked 106 exploration licenses.

Q3 and Q4 2014 saw real progress made in negotiations for the first time since the dispute began. In September 2014, there were important political developments, including the resolution of a tax dispute in which the Government of Mongolia reduced the debt of Rio Tinto to US\$30m from US\$130m. In addition, they reissued the 106 exploration licences, 14 of which announced tender. The newly-appointed Prime Minister also made it his mandate to restore growth in the economy, and made explicit his desire to get OT moving forward as quickly as possible. As a result, the OT resolution was decided in May 2015 when both Rio Tinto and the Mongolian government agreed to end disputes and move forward with the development of the underground mine. The signing ceremony attracted worldwide press and created a positive environment amongst foreign investors towards Mongolia. On December 2015, Rio Tinto agreed with fifteen international banks to finance the Oyu Tolgoi phase II, a US\$6 billion investment agreement over the next 5–6 years. Once the full production commences in 2021, revenues from 0T will amount to one third of Mongolia's GDP annually. OT is one of the most profitable mines in the world in terms of its production cost, and although the copper price has fluctuated, the per – pound production cost of copper is the lowest in the world, which makes it a highly attractive project.

Q3 and Q4 2014 saw real progress made in negotiations for the first time since the dispute began

Once the full production commences in 2021, revenues from OT will amount to one third of Monaolia's GDP annually



Source: Wood Mackenzie (Q1 2015 Update)

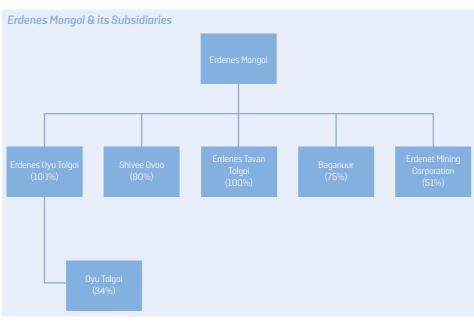
Normal C1 cost + sustaining capex, range capped at -100/lb & 400/lb

2020 base, highly probable and probable mines only

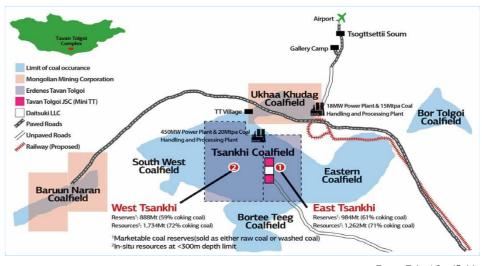
1. Oyu Tolgoi's 10-year average peak production including underground

2. Metals Economics Group and 2014 Oyu Tolgoi Technical Report (2020-2024 average costs)

Erdenet Mining Corporation is subsidiary of state-owned company Erdenes Mongol. Erdenes Mongol owns and operates a number of mining companies that are classified as Strategic Deposits. The state owns 51% and the Russian Government owns the remaining 49%. The mine has been operational since 1978 and remains one of the largest contributors of government revenue. The Erdenet Mining Corporation's 49%, which was owned by the Russian Government back in the 2008, was transferred to Russian Rostekhnologii Corporation (Rostec), a SOE. A week before the parliamentary election in 2016, Rostec shareholding was bought by Mongolian Copper Corporation, a company backed by the TDB for US\$400m. Discussion surrounding how this transaction occurred, and whether a bank can be involved in such matters, is a topic still debated in the local and international media.



The largest known coking coal deposit is at the **Tavan Tolgoi (TT)** site, situated just 200 km from the Chinese border. The site is believed to be the second largest untapped reserve of coking coal in the world and contains more than 6.4 billion tonnes of resources. Extraction of coal began as far back as 1960, and the Tavan Tolgoi deposits are currently operated by three mining companies.



Tavan Tolgai Coalfield

Erdenes Tavan Tolgoi (ETT), a subsidiary of Erdenes Mongol, owns the majority of the field. To develop the ETT coal field's potential, the government has decided to split the project in two. The Eastern Tsankhi section is to be developed alone, while the Western Tsankhi branch is to be opened up to foreign investment. The public sector operation is to be financed through a three-way international equity IPO that will list shares in London, Hong Kong and Ulaanbaatar. Unfortunately, the much-vaunted IPO has been delayed several times, and development of the mine has been halted by politics and weak government institutions. In 2011, Erdenes Tavan Tolgoi signed an agreement with Aluminum Corporation of China (Chalco) and borrowed US\$350m and used the proceeds to provide cash handouts to citizens right before the election. Although Erdenes has repaid a portion of the debt with coal shipments, an interest on the debt has inflated the amount outstanding. In December 2014, the government had chosen China's Shenhua Energy and Japan's Sumitomo Corporation to develop the mine, but the negotiations on the financing of the project, as well as the remaining debt issues with Chalco, has failed between the companies and the Mongolian government. ETT has produced 3.7 million tonnes of coal as of October 2015, according to their website.

Mongolian Mining Corporation (MMC) or Energy Resources owns and operates Ukhaa Khudag and Baruun Naran deposits at the Tavan Tolgoi coalfield, and the company is listed on the Hong Kong Stock Exchange as one of the largest coal producers in Mongolia. According to their public filings, MMC produced more than 9 million tonnes of coal in both 2012 and 2013, but due to the market conditions, production has been reduced to 4.6 million tonnes in 2014, 2.7 in 2015 and 3.0 million tonnes as of 2016.

Tavan Tolgoi JSC or "Little TT" owns and operates a small part of TT mine and is listed on the Mongolian Stock Exchange. Also affected by the market conditions, Little TT's production decreased dramatically and in 2015, TT produced just 0.8 million tonnes of coal.

opened up to foreign investment

Source: Public filings

Mongolyn Alt (MAK)'s Nariin Sukhait coal mine produced 3.2 million tonnes in 2015 and it is one of the largest producers in Mongolia Mongolyn Alt (MAK)'s Nariin Sukhait coal mine produced 3.2 million tonnes in 2015 and it is one of the largest producers in Mongolia. SouthGobi Resources' Ovoot Tolgoi coal mine is located next to MAK's Nariin Sukhait mine and SouthGobi produced 3.38 million tonnes of coal in 2016. There are other players in the coal mining space, however, due to the commodity price downturn, many of them decreased their production significantly.

Oyu Tolgoi's gold concentrate production stayed relatively the same in 2016, with 201,300 tonnes. **Altan Dornod Mongol** produced around 1.5 tonnes of gold in 2014 and **Centerra Gold's** "Boroo Gold" mine is reached its lifetime and did not produce any in 2016. However the gold export in 2016 was the record high with 19.2 tonnes and reached US\$758 million in export value.

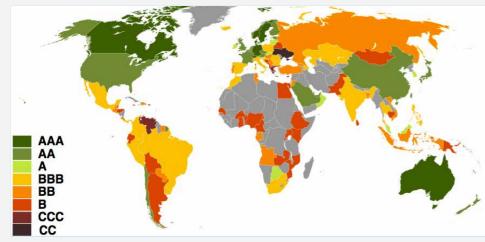
Petro China Daqing Tamsag is the largest player in the crude petroleum market, where they produced 6.9 million barrels of oil in 2014. The export of oil peaked at US\$635 million in 2014 and decreased almost 47% to US\$337 million in 2016.

Bold Tumur Eruu Gol (Iron Mining International) and **Altain Khuder** are currently the largest producers of iron ore in Mongolia. They respectively produced 3.7 and 1.2 million tonnes of iron ore in 2015 and 2014. Due to China's slowdown, iron ore exports have decreased significantly, from a peak value of US\$654 million in 2013 down 65% to US\$250 million in 2016.

Tsairt Mineral is the largest player in zinc mining in Mongolia, producing 100,000 tonnes of zinc in 2015 alone. Export volume increased 50% in 2016 to 126,000 tonnes and generated US\$145 million, making it the the sixth largest export commodity by value.

Mongolia according to the rating agencies

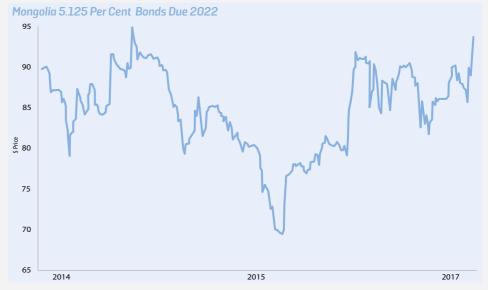
The "Big Three" credit rating agencies are not currently strong proponents of Mongolian government debt. They are risk averse and see most high-yield frontier market bonds as very speculative and not "investment grade". (See map below showing Standard and Poor's Sovereign ratings colour-coded onto a map)



Standard and Poor's Sovereign ratings

On one hand this is appropriate given the government's erratic fiscal behaviour over the past decade, for example, instituting a resources-to-cash scheme that involved the

expenditure of hundreds of millions in USD on populist handouts. He Coupling this with the country's recent financial crisis leaves Mongolia a hard sell for many investors. On the other hand such an overly cautious approach ignores recent key developments and underestimates Mongolia's ability to meet its obligations. This scepticism of the country as a whole is short–sighted and fails to account for even the most gradual improvements in governance and policy, which are described elsewhere in this report. The prospects of Mongolia are looking up, as evidenced by the below chart showing the upward trend in the value of one tranche of sovereign bonds since early 2016.



Source: Bloomberg Data

This note will briefly summarise the most recent views published by the ratings agencies, Moody's Investors Service, Standard and Poor's, and Fitch Group Inc and outline the causes of Mongolia's financial strife that they have been fixated on. Historically these Big Three rating agencies have been slow to take into account changing economic drivers but recently even they seem to be open to improving their view on the nation's debt, especially after the IMF's negotiation of a deal to help service repayments through to 2022. This arrangement is formed of a three year \$434m loan directly from the IMF that will unlock financial support from the Asian Development Bank, the World Bank, Japan and South Korea. In addition, the People's Bank of China will extend existing swap lines with the Bank of Mongolia. The total financial package amounts to \$5.5bn and the IMF said of it: "this is the fourth–largest package in IMF history, underscoring the international community's commitment to Mongolia's economic success." ¹⁴⁵

Currently the rating agencies rate Mongolia as follows:

Moody's

Last Rated: Caal

Moody's has been the most active assessor of Mongolia over the last six months and has seemingly been rattled by the commodity downturn and looming debt repayments.

These factors combined have led Moody's to reduce Mongolia's rating from B1, which

144 IM4DC (2015) 145 IMF (2017) An overly cautious approach ignores recent key developments and underestimates Mongolia's ability to meet its obligations

'this is the fourth-largest package in IMF history, underscoring the international community's committenent to Mongolia's

it held between 2005 - 2014, to B2 in July 2014. Further downgrades were made in August 2016 to B3 and then to Caal in November. 146

Since then Moody's announced that they had Mongolia on "negative watch" in February of this year. This, they said, was due to their doubts as to whether Mongolia would manage to meet the requirements for financing from the IMF. That agreement has now been reached with the IMF leading a reformed income tax initiative and providing policy support within Mongolia.

On 17th November 2016, Moody's reported their outlook on the Asia Pacific rim was mired by the election of Donald Trump saying, "Shift in US policies could dampen trade, weaken growth in Americas and APAC". ¹⁴⁷ This is quite broad reasoning which, it could be argued, takes the US president's rhetoric a bit too literally. Even if one accepts US protectionism will come into effect, this could foreseeably lead to more integration and trade between countries within the Asia Pacific region. A relatively small economy such as Mongolia would benefit greatly from this even if it came at a cost to the global ambitions of some economic giants.

The next day Moody's, then announced it's specific views on Mongolia, citing:

- 1. Heightened uncertainty regarding the government's ability to meet its direct and indirect debt service obligations over the next two years and to shore up Mongolia's external liquidity
- 2. Moody's expectation that the budget deficit will remain wider for longer than previously expected, which, combined with a weaker growth outlook in the coming two years, will raise the government's debt burden to elevated levels

"While we recognize that the authorities have made progress in recognizing off-budget spending and defining transparent, short – and medium-term corrective actions, we expect that Mongolia's debt metrics will continue to deteriorate in the next two years while fiscal challenges will be compounded by a sharp slowdown in economic growth which places further pressure on the fiscal and external positions.

The downgrade to Caal reflects the uncertainties surrounding the government's ability to deal, quickly, with multiple challenges in order to service its own direct and indirect obligations and to avoid a balance of payments crisis."

However, it is worth noting this caveat: "Upward pressure on the rating could build if the government is able to rollover short-term obligations and secure concessional financing to finance its deficit, combined with fiscal consolidation measures that place government debt on a downward trend in the near to medium term. These developments would be accompanied by a rebound in international reserves and increased certainty about the government's ability to meet public-sector debt repayments." ¹⁴⁸

It should be noted that these conditions specified by Moody's late last year have now essentially been met by the IMF financing. However, this has not been accompanied by

146 Moody's

147 Ibid

148 Ibid

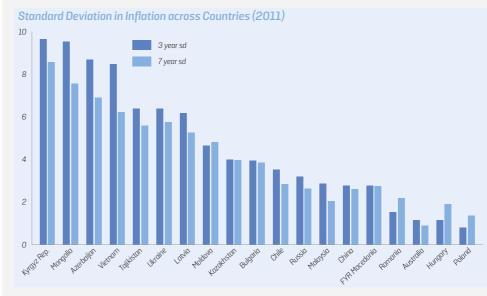
a buoying in the rating. This could be in part due to the fact it is rare for a rating agency to upgrade its outlook of a county while an IMF bailout program is in effect, as the concessionary financing by the IMF and its partners is not regarded as a fundamental change to Mongolia's creditworthiness, even though it does significantly reduce the pressure to make debt and interest repayments.

Moody's next rating move was in February 2017 to put Mongolia on review for another downgrade. This was in preparation for responding to any issues with the finalising of the IMF deal. By 30th March they released a statement concluding that review and registering the Caal rating as stable. The statement said the imminent default pressures had subsided as was the intention of the IMF and its accompanying institutions.

S&P Fitch

Last Rated: B- Last Rated: B-

Fitch and S&P have been far more stable in their outlook. In adopting this approach they are more resilient to the short term volatility to which Mongolia is prone. Macroeconomic volatility is one of the key concerns when considering investment in Mongolia, both with regards to large swings in inflation and in the price of commodities, such as copper. Mining activities equate to about 20% of Mongolia's GDP. The below graphs demonstrate how these are both highly volatile factors. As a result the compounded volatility can greatly exacerbate financial strife.



Source: IMF, EBRD, BoAus

Of course, Fitch also notes some risks to its outlook, saying: "fiscal consolidation is likely to act as a headwind to economic growth in the short term," referring to a tightening of the government's spending budget. However they continue to say "medium–term prospects are much stronger, owing to the second phase of the Oyu Tolgoi underground copper mine" 152 . They account for some slippage in Mongolia's fiscal plans but still expect a significant reduction in the deficit over the next two years and GDP growth to reach 8% in $2019.^{153}$

149 National Bureau of Economic research

150 Ibid

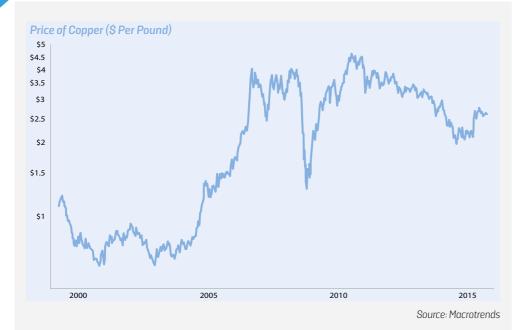
151 Ibid

152 Fitch

153 Ibid

"Medium-term prospects are much stronger, owing to the second phase of the Oyu Tolgoi underground copper

67



S&P note the currency's volatility as a risk as half of government debt and a third of the banking system's loans are in foreign currency. Their last rating move was in August of 2016 when they also slashed their GDP growth estimate to 1.3% from 2.6%. 154

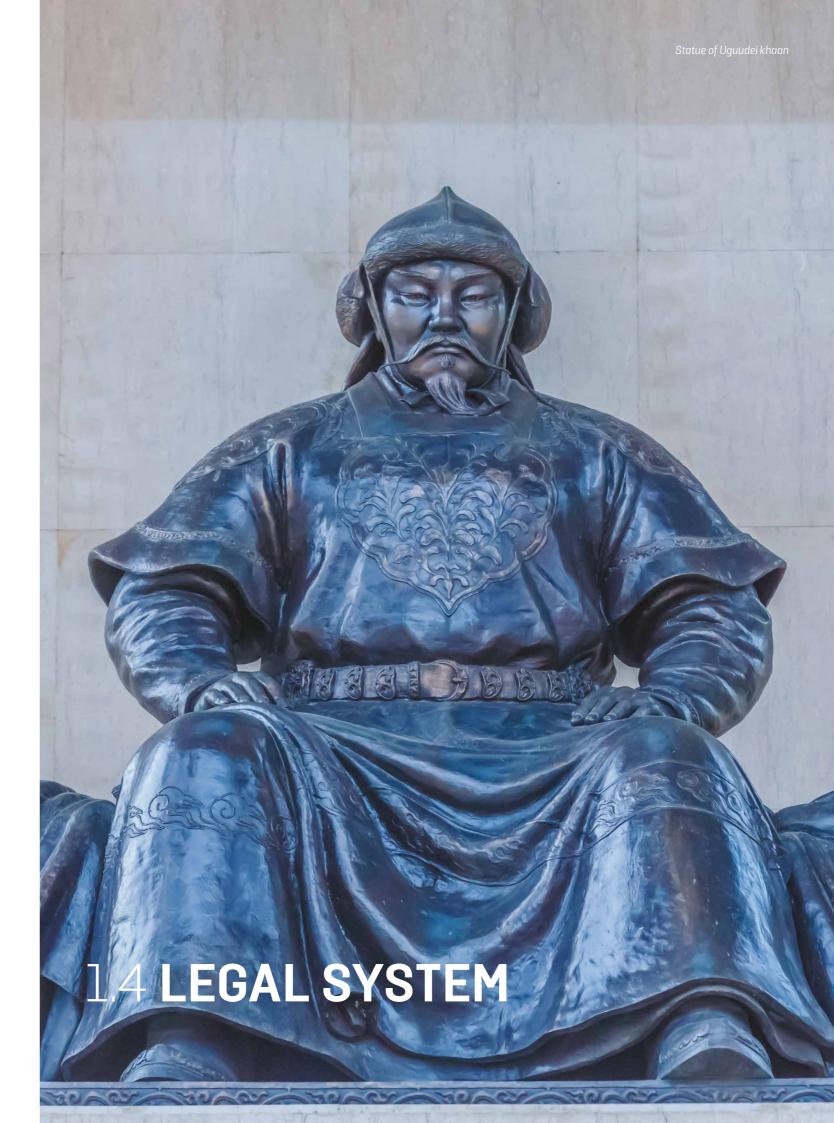
On a concluding note, it genuinely appears the country is in recovery after bottoming out in the economic cycle and it will be greatly invigorated by an upswing in the market for copper and other commodities, at a time when its flagship copper mine is growing its output. And while mining will remain a staple of GDP growth, this time round there is an active push to diversify national industries, for example by irrigation of land and shrewder government investment. While it is advisable to not become complacent making predictions about future macroeconomic developments, it is possible Mongolian sovereign bonds are underrated and their rating will be upgraded in the future. Mongolia is seen as very strategically important in the development of Asian Pacific 157 and thus should be carefully helped to carve a prosperous path from here, providing an opportunity for investors who are willing to support this.

Appenidx: Agency Rating Moves					
Agency	Rating	Outlook	Date		
Moody's	Caal	stable	Mar 30 2017		
Moody's	Caal	negative watch	Feb 15 2017		
Fitch	B-	stable	Nov 22 2016		
Moody's	Caal	stable	Nov 18 2016		
Moody's	ВЗ	negative watch	Aug 26 2016		
S&P	B-	stable	Aug 19 2016		
Fitch	В	stable	Nov 24 2015		
S&P	В	stable	Nov 03 2015		
S&P	B+	negative	Apr 29 2015		

154 S&P (2017) 155 BD Securities 156 Batseer LLC (2017) 157 CNBC (2016)

It genuinely appears the country is in recovery after bottoming out in the economic cycle

It is possible Mongolian sovereign bonds are underrated and their rating will be upgraded in the future



1.4 LEGAL SYSTEM

The legal system is generally favorable to foreign investors with foreigners enjoying exactly the same immovable property rights as Mongolian citizens

There is not a single recorded case of the government successfully exercising its power to expropriate real estate from a Mongolian or foreign citizen

The Supreme Court interprets all Mongolian laws, except the constitution, which is the province of the Constitutional Court

EXECUTIVE SUMMARY

At the time of its transition from Soviet satellite to free – market democracy, experts from several multilateral organizations helped Mongolia reform its legal system and establish a continental legal tradition. The court system is organized into three levels and is overseen by the Supreme Court. The legal system is generally favorable to foreign investors with foreigners enjoying exactly the same immovable property rights as Mongolian citizens. In addition, the local currency (MNT) is fully convertible and there are no capital controls. However, only Mongolian citizens can obtain freehold ownership rights to land. Land tenure is divided into three classes. The first class, land ownership, is only available to individual Mongolian citizens. Land possession rights are temporary ownership rights and can be held by local legal entities. Foreign entities need to obtain approval from the government for land possession rights which takes about six months for approval. Land usage gives a party the right to undertake concrete activity on the land. Mongolia employs a 'floating freehold' system with regards to immovable property. This provides foreign investors and locals alike, with a strong and inalienable freehold right to immovable property. As of today, there is not a single recorded case of the government successfully exercising its power to expropriate real estate from a Mongolian or foreign citizen.

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The present-day legal system is part of the continental (Romano-Germanic) legal tradition. Following the collapse of the Soviet Union, Mongolia enlisted the help of several multilateral organizations to provide technical and financial support as the country transitioned to capitalism. The core of Mongolian law is the constitution enacted in 1992. The functioning law of Mongolia is comprised of the provisions and laws of the constitution, other regulatory legal acts, international treaties, and prior commitments of Mongolia, as well as regulatory resolutions of Constitutional Court (Tsets) and the Supreme Court. International treaties ratified by Mongolia have equal weight as domestic laws, however, treaties and other legal documents that contradict the constitution are not adhered to.

The court system is organized into three branches: civil, administrative and criminal. Each branch has representative units and judges at the urban district or rural soum (a sub – provincial administrative unit roughly equivalent to a county in the U.S.) level. A superior appellate court unit for each branch exists in each province and in the capital city. The system is overseen by the Supreme Court, which handles high-profile cases passed on from lower units as well as human rights cases referred to it by the Prosecutor General or the Constitutional Court of Mongolia. The Supreme Court interprets all Mongolian laws, except the constitution, which is the province of the Constitutional Court. The judges of the Supreme Court and other courts are appointed by the President of Mongolia. The Court's General Council nominates the Supreme Court judges and all judges should be approved by the State Great Khural. The Supreme Court selects one of its members to be Chief Judge and the appointment is made for a six-year term.

The Arbitration Law of 2003 regulates arbitration disputes. Many Mongolian contracts use international arbitration as the method for the resolution of disputes. Mongolia signed the New York Convention on the Recognition and Enforcement of Foreign Arbitral

Awards, which mandates arbitration awards made within the territory of Mongolia are enforceable in Mongolia and other countries that are parties to the New York Convention. The Mongolian National Chamber of Commerce and Industry, which is the Arbitration Bureau in Mongolia, is sometimes regarded as politically influenced and unfamiliar with commercial practices, leading to a preference for international arbitration.

Mongolia signed the Washington Convention on the Settlement of Investment Disputes between the States and Nationals of Other States in 1996, which provides for the settlement of international investment disputes. It was also signatory to the Seoul Convention on Investment Insurance in 1999 and became a member of the Multilateral Investment Guarantee Agency (MIGA) the same year, which ensures the eligibility of foreign investors for risk insurance through MIGA. Additionally, Mongolia signed the Encouraging and Mutual Protection of Investment Agreements with 39 other countries as well as the Exemption of Double Taxation Agreement, negotiated between 34 countries. In total, Mongolia has joined 24 international treaties to date.

Unlike many developing Asian markets, Mongolia does not enforce any form of capital controls. Foreign investors are free to inject or remove capital from the country at will. The currency is fully convertible and the exchange rate is freely floating. In 2009, Mongolia enacted legislation mandating local transactions be expressed and settled only in the local currency, with an exception for entities granted specific waivers from the BOM or Financial Regulatory Commission.

There is a wide range of laws which may affect the real estate industry. The major laws related to real estate in Mongolia are:

- · Constitution
- · Civil Code
- General Law on Taxation
- · Law on Personal Income Tax
- · Law on Immovable Property Tax
- · Law on Investment
- Land Law
- · Law on Land Fees
- Housing Law
- · Law on Property Ownership Right and Other Related Property Rights
- · Law on Allocation of Land to Mongolian Citizens for Ownership
- Law on Home Ownership Association and Floating Freehold Title
- · Law on Urban Planning
- Company Law

A full review of all aspects of Mongolia's legal system is obviously beyond the scope of this publication, therefore the remainder of this section will focus specifically on those aspects of the legal system most relevant to the real estate sector.

1.4.1 LAND LAW

Under the Soviet regime, all land in Mongolia was owned and collectively managed by the state. The 1992 constitution allowed for different forms of private land and immovable

Mongolia signed the Encouraging and Mutual Protection of Investment Agreements with 39 other countries as well as the Exemption of Double Taxation Agreement

Signed the New York Convention on the Recognition and Enforcement of Foreign Arbitral

1.4 LEGAL SYSTEM

property tenure. Apartments were privatized by the thousands, as were industrial centers, farms and livestock. However, partially due to low population densities, the vast majority of land remained public property. The Land Law was enacted in 1994 and revised in 2002.

The 2002 Land Law divided land rights into three distinct classes:

- 1. **Land Ownership,** meaning legitimate freehold title of land with the right to sell, lease and pass the land to descendants, only applicable to Mongolian citizens.
- 2. **Land Possession,** meaning temporary, licensed control of land in accordance with its purpose of use. Possession certificates can be bought or sold to local entities. Mongolians are entitled to claim small plots of up to 0.07 hectares in size within the limits of urban centers, free of charge for a term of 15 60 years with the possibility to extend up to forty years. These plots can be traded freely and passed down to families and relatives.
- 3. Land Usage, meaning the right to undertake concrete activity and make use of some of the land's characteristics in accordance with contracts made between the owners and/or possessors of land. This is usually given for five years with the option to renew. As an alternative to freehold ownership, land usage rights are offered to Mongolian and foreign residents (present for more than 183 days a year), as well as companies. Foreign registered companies are required to obtain permission from the government entity.

1.4.2 LAW ON IMMOVABLE PROPERTY

Property ownership rights are regulated by the following laws: the Housing Law (1999), the Law on Home Ownership Association and Floating Freehold Title (2003), the Law on Registration of Property (2002), and the Civil Code.

The Law on Registration of Property is to regulate the registration and protection of immovable properties. The registration of a property with the Immovable Property Office grants legal protection to the rightful owner. Upon obtaining the title of a property, the owner has the commercial rights to sell, lease, transfer to another party, inherit, pledge or issue guarantee. The rights, legal protection, and registration procedure are the same for Mongolians, foreign individuals, and organizations. The right to property ownership is separate from the land ownership right.

Upon completion of a building, the owners of the apartments establish a Home Ownership Association (HOA), and the underlying land title is transferred to the HOA based on a contract with the district's governor's office. The highest governing authority is vested in the annual general meetings and the owners have one voting right per apartment. The HOA can only be dissolved if the entire building is owned by a single entity or if there is serious irrecoverable damage to the building, which is outlined in the Law on Home Ownership Association and Floating Freehold Title.

In order to obtain the inviolable protection offered by the Mongolian constitution and ensure property related rights, it is necessary to register all property transactions

through the appropriate legal channels. If these transactions are not carried out properly, Mongolia's legal institutions will not acknowledge ownership rights.

Mongolia's Immovable Property Registration Law holds that the right to own immovable property takes force immediately upon registration at the Immovable Property Office. The registration process is initiated when an individual, legal entity or associated agent provide the Immovable Property Office with the following documents:

- A notarized document certifying the applicant's ownership of the immovable property
 usually a purchase contract;
- A notarized document from a recognized authority establishing the dimensions and valuation of the property.

The Immovable Property Office will process the application within 30 days. The typical processing time is usually closer to three days. The State Registrar and the Assistant Registrar will endorse the resulting certificate.

1.4.3 LAW ON MOVABLE AND INTANGIBLE PROPERTY

Realizing Mongolia had no way to perfect a pledge taken over movable property in the past, the government of Mongolia ratified the Law on Movable and Intangible Property in July 2015. Effective from March 1, 2017, this law intends to increase Mongolia's access to global capital by establishing the necessary legal environment for creating, perfecting and enforcing security over movable and intangible property. Previously, pledges over intangible and movable properties were regulated by the Civil Code of Mongolia, which proved to be inadequate to cope with present-day financial schemes. Therefore, the establishment of a new legal environment will give Mongolian business entities alternative access to capital. Properties under this category include, but are not limited to, all types of shares, securities, receivables, intellectual property rights and other types of intangible properties. Pledges and securities of mining and explorations licenses issued in Mongolian territory continue to be regulated by the Law on Minerals.

1.4.4 EXPROPRIATION

The Mongolian government's powers of expropriation of private property are outlined in the constitution. Expropriation of private property is prohibited except in the cases of national security, defense or protection of the national interest. The law stipulates that owners deprived of their property under such circumstances shall be compensated at full market rate. Owners of expropriated land or property have recourse to the court system if they do not agree with the compensation package offered. To date, there is not a single recorded case of the government successfully exercising this power to expropriate real estate from a Mongolian or foreign citizen.

1.4.5 INVESTMENT LAW OF MONGOLIA

In general, Mongolian law does not discriminate against foreign investors. In an effort to support Mongolia's economic growth, the government of Mongolia ratified a new investment law effective from November 2013, which encourages investors

Upon obtaining the title of a property, the owner has the commercial rights to sell, lease, transfer to another party Mongolia's Immovable Property
Registration Law holds that the right to
own Immovable property takes force

A foreign investor is defined as "a business entity with an overall equity of US\$100,000 or more, not less than 25% of which must to be owned by (a) foreign investor(s)" to participate in all sectors of the economy without any government approval by establishing a common legal guarantee for investors, supporting investment and stabilizing the tax environment. This law applies to both foreign and domestic investors. It provides incentives such as tax exemptions, tax credits, longer term land possession rights, an increased quota of foreign employees, and simplified visa arrangements. Only foreign state-owned entities (those with a minimum of 34% ownership of entities in the mining, media and communication, or financial sectors) must obtain approval from the government agency. The Investment Law declares a foreign state's direct or indirect ownership exceeding 50% qualifies it as a foreign state-owned entity.

According to the law, a foreign investor is defined as "a business entity with an overall equity of US\$100,000 or more, not less than 25% of which must to be owned by (a) foreign investor(s)". Investments into Mongolia can be made in the following ways:

- · By the establishment of a solely or jointly owned business entity;
- By the purchase of a Mongolian companies' shares, bonds, and other types of securities;
- · By merging or wholly acquiring Mongolian and foreign companies;
- · By establishment of franchises or financial leasing; and
- · And by other forms acceptable, which are not prohibited by law.

Furthermore, foreign investors who incorporate companies and conduct business operations in Mongolia are offered "Stabilization Certificates," which propose a stabilized amount and rate of taxation and other payments to the government during their business operation period in the country. The holder of a Stabilization Certificate is guaranteed stabilized tax rates for a period of five to eighteen years, depending on the amount, industry, and geographic location of the investment in Mongolia, and should comply with the criteria stated in the law.

- · Corporate Income Tax;
- · Customs Duty;
- · Value-added Tax; and
- · Mineral Royalty Tax.

For **mining extraction**, **heavy industry** and **infrastructure** sectors, the Stabilization Certificate conditions and grants the following:

Investment						
Amount (in billion MN₹)	Ulaanbaatar	Central Region	Khangai Region	Eastern Region	Western Region	Completion Period (in years)
30-100	5	6	6	7	8	2
100-300	8	9	9	10	11	3
300-500	10	11	11	12	13	4
500 & above	15	16	16	17	18	5

Source: Law on Investment

For other sectors, the Stabilization Certificate conditions and grants the following:

Investment	Valid Length of Stabilization Certificate (in years)					Investment
Amount (in billion MN₹)	Ulaanbaatar	Central Region	Khangai Region	Eastern Region	Western Region	Completion Period (in years)
10-30	5-15	4-12	3-10	2-8	5	2
30-100	15-50	12-40	9	10	8	3
100-200	50-100	40-80	30-60	25-50	10	4
200 & above	100 & above	80 & above	60 & above	50 & above	15	5

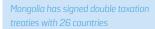
Source: Law on Investment

In the meantime, the following **non-tax promotions** are proposed by the Investment Law:

- a) Land lease permit for sixty years and validity for a forty year renewal;
- b) Support for investors who initiate projects in free zones, productions and technological parks, sciences and educational sectors;
- c) Support for innovation projects and guarantee financing support for exports of innovation–oriented products; and

Provision of residential permits and multiple entry visas to investors and their family members.

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EXECUTIVE SUMMARY

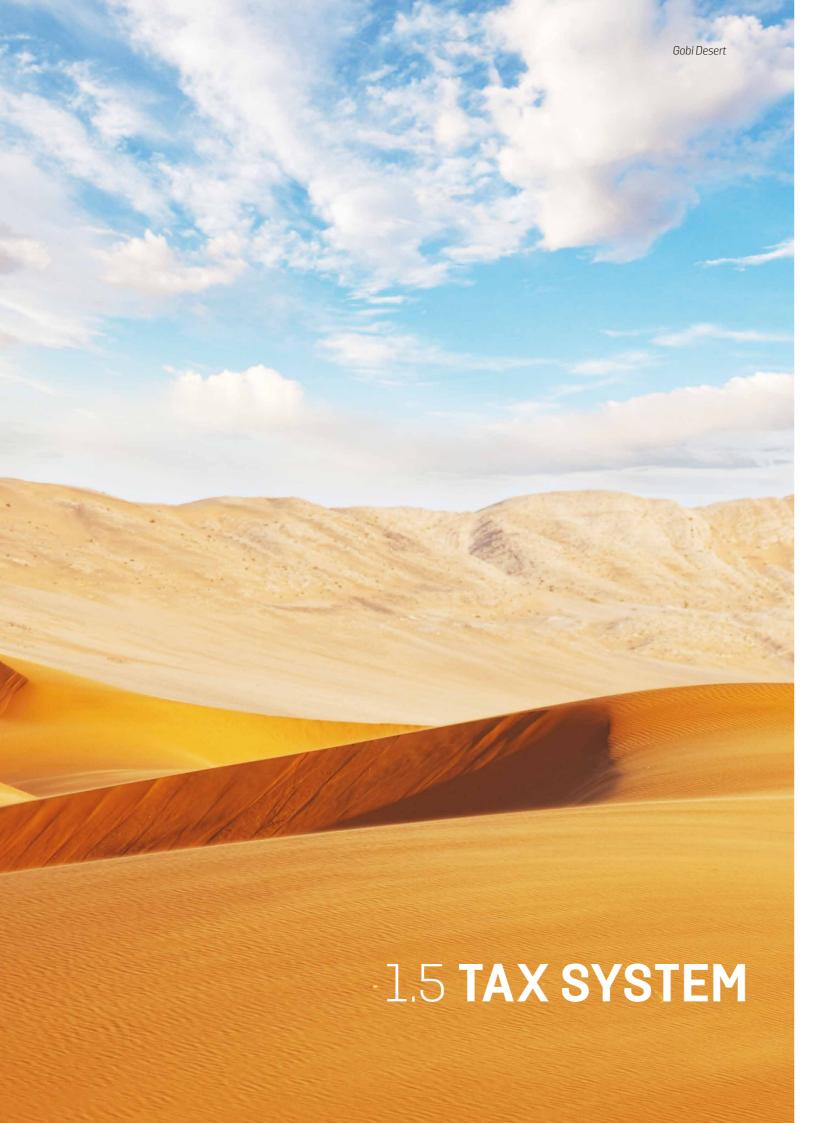
Mongolia's tax system is relatively straightforward and transparent. The income tax rate is 10–25% for individuals and corporations. The withholding tax rate is 2% of gross proceeds from immovable property sales, and the immovable property tax rate is set at 0.6–1.0% (but not applicable to residential apartments). VAT is imposed on goods and services sold in the territory of Mongolia, however, residential properties fall under the exemptions under the VAT laws in Mongolia. Mongolia has signed double taxation treaties with 26 countries, and when compared with many other countries outlined in this section, Mongolia's system of taxation remains favorable.

OVERVIEW

Some taxes related to the real estate sector in Mongolia include:

- 1. **Personal Income Tax** Income tax is **10-25**% and is levied on direct and indirect employment income, as well as rental income from property or other taxable income. Individuals who reside in Mongolia for more than 183 days a year are counted as resident taxpayers and are required to pay tax on their global income. Individuals who do not reside in Mongolia, or visit the country less than 183 days a year, are classified as non-resident taxpayers and are required to pay tax on the portion of their income that comes from activities in Mongolia.
- 2. Corporate Income Tax Corporate tax is not flat but mildly progressive. Mongolian corporation and foreign invested companies with headquarters in Mongolia are charged a tax of 10% on their first MN₹3 billion (roughly US\$1.3 million) of income and 25% on all income in excess of the MN₹3 billion threshold. Companies with income deriving from dividends or interest income transferred out of Mongolia are taxed at 20%.
- 3. **Withholding Tax** Gross income from sales of immoveable property is charged a flat tax rate of **2**%.
- 4. **Immovable Property Tax** Annual property tax is set at **0.6% 1.0%**, depending on the location of the asset value as registered at the state immoveable property office. There is a tax exemption for residential apartments, properties financed by state and local budgets, and buildings of public use.
- 5. **Value Added Tax (VAT)** VAT is charged on an ad valorem basis on all sales and purchases at a flat rate of **10%**.

Mongolia has already signed Double Taxation Agreements (DTAs) with 26 countries. In 2012, Mongolia cancelled DTAs with four countries, including the UAE, Kuwait, Luxembourg and the Netherlands. According to the General Department of Taxation, the list of countries that have entered into an agreement with the government of Mongolia are Austria, Belarus, Belgium, Bulgaria, Canada, China, Czech Republic, France, Germany, Hungary, India, Indonesia, Italy, Kazakhstan, Democratic People's Republic of Korea, Republic of Korea, Kyrgyzstan, Malaysia, Poland, Russia, Singapore, Switzerland, Turkey, Ukraine, United Kingdom, and Vietnam.



1.5.1 PERSONAL INCOME TAX

There are effectively two types of individual entities in Mongolia as laid out by the Mongolian Law on Personal Income Tax: permanent resident taxpayers and non-resident taxpayers. A permanent resident taxpayer is defined by law as:

- · Individuals with residence in Mongolia; or
- An individual who resides in Mongolia for 183 days or more a year.
- · Conversely, the same document identifies a non-resident taxpayer as:
- An individual who has no residence in Mongolia and has not resided in Mongolia for 183 or more days in a tax year.

The legislation states that any individual classified as a permanent resident taxpayer must pay tax to the Mongolian authorities on their worldwide income. Those who qualify as non-resident taxpayers (by fulfilling either of the conditions stipulated above), are required to only pay the Mongolian authorities a portion of their income earned within Mongolia.

Total taxable income is defined as aggregate annual income minus all allowable expenses.

- All income received through employment or other taxable income is taxed at 10-25% depending on your income level (the taxable income from property is determined by deducting the cost of leasing from the total income from leasing);
- · Gross income from sales of immoveable property is charged a flat tax rate of **2%**.

1.5.2 CORPORATE INCOME TAX

The Economic Entity Income Tax Law of Mongolia governs the taxation of profits acquired by the following different forms of taxable entity:

- · An economic entity formed under Mongolian law, and its subsidiaries;
- · A foreign economic entity headquartered in Mongolia;
- · A foreign economic entity earning income in Mongolia, and its representative offices.

The first two categories are charged a variable rate of corporate income tax subject to the following rates:

- · All annual income less than MN₹3 billion is to be charged at a rate of **10%**;
- · All annual income which exceeds MN₹3 billion is to be charged at a rate of **25%**.

There is also a separate tax rate applicable to foreign economic entities (and their representative offices), earning income in Mongolia. This concerns repatriation of funds:

 All annual income transferred out of Mongolia by foreign economic entities is to be taxed at a flat rate of 20% for the income derived from dividends, interest and quarantee. The above condition does not apply to FIFTA registered companies and joint ventures who reinvest their profits within the Mongolian economy.

Withholding tax also applies to corporations, taxed at **2**% of the gross proceeds from the sale of immovable property.

1.5.3 IMMOVABLE PROPERTY TAX

Entities facing property ownership taxes on immovable assets are:

- · Any company that owns property in Mongolia;
- · Any NGO that owns property in Mongolia;
- · Any citizen that owns property in Mongolia;
- · Any non-citizen that owns property in Mongolia.

Owners are liable to pay property tax according to the Immovable Property Tax Law of Mongolia on all immovable assets, **except**:

- · The immovable property of legal entities financed by central and local budgets;
- · Immovable property in the form of apartments;
- · Immovable property in the form of buildings for public use.

Those required to pay property tax on immovable assets are to be taxed in accordance with the following conditions:

Property tax from the 1st January 2013 and beyond is charged based upon a variable scale that begins at **0.6%** of the property's value (value of the property as it is registered with the immovable property state registry), and is capped at **1%** of the property's value annually.

The Immovable Property Tax Law of Mongolia stipulates:

- Taxpayers must submit immovable property tax returns to the Mongolian tax office before the 10th February each year;
- Legal persons and corporate entities are liable to pay property tax before the 15th of the last month of each quarter.

1.5.4 VALUE ADDED TAX

VAT is imposed at a rate of 10% on the supply of goods and services in Mongolia and on imports into Mongolia. Legal entities and individuals are required to register for Mongolian VAT purposes when their turnover exceeds MNT50 million or approximately US\$21,000. The Mongolian Law on Value – Added Tax applies to:

- · All types of goods sold in the territory of Mongolia;
- · All types of goods exported for the purpose of sale, consumption, or use outside the territory of Mongolia;
- All types of goods imported for the purpose of sale, consumption, or use in the territory of Mongolia;

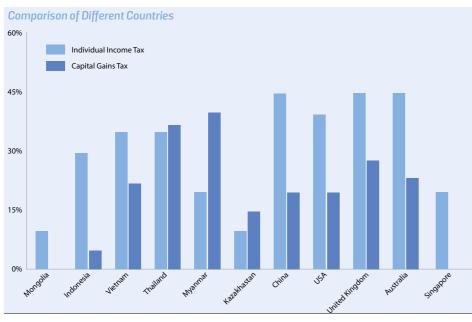
laxpayers must submit immovable property tax returns to the Mongolian tax office before the 10th February each year

Work performed and services provided in the territory of Mongolia, including rent of immovable or movable properties (other than buildings or construction), or the grant of rights to possess or use in other forms.

There are several exemptions to VAT, depending on the type of good or service. For example, income from renting of residential accommodation is exempt from VAT.

1.5.5 INTERNATIONAL COMPARISON

Income tax in Mongolia is competitive with the other nations outlined in this study, including both emerging and developed countries. In Mongolia, the amount payable is a flat tax at a lower or similar rate. Capital gains tax exists in most of the countries listed, except for Mongolia and Singapore.



Source: KPMG

The low taxes, absence of capital controls, and clear ownership title makes Mongolia one of the most favorable investment environments in the world.

	Currency Control	Foreign Restriction on ownership	Clear Ownership Title
Mongolia	•	•	•
Indonesia	•	•	•
Vietnam	•		•
Thailand	•	•	•
Myanmar		•	•
Kazakhstan	•	•	•
China	•	•	•
USA	•	•	•
United Kingdom	•	•	•
Australia	•		•
Singapore	•	•	•

Source: JLL

The IMF Package – Implications for Taxation

The IMF bailout, announced in February 2017, was widely welcomed by international investors. Aimed at repairing Mongolia's public finances through fiscal consolidation with a view to diversification and infrastructure improvements, it lays the basis for a more stable future. In order to secure the package, however, the government has moved to review the current system of taxation. In the coming years, there will be 'progressive' rates for the country's highest earners, marking a departure from flat (and low) levies of years past.

When the IMF agreement was reached, the press reported a maximum of seven taxes would be raised. These will cover diverse areas. In 2018, there will be an increase in social security and income tax by one percent — a fairly uncontentious move. More contentious, perhaps, is a possible 25% rate for Mongolia's rich.¹⁵⁸ When there was an attempt to vote this fiscal amendment through parliament, the Chamber of Commerce threatened a veto. Although concerns have since been assuaged, detractors argue it is likely to raise little funds, since the wealthiest in the country often have international interests, and benefit from tax planning arrangements.

Another area, likely to raise eyebrows for different reasons, concerns vehicle taxes. Some contend this is likely to hit the poor disproportionately since levies relate to the year the vehicle was manufactured, penalizing people with older cars. The precise calculation is as yet unclear, but could be anywhere from three to fifteen percent. Dispervers will therefore be keen to see the specific letter of the legislation. Excise taxes on vehicles are in the process of being reviewed more generally. In the face of concern by interest groups, an amendment was recently put to parliament to review the mechanism for taxation of electric, hybrid and cars powered by natural gas.

In a separate move, designed to serve the dual purpose of improving public health and raising money for the exchequer, taxes on alcohol and tobacco will be raised. Currently, the country does not impose heavy duties, and so the marginal increase is likely to have little impact on the ability of restaurants and bars to operate. This is in spite of protests from operators, that in a challenging economic environment, it's an unwelcome burden.

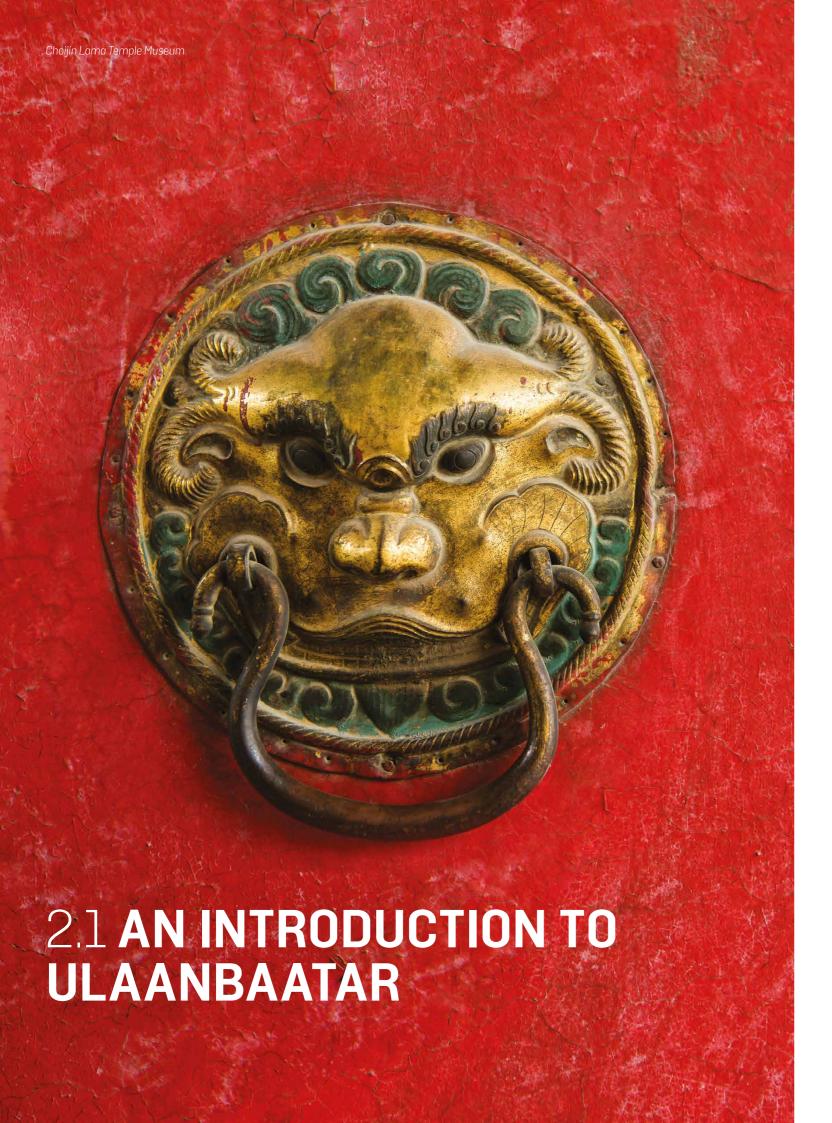
It is easy to see why changes to the tax code were encouraged by the IMF. Rates of taxation in Mongolia are low when compared with other emerging economies both in Asia and elsewhere. Neil Saker, the IMF representative, has noted the 10% flat rate for individuals – now being phased out – is on par with many Middle Eastern countries and not dissimilar to certain tax havens. The change is therefore symbolic in showing a willingness – and ability – to collect more revenue as the country recovers.

Perhaps the greatest contribution this change in taxation can make, is to lend confidence to the markets. In many developing countries, there is concern as to tax avoidance, and the inability of governments to make meaningful infrastructure improvements because of a lack of tax receipts. This will help in improving that perception, not least because it goes alongside steps toward greater transparency. Just as now Rio Tinto boast of assisting Mongolian development through payment of a US\$215m tax bill last year, maybe higher income Mongolians will also take pride in paying more into the country's sustainable development. ¹⁶¹

158 IMF (2017) 159 Ibid 160 Financial Tribune (2017) 161 Rio Tinto (2017) The government hats moved to review the current system of taxation

Rates of taxation in Mongolia are low when compared with other emerging economies both in Asia and elsewhere





EXECUTIVE SUMMARY

Ulaanbaatar is the unchallenged political, economic and cultural center of the nation. The vast majority of the country's housing stock is located in the capital. While provincial cities will offer significant growth opportunities in the future, Ulaanbaatar is currently the only market with reliable data and investment opportunities.

The city consists in nine administrative districts, six of which are contiguous. All nine districts are divided into smaller subunits. The real estate market can be split into four main zones: the central business district, peripheral residential areas, the underdeveloped urban sprawl "ger districts", and the new southern suburbs.

Ulaanbaatar has changed rapidly in recent years as a result of rapid economic growth and rural urban migration. Economic growth and new-found wealth have led to the construction of modern skyscrapers and luxury homes. On the other end of the spectrum, the rural migrants who have flocked to the city in search of opportunity often end up residing in poor conditions within the city's ger districts.



Peace Avenue along the State Department Store during 1960s

History of Ulaanbaatar

The capital city, Ulaanbaatar, once famous for its nomadic lifestyle, began the process of urbanisation long ago. Nomads have long preferred living independently in individual households surrounded by unspoilt nature, rather than in urban environments. Nomads historically maintained a proper balance between their use of natural resources and their livelihood drawn from animal husbandry. Pastoral land played a key role in the economy. The nomadic lifestyle and economic situation of nomads has been shown to deteriorate as urbanisation occurs, and nomadic households are forced to reside more closely to one another as city dwellers. Without urbanisation, the nomadic lifestyle has historically fared much better. As noted by the writer, B. Tsenddoo, the former capital, Kharkhorum, was not an urban center, but rather, a venue for storing gold and treasures, which were collected during wars waged as the Mongolian Empire grew to cover half the world. Indeed, characterised by frequent movements, the fact that Khaans' palaces

Ulaanbaatar has changed rapidly in recent years as a result of rapid economic growth and rural urban

The literacy rate of Mongolia is at 97%

were constructed on enormous carriages, made it easier for servants and queens to move frequently. This phenomenon is described by Guillaume de Rubrouck, a Flemish Franciscan missionary and explorer, who noted: "A wealthy Mongol looks as giant as a town".

In the mid 17th century, tensions between the country's poor citizens and feudal lords were threatening to boil over. In an attempt to improve the situation, in 1639, the Khalkha feudal lord Tusheet Khan Gombodorj elevated his son Zanabazar to the head of the Buddhist religion, with the aim of uniting the country in support of Buddhism. He built a palace for the event alongside "Shireet Tsagaan" lake, with formed basis of the development of present-day Ulaanbaatar. The palace of Zanabazar was named "Ikh Khuree". Its location moved over 28 times between 1639 and 1855 before finally settling at a site close to Selbe hill. The urbanisation brought about by the establishment of the Ikh Khuree led to a dramatic population increase, trade expansion, and an increased demand for transportation and cash. This was the beginning of urban development. Mongolia's 1911 declaration of independence from Manchuria, and the subsequent enthronement of Bogd Khan as Khagan of Mongolia, led to the improvement of the capital city, where politics were developed.

Following urbanisation, Mongolians, who had been living freely as nomads, experienced social, economic and political authority and administration for the first time. The Socialist Collectivization of 1924, during which more than 600 feudal estates (herds and fixed property) were confiscated and seized, led the public to enter Buddhist monasteries. Trade, handcraft and small businesses were gradually supported by the government, (these had all been banned during the Manchu-led Qing dynasty rule) and horse transportation services flourished. As claimed by Baabar, (journalist, political analyst and writer), one factor that led to further urbanisation were the Stalinist Great Repressions in Mongolia, which refers to a period of heightened political violence, during which 6900 Mongolians were victims of political persecution (1937–9). The gender imbalance driven by the persecution led nomadic households parented by single mothers to migrate to the city. The other factor that drove urbanisation, noted by Baabar, is the Socialist Collectivization of 1950, during which a large number of nomads lost their estates and were left with the one choice of joining the urban proletariat. The success behind nomads residing in the city, subsequent industrial sector development and all the related improvements were driven by young, experienced and skilled factory workers who embraced new machinery and technology. This was noted by O. Lattimore, a scholar of China, Central Asia, especially Mongolia. It is common for people in countries experiencing an industrial revolution to detest technology that destroyed the jobs which were manually operated and facilitated by workers. However, this is not the case for Mongolia whose workers were not scared of automation, and rather, took the view 'the more automated, the better'.

As a result of these changes and improvements, Ulaanbaatar's population had risen to 180,000 by 1960. In 1961, Owen Lattimore paid a visit to Mongolia and noted that "Ulaanbaatar has rapidly developed and become a marvelous city. The city will gradually expand to 40km in length, 10km in width and be shaded with tall trees. As the city's population swiftly rose there has been a lack of suppliers to build apartments for ger dwelling residents. The differences between traditional accommodation and taller, modern buildings in the city are significant and there are a few buildings taller than 5 stories in the city's earthquake zone." The city described above has now turned into a city of 1.38 million people with buildings up to 34 stories, and covers and area of over 4,700 square kilometers.

Gerel Tsogtsaikhan is lecturer at the lack of suppliers to build apartments for ger dwelling residents. The differences between traditional accommodation and taller, modern buildings in the city are significant and there are a few buildings taller than 5 stories in the city's earthquake zone."

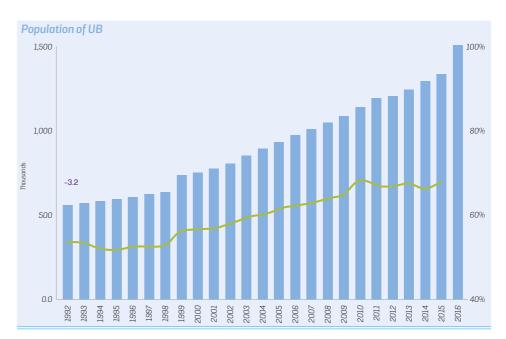
The city described above has now turned into a city of 1.38 million people with buildings up to 34 stories, and covers and area of over 4,700 square kilometers.

Gerel Tsogtsaikhan is lecturer at the University of Finance and Economics

2.1.1 DEMOGRAPHICS AND URBANISATION TRENDS

As of 2016, the Mongolian population is three million people with around half of the country's population, totalling 1.3 million people, residing in Ulaanbaatar. The city has grown more than twofold since the early 1990s. According to the National Statistics Office of Mongolia, the urbanisation rate is at 69%. The population growth of Mongolia has been around 1.4% since early 1990s and in the last two years, the country experienced around 2.2% growth. The Mongolian population is fairly young, as 56% of the population is under the age of 30 and only 6% of the population is at the age of 60 or above. More than 90% of the people speak Khalkha Mongolian and the literacy rate of Mongolia is at 97%.

At the beginning of its capitalist experiment, Mongolia was one of the poorest countries in the world. Thanks to the recent mining boom, in just two short decades, the World



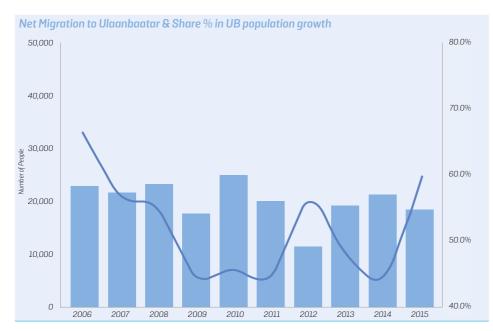
Source: National Statistical Office of Mongolia

Bank now classifies Mongolia as a country with upper middle income. The economic growth has created hundreds of millionaires overnight and fostered the incubation of a burgeoning new middle class. The newly affluent have in turn demanded the finer things in life, resulting in newly constructed shopping centers to import the latest fashions. In addition has been the construction of skyscrapers to house high–tech offices, an increase in modern apartments, and the development of luxury homes to raise their families. The developments have transformed the face of Ulaanbaatar.

The literacy rate of Mongolia is at 97%

The second major force that has reshaped the capital city in recent years is the rapid pace of rural–urban migration. Nomadic by culture, Mongolians have never been afraid to pack up shop and move elsewhere to take advantage of an opportunity; the booming business and service centers in the city offer such opportunities on every street corner. As a result, every year, thousands of Mongolians abandon the traditional rural herding lifestyle and move to the capital city. With unstable incomes, harsh conditions, and a lack of even the most basic infrastructure for much of Mongolia's rural population, it is unsurprising that so many have decided to try their luck as city dwellers. External perceptions of Ulaanbaatar's labor market are positive, with most Mongolians being acutely aware of the country's extraordinary economic transformation.

In addition to this pull factor, there are also push factors that force individuals to relocate to Ulaanbaatar, further fueling urbanization. Mongolia has a harsh climate that can destroy even the hardiest of life forms. Occasionally, a particularly severe winter (or a dzud) can destroy an unlucky herding family's entire livelihood by killing off their livestock, which is usually the family's only source of income and sole store of wealth. A herder family that has effectively lost its income and life savings often has no choice but to relocate to the city in pursuit of temporary or contract work. Over the years, the total net migration to Ulaanbaatar from other parts of Mongolia comes in at approximately 20,000 people – effectively making up around 45% of the population growth of Ulaanbaatar city. Currently 44% of Mongolia's population lives in Ulaanbaatar, a proportion that is expected to increase over the medium term



Source: Statistics Department of Ulaanbaatar

What is a Dzud?

Dzud is the Mongolian term for a set of extreme weather conditions which negatively impact large numbers of the country's livestock. With the fate of Mongolia's rural population intrinsically connected to the health of their animals, the occurrence of a dzud usually marks a significant change in socio–economic conditions across the country. Locals usually differentiate between three different types of dzud: Black, White, and Ice. 'Black Dzuds' are usually seen when summers are hot and rain infrequent, leaving low-lying plants weak. When winter sets in and snow begins to fall, animals are incapable of

locating fodder, leading many to starve. The 'White Dzud' is simply caused by unusually heavy snowfall, which stops livestock feeding on otherwise accessible frozen grass. The 'Ice Dzud' is brought about if freezing rain covers the landscape with a layer of ice, making the feeding of livestock impossible. Although, usually infrequent occurrences, over the past two decades, Mongolia's rural communities have had to deal with these conditions on four occasions. The winters of 1999–2000, 2000–2001, and 2001–2002 saw the country being hit by three consecutive dzuds, causing the number of livestock to drop to 24 million nationwide (a decrease of nearly 10 million). The infamous white winter dzud of 2009–2010 is still sending shock waves through the Mongolian economy. Heavy snowfall and temperatures as low as –50C were witnessed across the country. During that year, the number of livestocks decreased by a whopping 11 million, representing around 26% of the country's total livestock. As of 2015, the total number of livestock stands at 55 million.

2.1.2 ADMINISTRATIVE REGIONS

Mongolia is divided into 21 aimags and each aimag is divided into soums. All aimags are governed as separate municipalities, except Ulaanbaatar, which is administered separately from Tuv Aimag. Ulaanbaatar, which translates to "Red Hero," is the dense urban heart that pumps the blood of Mongolia's sparsely populated rural economy. No other urban agglomeration remotely rivals the capital city in terms of size. The second largest city Erdenet has a population of 98,050, the third largest city is Darkhan City with a population of 82,247 (as of 2016). Located in the Tuul River valley, just slightly to the northeast from the country's geographical center, the Ulaanbaatar is the center of the country's road, railroad and air networks.



The Olympic Residence (Right) and Shangri–La Complex (Left) overlooking the National Amusement Park

APIP strongly believes that as the Mongolian economy develops and diversifies, the real estate market outside of Ulaanbaatar will become more sophisticated. The mineral resource projects that will serve as the engines of growth in decades to come

The winters of 1999–2000, 2000–200 and 2001–2002 saw the country being bit by three consecutive days

are scattered throughout the country. As these projects come to fruition and begin to produce and generate income, the secondary cities and towns servicing them will begin to develop. This process has already begun in Dalanzadgad (the capital of Umnugovi aimag) where the Oyu Tolgoi and Tavan Tolgoi mines are located. Dalanzadgad has grown remarkably in recent years. New hotels and higher quality housing have also sprung up



Erdenet City, next to Erdenet Copper Mine

in Sainshand, where a massive mineral processing center and a railway spur system connecting Tavan Tolgoi to the Trans Mongolian railway are expected to bring in billions of dollars in investment over the coming years. The demographic pull of high wage skilled jobs is likely to fuel real estate demand and price appreciation over the coming years. The current prosperity and tidiness of Mongolia's second largest city, Erdenet, was built on the same development pattern, fueled by just one mining project.

At this time, no representative survey information or historical market data is available regarding prices and it would be impossible to create an accurate model to forecast future trends. For this reason, APIP will again focus strictly on the Ulaanbaatar market in this 2017 edition real estate report. The team hopes to expand the analysis to provincial cities in future years.

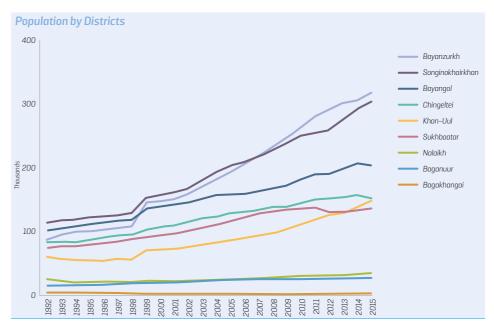
2.1.3 ULAANBAATAR OVERVIEW

Ulaanbaatar is located near Tuv aimag, with a total land area of 4,704 square kilometers divided into nine administrative districts (Düüregs), six of which are are contiguous and connected with the city center. The remaining three – Nalaikh, Baganuur, and Bagakhangai – are peripheral and unattached to the downtown area, and make up only 6% of the total Ulaanbaatar population.



Ulaanbaatar Districts

Each district is a cohesive administrative unit with a local governor and local support staff with representatives from most of the major national ministries. The governor is appointed by the local citizen's council and approved by the Prime Minister. Districts are subdivided into administrative units called "khoroo", which also have locally appointed governors and administrative staff. Ulaanbaatar currently has 144 khoroos spread across its nine districts. Khoroos are further divided into smaller units called "kheseg", which lack a formal administrative structure or a governing head. Khesegs usually consist of 300–500 households but much smaller and larger khesegs also exist.



Source: Statistics Department of Ulaanbaatar

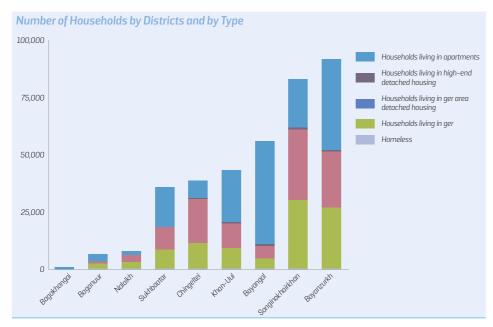
demand and price appreciation over the coming years

The demographic pull of high wage

2.1 AN INTRODUCTION TO

districts are arranged into "khashaas", or

The past two decades have seen Ulaanbaatar transform itself from just over 500 thousand inhabitants to a bustling and rapidly modernizing metropolis that hosts more than 1.3 million residents. As of January 2017, there is a total of 380,828 households living in Ulaanbaatar, of which 216,021 households reside in a ger and 164,807 reside in apartment housing.



Source: Statistics Department of Ulaanbaatar

Almost half of the total Ulaanbaatar population resides in the Bayanzurkh and Songinokhairkhan districts, which are also the biggest districts in terms of area. Many of the ger districts are also situated here. The third largest district by population is the Bayangol district, although it is the smallest district by area. Bayangol, however, also has the lowest ger area population with little over 20% living in the ger district, while the Ulaanbaatar average is 57%. Chingeltei district contains the most households living in a ger, standing at 80% of the total households. Khan–Uul district has seen the biggest growth of households living in apartments, which has tripled in the last decade due to most of the recent construction activities happening in this district. The Bayanzurkh district has also doubled, and Bayangol and Songinokhairkhan have experienced around 60% growth since 2004.

What is a 'Ger'?

Mongolian 'gers' are traditional tents that have housed the country's nomadic herdsmen for centuries. Similar to the 'yurts' of Kazakhstan, they are constructed out of felt and durable white canvas stretched over a wooden lattice substructure. Gers tend to be small in size (with floor space equalling roughly 30 sqm.) and consist of a single room.

Plots of land across Ulaanbaatar's ger districts are arranged into "khashaas", or small fenced allotments. These plots are typically owned by a family, or a group of families, residing on the land. The sheer scale and diversity of Ulaanbaatar's ger areas precludes the possibility of treating them as a homogenous development. It is thus useful to follow the tripartite framework developed by the World Bank, which breaks the ger areas down into three tiers based on their characteristics and proximity to the city center.

With a population of 1.3 million, but with 60 percent of the city's residents living in tented

accommodation, there is strong demand for conventional housing.¹ It is difficult to quantify this precisely, since many ger district residents may be reticent to move from this long-established form of accommodation. It is nonetheless, a source of concern for city planners, since, it is the source of much pollution in the city. Indeed, in winters where temperature plummet as low as minus forty degrees Celsius, families are forced to burn a variety of fuels that are often deleterious to the environment.

Since the Second World War, during the socialist period between 1924 and 1992, the government encouraged the migration of individuals from the countryside into the city under the pretext of increasing access to better lives. Ger districts in Ulaanbaatar city were gradually replaced with apartments with support from the Soviet Union, and roads and railways were built along Zamiin–Uud towards China in 1949 and 1956, which started leading to a lot of construction developments such as apartments, cinema, theatres, and museums.

The 1990 Democratic Revolution, which began with demonstrations and hunger strikes that moved towards the democratic present day Mongolia with a new constitution, started a new era of development for the city of Ulaanbaatar. Characterized by ongoing development in Ulaanbaatar, urbanization and population centralization set about and the population in the city grew more than twofold in the last fifteen years according to the National Statistical Office.²

Following massive development and the economic boom, ger districts have enormously expanded as 40% of the total population of this country lives in the capital.³ 56% of the city's population resides in ger districts, which is estimated to be 728,000 households as reported by B. Nemekhbaatar, General Director of Zag Group. Zag is one of the preeminent developers of ger areas in Ulaanbaatar, with interests in construction, production of building materials, mining, education and tourism.

The reasons to encourage ger district residents to move into conventional apartments are varied and complex. Asides from the air pollution, discussed earlier in the report, there is an argument it will lead to greater life chances and greater urban cohesion. Developers, such as Zag, however, cite mortgage availability as one of the impediments to this transition. An early mortgage program assisted the construction of apartments for 30,000 residents. Trying to reconcile the profit motive with the need for infrastructure development and the price point of low–income housing, however, has frustrated delivery. It is a paradox, that there are many abandoned developments across Ulaanbaatar, but, low–income housing remains sadly conspicuous by its absence.

It is heartening for some observers to consider collaboration agreements reached by Mongolia and China in this regard. Amongst these 21 statements of intent, there are plans for a housing construction factory to be built utilizing prefabricated technologies, already practised in other parts of the world. It is claimed, this will be capable of producing one million sq.m. of houses for 200,000 families in a year – suggesting a swift satisfaction of housing shortages.⁴ In practice, even with this technology it still requires investment by government and private enterprise and the reconciliation of cost with profit or subsidy.

Following massive development and the economic boom, ger districts have enormously expanded as 40% of the total population of this country lives in

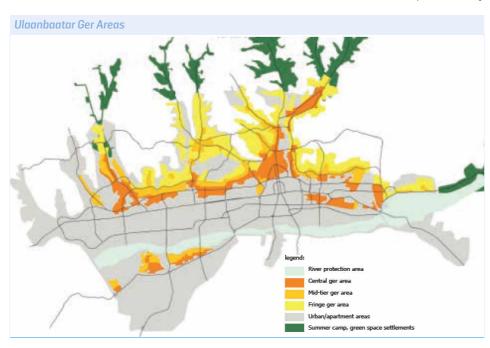
- 1 National Statistical Office of Mongolia (2017)
- 2 Ibid
- 3 Ibid
- 4 Montsame (2017)

Trying to reconcile the profit motive with the need for infrastructure development and the price point of low-income housing has frustrated delivery.

The Mongolian Mortgage Company has created a secondary mortgage market to act as a liquidity facility for banks.



Source: Ger Areas Development Authority



Source: Ger Areas Development Authority

Central ger areas are those situated within or close to Ulaanbaatar's more developed urban areas, and will usually border apartment blocks and fixed urban structures. According to a study by the World Bank in 2010, it is estimated that 78% of the structures within city center ger districts are small, detached house constructions, 18% are traditional felt tent gers, while the remainder are modern apartment blocks that have spilled over from Ulaanbaatar's more developed core. Characterized by a strong sense of community, these regions are well established and tend to represent migrant families

whose ancestors moved to Ulaanbaatar years ago when space was still freely available close to what is now the city center. In central ger districts it is typical to observe residents investing much time into the maintenance and development of their properties.



A view over a Central Ger Area

Mid-tier ger area are typically slightly further out than the central ger district, although many are still within walking distance of Ulaanbaatar's central, developed areas. Around 71% of the housing in these mid-tier neighbourhoods are detached semi-permanent houses or buildings. The remainder consists of gers. Household assets in these slightly less accessible regions are considerably less than those of their more centrally located peers. Many living in these mid-tier ger districts are reasonably comfortable with their standard of living. A 2010 World Bank sample showed 36.3% and 38.6% of those sampled were either 'very satisfied' or 'moderately satisfied' with their living environment, as opposed to a mere 2.3% who claimed to be 'very dissatisfied'.

Fringe ger areas are those on the periphery of Ulaanbaatar, hosting the city's most recent migrants. Roughly 58% of families in Ulaanbaatar's fringe districts live in a traditional ger according to the World Bank, with the remainder living in basic detached structures. Only 81.5% of households actually own the property they live in. Poverty is widespread in fringe districts, with households reported assets being just 35% of those possessed by individuals living in the country's central ger areas.



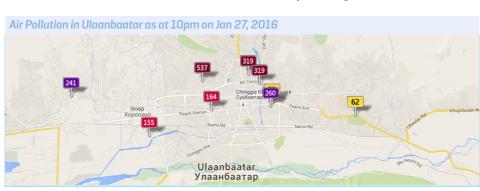
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Fringe Ger Area

As more migrants move to the city, the long–term consequences of Ulaanbaatar's periurban sprawl become increasingly pressing. Infrastructure outside the center of the city is extremely limited. Virtually no ger district households are connected to the main water supply. Roads amidst the sprawl of gers and detached structures are often impassable, prone to gridlock, and subject to severe drainage problems. Solid waste management represents a significant concern to health, being achieved solely through the use of collection vehicles. The service is infamously unreliable, with waste being collected as infrequently as once every three months.

The most pressing issue is that most of the ger district properties are not connected to any centralized heating network and are forced to keep warm through winter temperatures as low as –30C by utilising cheap cast iron stoves. These stoves typically burn wood, raw coal, or lignite, causing poor air quality and health concerns both inside the properties where the combustion takes place, and for the city as a whole. Ulaanbaatar is the coldest and, according to some estimates, most polluted capital city in the world. Summers are warm, sunny and mild averaging +25C, but winters can be brutally cold with temperature plunging below –40C (negative 40 degrees Fahrenheit, the two temperature scales cross at this point) in the winter.

The coal smoke emanating from the gers and temporary structures on the edges of the city collects in the bowl of the valley, turning the winter air in these areas hazy and acrid. The Air Quality Department of Ulaanbaatar measures the air quality on a daily basis. Results show the southern part of Ulaanbaatar (where many ger districts are located) coming in at over 300 on the Air Quality Index, which translates as hazardous. The east side near the Wrestling Palace measures around 260 (very unhealthy), and the western crossroads and northwestern areas measure around 160 (unhealthy). The air quality in Ulaanbaatar has become so bad that the quality in some parts of the city rivals that of central Beijing. Ulaanbaatar's air quality is seasonal and does improve as a result of the warm weather in the three summer months of June, July and August.



Source: Air Quality Department, Capital City, Ulaanbaatar

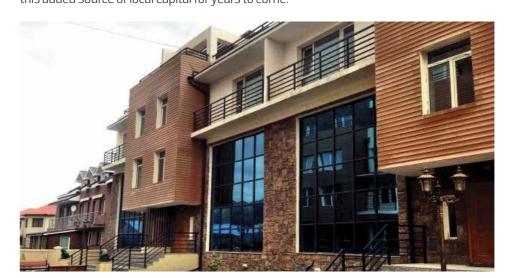
Numerous proposals have been implemented for redeveloping the ger districts and plans for reducing air pollution have been floated by various government officials and multilateral agencies. These range from handing out improved stoves and insulation equipment, to building massive blocks of state managed housing. In 2013, the government passed a new mortgage regulation that locks in an annual rate of 8% dropping from around 15%. The policy is targeted at the lower end of the market and is only available to those purchasing an apartment smaller than 80 square meters,

effectively locking luxury properties out of the subsidy. The total number of borrowers has doubled since the policy implementation in July 2013. This policy is likely to continue boosting demand and moving residents up the housing chain, out of semi — permanent structures and into apartments. So far 64,868 people have taken advantage of the 8% mortgage rate.



Low income housing developments

The mining boom of recent years has made many Mongolians into millionaires overnight. The local stock market is still underdeveloped and local wealth management services are practically non–existent. Eager to gain a return on their wealth but without many viable local options, Mongolia's new moguls have increasingly turned to the real estate market as a way to store and manage their capital. Real estate is an asset that relatively inexperienced investors can understand intuitively without complex formulae or strategies. In a rising market, real estate offers not only capital appreciation but also considerable income and patronage value. Homes and apartments that are not being used directly by the owner can be rented out for extra income or lent to family members and friends in the owner's patronage network. For this reason, real estate is often the investment of choice for the Mongolian nouveau rich. Similar trends have manifested themselves in other resource boom economies around the world like Inner Mongolia, Kazakhstan and Australia. But unlike these markets, Mongolia's resource economy is still in its infancy and the local housing market is likely to receive a considerable boost from this added source of local capital for years to come.



Plans for reducing air pollution have beer floated by various government officials and multilateral agencies

impassable, prone to gridlock, and subject to severe drainage problems choice for the Mongolian nouveau rich

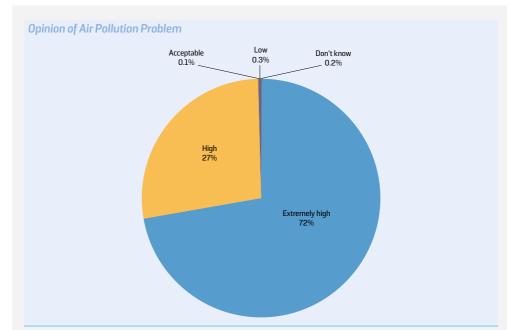
Upmarket homes in Ulaanbaatar

Foreigners who are either living in or have travelled to Mongolia can be also seen shopping for the country's properties to earn for high yield returns and capital appreciation. Many investors, especially from countries where domestic legislation is placing constraints upon investment opportunities, are turning to real estate as an effective way of storing their wealth. It is difficult to analyze to what degree this international trend has affected Ulaanbaatar's real estate market, but the impact is evident as investors from all over the world have read the growth headlines and have become eager for a piece of the action.

The construction activity nationwide has increased dramatically over the years, due to the increased demand of housing. This has resulted in a total investment in Mongolia of 18% in the construction sector, up from only 6% in 2009. Please note that overall investment has declined in 2013 & 2014 in Mongolia.

Providing Heat in Ulaanbaatar

Ulaanbaatar is one of the coldest capital cities in the world and also has a growing low income population to house as people gravitate from remote, rural areas. This dynamic brings about unique challenges, one of which is the terrible air pollution that afflicts the city during the heating months, usually between late September and April. This pollution is the result of the city's poorer citizens burning low quality carbon-based fuels using inefficient heating stoves in order to heat their traditional gers and simply built detached houses. On average, households consume about 3.9 tonnes of raw coal and spend about Tog 174,767 during that heating season, this can amount to 20–40% of the household's disposable income. This produces thick smog that hangs over the city, significantly blighting the quality of life of all its inhabitants and causing major health issues. Particulate matter levels can reach [over 400PM2.5] at peak heating times while the city is at its coldest below –30°C. If there were a way to produce heat for these people in a cleaner, more efficient, manner then there would be a direct improvement in the air quality of the city. However, this proves to be an incredibly difficult task and many of the possible solutions would require a large amount of capital expenditure.



Source: ASTAE/World Bank: Baseline Fuel Consumption, Heating Stove, and Household Perception Survey.

December 2007

There is huge concern surrounding the issue and it has received a high level of attention from both local government and international development agencies. It is also one of the primary concerns among the city's inhabitants. While an ultimate solution is yet to be found, initiatives have been conducted which address heat provision from both the market-based standpoint of introducing better products that are competitively priced or with a non-market based approach. The Millennium Challenge Corporation (MCC), an American government aid agency, announced a \$47 million grant in 2010 that was mostly used to subsidise low emission coal stoves for mass production.⁷ Stakeholders agree the problem needs to be tackled at many levels across the heating system considering all parts, such as fuel, appliance, insulation, and how they interact.

In the short term most benefit will derive from improving efficiency of fuel and stoves used and incrementally upgrading the current heating methods in ger districts. In the longer term more innovative solutions utilising modern renewable energy to accommodate the gers could come into play. One comprehensive study looking at the current methods was conducted by the World Bank's ASTAE group.⁸ This outlined the following tangible solutions:

Short Term

Using conditioned coal

This involves small pieces of dried coal and would be possible immediately and at relatively low cost from the private sector. However, there may need to be adaptations to the stove design and the resulting combination of fuel and stove need to be tested for

5 World Bank (2009)

6 Atmospheric Pollution Research, Dave et al (2011)

(MCC), an American government aid agency, announced a \$47 million grant

⁷ Millennium Challenge Corporation (2010)

⁸ World Bank (2009)

2.1 AN INTRODUCTION TO ULAANBAATAR

verification of their emissions.

Using compressed coal

Compressed coal is comparable to conditioned coal but requires slightly more initial investment into the means of processing.

Outfitting people with higher quality stoves

Traditional coal stoves are technically designed to burn wood and so do not burn coal in the most efficient way. The MCC study found that it is possible to reduce emissions by up to 70% if using ceramic stoves instead of the most efficient models.⁹

Medium Term

Switching to briquettes made from semi-coked coal or sawdust

Briquettes are highly processed fuels that produce high heat content and are popular with users. One disadvantage is they must be used with the appropriate stove in order to be effective and there is a high risk that if introduced to some targeted households they would leak into the rest of the community. The production of briquettes also has relatively high associated operating costs and cannot realistically be economical in Ulaanbaatar.

Long Term

Housing in people in low cost apartment blocks instead of gers

This option presents an ultimate solution as opposed to just achieving small reductions in emitted pollutants. It will, however, be very expensive and participants will be unable to pay for it themselves. There could also be considerable social problems that arise from such resettlement projects.

Switching to non-solid fuels, liquified petroleum gas, and electricity

Using high quality fuels like this would be very expensive but would hugely reduce the problem. Also large infrastructural and logistical adjustments would need to be made in order to make the switch to these fuel options.

Connecting the ger districts to the district heating system

The Ulaanbaatar District Heating System is a centralised heating system that is not designed to work for lots of small individual dwellings. Partial centralisation of the heat production instead could be better but how exactly that would be implemented is not something that has been explored yet.

Alongside these solutions the government should promote awareness and engage in marketing campaigns explaining the benefits, to individuals and the wider society, of reducing emissions. They should introduce and enforce emissions standards for the stoves produced using clear certification procedures while subsidising the use of heating

systems that meet those higher standards. As part of ASTAE's efforts in assessing the problems they conducted a large survey across six ger districts in the residents' attitudes about air pollution and its relation to their heating practices. The surveyors remarked that:¹⁰

- The residents clearly know about the air pollution problems in the city and how harmful they are to their health.
- · In addition they understand that through the use of raw coal they contribute to these problems in the city.
- · Households also show a willingness to adopt solutions such as alternative heating stoves or fuels.
- General opinion of improved stoves is positive and there are no negative opinions of them.
- This said, the majority of households have very little information about briquettes.

One major stumbling block is the lack of scientific confirmation of the impact of different stove and fuel combinations on pollution reduction. This is partly due to a lack of proper equipment for officially assessing the emissions, which should be established and promoted as soon as possible.

With all this in mind the project specifically recommended: 11

- Develop new standards for ger area household heating systems, anticipating continuation of observed trends of households installing heating walls and low-pressure boiler systems, and using new fuels such as briquettes of compressed coal or semi-coked coal. The new standards should focus on safety and on emissions, and to a lesser extent on fuel consumption.
- Procure laboratory equipment to enable regular testing and certification of heating systems
- Test equipment using a unified and approved protocol, which could be based on the protocol developed by the consultant in March 2008 and discussed with the key laboratories in Ulaanbaatar. Sufficient training and supervision should be provided. Once the protocol is in place, different stove models can be certified.
- Assist producers and manufacturers to develop compliant stove models for ger heating systems, for heating wall systems, and for low–pressure boiler systems.
- Set up a unified certification system, including:
 - (i) qualified laboratories with sufficient skills and equipment to carry out testing and certification of heating systems;

The production of briquettes also h relatively high associated operating cos and cannot realistically be economical

9 Millennium Challenge Corporation (2010)

¹⁰ World Bank (2009)

¹¹ Ibid

Asian Development Bank and the Korea

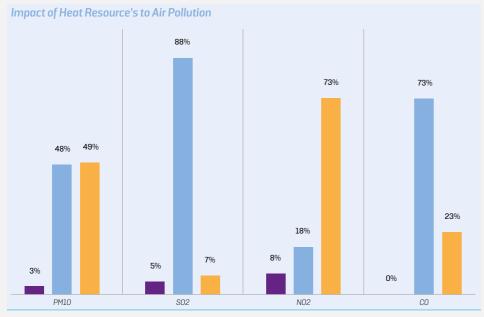
proportion of the ger residents in

apartment blocks will be long acting

(ii) an enforceable certification program that creates incentives for suppliers to participate (rather than avoid), and;

(iii) administrative controls for non-compliant appliances and suppliers.

Comparable projects have been conducted by the Asian Development Bank and the Korea International Cooperation Agency. In addition the Euroheat & Power Conference addressed its attendees with a presentation that compared the emissions contribution of combined heat and power stations (CHPs) with that of distributed ger district stoves.



Source: Euroheat and Power Conference (2015):

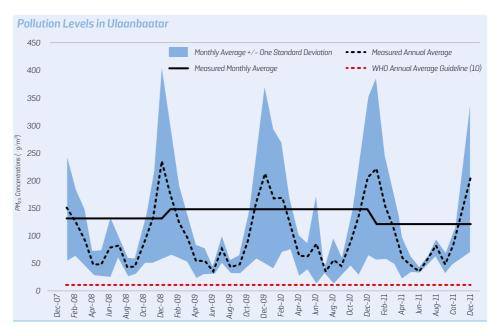
The option of trying to house a large proportion of the ger residents in apartment blocks will be long acting and quite disruptive to the communities involved. Construction has begun on some of these apartment blocks but it will take time and there is limited funding. The apartments are easier to heat and insulate using conventional district heating methods. Also mentioned is the alternative of heating the ger districts using electricity. However, while this is attractive from a consumer standpoint it would put massive strains on the electricity generation capacity of the city which would need to be increased by 600MW, effectively doubling current capacity. It has been estimated that this would cost Tog 1.68 trillion of initial investment and would also increase the seasonal cost by Tog 64.8 billion in required subsidies. Is

One aspect that has yet to be fully explored is the potential for competitive renewable energy solutions to tackle the heating problem. While the challenges of battery storage and power limitations still preclude the use solar and wind in this situation, there is an argument for the possible use of geothermal resources. These are available in Mongolia, even if they have not yet been utilised. Such a project to heat districts like this would be quite unique in both scope and scale but offers a genuinely innovative alternative. There are some smaller geothermal projects under development in more remote areas of the country.¹⁴

- 12 World Bank (2009)
- 13 Ibid
- 14 Montsame (2014)

Lastly the question has to be asked as to whether accommodating all of new migrants within Ulaanbaatar is the best solution. Myagmar Ravdan, head of the National Committee for Air Pollution Reduction, a government task force, makes this insightful comment:¹⁵

"We need to understand why people are migrating to the capital. If we don't improve the life and infrastructure in the countryside, this [pollution] will continue,". While it is understood that many of the people making up this migration are thought to herders who have lost their livestock in harsh winters and so are in such of economic opportunities, it could be more effective to develop other parts of the country and move towards having a more even distribution of the population across many cities instead of concentrating so many people in UB. A initiative to redirect migration on this scale would be very difficult to implement but it is good that this consideration is not completely ignored by the government.



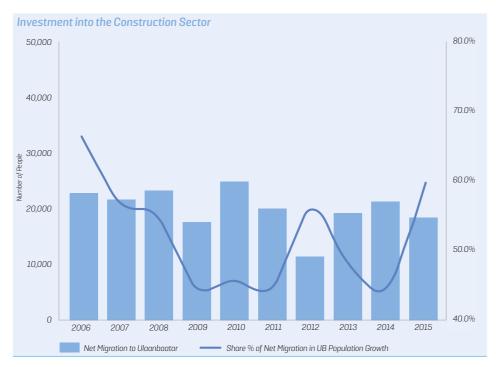
Source: Journal of Air Quality, Atmosphere & Health 2013:

Construction activity nationwide has increased dramatically over the years, due to the increased demand for housing. This has resulted in a 16.7% share of total investment in Mongolia going to the construction sector, up from only 6% in 2009. Please note that overall investment has declined in 2013 & 2014 in Mongolia.

16 EurasiaNet (2013)

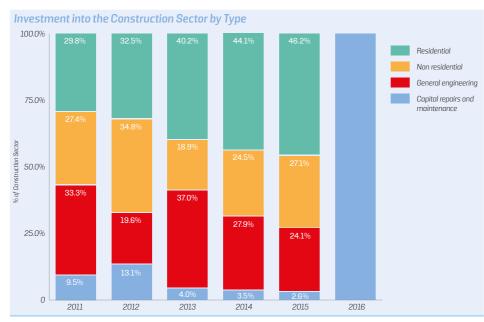
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¹⁵ Pearly Jacob (2013)



Source: National Statistics Office of Mongolia

In terms of capital allocation, there has been a shift in the construction sector. The share of the residential sector investment increased over time, taking up almost half of the construction sector investment in 2015, compared to only around 30% in 2011.



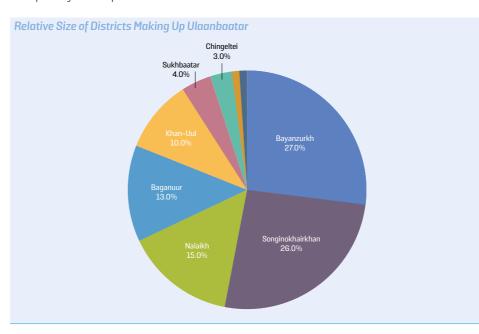
Source: National Statistics Office of Mongolia

For the sake of convenience and coherence, this report will provide an analysis of the real estate market organized along the lines of the city's administrative districts. However, it is important to understand that market conditions and levels of development can vary radically within districts.

2.1.4 INFRASTRUCTURE AND URBAN PLANNING

Ulaanbaatar's administrative boundary has a total of 470,444 hectares of land area, of which agriculture makes up 57%, forest 16%, state special usage area 16%, urban area 9%, infrastructure 1%, and reservoir 1%.

The city core of Ulaanbaatar makes up 7.4% of its total administrative boundary, of which approximately 60% of land area is occupied by ger districts, while the remaining 40% is occupied by developments and various infrastructure.



Source: Ministry of Construction and Urban Development (MCUD)

Ulaanbaatar as an administrative unit consists of nine districts, three of which are located outside the core of the city as satellite districts. As a whole, the districts of Bayangol, Bayanzurkh, Songinokhairkhan, Sukhbaatar, Khan-Uul and Chingeltei make up for 69% of Ulaanbaatar's total land area, while the satellite districts of Baganuur, Bagakhangai and Nalaikh make up 31%.

As of December 2013, 89,303 hectares of land, or 18% of the total 470,444 hectares, had already been privatized and was owned by 142,077 Mongolians as well as foreign individuals and business entities. The government continues to actively privatize land in all parts of the nine districts of Ulaanbaatar. Though quite slow, the distribution process of land ownership or possession rights has been consistent, making the share of owned land plots increase year by year, even in isolated parts outside the city.

As of 2015, Ulaanbaatar's total net land usage was 21,239.3 hectares. According to the Urban Development Law, the categories of zoning and their respective areas have been approved for Ulaanbaatar.

The city core of Ulaanbaatar makes up 7.4% of its total administrative boundary, of which approximately 60% of land area is occupied by ger districts

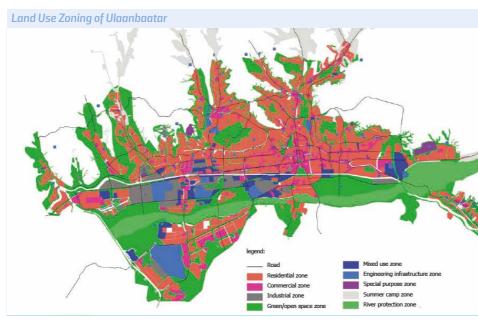
Competition for land possession rights in

Bayanzurkh and Bayangol is the highest

	Zonal Structure of Ulaanbaatar							
Category of Zoning	Zoning Includes	Zoning Code	Total Area (HA)	As % of Total Area				
Residential	Residential Apartments	1	4,397	20.7%				
	"Ger" Residency	2	4,642	21.9%				
	Public Work Space	3	1,715	8.1%				
Industrial	Factories and Productions Facilities	4	1,289	6.1%				
Infrastructural	Infrastructure of All Types	7	589	2.8%				
Agricultural	Agricultural and Mixed-use Land	6	769	3.6%				
Special Usage	Nationally Protected and Special Usage Areas	8	911	4.3%				
Green Developmental	Green Development Space	5	4,903	23.1%				
	Reserve Space	9	2,023	9.5%				
		Total	21,239	100%				

Source: MCUD

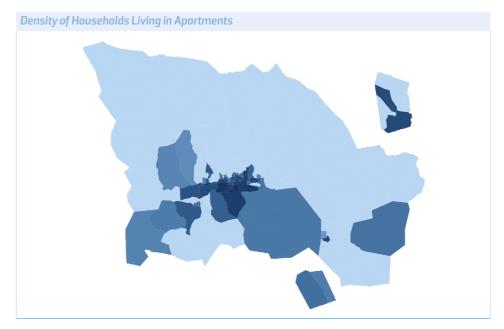
The following is the map view of the corresponding zonal structure of Ulaanbaatar.



Source: MCUD

The most centralized parts of Ulaanbaatar are the intersections of all districts (besides Songinokhairkhan) and supply of land in the central areas is low. Therefore competition for land possession rights in the central districts such as Sukhbaatar, Bayanzurkh and Bayangol is the highest. Although undeveloped land is quite rare to find in central Ulaanbaatar, specific land locations are becoming available due to plans for redevelopment of old Soviet era developments. As shown in the observed land pricing table of Ulaanbaatar, prices vary and valuations take into consideration major factors like location, access to infrastructure, marketability (or possible per square meter revenue generation), and access to heat and water grid systems.

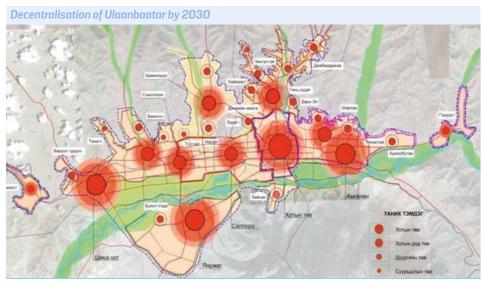
Over the course of Ulaanbaatar's history the government has developed several different master plans for the city, most recently in 2012. In the government's view, the development centers of the city are currently far too clustered around the Central Business District.



Source: Statistics Department of Ulaanbaatar

The projected plan to be accomplished by 2030, is to spread these development centers evenly across the city, as proposed in the diagram below. The government plans to do this with significant infrastructure investment over the coming years. A new six–lane highway has already opened south of the city to facilitate access to the southwest. There are also plans to develop a new bus and underground rail network stretching from both north to south and east to west.

As shown in the illustrative map, red circles respectively, from largest to smallest, illustrate city centers, sub-city centers, district centers and community centers, which are planned to be established in different parts of Ulaanbaatar. According to the 2030 master plan, a city center in Yarmag is to be established, making Chinggis Square and the Central Business District surrounding it, the other major city center. The city centers are to include large public service institutions, international organizations as well as major business and finance centers.



Source: Statistics Department of Ulaanbaatar

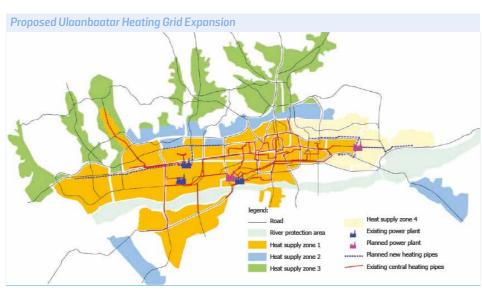
A new six-lane highway has already opened south of the city to facilitate

and "Amgalan" among others are to be established as administrative units for district centers. These sub-centers will include local governmental service units, residential apartment complexes, and small to medium size business centers. In addition to these establishments, new districts and community centers in different parts of Ulaanbaatar are to be constructed in an effort to decentralize the political, economic, and social activities of the city over a larger area.

Moreover, six new sub-city centers such as "New City," "Sonsgolon," "Bayankhoshuu,"

Furthermore, expecting the population of Ulaanbaatar to reach 1.8 million by 2030, the government of Mongolia plans to expand the capital city's heating system. To realize this goal, the government intends to construct two new power plants to aid the three existing ones in operation today.

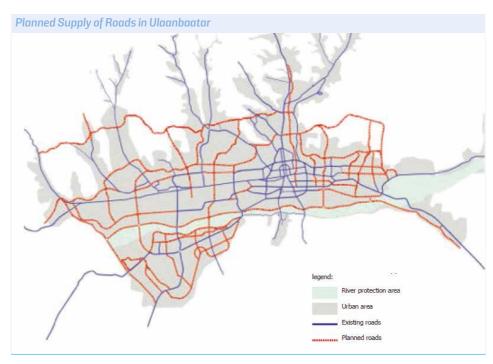
Both of the new power plants and pipes are to provide heat in supply Zone 1 and Zone 4, which cover the south and southeastern parts of Ulaanbaatar. In terms of landmass coverage, Zone 1 is the largest and would benefit from additional power plants to improve heating in developments in the area.



Source: Ministry of Construction and Urban Development

As part of the Ulaanbaatar Master Plan 2030, the government intends to focus on improving road and transportation conditions in and around the city. A notable project with investments into the infrastructure in Ulaanbaatar, is the planned construction of a "bus rapid transit" (or "BRT") system, which will provide a safe, fast, efficient, and modern public transportation system for the city. The government of Mongolia borrowed US\$ 217.4 million from the Asian Development Bank (or "ADB") to implement this project over three phases between 2015 and 2020.

According to ADB, under the first phase of the project, a 14km north–south corridor BRT line is to be established along with its supplementary infrastructure. In the second phase, another 27.9km north–south BRT corridor extension along with a 11.1km east–west (and ring road) is to be added to the proposed system. In the third and final phase, the east–west BRT corridor is to be extended by 22.6km, with a 4.6km extension to ring road corridor as well. The following map outlines the proposed supply of new transportation routes in Ulaanbaatar:



Source: Ministry of Construction and Urban Development

Furthermore, in an effort to decrease the cost of transportation outside Ulaanbaatar, the government plans to build a 170km railroad that connects the far eastern part of Ulaanbaatar with south eastern Mongolia. This is a well–connected region of the country, which in turn helps Mongolia to connect with Russia in the north and China in the south.

One of the major links to the AH3 route will be the new "Khushig Valley Airport," which is located 52km south west of Ulaanbaatar. With the addition of new routes to transportation networks, increased mobility will allow trade and transportation of goods to flourish in major commercial cities like Ulaanbaatar. With this in mind, the government has planned to build the following four large–scale logistics centers around the city:

Planned Logistics Centers around Ulaanbaatar		
Name of Logistics Center	Geographical Location with respect to central UB	Distance from UB (km)
Emeelt Argalant	West	31
Nalaikh	East	38.5
Bagakhangai	Southwest	87
Aero City	South	56

Source: MCUD

The Mayor's Office of Ulaanbaatar has budgeted MNT 601 billion (US\$ 250 million) for construction and renovation work in the city of Ulaanbaatar for 2017. Although most sub-sectors of the real estate market have been covered by this plan, more than 50% of the budget is dedicated to construction of residential apartments, road construction and renovation work. This is a clear indication of how rapidly the city of Ulaanbaatar is expanding and how there is a growing need for improved living conditions.

In an effort to decrease the cost of transportation outside Ulaanbaatar, the government plans to build a 170km railroad that connects the far eastern part of Ulaanbaatar with south eastern Mongolia

2.1 AN INTRODUCTION TO ULAANBAATAR

Mapping Ulaanbaatar – the company at the forefront of redefining addressing

Any new visitor to Ulaanbaatar, will tell you how confusing it can be, when trying to find a specific office or apartment, reliant only on street names. This is a problem common in many countries – especially where urban development has not followed a clearly defined structure. What3Words is a UK-based business which has raised significant venture capital to help solve this problem, with its first major project, being Mongolia. Described as a 'fiendishly clever solution' by The Times, we spoke with country manager, Uyanga Munkhhold.

1. Explain to us the concept of what3words?

75% of the world's countries, including Mongolia, suffer from poor addressing. This means that whilst a formal addressing system does exist, many streets still do not have names and buildings often aren't numbered. As a result, postal and logistics companies suffer huge operational inefficiencies delivering mail and packages, emergency services struggle to reach people quickly, and even simple scenarios like two friends meeting for dinner can require lengthy and complicated directions using local landmarks.

what3words is a global addressing system. It has divided the world into 57 trillion 3m x 3m squares and has assigned each one a unique address made of 3 random dictionary words. This means that everywhere in the world now has a simple and precise address. The 3m x 3m square outside the front door of our London office, for example, is ///index. home.raft, and the 3 word address for the British Embassy on Avenue in Ulaanbaatar is ///trades.rules.existence, or // нуурын.залуус.тэмдэгт in Mongolian. A 3 word address is easy to remember, and can be easily said over the phone or typed into a text message. It can be quickly written on an envelope or entered into a checkout page to help postal workers and delivery drivers find locations faster and more easily.

2. How did what3words come into being?

Our CEO, Chris Sheldrick, was working in music events and struggled to direct people to specific locations — a gate into a country field, for example. He tried using GPS coordinates, which are very accurate, but the long, complicated numbers aren't human-friendly. Too often people would make a mistake, get one digit wrong and end up in the wrong place. He found this very frustrating and decided to create a solution that would have the accuracy of coordinates, but would also be user–friendly and easy to communicate. what3words is exactly that. It uses an algorithm to convert GPS coordinates into a simple 3 word address, and a 3 word address into GPS coordinates.

3. How did the company first come to be involved in Mongolia?

Back in the summer of 2016, Mongol Post became the first postal service in the world to adopt what3words as nationwide addressing system. Mongol Post want to reduce their operational costs due to delivery inefficiencies. They also recognise that more and more packages are being delivered through e-commerce and want to scale their logistics to take advantage of this increase in volume. what3words is helping them achieve this by providing their customers with an easy-to-use system that generates an accurate delivery address using GPS coordinates.

4. Have you found it an easy place to do business?

Mongolia is an ideal example of somewhere what3words can really make an impact. A large percentage of the population is under the age of 35 and 66% of mobile users has a smartphone. The rapidly growing popularity of e-commerce, couriers and food delivery companies demonstrate that Mongolians increasingly want things delivered to their homes, and for that to be possible you need a simple and accurate address.

5. Can what 3 words provide complete addressing for the city?

what3words has given every 3m x 3m square in the world a pre-assigned address, so addressing the city is already complete. Cities are constantly changing as new infrastructure and new buildings are built, and this is just as true of London or Tokyo as it is of Ulaanbaatar. With this pace of development, authorities face a constant battle to register new addresses and make sure they are accurately mapped to coordinates. In the UK alone 2.4 million address changes are registered every 6 weeks. With what3words, every new development already has an accurate address for its residents to discover and use, and entire streets can be changed beyond recognition without interrupting the addressing system.

6. Do you realistically expect to be able to predominate in the market here?

3 word addresses do not replace the existing address system, they add a complementary piece of information, an extra level of detail. We're also not trying to compete with other navigation or mapping tools, again our system complements them. what3words is especially useful in Mongolia because it is difficult to pin an address on a map here. Often the address is not recognised when typed into the search bar, or it is recognised but the pin drops in the wrong place. Typing a 3 word address into a map, however, will always drop a pin in exactly the same place, in the 3m x 3m square it refers to. What's more, what3words can be integrated into and used alongside any existing map from Google Maps to Open Street Map.

7. Are your main partners logistics companies?

In Mongolia we are being used by the likes of Mongol Post, Monos and Pizza Hut, but a simple and accurate address is also very useful in day–to–day life. Consequently we've seen massive adoption from local businesses who are listing the 3 word address of their premises on their Facebook page or websites. 3 word addresses are now also printed in city magazines like Niislel Guide.

8. Do you anticipate its use in other areas of the country, especially Darkhan and Erdenet?

Absolutely. what3words is a universal addressing system. Whether you live in Ulaanbaatar, Darkhan or you are a nomadic herder moving with the seasons, your location has a 3 word address you can use to tell others where to find you.

9. Where's next?

Back in the summer of 2016, Mongol Post became the first postal service in the world to adopt what3words as nationwide addressing system

Mongolia is an ideal example of somewhere what3words can really make an impact.

2.1 AN INTRODUCTION TO

Mongolia was the first country to adopt

what3words as a national addressing

2.1 AN INTRODUCTION TO ULAANBAATAF

The properties were advertised giving a possible yield of 22% but when let actually yielded 19%

Mongolia was the first country to adopt what3words as a national addressing system, and now five more countries have followed suit: Côte d'Ivoire, Djibouti, Tonga, Sint Maarten and the Soloman Islands. what3words is being used by governments, businesses and NGOs in over 170 countries, with more integrations being added all the time. Our team is based in London, UK, but we're excited to be expanding into the markets we're working in with a new local team here in Mongolia and also in Dubai and South Africa.

International Investment In Ulaanbataar – Lord Newborough from Wales

Since the global financial crisis, private individuals have contended with historically low interest rates. At a time of negligible returns offered by most savings accounts, and compressed yields for a variety of traditional assets, individuals in pursuit of yield have looked further afield. Such a trend has led to some people with no immediate link to Mongolia to invest in property in Ulaanbaatar. Enticed by high rates of return, and a fast-expanding economy underpinned by an incredible mineral endowment, Lord Newborough purchased two penthouses here in [2011]. We recently spoke with him to understand his experiences of the country.

What first led to you buy property in Mongolia?

I was searching for high yielding investments in the world and came across properties being advertised in Mongolia, did a quick bit of due diligence and bought two penthouse apartments off plan.

How easy did you find the acquisition process?

The acquisition was easy and completed quite quickly. The purchase was made in US dollars.

Have you been pleased with the performance of your asset(s)?

The properties were advertised giving a possible yield of 22% but when let actually yielded 19%. They let easily. The capital appreciation was initially very good but since the economic downturn property values have declined and now levelled off and the rental market has turned soft.

Do you feel the legal and tax system is supportive of foreign owners?

Things are now less attractive for investors than they were and the political uncertainties don't improve the situation.

Has the economic downturn in Mongolia adversely affected you?

Yes, property values first declined and have now stabilized. Rental returns have declined.

Would you consider purchasing further properties in the country?

I might in the future but only on an improving market.

What advice would you give others considering acquiring property in Mongolia?

When the world economies start to improve, demand for the natural resources that Mongolia is so rich in will once again drive prices up again which in turn will revitalize the property market in Mongolia, then and only then, against a politically stable background the time will come to invest into this market again.

Lord Newborough's story is fairly typical of investment in a challenging emerging market, far from home. A 19% yield tends to only be possible in countries at a certain point in their arc of development. The bigger question, concerns whether risk is commensurately high. This is a question of interpretation and measure. As Newborough mentions, Mongolia's resource endowment is likely to offer upside potential in the medium term, but there are bound to be bumps along the way. It is certainly fair to say that Mongolian real estate investment does not fit neatly in every pension portfolio. Those able to take a longer term view and price risk, however, may be rewarded by a conducive investment climate, and outsized returns.

Lord Newborough, is a British landowner and entrepreneur. His Rhug Estate in Wales provides award winning produce to the hospitality sector globally – from the Burj al Arab in Dubai to the Ritz and the Dorchester in London. A seasoned entrepreneur with experience in Sierra Leone and Australia, his other successful enterprises include a circuit board company, sold to British Aerospace. He currently owns residential real estate in Ulaanbaatar, Mongolia.

The importance of green spaces in urban development – lessons for Ulaanbaatar

The most desirable areas of Ulaanbaatar, seem in part, to be determined by proximity to green space. This is not new, rather, it is a historically observable phenomenon in other cities around the world. Such spaces are determined by economists to have "hedonic value". An early example of this phenomenon is Regents' Park. Constructed in London in the early 1800s with residences both inside and surrounding the park, its planners aimed to raise funds for the royal family by selling the park–side homes for a premium.¹⁷

The first empirical study into the relationship between parks and house prices was conducted by Frederick Law Olmsted between 1856 and 1873. Olmsted identified the positive effect on house prices surrounding Central Park following its construction. Although he neglected other factors such as increased population, his analysis prompted more than thirty subsequent studies. Largely focused on North America and Europe, they have found, in general, 'excellent' parks add 15% to the value of proximate homes, whilst parks that fall below par may detract 5% from overall value.

Research has been conducted recently to investigate the same phenomenon in Seoul and Beijing. A 2012 Chinese study found homes proximate to Beijing city parks attracted a premium of 10.9% on average.²⁰ Parks in the city center (within the second ring-road)

17 Cooksey (2011)

18 Ibid

19 Hanrik & Welle (2009)

20 Zhang & Xie (2012)

seem in part, to be determined by proximity to green space

2.1 AN INTRODUCTION TO ULAANBAATAR

2.1 AN INTRODUCTION TO ULAANBAATAF

were found to be particularly prized and could increase property values by up to 14.1%. These results corroborate the argument that parks in more densely populated areas close to the CBD have a greater positive effect on property prices. ²²

Studies have indicated that as a park matures and becomes a more established destination, its hedonic value increases. The appreciation of value in houses surrounding the Hudson River Park is a salient example of this. Between 1997 and 2005, approximately 10% of the value of residential property sold in the Hudson River Development was attributable to its park-side location. However, between 2002 and 2005, the attributable percentage was found to have increased to 26%.²³ This is due to the fact the first section of the park at Greenwich Village was completed in 2003, and by 2005 the park had become a fully recognized destination. Such could also be said for the National Amusement Park in Ulaanhaatar.

Accessibility/ distance from the park, and the quality of the park are the two main factors researchers have identified that affect value (both positively and negatively). If a property satisfies these two main criteria, its value should appreciate. Whilst property values are often higher than average within 600 meters of the park, the greatest increase is seen within the first 150m from the park gates. For small parks it captures nearly all of the premium, and for large parks around 75%.

An important aspect to consider when determining a park's quality is its utility. Provided the facility is not overused, property near to parks suitable for exercise, dog-walking, and equipped with children's play areas may command a premium. Whether the park provides pleasure for its users is equally important. Natural areas containing woods, hills, ponds or marsh have been found to have a particularly strong effect on property values — and so the National Park in Ulaanbaatar is relevant, in this regard.²⁶ Certain features of parks attract particularly high premia. For example, studies have noted properties with views of lakes enjoy 18% to 56% premia, with one study identifying a "115% premium associated with a view of a creek or marsh".²⁷

Property values may also increase due to perceived health benefits for residents. Air quality is becoming an ever-growing concern for city-dwellers, increasing the attractiveness of living in close-proximity to green areas.²⁸ Trees and vegetation found in parks can help reduce air pollution by lowering temperature and directly removing pollutants.²⁹ This is of particular importance to Ulaanbaatar, a city severely affected by air pollution, and suggests the city's residents may be especially attracted to the potential associated health benefits of living near parks. This helps explain the high property prices recorded in Zaisan, where air quality is better.

Proximity to green spaces may at times be detrimental to home values if the green

Properties with views of lakes enjo 18% to 56% premia, with one stud identifying a "115% premium associate

- 21 Ibid
- 22 Andersen & West (2006)
- 23 Friends of Hudson River Park (2008)
- 24 Hanrik & Welle (2009)
- 25 Crompton (2004)
- 26 Kaplan (1995)
- 27 Crompton (2004)
- 28 PWC (2014)
- 29 Nowak & Heisler (2010)

space fails to adequately satisfy the 'accessibility' and 'quality' criteria. Parks have been shown to reduce the value of a home by up to 5%.³⁰ However, in most cases even if the park does not possess all the ideal qualities, proximate properties will still show modest "increases in value compared to properties outside a park's service zone".³¹

Parks that are poorly maintained, may be seen as a safety liability for nearby residents and therefore reduce house prices. A lack of maintenance can also affect the character of an area. This fact was illustrated by a study that drew on the analogy of an overgrown lawn and the detrimental effect it would have on the saleability of the property. A report by Hometrack, a UK property database found that 'derelict' land reduced the value of adjacent properties studied by an average of over £20,000 (15%). This is a finding worth considering in some parts of Ulaanbaatar, where maintenance of the public realm is not always pro-active. It is also worth considering that certain types of park are valued over others—wide open space primarily used for athletic pursuits, for instance, adds less value to a property than a passive park as the excessive noise generated is viewed as a nuisance factor.

Accessibility is equally important. Property value may be negatively impacted if the park does not have a sufficient number of entrances. Another key issue is if an arterial road separates the property and the park entrance. The noise and air pollution associated with traffic congestion from the road may negatively impact increases in house values. The value increases for properties located one block further away from Hudson River Park, for instance, were observed to be much higher that for those directly facing the park (2002-519.7% vs 10.3%).

Historical evidence suggests as cities develop, there is increased competition for land surrounding parks. For instance, following the success of Central Park, calls were generated for further public parks to be constructed towards the periphery of the city to encourage residential development. There were similar calls for development of parks in cities across America at the time. The proponents justified investment by arguing houses around the park would attract a premium, and therefore higher property tax, which would offset the cost of park construction. This is the so-called 'proximate principle'. A more recent example is the Hudson River Development. Following the announcement in 1998 that the first section of the Hudson River Park at Greenwich Village was to be constructed, the number of construction projects on the land surrounding the park increased dramatically. By 2002, sold prices for the apartments in the three new residential developments were some of the highest in Manhattan—indicative of the developers' recognition of the premium parkside homes would attract. The success of the construction of the premium parkside homes would attract.

As a city develops economically, its population becomes increasingly mobile and willing to pay to live near the amenities they appreciate. The American Planning Association has noted that increasingly wealthy US retirees in particular are seeking homes that provide

- 30 Hanrik & Welle (2009)
- 31 Crompton (2004)
- 32 Crompton (2011)
- 33 Ibid
- 34 Crompton (2004)
- 35 Friends of Hudson River Park (2008)
- 36 Crompton (2011)
- 37 Friends of Hudson River Park (2008)

Air quality is becoming an ever-growing concern for city-dwellers, increasing the attractiveness of living in close-proximity to green areas

istorical evidence suggests as cities evelop, there is increased competition

easy access to leisure activities and a sense of community. The same paper noted proximity to open space attracts so-called 'knowledge workers' (workers who sell their knowledge as opposed to physical labour).³⁸ It may be argued that as a city develops and becomes wealthier, the 'desirable' residents that parks attract have a subsequent positive effect on the area as a whole and raise house prices.

Residents of developing cities also become increasingly concerned with sustainability over time. Living in more and more densely populated areas, many city-dwellers begin to crave open spaces with clean air, and visits to parks consequently increase. For example, between 2007 and 2012 visits to South Korea's mountain-based national parks rose from 21 million to 41 million annually.³⁹ PWC has noted that as the world urbanizes, the pressure to make buildings more eco-efficient are mounting and integrating green spaces into developments has become a global trend in developed cities. The company estimates that by 2020 all buildings in advanced economies will need to have sustainability ratings. Therefore, developments near parks in Ulaanbaatar may become more popular in the coming years in order to adhere to international best practice.⁴⁰

It is reasonable to assume Ulaanbaatar will follow the trends witnessed in other cities as it continues to develop. The hedonic value of the National Amusement will be high, and increase over time. This is principally due to the park's location in the premier Sukhbaatar District, close to the CBD. Additionally, the park is easily accessible and well-maintained (having undergone a six-year renovation programme finishing in 2011). Land surrounding the National Park on the road to Zaisan should also command a premium. As noted previously, hedonic value tends to be higher for parks that provide natural settings for relaxation, such as ponds, trees, hills and open spaces. Lastly, the study relating to property in Beijing is particularly encouraging for Ulaanbaatar as both cities are facing particularly acute problems with air quality.⁴¹

It is reasonable to assume Ulaanbaato will follow the trends witnessed in othe cities as it continues to develo



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38 American Planning Association (2002)

39 Park (2017)

40 PWC (2014)

41 Zhang & Xie (2012)

EXECUTIVE SUMMARY

Ulaanbaatar hosts a diverse residential market. The market slowed down in 2016 due to the oversupply in the residential sector, as well as a sharp drop on the consumer side. The district-by-district analysis in Section 3 gives a much more detailed breakdown of the supply and demand forces affecting prices in different city locales.

Overall, strong economic growth and rising wages continue to buoy demand for modern residential space. A recent 8% government–subsidized mortgage policy has provided additional stimulus since mid–2013 and a further 5% mortgage policy will support the development of suburban areas. APIP believes that sales and rental prices will continue to appreciate in coming years as rising demand from the growing middle class, coupled with increased mortgage penetration, continues to guide the market.

OVERVIEW

UB's residential market is extremely diverse. On one end of the market you have high-end luxury apartments (often in excess of 300 square meters) with full modern amenities and sweeping views of the countryside. On the other end, you have individuals residing in temporary felt tents without running water, heat, or electricity. Often these extremes can be found within a few hundred meters of each other. Between them, various Soviet era and modern developments exist.

Diversity aside, the residential sector has been on a sharp upward trend for the past decade. Supply has increased dramatically and, with the exception of the period surrounding the 2009 global financial crisis, both rental and sales prices have increased substantially almost every year.

However, as with many complicated developments, the devil is in the details. There are parts of the city (e.g., Sukhbaatar District and the Zaisan area of Khan–Uul District) where residential real estate has dramatically outperformed the general market. Differing idiosyncratic supply and demand factors will lead to a different mix of locations outperforming others in the future. As the old adage goes, "There are three things that influence a home's value: location, location and location". The wealth of historical residential market transactions in our database allows us to provide a detailed analysis of past trends, and make forecasts about future evolutions in each of these districts.

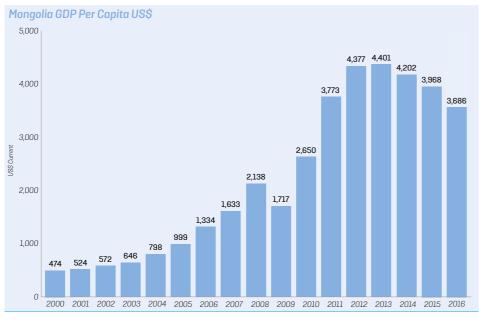
The real value of this report lies in the district level analysis featured in Section 3. There are, however, certain city-wide forces acting upon both the demand and supply side of the residential market that have shaped the way the market has developed and will continue to develop in coming years. The report also strives to provide accurate district-level analysis of the office, hospitality, and retail sectors. However, the paucity of detailed historical transaction data in office, hospitality, and retail precludes the possibility of developing effective models on a district-by-district level.

Overall, strong economic growth and rising wages continue to buoy demand for modern residential space

UB's residential market is extremely

Key demand side drivers in Ulaanbaatar's residential market are the rapid economic growth that has occurred and the rise in wealth and wages it has engendered 2.2.1 RESIDENTIAL SECTOR DEMAND

The key demand side drivers in Ulaanbaatar's residential market are the rapid economic growth that has occurred and the rise in wealth and wages it has engendered. Back in 2000, GDP per capita was less than US\$500 per annum at prevailing exchange rates. The average Mongolian was earning far less than this amount at the time. However, over the past years, the mining and service sector booms have pushed GDP per capita up to US\$4,000. That is a nearly tenfold increase in little over a decade (See the Macroeconomics section 1.3).



Source: World Bank

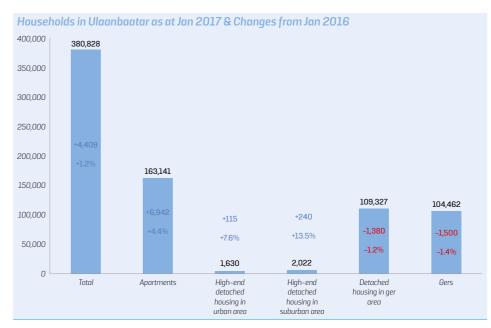
This growth has dramatically increased the purchasing power of locals. Mongolia now hosts a small but growing nouveau riche, entrepreneurial and political class, whose members are starting to demand luxury accommodation that meets international standards. Wages have kept pace with overall GDP growth.

Unlike many other developing countries in Asia, Mongolia does not have an enormous reserve pool of underutilized agrarian labor keeping wage rises in check. As a result, Mongolia now hosts a burgeoning middle class of skilled laborers and semi- professionals with a growing demand for comfort and modern amenities. As more and more Mongolians migrate to the city and move up the income ladder, the demand for quality accommodation will only accelerate.

At the same time, as the local economy modernizes, scores of foreign technical experts and investors have swarmed into the market, creating a considerable community of expatriates that have exerted upward pressure on prices, particularly in the rental market.

Apart from increasing GDP per capita and wages in Ulaanbaatar, housing market demand is linked to the population growth of Ulaanbaatar, including newly arrived citizens from other parts of Mongolia. As outlined in section 2.1, every year about 6,000 families move to Ulaanbaatar from other parts of Mongolia. The remainder of the increase was from organic growth, bringing the total up to about 20,000 households per year. However, in 2016 the total only grew by 4,000 households. Also due to the pollution, the city of

Ulaanbaatar banned Mongolian citizens migrating to Ulaanbaatar since January 2017, unless it is really necessary, as to decrease the level of air pollution, as well as other problems in the city, such as soil pollution and traffic congestion etc.



Source: Statistics Department of Ulaanbaatar

As outlined in the Macroeconomics Section, last year's initiation of a nationwide subsidized mortgage policy with 20-year repayment and rates locked in at 8% per annum fundamentally altered the financial landscape and provided a shot in the arm to both local residential demand and purchasing power. The size of the mortgage market has nearly tripled since the policy was initiated in July 2013. The aggressive expansion of mortgage lending should stimulate demand and spending on residential property for decades to come.



Source: Bank of Mongolia

After successfully offering the US\$1.5 billion Chinggis Bond with five to ten year maturity sovereign bonds in 2012, the government of Mongolia allocated approximately 44% or US\$675 million of the raised debt capital for a new subsidized mortgage policy. Launched

The aggressive expansion of mortgage lending should stimulate demand and spending on residential property for decades to come

Mongolia now hosts a burgeoning middle class of skilled laborers and semiprofessionals

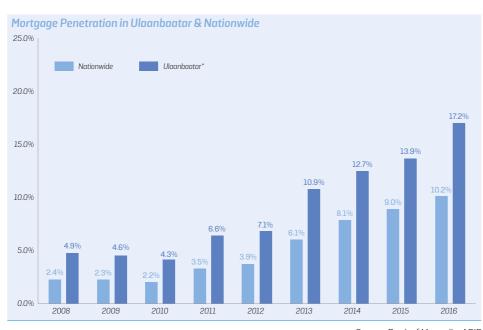
Expatriates have exerted upward pressure on prices, particularly in the rental market

by the Bank of Mongolia in June 2013, the US\$675 million worth of credit was provided to participating commercial banks at a 4% interest rate for the purpose of mortgages.

The new framework provides up to twenty-year fixed mortgage loans at an 8% annual interest rates. A borrower is required to fund an initial down payment of 30% and have a stable source of income along with an excellent credit standing. Such mortgages are only available for apartments under 80 square meters in size and applies to both new mortgage loans or the refinancing of existing mortgage loans. The policy has been very successful in terms of reducing interest burdens for lower middle and lower class families by assisting new home buyers financially. As of year-end 2016, the number of mortgage borrowers stood at 88,555 people, an increase from 11,450 in 2015. After the initiation of the 8% mortgage platform, a much higher volume of Mongolians have borrowed housing loans from the major commercial banks of Mongolia.

Existing mortgage rates were as high as 27% per annum in early 2013, but after the stimulus and initial absorption of credit, the weighted average interest rate of the mortgage market in Mongolia fell by more than half to approximately 10%. Seeing this increase in numbers and the actual development that took place all over Mongolia, the government intends to continue supporting the project's financing and will perhaps even lower the annual interest rates to as low as 5% per year.

Existing mortgage rates were as high as



Source: Bank of Mongolia, APIP

*It is assumed that the 75% of the total mortgage is in Ulaanbaatar for the years of 2008–2013

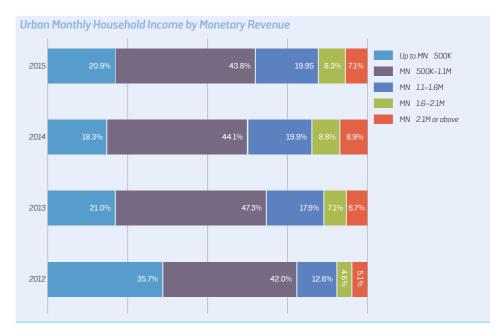
The new mortgage program was intended to support the urban middle-class and 'ger' district dwellers in moving into on-grid, modern residential spaces at affordable prices. A priority for the Mongolian government is increasing long-term savings, and a subsidized mortgage program is seen as a core part of reducing expenditures for middle-class households. After implementing the subsidized mortgage scheme, approximately half of Mongolia's overall loan portfolio carried new interest rates.

Although growth in number of customers and the volume of outstanding loans are positive factors, in the scheme of a large background penetration rate, the number of mortgage loans in Mongolia is very low. In fact, mortgage penetration (the percentage of households with outstanding mortgage loans) has been increasing in Mongolia over

the past six years. Currently, the penetration rate is just over 10%, which indicates that Mongolia as a country has much room for development and expansion in issuing mortgages to a larger volume of people.

Mongolia's capital pool for subsidized mortgages from the Chinggis Bond was all but depleted by November 2013. Since then, the Mongolian Mortgage Corporation, various ministries, and commercial banks have been trying to raise capital for mortgage issuance purposes in order to maintain mortgage rates in the 8% range. This is seen as a key part of the government's recently launched price stabilization scheme which aims to bring down inflation.

In order to understand the demand, we need to understand the affordability of the current housing market and average household income. According to the National Statistics Office, the share of urban households earning less than MNT500,000 per month decreased to only 20.9% in 2015 (from 50.0% in 2011). According to Mongolian Properties estimates, in order to afford the current mortgage rate of 8% and live comfortably, households need to have a minimum income of MNT1,600,000. The share of families with such income has also increased dramatically over the years, currently at 15.4% of the total urban households in 2015, or around 58,000 families. With over 88,000 households already signing up for mortgages in Ulaanbaatar, the number of households who can afford 8% mortgages is depleted.

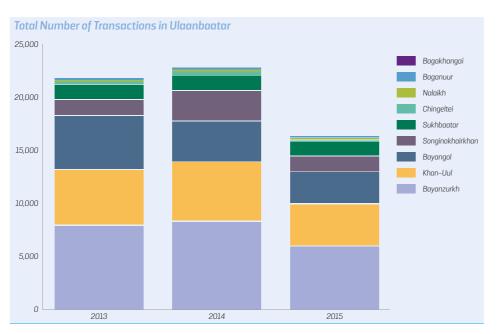


Source: National Statistics Office of Mongolia

The government recently initiated efforts to lower the 30% required down payment to 10%, while also reducing the 8% mortgage program down to 5%. While the decrease to 10% down payment did not pass, a 5% mortgage rate is being offered for suburban areas in order to encourage people to move away from the city center. By issuing a 5% mortgage rate, Mongolian Properties estimates there will be around another 45,000 families who can afford such mortgages, namely households with incomes between MNT1,100,000 – 1,600,000.

The Mongolian Mortgage Corporation, various ministries, and commercial banks have been trying to raise capital for mortgage issuance purposes in order to maintain mortgage rates in the 896 range

ngolian Properties estimates there will around another 45,000 families who can afford such mortagaes



Source: State Registration Office

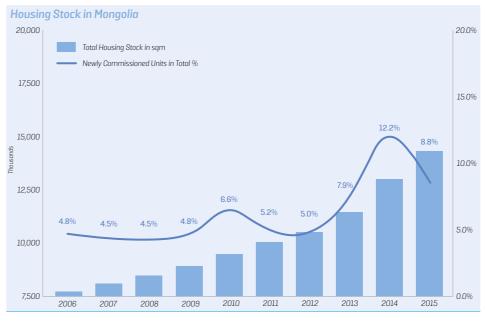
The total number of transactions in Ulaanbaatar in 2015 fell dramatically compared to 2014, which resulted in the decline in the average price in Ulaanbaatar. The largest growth in the residential sector in 2015 can be seen in the Bayanzurkh district, showing almost twice as much development as the Khan–Uul district. These districts have the most available space compared to the districts such as Chingeltei and Sukhbaatar.

According to the World Bank and the National Statistical Office of Mongolia, the size of Mongolia's shadow economy decreased from 18.2% of the GDP in 1999 to 13.7% in 2010, but the average size of the shadow economy over the past 10 years was 17.9%. Consequently, the government of Mongolia has passed several laws and regulations to fight activities of the shadow economy. In August 2015, the parliament ratified the Law on Economic Transparency, which was intended to decrease the size of the country's shadow economy and increase tax revenue by offering one–time amnesty without any financial or social consequences to individuals, as well as business entities who declare previously hidden assets. The deadline to voluntarily declare hidden assets and sources of revenues was extended until 31st December 2015. Although results have not been declared, it is anticipated that many individuals, as well as private business entities, have taken advantage of the amnesty and have begun to operate as legal entities in future.

The 8% mortgage rate was intended primarily for households living in ger areas, in an effort to decrease pollution and other social problems associated with them. However, according to a Mongolian Properties study, there has been little or no effect in terms of the number of households living in ger areas, as the number of households living in ger areas is largely remaining static for the time being.

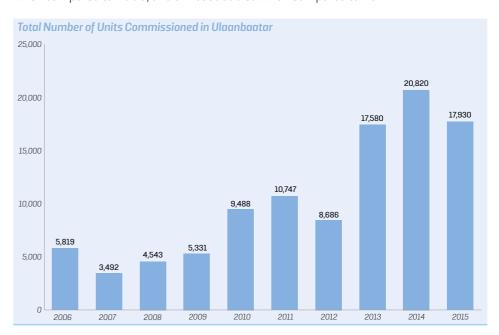
2.2.2 RESIDENTIAL SECTOR SUPPLY

In contrast to the soaring demand in the past decade, the existing supply of residential space has been quite limited over the past few years and it is picking up in the recent years. As of 2015, there was a little over 14.4 million square meters of apartments, houses and other modern residential space in Mongolia, the majority of which is located in Ulaanbaatar. The share of newly added units almost tripled from 4.8% in 2009 to 12.2% in 2014 and decreased a bit to 8.8% in 2015, but was still quite high compared to the previous years. In 2015 alone, 1.3 million square meters of residential space was commissioned.

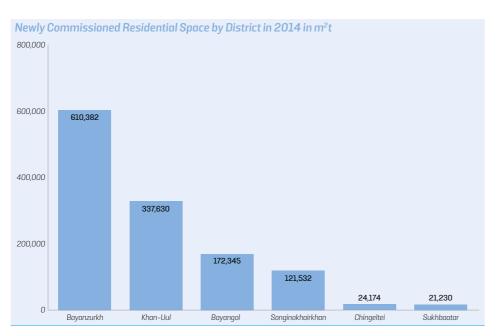


Source: National Statistics Office of Mongolia

In Ulaanbaatar, over 17 thousand units were commissioned in 2015, a threefold increase when compared to 2009, and almost doubled when compared to 2012.



Source: National Statistics Office of Mongolia



Source: National Statistics Office of Mongolia

Although Bayangol district is smallest by land area, it showed an increase of over 170 thousand square meters of residential space in 2014. Songinokhairkhan district is the second largest district in Ulaanbaatar after Bayanzurkh, but it did not see as much construction activity as Bayanzurkh. You can read more on the district level analysis in Section 3.

2.2.3 RESIDENTIAL SECTOR PERFORMANCE

After the policy implementation in June 2013, Mongolia experienced explosive mortgage market growth, with total outstanding mortgage loan balances increasing almost fivefold from 2012 to 2016. Mongolia's macroeconomic slowdown was somewhat mitigated by the effects of the new mortgage policy, and as such, average residential sales prices have grown since 2009 (in local currency terms).

The growth in residential property prices has also increased rental rates, with average rental yields maintaining their 9%-10% levels over the last four years. From the graph below it is easy to see when the credit was initially made available in June 2013, as after a stagnant start, a surge in prices buoyed by demand for mortgages is maintained into 2014. The drying up of liquidity in the program in 2014 subsequently caused price growth to slow. The graph below shows average apartment prices compared to January 2013 (i.e., a figure of 1.196 in December 2013 means prices are on average 20% higher then than in January 2013). The average price index is decreasing since March 2014 and only since August 2016, the new apartment price index is showing a recovery.



Source: Bank of Mongolia & Tenkhleg Zuuch

Historically, movements in residential rental prices tend to track and predict prices quite closely in Ulaanbaatar. Rents have flattened out and even declined in some areas over the past year or so. The drop in FDI inflows has coincided with a decline in the city's lucrative expat rental market. The current weakness of rental prices may predict an imminent decline in sales prices, as it did back in 2009. On the other hand, the noticeable decline in rental prices for luxury and high–end properties may predict a modest downturn of sales prices in the near future, as these sectors are not supported by easy credit.

Citywide rental prices should begin to recover as the economy is expected to pick up from 2017. As the mining economy continues to grow, it will induce various demand sources to pick up, influencing the average rental prices to rise from the current rates.



Source: Mongolian Properties

With burgeoning market demand and significant supply side constraints, citywide residential prices have skyrocketed in recent years, despite a dip during the global

Historically, movements in residenti rental prices tend to track and predi prices quite closely in Ulaanbaata

Citywide residential prices have skyrocketed in recent year

financial crisis as suddenly capital-constrained developers and owners closed deals on the cheap to raise financing. However, the sharp slowdown in demand and increased supply since 2014 changed this picture dramatically, resulting in a drop in prices.

Although prices have trended upward in the past year in MNT terms, the weakening of the local currency against the US dollar over the same period has caused depressed prices in US dollar terms. As a somewhat unsophisticated indicator of how much the downturn has affected the local economy, the percentage change in US dollar in terms of house prices from 2008 to 2009 was around a 17% fall, compared with a 13% fall from 2013 to 2014 and a further 17% from 2014 to 2015 and 20% from 2015 to 2016.



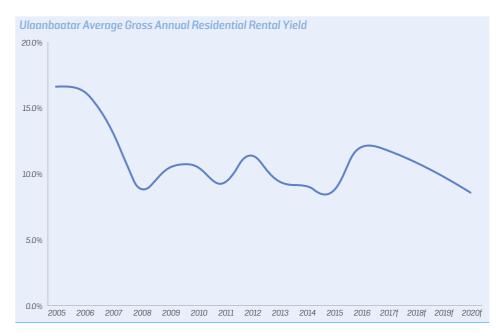
Source: Mongolian Properties

APIP predicts that the pace of growth in sales prices will pick up over the next year as Mongolia prepares for an economically exciting growth year after the signing of the US\$4.4 billion financing deal for the second phase of the Oyu Tolgoi gold and copper mine project. This should push the 2017/18 economy at a much faster pace, which will increase average sales prices with an upward trend. We also believe foreign investment will help the local currency, which will help price appreciate much faster in terms of US\$. Additionally, given that the mortgage penetration is around 10% nationwide, the future increase in penetration of mortgages in the market will also have an enormous effect in the coming years, as more and more leverage is introduced on top of strong macroeconomic fundamentals.

Overall, the aggressiveness of pricing trends depends on the overall health of the economy, effectiveness of government policy, and the wider mineral market prices – all of which look bright for the future of Mongolia. Though global mineral market prices, especially that of copper, have been down for the last year, the overall economy of Mongolia and the government policies have been corrected from previous missteps and have attained high credibility across the world after the successful signing of the second phase of the giant Oyu Tolgoi mine project.

Rental yields have come down from their peak in the 2000s, when average yields were well above 10%. Currently, residential properties provide an average annual gross rental

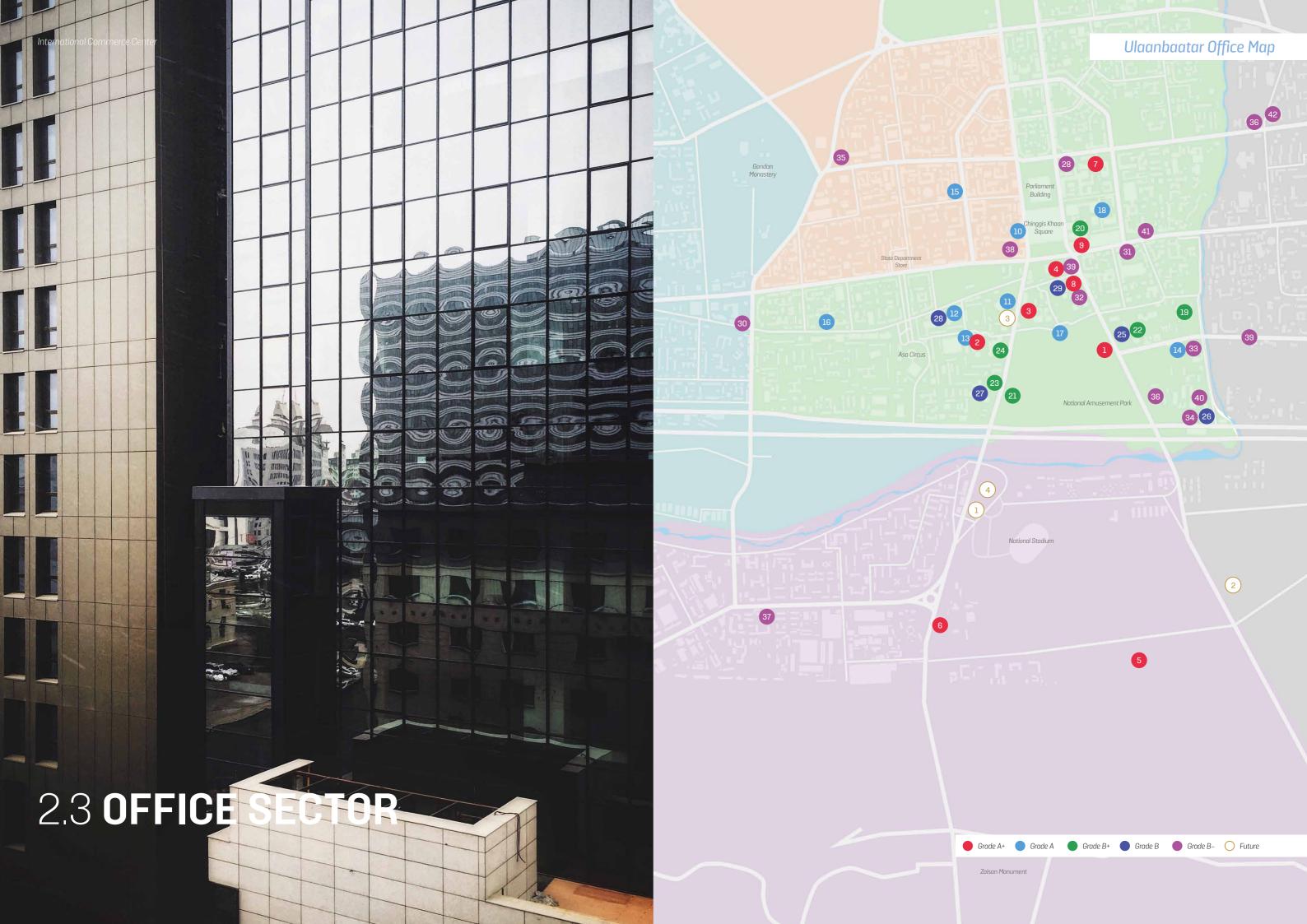
yield of around 9.6%, provided they have tenants. Average yields have remained relatively robust over the past few years with much variation depending on characteristics of the property. It is not uncommon for prime residential projects to earn rental yields exceeding 15%.



Source: Mongolian Properties

phase of the giant Uyu Tolgoi mine project.

depends on the overall health of the



Uncertainty in Mongolia's investment

for Grade A & B office space below the

climate and weak global natural

2.3 OFFICE SECTOR

EXECUTIVE SUMMARY

Buoyed by the mining-based boom in Foreign Direct Investment (FDI), which started with the completion of the Oyu Tolgoi Investment Agreement in 2009 and lasted until the run up to the 2012 parliamentary election, demand for offices skyrocketed. From 2010, developers began to rapidly commission new projects in order to meet the needs of international and growing local firms. Enormous future developments extending all the way to 2017 materialized, as organizations looked to cash in on the flood of international companies commencing operations in Ulaanbaatar.

FDI declined markedly, as a consequence, at least in part, of a controversial new investment law, and acceleration of populist rhetoric in the run-up to the 2012 election. The subsequent drop in commodity prices put a further damper on exploration companies and junior miners. Over the last year, the uncertainty in Mongolia's investment climate and weak global natural resources market have pushed demand for Grade A & B office space below the levels of 2011, and occupancy rates have crept down from nearly 100% to around 76%. Despite this drop in demand, a glut of supply is set to come online in 2017–2020. The supply – demand mismatch will likely place downward pressure on the market, keeping rent and sales prices stagnant for the foreseeable future. Select opportunities are still available but taking the market as a whole, it is relatively exposed when compared with the capital's other real estate sectors.

OVERVIEW

Offices were one of the best performing sectors in Ulaanbaatar just a few years ago. In the wake of the Oyu Tolgoi investment agreement, dozens of junior miners and investment firms flocked to the country looking for a piece of the action. Riding the crest of the decade–long global commodities super cycle, firms awash with cheap cash from foreign investors competed for the limited supply of premium office space in the downtown area, bidding up rental and sales prices in the process. The situation has changed dramatically since 2012. Office is perhaps the sector where Mongolia's current short term economic troubles have most clearly manifested themselves.

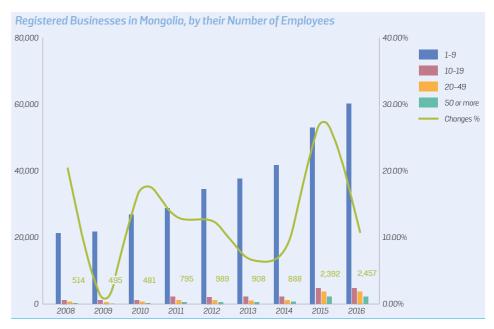
2.3.1 OFFICE SECTOR DEMAND

Although demand for office space has grown significantly over the last few years, only certain areas of the city have been impacted. The dominant preference of both domestic and international companies is to acquire space within the Central Business District (CBD), which is primarily situated in Sukhbaatar District. The CBD represents the epicenter of Mongolia's economic activity, encompassing the country's parliament, stock exchange, and the majority of key landmarks. For domestic companies, having their headquarters within this exclusive central geographical area is a symbol of status and power. These considerations provide a permanent and significant boost to demand for both Grade A and Grade B office space within the Sukhbaatar District. This support is unlikely to change even with market turbulence.

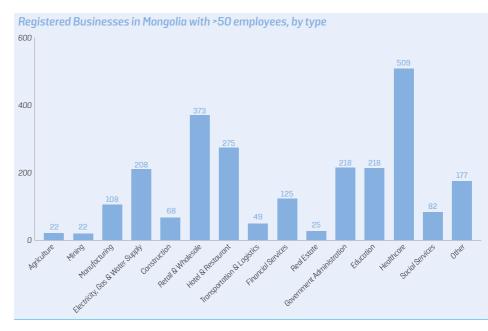
International firms entering Mongolia are also keen to establish headquarters in the CBD. The area is not only centrally located, reasonably safe, and close to shops and restaurants

designed to cater to western tastes, but it also contains offices comparable to other major financial and business centers internationally.

The registered number of businesses in Mongolia increased 17.5% in 2011 and showed a slowdown to 9.0% in 2014 – a trend in keeping with FDI patterns.⁴² The total registered number of businesses nationwide is around 72,182 (excluding the NGOs and government agencies); 2,457 of which have an employee count of over fifty.⁴³ The registered businesses in Mongolia increased 27.5% in 2015 and the total number of companies with over 50 employees almost tripled from 2014, which seems to correlate with a new law regarding tax relief, where previously unregistered companies were welcomed to register without any penalties.⁴⁴



Source: National Statistics Office of Mongolia



Source: National Statistics Office of Mongolia

The dominant preference of both domestic and international companies is to acquire space within the Central

⁴² National Statistical Office of Mongolia (2017)

⁴³ Ibid

⁴⁴ Ibid

Demand appears to be enhanced for offices located close to large residential areas that can provide accommodation for employees

During 2012, the office space at Central

Tower and Blue Sky Tower reached a

price in excess of US\$70 per square

The purchase or rental of entire office buildings is usually not possible in the CBD, although this option appears to be increasingly desirable for many firms looking to establish a large base of operations in Ulaanbaatar. Demand appears to be enhanced for offices located close to large residential areas that can provide accommodation for employees.

Poor infrastructure, high pollution levels, and a lack of residential space in the city center are pushing middle class and wealthy citizens to relocate. This trend has spurred development in the Stadium and Zaisan areas in the Khan–Uul District, to the south of the city center, and more recently out along the Yarmag road leading to the airport. Until recently, most residents in these satellite areas have commuted into the city center for work. However, heavy traffic and long commute times appear to be spurring the development of satellite work spaces to accompany satellite residential space. Official government policy supports such development. Several national agencies have already moved their headquarters out to the Yarmag area and dozens more are expected to follow in the years to come.

Some small private office spaces have appeared in the past year in the Gegeenten (or Fides Tower), Khan–Uul Tower and Zaisan Square, offering residents a nearby alternative to the premium workspaces located in the city center. APIP anticipates that as the city expands and pollution worsens, more and more people will look to escape to the relative calm of satellite centers. Alternative office space will become commonplace as this trend continues.

In recent years, Ulaanbaatar's office market has been much affected by FDI inflows, with a lag applied for construction and development. The sudden surge in FDI caused a flurry of activity within Ulaanbaatar's business community, with many local firms expanding rapidly in order to soak up excess demand. At the same time, many international firms began to flock to the capital as more and more international investment contracts created substantial business opportunities. The spike in activity created a surge in demand for quality office space. The Mongolian market was not prepared to meet this demand. New buildings were commissioned and savvy developers converted retail and residential space, but the city's constrained infrastructure, along with the limited capacity of local construction firms, meant supply could not keep apace. Prices rapidly appreciated and new space was snatched up as soon as it entered the market. Central Tower and Blue Sky Tower, two major Grade A office projects which had been commissioned even before the boom period, were finally completed in 2011 and immediately fully leased to international firms and expanding local businesses. During 2012, the office space at Central Tower and Blue Sky Tower reached a price in excess of US\$70 per square meter.

Even after these two major projects were completed, demand was still not met. With Mongolia's significant economic growth — especially in 2011 — sales and rental prices increased markedly in 2012. Many of the projects commissioned in 2009 and 2010 experienced delays due to limited local project management capacity. At the same time, new plans for office buildings were continuously proposed, leading to a significant development pipeline extending to 2017. Such plans did not anticipate the stark reduction in FDI that followed.

In 2014, demand for office space began to fall. By the final quarter, average occupancy rates for Grade A & B office buildings was around 76%, according to Mongolian Properties'

estimates. In spite of this, there was not a commensurate reduction in headline rates. This has, however, begun to change. The new offices in the Shangri–La complex started charging only US\$30, and consequently, pricing on Grade A space in Central Tower and the Blue Sky, adjusted. Interestingly, a consequence of this is decent performance in downtown Grade B markets. Today, it is undoubtedly a challenging market. Supply is coming online, but demand remains muted, meaning developers are likely to be cautious in the next few years.

2.3.2 OFFICE SECTOR SUPPLY

According to the Mongolian Properties 2017 survey, Ulaanbaatar Grade A & B office supply stands at 399,889 square meters and since 2009, the supply of office space increased dramatically — nearly sixfold. It can be said that 2009 was the year for the office sector, where supply nearly doubled thanks to Central Tower, Monnis Tower, Landmark Building and Nisora Tower. Supply fell in 2010, and in 2011, 2013 and 2014, where Ulaanbaatar saw another wave of office supply, including Blue Sky, Monnis Building, Blue Mon, Altai Building and Express Tower followed by ICC Tower, Fides Tower, UBH Building, Dalai Tower, Gerege Tower, Twin Tower, Union Building, DB Building, Shonkhor Tower, NSCB and others. The increase in 2016 office supply was the greatest ever, adding 89,880 square meters with developments such as Shangri La Office, Seruuleg Tower, Park Place, City Tower, City Center, Eastern Plaza, MPM Office, Downtown, Tselmeg and M Plaza.



Source: Mongolian Properties

With all the new supply, office is no longer seen as a particularly lucrative sector by local construction and development firms — a dramatic change from just a few years back. In a recent survey carried out by the APIP research team, only one of the top seventeen local construction and development firms interviewed listed the office sector when asked, "which real estate sector is likely to be particularly lucrative in coming years?".

New offices in the Shangri–La complex started charging only US\$30

The increase in 2016 office supply was the greatest ever, adding 89,880 square maters

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No	Developmen	Developer	GFA (sqm)	Year of Completion	Grade Rating	District		Khoroo	Street / Locality	Occupancy Rate	Rental Pric US\$ / psm	Sales price US\$ / psm*	Wield %
1	Shangri La Office	MCS Property & Kerry Group	28,500	2016	A+	Sukhbo	aatar	1	Olympic Street 19	55%	\$29.38	N/A	N/A
2	MCS Plaza	MCS Property	3,200	2002	A+	Sukhbo	aatar	4	Seoul Street 4A	100%	\$29.17	N/A	N/
3	Monnis Tower	Monnis Group	15,051	2009	A+	Sukhbo	aatar	1	Chinggis Avenue 15	100%	\$33.00	N/A	N/
4	Blue Sky	Chono Group	9,947	2011	A+	Sukhbo	aatar	1	Peace Avenue 17	70%	\$22.92	N/A	N/
5	Monnis Building	Suruga Mongol	6,000	2011	A+	Khan-	-Uul	15	Orgil Stadium 15	100%	\$21.67	N/A	N/
6	Fides Tower (Gegeenten)	Jiguur Grand Group	4,763	2013	A+	Khan-	-Uul	11	Zaisan Street 203	100%	\$20.83	\$2,200	11.4
7	Blue Mon	Blue Mon Group	7,000	2011	A+	Sukhbo	aatar	6	J.Sambuu St 32	85%	\$20.83	\$3,333	7.5
8	International Commerce Center	Tsast Construction	10,134	2013	A+	Sukhbo	aatar	1	Jamiyan Gun St 9	74%	\$20.00	\$3,500	6.9
9	Central Tower	MCS Property & Kerry Group	20,400	2009	A+	Sukhbo	aatar	1	Chinggis Square 2	90%	\$19.79	N/A	N/
10	Bodi Tower	Bodi Properties	6,000	2004	А	Ching	eltei	1	Jigjidjav St 3	90%	\$19.79	N/A	N/
11	Altai Building	Altai Construction	9,100	2011	А	Sukhbo	aatar	1	Chinggis Avenue 8	95%	\$18.75	N/A	N/
12	City Plaza	MSC	4,000	2007	А	Sukhbo	aatar	4	Seoul Street	95%	\$18.75	N/A	N/
13	Seruuleg Tower	Seruuleg Construction	5,120	2016	А	Sukhbo	aatar	1	Chinggis Avenue	14%	\$18.75	\$2,500	9.0
14	Naiman Zovkhis	Ecology Group	3,600	2006	А	Sukhbo	aatar	3	Seoul Street	80%	\$18.33	N/A	N/
15	Max Tower	Max Urguu	7,800	2008	А	Ching	eltei	4	Barilgachdiin Square 4/4	100%	\$16.67	N/A	N/
16	Eastern Plaza	Dornod Guril	3,600	2016	А	Sukhbo	aatar	1	Seoul Street	98%	\$16.67	\$2,083	9.6
17	Shonkhor Tower	Shonkhor Group	3,330	2012	А	Sukhbo	aatar	1	P. Genden Street 16	95%	\$16.67	N/A	N/
18	City Center	UB Construction	5,200	2016	А	Sukhbo	aatar	8	Altangerel Street 5	85%	\$16.67	\$2,083	9.6
19	MPM Office	Monpolymet Group	12,217	2016	B+	Sukhbo	aatar	1	Unesco Street	25%	\$16.67	N/A	N/
20	City Tower	UB Construction	5,850	2016	B+	Sukhbo	aatar	8	Behind Central Tower	20%	\$16.67	\$2,638	7.6
21	Park Place	Coyote Construction	10,500	2016	B+	Sukhbo	aatar	1	Chinggis Avenue 24	14%	\$16.67	\$1,300	15.4
22	Sky Plaza	N/A	4,800	2006	B+	Sukhbo	aatar	1	Embassy Road	80%	\$16.04	N/A	N/
23	New Century Plaza (NCP)	Gan Harsh Company	5,600	2005	B+	Sukhbo	aatar	1	Chinggis Avenue 15	95%	\$15.83	N/A	N/
24	Landmark Building	Natur	5,600	2009	B+	Sukhbo	aatar	1	Chinggis Avenue 13	95%	\$14.58	\$2,100	8.3
25	DB Building	N/A	3,400	2012	В	Sukhbo	aatar	1	Unesco Street	90%	\$14.58	N/A	N/
26	Sunroad Building	Newcom Property	5,200	2012	В	Sukhbo	antar	25	Narnii Road 91	90%	\$14.58	N/A	N/
27	GS Tower (Gerege)	German Standard	7,151	2014	В	Sukhbo		1	By the Peace Bridge	85%	\$14.58	\$2,208	7.9
28	Twin Tower	Altai Construction	10,700	2014	В	Sukhbo		4	Seoul Street	75%	\$14.58	\$2,083	8.4
29	Downtown	TB Group	4,913	2016	В	Sukhbo		1	Jamiyan Gun St 18	45%	\$14.58	\$3,700	4.7
30	Rokmon Building	Rokmon LLC	9,040	2005	В-	Bayar		5	West Intersection	70%	\$14.17	N/A	N/
31	UBH Building	Undur Buyant Holding	19,000	2013	В-	Sukhbi		1	Peace Avenue 23	92%	\$13.54	N/A	N/
32	Tselmeg	N/A	9,000	2016	В-	Sukhbi		1	Behind Wedding Palace	70%	\$13.54	N/A	N/
33	Dalai Tower	Dalai Realty	4,743	2014	В-	Sukhbi		1	Unesco Street	60%	\$12.50	\$2,083	7.2
34	NSCB	Sumt Urguu	3,850	2014	В-	Sukhbi		1	Narnii Road	40%	\$12.50	\$2,003 N/A	N.Z
35	M Plaza	Max Urguu	8,580	2013	B-	Ching		5	Sambuu Street	25%	\$12.50	N/A N/A	N/
36 27	Seoul Business Center	Seoul Group	18,000	2005	B-	Bayanz		1	Peace Avenue East	94%	\$11.67	\$1,667	8.4
37	Khan-Uul Tower	Sumt Urguu	8,500	2015	B-	Khan-		2	Chinggis Avenue	85%	\$11.46	N/A	N/
38	Express Tower	Altai Construction	8,000	2011	B-	Ching		1	Peace Avenue 4	90%	\$10.42	\$1,900	6.6
39	Grand Office	Jiguur Grand Group	11,500	2005	B-	Sukhbo		1	Jamiyan Gun St	90%	\$10.42	N/A	N/
40	Union Building	MD TOF	55,000	2014	B-	Sukhbo		25	Narnii Road 62	85%	\$10.42	\$1,665	7.5
41	Sonor Plaza	Sonor Trade	8,000	2010	B-	Bayanz		8	Peace Avenue East	85%	\$10.42	N/A	N/
42	Nisora Tower	Nisora	8,000	2009	В-	Bayanz	rurkh	1	Tokyo Street 14A	70%	\$10.42	N/A	N/ 8.3

Source: Mongolian Properties

*Please note that there is no established grading system in Mongolia, these gradings are for reference only

**Please note that the rental price is inclusive of management fee & exclusive of utility fee & VAT

***Please note that the assumed interest rate in this table is 1US\$=2,400MN₹



Located at the heart of the Central Business District, the **Shangri-La Office** is the newest addition to the high-rise office developments of Ulaanbaatar. The office space, spread over 28,500 sqm, adjoins the Shangri-La Mall, the Shangri-La Residence as well as the five star Shangri-La Hotel. Easily one of the most iconic developments in downtown Ulaanbaatar, the Shangri-La Office offers convenient, premium quality and global standard office space in the CBD. Shangri-La Office also provides direct access to sports facilities, well-known restaurants as well as global brand shops located within the Shangri-La Center complex. Although newly opened, it is already running at 55% occupancy rate, due to its its reasonably good price at US\$30 per sqm per month. Due to its attractive rates coupled with their amenities, as well as a global brand name, a number of embassies, as well as Rio Tinto, Oyu Tolgoi also moved part of their offices there.

Commenced in 2009 and located at the heart of the central business district, the Central **Tower** is a premier Grade A development in Ulaanbaatar. A joint venture between MCS and Kerry Group, the Central Tower is a 30,000 square meter, 17-storey, complete glass façade development offering arguably the largest Grade A office space in Ulaanbaatar. The first three floors of the Central Tower host famous global brands such as Louis Vuitton, Burberry, Versace and Hugo Boss. Two thirds of the space is reserved for offices and aside from Mongolian companies, tenants include international companies such as PwC, Sojitz, Bank of Tokyo Mitsubishi UFJ, POSCO, Bank of China, Allens, Minter Ellison, Standard Chartered and SMBC. The Central Tower maintains a welcoming and green public garden, which has become a popular destination for leisure. The top floor of the development contains luxurious restaurants, which offer a variety of cuisines. As late as the second half of 2012, occupancy rates were at 100%, each occupant paying around US\$70 per square meter per month for the privilege. However, the rates have fallen and the occupancy rates have dropped down to US\$20 according to Mongolian Properties' estimates. We assume once Shangri La reaches higher occupancy, Kerry Group and MCS Group, which operates both Shangri La and Central Tower, will increase the price in the near future for the both developments.

MCS Plaza is one of the pioneer developments in the office sector, opening its doors in 2002. Despite increasing supply in the office sector, MCS Plaza and Monnis Tower are some of the best performing spaces in town, with an occupancy rate of 100%. We believe this is largely due to the fact Monnis Tower is home to Rio Tinto and Oyu Tolgoi, the presence of which is highly attractive to the tenants.

Blue Sky Tower sits opposite Central Tower on the south side of Chinggis Square. This iconic mixed-use development features a distinctive, sail-like blue glass design. Its striking design and ideal location has made it popular with international firms. Notable tenants include the owner company Chono Group, Bloomberg & JCDecaux. Rental prices reached as high as US\$70 per square meter per month in 2012 and occupancy was near 100%. Current occupancy rates have fallen slightly, but the tower still outperforms most of its downtown competitors.

During the bust time, Central Tower was keeping its rent much higher than the city average and its stubbornness caused many tenants to leave the development. Unlike Central Tower, there are some developments which are not located in the epicenter CBD area, but have kept their prices at a reasonable market level and focused on attracting long term tenants. As a result, they have managed to keep their occupancy rates close to 100% and managed to keep their price levels above the city average. Some examples

include, **Monnis Building** which is located by the Japan Town and is currently running at a 100% occupancy rate. Although not located in the CBD area, the development has managed to secure long term tenants and keeps its price higher than the city average. Blue Mon, situated to the north of Chinggis Square, offers around 7,000 square meters of office space to a mixture of local and international firms. Fides Tower (Gegeenten), located on Zaisan Street, is also running at a 100% occupancy rate.

ICC Tower opened its doors in 2014. Tsast Construction's ICC is known for its high-quality space. The twenty floor structure includes fourteen floors of offices, equating to around 10,134 square meters. Prices are similar to that of TDB Tower and Central Tower and occupancy rates so far stand at 74%. In addition to the office floors, other facilities are offered in the complex. ICC Tower is currently home to ADB, Deloitte and Areva.

Bodi Tower, a more established Grade A development, offers 6,000 square meters of office space spread across twelve floors. Golomt Bank and Bodi Holdings occupy the majority of the building. Altai Building, sitting opposite Monnis Tower on Chinggis Avenue, contains around 9,100 square meters of space across 14 floors. Occupancy rates have remained strong since completion in 2011 and it is one of the best performing buildings in town.

There was a wave of developments commenced in 2016, which are currently running at very low occupancy rate, such as Seruuleg Tower, Park Place, Downtown, City Tower, MPM Office and M Plaza etc. Unlike these developments, Tselmeg is offering lower rent than these CBD developments and is now already running at 70% occupancy rate.

Office buildings located in the CBD still command higher prices than other Grade B buildings, and benefit from occupancy rate close to 100%, such as Naiman Zovkhis, Eastern Plaza, Shonkhor Tower, City Plaza, Max Tower, New Century Plaza, GS Tower (Gerege) and Landmark Building.

Two developments have been omitted from the study since their high asking prices must be considered outliers. TDB Tower and Seoul Plaza only have 15% and 20% occupancy rates respectively, meaning their inclusion would unduly distort the dataset.

Although the city center boasts a fair amount of office space, it should be noted city wide infrastructural constraints mean quality varies widely. There is a severe undersupply of parking facilities in the city center. With only a few developments offering carefully planned parking space, the majority of developments are limited to far too few spaces to service the whole block. The high density of cars in the capital makes this a pressing issue and will be a factor that drives demand for alternative space.

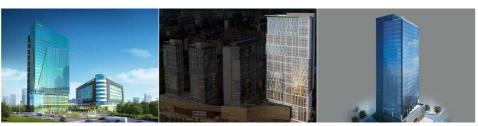
2.3.3 OFFICE SECTOR FUTURE SUPPLY

Although, the total supply of Grade A & B office space in Ulaanbaatar is currently around 370,109 square meters, supply in the next few years is not expected to slow down. The expected supply in the next three years is expected to be almost 100,000 square meters, creating more and more product and possibly further decreasing rental and sales prices.

Although the city center boasts a fair amount of office space, it should be noted city wide infrastructural constraints mean quality varies widely

	Pipeline of Upcoming Office Supply												
	Project Name	Developer	GFA (sqm)	Year of Completion	District								
1	Khaan Bank Tower	Khurd Group	37,400	2017	Khan-Uul								
2	Encanto Office	Camder	26,000	2018	Bayanzurkh								
3	International Finance Center	Chuang's Group	31,140	2019	Sukhbaatar								
4	MAK Tower	Mongolyn Alt	30,000	On hold	Khan-Uul								
		Total size	124,540										

Source: Mongolian Properties



1. Khaan Bank Tower

2. Encanto Office 3. International Finance Center



4. MAK Tower

Khaan Bank Tower is located on Chinggis Avenue, next to KH Apartment and the multiple storey parking and retail area will be connected with this upcoming high rise office building. International Finance Center, another significant addition to Sukhbaatar's stock of Grade A office space is owned by Chuang's Group. 25 storeys tall, the structure, which is targeted for completion in 2017, is set to replace the Blue Sky Tower for the title of Mongolia's tallest building and has the potential to expand the city's stock of Grade A office space by as much as 31,140 square meters. Encanto's Office is expected to be completed in 2018 and is expected to bring an additional 26,000 square meters of office space into the market. MAK Tower, when completed will bring yet more Grade A office space online in an already swollen market. The office proportion is expected to be around 30,000 square meters. The 41 storey high building will incorporate a five star hotel with office space. Mongolyn Alt signed a technical consultancy with Hyatt International, however, the project has already been put on hold for number of years.

2.3.4 OFFICE SECTOR PERFORMANCE

Downward pressure is being exerted on office rental prices across all Grade A and B spaces. The drying up of investment deal flow, the steep decline in FDI and the poor performance of mineral prices has pushed many high profile international firms to drastically scale back their Mongolian operations. Junior mining companies are feeling the squeeze and are increasingly looking for an exit. Mongolian firms, who a few short years ago occupied Grade A space as a symbol of status and strength, are now looking to relocate to more affordable Grade B facilities.

APIP predicts it is unlikely there will be enough demand to exert much positive upward pressure on rental prices in the long term. Grade A space is in oversupply at the moment and more will be added in the future. Thus, even with the expected increases in FDI inflow to Mongolia and recovery of major economic activities due to the signing of the Oyu Tolgoi's second phase financing deal, rental prices across Grade A, B and C offices are likely to remain stagnant.



Source: Mongolian Properties

The newer office buildings, such as Fides Tower and Park Place are offering low sales prices, making the rental yield more than 10%. Although, many of the best office towers are not for sale, the weighted average sales price for the available ones stands at close to US\$2,070. Rental prices across these office spaces above stands at US\$16.55 with a 76% occupancy rate. With the falling demand in office space, the sales and rental prices have decreased dramatically in recent years, making the current yield around 8.3%.

The glut of new supply scheduled to come online in the coming years and beyond will exert downward pressure on sales price levels as well. Prices are likely to remain stagnant or even decline in the medium term. When compared to the residential and retail markets, office looks set to heavily underperform in terms of sales prices. However, a resurgence of FDI could see sales prices recover in the long term. Office space is not commonly traded actively in the market, due to the fact most of these buildings are owned and operated by major conglomerates, taking up most of their own space for

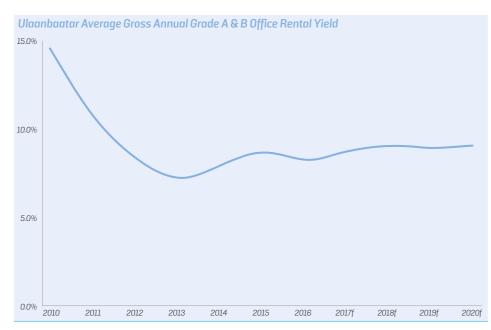
The poor performance of mineral prices has pushed many high profile international firms to drastically scale back their Mongolian operations

office use. Sales prices are going to be very dependent on the health of the business environment and the strength of economic growth.

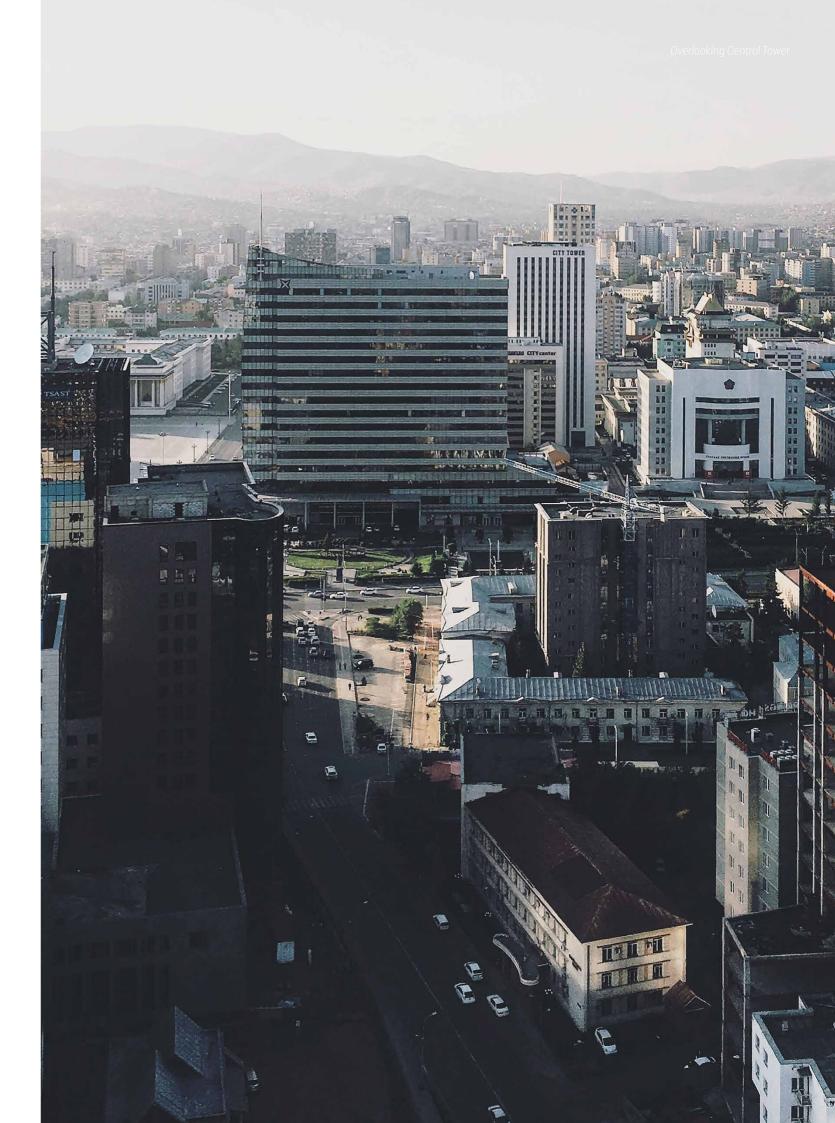


Source: Mongolian Properties

The predicted decline in rental prices combined with modest growth in sales means office rental yields are likely to stay stagnant in the medium term.



Source: Mongolian Properties





2.4 RETAIL SECTOR

EXECUTIVE SUMMARY

Retail may be the hidden hero of Mongolia's real estate market. Developers have tended to focus on high-end office and luxury residential complexes over the last few years, and neglected the needs of a growing consumer class. Though relatively small in absolute numbers, there are important sub-sectors of retail that are still underserved.

A rise in real incomes, credit facilities and, consequently, purchasing power has led to strong and rapidly expanding sales figures for both local retailers and the handful of international brands that have already opened stores in Ulaanbaatar. Luxury and "midrange" products are both flourishing and generating sales per unit area metrics that are already competitive at an international level. In fact, research indicates midrange brands are outperforming their luxury counterparts, flouting trends in other parts of Asia and underlining the fact that, contrary to popular perception, Mongolia's growth is trickling down.

Recent sales manager and developer surveys consistently confirm a high level of business confidence in the retail sector. Rental yields for retail space are in excess of 20% in prime locations and APIP expects sales and rental prices will continue to rise steadily as rapid growth and more widely available credit push demand up faster than supply. The amount of prime retail space in the city center will increase only modestly over the next few years as larger mixed–use developments come online. 2014 & 2015 saw the launch of a number of satellite retail destinations in the Khan Uul region of the city. These retail and entertainment destinations are already running with full occupancy and some asking prices are similar to the CBD. If carefully selected, investors may benefit from strong capital appreciation.

OVERVIEW

The undersupply of existing quality retail space coupled with rising wages and the emergence of new wealth makes a compelling argument for growth in the retail sector. The square footage of grade A retail outlets in the downtown area is still comparatively small, especially when compared to more developed office and residential sectors. The next two years will see a number of enormous office developments come online as well as a plethora of luxury residential projects, yet future developments for retail, in the downtown area at least, remains relatively stagnant – limited to a few dozen floors in new mixed use developments. Assuming the residential projects are completed and sold, this will further assist in driving demand.

2.4.1 RETAIL SECTOR DEMAND

Mongolians have much more disposable income to spend than they did just a few years ago. And spend it they have. According to the Mongolian National Statistics Office (NSO), annual per capita expenditure on clothing alone increased over 500% between 2003 and 2011.⁴⁵ Mongolians are consuming a larger number of higher quality goods than ever before.



Narantuul black market

General macroeconomic trends have changed the consumer landscape in Mongolia. The economic sonic boom created a pool of millionaires in a short time frame. As is common in other developing countries, affluent locals have sought ways to exhibit and enjoy their wealth. Luxury brands like Louis Vuitton, Burberry, Rolex and Valentino have opened shiny new outlet branches in the capital city in order to cater to the growing local appetite for conspicuous consumption.



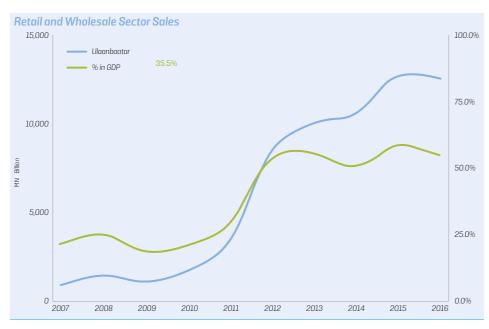
Source: National Statistics Office of Mongolia

The country's new millionaires are not the only individuals that have benefitted from the recent boom, however. Working and professional class wages have risen rapidly as well. This increase in purchasing power has rippled through the consumer goods market with spending, particularly in the luxury sector, at record highs. As more international brands enter the market, demand for high quality space increases and as such, retail occupancy rates downtown are extremely high.

Mongolians are consuming a larger number of higher quality goods than

45 Mongolian National Statistics Office (2017)

The expansion of purchasing power has been accompanied by rapid alterations in the preferences of Mongolian consumers. Twenty years after market liberalization, Mongolians have successfully adopted many modern consumption patterns; luxury items that convey taste, wealth, and status are becoming increasingly desirable to the country's consumers. For the growing class of Mongolian salaried workers, earning a million Tugriks per month or more, the latest designer bags manufactured by high-end western brands are carried with pride in every corner of the city; for those who remain on slightly more modest incomes, counterfeit brand names goods purchased at the Narantuul Black Market make for acceptable substitutes.



Source: National Statistics Office of Mongolia

The retail sector has expanded dramatically in response, rising from less than 14% of GDP in 2008 to more than 19% in 2011.⁴⁶ The number of establishments operating nationally within the retail industry increased over twofold from 27,112 in 2008 to 60,171 in 2016.⁴⁷ In addition, the total sales of the wholesale and retail trade in the country has maintained double–digit growth since 2010, even in the wake of a weakening external economic environment in 2013 through 2015.⁴⁸ Rental and sales prices for real estate in the retail sector have yet to increase at the same rate as sales, however. The per meter rental price in Ulaanbaatar's prime retail locations is still significantly lower than that of comparable locations in other emerging Asian markets.

In addition to higher incomes, improved access to credit lines has facilitated a further rise in disposable income. As discussed in the macroeconomics section, Mongolia's banking sector has expanded rapidly over the last few years and there are now a multitude of NBFIs and savings and credit cooperatives in addition to the banks. This easier access to credit has boosted the average Mongolian's spending power dramatically. It is telling that this has occurred against a backdrop of recent financial difficulties, and so as the country moves to recovery, it is hoped disposable wealth will increase for a growing proportion of the population.

Mongolia's central bank has also implemented a successful price control program that has managed to bring inflation to 2.6% in 2013, 6% in 2014, 5.8% in 2015 and 0.5% in 2016.⁴⁹ The ability to maintain inflation at single digit levels since 2012, is impressive, and some semblance of price stability will positively affect consumer spending in the years ahead. It is anticipated this will affect demand for high quality retail space in many areas of the city.

Seoul Street

Seoul street, also known as Khuukhdyn Zuu area, stretches 2.9 kilometres from the National Academic Drama Theatre on the east to Ulaanbaatar Railway Administration on the west. It is known to be a busy and vibrant location, due to the concentration of a number of Ulaanbaatar's most renowned restaurants and bars. These include California restaurant and drinking venues such as Brauhaus, Great Mongol, Beer House and Grand Khaan Irish Pub. Nighttime venues are complemented by popular cafes such as the Coffee Bean & Tea Leaf, Cafe Ti–Amo, Peaberry and the Korean franchise, Tous le Jours. The recent addition of Zu Club, attracts a stream of affluent locals and expatriates.

This is not to say, however, that Seoul Street is purely reserved for the purposes of leisure. The headquarters of Khan Bank, one of Mongolia's biggest institutions, is located opposite its competitor Golomt on the other side of the road. The Anti–Corruption Agency and the factory of Ugoodge $(\Theta r \Theta \Theta \pi)$ bakery, that caters to many Mongolian families, are also located in the area. Nonetheless, these sit easily alongside a growing recreational scene that is drawing crowds, especially in the summer months.

It is a convenient area, where hubs such as Naran Mall and Seoul Plaza vie for attention with several boutiques, all the while sitting easily alongside other amenities such as the State Second Maternity Hospital as well as the Eye Clinic Orbita. The East part of the street is home to the palace of the 20th century prominent leader, Chin Van Khanddorj', as well as a wide range of offices and commercial spaces of both notable local and international organisations, along with one of the oldest public schools in Mongolia, State School Number 1.

The most recent development on Seoul Street is the foresighted decision by the city administration to reserve 440 meters of its center each evening as a car-free night zone from 10pm to 6am. This forms a part of the government's goal to make Ulaanbaatar a tourist hub by 2020, and already is contributing to the creation of a vibrant area in which to eat and drink. Such initiatives draw on experiences in other Asian cities and help contribute towards a lucrative night time economy.

2.4.2 RETAIL SECTOR SUPPLY

According to the Mongolian Properties 2017 survey, Ulaanbaatar Grade A & B retail supply stands at 313,505 square meters. Since 2009, supply grew modestly compared with offices, adding around 10,000–30,000 square meters per year. In 2015, however, Hunnu Mall opened 50,000 square meters on the Yarmag Road, amounting to the biggest addition since 2009.

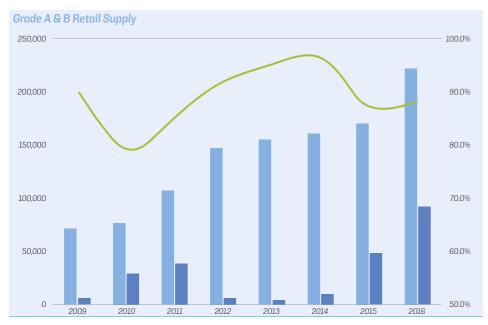
49 Ibid

⁴⁶ National Statistics Office of Mongolia (2017)

⁴⁷ Ibid

⁴⁸ Ibid

2.4 RETAIL SECTOR



Source: Mongolian Properties

The city's commercial hub for high-end shopping is undoubtedly the downtown and CBD, which encompasses most of Sukhbaatar District, Chingeltei District and Bayangol district along Peace Avenue. Extending from just east of Peace Avenue all the way west to the

State Department Store, Gandan Monastery and 3 & 4th khoroolol, this large and congested area has seen the fastest retail sector development in the country over recent years. The storefronts along this area's two major thoroughfares — Peace Avenue and Seoul Street — are particularly prosperous. However, recent trends in the retail sector are changing, as the availability of land along this road is so limited, newer developments are springing up in northern part of the city in Khan–Uul district. Previously overlooked as a retail destination, there are now a number of important venues including Gegeenten, Buddha Mall and Zaisan Square in Zaisan, as well as Hunnu Mall on the road toward the airport.

Commenced in 2009 and located at the heart of the central business district, the Central Tower is a premier Grade A development in Ulaanbaatar. The structure's modern interior is host to many of the city's most renowned international and luxury brands, being the location of choice for Hugo Boss, Mont Blanc, and Louis Vuitton. Positioned overlooking Chinggis Square, the structure is ideally located to capture the attention of tourists viewing Ulaanbaatar's most famous landmark, whilst the office space on the upper floors provides many of Mongolia's professional class with daily exposure to its stores.

Developed by MCS and the Kerry Group, the Shangri–La complex was completed in 2016 and changed the landscape for retail, hotel and office spaces in UB. The total retail space is around 27,000 square meters, which is a considerably large retail offering in CBD. Even

The Shangri–La complex was complete in 2016 and changed the landscape for retail, hotel and office spaces in UB

Grade	A & B Retail Sector Snapshot as at l	March 1, 2017											
No	Project	Developer	GFA (sqm)	Year of Completion	Retail Rating*	a de la companya de l	District	Khoroo	Khoroolol / Street / Locality	Occupancy Rate	Rental Price US\$ / psm**	Sales price US\$ / psm***	Yield %
1	Central Mall @ Central Tower	MCS Property & Kerry Group	6,700	2009	A+	+	Sukhbaatar	1	Chinggis Square 2	99%	\$45.83	N/A	N/A
2	Shangri La Mall	MCS Property & Kerry Group	27,000	2016	A+	+	Sukhbaatar	1	Olympic Street 19	75%	\$38.20	N/A	N/A
3	Zaisan Square	Oyunii Undraa Group	6,210	2013	А	1	Khan-Uul	11	Zaisan Toiruu Street	95%	\$33.33	N/A	N/A
4	State Department Store	Nomin Holding	27,765	1970	A-	-	Chingeltei	3	Peace Avenue 23	100%	\$31.25	N/A	N/A
5	UB Department Store	Tushig	30,000	2010	A-	-	Sukhbaatar	4	Peace Avenue 57	95%	\$29.17	N/A	N/A
6	Hunnu Mall	Puma Construction	50,000	2015	B+	+	Khan-Uul	4	Yarmag Road	99%	\$25.00	N/A	N/A
7	Max Mall	Max Urguu	25,000	2011	B+	+	Bayangol	17	Peace Avenue 37/1	99%	\$25.00	N/A	N/A
8	Naran Plaza	Naran Group	5,700	2007	B+	+	Sukhbaatar	1	Chinggis Avenue 29	100%	\$24.58	N/A	N/A
9	Naran Mall	Naran Group	25,000	2006	B+	+	Sukhbaatar	3	Seoul Street 42/1	100%	\$23.15	N/A	N/A
10	Buddha Mall @ Buddha Vista	MCS Property	4,500	2014	B+	+	Khan-Uul	11	Zaisan Toiruu Street	100%	\$22.22	\$4,167	6.4%
11	Gegeenten	Jiguur Grand	5,875	2014	B+	+	Khan-Uul	11	Zaisan Street 203	95%	\$18.06	\$2,083	10.4%
12	Metromall	Delta Construction	6,900	2012	В	3	Chingeltei	6	Baga Toiruu	95%	\$16.67	N/A	N/A
13	Polaris Department Store	MMC	18,000	2016	В	3	Khan-Uul	2	Chinggis Avenue	50%	\$16.67	N/A	N/A
14	E-Mart	Altai Holding	7,603	2016	В	3	Bayanzurkh	1	Beijing Street	90%	\$15.28	N/A	N/A
15	Park Place	Coyote Construction	13,000	2016	В	3	Sukhbaatar	1	Chinggis Avenue 24	73%	\$15.21	\$2,604	7.0%
16	Seoul Business Center	Seoul Group	3,400	2005	В	3	Bayanzurkh	1	Beijing Street	100%	\$12.50	N/A	N/A
17	Solo Mall	Orchlon construction LLC	27,000	2016	B-	-	Bayangol	15	Ard Ayush Avenue	50%	\$10.75	\$2,083	7.2%
18	Khanburgedei Department Store	Zunshin	14,400	2011	B-	_	Bayangol	2	Peace Avenue West	100%	N/A	N/A	N/A
19	Nomin Department Store	Nomin Holding	9,452	2007	B-	-	Bayangol	15	Ard Ayush Avenue	100%	N/A	N/A	N/A
		Total size	313,505						Weighted average	88%	\$24.68	\$2,334	7.6%

*Please note that there is no established grading system in Mongolia, these gradings are for reference only

**Please note that the rental price is inclusive of management fee & exclusive of utility fee & VAT

***Please note that the assumed interest rate in this table is 1US\$=2,400MN\$F



19. Nomin Department Store

though only opened last year, the mall is already 75% full and hosts many luxury brands, such as Rolex and Valentino.

With an extremely high urbanization rate, and subsequent strains on city infrastructure, many of Mongolia's wealthiest citizens are looking for alternative accommodation outside of the city center. In recent years the population of the Zaisan Valley has exploded, as Ulaanbaatar's newly affluent have fled the congestion and coal smoke pollution of the downtown area. Huge residences have sprung up over the hillsides creating what is now one of the most desirable residential locations in the country. Over the last few years, Zaisan had not seen much in the way of retail development, however, this changed with the recent launch of Zaisan Square. Located just opposite the Zaisan monument, Zaisan square features three floors of retail space and a number of restaurants. The doors opened in October of 2013 and since its launch the project has been well received by the community.

The most famous retail outfit in the central business district is the State Department Store. Run by Nomin Holdings, this slightly aged Grade A retail space consistently fills all 27,765 square meters of its space. Coveted as one of the most iconic structures in Mongolia, the enterprise has recently seen many tenants in the space shift from domestic to international brands. As foreign brands establish themselves within this space, the effect has been to push many Mongolian companies out of the market. Surrounding the operation are a large quantity of small enterprises along Peace Avenue, offering everything from souvenirs to fast food, designed to appeal to the large numbers of consumers that spill out of the slightly overpriced State Department Store empty handed.

To the west of the State Department Store is the somewhat less well known Ulaanbaatar Department Store. The five – floor structure boasts modern facilities including two lifts, escalators to each floor, a climate control system, and high – grade lighting. The 30,000 square meters of space got off to a slow start but is currently running with a 95% occupancy rate. Famous global brands such as Nike, Tommy Hilfiger, Boss and Lacoste among hundreds of others, are represented at the Mall.

Hunnu Mall is located right next to Viva City along Yarmag Road and spans 50,000 square meters and three floors, a third of which features a cinema and games. Since opening in 2015, it has become one of the strongest magnets for shopping and entertainment in the area, drawing people out from the city center and relieving local residents from having to make the long journey to the central districts of the city. In addition to the cinema, other entertainment provided includes a year - round skating rink, a family entertainment center, and a playground. Hunnu even has a daycare center for parents needing time alone to get some serious shopping done, without distractions. Restaurants and cafes are also available for those looking for a fun get together or quick snack – not to mention the ice cream stands and food court. The national and city governments both list the development of new administrative offices around the Yarmag road in their official development plans. Infrastructure, including an expanded road, new heating plant extensions and expansion of water and sewage system is being built at an accelerated pace to accommodate all the new developments.

Max Group's Max Mall, commenced in 2011, is a 3-storey shopping mall, offering 25,000 closer proximity to 3rd and 4th microdistrict shops, Max Mall occupies a central spot in

sqm of retail space. Located along Peace Avenue opposite the Grand Plaza and in

2.4 RETAIL SECTOR

2.4 RETAIL SECTOR

Naran Plaza, just off the Peace Bridge in close proximity to Chinggis Square and the CBD is one of the best known developments a commercially active part of Ulaanbaatar. Occupying the bottom floors of the five star Ramada Hotel, the Max Mall hosts some notable global brands including, Bugatti, GAP, Converse, Asics, GEOX and eSpoir.

Naran Plaza, just off the Peace Bridge in close proximity to Chinggis Square and the CBD is one of the best known developments, currently 100% occupied. Run by the Naran Group, Naran Plaza hosts many of the similar brands to the Naran Mall, such as Esprit, Seiko, Swatch, Samsonite and Timberland. The bottom floor of the development hosts Naran Motors, and its BMW showroom.

On Seoul Street, Naran Group's premier shopping center is located: Naran Mall. The four storey plaza features a sleek modern glass facade along with all of the group's trademark partner brands — including Guess, Calvin Klein and Swarovski, as well as a small convenience store, a coffee shop (Coffee Bean & Tea Leaf) and several restaurants.

Buddha Mall by the Buddha Vista is one of the newly established offerings. Although small in size, the mall is one of the very few shopping destinations in the Zaisan area. On the way to the Zaisan area, Gegeenten, a mixed use development opened its door in 2014, adding around 6,000 square meters of retail space. Its entertainment center next door is becoming a popular destination for leisure. Though relatively new, Gegeenten already has attracted global brands such as Ramsey, Meyer, Pelo and Le Specs among others.

Metromall in Baga Toiruu is one of the only venues to offer international brands in the area. Polaris Department Store, just opened along Chinggis Avenue further down around the Misheel Expo area and incorporated in the Ibis Hotel, is offering brands like Noritake and Senko. E-Mart hypermarket chain – is the newest retail addition to the market. Altai Holding opened the #1 Korean hypermarket chain in 2016 and it has quickly become a major shopping destination for residents of Ulaanbaatar. Spread over three floors of retail space, E-Mart offers a huge variety of products ranging from groceries to clothing to appliances. Park Place, just off the Peace Bridge, is a 13,000 sqm shopping space known for hosting Hublot. Seoul Business Center has been successful since its inception in 2005 and it is the only prime retail development in Bayanzurkh district. Solo Mall in the 3rd microdistrict is the newest addition to the area and E-Mart is planning to occupy the first two floors. The quality of the development and planning surpasses all the other developments in the area.

Khanburgedei is located in a slightly odd location in between residential apartments in Bayangol district, however, it has managed to attract a large number of international brands and currently the store is running at a 100% occupancy rate. Further out to the north and west, outside of of the CBD, in Bayangol District, lies the area often referred to as "Khoroolol" by locals. The area boasts the original Urgoo Cinema movie theater, which recently opened a second branch in the CBD. Khoroolol is famous for its numerous small, grade B shops and retail centers lining the main Ard Ayush Avenue. These shops have long existed in the hands of entrepreneurial family businesses, offering a selection of cheap, often imitation goods to the Mongolian middle class. Recently, some larger international brand names have moved into the Khoroolol area, including the United Colors of Benetton. Nomin Department Store is the only prime retail space in the area.

Within this prime supply, average occupancy fell from 90% in 2009 to 79.3% in 2010 as the market gradually absorbed the newly developed space. Increased consumer spending, new market entrants and generally good market fundamentals caused occupancy to creep up to 85.4% in 2011, even with two new projects coming online in the same year. There has been moderate growth in the retail space since 2012, meaning occupancy fell from 96.3% in mid-late 2014, to 88% in 2016. This seems to owe to the construction of two new malls in 2015 and 2016, which nearly doubly the prime retail space in two years.

No Project Brands 1 Central Mall @ Central Tower Louis Vuitton, Burberry, Versace, Hugo Boss, Vertu, Shiseido, L'occitane, Marella, Baume & Mercier, Chopard, Omega, Pal Zileri, Swarovski, Karen Millen, Mont Blanc, Ugg, Petit Bateau, Frey Wille, Stuart Weitzman, Goyo, Wolford, Edelweiss Flower Shop, Marco Bicego, Bishrelt Beauty and Grant E One's 2 Shangri-La Valentino, Rolex, Gobi, Goyo, Dyrberg/Kern, Damiani, Geox, Lhama Grease, Internom, IMAX Cinema, Skywalker, World Wine Vinotage, Brussels, Godiva, Rinascimento, Isaia, Dermacol, Grease, Yama, Michel Amazonka, Queen Fashion House, Monalun 3 Zaisan Square Karen Millen, Lauma Lingerie, Salamander, Dyrberg/Kern, Yves Rocher, Paul Becker, La Scala, Greymer & Borsalino, Reina V, Terrazza, Royal Carpet, Eleganto, Sealy Gallery, Amedel Store, Innovstyle Fashion Boutique, Wedgwood, Home Deco, Todos Baby, Comf-Pro, Hortus & Apothicus, Thann, Su-Ao, Baigal, Caractere, Luxfur, McDavid, Ergo Bag, Lego, Fine Jewellery, Princess JP, Mano Botanicus and House of Decor. 4 State Department Store KONICA MINOLTA, ASUS, TonyMoly, Miss Sixty, Bossini, Giordano, Jean West, Columbia, Timberland, Toread, Mizuno, Clarks, Zwilling, Henckels, Nachtmann, Triumph, Daniel Hechter, Roy Robson, Bug, Next, Nike, Puma, Tom Tailor, Royal, Mango, Coccodrillo, The North Face, L'Oreal. Garnier, Ecco, Dyrberg/Kern, Geox 5 UB Department Store Chanel, Estee Lauder, LANCOME, L'Occitane, Whoo, YSL, BOSS, SEIKO, Sisley, Skechers, on&on, Forever 21, Cesar's, Blue Sky Cashmere, NIKE, PUMA, GIORDANO, Tommy Hilfiger, D&G, Lacosta
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SEIKO, Sisley, Skechers, on&on, Forever 21, Cesar's, Blue Sky
Escada, Isharya, Boss, Motomo and Giovanni Fabiani
6 Hunnu Mall Wakado, On & On, Home-Fix, Compass, Scandinavian Design, Toread, Oliver Webber, Euro fashion, Samanta, Nomadic Art, Moa Baby, 5,10.15, Sealy Sleep Studio, Goyo Cashmere, Levi's, Crocs, Ju Wolfskin, Reebok, Adidas and Elpa Cesar's.
7 Max Mall Basefield, Corneliani, Commander, St. John, Orient, Konplott, Gap, Asics, Coccinelle, Garcia Jeans, Cerruti 1881, Vera Mont, Bugatti, Akubra, Gardeur, Marc Aurel, Rene Lezard, Black Up, Ajila, Mamono E.L.F, Hankook Cosmetics, TonyMoly, Faberlic, Etude House, Enpra eSpoir, Geox, BHS, Tulip, DuYa Mega, Edelweiss, Gold Fish, Staccat and Profuomo. Cache Cache, Converse
8 Naran Plaza Timberland, Sony, Kolarz, Barbie, Nici, Fisher Price, Hotwheels, Esp Home, WMF, Hisar, Kutahya, Adam and Eva, Tulip Store, L'oreal, Thann, Yves Rocher, Celio, Samsonite, Delsey, American Tourister, Gino, Seiko, Swatch, Esprit, Swarovski, Adidas
9 Naran Mall Arcoroc, Esprit, Adidas Originals, Adidas Sports, Sony, Samsung, Esprit home, Victorinox, Kutahya, Luminarc, Hisar, WMF, Samsonic Delsey, American Tourister, Swatch, Celio*, Calvin Klein Jeans, Swarovski, Guess, Timberland, Seiko, Swiss Watch Shop, Gino, Staccato, Tulip Store, L'oreal, Adam and Eva, FOX, Yves Rocher, Thann, Nici, Barbie, Hotwheels, Fisher Price, Longines, Tissot, WMI Rado, Tag Heuer, Omega, Samsonite, Victorinox and Davidoff.
10 Buddha Mall @ Buddha Vista Burberry, Jack Wolfskin, Goyo Cashmere, Miele, Summit Outdoor World, (Mountain) Hard Wear, Ettoi, Elle, Laura Star, Nobile Curtain Collection, Helly Hansen (H/H), Lafuma, KingCamp and Zamberla

2.4 RETAIL SECTOR

	International a	nd Local Brands in the Prime Shopping Spaces
No	Project	Brands
11	Gegeenten	Scandinavian Design Furniture Store, AYC Juice bar, Blue Sky Cashmere, Extra, Ramsey, Meyer, Pelo, Le Specs, Melissa, Kuzu and Mollini.
12	Metromall	Ecco, Buffalo, Basic Editions, Dior, Kelin, Coco, Goyo Cashmere, Versace, Budget, Esmeraldo, Daniel Cremieux, D&G, Paucinni, Kaynas, Lasagrada, Burberry and Wrangler.
13	Polaris Department Store	Senko, Noritake, La scarpa Boutique, Ceramic, Nakanishi,
14	E-mart	E-mart, Altai Cashmere
15	Park place	Hublot
16	Seoul Business Center	House of Waterford Crystal, Digel, Bugatti, Artdeco, Christ, The Bridge, KOOKAl, Van Gils, Canali, Dunhill, MAC, LLOYD, Givenchy, CK, DAKS, Digel, Damel Hechter, Cerruti 1881, French Connection, BOSS, Doucal's, Van Gils, Lloyd, Picard, Declare, Schneiders, Joop!, Peuterey, KOOKAI, MAC, Yves Salomon, Eduard Dressler, MooRER, French Connection, DKNY, L.K. Bennett, NAF, NAF, Mayolal, Naturino, Pennyblack, Gucci, Liu Jo, Bogner, Barbour, Wedgwood and Le Creuset.
17	Solo Mall	E-mart
18	Khanburgedei Department Store	House of Waterford Crystal, Digel, Bugatti, Artdeco, Christ, The Bridge, KOOKAI, Van Gils, Canali, Dunhill, MAC, LLOYD, Givenchy, CK, DAKS, Dige, Damel Hechter, Cerruti 1881, French Connection, BOSS, Doucal's, Van Gils, Lloyd, Picard, Declare, Schneiders, Joop!, Peuterey, KOOKAI, MAC, Yves Salomon, Eduard Dressler, MooRER, French Connection, DKNY, L.K. Bennett, NAF NAF, Mayolal, Naturino, Pennyblack, Gucci, Liu Jo, Bogner, Barbour, Wedgwood and Le Creuset.
19	Nomin Department Store	Terranova, Calliope, Next, Mango, Tom Tailor, Puma, Coccodrillo, Casa Moda, The North Face, Geox, Clarks, Rieker, Giudi, Marino Orlandi, Golden point, Pompea, Bellafonte, Daniel Hechter, Royrobson, Sony, Samsung, Beko, Gorenje, Kenwood, Aristan and S. Oliver.

Enterprises of interest to the real estate investor effectively begin with the professionalized set of local stores and chains that are becoming increasingly commonplace within the Mongolian commercial environment. Best characterized by local outlets like Gobi Cashmere, Goyo Cashmere, Naran Group, Nomin Holdings, Bishrelt Cosmetics, these chains are a cut above the country's small and often inefficient family run enterprises. Either producing locally (in the case of Gobi Cashmere) or importing and establishing themselves as market leaders within industries to which international brands are currently exposed (Naran Group), these firms look set to continue growing rapidly and expanding their output over the coming years. The wealthier firms within this category have over the past few years begun to move their operations out of the small high–street operations from which they began trading, and into the larger custom built shopping facilities situated around Ulaanbaatar in order to maximize their exposure to the consumer.

The top tier of commercial enterprises currently operating within the Mongolian market remains the large international brands that have decided to establish direct or joint venture operations within Ulaanbaatar to gain exposure to the country's robust, growth-driven demand. Luxury brands such as Louis Vuitton, Hugo Boss, Mont Blanc and Burberry already have operations established in the most exclusive retail outlets within the center of the city, whilst franchises such as Timberland, L'Oreal, Samsonite, Seiko, and Calvin Klein are beginning to occupy the increasingly large 'American Mall' style facilities cropping up across the city. Occasionally, these types of firms operate through a wholly owned local vehicle, but partnerships or joint ventures are much more common.

Naran Group has been particularly successful acting as a local partner or local operator for international brands. Naran has served as the exclusive partner or operator for dozens of world famous brands (including Esprit, Adidas, Omega, Swatch, Tag Heuer, Swarovski, Samsonite, Guess, Calvin Klein and Timberland) in recent years. MCS has also been very successful in this space, bringing in luxury brands like Burberry and Hugo Boss through its Glamour joint venture company.

Many of these partnerships have significantly exceeded their owners' expectations, as the appetite for luxury and mid range western brands within Ulaanbaatar has proved to be more substantial than companies' projections thought possible.

Case Study – Louis Vuitton:

One particularly successful luxury venture within the Mongolian market has been Louis Vuitton located on the ground floor of the MCS Central Tower. It features a circular VIP client room, the centerpiece being a jewel encrusted riding saddle complete with a pouch for transporting caviar across the Steppe. The store's success however speaks for itself. With over 2,000 Mongolian clients on their books, the shop has been effective in capturing a substantial share of the status – conscience, affluent Mongolian class. Louis Vuitton's international management company has widely praised the outlet as one of its highest growth operations in Asia. The company's financial statements released for 2010 confirm that with 73% sales growth, the Ulaanbaatar operation was the firm's second most successful in Asia, beaten only by Ho–Chi–Minh City (Saigon).

Local clothing brands such as Michel & Amazonka, Monalun and Queen Fashion House recently opened stores in the Shangri La Mall, marking another milestone, since they only used to design and sell custom made clothing piece by piece, and have shifted to targeting the mass market. In the beginning, these brands were selling at around the MNT50,000–300,000 range and, but after establishing their store at the Shangri La, the average price increased to MNT500,000, setting themselves apart from other local designers. Not just local clothing brands, but also other local brands, such as Lhamour and Seaberyy are entering the market with a presence in prime retail outlets such as Shangri La Mall and the spa concept at Asem Village.

	Major Shopping Streets in Ulaanbaatar											
	Shopping Streets	Rental Price US\$/psm*	Sales Price US\$/psm*	Yield %								
1	Peace Avenue Central	\$63.22	\$2,583	29.4%								
2	Tserendorj Street	\$26.15	N/A	N/A								
3	Baga Toiruu	\$20.87	\$1,667	15.0%								
4	Baruun Selbe Street	\$19.58	\$1,759	13.4%								
5	Seoul Street	\$18.89	N/A	N/A								
6	Ard Ayush Avenue	\$18.55	\$1,038	21.4%								
7	Peace Avenue East	\$13.48	N/A	N/A								
8	Ikh Toiruu	\$10.15	\$1,204	10.1%								
	Weighted average	\$25.82	\$1,762	19.8%								

***Please note that the assumed interest rate in this table is 1US\$=2,400MN₹

Luxury brands such as Louis Vuitto Hugo Boss, Mont Blanc and Burber Iready have operations established

2.4 RETAIL SECTOR _______ 2.4 RETAIL SECTOR

	Wholesale Market	ts in Ulaanbaatar										
No	Wholesale	Developer	GFA (sqm)	Year of Completion	Retail Rating*	District	Khoroo	Kharaalal / Street / Locality	Occupancy Rate	Rental Price US\$ / psm**	Sales price US\$ / psm***	Yield %
1	Shonkhor Market	Khuchit Shonkhor	1,380	1997	С	Chingeltei	11	Denjin Mynga Street	90%	\$46.88	N/A	N/A
2	Dunjingarav Market	Dunjingarav LLC	26,000	2013	C+	Bayanzurkh	26	Narnii Road	78%	\$20.93	N/A	N/A
3	Sunday Center	Sunday Plaza	16,382	2009	C+	Bayanzurkh	14	Nam Yanjuu Street	93%	\$19.00	\$1,075	21.2%
4	New Kharkhorin Market	Chinggis Trade LLC	19,000	2014	C+	Bayangol	5	Peace Avenue	75%	\$17.38	\$268	77.8%
5	Bars Market	Bars Impex LLC	4,092	2000	C	Bayangol	3	Narnii Road	88%	\$14.58	N/A	N/A
6	"100 Family" Construction Materials Market	N/A	27,580	2004	C	Sukhbaatar	10,11	Tsagdaa Street	90%	\$12.97	N/A	N/A
7	Bumbugur – 2	Yumt Bumbugur	10,494	2012	C	Chingeltei	2	Ikh Toiruu	91%	\$12.19	N/A	N/A
8	Hermes Center	Hermes Center LLC	3,000	2009	C+	Bayangol	4	Narnii Road 20	100%	\$11.35	N/A	N/A
9	Bumbugur – 1	Erdenebulgan LLC	7,566	2000	C	Chingeltei	2	Ikh Toiruu Road	93%	\$10.00	\$625	19.2%
10	Bayanzurkh Market	Khan Talst	4,281	1996	C	Bayanzurkh	6	Peace Avenue East	89%	\$9.38	N/A	N/A
11	BIG Materials Supply Center	Barmon LLC	15,000	2015	C+	Bayangol	5	Gurvaljin Road	85%	\$7.50	N/A	N/A
12	Narantuul Market	Narantuul Group	175,000	1993	C	Bayanzurkh	14	Narnii Road	95%	\$6.98	\$208	40.2%
13	Uguumur Market	Diamond	23,400	2013	С	Bayanzurkh	14	Narnii Road	82%	\$6.05	N/A	N/A
		Total size	313,505					Weighted average	90%	\$10.27	\$293	41.3%

Recent years have seen great success for the small ground floor units in certain areas. This has led to the development of a variety of micro malls downtown. Smaller complexes such as Tumbash Shopping Center, Next Plaza, and Sansar Plaza were brought online in recent years. These typically two storey structures have quickly been filled, all exhibiting close to a 100% occupancy rate, rented predominantly to individual traders and small Mongolian enterprises. Capitalizing on this trend and taking it to the next logical step, a number of local developers have opened larger, more modern shopping centers featuring a hybrid of office and/or residential space.

Apart from these two storey structures, there are number of shops and restaurants located on the ground floor units of the residential area spanning Peace Avenue and the surrounding streets, as well as the Khoroolol areas. Peace Avenue Central, which spans from the Max Mall shopping center to the Government Palace — undoubtedly the epicenter of the city — commands the highest rental price. Although the sales price is similar to prime office and retail spaces, it generates close to a 30% rental yield. Tserendorj Street or Beatles Square, is one of the favorite spots of Ulaanbaatar residents to enjoy various restaurants and retail shops. Baga Toiruu is the street surrounding the Parliament Building, and offers various small jewellery stores, as well as various 'mom and pop' shops. Baruun Selbe Street stretches from the State Department Store all the way to the Tedy Center, which also runs and operates similar stores to Baga Toiruu street. Seoul Street is considered the entertainment center of Ulaanbaatar and the street offerings include the best clubs and karaokes as well as bakery shops and clothing stores.

Ard Ayush Avenue, locally known as Khoroolol, is a clustered area for middle class shopping. Before larger malls like Shangri La and Central Tower, the Khoroolol was the only go-to destination for someone looking for a shopping spree in the old days. The Khoroolol is still one of the most popular destinations. Peace Avenue East is somewhat less affluent, although only minutes away from the Government Palace and stretching towards the Wrestling Palace. Ikh Toiruu is somewhat similar to the Peace Avenue East and the prices are lower, due to its proximity to the ger district.

The micro-entrepreneurial Mongolian enterprise represents the lowest end of the market. Still commonplace around UB, either within the city's infamous open air Narantuul Black Market or in custom built small-scale stalls inside shopping plazas, such traders usually sell a selection of wares with a specific focus (electronics, cosmetics, clothing, etc.) for cheap and negotiable prices. Often these stalls are suitcase operations, with the operator traveling once a month directly to Seoul, Beijing or another major commercial center and bringing back product in literal suitcases for resale at a considerable mark – up. Many small shops and wholesale outlets run by Mongolian owners are just a small step up the commercial ladder. Often located in parts of ex–Soviet apartment blocks or low-grade commercial centers, these enterprises sell a wider range of goods, usually shipped in via container, in a similarly chaotic fashion to their stall and booth-based peers. Interestingly some of these wholesale markets sell the spaces piece-by-piece. In square meter terms, it can be acquired quite cheaply, hence the average rental yield can be as high as 40%.

2.4.3 RETAIL SECTOR FUTURE SUPPLY

The total supply of Grade A & B retail space in Ulaanbaatar is currently around 236,082 square meters, and the supply in the next few years is expected to almost double. The expected supply in just 2016 is in excess of 50,000 square meters mostly in Sukhbaatar and Khan–Uul districts. With the current high occupancy rate and limited choice of retail venues, Mongolian Properties believes the market will absorb the new retail space with not much difficulty, especially in the CBD area.

Peace Avenue Central, which spans from the Max Mall shopping center to the Government Palace commands the highest rental price

	Project	Developer	GFA (sqm)	Year of Completion	District
1	Olympic Residence	Mongolian Properties Construction	5,215	2017	Sukhbaatar
2	Ikh Zaisan Complex	Oyunii Undraa Group	28,500	2017	Khan-Uul
3	Naran Place	Naran Group	6,960	2017	Bayanzurkh
4	Naadam Center	Khurd Group	35,700	2017	Khan-Uul
5	International Finance Centre	Chuang's Group	5,000	2018	Sukhbaatar
6	Encanto	Camder	20,914	2018	Bayanzurkh
7	Mall @ Nukht	Mongolian Properties Construction	80,200	2019	Khan-Uul
8	Park Place	Mongolian Properties Construction	7,650	2020	Sukhbaatar
9	MAK Tower	Mongolyn Alt	14,194	On hold	Khan-Uul
		Total	190,139		











4. Naadam Center 5. International Finance Centre

6. Encanto







7. Mall @ Nukht

8. Park Place

9. MAK Tower

Olympic Residence – Set for completion in Q4 of 2017, the Olympic Residence is the sixth development by Mongolian Properties Construction, the construction arm of Asia Pacific Investment Partners. The development is set to be a premier luxury retail as well as residential space in the heart of the Central Business District of Ulaanbaatar. The Olympic Residence will be the most luxurious residence in Mongolia and will incorporate around 5,000 square meters of Grade A retail space on its first four floors.

Ikh Zaisan – Oyuny Undra Group is developing Ikh Zaisan in the Khan-Uul district, located on the opposite side of Zaisan Square. The project will add 28,500 square meters of prime retail space to the Zaisan area when it's completed in 2017.

Naran Place by UNESCO Street incorporates a residential complex and the Hard Rock Cafe. A mall is expected to open soon.

Naadam Center is connected to the Khan Bank Tower, a relatively large retail space incorporating a large number of car parking lots.

International Finance Center will be opening along Chinggis Avenue, further expanding the retail offer in Ulaanbaatar's CBD.

Encanto – Camder is developing the Encanto mixed use development and the retail section is expected to be completed in 2018. Following the popular trend, Encanto will include around 5,000 square meters of retail space in the bottom floors of their residential, office and hotel complex.

Mall @Nukht – The Mall @ Nukht is to be developed by Asia Pacific Investment Partners and is scheduled to be completed in 2019. The development, positioned along the Yarmag road on the way to the airport, will add 80,200 square meters of retail space to the region and is expected to capture the attention of some major international retailers.

Park Place - Park Place Residence is an upcoming development from Asia Pacific Investment Partners scheduled for completion in 2020. The GFA of the project will be around 50,000 square meters and the complex will incorporate a retail podium, boutique hotel and serviced apartments. The retail portion is expected to be around 10,000 square meters in total.

MAK Tower - MAK Group's MAK Tower, is currently on hold at the moment, but if delivered will bring over 14,000 square meters of Grade A retail space to the city center, incorporating a five star hotel and office space.

2.4.4 RETAIL SECTOR PERFORMANCE

With limited supply, extremely high occupancy rates and relatively constrained future developments, retail space in the city looks set to appreciate over the coming years. Rapid economic growth, broadly rising wages and better access to credit facilities, will allow consumer spending to continue expanding for years to come. Retail outlets' per square space in the city looks set to appreciate



Source: Mongolian Properties

2.4 RETAIL SECTOR

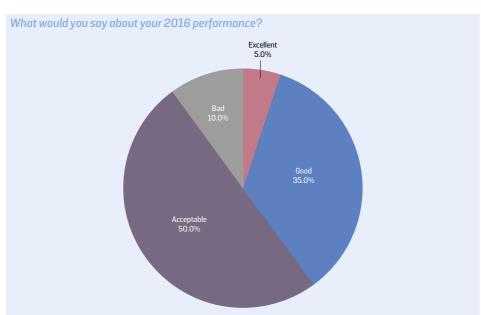
meter earnings are extremely high. As more and more international brands look to enter the market and take advantage of the consumer boom, Ulaanbaatar's already stretched supply of quality retail space will become extremely valuable and rental prices will likely rise.

Prime retail projects in Ulaanbaatar are currently held and leased by developers, meaning no sufficient transactional data has been recorded in the sector. To make it harder to discern market rates, three of the top shopping malls; Khanburgedei Department Store and Nomin Department Store, double as a distributor of the brands they sell and thus are not a reliable reference point for open–market rental rates, since there is an incentive to lower/increase rates for the benefit of their associated operating companies. However, more typical landlord tenant relationships can be observed at Shangri La, State Department Store, Max Mall and Ulaanbaatar Department Store and so some limited rental analysis can be conducted.

Typical leases last for 3–5 years and rental rates are typically fixed for the duration. This means that over the last years recorded rental rates have been relatively stable, since most agreements were made when the stores opened in 2010. In 2017, the average rental rates for prime downtown retail stood at US\$10–US\$45 per square meter per month. Although the rental prices for retail space have fallen, following the overall national rental price, compared to office space, retail space rent is priced much higher than comparable office space.

rental rates are typically fixed for the

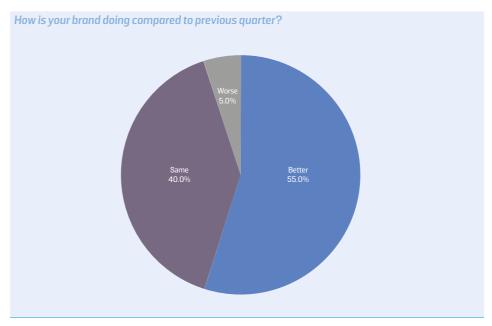
In order to better gauge business confidence in the retail sector, the APIP research team recently conducted a survey of sales managers at a number of leading international brand stores. The survey gathered data on sales managers' perceptions regarding current and future brand performance.



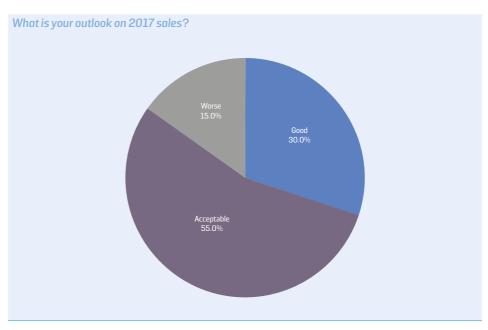
Source: Mongolian Properties

Concerning current performance, 40% of sales managers responded that their current performance is either excellent or good. Two of twenty sales managers indicated they are suffering from low performance issues.

For current sales comparisons compared to the previous quarter, 95% of sales managers responded that current business is the same or better when compared to last quarter. Only 5% of sales managers reported loss in sales revenues. Overall, the current retail sector seems to be performing better than previous quarters.



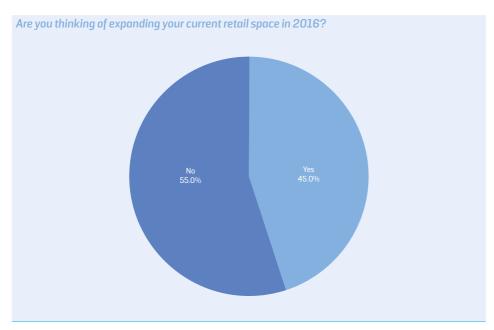
Source: Mongolian Properties



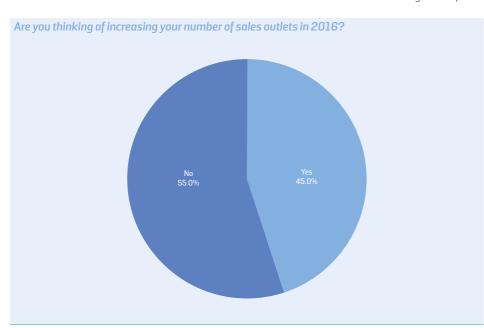
Source: Mongolian Properties

In terms of future expansion, 45% indicated they are thinking of expanding their current retail space and 45% considered increasing the number of sales outlets. With respect to future brand performance, 30% of high–end sales managers responded that they expected performance to improve.

2.4 RETAIL SECTOR

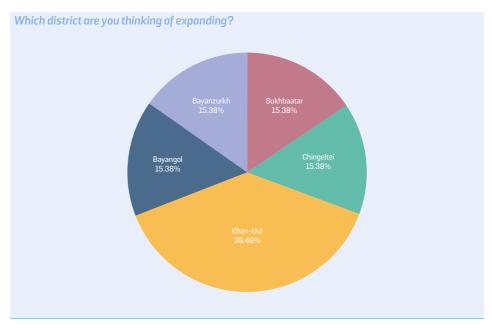


Source: Mongolian Properties



Source: Mongolian Properties

For business expansion, 38.5% of sales managers commented they are thinking of establishing additional sales outlets in Khan-Uul district, which is an unusual trend compared to previous years, as Sukhbaatar was the core focus of expansion in the past. None of the managers in the past mentioned Bayanzurkh as a viable destination but this appears to be altering and will be an interesting dynamic to monitor.



Source: Mongolian Properties

As the financial reports of retailers' Mongolian operations circulate around Asia and the world, it is expected more firms will decide that it is in their interest to establish branches in Ulaanbaatar. With its relatively low costs and distinctive macro outlook, Mongolia may benefit from increased consumer spending. Analysts and business leaders agree. A.T. Kearney placed Mongolia at number five on its 2015 Global Retail Development Index.⁵⁰

With its relatively low costs and distinctive macro outlook, Mongolia may benefit from increased consumer spending

Challenges and Idiosyncrasies

Despite the enormous potential, the Mongolian retail market faces a few specific challenges unique to its country context. Firstly, Mongolia is still the most sparsely populated country in the world. The IMF projects that by 2018, the Mongolian population will reach a modest 3.09 million.⁵¹ For retailers, this means that opportunities for high volume sales and large numbers of outlets will remain limited.

Secondly, women make up more than 51.4% of the population.⁵² They are gainfully employed at higher rates and are often earning more disposable income than their male counterparts. One luxury clothing sales manager told us that his brand's core customer base in other countries is usually 60% male. In Mongolia, however, women make purchases in considerably larger numbers than men.

Thirdly, Mongolia is a country of extreme cycles. Temperatures range from -40 Celsius in winter to warm and sunny in the summer. Fortunes rise and fall on the back of coal and copper prices and consumer spending follows suit. Over the course of our survey, sales managers repeatedly told us their sales could vary unpredictably month-to-month.

The final consideration revolves around the relatively nascent nature of the retail market. Mongolian retail is still in its infancy. Ten years ago, the market was dominated by open

In Mongolia, however, women make purchases in considerably larger numbers than men

CE Tradition Catalogue (CEET)

⁵⁰ AT Kearney (2015)

⁵¹ IMF (2017)

⁵² National Statistics Office of Mongolia (2017)

air markets and small–scale family stores. The shift toward centralized western style shopping habits is strongly underway but the market has yet to fully adapt to modern sales techniques and inventory management practices. Take, for example, seasonal discounts, a staple sales technique for liquidating excess inventory from last year's line. A number of the brand managers we spoke to noted they received strong negative feedback from clients after running a seasonal sales promotion. Clients who had purchased a costly item three months earlier at full price were annoyed that the same item was now being offered for a 40% discount. Several customers reportedly demanded that the cash difference be paid back. Retailers entering the market need to be aware of these differences and develop culturally appropriate marketing techniques.



SUCCESS & GLAMOUR

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f/moetmongolia/



2.5 HOSPITALITY SECTOR

In 2016, Mongolia saw its first increas in tourism since 2012 with the tota number of tourist

EXECUTIVE SUMMARY

With its spectacular scenery, unique culture and economic potential, Mongolia has the capacity to develop a thriving tourist sector. The number of foreign visitors per annum has grown steadily since 2000 with new airlines and flight routes established as well as a new international airport due to open shortly. This increased interest saw tourism industry revenues rise to over MNT206bn in 2013, and it has been relatively stable since then.⁵³ In 2016, Mongolia saw its first increase in tourism since 2012 with the total number of tourists reaching 404,000 – an increase of 4.5% from the previous year.⁵⁴ Most tourists are from China, Russia and South Korea.⁵⁵ As a result of the recent influx of tourists and business travellers, the past few years have seen a growth in the 5–star hotel market, from relative obscurity, to now hosting the Best Western and Shangri–La. According to our estimates, there are seven 5–star hotels in Ulaanbaatar supplying about 1,163 rooms in total. With limited supply, and few future developments, the hotel sector looks to have great potential in the coming years.

OVERVIEW

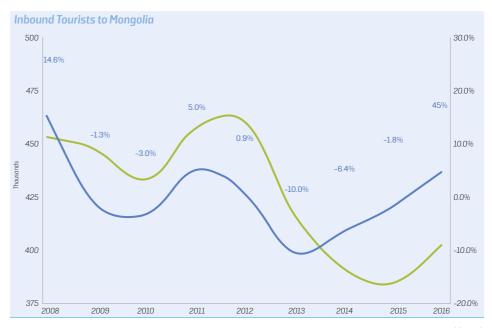
The scenery, flora and fauna of Mongolia are quite exceptional. Its strong and growing mining sector has the capacity to affect its natural appeal, however, this is attenuated by restrictions on the total amount of land available for exploration. It is therefore unusual in its ability to benefit from both business and recreational visitors. There has been a steady increase in travelers since the millennium, with a healthy increase in the number of airlines serving Ulaanbaatar. There is likely to be a further improvement in connectivity with the opening of a new airport. Recent infrastructure improvements — and those planned for the future — serve to open up the country further, whether to the lush Siberian forests of Darkhan or the sweeping sand dunes of the Gobi Desert.

2.5.1 HOSPITALITY SECTOR DEMAND

In 2016, Mongolia saw its first time increase in tourist numbers since 2012, with a total of 404,000 – an increase of 4.5% on the preceding year. The main countries of origin were China, Russia and South Korea. The main countries of origin were China, Russia and South Korea.

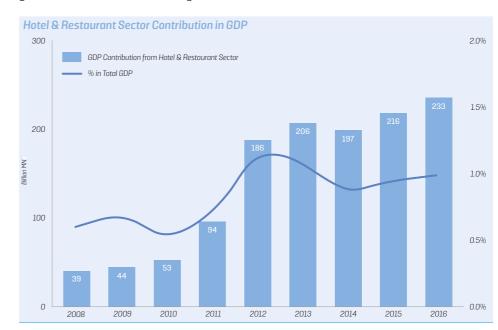
The total number of passengers, identified as business travellers, peaked in 2012 with 162,159, and decreased to 79,414 in 2016, because of the slowdown in the commodities market and FDI.⁵⁸ With an improvement in economic conditions, this number is likely to increase. Those identified as private, or in the country for the purpose of travel, have also fallen from a peak of 202,338 in 2012, to 145,706 in 2016.⁵⁹ Although this figure suggests a reduction in tourism, it may also reflect the fact individuals sometimes make informal, explorative business trips without applying for specific commercial purposes.

- 53 National Statistical Office of Mongolia (2017)
- 54 World Bank (2017)
- 55 National Statistical Office of Mongolia (2017)
- 56 Ibid
- 57 Ibid
- 58 World Bank (2017)
- 59 Ibid



Source: World Bank

The GDP contribution from the hotel and restaurant sector increased almost twofold in 2011 and 2012 at MNT94bn and MNT186bn respectively. 60 This represented a significant increase from the MNT53bn recorded in 2010, and owed, to the proliferation of new hotels and restaurants in Ulaanbaatar, as well as elsewhere in Mongolia. 61 Since then, growth has moderated, but still grew 7.9% in 2016. 62



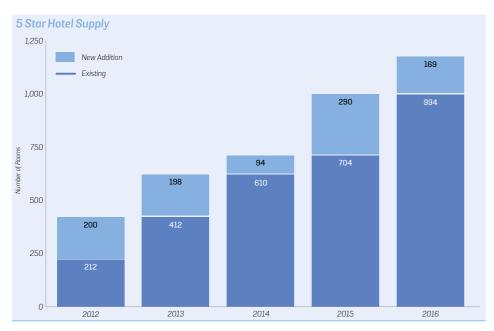
Source: National Statistics Office of Mongolia

2.5.2 HOSPITALITY SECTOR SUPPLY

According to the Mongolian Properties' 2016 survey, the 5 star hotel supply stands at 1,163 rooms. The growing number of business and leisure travellers has enhanced

- 60 National Statistics Office of Mongolia (2017)
- 61 Ibid
- 62 Ibid

Ulaanbaatar's offer of hotels, with notable additions such as the Shangri-La and Best Western.



Source: Mongolian Properties

There were only two 5 star hotels before 2012: the Ulaanbaatar Hotel, opened in 1959, and the Kempinski Khan Palace Hotel, which opened in 2005 and was renovated in 2012 to achieve 5-star status. In 2012, off the back of the initial mining boom, the Blue Sky Hotel opened its doors, with Best Western entering the market in 2013, Corporate Hotel & Convention Center in 2014, Shangri La in 2015 and Holiday Inn in 2016. Most of these hotels are located in Sukhbaatar district, along Peace Avenue, except the Corporate Hotel & Convention Centre in Khan-Uul and Kempinski Khan Palace in Bayanzurkh district.

The harsh climate conditions in Ulaanbaatar pose major challenges to the hotel and overall hospitality sector. Although citywide average hotel occupancy rates reach 75% during the summer months, numbers can be well below 30% during winter. Such gigantic seasonal swings are difficult for hotel operators to negotiate, and as a consequence many average daily room rates change according to the season. Peak season runs from June to September while the off-season runs from December to March.

5 Star	Hotel Supply										
No	Hotel	Developer	Number of Rooms	Year of Completion	District	Khoroo	Kharoolol / Street / Locality	Standard Room (Peak)*	Standard Room (Non-peak)*	Executive Room (Peak)*	Executive Room (Non-peak)*
1	Shangri La	MCS Property & Kerry Group	290	2015	Sukhbaatar	1	Chinggis Square 2	\$340	\$290	\$2,000	\$2,000
2	Best Western Premier	Tuushin	198	2013	Sukhbaatar	1	PM Amar Str15	\$231	\$95	\$506	\$224
3	Blue Sky	Chono Group	200	2012	Sukhbaatar	1	Peace Avenue 17	\$180	\$110	\$3,000	\$1,500
4	Corporate Hotel & Convention Centre	NRI	94	2014	Khan-Uul	15	Mahatma Gandhi St 39	\$177	\$177	\$246	\$474
5	Holiday Inn	Max Group	169	2016	Chingeltei	5	Sambuu Street 24	\$149	\$116	\$203	\$148
6	Kempinski Khan Palace	Tavan Bogd Group	102	2005	Bayanzurkh	1	Peace Avenue East	\$124	\$96	\$387	\$309
7	Ulaanbaatar Hotel	N/A	110	1959	Sukhbaatar	1	Chinggis Square 14	\$91	\$85	\$682	\$634
		Total rooms	1,163				Average rate	\$211	\$155	\$1,249	\$942

Source: Mongolian Properties *Quotes are based on agoda.com rates



1. Shangri La

2. Best Western Premier

3. Blue Sky

4. Corporate Hotel & Convention Centre







6. Kempinski Khan Palace

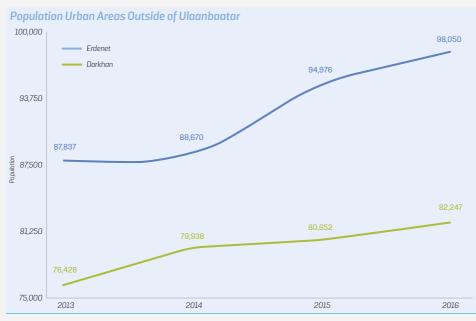


7. Ulaanbaatar Hotel

Mongolian Regional Hospitality Industry Outside of Ulaanbaatar – **Development Potential**

Overview of Mongolia's main urban areas (excluding Ulaanbaatar)

After Ulaanbaatar, Mongolia's largest cities are as follows: Erdenet (officially Bayan-Undur) and Darkhan. These are the capitals of Orkhon and Darkhan-Uul aimags respectively. Erdenet and Darkhan represent an intriguing opportunity for hotel construction, as the cities have the potential to attract both business travellers as well as those wishing to find a base from which to explore Mongolia's exceptional flora and fauna and historic sites. Erdenet is home to the world's fourth largest copper minewhich was named the best business of 2016 by the Mongolian Government, as well as important tourist attractions including the Amarbayasgalant monastery. 63 As the five and four star hotel sector in Ulaanbaatar developed post-2012, largely off the back of the mining boom, the success of Erdenet's copper mine in recent years bodes well for the future of the city's hospitality industry. Darkhan-Uul, meanwhile, is considered Mongolia's breadbasket, with vast resources for agricultural development. Both cities are well-connected to Ulaanbaatar by road and rail but will, of course, benefit from the improvement works to Mongolia's road and rail network currently being undertaken by the Mongolian government.



Source: National Statistics Office of Mongolia

The cities each recorded resident populations of less than 100,000 in 2016significantly smaller than Ulaanbaatar, with 1.38 million residents (2016).64 However, the urban centres are growing rapidly, with people moving from the countryside, attracted by employment opportunities. Indeed, Erdenet has grown by more than 10% over the previous two years, and Darkhan by almost 3%.65

65 Ibid

Overview of the tourism industry outside of Ulaanbaatar

The World Travel & Tourism Council has predicted Mongolia's tourist industry is on course for a period of strong sustained growth until 2027, and that the industry will fare particularly well in 2017. The director of the governing board of the Mongolian National Tourism Organisation noted industry players are "broadly optimistic about the future".66 The WTTC predicts the GDP contribution from the travel and tourism industry will rise 5.3% in 2017.⁶⁷ The total quantity of visitor exports is additionally projected to rise 9.1% compared with 2016 levels.68

Tourist numbers peaked across the country in 2014, and have dropped off slightly since then (other than in Ulaanbaatar which grew in 2016 due to increased FDI and expansion of foreign hotel groups into the capital). 69 It is likely tourist numbers will increase in 2017 alongside improvements to the economy. Indeed, Amex has already noted a sharp increase in bookings for Mongolia travel in 2017. The number of tourist arrivals is projected to rise to 620,000 in 2025.70 These are all encouraging figures for the development of Mongolia's hospitality industry.

As the country's capital and commercial centre, Ulaanbaatar's hospitality offering is unrivalled in Mongolia in terms of quantity and quality of hotels. The city's international establishments include the Shangri-la and the Kempinski. More hotels are currently under construction, such as the budget-friendly ibis Styles Ulaanbaatar—set to open July 2017, and the Mövenpick five star hotel — due for competition in 2018.⁷¹ According to the Mongolian Association of Hotels, the national total supply of hotels currently stands at 1,800 establishments. 67 have star ratings, including 11 five star hotels, and nine four star hotels. Outside of Ulaanbaatar, other than budget-friendly hotels and hostels, the provision is decidedly limited. Accommodation tends to be inexpensive, and reflects the general quality of the hotels on offer; as such, there is great potential for development.

Two four star establishments have opened for business in the past few years outside of Ulaanbaatar: the Buudai Hotel in Darkhan and the Ikh Khorum Hotel in Kharkhorin, which commenced operations in November 2016. Both hotels offer a wide variety of rooms, and features including conference facilities, restaurants and bars. The Ikh Khorum is conveniently located for the Erdene Zuu monastery complex. The Terelj Hotel & Spa is the one official example of five star luxury outside of Ulaanbaatar. Located next to the Terelj National park, the hotel features a world-class spa, that won an award for the hotel at the 2016 world luxury travel awards.⁷² Additional features include four restaurants and rooms for banquets and meetings. The fact that there are currently so few four and five star hotels, compounded with an upturn in the Mongolian GDP suggests that the hospitality industry is ripe for development.

is on course for a period of strong

is unrivalled in Mongolia in terms of

70 Asia Development Bank (2017)

⁶³ Montsame (2017)

⁶⁴ National Statistics Office of Mongolia (2017)

⁶⁶ Oxford Business Group (2015)

⁶⁷ World Travel & Tourism Council (2017)

⁶⁸ Ibid

⁶⁹ National Statistics Office of Mongolia (2017)

⁷¹ Accor Hotels

⁷² Tereljhotel.com

Four star:





Buudai Hotel, Darkan Source: buddaihotel.mn

Ikh Khorum Hotel. Karkhorin Source: booking.com

Five star:



Terelj Hotel & Spa

In addition to a growth in the number of star-rated establishments outside of the capital, another important future development for the hospitality industry will be making sure that Mongolia's hotels are online and easily accessible for international travellers. This is key as travellers are increasingly shunning traditional travel agents in favour of planning their own trips.⁷³ Currently booking.com lists only five properties outside Ulaanbaatar, and only three of those listed has a star rating. No hotels in Erdenet are currently listed on English-language booking websites. This development is particularly important as tourists are increasingly expecting to be able to interact with their hotels across a number of different platforms including smartphones, desktops and wearable technology.⁷⁴

There are 450 inbound tour operators in Mongolia— each offering a wide range of guided tours. However, only 13% of the companies are active in the international market.⁷⁵ Tourists have also reported vastly varied prices quoted for the same trip. Therefore, increased digitisation and accessibility to these services presents and encouraging development opportunity for Mongolia.

Development potential for rural tourism—leveraging luxury and sustainability

International-standard, luxury ger camps, run with sustainability in mind, present perhaps the most exciting opportunity for future development in the Mongolian

in mind, present perhaps the most

exciting opportunity for future

73 Forbes (2017) 74 Deloitte (2017)

75 CBI Ministry of Foreign Affairs (2015)

hospitality industry.

Cultural, community and heritage tourism is reportedly the biggest tourism segment - by a large margin. A 2009 OECD report noted this type of tourism accounted for almost 40% of global tourism in 2007.76 In 2016 an Allied Market Research report found travellers are now open to exploring new destinations to "gain deeper experience and absorb new cultures". Mongolia's countryside provides unparalleled opportunities for such cultural immersion. As such, the hospitality industry in the countryside presents perhaps the brightest prospect for future development. The country benefits from a varied landscape—from the Gobi Desert in the south to vast forested areas across the northwest. In fact, Mongolia's large network of protected areas covers 17.4% of the

Further, combining the great outdoors, wildlife and luxury has become a global trend in the hospitality industry in recent years. An Allied Market Research study predicted the luxury sector would be the fastest growing segment of the travel industry worldwide in the 2016-22 period, with the market projected to garner \$1,154 billion by 2022.79 An upward swing in demand for luxury travel from the Chinese and Indian market was also noted, as Asia-Pacific millionaires now control more wealth than their North American counterparts.

The Mongolian tourism industry is seasonal in the extreme; with numbers rising in the warm summer months of June-August, and dropping off completely in the winter months. The provincial hospitality industry in Mongolia is even more seasonal than that of Ulaanbaatar, which can count on a constant influx of business people even throughout the winter months.⁸⁰ Even hotel capacity in Ulaanbaatar can fall below 30% during winter. An analysis of statistics for the quarterly income, by aimag, of hotels shows that highest revenue occurs in Q3 and Q4 of each year across the country.⁸¹ Due to this seasonality, ger camps are arguably ideal, as they can be easily shut down for the winter. Additionally, ger camps tap into the 'authenticity' and 'cultural immersion' trends in tourism as there is an enormous market for 'travel products outside of mainstream offerings'.⁸²

As of 2012 there were 300 ger camps across the whole of Mongolia, with 25% rated by quality standards—and only a very small number meeting international luxury standards.83 These ger camps may be divided into two categories: – tourist ger camps, and luxury ger camps. The former predominates the market, and is the main type of accommodation visitors experience when touring the countryside. Currently approximately 50 tourist ger camps are available for booking online via the online platform mongoliagercamps.net

76 Cited in: CBI Ministry of Foreign Affairs (2015)

77 Allied Market Research (2016)

78 Asian Development Bank (2017)

79 Allied Market Research (2016)

80 Oxford Business Group (2015)

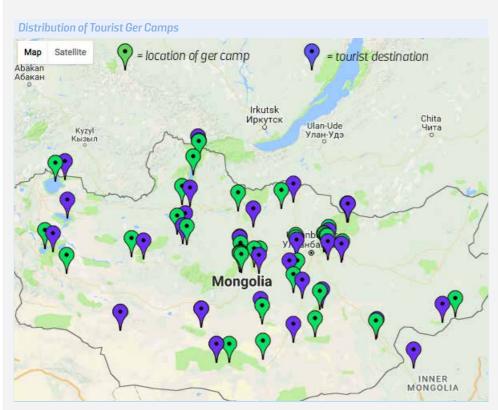
81 National Statistics Office of Mongolia

82 Deloitte (2017)

83 United Nations Conference on Trade and Development (2012)

The Mongolian tourism industry is

2.5 HOSPITALITY SECTOR



Source: mongoliagercamps.net

Small numbers of luxury ger camps have sprung up in recent years, leveraging the country's natural assets and tourists' desire for a luxurious, once-in-a-lifetime experience. Two examples of which are the Mongke Tengri Camp and the Three Camels Lodge. The Mongke Tengri Camp, located in the Orkhon National Park, close to the ancient city of Kharkhorin, has been featured in the Condé Nast Traveller and charges guests more than \$500 a night.⁸⁴

The Three Camels Lodge based in Dalanzadgad, in the Gobi, meanwhile, has partnered with luxury travel providers such as National Geographic Lodges and Abercrombie&Kent.⁹⁵ The Lodge offers 40 individual gers, each with their own personal bathroom and decorated in the Mongolian style. The gers themselves are traditional, felt-clad, wooden-slatted structures. Mongolian felt slippers and bathrobes are among the locally influenced in-room amenities. The lodge also offers guests luxury features such as a spa. For two nights at double occupancy with the "Essential Gobi: Three Days" package it's \$1870 in May, September and October and \$2,020 for June, July and August.

Travellers are beginning to become more conscious of the environment, and how their travel impacts it. 2017 is the International Year of Sustainable Tourism for Development—demonstrating the world's commitment to sustainability as the future for tourism. One small indication of this increased awareness is that between 2014 and 2015 the percentage of consumers willing to pay more for brands that were sustainable and committed to environment and social values rose from 55% to 66%. The Three Camels Lodge was established with sustainability in mind and was awarded World's Best Ecolodge at the 2013 National Geographic Traveler awards. Its CEO Jalsa

Urubshurow, has said: "The concept of the Three Camel Lodge began as the keen desire to preserve and protect the Gobi Desert by creating a property that enabled controlled tourism to bolster the local community". Engaging with eco-tourism may also help the hotel increase revenue, whilst aiding the wider community. The Three Camel Lodge, for example, has trained farmers in organic agriculture techniques, reducing the amount of food being imported into the area and supporting local livelihoods. Involving the local community in the running of a hotel, may also help cement the hotel industry with the economy of certain areas, ensuring its longevity.

Bhutan— an example of luxury, sustainable tourism in rural areas

Bhutan represents an intriguing example for Mongolia of how the development of a luxury tourism industry can precede infrastructural perfection. Currently the country has only one main highway, no railway network. The only way for tourists to travel between valleys is to brave treacherous, winding tracks. The Aman hotel group's offering in Bhutan—Amankora—is particularly interesting. The hotel group has spread its accommodation across five lodges dotted around the country, comprising 72 suites in total. This allows the traveller to experience an Aman level of luxury, as well as traditional Bhutanese customs in intimate settings, as they journey throughout Bhutan. It is highly possible that a similar model may work in Mongolia, which possesses its own share of stunning scenery, flora and fauna, and historic attractions of worldwide importance. Indeed, the majority of tourists to Mongolia already opt for guided tours when leaving Ulaanbaatar.

2.5.3 HOSPITALITY SECTOR FUTURE SUPPLY

There are currently four 5 star hotels in development across the city. Two of them, Hilton and Sheraton are on hold. Hyatt was to be developed by MAK was cancelled. Of the remaining four, the Movenpick has signed an agreement to develop a hotel with Jiguur Grand group in Bayanzurkh District and it is currently scheduled to complete in 2018. The Park Place, a mixed-use development by Mongolian Properties Construction is scheduled to be completed in 2020 along Chinggis Avenue.

	Pipeline of Upcoming 4 & 5 Star Hotels												
	Project	Developer	Number of Rooms	Star Rating	Year of Completion	District							
1	Movenpick	Jiguur Grand	250	5	2018	Bayanzurkh							
2	Park Place	Mongolian Properties Construction	125	5	2020	Sukhbaatar							
3	Sheraton	Bodi Properties	300	5	On hold	Sukhbaatar							
		Total rooms	925										

Source: Mongolian Properties

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⁸⁴ Conde Nast Traveller (2016)

⁸⁵ Abercrombie&Kent

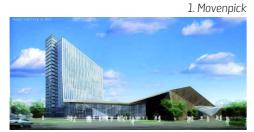
⁸⁶ Cited in: Center for Responsible Travel (2016)

2.5 HOSPITALITY SECTOR





2. Park Place



Revenues from hotels are increasing,

due to the rise in the number and quality

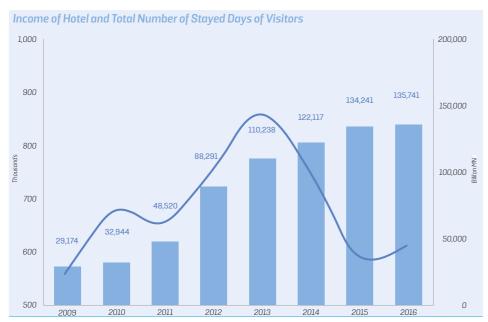
of services provided by the hotel industry

over the last few years

3. Sheraton

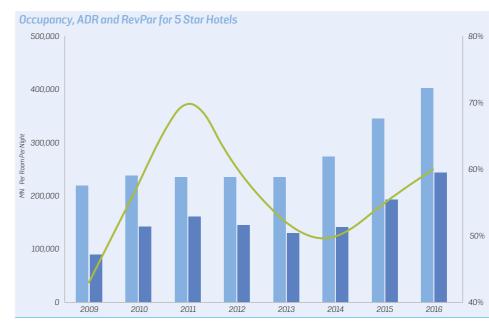
2.5.4 HOSPITALITY SECTOR PERFORMANCE

Mongolia's improved tourist numbers in 2016 – especially in Ulaanbaatar – appear to owe to the Asia Europe Summit, which brought a lot of attention from both the media as well as the general public. The city and national authorities are pushing for similar such fora to help the development of the hospitality trade. In total, revenues from hotels are increasing, due to the rise in the number and quality of services provided by the hotel industry over the last few years. In particular, better services are driving increased takings, as Shangri–La and Best Western deliver an increasingly superior standard of product.



Source: National Statistics Office of Mongolia

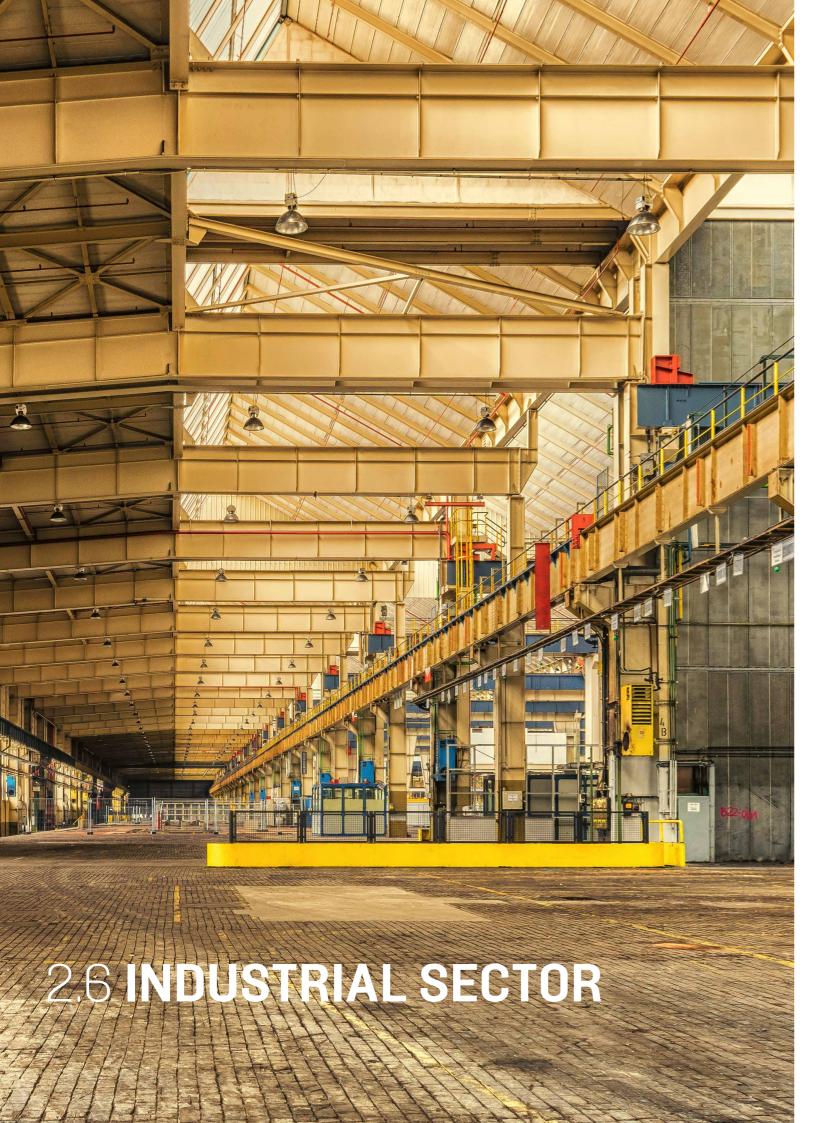
Occupancy has oscillated in the years since the global financial crisis. In 2009, it was only 43%, however, in 2011 it reached a peak of 70%. This is considered high, given the seasonality in the market due to extreme weather conditions. The current rate stands at around 60%, according to our estimates.



Source: DTZ/Cushman & Wakefield Consulting & Mongolian Properties

Peak Average Daily Rate (ADR) and Revenue per Average Room (RevPAR) were both recorded in 2011 as achieving US\$188 and US\$132 respectively, but currently stand at US\$169 and US\$94. It being a small market, new entrants generally cause some movement in pricing, as competitors lower their rates a bit to retain market share. This can be seen in the graph above from 2012, when a substantial amount of new supply came online. The recent slowdown has also squeezed room and occupancy rates as less FDI has translated into fewer business travellers staying in the city.

However, despite this, hotel rates have remained relatively stable, with ADR actually going up in local currency terms in 2014. This could suggest that the effect of cheaper tourism is causing an influx of visitors, crowding out the negative effect of fewer business visits. However, business travellers still make up 60% of 5–star hotel's customers. The lack of a serviced apartment market means some businessmen and women will rent out rooms for longer periods, typically 1–3 months. The demand for 5–star accommodation remains strong despite difficulties in Mongolia's economic landscape, and the market seems to have coped well in absorbing the new supply.



EXECUTIVE SUMMARY

Industrialization began in the 1970s, as a result of Soviet interest in Mongolia's untapped mineral resources. The government launched a program focused on attracting foreign direct investment through diversification of exports between the 1970s and 1980s. With the transition to democracy in the 1990s, however, the industrial sector underwent significant restructuring. Restructuring which still influences the direction of economic activity today.

Mongolian industry consists in four main sub–sectors: mining and quarrying, manufacturing, construction, electricity, gas steam and air conditioning supply. It plays a significant role in the economy, with mining assuming an increasingly dominant position in relation to economic output. Industry accounted for 29.5% of Mongolian GDP in 2009, with a steady production growth rate of 3% since 2007.87 By April 2017, it reached an all time high of 71.60%.88 It seems that although there are much discussions about diversification, it is likely to grow in importance as the country moves towards economic recovery.

With massive growth in the industrial sector, it is unsurprising demand for warehouses and self–storage continues to increase. Though difficult to quantify, given the sector is still in its infancy, the cost of moving goods, and the reliance on imports, has made the question of industrial property, salient. A mixture of public and private partnerships are being fostered with the aim of improving this situation, the results of which will hopefully be seen in the coming years. For now, much of the provision is dated, with developers focusing on retail and residential development, that historically has been considered more lucrative.

2.6.1 INDUSTRIAL SECTOR DEMAND

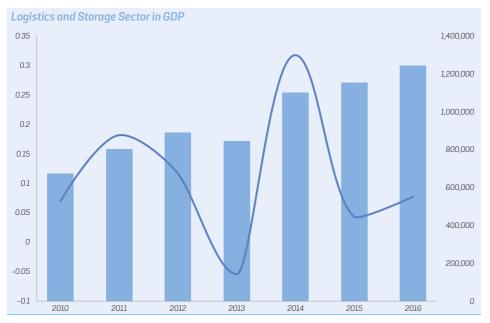
The industrial sector is a major contributor to the economy of Mongolia, but there have been aggressive cyclical movements in recent years. Early figures for late 2016, and early 2017, however, point to a change. As T. Battulga, CEO of Minex Mongolia recently observed, there has been a sudden increase in global commodity prices of between twenty and sixty percent. ⁸⁹ Consequently, demand for high-quality space to house and administer product, has again become an issue for producers and exporters.

Asides commodities, Mongolia is a large producer of meat and dairy products, with an estimated 61.5 million head of livestock.⁹⁰ Due to the lack of a reliable cold chain sector, the small amount exported is limited to carcasses or live animals. As manufacturing and production continuously increase, warehousing and industrial real estate is set to be incredibly important to sustain and grow this sector. In particular, there is a need for properties with temperature control, since winter temperatures can reach minus forty degree celsius. Without appropriate real estate, this renders the sector seasonal. It is a specialist area, currently poorly served by existing industrial facilities.

- 87 National Statistical Office of Mongolia (2017)
- 88 Ibid
- 89 Montsame (2017)
- 90 National Statistical Office of Mongolia (2017)

2.6 INDUSTRIAL SECTOR

Cash and carry wholesale is also an important sector. 30–40% of food and beverage products are sold to businesses through this process, and so demand for this sort of property has continued to increase robustly.⁹¹



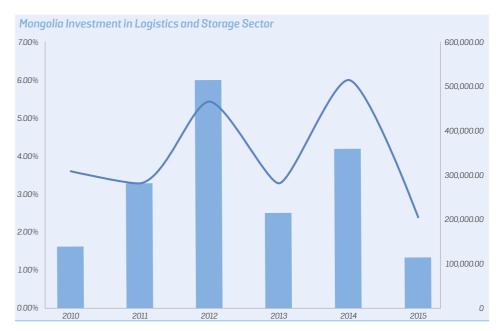
Source: National Statistics Office of Mongolia, 2016

Demand for industrial property obviously is closely related to trends in the logistics and storage sector. In keeping with the broader movements in the Mongolian economy, the sector has fluctuated over recent years. In 2013, there was a 5.68% reduction in logistics and storage sector production relative to the preceding year, before rebounding 31.48% in 2014. The increase was attributable to nearly 8% growth in GDP. By 2015, however, the logistics and storage sector year-on-year production experienced a considerable drop of 4.11%, and gradually rose by 7.99% in 2016. Even though the logistics and storage sector year-on-year production has ebbed and flowed from 2013 to 2016, its share in GDP has remained relatively stable and grew gradually during this period. Consequently, the relationship means there is likely to be sustained demand for warehouses and industrial property in the future, even if, there are structural issues in the extractive sector.

2.6.2 INDUSTRIAL SECTOR SUPPLY

Mongolia has recognized the need for logistics and transportation infrastructure, and has made positive steps in this direction. The development of the new Ulaanbaatar International Airport, cost US\$594m, and will be noteworthy at the point of opening. Meanwhile, Mongolia, Russia and China, are strengthening collaboration on around thirty projects, along a so-called 'trilateral economic corridor'. Thirteen projects are focused on transportation infrastructure, railway and highways – with the first investment made for c.US\$500m.⁹⁵ As with many industrial projects, however, there is less private–sector led speculative development, and more directly owned and occupied state activity. Private

companies also tend to make their own provisions rather than operate by recourse to a leasing or sales market as in some other countries.



Source: National Statistics Office of Mongolia, 2016

In 2012, investment in the logistics and storage sector amounted to US\$214.7m.⁹⁶ Through 2013 and 2014, there was fluctuation, leading to an eventual figure of c. US\$48m in 2015.⁹⁷ This quite stark decline, went alongside a threefold decrease in the rate of GDP growth to 2.4%.⁹⁸ Total investment in the sector has, however, been comparatively stable at a rate of 3.2% to 5.5%.⁹⁹ Figures provide only an indication of broad trends. This said, the Mongolian Customs General Administration, has identified only 37 companies certified to function customs – bound warehouses. And though difficult to precisely calculate, there is reason to assume new delivery to expand capacity and also to improve the quality of offering could be welcome.

2.6.2 INDUSTRIAL SECTOR FUTURE SUPPLY

Warehouses in Mongolia for large companies to store equipment, technologies, goods and agricultural equipment are sadly lacking. Extant provision largely dates to the 1980s and 1990s and thus is often insecure or not equipped with technologies necessary to preserve goods and services. Many of these facilities are located in Khan–Uul and Songinokhairkhan.

The first international–standard warehouse in Mongolia was built in 2012 by Crown Group Worldwide. Comprising 10,000 square meters, it marked a strategic investment in the country by pioneering the country's first state–of–the art facility in Ulaanbaatar. In common with comparable facilities in other parts of the world, it has a raft of facilities.

In 2012, investment in the logistics and

The first international-standard warehouse in Mongolia was built in 2012 by Crown Group Worldwide

⁹¹ Ibid

⁹² Ibid

⁹³ Ibid

⁹⁴ Ibid

⁹⁵ UB Post (2016)

⁹⁶ Ibid

⁹⁷ Ibid

⁹⁸ Ibid

⁹⁹ Ibid

2.6 INDUSTRIAL SECTOR

These include:

- Logistics
- · Records management and relocations services
- · 24-hour security
- CCTV cameras
- · Fire detection/ sprinkler systems
- · Rainfall collection and recycling systems
- · Efficient temperature control and solar panel electricity generation

James Thompson, Deputy Managing Director for Crown Mainland China and Mongolia was reported as saying: "We are further strengthening the Crown network in Asia and also showing dedication to support our international clients with businesses in Ulaanbaatar, Mongolia. I am pleased to announce that Crown is the first global corporation to construct our own international standard facility in Mongolia." This move, heralded as potentially the start of similar such future provision, has yet to be delivered, however. Future supply, for now, looks limited.



2.6.4 INDUSTRIAL SECTOR PERFORMANCE

According to the World Bank's 2016 Logistics Performance Index (LPI), Mongolia was ranked 108 out of 160 countries. The country's landlocked situation between Russia and China, means infrastructure (and attendant industrial facilities) are crucial to ensure basic connectivity. The World Bank's Logistics Performance Index (LPI) places equates Mongolia's difficulties with those of other low and middle income countries, and highlights the lack of access to the sea as being particularly challenging in terms of integrating in the global financial system. The system of the sy

100 Supply Chain Digital (2014)101 World Bank (2016)102 Ibid

Alongside, streamlining border clearance and base physical infrastructure, industrial property is important for low-incomes seeking to transition and make the best of their industry. In common with many of its lower-middle-income peers, Mongolia has performed admirably in terms of customs, infrastructure and improvements in their logistical services. ¹⁰³ Indeed, since 2007, the LPI points to higher service quality driving logistics performance in emerging economies. ¹⁰⁴ This positive trend, will help underpin the performance of logistical property in the coming years.



Source: Mongolian Properties

Alongside demand identified in general terms above, there has been a clear appreciation in rental prices sought in the warehouse sector, according to Mongolian Properties' research. Presently, the highest price is set by Crown Worldwide, in part due to its strong location in close proximity to Sonsgolon Bridge in Bayangol district. As discussed, it is also one of the highest specification properties in this sector in the country.

The second highest rental prices are for warehouses in Songino–Khairkhan and Khan–Uul. This owes to the fact that there have been a number of redevelopment projects on older warehouses. As a consequence, there are now certain facilities with good temperature control systems, and necessary equipment and amenity.

The majority of the warehouses in the city have good access to roads and the railway. Connectivity has an important role to play in this sector, as the country is landlocked and one main railway line connects the city to the international trade. This situation is beginning to evolve and change, however, presently well connected industrial property commands a premium.

Although very few warehouses are located in Sukhbaatar and Chingeltei districts, with close proximity to the central business district where real estate average rental and sales prices are the highest, warehouses in Bayangol district have attracted the highest prices so far. Warehouses by Dambadarjaa monastery area and Denjiin 1000 market offer small and cheap storage spaces.

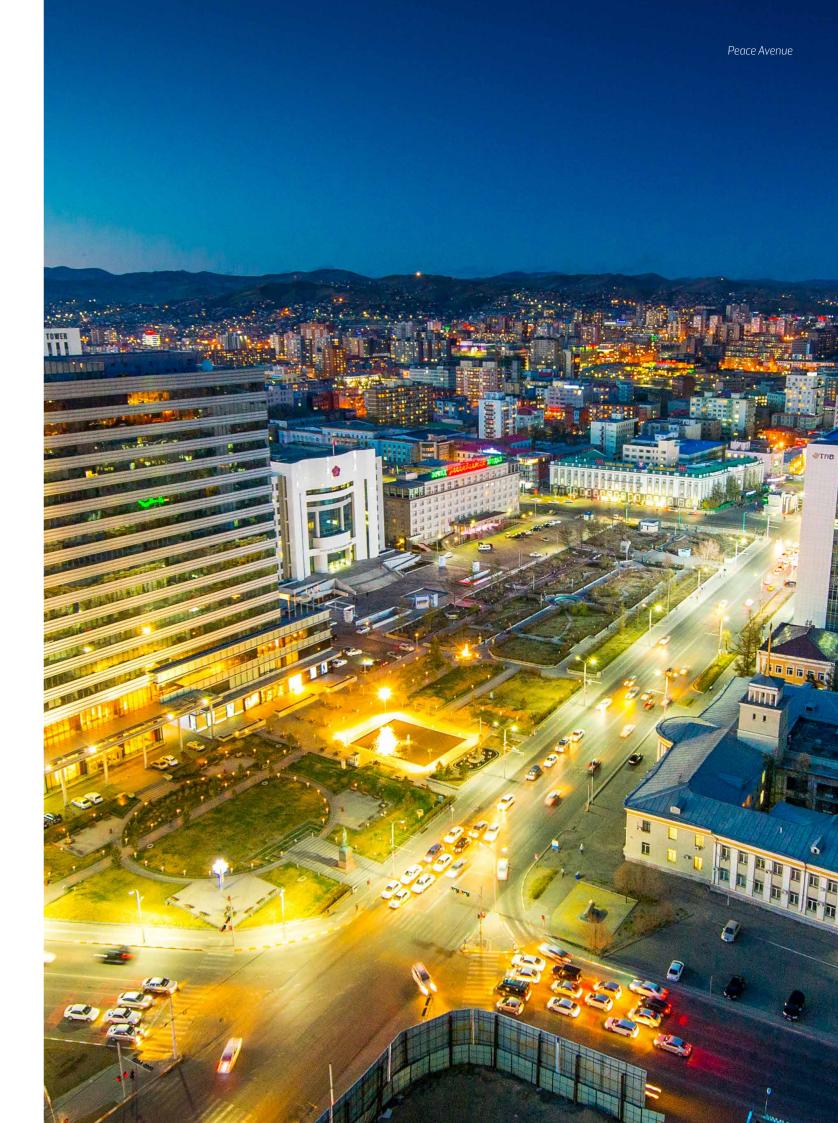
The majority of the warehouses in the city have good access to roads and the railway

103 World Bank (2016) 104 Ibid

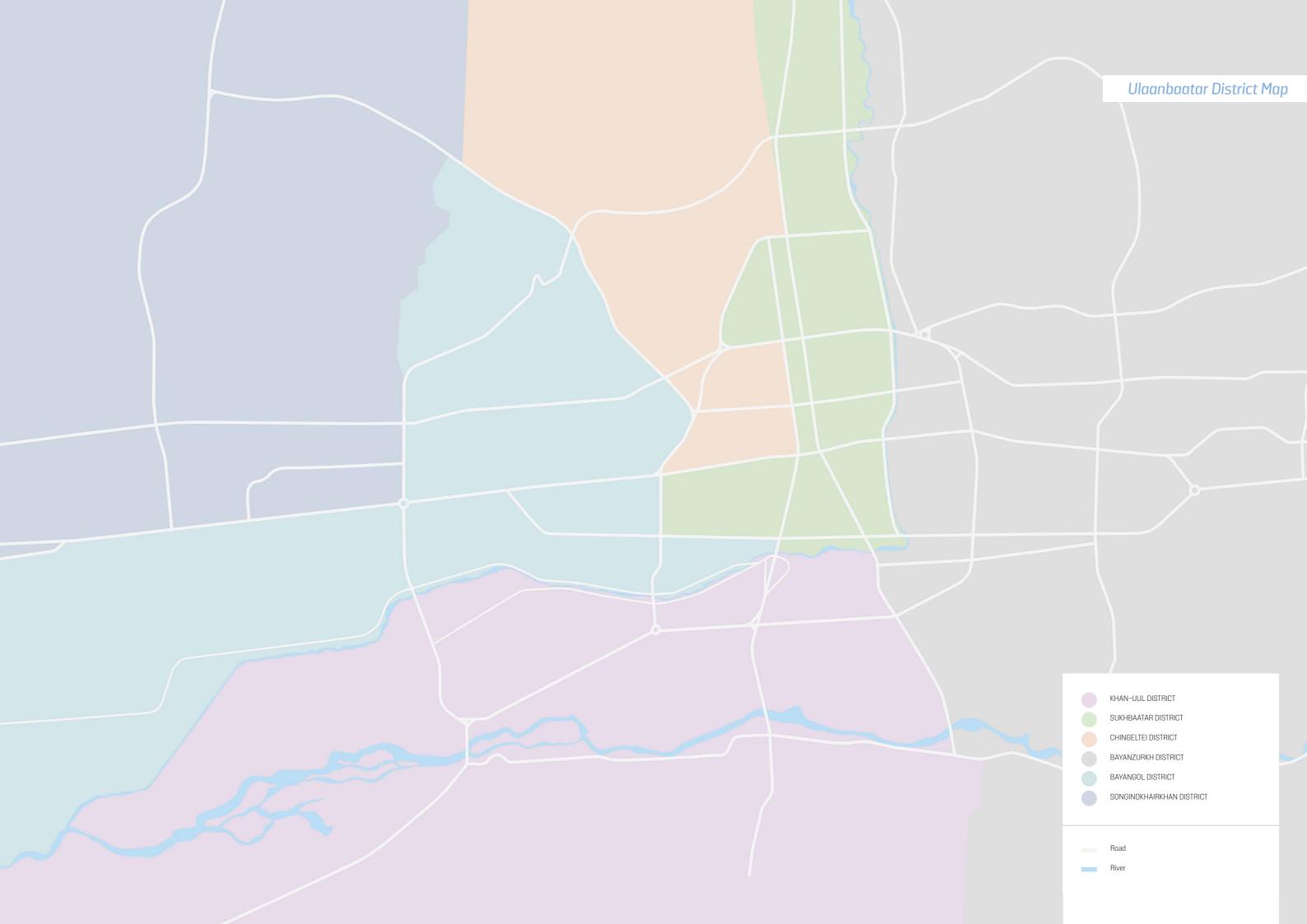
26 INDUSTRIAL SECTOR

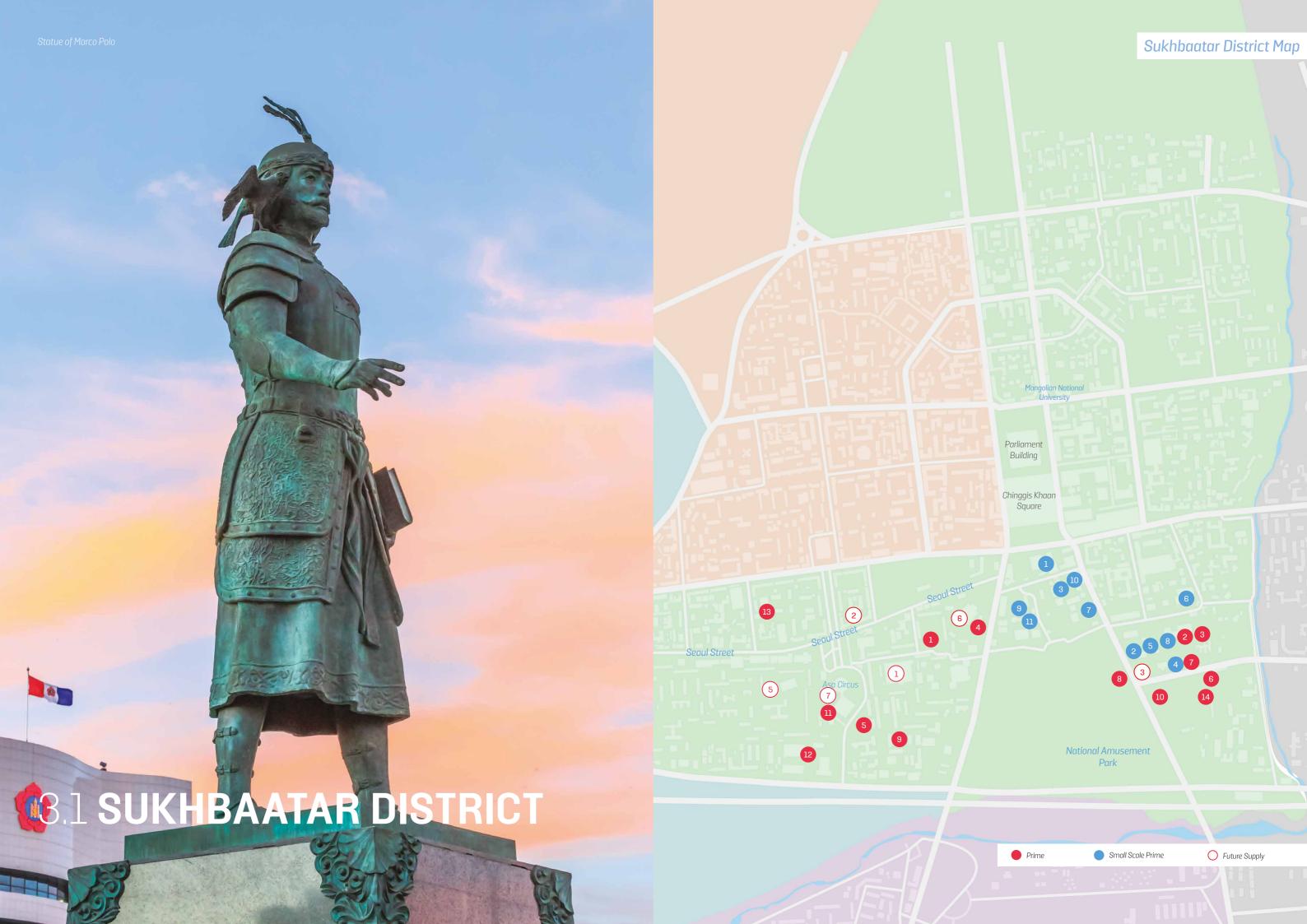
Prospective trilateral projects on infrastructure and transportation may yet strengthen these figures further

According to Mongol Bank's Summary of the Financial Sector and Economy (Q2 2016) report, Real GDP increased 1.4% in the first half of 2016. The transportation and warehousing sector grew 1.1%, comparing with a -5.1% decline in the same period of 2014. The transportation and warehousing sector's share of GDP is expected to grow in the next couple of years as agriculture and mining production figures for the first half of 2016. Indeed, shares of GDP for these two areas rose 3.5% and 9.1% respectively. Prospective trilateral projects on infrastructure and transportation may yet strengthen these figures further.









3.1 SUKHBAATAR DISTRICT

EXECUTIVE SUMMARY

Sukhbaatar district plays host to Ulaanbaatar's most renowned entertainment destinations The "center of the center", Sukhbaatar district plays host to Ulaanbaatar's most renowned entertainment destinations, work spaces and eateries. The nation's key government offices and business institutions are all located in the confines of this small 211 kilometre square area. Many of the city's most affluent, undaunted by the smoke and traffic or unwilling to move away from the action, have chosen to reside in the newly developed luxury complexes that have sprung up in recent years.

With some of the strongest demand in the city and an extremely constrained supply of undeveloped land, price appreciation in Sukhbaatar has been among the best in Mongolia in recent years. This trend looks set to continue for the foreseeable future.

3.1.1 SUKHBAATAR DISTRICT OVERVIEW

If one district may be considered representative of the newfound affluence and modernity of Ulaanbaatar, it is without doubt Sukhbaatar. Despite being just 211 kilometre square in size, the district acts as the epicenter of both political and economic activity within the city.

Khoroo 1 or the area surrounding the National Amusement Park is situated in the middle of the city centre, housing some of the best prime residential complexes in the city. The National Amusement Park reopened in the summer of 2011 after roughly six years of development by the Bodi Group, and it is one of the most popular family destinations in the city. The first Khoroo also includes the I–40,000 apartments on the south side of Peace Avenue.



National Amusement Park

Much of the city's most desirable office and retail space is located in the first Khoroo along Peace Avenue and Chinggis Avenue. The most exclusive retail space within the district is undoubtedly the first two floors of the MCS Central Tower, Naran Mall in Seoul Street and Naran Plaza, situated on the north side of Peace Bridge. This now represents one of the most exciting retail opportunities in the city. With the recent addition of the Shangri-La Mall in Sukhbaatar, the area surrounding the National Amusement Park and Olympic Street towards Zaisan is one of the busiest areas in Ulaanbaatar at present.

Surrounding the State Department Store are an assortment of shops and outlets supplying nearly every kind of good and service imaginable. Peace Avenue, which runs in front of the State Department Store complex, is the transportation spinal cord of the city upon which small businesses have centered over the last decade. Large souvenir outlets catering to the spillover of visitors from the State Department Store mingle with domestic retailers, bars, restaurants, and domestic fast food chains. While most international brands have not yet mustered the courage to enter the Mongolian market, a miscellany of domestic imitations of western coffee houses and burger joints are appearing along the street with surprising regularity. Recently, Round Table Pizza became one of the first international chains to open an establishment along this strip.

Off Seoul Street, where Khoroo 2, 3, 4 & 5 are situated and directly south of the State Department Store, is the famous Mongolian State Circus. The newly repainted dome is an iconic sight of Ulaanbaatar, looking over one of the most central, and henceforth fastest growing districts of the city. A few blocks further down Seoul Street brings you to the Zu Club, a night-time destination of choice for expats and locals alike.



Seoul Street

At the district's heart lies the prominent Chinggis Khan Square or Khoroo 6 – an iconic space that has been the focus of many crucial events in Mongolian history. Overlooking Chinggis Khan Square to the north sits the government palace, which houses various state organs, including Mongolia's parliament, the Ikh Khural. Renovated in 2005, the extended neoclassical façade of the government palace now hosts a variety of imposing bronze tributes to the khans and generals of the country's imperial past.



Chinggis Khaan Square

Khoroo 7 & 8, just north of the Government Palace, is home to the largest university in the country. The National University of Mongolia is also the nation's oldest, founded in 1942, as a training ground for the communist party's executive class. Now offering well-respected and competitive programs, one third of the Mongolian population with university degrees graduated from this institution. The university has an estimated 11,000 undergraduates, 2000 graduate students, 800 faculty members, and 400 academic support staff at any one time. The Sukhbaatar district campus houses the Schools of Information Technology, Physics and Electronics, and Business and Commerce; and as such hosts a vibrant student population for the majority of the year. During term time, the area is a flurry of activity as students move between lectures, classes, and the cheap bars that have sprung up in order to facilitate their recreation. These periods place a considerable demographic strain on the housing stock of the northern area, as hundreds of students from outside of Ulaanbaatar move into the district's cheap housing and student accommodation, unable to remain living at home like their city-based peers. The University of the Humanities, the Mongolian State Pedagogical University and the Mongolian National Institute of Physical Education bring in thousands of students to this area as well.



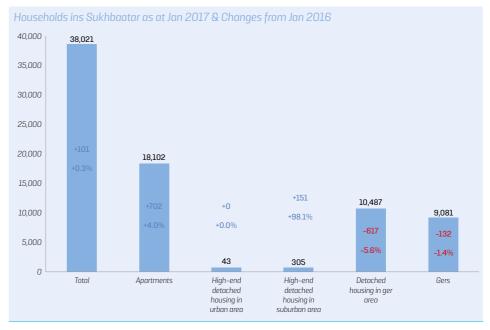
Mongolian National University

Sukhbaatar District has an abundance of bars, restaurants and nightclubs catering to a wide range of tastes with the majority found along Seoul Street. Ulaanbaatar's preeminent beer hall, the Grand Khaan Irish pub, is situated just opposite the Russian Embassy on Seoul Street, and is renowned for its big crowds, live music, and western food. Proximity to this institution is something of an informal benefit for any property in Ulaanbaatar; most expats will find themselves gracing the establishment with alarming regularity. The Blue Sky Tower hosts the city's most elegant high-end cocktail lounge on the 23rd floor that features sweeping 360 degree views of the city and regular live music.

In the shadow of the tower lies the classic Veranda restaurant. One of the highest quality eateries in the city, the restaurant features Mediterranean food combined with inspiring views of the Choijin Lama Temple, making it a regular haunt for expats, visiting investors, and the increasingly westernized class of wealthy Mongolians. Just a few steps away is Millie's Café. Established in 1998 by café founder/owner Millie Stoda, Millie's Café has become an institution among both expats and locals. Lunchtime is always crowded, with ambassadors, ministers, miners and businessmen mingling over excellent coffee and American style comfort food. A relatively new edition to the district is the extremely popular Roseweood Café and Bakery, located next to the Czech Embassy and featuring fresh soups and sandwiches, all prepared in house.

3.1.2 SUKHBAATAR DISTRICT RESIDENTIAL DEMAND

As of January 2017, there were 38,021 families in the district, with more than half residing in the ger district area and 18,102 families living in apartment housing in eleven khoroos out of twenty. The number of households living in the ger area decreased in Sukhbaatar district in 2017, by around 2.9%, which is a significant reduction in the context of the city more generally.2

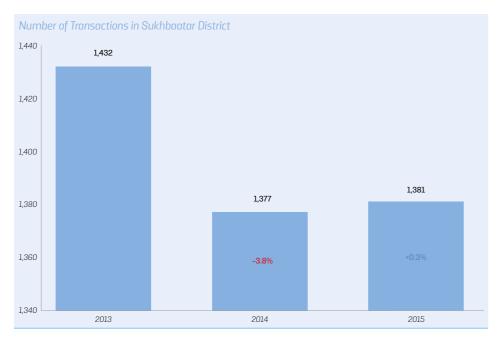


Source: Statistics Department of Ulaanbaatar

2 Ibid

¹ Statistics Department of Ulaanbaatar (2017)

Unfortunately, data is still lacking for transaction volumes in 2016. The district did, however, record 1,381 transactions in 2015 – an increase of 0.3% compared with the previous year.3 Historically, Sukhbaatar has not had significant fluctuations in overall volumes each year, and even in spite of negligible delivery of new schemes, it remains attractive for investors. The overall transaction pace in Ulaanbaatar slowed in 2015 and Sukhbaatar district comprised 8.6% of the total transactions in the city.⁴ This also means 8.4% of the total apartments in Sukhbaatar district traded in 2014.5 One of the reasons it does not have very high turnover appears to owe to the high capital values that mean it is largely unaffected by government mortgage initiatives.



Source: State Registraion Officer

Expatriates and Mongolian professionals are keen to be located as close as possible to offices in the central business district. As economic growth continues, incomes rise, and more expatriates arrive looking for safe and accessible housing, demand is expected to increase well into the medium term. Construction companies, aware of the opportunities in the market, have attempted to respond to this demand by increasing their supply as much as Sukhbaatar's land constraints will allow. This, however, is unlikely to be anywhere near enough to meet demand in the Sukhbaatar residential market over the medium term. Immigration moderated somewhat over the past couple of years but will likely resume in the near future.

New land for development has become increasingly scarce, with nearly all usable land within the city center having either been built upon, or currently under development. This inadequacy is well demonstrated by the fact many of the city's older, Soviet buildings are now being pulled down to make way for newer complexes. The recent example being the Ulaanbaatar Print Building by Chinggis Square being auctioned, with Tavan Bogd Group purchasing it for MNT 23.5 billion – an unheard amount of money for a piece of land in the city.

Expatriates and Mongolian professionals

Immigration moderated somewhat over the past couple of years but will likely

3.1.3 SUKHBAATAR DISTRICT RESIDENTIAL SUPPLY

According to Mongolian Properties' estimates, there are currently around 1,636 units of prime residential apartments within Sukhbaatar district. Most prime residential developments are in Khoroo 1 centered around Unesco Street, Olympic Street and Embassy Road. The abundance of embassies situated in the vicinity should be something of an indicator of the dynamics of the neighborhood. The area currently contains some of the most desirable real estate in the city, details of which can be found below.

		Sukhbo	ıatar Di	strict Pr	ime	Residential Supply	У		
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	Vield %
1	220K Residence	Max Urguu	136	2016	1	Seoul Street	\$2,708	N/A	N/A
2	Diamond Apartment	N/A	150	2014	1	Olympic street	\$2,700	\$15.40	6.8%
3	Diplomat Apartment	N/A	160	2010	1	Embassy Road	\$2,500	\$16.53	7.9%
4	Elite Apartment	Altai Construction	72	2013	1	Seoul Street, In front of Academic Theatre of Drama, Block 14	\$1,978	\$6.15	3.7%
5	Monhouse 77	Monhouse	77	2012	1	Unesco Street, Block 26A	\$1,221	\$10.42	10.2%
6	One Residence	Coyote Construction	90	2013	1	Unesco Street	\$1,417	\$10.89	9.2%
7	Regency Residence	Mongolian Properties Construction	99	2010	1	Olympic Street 16	\$1,952	\$14.67	9.0%
8	Shangri La Residence	MCS Property & Kerry Group	185	2016	1	Olympic Street 19	N/A	\$40.00	N/A
9	Shine Tugul	Bodi Properties	110	2008	2	Right side of Peace Bridge	\$1,403	\$6.35	5.4%
10	Star Apartments	Star Estates	N/A	2001	1	Unesco Street	N/A	\$24.00	N/A
11	Tuguldur 12	N/A	64	2014	3	Seoul Street	\$1,583	\$9.12	6.9%
12	UB Central Residence	Gangar Invest	230	2017	3	Usnii Street	\$1,783	\$14.09	9.5%
13	UB Town	Undur Buyant Holding	200	2012	4	Peace Avenue West, by UB Department Store	\$1,252	\$12.21	11.7%
14	United Apartments	Uguuj Khishig	63	2015	1	Olympic Street	\$1,457	\$10.83	8.9%
		Total	1,636			Weighted Average	\$1,887	\$14.47	7.72%

Source: Mongolian Properties

There are currently around 1,636 units of prime residential apartments within

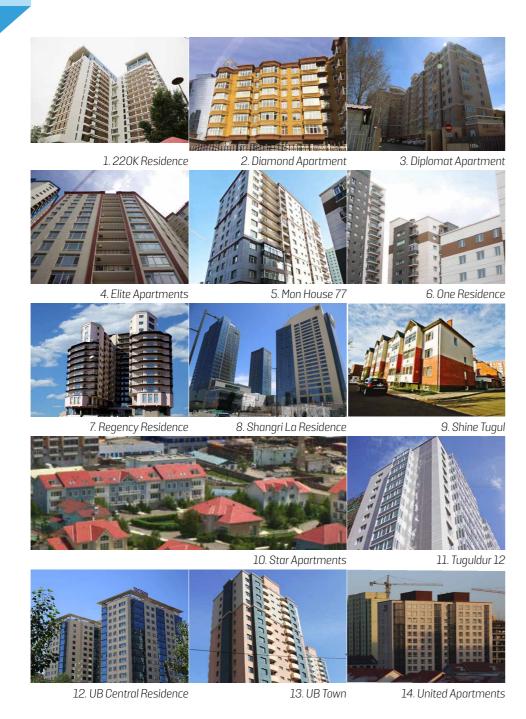
³ Ibid

⁴ Ibid

⁵ Ibid

^{*}Assumed exchange rate is 1US\$=2,400MN₹ and rental price is exclusive of utility fee

3.1 SUKHBAATAR DISTRICT



Most of the high-end modern apartments are located in Embassy Road, Unesco Street and Olympic Street, as mentioned previously. These include Diamond Apartment, Diplomat Apartment, Monhouse 77, One Residence, Regency Residence, Shangri La Residence, Star Apartments and United Apartments. Most of these high-end apartments have higher ceilings, and bigger apartment sizes than most in Ulaanbaatar, and have

amenities, such as gyms, restaurants and convenience stores in their lobby areas.

There are also some prime residential apartments along Seoul Street such as 220K Residence and Elite Apartments behind the Academic Theatre of Drama. Further down you can find Shine Tugul, Tuguldur 12 and UB Central Residence surrounding the Asa Circus. By Peace Avenue near the Ulaanbaatar Department Store you can find UB Town which was completed in 2012 and is one of the newest addition in that area.

		Sukhbaatar D	istrict (Small S	cale	Prime Residential	Supply		
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	Yield %
1	Blue Sky Apartments	Chono Group	12	2011	1	Peace Avenue 17	\$5,500	\$29.41	6.4%
2	Bridge Apartment	Bridge Group	20	2006	1	Embassy Road	\$2,083	\$8.33	4.8%
3	Choijin Suites	Erel Properties	25	2017	1	Jamiyan Gun Street 22	\$5,700	\$18.75	3.9%
4	Continental Residence	Jiguur Grand	49	2009	1	Unesco Street 20	\$1,250	\$7.78	7.5%
5	Embassy Residence	Bodi Properties	38	2012	1	Embassy Road	N/A	\$42.80	N/A
6	Elite 3	Elite Urguu	22	2008	1	Embassy Road 22	\$1,461	\$7.68	6.3%
7	Margad Gartaam	N/A	12	2006	1	Olympic Street	\$3,500	\$12.25	4.2%
8	Nar-Urt	Monpolymet	24	2012	1	Embassy Road	\$1,250	\$13.10	12.6%
9	Park View Residence	Mongolian Properties Construction	31	2007	1	Next to Choijin Lama Museum	\$1,719	\$8.92	6.2%
10	Parliament Apartments	Jiguur Grand	10	2005	1	Jamiyan Gun Street 10	\$2,533	\$6.25	3.0%
11	Temple View Residence	Mongolian Properties Construction	16	2009	1	Jamiyan Gun Street 12	\$2,383	\$15.37	7.7%
		Total	259			Weighted Average	\$2,409	\$16.26	6.67%

Source: Mongolian Properties

*Assumed exchange rate is 1US\$=2,400MN₹ and rental price is exclusive of utility fee





7. Maraad Gartaam

8. Nar-Urt

9. Park View Residence





10. Parliament Apartments

11. Temple View Residence

There are some developments surrounding Choijin Lama Museum, which are smaller in terms of number of units, but command much higher prices than the rest of Sukhbaatar district due to close proximity to various Grade A office and retail. These include Blue Sky Apartments, Choijin Suites, Temple View Residence, Parliament Apartments and Park View Residence.

Further down in Embassy Road and Unesco and Olympic Street, there are also a number of small scale developments, such as Bridge Apartment, Continental Residence, Embassy Residence, Elite 3, Margad Gartaam and Nar-Urt. These small scale developments command much higher prices than the larger developments in Sukhbaatar district and are considered some of the most sought-after apartments in the city.

The first truly luxury condominium-style developments in Mongolia were Temple View Residence and Regency Residence. The strong upward trajectory in prices underscores the level of development and evolution of the market in Ulaanbaatar. With an initial presale value of just \$650 per square meter in 2007, prices appreciated rapidly. Demand was primarily sourced from the first wave of expatriates coming into the country as the Mongolian legislative environment opened up to the idea of foreign investment, and negotiations began regarding the terms of many of the country's major mining ventures.

By the end of 2009, prices per square meter were nearly double the already considerable average seen around the rest of the Sukhbaatar district. The scale of this differential has increased even further over the past few years. Upon the insistence of the Star Estates, all of the apartments remain under their ownership, and are let out to tenants. Demand for the properties far exceeds the minuscule supply; prices are very high and are subject to successfully navigating the property's two-year waiting list.

The explanation for such trends is more than just luxurious interiors and fittings and fixtures. Views over the Bogd Khan mountain, good accessibility, and inherent status that comes with the ownership of exclusive real estate has attracted wealthy Mongolians keen to exhibit their status and prosperity.

Many older Mongolians, with no intention of moving from their large gated homes in Zaisan, also make small investments in order to store and preserve wealth, allowing their young children to use their apartment as a second home when they wish to be close to the excitement of the city center.

3.1.4 SUKHBAATAR DISTRICT RESIDENTIAL FUTURE SUPPLY

The upcoming future supply in Sukhbaatar is one of the most exciting in the Ulaanbaatar residential market, with an average asking price of around US\$2,873. Most of these apartments are located in the city center and regarded as amongst anticipated developments.

		Sukhbaatar Distric	t Prime I	Residenti	al Fut	ure Supply	
No	Property Name	Property Name Developer		Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*
1	Circus Residence	Mongolian Properties Construction Corporation	85	2018	3	Next to Asa Circus, former Shaazan Vaar	\$2,917
2	Oasis Residence	Mongolian Properties Construction Corporation	18	2018	4	Seoul Street	\$2,862
3	Olympic Residence	Mongolian Properties Construction Corporation	99	2017	1	Olympic Street	\$3,333
4	Park Place	Mongolian Properties Construction Corporation	200	2020	1	Chinggis Avenue	N/A
5	Premium Residence	Terguun Chansaa	58	2017	1	Next to Mercury	\$1,875
6	Soyombo	N/A	N/A	2018	1	Seoul Street	N/A
7	Time Classic Tower	Time Group	200	2017	3	Usnii Street	\$2,917
		Total	260			Weighted Average	\$2,873

Source: Mongolian Properties *Assumed exchange rate is 1US\$=2,400MN₹

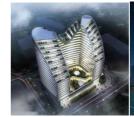




1. Circus Residence

2. Oasis Residence

3. Olympic Residence









4. Park Place 5. Premium Residence

6. Soyombo

7. Time Classic

One of the most keenly awaited projects is underway along Olympic Street, namely Olympic Residence, due for completion this year. The remaining pipeline of projects are

3.1 SUKHBAATAR DISTRICT

along Seoul Street or near the Asia Circus, namely Circus Residence, Oasis Residence, Premium Residence, Soyombo and Time Classic Tower, which are set to complete between 2017 and 2018 and will command some of the highest prices in the city. Park Place, by Chinggis Avenue, is set to become one of the most exciting developments in the city, as the district is running out of land in the city centre, and the development will be located on the last piece of vacant property in central Ulaanbaatar.

Five years ago, it was foreign investors, and expatriates looking for accommodation who formed the driving force behind Ulaanbaatar's luxury real estate market. Today, the spoils of FDI and resource extraction have created wealthy local people, who are seeking high–quality, luxurious properties. For many of these domestic investors, properties in Sukhbaatar provide the perfect combination of social capital and significant upside with relatively low risk.

Sukhbaatar district's supply potential looks to remain extremely constrained over the coming years. The spatial limitations of building in desirable locations close to the city center look set to inhibit the development of luxury space by all but the largest companies endowed with the capital to compete financially for the ever dwindling supply of usable space.

3.1.5 SUKHBAATAR DISTRICT RESIDENTIAL PERFORMANCE

Strong demand caused the average apartment price in Sukhbaatar to rapidly appreciate from under \$500 per sqm in 2005, to at \$1,747 per sqm in 2013. The market has witnessed a constant trend upward in prices (with the exception of 2010 due to the global financial crisis) as demand for residential real estate in Sukhbaatar continues to outstrip supply. Prices declined in 2014 to US\$1,612 and stayed stagnant in 2015. In 2016, there was a further reduction to US\$1,156, however, this largely owed to the currency depreciation.



Source: Mongolian Properties & Tenkhleg Zuuch

The increasing supply limitations within Sukhbaatar, combined with consistently rising levels of demand, lead Mongolian Properties to forecast sustained capital growth in

years to come. The magnitude of this appreciation will be determined by macroeconomic factors such as FDI, and the resulting quantity of wealthy expatriates looking to move to the country for business purposes over the coming years.

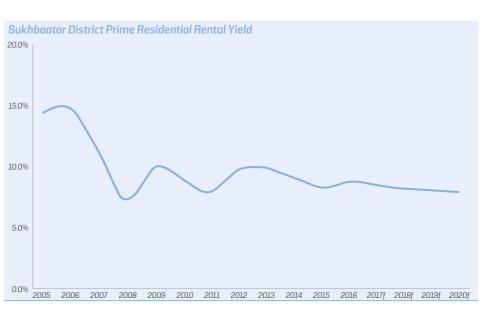
Large increases in the levels of FDI flowing into the country, underpinned by favorable conditions in the wider Mongolian economy, should push prices in the district toward the upper bound of US\$1,500 by 2020.

Price movements in the Sukhbaatar residential sales market have been matched by proportional increases in rental rates charged by landlords. Prices increased from an average \$6 per sqm per month in 2005, up to \$14.0 in 2013. It is thought current levels – on a mean average basis – are around US\$8.4, however, demand is growing and is likely to sustain increases in 2017 and 2018.



Source: Mongolian Properties & Tenkhleg Zuuch

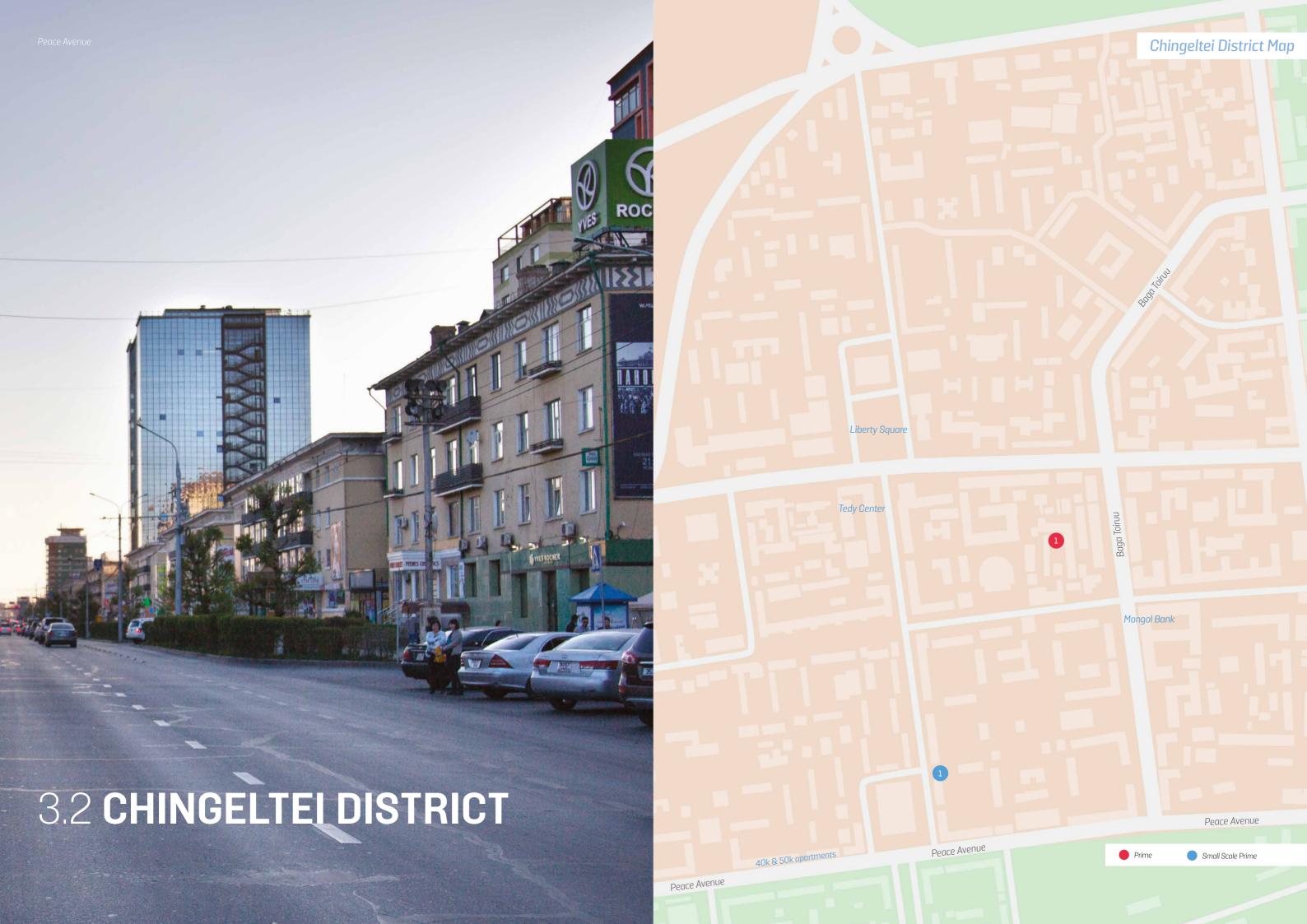
The average rental yield in Sukhbaatar is 8.7%, down from its peak in 2006 of around 14.7%. The district's average sales price is among the highest in UB, as well as the rental price, and with the highest occupancy rates compared to the other districts, Sukhbaatar remains a highly attractive district.



Source: Mongolian Properties & Tenkhleg Zuuch

perfect combination of social capital and

significant upside with relatively low risk



EXECUTIVE SUMMARY

Chingeltei is relatively similar to Sukhbaatar, but its inhabitants, though middle-class, are younger and slightly less affluent. Small scale retail and government offices thrive in this area, but residential properties are considered less luxurious than those found in Sukhbaatar or Zaisan. Square meter sales and rental prices are on a par with top locations in the city, but the average apartment occupies a smaller floor plan and tends to be contained in an older structure.

The "40,000 Homes" and "50,000 Homes" Soviet era apartment complexes are some of the oldest in the city, but their quality far surpasses that of comparable free–market era developments. These complexes still host some of the most desirable residences in the city and command top prices.

The supply of land and the potential for new residential developments is far tighter in Chingeltei than anywhere else in the city. This has meant the government mortgage policy has not affected prices as positively as in areas such as Bayangol, Bayanzurkh and Songinokhairkhan.

3.2.1 CHINGELTEI DISTRICT OVERVIEW

Chingeltei District is similar to Sukhbaatar owing to the fact it was only partitioned off in the early 1990s. It is the second smallest district by size (after Bayangol), and comprises only 92 square kilometers of land. Khoroo 1, one block to the west of Sukhbaatar Square, lies the headquarters of Mongol Bank, and the Post Office, which are the main landmarks in this khoroo. In addition, the majority of the country's other large financial enterprises are headquartered nearby. Golomt Bank, Trade and Development Bank (TDB), Capital Bank and Ulaanbaatar Bank, all have their central offices a few blocks away. Buried amongst the financial institutions are an assortment of foreign embassies, including those of France, Vietnam, the Democratic Republic of Korea, and Turkey.



Central Bank of Mongolia, Mongol Bank

The district's best known landmark is the State Department Store, which is one of Mongolia's most iconic structures. It is situated in Khoroo 3, an area that continues east along Peace Avenue. The arrival of democracy and the adoption of free market principles

saw the building purchased by Nomin Holdings, and this led to a refurbishment designed to cater to Ulaanbaatar's growing consumer class. Selling everything from crockery to cashmere, it offers a wide range of goods for tourists, expats, and locals. The ground floor space is utilized by an assortment of vendors and several cafes, with seating spilling outside onto the street in the summer months when the weather permits. Khoroo 2 continues further from Khoroo 3 and borders Bayangol district.



TEDY Cente

Less than 300m behind the State Department Store lies the 'Urt Tsagaan' (literally translated as 'long white'). The pedestrianized thoroughfare hosts a variety of small, flea market style enterprises selling everything from second hand books to adult toys, which is the start of Khoroo 4. Large scale retail and international chains have yet to penetrate this aging traditional retail center. Further down from Urt Tsagaan, north of the State Department Store, lies the TEDY cell phone market. Spread across a total of four floors, the building is operated by Mobicom, the biggest network provider in the country. In addition to its network clients, the facility hosts in excess of 450 small enterprises, the majority occupying small plots no more than a few square meters in capacity and selling peripheral products and accessories for mobile phones and computers.



Liberty Square

The 5th Khoroo, is further down from the 4th Khoroo, and surrounds Liberty Square and Tengis Cinema, one of the two largest theater companies in the country. The neighborhood's streets are bustling every weekend with teenage Mongolians flocking to see the latest western films, generally played in English and subtitled in Mongolian. In recent years, Mongolian language films have also become increasingly popular and profitable. Budgets have grown enormously and the latest premiers draw large crowds on opening weekends.

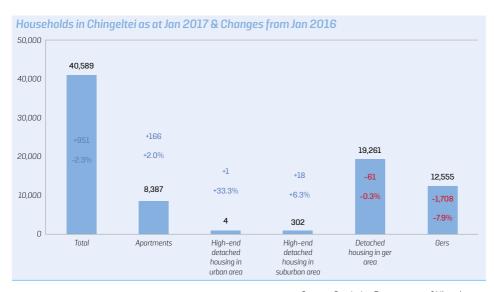
The district's best known landmark is the State Department Store, which is one of Mongolia's most iconic structures

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3.2.2 CHINGELTEI DISTRICT RESIDENTIAL DEMAND

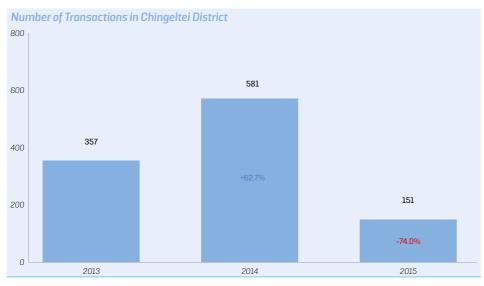
As of January 2017, there were 40,589 families living in Chingeltei District

As of January 2017, there were 40,589 families living in Chingeltei District, of which only about 8,387 lived in apartment housing in six khoroos out of nineteen.⁶ The rest of the families lived in tented accommodation or in detached housing in the ger area. The number of households living in the ger area decreased in Chingeltei district in 2017, by around 3.4%.⁷ This is among the highest of the districts in Ulaanbaatar.



Source: Statistics Department of Ulaanbaatar

Unfortunately, figures have not yet been released for 2016. However, the district recorded only 151 transactions in 2015 – a decrease of 74% compared with 2014.8 Although overall transactions in Ulaanbaatar slowed in 2015, Chingeltei district comprised 0.9% of total transactions in Ulaanbaatar, which also means 7.3% of the total number of apartments in Chingeltei traded in 2014 – a figure similar to Sukhbaatar.9 This is owes to a lack of available land and few new additions over the last year.



Source: State Registration Office

- 6 Statistics Department of Ulaanbaatar (2017)
- 7 Ibid
- 8 State Registration Office (2017)

9 Ibid

Chingeltei's central location makes it highly desirable. It is, however, important to differentiate between sources of demand in Chingeltei and Sukhbaatar districts. In Sukhbaatar, expatriates and the most affluent members of Mongolian society are the primary purchasers of residential real estate. Central Chingeltei, namely the first and third Khoroos are on the other hand, more middle class neighborhoods. Sales and rental prices per square meter across the two central districts are similar, but Chingeltei residences tend to have smaller floor plans. As such, the district's accommodation is more popular with younger professionals and families on a budget. The 40,000 and 50,000 homes were popular expatriate rental locations, however, the trend is slowing down, due to additional supply in other districts. There are now more and more new buildings with better security, in superior overall condition, elsewhere in the city.

3.2.3 CHINGELTEI DISTRICT RESIDENTIAL SUPPLY

Supply side conditions in Chingeltei also differ slightly from those in Sukhbaatar. The majority of existing residential stock is locked within the "40,000 Homes" and "50,000 Homes" Soviet–era apartment complexes. Land constraints in the district are also tight. With a heavily developed core surrounded by open but effectively unpurchasable small hold plots of ger district land, there are only 344 units of modern residential accommodation currently available.

There have been no prime residential buildings commissioned in the past few years and the relatively low supply of modern accommodation is unlikely to correct itself anytime soon. Though supply conditions remain slightly more restrictive in Chingeltei than in Sukhbaatar, but this is offset by a slight reduction in the magnitude of demand for properties, due to supply in other parts of the city.

	Chingeltei District Prime Residential Supply											
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	% plaiA			
1	Khiimori	Max Urguu	96	2008	4	Behind max tower	\$1,411	\$5.86	5.0%			

Source: Mongolian Properties



1. Khiimo

Khiimori is located behind the TDB and Max Tower, built by Max Urguu, one of the most highly sought-after developments in this district.

There are only 344 units of modern residential accommodation currently available

	Chingeltei District Prime Small Scale Residential Supply											
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Kharoolal / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	Yield %			
1	Gandirs	Gandirs Group	35	2007	1	Baruun Selbe Street, I – 40,000 Apartments, Block 26	\$1,458	\$8.68	7.1%			

Source: Mongolian Properties *Assumed exchange rate is 1USS=2,400MN\mathbf{F} and rental price is exclusive of utility fee

1 Gandir

Just like Sukhbaatar district, Chingeltei host some small scale prime residential buildings, such as Gandirs Tower, which is located east of the State Department Store in the middle of the most commercially active part of Chingeltei District. It is primarily a residential apartment block, but also includes a small cafe and a bookstore on the first floor. As a centrally located, well-designed and high quality residential apartment building, this tower is a highly attractive choice for middle class families.

Most of the newer buildings in downtown Chingeltei have either have been built on children's playgrounds or in between existing buildings, due to the limited space left in the area. The majority of these residential buildings were erected here because many believed the city limits would not expand, which would have had huge consequence for supplying power and other infrastructure. Gandirs and Khiimori are the clear examples of such developments.

What is 40,000 & 50,000 Homes?

The so-called "40,000 Apartments" represent Mongolia's oldest surviving stock of residential real estate, occupying much of the area to the east of the State Department Store in Chingeltei. Developed over fifty years ago under Ulaanbaatar's first city master plan, the properties have seen astronomical price rises in recent years, being driven primarily by demand from young professional Mongolian families keen to live as close to the city center as possible.

The peeling paint of the shabby exteriors belies the sturdy quality of the structures. The displeasing aesthetics on the building's façade, is due to unresolved collective action problems facing the residents of many older buildings. The interiors are strikingly different. Most have been refurbished to a high standard, with western amenities and modern furniture. The "I - 40,000 Homes" are renowned for their high ceilings and thick walls, a quality practically unseen in more recent developments. The "I - 40,000" are in

the western part of Chingeltei towards Bayangol district, making it less attractive than the "I-40,000 Homes", and the quality is considered inferior, due to lower ceilings and thinner walls.



40k & 50k apartments

The "50,000 Apartments" is a similar development consisting of buildings constructed under the city's second centrally planned housing program. The buildings are mostly located to the north of the State Department Store, toward ger area developments along Baga Toiruu. The location is generally considered less desirable than the '40,000 Homes'. Consequently, both in terms of volume of transactions, and also prices attained, it performs worse overall.



Baga Toiruu promenage

This being said, both developments have seen significant price appreciation over recent years. Selling for as little as US\$310 per sqm back in 2005, prices have increased every year, excluding the 2009 financial crisis year. They currently trade at around US\$1,000 - US\$1,500 per square meter. Prices for the '40,000' and '50,000 Homes' have come down from a peak in 2012, and are expected to stay either stagnant or fall further in the coming few months. The strong underlying fundamentals, however, mean prices are likely to rise again in early 2018.

Both developments have seen significant price appreciation over recent years

Most of the newer buildings in downtown Chingeltei have either have been built on children's playgrounds or in between existing buildings

3.2.4 CHINGELTEI DISTRICT RESIDENTIAL FUTURE SUPPLY

There is a lack of available land for development in Chingeltei. Unless and until, sites are freed for development, there is likely to be a pervasive shortage of new, prime units coming to market. Research indicates there are no new luxury schemes in the pipeline. Nonetheless, plans for ger area redevelopment, mean this district could witness marked change in the coming years.

3.2.5 CHINGELTEI DISTRICT RESIDENTIAL PERFORMANCE

The pricing pattern exhibited by

The pricing pattern exhibited by residential real estate assets within Chingeltei District over recent years is close to a mirror image of that seen in Sukhbaatar; the price per square meter having increased from under US\$500 in 2005 to its 2013 peak of US\$1,238. Pricing has been erratic in Chingeltei over the last year, with prices staying persistently below the citywide average, with comparatively large oscillations from month to month. The supply side constraints discussed above, have affected the district when competing for buyers of low and middle income housing.



Source: Mongolian Properties & Tenkhleg Zuuch

Rental prices in Chingeltei district are among the highest in Ulaanbaatar. In common with Sukhbaatar – where prices are slightly higher – it is a very central area, and popular with both expatriates and locals. Prices for rental properties peaked at around US\$13 per square meter in 2013, but are now estimated to be around US\$8.



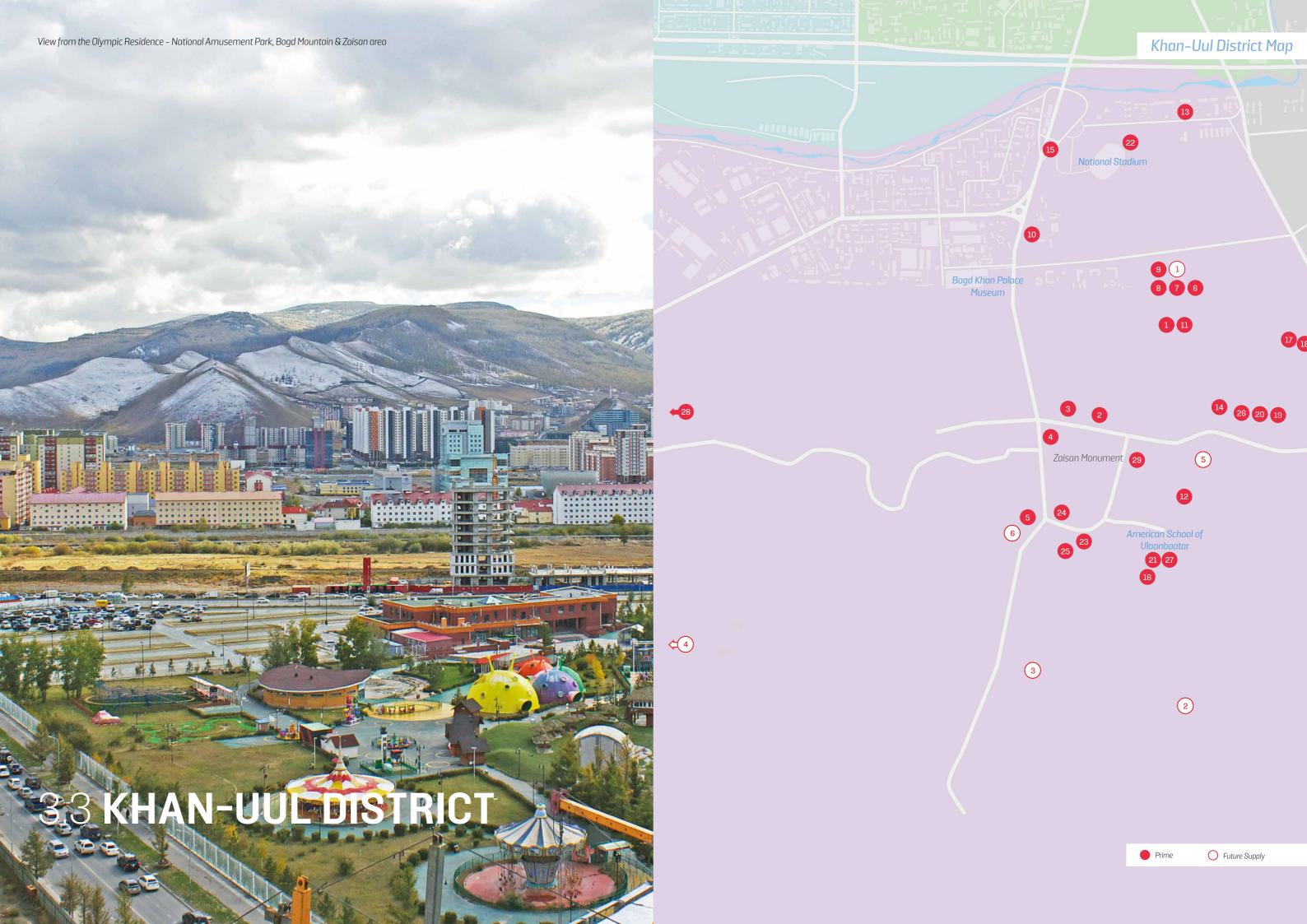
Source: Mongolian Properties & Tenkhleg Zuuch

Due to the low sales high rental prices, the yield in Chingeltei is the highest in Ulaanbaatar, currently at 12.3% on average. The trend is set to continue in the short to medium term, as there are no developments expected to come online in this district in the near future, thus the few apartments that are available, are likely to generate a high rental incomes.



Source: Mongolian Properties & Tenkhleg Zuuch

The yield in Chingeltei is the highest in Ulaanbaatar, currently at 12.3% on average



3.3 KHAN-UUL DISTRICT

an-Uul is Ulaanbaatar's southernmost district and, from an investor's

EXECUTIVE SUMMARY

Khan–Uul is Ulaanbaatar's southernmost district and, from an investor's perspective, perhaps its most exciting after Sukhbaatar. Recent years have witnessed an explosion of high–end development around the national stadium and even more significant construction of luxury housing in the area around the Zaisan monument. The Yarmag area along the road leading out to the airport looks set to replicate the success of Zaisan. Retail and office are fairly underdeveloped in this district, but Gegeenten and Zaisan Square and the plethora of new retail projects in the Yarmag area, like Hunnu Mall, Viva City and The Village @ Nukht, will soon reverse this trend and turn Khan–Uul into a significant retail center.

As a whole, Khan–Uul is forecast to perform strongly in coming years. Zaisan is overdeveloped and due for a downturn as many luxury properties around the monument are currently experiencing declining rents and vacancy rates. However, the Stadium area and the Yarmag area are forecast to perform well in terms of both rental and sales prices in the long term.

3.3.1 KHAN-UUL DISTRICT OVERVIEW

Khan-Uul District (named after the most famous peak of the Bogd Khan mountain range) is perhaps the area where Ulaanbaatar's outward expansion is most visible. It covers 502 kilometre square and its most iconic landmark is the Bogd Khan Palace Museum, which is situated in Khoroo 1.



Bogd Khan Palace Museum

Further along Chinggis Avenue, many of the industrial buildings can be found in Khoroo 2 and 3, also known as Khoroolol 19. The neglected portion of Khan–Uul District, particularly Khoroolol 19 along the southern border of Bayangol District, is a different development landscape altogether. This area houses many of Mongolia's aging industrial operations, most of which were constructed during the country's socialist past. Currently, a number of large Mongolian companies, including Shunkhlai, MCS, Erel and Misheel

Holdings, house their primary industrial operations here. Northeast of these factories are several blocks of low quality Russian apartment stock which houses the majority of factory workers. Russian built, but to a lower standard than many of city's more central communist stock, the apartments have poor quality exteriors and similarly rundown interiors.



Private houses in Nukht Valley

Khoroo 4 houses the newly built British School of Ulaanbaatar, along the Yarmag Road and continues towards Nukht Valley. Rapid and uncoordinated growth in the now-prized central business district together with rural-urban migration into the ger districts north of the center, have combined to smother valuable downtown residential locations in traffic and coal smoke. The high volume of air pollution concentrated in the city center as well as the typical noise and safety issues of urban life have led affluent families to look elsewhere for peace and fresh air. A similar trend is now beginning to manifest itself in the Nukht Valley and Yarmag areas, along the road leading to Chinggis Khaan International Airport. The ger dwellings can be found in Khoroo 5, 6, 7, 8 & 9 along the Yarmag Road, however the families here are rather new and the establishment of their dwellings is still primitive, compared to other ger areas in Bayangol and Chingeltei districts. There are some developments that were finished in Khoroo 10, 11, 12, 13, 14 & 16 near Chinggis Khan International Airport, however, these developments are low cost housing, financed by the Government of Mongolia.



British School of Ulaanbaatar

Zaisan is situated in Khoroo 11, and some of the most exciting and luxurious developments are situated in this Khoroo. The residential area surrounding the Zaisan

Khoroo 4 houses the newly built British School of Ulaanbaatar

The Zaisan Memorial, resting atop

monument, in the southern part of Khan–Uul District, is where Mongolia's most affluent population has gathered to escape the crowded central business district. The monument rests atop a small hill and features a circular mural that depicts scenes of friendship between the USSR and Mongolia, the defeat of the Japanese Kwantung Army by the Soviets at Khalkhin Gol on the Mongolian border in 1939, the defeat of Nazi Germany, and notable peacetime achievements such as the Mongolian involvement in the USSR's space exploration program.



Developments around Zaisan Monument

A popular haunt for the sons and daughters of Mongolia's rich and powerful; it is a common activity for slightly inebriated groups to make the ascent once the city's bars close, in order to watch the sunrise from the 360 degree vantage point. Luxury complexes line the surrounding streets and one of the nation's most prestigious schools, the American School of Ulaanbaatar, can be found here. The Zaisan Memorial, resting atop a small central mound, is close to a national treasure.



American School of Ulaanbaatar

The area surrounding the national stadium, in the northern section of Khaan–Uul, has been a magnet for Mongolia's burgeoning middle class, which lies in Khoroo 15. Gandhi street, which leads east from Peace Bridge and the stadium, has seen a slew of new residential complexes pop up. The stadium neighborhood remains highly desirable, located just a short drive or brisk walk away from the downtown where the city's best offices, restaurants and nightclubs are located. The International School of Ulaanbaatar and Orchlon Schools are in this khoroo, making it one of the most attractive destinations for expats.



National Stadium

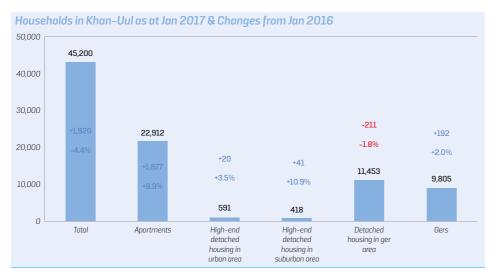
3.3.2 KHAN-UUL DISTRICT RESIDENTIAL DEMAND

Encompassing almost all of the land south of Peace Bridge, Khan–Uul has the smallest ger population of any of Ulaanbaatar's districts, with just 9,805 of the district's 45,200 families residing in this form of accommodation.¹¹o Fewer gers mean less coal smoke and, consequently, families with means have flocked to this flourishing but still underdeveloped region of the city. This trend has prompted the construction of enormous, new middle class residential complexes around the national stadium and the proliferation of luxury apartments even further south in the Zaisan area. The number of households living in the ger area stayed relatively stable in Khan–Uul district in 2017, however, due to the commissioning of newer buildings, the district added the largest number of households in apartments.¹¹¹

10 Statistics Department of Ulaanbaatar (2017)

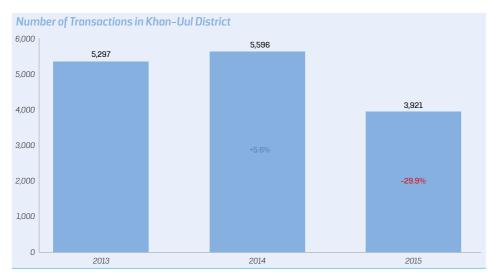
11 Ibid

The stadium neighborhood remains highly desirable



Source: Statistics Department of Ulaanbaatar

As has been stated, data for the total number of transactions, is unfortunately unavailable for 2016. However, in 2015, there were 3,921, a nearly 30% reduction relative to the preceding year.¹² Khan-Uul district comprised 24% of total transactions in Ulaanbaatar in 2015, which meant 36.6% of the total apartments traded that year, making it the most liquid district in Ulaanbaatar.¹³ The number of apartments commissioned in this district is the highest after Bayanzurkh, and most of these units are high specification, given the nature and direction of demand.



Source: State Registration Office

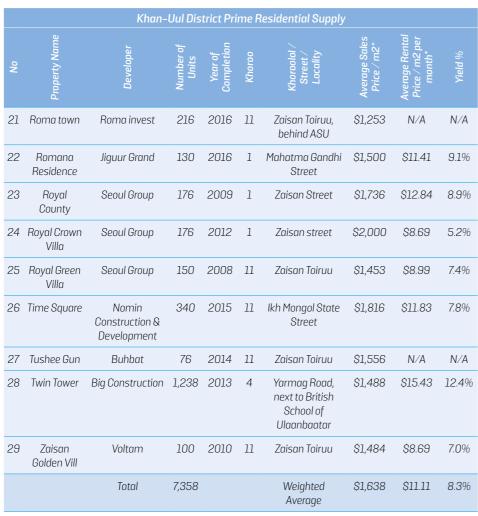
12 Ibid 13 Ibid

Despite all the development in recent years, ample amounts of cheap, empty

3.3.3 KHAN-UUL DISTRICT RESIDENTIAL SUPPLY
Despite all the development in recent years, ample amounts of cheap, empty land remain, and dozens of new projects are slated to come online over the next two years. Demand for middle class housing in the area remains strong enough to bolster prices for many years to come but all the new supply being developed should keep purchase and rental prices within reasonable bounds for the foreseeable future. Khan-Uul district houses the most high-end apartments.

	Khan-Uul District Prime Residential Supply											
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Kharaolal / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	Yield %			
1	Agnista Town	Imperial Castle	72	2017	11	Hunnu Khoroolol Street	\$1,596	\$7.44	5.6%			
2	Bella Vista	MCS Property	60	2008	11	Zaisan Toiruu	\$2,268	\$11.88	6.3%			
3	Bella Vista Rental Suites	MCS Property	80	2014	11	Zaisan Toiruu	\$7,000	\$18.58	3.2%			
4	Buddha Vista	MCS Property	109	2013	11	Zaisan Toiruu	\$2,818	\$17.08	7.3%			
5	Elegance Luxury Apartment	Max Urguu	54	2015	11	Zaisan Toiruu	\$1,331	\$6.41	5.8%			
6	Four Seasons Garden C1	Suruga Mongol	123	2007	15	Ikh Mongol State Street	\$1,462	\$9.80	8.0%			
7	Four Seasons Garden C2	Suruga Mongol	138	2008	15	Ikh Mongol State Street	\$1,592	\$8.17	6.2%			
8	Four Seasons Garden C3	Suruga Mongol	138	2010	15	Ikh Mongol State Street	\$1,684	\$12.79	9.1%			
9	Four Seasons Garden C4	Suruga Mongol	90	2013	15	Ikh Mongol State Street	\$2,417	\$15.55	7.7%			
10	Gegeenten	Jiguur Grand	180	2014	11	Zaisan Street 203	\$1,305	\$11.31	10.4%			
11	Hunnu 2222 Residence	Khurd Group	708	2015	15	Hunnu Khoroolol Street	\$1,336	\$10.07	9.0%			
12	Jardin Residence	S Development	116	2014	11	Zaisan Toiruu	\$3,500	\$24.04	8.2%			
13	Jargalan	Mandakh Trade	203	2006	1	Mahatma Gandhi Street	\$1,580	\$7.39	5.6%			
14	Khan Hills	Mogul Ibiz	156	2016	11	Across Marshall Bridge and on the right side	\$1,426	\$7.86	6.62%			
15	KH Apartment	Khurd Group	632	2013	1	Left side of the Peace Bridge	\$1,271	\$8.29	7.8%			
16	Khungiin Khothon	Jiguur Grand	89	2012	11	Zaisan Toiruu, behind ASU	\$1,965	\$9.92	6.1%			
17	King Tower	FFIC	48	2016	11	Ikh Mongol State Street	\$1,778	\$8.33	5.6%			
18	Marshall Town	FFIC	1,000	2008	11	Ikh Mongol State Street	\$1,322	\$5.84	5.3%			
19	River Garden I	Nomin Construction & Development	360	2013	11	Ikh Mongol State Street	\$2,172	\$14.51	8.0%			
20	River Garden II	Nomin Construction & Development	400	2016	11	Ikh Mongol State Street	\$1,615	\$12.86	9.6%			

3.3 KHAN-UUL DISTRICT



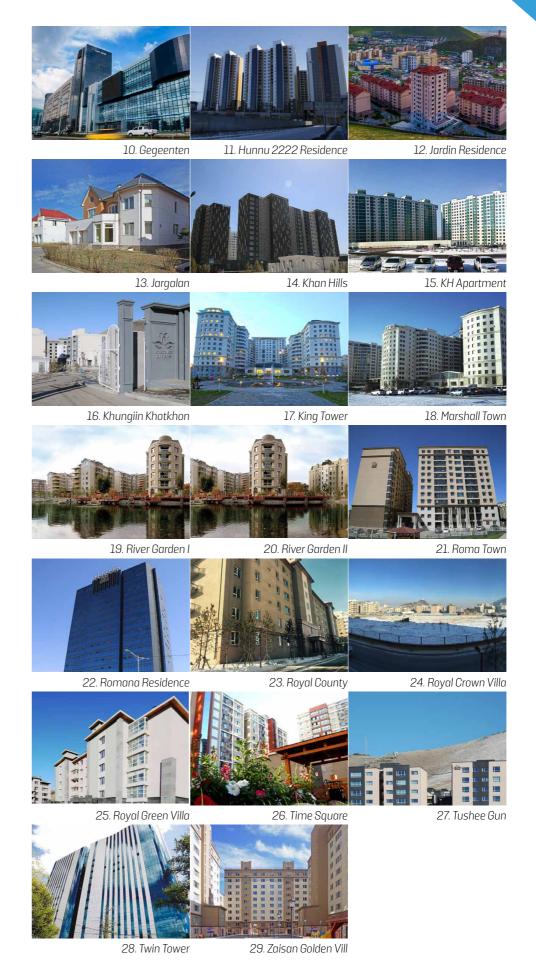
Source: Mongolian Properties *Assumed exchange rate is 1US\$=2,400MN₹

9. Four Seasons Garden C4



8. Four Seasons Garden C3

7. Four Seasons Garden C2



Vista in the Zaisan Valley are among the highest quality lodgings in the capital

Marshall Town is around 80,000 sqm in

size and is largely occupied by families

The most high-end luxurious properties tend to be in Khoroo 11 and 15, namely the Stadium and Zaisan areas. Developments can range from high-end luxurious 2-3 floor townhouses, such as Bella Vista, to apartment houses, and some duplex apartments, such as in Buddha Vista. MCS Properties' Bella Vista and Buddha Vista in the Zaisan Valley are among the highest quality lodgings in the capital – the two complexes incorporating around 249 units of residential space in total. Amenities for residents include a retail podium, a full suite of services and a number of entertainment venues. With high quality design, materials, and views of Ulaanbaatar, the developments have thus far proved extremely popular with locals and expats alike, maintaining high occupancy rates since their launch.

Suruga Mongol's Four Seasons Garden is located in the southeast of Ulaanbaatar along the Tuul River, nearby the Bogd Khan Mountains. Since 2005, the company has built four different residential developments, C1 through C4, at the site. These make up 489 apartments in total. In an effort to make Japan Town a well-serviced residential complex, Suruga Mongol has invested in establishing kindergartens, secondary schools, hospitals as well as playgrounds and parks.

One of the largest development projects next to Four Seasons Gardens, the Hunnu 2222 project by Khurd Group, consists of three phases between 2014 and 2022. As of 2016, Phase I of the project had been completed. A grand project in terms of scale, this has a great location and the potential to be a popular residential apartment complex.

Nomin's River Garden and Times Square are well known high quality developments, already favorites amongst locals and expats. A range of lodging is available from typical high – end apartment buildings to penthouses and townhouses. River Garden boasts of being Mongolia's "no 1 green village" with 75% of its footprint covered by an assortment of greenery. There are also a number of sports facilities on site including basketball courts, tennis courts and football pitches.

Continuing the theme of luxury developments in Zaisan along the Tuul River, further towards Ikh Mongol State Street, lies Marshall Town, another newly launched residential development in the region. Marketed as a "Deluxe Village", Marshall Town is around 80,000 sqm in size and is largely occupied by families. Behind Zaisan Memorial, deeper in the valley, lies Blue Sky Town, which offers great views of the surrounding mountains in a more secluded location than comparable projects in the area. The nearby Jardin Residence is also popular among Zaisan's community. Priced slightly below the luxurious Buddha Vista and Bella Vista, both projects have great locations within the valley, situated adjacent to the American School of Ulaanbaatar.

Retail has been slower to penetrate the Khan-Uul district, consisting mostly of small scale shops and restaurants built into residential complexes and designed to meet the urgent day-to-day needs of residents. Likewise, office developments have been virtually non-existent. However, 2011 witnessed the relocation of the headquarters of Mongolia's National Chamber of Commerce to a major new office complex on Gandhi Road that currently houses the administrative functions of several different organizations. The year from the Chamber of Commerce. The completion of Gegeenten followed in 2014, with a

large shopping and entertainment complex with office and residential space on Zaisan

Zaisan is technically situated within the Bogd Khan National Park, a fact that has caused much controversy in recent years. In theory, the only way to build in a Mongolian national park is if the project is deemed to be in the state's interest by the national government. Although some developments, such as the Seoul Group's Green Villa, have been able to fulfill this condition effectively, the majority have not come close.



Zaisan area rapid development from 2009 and 2012

Recent changes in governmental policy have attempted to resolve the situation, although their effectiveness has been limited. Despite Mongolian landlords paying fines in order to remove the legislative barriers blocking them from their licenses, the state has not been so kind to foreign investors. It is technically illegal for a non-Mongolian citizen to invest in any form of property in a national park, and even those investors who have been fined are not safe from the law. The authorities are legally entitled to annul documentation at a time of their choosing. The political implications of such a policy render it an extremely unfeasible, if not impossible, task. It also seems to depend on the developer's ability to secure a property ownership certificate. It is important for investors to fully understand their rights before placing their money in Zaisan or other national park-based real estate assets.

Developers have not taken much initiative to build commercial or office spaces and there are relatively few retail and grocery outlets compared with the central areas found closer to Peace Bridge. The only notable exceptions are the areas around the Irish Castle Pub and the popular Golden Dragon Chinese restaurant. For the moment, there may be opportunity to meet these needs. The area's first major retail mall and office complex, Zaisan Square, came online in 2013 with a current occupancy rate of 90%.

The APIP research team remains optimistic regarding the potential of retail in this area but a lack of reliable historical data obviates the development of a robust forecasting model. For residential development, however, the initial bonanza may be coming to an end. The steep drop-off of FDI in 2013 coincided with the flight of much of the country's more affluent expat population – the key demographic for rentals in the Zaisan area. The favorable subsidized credit and government spending programs that have bolstered the

property in a national park

2012 also witnessed the completion of Home Plaza, the first large-scale mall and retail center in the area, featuring a hypermarket in the basement. The Corporate Hotel also opened a new branch and convention center in the same year, located just down the road

3.3 KHAN-UUL DISTRICT

The sharp decline of rental prices in recent months likely presages a downturn in sales prices or, at the very least, a moderation in the pace of capital arowth

Some of the strongest price appreciation in coming years may occur in Yarmag, along the relatively empty section of Khan-Uul leading out to the international airport lower and middle end of the housing market all over the city are targeted at financially disadvantaged individuals. As such, they have had a much smaller impact on the luxury end of the market that Zaisan caters to. Many of the newer complexes in this area remain half empty, awaiting tenants and owners that will not arrive any time soon. The sharp decline of rental prices in recent months likely presages a downturn in sales prices or, at the very least, a moderation in the pace of capital growth. A similar but less severe downturn occurred in 2008 and 2009 in the wake of the financial crisis.

The 2015 and 2016 cool down was more severe as supply coming online was significantly greater than the previous years. However, continued strong economic growth and an easy credit policy have the potential to ameliorate the downward pressure that resulted from reduced demand and oversupply.

Some of the strongest price appreciation in coming years may occur in Yarmag, along the relatively empty section of Khan–Uul leading out to the international airport. The newly appointed city government is taking advantage of all the open land and fresh air along the Yarmag road to expand and renovate its administrative offices. The immigration agency moved its headquarters to this area in 2012 and dozens of other national ministries and city offices are scheduled to follow suit over the coming years. The government has dramatically expanded local infrastructure to accommodate anticipated developments. The 10-kilometer airport road, and the city road feeding into it, have been expanded from a two-lane path to a six-lane highway. This has radically reduced transport times to and from the city center. Water and sewage lines for the area have also been extended and an addition has been built on to the nearest heating plant in order to help the new developments in the area stay warm through the harsh winters.



Nukht Valley in the future?

Savvy developers are piggybacking on the government's plans and building a host of new office, retail and residential communities. Development is centered around the construction of the new highway. Prices are still low while the road and the surrounding infrastructure are being finalized, but that will not stay true much longer. The current housing options range from the handful of gers north of the airport road to the small yet high quality, affordable apartments at MCS's Viva City and penthouses in APIP's Village @ Nukht. These housing complexes are the closest Mongolia has come to the suburb

atmosphere seen in developed western nations. The major concern of those living here is the long commute needed to reach the city's shopping and work amenities in the downtown area.

The new office and retail developments coming online in the next two years should help to alleviate this concern, however. Viva City, which came online in 2013, is primarily a middle class residential complex but the ground floor units feature many small retail units and restaurants. The 50,000 square meter Hunnu Mall is also one of the main attractions since opening its doors in 2014. In addition to grocery shopping and salon visits, parents are able to drop off their children at the playground or with the day care service promised. Teens can meet their friends at the ice rink or catch the latest blockbuster at the cinema. Communities have the greatest access to a prestigious school, the British School of Ulaanbaatar. Located to the southwest of the main Yarmaq road, the Nukht valley is a small, gated community that was originally the summer retreat of Mongolia's socialist political elite. Since the transition, the area's limited land and residential stock has been made available to whoever can afford it. In recent years, many multi million dollar weekend homes have been constructed in the Nukht valley, transforming it into one of the wealthiest areas outside of Zaisan. Typically thought of as the playground of Mongolia's business magnates and wealthiest politicians, the area's few hundred houses are lacking nearby shopping and retail amenities.

The Village @ Nukht is a mix-use retail and office complex located at the entrance to the Nukht valley. The Village is designed to take advantage of the lack of nearby retail and entertainment facilities and provide a much-needed outlet for the wealthy families and teens housed in the valley to the north. The inspiration for the project was Bicester Village in the United Kingdom. The unique European facades and interiors will undoubtedly draw in additional crowds from the city center and the more affluent from middle class developments along the neighboring Yarmag road. The Village offers a full suite of shopping, entertainment and restaurant facilities including 27 large retail spaces, a hypermarket, nine food and beverage outlets, a beer hall, twelve offices and eight residential units.

The Stadium and Zaisan areas may be nearing their medium term saturation points but the Yarmag area is still vastly underdeveloped and full of potential. The official development plan of the newly appointed city government includes enormous infrastructure upgrades to the Yarmag area and envisions the area along the airport road as the new administrative center of the city.

Despite the luxury of Zaisan and the promise of the Yarmag area, Khan–Uul's relative isolation is seen as an annoyance by some. The clean air and open green spaces are pleasant enough, but the distance from the city center and the gridlock traffic on main thoroughfares can turn the morning commute into a painful inconvenience. Peace Bridge, the single workable link between the residential area in Zaisan and the city as a whole, was the most congested traffic route in Ulaanbaatar back in 2012.

However, recent developments, including the new Sun Bridge near the Bars Market and the airport road have dramatically reduced commute times. Nevertheless, there will still be days when the four-kilometer journey from Yarmag or Zaisan to the central business district may take more than an hour. As outlined above, Khan–Uul plays host to a number of distinct areas that display radically different market dynamics.

The Nukht valley is a small, gated community that was originally the summer retreat of Mongolia's socialist

The Village @ Nukht is a mix-use retai and office complex located at the entrance to the Nukht valley

3.3 KHAN-UUL DISTRICT

Most of the future supply will be still around the Zaisan area, except Four Seasons Garden C5 near the Stadium area and Toscana International Garden

in Yarmag

3.3.4 KHAN-UUL DISTRICT RESIDENTIAL FUTURE SUPPLY

According to Mongolian Properties' estimates, future supply in the Khan–Uul district is mainly aimed at the middle class and few high–end apartments are in the pipeline. Most of these apartments are scheduled to come online from 2017 with an average price of US\$1,732. Most of the future supply will be still around the Zaisan area, except Four Seasons Garden C5 near the Stadium area and Toscana International Garden in Yarmag area. Due to the limited supply in the central business district, most of these newer additions are focused on green development and gardens.

		Khan-Uul District	Prime R	esidentid	al Futu	re Supply	
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*
1	Four Seasons Garden C5	Suruga Mongol	114	2017	15	Ikh Mongol State Street	\$4,256
2	Gerege Villa	German Standard	96	2017	11	Zaisan Street	\$1,875
3	Modun Town	Ikh Modun	220	2017	11	Next to River Garden	\$1,396
4	Toscana International Garden	BUCC Group Mongolia LLC	1,853	2016	8	Yarmag Road	\$1,250
5	Zaisan Hill County	Bishrelt Engineering & Construction	121	N/A	11	Zaisan Toiruu	\$2,708
6	Zaisan Villa	N/A	89	2017	11	Bogd Khan amraltin gazrin zam daguu, ediin zasag bisnessin surguuliin baruun urd	\$3,800
		Total	2,283			Weighted Average	\$1,732

Source: Mongolian Properties

*Please note that there is no established grading system in Mongolia, these gradings are for reference only

**Assumed US\$ MN₹ exchange rate is 2,400



4. Toscana International Garden 5. Zaison Hill County

6. Zaisan Villa

3.3.5 KHAN-UUL DISTRICT RESIDENTIAL PERFORMANCE

Khan Uul's price performance over the past year is exactly as you might expect given its status as a high-end, segmented market. The overall price index rose correspondingly with the average until the end of 2013, when it proceeded to seemingly fall off a cliff before regaining ground. Price were almost the same as Sukhbaatar in 2013, and are now down to US\$1,040 (still above the city average).



Source: Mongolian Properties & Tenkhleg Zuuch

Average rental prices, appreciated steadily since 2010, peaked in 2013 at US\$15.1, are now down to US\$8.5. However, most of this drop was powered by the flight of high-end expat tenants from Zaisan as a result of the 2012 collapse in FDI. It is here that rental and sale prices have seen some of the most dramatic appreciation in recent years. Back in 2007, the area around the monument consisted primarily of open fields and empty parks. The land could be acquired cheaply and demand for housing was low. The sudden boom in luxury developments happened virtually overnight from 2008–2011, causing prices to skyrocket.

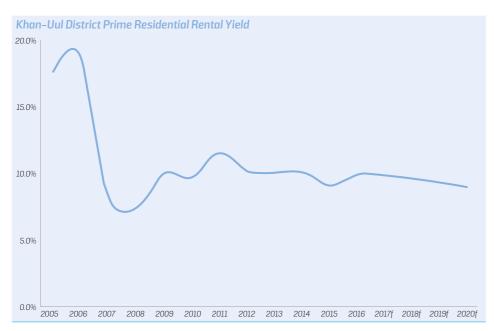


Source: Mongolian Properties & Tenkhleg Zuuch

3.3 KHAN-UUL DISTRIC

The rental yield in Khan–Uul is the highest after Chingeltei district

The rental yield in Khan–Uul is the highest after Chingeltei district. After Sukhbaatar and Chingeltei, it is one of the most popular districts for expats to live. This said, the softening of the rental price has affected rental yields, but not as much as in other districts. The occupancy rate in Khan–Uul is lower than Sukhbaatar and Chingeltei, and as a consequence, it can be sometimes difficult to find tenants.



Source: Mongolian Properties & Tenkhleg Zuuch

Noritake



Япон улсын шаазан эдлэлийн нуур царай болох Noritake гангар шаазан нь дэлхийн өнцөг булан бурт айл гэр, албан байгууллага, зочид буудал, ресторануудын хэрэглэх дуртай, өнгө үзэмж, чанар чансаагаараа хэрэглэгчдийнхээ таашаалыг хуртсэн зоогийн ширээний гангар шаазан эдлэл болж чадсан Noritake брэндийг хэрэглэгч та бүхэндээ өргөн барьж байна.



3.4 BAYANZURKH DISTRICT

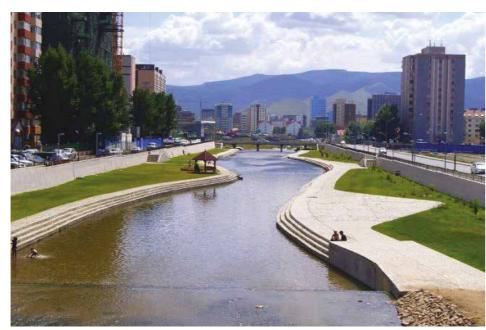
A supply glut of local developer's residential compounds looks set to place downward pressure on asset prices in 2017

EXECUTIVE SUMMARY

Bayanzurkh is a vast district, bordering, but largely excluded from, Ulaanbaatar's CBD. Much of the growth that has developed the city's central districts is slowly beginning to spill over, driving an expansion of Bayanzurkh's economic base through a strong demographic pull. Yet, this demand has not gone unnoticed. A supply glut of local developer's residential compounds looks set to place downward pressure on asset prices in 2017. It remains to be seen whether the market can absorb the excess supply, and whether capital appreciation returns over time. Opportunity clearly exists for those with a high tolerance of risk and the patience to time investments accordingly.

3.4.1 BAYANZURKH DISTRICT OVERVIEW

Bayanzurkh remains Ulaanbaatar's largest district, covering an area of 1,236 square kilometers in size, and located in the east of the city. The district's Khoroo 1 borders Sukhbaatar and the Selbe River separates these two districts. Also known as Sansar, this Khoroo lies between the Kempinski Khan Palace and the Chinggis Khan Hotels along Peace Avenue. This literally translates from Mongolian to mean 'Outer Space', having been named as a tribute to the Soviet mission responsible for sending Mongolian cosmonauts into space, whilst many of the area's buildings were under construction. This somewhat aging residential space is now inhabited by a predominantly student population, with the National University, the Science and Technology University of Mongolia, the University of Humanities, and the University of Finance and Economics all situated within walking distance. Unsurprisingly given its demographics the zone is one of Ulaanbaatar's nightlife centers, with its old Soviet structures typically having their top floors set up as cheap and compact accommodation, whilst their ground floors house a plethora of colorful bars and karaoke clubs, all priced for a student budget.



Selbe River

Considerably closer to the city's center is the Chinggis Khaan Hotel – the largest in the country, occupying a vast plot of land given its location. In addition to the hotel,

this space houses a number reputable restaurants, all connected to the adjacent Sky Shopping Center, known for containing one of the city's only modern supermarkets, a department store, and western coffee shop. It is, however, the presence of Mongolia's best known nightclub, Metropolis, which is a factor that attracts the majority of visitors to the hotel's extensive grounds. With a capacity of up to 1,000, the club's stylish interior and surprisingly frequent performances by internationally renowned DJs and musicians, make the venue a regular haunt for many of the city's young and affluent citizens.

Most of Bayanzurkh's khoroos face Peace Avenue, namely Khoroo 3, 4, 5, 6, 7 & 8, and they are referred to as Sansar or Khoroolol 12, Khoroolol 13 and Khoroolol 15. Some of these khoroos stretch towards the northern side of the district, which emcompasses ger areas. Due to its proximity to Peace Avenue and the city centre, some of the good developments are located in these khoroos. Visitors to the district will likely be drawn to the Mongolian National Wrestling Palace, situated to the south of the Chingis Khan Hotel in Khoroo 6. In the run up to the summer's Naadam Festival, it is worth visiting the giant ger shaped structure, which sees 450 participants whittled down through endless knockout rounds designed to eventually determine one champion. Modern Bayanzurkh is personified by the Kempinski Khan Palace Hotel in Khoroo 7, which until 2009, represented the only internationally managed operation in Mongolia. Strategically placed on the eastern crossroads of Peace Avenue in the heart of Bayanzurkh, the five star hotel is known for being one of the city's best offerings, with competent management and international standard service, featuring high-end Mongolian and Japanese restaurants, a spa, and limousine service.



Soviet General Marshall Jukow's Statue

Khoroo 9 is located north of Khoroo 10 and encompasses ger areas. Khoroo 10 is known as 100 ail or 100 families, and is famous for the many different organizations selling construction materials. Khoroo 11 is probably the biggest, yet least densely populated, khoroo in Bayanzurkh and stretches towards the Bogd Khan mountain. It also includes the Sky Resort skiing and recreational area. Khoroo 12 is located between Khoroo 8 and 26 and consists entirely of gers. Khoroo 13 stretches towards Peace Avenue. The Sunjin Grand Hotel and Mongolia International University are located in this area, as well as the Roman Catholic Cathedral.

The heart of Bayanzurkh remains the infamous Naran Tuul, or Black Market, located in the south west of the city in Khoroo 14. It was originally named in the late 1980s, when with the gradual move away from Communism, it was one of the first exchanges for free

The heart of Bayanzurkh remains the infamous Naran Tuul, or Black Market

3.4 BAYANZURKH DISTRICT

market goods. Today, though Ulaanbaatar has multiple outlets, it remains an important budget retail center. The warmer summer months see up to 60,000 visitors a day flock to the site in order to purchase everything from saddles to furniture.

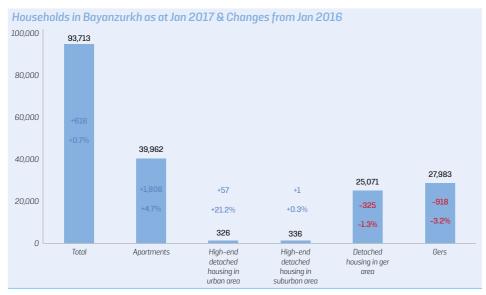
Khoroo 15 borders the Wrestling Palace, while Khoroo 16 is home to the Ministry of Defence and Military University of Mongolia. Khoroos 17, 18, 19, 20, 21, 22, 23, 24, 27 & 28 are all covered by ger areas. The biggest developments in this district have happened in Khoroo 25, as it faces the Narnii Road, Manlai Damdinbaatar Street, as well as the Selbe River. Khoroo 26 is becoming an increasingly popular destination for new developments, due to the National Park, which is supposedly the largest national park in Asia, encompassing 1.3 square kilometres of land.



National Park

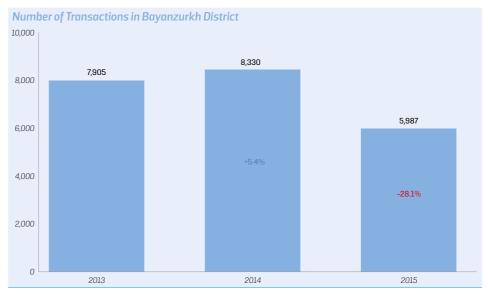
3.4.2 BAYANZURKH DISTRICT RESIDENTIAL DEMAND

The population in Bayanzurkh is large and growing rapidly. The district currently has 93,713 families, an increase of 0.7% when compared with 2016 figures. 14 Despite its high population, only a small number of expatriates reside here — a figure significantly less than those in Sukhbaatar or Khan–Uul. The number of households living in the ger area decreased in Bayanzurkh district in 2017 by around 2.3%. 15



Source: Statistics Department of Ulaanbaatar

As elsewhere, 2016 figures for total transactions are yet to be released. Considering 2015, however, it recorded 5,987 transactions, a decrease of around 28% compared with 2014. Bayanzurkh district comprised 36.6% of total transactions in Ulaanbaatar in 2015, which also means around 24% of the total apartments of Bayanzurkh district traded. Due to the abundance of land, the district added the greatest number of units. The district is one of the most desirable locations for the middle class after Sukhbaatar and Chingeltei, and most of the newly commissioned apartments fit the 8% mortgage criteria.



Source: State Registration Office

3.4.3 BAYANZURKH DISTRICT RESIDENTIAL SUPPLY

The majority of Bayanzurkh residential units take the form of older stock, built up to sixty years ago in order to fulfill residential quotas set out by the country's centrally planned government. Most of these tall, high-rise structures have done a poor job of hiding their age. Coated at one point in white paint, the broken balcony windows of many apartments have now simply been replaced by wire mesh in order to keep intruders out. The simplistic utilitarian architecture alludes to Marxist beginnings; many of the towers that line UNESCO Road are famed for the linear red murals painted up their sides, which were intended to be symbolic of Mongolia's collectivized prosperity.

These older residential units are quickly becoming unusable, as poor maintenance and a lack of care have brought many structures beyond the point of feasible repair. Yet strong property rights combined with a collective action problem seem to be condemning many structures to semi-permanent obsolescence; the structures may exist, but any estimates of housing stock needs to be adjusted to consider depreciation that results in the district's older buildings having become virtually uninhabitable.

Between these older structures are a number of newer buildings finished within the last two decades. Generally regarded as far more efficient than their aged neighbors, units tend to feature open kitchens, smaller rooms, and thinner hallways. The structures

The majority of Bayanzurkh residential units take the form of older stock, built up to sixty years ago in order to fulfill residential quotas

15 Ibid

16 Ibid

17 Ibid

¹⁴ Statistics Department of Ulaanbaatar (2017)

clearly benefit from the free market's cost minimization incentive. Although some have been constructed to a high quality, this is by no means universal, with some complexes seriously lacking both structural integrity and quality of finish.

		Bayanz	zurkh Di	strict P	rime	Residential Suppl	у		
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*	Average Rental Price / m2 per month*	Yield %
1	ASEM Village	MCS Property	53	2016	11	Khurkhree Valley	\$5,578	N/A	N/A
2	Emerald Residence	Besta Construction	450	2014	26	Hunnu Street	\$1,855	\$8.35	5.4%
3	Encanto Town	Camder	532	2015	26	Ikh Mongol State Street	\$1,253	\$9.38	9.0%
4	Naran Place	Naran Group	120	2016	6	Manlai Baatar Damdinsuren Street, east of Selbe River	\$1,467	N/A	N/A
5	Parkside Residence	Delta Construction	254	2016	26	National Park, immediately after	\$1,231	\$7.88	7.7%
6	Royal Castle	Seoul Group	680	2005	1	Beijing Street	\$1,293	\$7.29	6.8%
7	Sunshine Village	Base Infrastructure	320	2015	26	Ikh Khuree Street, northwest of the National Park	\$1,274	\$8.20	7.7%
8	True L	llson Construction	380	2015	26	Ikh Mongol State Street 716	\$1,271	\$7.73	7.3%
		Total	2,789			\$7.63	6.8%	\$16.26	6.67%

Source: Mongolian Properties

*Assumed exchange rate is 1US\$=2,400MN₹ and rental price is exclusive of utility fee



4. Naran Place

5. Parkside Residence

6. Royal Castle



ASEM Village was completed in 2016 during the Asia Europe Summit, where around fifty heads of state from Europe and Asia visited Mongolia. The development is located next to the Sky Resort by the Khurkhree Valley and represents an excellent addition to the Bayanzurkh District. Due to its high quality interior and exterior design, the development commands the highest prices not just in Bayanzurkh, but in the entire city.

Bayanzurkh is increasingly seeing its abundance of space used to house large residential developments encompassing hundreds of homes. Emerald Residence, Encanto Town, Parkside Residence, Royal Castle and Sunshine Village are all prime examples of this. Emerald Residence, benefits from a location opposite the Narantuul Market, and is also within short walking distance of Ulaanbaatar's newly established, National Park. Supposedly the largest national park in Asia set over 130 hectares, it is testament to the amount of unused space around the district.

Encanto Town is one of the most popular developments in Bayanzurkh, bordering Khan-Uul district, along the Ikh Mongol State Street. The development incorporates a sports complex and its hotel and office towers are expected to complete in 2018. Naran Place is the newest addition to the district, and is located by UNESCO Street. The development includes a shopping mall, as well as restaurants, such as the Hard Rock Cafe. Parkside Residence and Sunshine Village are also located by the National Park and are some of the newest additions to the city.

Bayanzurkh's Royal Castle development takes this concept to a more affluent section of Mongolian society. Developed by the Seoul Group, the complex's spacious units combined with the developer's reputation for quality has, for a long time, helped attract wealthy Mongolian clients to the buildings. With each unit coming equipped with two bathrooms, large windows, access to a playground, and protection by a 24-hour security quard, the development shares many characteristics with areas such as the prosperous Stadium and Embassy Districts, as well as Zaisan. Just 1.2 km away from Sukhbaatar Square, the development is distinct from its competitors by virtue of its proximity to the popular Seoul Business Center. This has allowed workers with sizable housing allowances, such as those in Oyu Tolqoi, to live practically next to their offices and avoid the majority of the city's traffic. However, as new office space has come online in Sukhbaatar Square, many companies have begun to move further towards the center, reducing the competitive advantage of the business center and Royal Castle alike. The Oyu Tolgoi head office, for example, migrated to Monnis Tower in 2009.

Although aggregation is difficult in a district as large as Bayanzurkh, APIP believes the momentum that has propelled prices over the past decade could stumble over the short term as a glut of sizable developments come online. These sites tend to have been situated on large, but still reasonably central plots of land, that have laid empty as Ulaanbaatar developed.

7. Sunshine Village 8. True L

3.4.4 BAYANZURKH DISTRICT RESIDENTIAL FUTURE **SUPPLY**

The construction industry is thriving, however, across all asset classes in Bayanzurkh, mainly around the National Park area. Strong population inflows are likely to be offset by substantial supply coming online in the coming years.

		Bayanzurkh Distric	t Prime	Resident	ial Fut	ure Supply	
No	Property Name	Developer	Number of Units	Year of Completion	Khoroo	Khoroolol / Street / Locality	Average Sales Price / m2*
1	East Square Residence	Master Engineering	108	2017	14	Nam Yanju Street, west of "Khaldvart" Hospital	\$1,292
2	High Apart	Orchlon Construction	204	2017	6	Next to Bayanzurkh shopping center	\$1,646
3	Morning Star Residences	Wellspring Capital	315	2017	14	Nam Yanju Street, west of "Khaldvart" Hospital	\$1,250
4	Residence 60	Zaisan Steppes	64	2018	4	Ikh Toiruu Road, East of Kempinski Khaan Palace Hotel	\$1,667
		Total	691			Weighted Average	\$1,412

Source: Mongolian Properties *Assumed US\$ MN₹ exchange rate is 2,400



1. East Sauare Residence



4. Residence 60

3.4.5 BAYANZURKH DISTRICT PERFORMANCE

Over the past year, Bayanzurkh has performed similarly to the overall city index, tracking it fairly closely until the last recorded month. The district is the third best performing area after Sukhbaatar and Khan-Uul in Ulaanbaatar, with average sales prices of US\$818 per square meter. The average price is lower than these two districts, due to the fact the majority of developments in Bayanzurkh are low cost or middle class housing.



Source: Mongolian Properties & Tenkhleg Zuuch

Rental prices in Bayanzurkh tend to be lower than other comparable districts. This is likely the result of a large proportion of the district's defining Soviet structures being owned outright by families who were permitted to buy their homes in the 1990s. Such space therefore tends to be utilized by owners themselves as opposed to being available for rent, suggesting the majority of supply comes from the district's newer developments, which are often bought by landlords with the intention to let. Though the district's is close to the city center, the pollution and surrounding ger districts are one of the major factors for lower rental prices, as well as the majority of the developments catering to a less wealthy demographic.

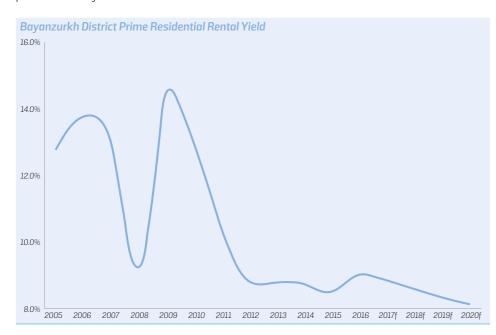


index, tracking it fairly closely until the

Over the past year, Bayanzurkh has performed similarly to the overall city

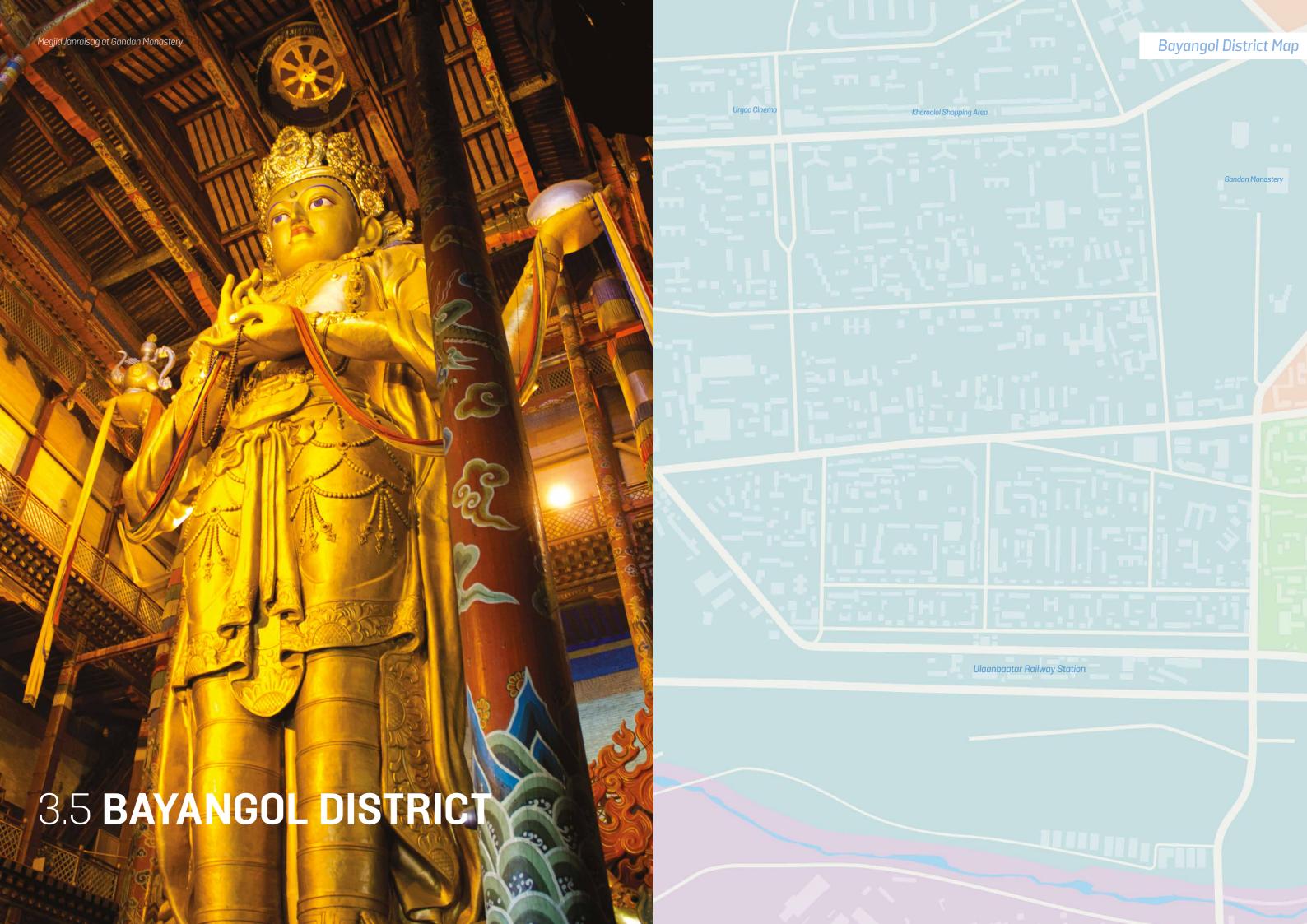
Source: Mongolian Properties & Tenkhleg Zuuch

This clearly creates an environment of uncertainty for investors. Purchase prices look relatively unstable across the market, whilst the district's mix of new/old properties looks set to increase rental rates within a tight confidence interval. Bayanzurkh is a diverse district with a vast number of properties, which could affect the results through sampling error. Even if the model is correct, the district's wide range of structures suggests any potential investor must be prepared to commit considerable time to understanding the exact area they are hoping to invest in. Although APIP's zoning captures broad trends, much upside may be possible at a micro level but can only be identified through thorough due diligence. Due to the strong price performance in Bayanzurkh, the district is not the most desirable rental destination. Hence the yield has been not been as high as in other parts of the city.



Source: Mongolian Properties & Tenkhleg Zuuch





3.5 BAYANGOL DISTRICT

EXECUTIVE SUMMARY

Bayangol is well situated close to the center of Ulaanbaatar, and has good links to the city's heating network. Yet the district has not been exposed to the levels of development that have transformed Sukhbaatar and Chingeltei. However, as locating new space in central Ulaanbaatar becomes increasingly difficult, a number of governmental policies look set to shake up Bayangol's land market, increasing liquidity and making widespread development possible. Bayangol is a relatively risky investment, with momentum supported by a number of variables that in reality could have only a marginal impact. Yet the upside potential is substantial; investors who buy cheap now could well end up owning prime assets in what may become the retail heart of Ulaanbaatar.

Investors who buy cheap now could well end up owning prime assets in what may become the retail heart of Ulaanbaatar

3.5.1 BAYANGOL DISTRICT OVERVIEW

Bayangol is one of Ulaanbaatar's smallest districts, covering an area of just 24 square kilometres in size. To the west of the central business district, yet bordering both Sukhbaatar and Chingeltei, the residents of Bayangol appear to be beginning to share in the prosperity that has already reshaped the city's more central locales.

Bayangol's main landmark is the Ulaanbaatar Central Railway Station. Khoroo 1, 2, 3 and 4 all surround the railway station. This area is also known as Khoroolol 2 and is connected to Peace Avenue and borders Chingeltei and Sukhbaatar districts. Khoroo 5 and 6 are also along Peace Avenue, and the neighborhood is known as Khoroolol 10. Almost 50% of the modern housing stock is located in those six khoroos out of 23. This area is also known for its dense population.



Ulaanbaatar Railway Station

Bayangol is famous for its shopping streets. The impact of this commercial momentum is embodied by the Grand Plaza along Peace Avenue, which was opened in 2008 by one of the largest construction companies in Mongolia, the Jiguur Grand Group. The complex is a prime example of Grade B space within Ulaanbaatar. Having initially faced high vacancy rates, around 90% of the space has been occupied since 2012, according to APIP estimates.

Further up along the Ard Ayush Avenue lies Khoroo 7, 8 & 9, also known as Khoroolol 3 and 4 or just simply Khoroolol by locals. Clustered around the district's main roads are a multitude of small retail outfits in 'mom 'n pop' style shops. Despite being predominantly owned by Mongolian nationals, international brands appear increasingly interested in establishing themselves in this growing area; Adidas, Mango and the United Colors of Benetton have established operations in the area.



Khoroolol Shopping Area

Further down Ard Ayush Avenue, you can find Urgoo Cinema, also one of the landmarks of the district. Khoroos 12, 13, 14 and 15 are a continuation of Khoroolol 3 & 4, and all surround Urgoo Cinema.



Urgoo Cinema

The heart of Bayangol remains the Gandan Monastery and the surrounding area in Khoroo 16. Completed in 1738, the Monastery was designed as a residence for the second Jebtsundamba, Mongolia's highest reincarnated lama. After centuries of fulfilling its role as the principal center of Buddhist learning in Mongolia, the monastery was closed in 1938 as part the Stalin-influenced religious purges led by MPRP Chairman Khorloogiin Choibalsan. Despite the MPRP's religious intolerance, the institution was permitted to reopen in 1944 to function with a skeletal staff as a political gesture designed to appease a predominantly Buddhist population proud of Mongolia's traditional culture and religion.

a predominantly Buddhist population proud of Mongolia's traditional culture and religion.



Gandan Monastery

The area directly surrounding Gandan is one of the oldest ger settlements in Ulaanbaatar housing 1,645 families in this centrally located area. ¹⁸ Although little has changed to the arrangement of land plots in this densely populated landscape, the nature of the structures occupying them has altered significantly. The majority of families now reside in semi-permanent buildings, erected and adapted by their individual owners over many years. Despite their often un-professional finish, most residencies find themselves well connected to the city's infrastructure, with sites situated directly over the link between the CHP – 2 and CHP-4 power plants and Ulaanbaatar's downtown. In addition to being on top of this unusually high-pressure zone of the city's decrepit heating network, the majority of households have running water and even telephone connections, materially benefiting from their proximity to the city's urbanized core.

The area directly surrounding Gandan

is one of the oldest ger settlements in

The south side of Gandan houses Urguu's Max Mall, which opened for business in early 2011 and is situated in Khoroo 17, also known as Modnii 2 by locals. Although the five floors of A/B space have always boasted reasonably high occupancy, both Max Mall and the Jiguur Grand have struggled to attract anchor tenants in the form of high-profile international brands that they had initially hoped. Instead, both complexes lease the larger portions of their space to high-end local outlets, whilst smaller booths are let to family operations. Two towers constructed above the Max Mall have proven slightly more successful; one is notable given its long term lease to Ulaanbaatar's Ramada Hotel, which will help pull affluent visitors away from the CBD and towards this up-and-coming area. Modnii 2 is also one of the most centrally located areas of this district. The Khoroo 18 & 19 area continues towards Ard Ayush Avenue, also part of the Khoroolol 3 & 4, and is considered one of the most desirable areas of Bayangol District. Khoroo 20 is the furthest down towards Songinokhairkhan district, also known as Tavan Shar by the locals. The largest khoroo of all 23, it comprises half of district area over twelve square kilometres.

Most of the families living in gers, reside in Khoroos 9, 10, 11, 21, 22 & 23. The ger districts within Bayangol are some of the oldest and most affluent in the city, with most owners' cash holdings substantial enough to allow them to put down an apartment deposit, if not buy a property outright. Based on data gathered by the World Bank from Bayangol's Khoroo 11, it is estimated the net worth of each ger family unit is in excess of US\$32,600.19 With the district's newer low-end housing stock selling for just over US\$30,500, whilst older stock remains slightly cheaper at US\$26,000, it is clear even marginal improvements to mortgage penetration and availability should have a substantial impact upon demand.²⁰ This momentum should help support valuations across the district, feeding into the wider price level as the opportunity cost of land is increased.

3.5.2 BAYANGOL DISTRICT RESIDENTIAL DEMAND

As at January 2017, there were 58,241 families living in Bayangol District, which most of them residing in modern housing in 17 khoroos out of 23.21 The rest of the families live in ger area or in detached dwellings amidst tented accommodation, amounting to only 11,993 families – the lowest ratio compared with other districts.²² The number of households living in the ger area decreased in Bayangol district in 2017, by around 3.1%.²³ This was one of the most substantial reductions in Ulaanbaatar's principal areas.



Source: Statistics Department of Ulaanbaatar

Statistics are not as yet available for 2016, however, the district recorded a total of 3,026 transactions in 2015, representing a decline of 19.4% compared with 2014.²⁴ The Bayangol district comprised 18.5% of total transactions in Ulaanbaatar in 2015 (8.7% of the total apartments in Bayangol district have been traded in 2014).²⁵ It is one of the biggest districts in Ulaanbaatar in terms of the number of apartments, and many of these fit the 8% mortgage criteria.²⁶ Bayangol is also notable for being one of the most liquid areas of the city, in common with Bayanzurkh and Khan-Uul.

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19 World Bank (2017)
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24 Ibid

25 Ibid

26 Ibid

At January 2017, there were 58,241

18 National Statistics Office of Mongolia (2017)

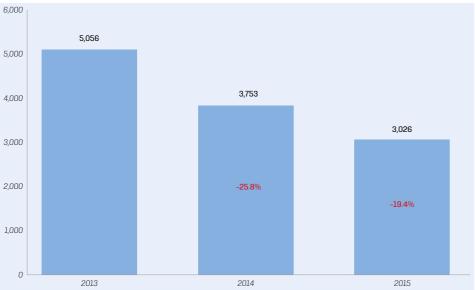
²¹ Statistics Department of Ulaanbaatar (2017)

²² Ibid

²³ Ibid

3.5 BAYANGOL DISTRICT

Number of Transactions in Bayangol District



Source: State Registration Office

3.5.3 BAYANGOL DISTRICT RESIDENTIAL SUPPLY

The newly added residential supply in this district has been mostly lower-end. Additionally, the surroundings have not managed to attract major developers to build high quality apartments. The Bayangol district is seeing the biggest addition in terms of residential units, after Bayanzurkh & Khan-Uul, despite being the smallest. The supplyside momentum looks to continue into the medium term. The district contains one of Ulaanbaatar's best-known ger districts in one of the most desirable locations. Therefore it is unsurprising the majority of developments are low-cost, low-quality local operations. As government initiatives to redevelop the area begin to take effect, it is likely additional opportunities will open up for higher end developers, who can use the shake up of previously un-negotiable plots of ger land to position potentially lucrative developments. Although this will likely see supply expand across the quality spectrum, this may have a positive effect upon the district's asset prices. Bayangol has long lacked the development that has transformed its eastern neighbors, due to a completely illiquid market for land. If increased land right flexibility frees up space for larger developments by companies unable to find financially viable opportunities in the central business district, it could well accelerate the retail industry that is quickly becoming Bayangol's economic base.

The majority of this residential space is made up of older Soviet structures erected in the 1970s. In the aftermath of Chairman Brezhnev's visit to Ulaanbaatar in 1974, significant resources were pledged by the Soviet Union to help develop the city in exchange for the MPRP's permission to allow Soviet troops to be stationed at the Sino–Mongolian border. This development took the form of stereotypically Soviet structures, consisting of highrise concrete tower blocks, constructed according to utilitarian designs using precast materials.

These developments, which were constructed well into the 1980s share many features with the well–known 40,000 and 50,000 Homes in the Chingeltei and Sukhbaatar districts. Laid out around traditional courtyards, these 9–12 storey buildings represent one of the largest stocks of housing within the city. Although many of these buildings

have lacked coordinated efforts to maintain communal areas and structural façades, the majority of apartments are decorated and furnished to a reasonably high standard. However, there is no prime residential supply observed yet in this district, due to its distant location from the city center and its proximity to the ger district.

3.5.4 BAYANGOL DISTRICT FUTURE SUPPLY

Bayangol is one of the most densely populated districts in Ulaanbaatar and the ratio of families living in modern apartments versus ger area surpases other districts. Due to this, as well as the location of this district, there are no new prime residential developments online. The likelihood of prime residential supply in this district coming forward is relatively limited since developers are currently focused on the other end of the market.

3.5.5 BAYANGOL DISTRICT PERFORMANCE

Bayangol has been one of the best performing districts in Ulaanbaatar over the past year. Its popularity among low – income communities has seen its prices shoot up as a direct result of the recent mortgage policy. After a sluggish start to 2013, prices accelerated past that of the city average reaching US\$1,329 per square meter. The price decreased slowly since then and is now down to US\$814, due to government mortgage credit causing softness in pricing, as well as massive additions in the housing stocks. Although prices have clearly softened somewhat since their peak levels in 2013, Bayangol has exhibited more resilience than other districts.



Source: Mongolian Properties & Tenkhleg Zuuch

Bayangol's rental prices have also declined from their peak in 2013 at US\$11.5 per square meter per month, now down to US\$6.1. The sales and rental price is projected to increase slowly over the course of this year, as the economy begins to recover from its protracted difficulties.

Newly added residential supply in thi district has been mostly lower-en

256



Source: Mongolian Properties & Tenkhleg Zuuch

Bayangol remains a key growth district for Ulaanbaatar. Much of this is dependent upon the successful expansion of the district's retail economic base; shifts in the preferences of either developers or consumers could have a significant detrimental effect. This is a similar dynamic to that seen in Bayanzurkh. The supply of rental space is limited as most families have owned the district's older properties since privatization, not as an income source, but as a home. Broad demographics spilling over from the central business district will likely support this appreciation until a more stable market equilibrium is achieved.



Source: Mongolian Properties & Tenkhleg Zuuch

The rental yield in this district was around 9.0% in 2016. The rental yield is expected to continue downwards in the short and medium term, as the district is not most favorite location for expats or prominent Mongolians.

Yield compression is forecast to continue in Bayangol



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3.6 SONGINOKHAIRKHAN DISTRICT

Typical Soviet Communal Apartments in Songinokhairkhan District 3.6 SONGINOKHAIRKHAN

Songinokhairkhan is not an obvious candidate for real estate investment, as potential profits appear low

EXECUTIVE SUMMARY

Songinokhairkhan is where much of Ulaanbaatar's industrial activity is based. Prices have appreciated over the last few years, but by comparatively less than the other five districts in this report. For Mongolian Properties, its relatively peripheral location means it is not an obvious candidate for real estate investment, as potential profits appear low. The market is not yet developed enough to have fundamentals to allow investors to make informed decisions, whilst the district's upside potential is much lower than Ulaanbaatar's more central opportunities.

3.6.1 SONGINOKHAIRKHAN DISTRICT OVERVIEW

At 1,200 square kilometre in size, Songinokhairkhan is almost the same size as the biggest district in Ulaanbaatar, Bayanzurkh. Situated to the northwest of the city, towards the base of the Songinokhairkhan Mountain, the area represents one of the key industrial districts in the city.

To the south of Songinokhairkhan lies the majority of Ulaanbaatar's manufacturing and warehousing facilities, which extend as far as the city's western roundabout. This area contains a small stock of low-density residential units, situated wherever space has allowed. Songinokhairkhan is fairly faithful to the stereotype of inner city ger accommodation. Plots are organized in a nonlinear fashion, and lack many of the basic amenities that are now second nature to the residents of more affluent informal structures in districts such as Bayangol.

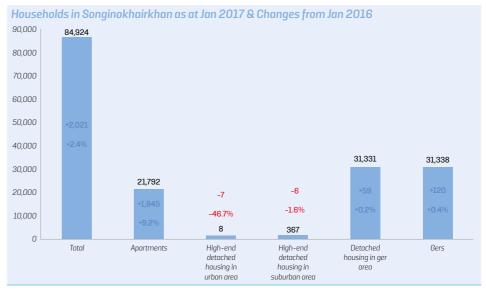


Typical Soviet Communal Apartments in Songinokhairkhan District

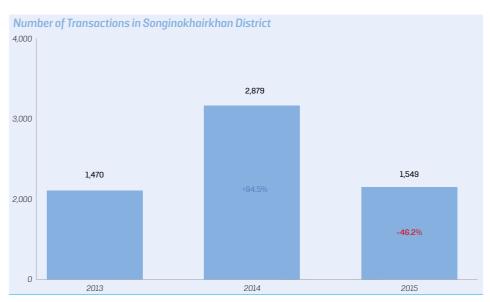
However, change is beginning to come. The upcoming Sodon Standard as well as a few other developments are under construction at the moment, will increase the quantity of modern structures across the district. Although the government housing programs, and the expansion of Mongolia's mortgage market, have impacted demand and been catalysts for increasing prices, we consider these phenomena to be less pronounced than in comparable districts such as Bayangol and Bayangurkh.

3.6.2 SONGINOKHAIRKHAN DISTRICT DEMAND

The district currently houses 84,924 families, with only 26% live in the modern housing.²⁷ Although there is no single determinant, the generally positive demographic trends that have seen the district's population expand over recent years is forecast to be sustained by Ulaanbaatar's increased urbanization rate over the medium term. The number of households living in the ger area stayed relatively the same in Songinokhairkhan district in 2017, and the number of households in the modern apartment increased by 9.2%, which is the second highest of Ulaanbaatar's districts.²⁸



Source: Statistics Department of Ulaanbaatar



Source: State Registration Office

A lack of data for 2016, limits the overall study, however, it is still worth considering the most recent set of statistics. The district recorded total 1,549 transactions in 2015, a decrease of 46.2% compared with 2014, and the greatest drop in volume of transactions

in comparable districts such as Bayangol and Bayanzurkh.

28 Ibid

²⁷ Statistics Department of Ulaanbaatar (2017)

across all districts.²⁹ Songinokhairkhan district comprised 9.6% of all transactions that made in Ulaanbaatar in 2015, which also means 13.8% of apartments traded in 2014.30

3.6.3 SONGINOKHAIRKHAN DISTRICT RESIDENTIAL SUPPLY

At present, there are no scheduled prime residential projects in this district – in part owing to its distance from the city center. Notwithstanding, there has been significant delivery of schemes, but it has been focused on the affordable segment of the market, with prices of around US\$500 to US\$1,000 per square meter.

3.6.4 SONGINOKHAIRKHAN DISTRICT RESIDENTIAL **FUTURE SUPPLY**

Although Songinokhairkhan is the one of Ulaanbaatar's largest districts in terms of land, there are no known prime residential projects billed for delivery in the coming years. The abundance of land in this area offers great potential for future developments, however, demand is largely for low to middle income properties, rather than high-end schemes with significant amenities.

3.6.5 SONGINOKHAIRKHAN DISTRICT PERFORMANCE

Residential sales prices in Songinokhairkhan are still relatively low, with space currently selling for approximately \$627 per square meter, making it the cheapest in Ulaanbaatar.



Source: Mongolian Properties & Tenkhleg Zuuch

Although this is from the exceptionally low base of \$420 per square meter in 2005, this remains the lowest percentage increase of any district in the city, suggesting Mongolia's

economic prosperity has been slow to filter through to this border town. According to APIP's analysis, the price peaked during 2013 at US\$1,037 and has been decreasing since then.

Over the past year, the district has performed broadly in line with the citywide trend. District prices duly responded to the oversupply of the newly added apartments and overall slowdown in FDI and even the mortgage program did not help increase the price. This owed at least in part to inflation significantly outpacing capital appreciation.

This dynamic is captured by the fact the smallest number of foreigners currently reside in the district compared to the other five districts covered in this report. Indeed, the plentiful land seems only of interest to the industrial sector. Despite the prevalence of ger-style accommodation, the developments in this districts are almost exclusively low-cost and low – quality structures.



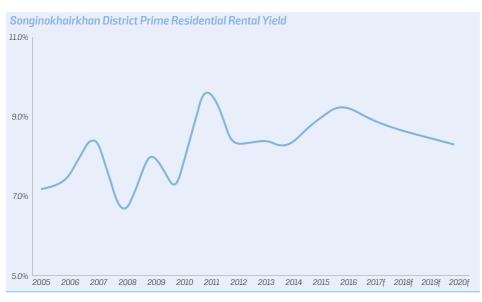
Source: Mongolian Properties & Tenkhleg Zuuch

According to our estimates, the average rental price in this district is around US\$4.8 per square meter per month, decreasing since 2013 from US\$7.2. The price movement is in line with the slower demand in Ulaanbaatar overall, due to the increased supply in this district, as well as most additional supply being on the low-end side, dragging the average price further down.

30 Ibid

²⁹ Ibid

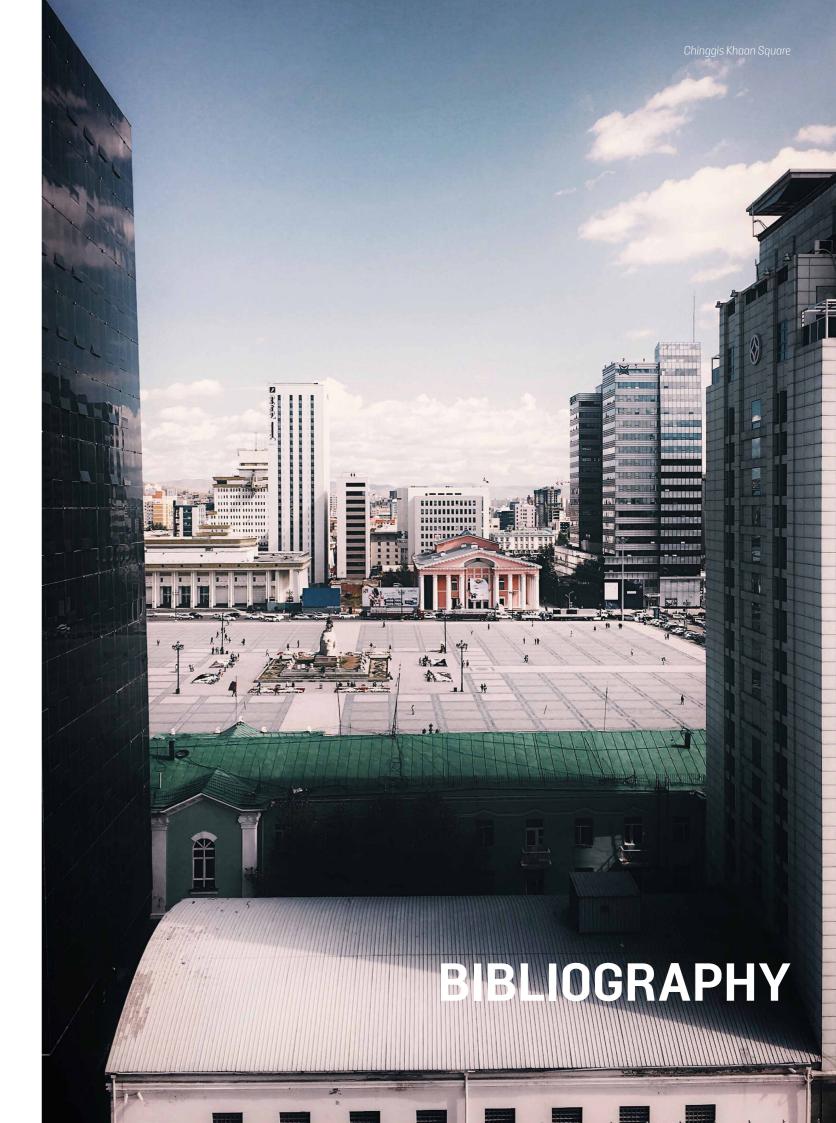
3.6 SONGINOKHAIRKHAN



Source: Mongolian Properties & Tenkhleg Zuuch

Rental yields have stayed in the 7-9% bracket, with little prospect of meaningful change or volatility

The rental yield in this district has been relatively stagnant since 2005, ranging between 7% and 9%. The sales and rental price have moved quite a bit during these years, however, the district does not generally attract high-income renters. The rental yield stayed stagnant over the course of these years and it is forecasted to stay that way, declining in the long term.



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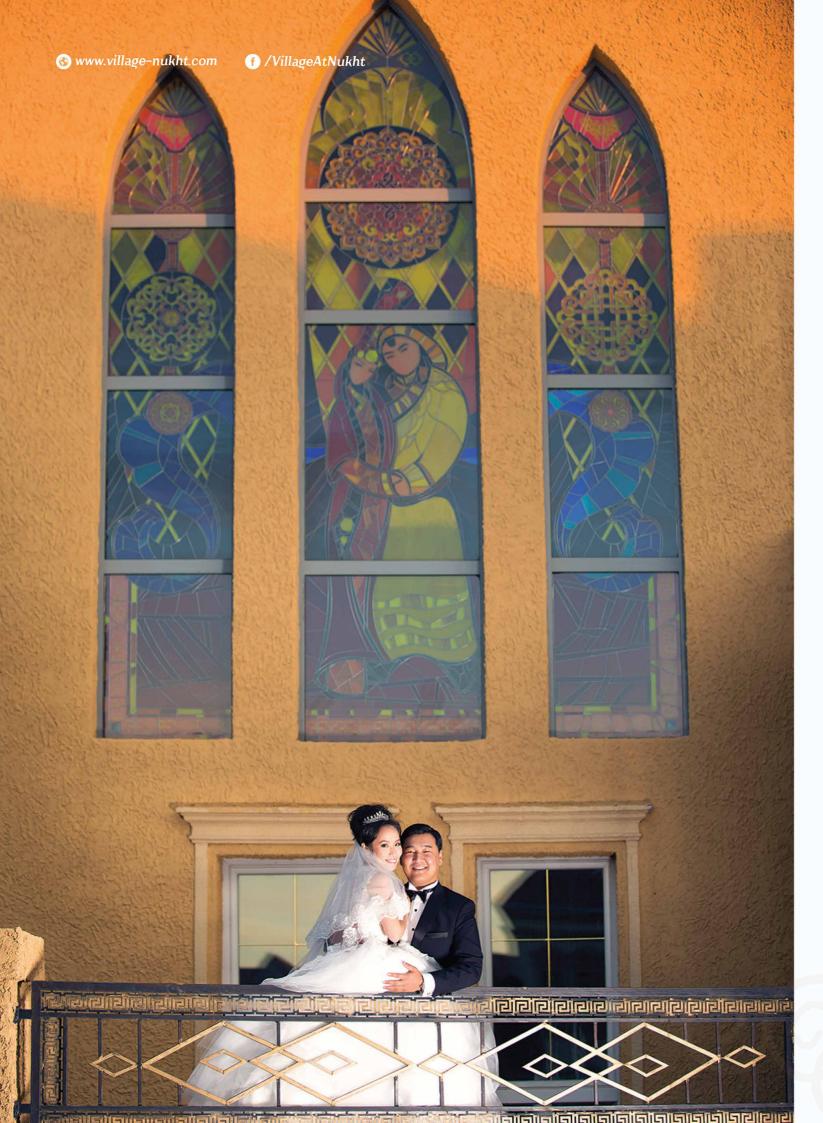
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Begin your ceremony with a champagne reception outside in The Garden, surrounded by the beautiful mountains of Nukht. Say your wedding vows and have your wedding photography on the beautiful balcony facing all your wedding guests. Continue the ceremony with a dinner inside the Wedding Hall (or outside in The Garden, too!) where 3–6 course meals of your choosing will be served to you and your wedding guests. Complete the evening with fireworks, music, and other entertainment.

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- The Small Wedding Hall for a cocktail reception for 250 or a banquet for 150
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Call SOSORBARAM Munkhtur 9906 9639 for



NORTH SPRING CAPITAL BLUE

NSCB BUILDING

The North Spring Capital Blue (NSCB) is a MIXED-USE urban development with fully furnished office spaces and 32 high-end serviced apartments. It is only 10 minutes walking distance away from the Sukhbaatar Square and CBD of the city. It would be one-stop place for your work and home all in one building!

NSCB is run by the Singaporean company, therefore, is always welcome to encounter, not only Singaporean businesses, but also other businesses as well.

BUILDING OVERVIEW

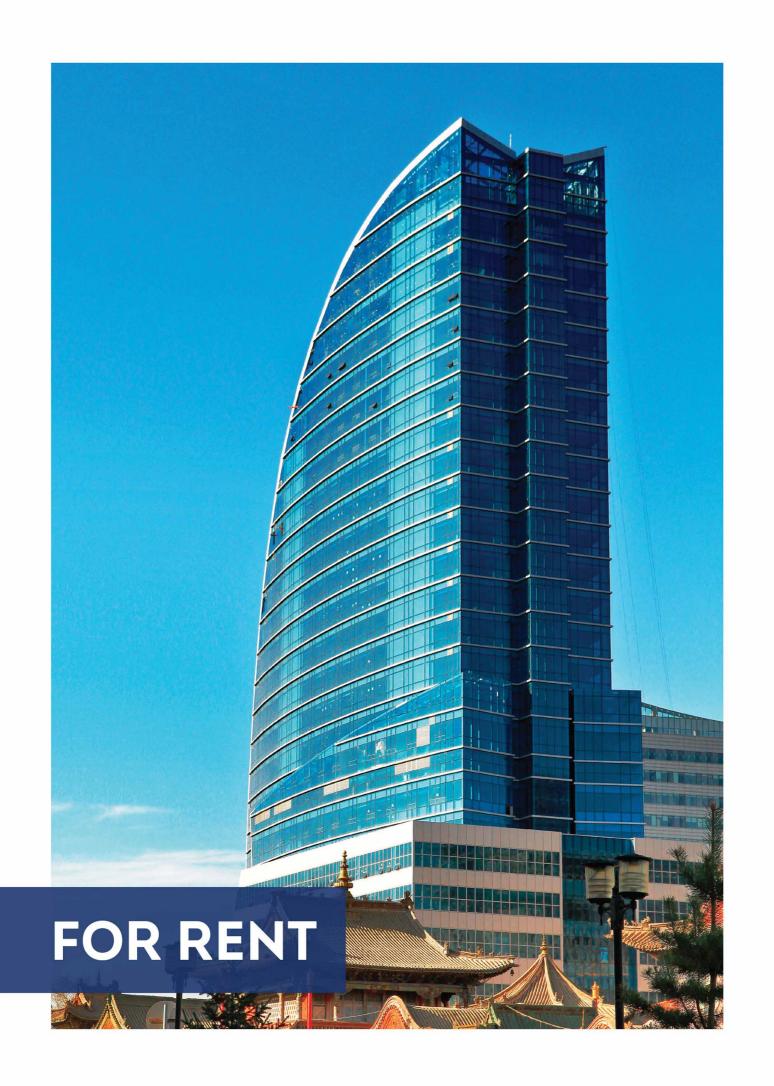
- · Location: Narnii Zam (Sun Road)
- Totally 1281 sqm land, 7800 sqm , 14 floor building included basement.
- · First floor Commercial space
- Office: NSCB has fully furnished 7 floors of prime office spaces from 1-6th floors and also on the 11th floor. Sizes ranges are from 120-1,600 sqm. We also have separate fully furnished board meeting and conference rooms ranging from 10-20sqm.
- Serviced apartments: NSCB has 32 one and two bedrooms fully furnished and serviced apartments from 7-10th floors. Sizes range 50-75m2. Available for short and long term rent.
- Shared areas: Basement 1 canteen and kitchen area (318m2)
- · Ground parking spaces: Available for rent

SPECIFICS

- · Emergency diesel generator installed caters for continuous business operation
- · 24/7 security guards & CCTV surveillance cameras installed throughout the building
- · Gym facilities
- · Entertainment lounge, karaoke
- · Rooftop alfresco areas with panorama view of Ulaanbaatar
- · Complete network coverage, multiple wall and floor mounted power, internet and telephone outlets
- · Temperature adjustable interior space heating and cooling
- Fully automatic smoke detection, fire alarm system
- · Dedicated lobby area with 2 passenger lifts
- · Reliable hot & cold water supply
- · Easily accessible by main road
- Fully air-conditioned
- Data center room

Address

Narnii (Sun) Road 87, 1st Khoroo, 13th Micro district, Sukhbaatar District Mobile: (+976) 9908 9950, 9907 6880, E-mail: info@mongolianproperties.com











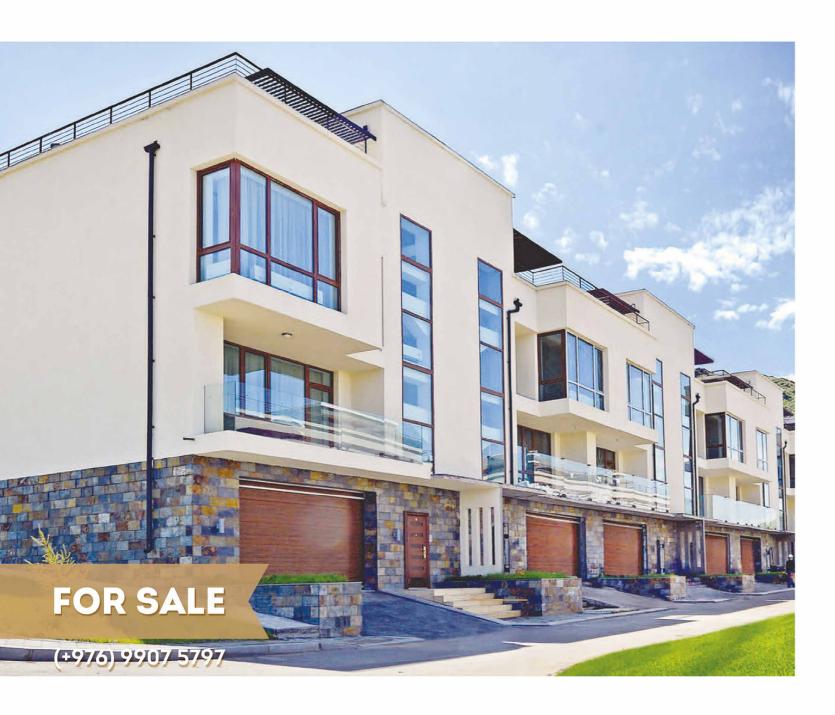


Office space: 4F - 134 sqm, 5F - 212.9 sqm, 6F - 1,381.2 sqm, 7F - 85.5-260 sqm Commercial space: 9-205 sqm

The Blue Sky Tower is a destination that combines a luxury hotel, prime office and residential units on top of a superb collection of exclusive amenities.

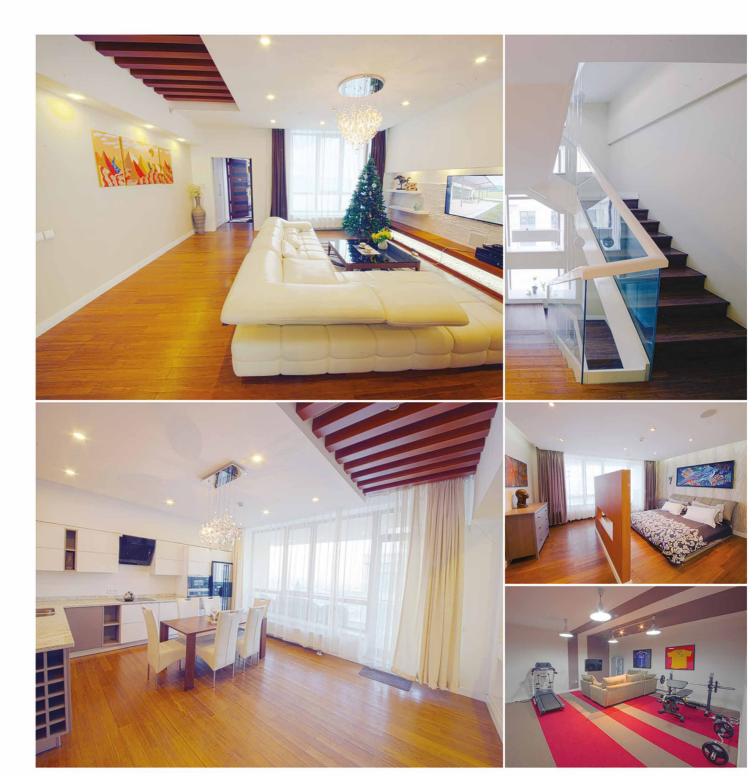
BULGAN Otgonbayar (+976) 9906 1667 bulgan@mongolianproperties.com





Khiimori townhouse provides beautiful green vistas and healthy appreciation of a luxurious comfortable lifestyle. It is the perfect location for a breathtaking view of the city. You may experience beautiful nature and fresh air in short distance from the downtown Ulaanbaatar.

Relaxation, comfort and convenience are all available at Khiimori townhouse.



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- · Short distance within city (5.5 km)
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ULAANBAATAR







HIGHLIGHTS:

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- Basement Car Parking
- Earthquake Resistant Buildings
- **RESIDENCES:**
- Studio, 1 Bedroom to 4 Bedrooms

- Shopping, Dining and Entertainment Experience in Shangri-La Hotel and Mall
- Direct Indoor Access to Shangri-La Sports Club
- 24/7 Security and Property Management Service

• Exclusive Reading Room for Residents

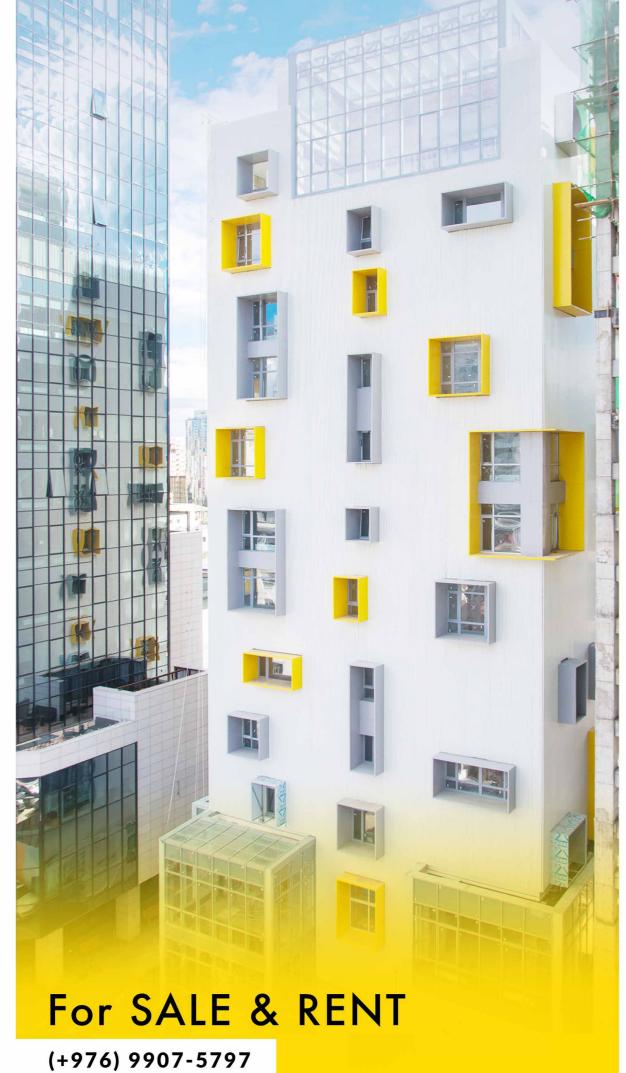
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CHOIJIN SUITES OVERVIEW

Located in Central Business District

2 minute walk to Sukhbaatar Square

Total 12 floors

25 Residential and serviced apartments on 3-12 floors

5 offices on 2nd floor

3 retail and service spaces on 1st floor

16 indoor parking spots

24/7 security, concierge, housekeeping services

SERVICED APARTMENTS

 86.7sqm
 132.8sqm
 108.5sqm
 155.0sqm
 341.0sqm

 1 BEDROOM
 2 BEDROOM
 2 BEDROOM
 2 BEDROOM
 PENTHOUSE





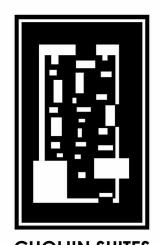
OFFICE

RETAIL/SERVICE

40sqm 56sqm 78sqm 87sqm 105sqm 37sqm 100sqm 103sqm







CHOIJIN SUITES
22 JAMYAN GUN ROAD
— ULAANBAATAR —















- 100m from Sukhbaatar square
- Free layout designs of your choice
- Exclusive neighborhood opportunity
- Luxury restaurant, lounge & coffee shop

AVAILABLE OFFICE SPACES: 70sqm - 670sqm

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- batzul@apipcorp.com



Манай компани нь

шилдэг технологи

шилдэг бүтээгдэхүүн

2007 оноос Интерьер дизайны чиглэлээр үйл ажиллагаагаа явуулж эхэлсэн.

бидний захиалагч Энэ хугацаанд үйлчлүүлэгчдэд маань цаг зохицохуйц, чанартай ухаалаг тансаг хаалга ямагт дутагдаж байдгийг бид анзаарч харсан

Иймээс бид хэрэглэгчдэдээ барилгын чанартай бүтээгдэхүүнийг нэг дороос хүргэх зорилгоор барилга угсралт, интерьер зураг төсөл гүйцэтгэл, тавилга үйлдвэрлэл, хаалга үйлдвэрлэл гэх чиглэлээр салбар нэгжүүдийг үүсгэн ажиллах болсон.

Одоогийн байдлаар Монголдоо анх удаа ухаалаг эвхэгддэг болон гүйдэг, талст мэт гялгар гадаргуу бүхий хаалга, өнгөлөг зугаатай хүүхдийн хаалга, энгийн хаалгануудаас бүхий л талаараа илүү дулаан хадгалах дуу чимээ бага нэвтрүүлэх зориулалттай хаалга мөн эрхэмсэг тансаг бүхий чамин хаалгануудыг төрөлжүүлэн үйлдвэрлэж байна.

МАНАЙ "ЭВТ-ҮҮД" ХХК НЬ ХААЛГА ҮЙЛДВЭРЛЭЛИЙН ЧИГЛЭЛЭЭР ҮЙЛ АЖИЛЛАГАА ЯВУУЛДАГ БӨГӨӨД 2016 ОНД:

- "Гэрэлтжин" XXК ны орон сууцны барилгад 240 хаалга
- "Товер Констракшн" ХХК МУИС-н багш нарын байранд 240 хаалга
- "Нандин бизнес" ХХК Санто смарт хотхонд 735 ширхэг хаалга
- "Химон" ХХК Саншаян хотхонд 635 ширхэг хаалга
- "Неман Девелопмент" ХХК Лакс хотхонд 97 ширхэг хаалга

Зэрэг барилгын компани болон айл өрхийн нийт 3400 ширхэг хаалгыг чанар стандартын өндөр төвшинд хийж гүйцэтгэн хэрэглэгчдийн гарт хүлээлгэн өгсөн билээ.

Хаалганы төрлүүд:

















52 ажилчин

ҮЙЛДВЭРИЙН БАЙР



1600_{M2}

хүчин чадал



400 иж бүрэн хаалга



ХҮНИЙ БИЕД ХОРГҮЙ МАТЕРИАЛ



3 ЖИЛИЙН БАТАЛГААТ ХУГАЦАА



ТӨЛБӨРИЙН УЯН ХАТАН НӨХЦӨЛ (БАРТЕР)



ЦООЖ УХАЛТ, ХҮРГЭЛТ, СУУЛГАЛТ ЗЭРГИЙГ ХАМАРСАН ЦОГЦ ҮЙЛЧИЛГЭЭ

мишээл экспо

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Хан-Уул дүүрэг 3-р хороо "ДБ" интернешнлийн байр #201 тоот



The Only Cement Producer in Ulaanbaatar

Founded in 2005, the Central Asian Cement LLC - a subsidiary of APIP - is the third largest cement producer in Mongolia. Revenues are generated through the production and sale of cement in Mongolia. The cement production facility is located on a 3-hectare plot of land with a long-

term lease in Ulaanbaatar with 30 employees. The plant is connected to the local power grid and the plant has its own power (transformer) station and a deep well for water supply. Production is expected to reach to 100,000 tons in 2016.







Founded in 2011, Diamond Finance - a subsidiary of APIP - is one of the fastest growing Non-Banking Financial Institution (NBFI) in Mongolia, NBFIs provide loans and currency exchange services to support SMEs and individuals' financial needs.

NBFIs in Mongolia are regulated by the Financial Regulatory Commission and offer loan products to SMEs and individuals at competitive rates, and serve as alternatives to other financial institutions such as banks.







Consumer Loan



Short term Loan

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We deliver quality overseas property investments

Propeterra is a full service real estate advisory and transactions firm focused on the needs of family offices, high net worth individuals, corporations and property investment funds. We can help evaluate high yield, high capital growth investment opportunities through research into emerging markets and "special situations" in developed economies. Led by a highly experienced, international team of real estate experts, we identify actionable intelligence on behalf of our clients.

We pride ourselves on building a strong track record of successful investments for our clients, and we only work with world class developers who meet our rigorous standards for diligence and quality. Passionate in our mission to improve the lives and living standards of people in emerging and frontier countries, we operate at the nexus of demand for funds from emerging economies and the search for higher yielding portfolios from capital providers.

Research Reports

From East to West, we invite you to discover the full horizon of prospects in some of the world's most exciting emerging and frontier real estate markets.

Propeterra's research is proprietary but draws on data from leading international bureaux, and provides quantitative and qualitative conclusions. We are greatly assisted by strategic contacts in select emerging markets, and have specialist knowledge of Myanmar and Mongolia where we have an active presence.

Discover our real estate reports from the following link: www.propeterra.com/explore



WE BUILT & DESIGNED







Park View Residence



Regency Residence



Temple View Residence Office Interior 2016

2009 Temple View Residence





2015 Regency Residence Penthouse Interior

2017 Olympic Residence Showroom Interior











MPC

Mongolian Properties Construction (MPC), a wholly owned subsidiary of the Group, serves as the general contractor for the Group's real estate development projects, subcontracting major specialty services to third parties, such as specialist engineering companies. MPC has a proven track record in the construction business in Mongolia, with approximately 43,631 sqm in GFA of real estate development completed to date across three developments.

Web: www.mongolia-construction.com

WE ARE BUILDING





Olympic Residence

Circus Residence



Now in its sixteenth year, the Mongolian Properties real estate report is the indispensable guide to the property sector in Ulaanbaatar. Covering fundamentals such as history, politics and macroeconomics, it also offers an appraisal of the legal and taxation system, with special consideration given to implications for foreign investors. The report covers the residential, office, retail, hospitality and industrial sectors as well as the key districts of the city: Sukhbaatar, Chingeltei, Khan-Uul, Bayanzurkh, Bayangol and Songinokhairkhan. Interspersed with thought pieces from our research team, it remains the most comprehensive overview of Mongolia's real estate landscape.

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