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The Mongolian
Real Estate Report
2015

Real Estate Market Overview
Ulaanbaatar and its Environment
Comprehensive Supply & Demand Factors
Retail, Residential, Office, Warehousing
Construction Sector Overview & Costs
Second-tier cities - An in-depth Analysis
Upcoming Projects and their Impact
Market Analysis, Risks & Predictions
Property Taxes and their Application
Real Estate Legal Environment
Investment How-to Guides
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TURN-KEY REAL ESTATE SOLUTIONS IN MONGOLIA

The M.A.D. Investment Solutions team is all about making sense of the changes currently taking place in Mongolia as it transitions from a centrally planned economy to a fully fledged market economy in the grips of a mining boom.

M.A.D. Investment Solutions is a boutique real estate investment and research firm based and operating in Ulaanbaatar. We focus on added-value investments on all types of Real Estate asset classes both within Ulaanbaatar as well as in Mongolia's high-growth cities. We provide tailor-made investment solutions for our investors to make the most of this dynamic market.

M.A.D. Investment Solutions provides a range of turn-key real estate services dedicated to accompanying our investors through each step of the investment process. This includes, research, due diligence, valuations, transaction assistance, interior design, renovation, property management and tenancy management.

Furthermore, we are one of the only companies on the market to have a dedicated professional research team that provides up-to-date market critical information and analysis to all our clients.

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PROJECT MANAGEMENT SERVICES

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I. TERMS AND OVERVIEW

1. GLOSSARY

Aimags of Mongolia, with Standard Abbreviations	
AR	Arkhangai
BO	Bayan-Olgii
BKH	Bayankhnongor
BU	Bulgan
GO	Govi-Altai
DO	Dorngovi
DD	Dornod
DU	Dundgovi
ZA	Zavkhan
OV	Ovorkhangai
OM	Omnogovi
SU	Sukhbaatar
SE	Selenge
TO	Tov
UV	Uvs
KHO	Khovd
KHS	Khovsgol
KHE	Khentii
DA	Darkhan-Uul
UB	Ulaanbaatar
OR	Orkhon
GS	Govisumber

Central Districts of Ulaanbaatar with Standard Abbreviation	
SBD	Sukhbaatar
CHD	Chingeltei
K-UD	Khan-Uul
SKD	Songinokhairkhan
BGD	Bayangol
BZD	Bayanzurkh
BND	Baganuur
BKD	Bagakhangai
NKD	Nalaikh

Definitions of the Regions of Mongolia as established by the National Statistical Office of Mongolia (NSOM)

Western Region	Khangai Region	Central Region	Eastern Region	Ulaanbaatar
Bayan-Olgii	Arkhangai	Govisumber	Dornod	Ulaanbaatar City
Govi-Altai	Bayankhongor	Darkhan-Uul	Sukhbaatar	
Zavkhan	Bulgan	Dorngovi	Khentii	
Uvs	Orkhon	Dundgovi		
Khovd	Ovorkhangai	Omnogovi		
	Khovsgol	Selenge		
		Tov		

Acronyms of Organisations, NGOs, Projects and Publications

ADB	Asian Development Bank
ADRA	Adventist Development and Relief Agency
DBM	Development Bank of Mongolia
DPP	Democratic People's Party of Mongolia
EBRD	European Bank for Reconstruction and Development
FIFTA	Foreign Investment and Foreign Trade agency of Mongolia
GoM	Government of Mongolia
GTZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit
HIES	Household Income and Expenditure Survey 2008 (NSOM and World Bank)
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
LME	London Metals Exchange
LSE	London Stock Exchange
MCA	Millennium Challenge Account
MMC	Mongolian Mortgage Corporation
MPP (formerly MPRP)	Mongolian People’s Party (formerly Mongolian People’s Revolutionary Party)
MRAM	Resource Authority of Mongolia
MRTCUD	Ministry of Roads, Transportation, Construction and Urban Development
MSE	Mongolian Stock Exchange
NBFI	Non-Banking Financial Institution
NMMA	National Mongolian Mining Association
NRA	Nuclear Regulation Authority of Mongolia
NSOM	National Statistics Office of Mongolia
PRC	People’s Republic of China
UB2020	The Ulaanbaatar Master Plan 2020
UNDP	United Nations Development Program
USAID	United States Aid
VSO	Voluntary Service Organisation
WB	World Bank

Economics and Geography Terminology

CBHI	Central Business Height Index
CPI	Consumer Price Index
GDP	Gross Domestic Product
GDP Per Cap	GDP per capita
GNP	Gross National Product
RGDP	Regional Gross Domestic Product
ROI	Return on Investment

Mining

MMC	Mongolian Mining Corporation
OT	Oyu Tolgoi
TT	Tavan Tolgoi

Currency

MNT	Mongolian Tugrik
RMB	Chinese Yuan Renmimbi
RUB	Russian Ruble
SSI	Sector of Strategic Interest
US$	United States Dollar

2. MONGOLIA AT A GLANCE

Mongolia at a Glance

Metric	Value	Source	Date
Territory	1,564,115.75 sq.km	NSOM	2011
Population	2,930,300	NSOM	2013
Total Households	794,100	NSOM	2013
Year on Year Population Growth	2.2%	NSOM	2013
Median Age of Population	26.9 years (26.5 for male and 27.3 for female	NSOM	2013
Average Household Size (Nationally)	3.6	NSOM	2011
Male to female split	48.5% Male 51.5% Female	NSOM Census	2011
Urbanisation Rate	68%	NSOM	2012
Literacy Rate	97.4%	CIA World FactBook	2011
Labour Force	1,198,300	NSOM	2013
Number of Unemployed	94,732	NSOM	2013
Unemployment	7.9%	NSOM	2013
Average Household Income	959,247 MNT (National)	NSOM	2013
Average Household Expenditure	961,677 MNT (National)	NSOM	2013
Population Below the Poverty Line	27.4%	NSOM	2013
Gini Index Rating	36.57	World Bank	2008
GDP (US$)	9.59 Billion	NSOM	2013
GDP Per Capita (US$)	$3,964	NSOM	2013
GDP Real Growth Rate	11.7%	World Bank / NSOM	2013
Inflation	14.6% Y-O-Y	Bank of Mongolia	2013
International Reserves (million US$)	1,604.5	Bank of Mongolia	M5 2014
FDI Into Mongolia	3.06 billion MNT	NSOM	2013
Final Consumption Rate	27.1%	NSOM	2013
External Trade Balance	-2.1 billion USD (down 11.3%)	NSOM	2013
Exchange Rate	1,856	Bank of Mongolia	M7 2014
CPI	12.5%	NSOM	2013
Imports % Growth year-on-year 2012-2013	-4.5%	NSOM	2013
Current Account	-3,211.4 million USD	NSOM	2013

3. ULAANBAATAR REAL ESTATE AT A GLANCE

<table>
<tr><th colspan="9">Ulaanbaatar Real Estate Market a Glance</th></tr>
<tr><th>Metric</th><th colspan="6">Value</th><th>Source</th><th>Date</th></tr>
<tr><td>Population</td><td colspan="6">1,372,000</td><td>NSOM</td><td>2013</td></tr>
<tr><td>City Per Capita GDP (US$)</td><td colspan="6">11,143.3</td><td>Ulaanbaatar City</td><td>2013</td></tr>
<tr><td>GDP Growth</td><td colspan="6">24%</td><td>Ulaanbaatar City</td><td>2013</td></tr>
<tr><td>Average Household Size</td><td colspan="6">3.4 in apartment areas / 4.2 in ger areas</td><td>NSOM</td><td>2011</td></tr>
<tr><td>Average Household Income (monthly)</td><td colspan="6">1.1 million MNT (approximately US$ 594)</td><td>NSOM</td><td>2014</td></tr>
<tr><td>Change in CPI (inflation) 2013-2014</td><td colspan="6">15.1%</td><td>NSOM</td><td>2014</td></tr>
<tr><td>Ger Dwelling Households</td><td colspan="6">53,700 (year-round, although some of the 123,000 families living in individual, detached housing on ger district land will live in gers for part of the winter as their houses cannot yet be heated due to lack of infrastructure in these areas).</td><td>NSOM</td><td>2013</td></tr>
<tr><td>Estimated Number of Apartments in Ulaanbaatar in 2013</td><td colspan="6">157,000</td><td>M.A.D. Research</td><td>2013</td></tr>
<tr><td>Individual detached housing (usually in the ger areas) dwelling Households</td><td colspan="6">100,300</td><td>M.A.D. Research</td><td>2013</td></tr>
<tr><td>Estimated average number of new residential units per annum 2013 - 2014 (Estimated)</td><td colspan="6">11,600</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td>Number of Serviced Apartments</td><td colspan="6">112</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td>Estimated Number of Hotel rooms 3*+</td><td colspan="6">2,302</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td>Estimated Good Grade Retail GFA (A and B grade)</td><td colspan="6">216,350</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td>Population Per Commercial Unit</td><td colspan="6">41</td><td>NSOM</td><td>2014</td></tr>
<tr><td>Estimated Office GFA (A, B and C+ grade)</td><td colspan="6">378,240</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td>Average Residential Price per sq.m 2013 (US$)</td><td colspan="6">$1,316</td><td>M.A.D. Research</td><td>2014</td></tr>
<tr><td rowspan="2">Average Residential Price Change 2013-2014 (by district)</td><td>SBD</td><td>CHD</td><td>KUD</td><td>BGD</td><td>BZD</td><td>SGK</td><td rowspan="2">M.A.D. Research</td><td rowspan="2">2014</td></tr>
<tr><td>5.4%</td><td>4.13%</td><td>-4.3%</td><td>-3.9%</td><td>10.4%</td><td>-14.2%</td></tr>
<tr><td>Number of Business Establishments</td><td colspan="6">71,654</td><td>NSOM</td><td>2013</td></tr>
<tr><td>Estimated Residential GFA</td><td colspan="6">7.6409 million square meters</td><td>M.A.D. Research</td><td>2013</td></tr>
<tr><td>Number of Cars, buses and work vehicles Registered in the City</td><td colspan="6">349,500</td><td>NSOM</td><td>2012</td></tr>
<tr><td>Investment (US$)</td><td colspan="6">2,610,929</td><td>Ulaanbaatar City</td><td>2013</td></tr>
</table>

4. COMMON EXCHANGE RATES

<table>
<tr><th colspan="3">Exchange Rates used in this Report</th></tr>
<tr><th>Symbol</th><th>Foreign Currency</th><th>Mongolian Tugrik Rate</th></tr>
<tr><td>USD</td><td>United States Dollar</td><td>Rate of 1,830 based upon Q2 2014 exchange rates reported by the Bank of Mongolia. This remains the default currency throughout this document.</td></tr>
</table>

II. EXECUTIVE SUMMARY

1. INTRODUCTION

KEY POINTS FOR 2013-2014:

1. **Slowing macro-growth dampens the market;**
2. **Office space hit hardest in commercial sector;**
3. **Despite slowdown, significant headroom in retail sector projected in mid-term;**
4. **Unsustainable construction sector lending means sector is likely to see negative growth slow into 2015, potentially calming some oversupply fears and creating a pool of distressed assets;**
5. **Rapid mortgage-market expansion looks set to be curtailed due to end of government backed financing, although the 8% mortgage scheme has increased competitive lending practices among commercial banks;**
6. **Low-end housing market remains buoyant, with y-o-y rises in projected supply as a result of large-scale ger district redevelopments;**
7. **New high-growth areas of the city, including the Stadium Area and Yarmag are emerging rapidly as potential new power-centres of retail and suburban residential.**

Just under a year ago the statue of Lenin that had stood in-front of the Ulaanbaatar Hotel was removed and sold off. At the same time the new headquarters of TDB Bank was nearing completion opposite. With this building having been completed the space that Lenin had once stood watch over now contains a multi-storey TV screen displaying Bloomberg Mongolia 24 hours a day. This is indicative of the changes that have occurred in the Mongolian capital over the past 23 years.

The last 12 months in Mongolia have seen dramatic transformations across the board. The unequivocal growth trajectory of the overall economy has been hampered, in part by what many feel to be protectionist and capricious policy-making on the part of Government. However strong economic growth of 11.7% during 2013 was due to stronger mineral production led by the start of production in the Oyu Tolgoi mine and the Government's stimulus policy.

Nevertheless, risks to stability have been growing. Expansionary fiscal policies added an additional budget deficit of between 9% and 10%, due to the operations of the Development Bank of Mongolia on top of the official state budget. Monetary policy shifted during 2013, injecting new liquidity equivalent to around 20% of GDP into banks via commercial lending programs. However, high economic growth was accompanied by rising inflation and growing external imbalances, calling into question claims that Mongolia retains its status as a world-beating growth economy. The current account deficit reached 28% of GDP by the end of 2013, whilst inflation continued to rise to 12.5% nationally during the same period, continuing its upward trend during 2014, with some unofficial estimates putting inflation in Ulaanbaatar in the late teens by Q3 2014. This resulted in consecutive downgrading of expectations for the Mongolian economy during 2014. On April 1st 2014 the Asian Development Bank released its development outlook and reduced the economic forecast for Mongolia by 4.5 percentage points down to 9.5% before picking up to 9.5% in 2015. This is the first return to single digit GDP growth since 2010. The ADB report that made the revision cites rapidly declining foreign direct investment (down 55% during 2013) and falling exports, compounded by highly expansionary fiscal and monetary policy. These issues have created balance-of-payment pressures. While the depreciation of the Mongolian Tugrik has somewhat stabilised the tasks of handling a growing current account deficit, relieving balance of payment pressures, stabilising the MNT and containing inflation will require a tightening of economic policy and a real reigning in of domestic demand growth. Although the economy was bolstered in 2013, as a result of very generous fiscal and monetary policies, these practices are unstable and are likely to create problems in future, including problems meeting nominal payments on the Chinggis Bond at its five year maturity in 2017. Having split around 1.5 billion USD raised in this bond issuance between many projects, yields, some of which were not yielding at all, yields from invested projects look to be insufficient, whilst national accounts will not likely be sufficiently stocked to meet nominal payments in under three years. Mongolia also remains heavily ted to China's fortunes. Whilst the two nations are showing signs of working more closely (a credit-swap was arranged in mid-2014 between Mongolia and China to assist Mongolia during its difficult year), Mongolia remains open to external shocks in the mining sector based upon changes in Chinese demand, as well as to rising import costs based upon inflation within China.

Mineral GDP fell off to account for 18.5% of total economic output during 2013, with non-mineral GDP also remaining in double digits, supported by economic stimulus measures and driven by strong construction growth, both of which were backed by an increase in bank lending and Government infrastructure spending programs. Construction GDP grew by a truly remarkable 66.5% year-on-year 2012-2013, a rate which is clearly unsustainable and one which benefitted from redoubled demand, bolstered by the introduction of low-cost, Government backed mortgages at 8% APR. This was a watershed moment for the housing sector in Ulaanbaatar, which had struggled with financing and been at the mercy of peaks and troughs in liquidity, based largely upon the fortunes of the mining sector. Having raised US$ 1.5 billion through the sale of the much anticipated first sovereign bond of Mongolia some of these funds were used to finance lower cost mortgages for new homebuyers. Potential new homeowners would have to select a new-build property of 80 square meters or less and would be offered a mortgage of 8%, with a typical LTV of 70% and typical duration of 10-20 years. These mortgages were designed to assist first-time buyers although this did not stop a considerable number of existing homeowners from transferring existing properties into the name of family members and friends in order to purchase a new apartment at favourable rates, or even re-mortgage their first home apartment. Government financing for this scheme ran dry by 2014, although this has spurred domestic banks into competitive rate lowering, broadening the mortgage markets.

The result of increased financing, as well as significant Government investment into projects, including the ongoing 100,000 homes project, was that the housing supply of Mongolia and Ulaanbaatar in particular, expanded at record levels. During 2013 a total 18,012 new residential units were brought online nationally, up by 57% and a record number of new units within any single year in Mongolia's history. Residential construction alone during 2013 accounted for 95% of total 2012 construction expenditure nationally. Reports from the Mongolian Mortgage Corporation indicate that total mortgage loans outstanding grew by 20.1% month-on-month and 44.9% year-on-year directly following the introduction of the low-cost mortgage scheme. Of mortgage loans outstanding, 41.5% were issued with the banks' own capital, 53.5% were issued by the low-cost "Housing Mortgage Program" refinancing and 5% were issued by other sources. As of August 2013, 95.3% of mortgage loans outstanding have been made in domestic currency and 4.7% have been made in foreign currency. Nevertheless, with Mongolia lacking a mortgage securities market at present (and limited demand likely for Mongolian mortgage backed securities based upon unstandardised origination practices) it must be conceded that Government backed spending on mortgage projects will wind down until a new tranche of sustainable financing can be realised.

As already noted, in synergy with the 8% mortgage, construction work got well underway on many projects as part of the 100,000 homes project. This project will see 75,000 new homes built in Ulaanbaatar, in order to help deal with a chronic shortage of appropriate housing and clear the peri-urban ger areas built up around the city. The Government of Mongolia and the City Government of Ulaanbaatar have backed this scheme by providing financing to install infrastructure - water, heating and electricity - into peri-urban *ger* areas. Private contractors were selected, by residents' referendum, to construct ger area housing projects in 19 different parts of the city. These represent some of the largest residential projects in Ulaanbaatar to date, ranging from just under 4,000 units to over 15,000 units per project - including commercial, social and supporting facilities. Project plots range from around 1.2 million down to around 300,000 square meters in terms of the areas of ground to be covered and are based upon the imperative to provide low-cost housing. Units in these projects are entering the market at anywhere between US$ 860 - US$ 1,300 per square meter depending upon location factors and the developer.

Another key driver, beyond construction, was retail and wholesale. This is another key area for growth within the Mongolian economy and has been assisted by further Government stimulus spending on roads, transport and freight handling facilities. Wholesale and retail also saw strong growth of 17% year-on-year. Off-budget public spending on infrastructure, via the Development Bank of Mongolia, alongside subsidised lending programs by the Bank of Mongolia, helped spur non-mineral GDP growth such through projects also targeted in these sectors. Plans to upscale the manufacturing capacities of the nation and move up the value chain in terms of exports have also been considered at length over recent years. Whilst this is a delicate manoeuvre - with one of the world's key manufacturing nations on the doorstep - lynchpin projects such as the the Sainshand Industrial Hub form a key part of the Government of Mongolia's National Development Strategy. In June 2011, the Bechtel Corporation was chosen to project manage implementation of the Sainshand Industrial Hub. Their estimates indicate that the project will require up to US$ 9 billion in investment and is estimated that, when completed, this Complex alone will result in a U$41 million contribution to the Mongolian GDP each year.

The retail sector performed well overall during 2013. Whilst its share of the national GDP fell to around 8% (from 13% during 2012), a 17% real increase shows steady growth on the back of rising consumer consciousness among middle-class Mongolians and the entry of significant international brands - particularly in the F&B sector. FY 2013 saw the entry of the Coffee Bean and Tea Leaf cafe chain, hot on the heels of KFC and Cinnabon. Pizza Hut also opened its first store in Ulaanbaatar during mid-2014, joining the California based Round Table pizza brand in the market. High inflation (rising to 15.1% in the capital city and 14.6% nationally during Q2 2014) means that household purchasing power has not grown significantly over the last year, despite real wage increases. This puts average household incomes in Ulaanbaatar at around 1.1 million MNT per month, around 6.5 times the subsistence level. Nevertheless, the luxury retail markets have seen a slowdown on the back of reduced confidence in economic growth within Mongolia. This adversely impacted major centres of retail such as the Central Tower Mall, operated by MCS - Shangri-La. This three-level mall-style facility is almost entirely full of luxury and upper-end brands, meaning low foot-traffic at the best of times. The upshot of the slowdown has been low sales revenues, with many stores struggling to pay any form of rent to the management company at times over

2013 - 2014. Nevertheless, at the mid- and lower- ends of the retail market business continues to grow. From 2008-2013 CAGR of average ground floor rental across the overall good grade market was 10%, displaying less volatile growth than office markets. Department Stores and Shopping Centres are able to charge the highest average rents per square meter per month, with State Department Store and Ulaanbaatar Department Store charging USD 80 and USD 70 per month respectively for prime ground floor rental. Peace Avenue contains the most successful department stores in terms of rental yield per square meter per month. Shopping centres close to the city centre of Ulaanbaatar yield between USD 28 and USD 70 per square meter per month, depending upon location. High street locations tend to provide lower per square metre returns, usually in the range of 45 - 60 USD per square metre, depending upon proximity to retail power centres and facilities. Outside of key power centres of retail, or large-scale retail projects, rental rates achieved remain at 20-34 USD per square meter. Street-front retail locations display greatest variance depending upon dramatic variances in facilities, quality and location, with rates ranging from US$ 10 - 35 per square meter outside of key high-street power centres.

Despite growth in sectors designated for Government-led stimulus, critics have criticised the use of the proceeds from the Chinggis Bond sale and indicate these and other funds backed by Government have been used to finance off-budget programmes in an effort to avoid the fiscal stability law (FSL), which limits the size of the budget deficit in an effort to stabilise spending. Criticism is specifically based around projects such as 256.3 billion MNT (US$ 149 million) used to construct 700 km of paved roads, and 837.9 billion MNT (US$ 487 million), which went towards financing new railways, the Tavan Tolgoi power initiative and a metallurgy plant. Many of these do not yield returns directly, although this is spending that is Government backed and for which the State is ultimately liable.

On top of balance of payment concerns, which meant that Mongolia was marked down in ratings during 2013 and 2014 - Standard & Poors' credit rating for Mongolia stands at BB-; Moodys' rating for Mongolia sovereign debt is B1. Fitch's credit rating for Mongolia is B+ - the Central Bank price stabilisation program and low-interest-rate mortgage lending programs, which saw injections of 3.4 billion MNT in to commercial banks over the course of 2013, have also been a cause for concern. Outstanding central bank lending to commercial banks reached 24% of GDP at the end of 2013, levels which may again be cause for alarm under conditions of slowing exports and a widening gulf between consumption and production. National level inflation has also been accelerating since mid-year, reaching 12.5% year-on-year in December of 2013 and above 15% in Ulaanbaatar by the end of the second quarter of 2014. Expansionary economic policies have placed price level under mounting pressure. Add to this aggressive monetary easing programs to increasing economic growth further impelling core inflation rises, reflecting demand-side pressures.

Restoration of economic stability must be a key objective of economic management in the mid-term and is number one on the list of talking points between the Mongolian Government and multilateral agencies operating within the nation at this time. Sustainable fiscal policy and adequate levels of international reserves must be ensured. The Government of Mongolia must also continue to make positive policy moves with the intention of restoring strong and stable foreign capital inflows. Capricious policy-making and protectionist stances have heavily impacted confidence in the mining sector and despite a sea-change in thought, as a result of the fallout from near-sighted policy decisions, it will take considerable time and contrition on the part of the Government of Mongolia to attract sustained FDI back into the country.

Over the past 18 months a fall-back on expansionist fiscal and monetary policies have kept growth buoyant, but in the same stroke significantly raised financial stability risks. With Mongolia posting its third consecutive year of double-digit GDP growth (11.5%) during 2013, subsidised by lending by the central bank surging to 20% of GDP - with an off-budget infrastructure spending by the country's development bank rising to over 10% of GDP. This now places Mongolia at severe risk of overheating, as well as raising repayment risks associated with significant foreign denominated international debt. Expansionary policies, including aggressive credit extension by the central bank, have also led to acceleration of the headline rate to around 12.5% by January 2014. World Bank projections of GDP growth see Mongolia slipping back into high single-digit figures by 2015 despite the prospect of lynchpin mining projects looking set to emerge from a political stalemate by the end of 2015. Stalemates over expenditure and tax with the lynchpin Oyu Tolgoi project and financial and operational mismanagement of the Tavan Tolgoi asset have hampered their full potential over the past two-years. Coupled with a less than bullish outlook for energy and mineral resource sectors in the mid-term, an assertive move towards opening up to FDI and fiscal stability is highly necessary and should be cause for optimism among investors seeking a more stable investment environment when it happens.

On the back of this the Parliament of Mongolia passed a new law removing the more deleterious distinctions and onerous regulatory restrictions imposed on FDI into strategic sectors of the economy within under the Strategic Entities Foreign Investment Law (SEFIL) - passed in May 2012. This hastily drafted law was designed to restrict foreign investment in firms in strategic sectors such as mining and telecoms to just 49%, and came amid concerns about the growing role played by overseas capital in the country's mining-led economic boom. Another narrative is that this law was hastily passed specifically to prevent Chinese state-owned Chalco from purchasing a majority share in the South Gobi Resources company, which holds licenses to a strategically important mineral deposit. Partly as a result of this very law, foreign investment in Mongolia plummeted 17% to $3.9 billion in 2012 and continued to drop from almost 60% of national GDP to just 16.5% during 2013 - falling to levels not seen since 2009. The new amendment, passed in 2014, exempted privately-owned foreign companies from the scope of the law, which demands Government-level approval for the purchase of equity in a company operating within sectors like mining, banking and finance, and communications and media. Only companies which are 30% or more foreign state owned would face significant scrutiny under the new legal framework. The amendment tightened the restrictions on foreign state-owned entities (SOEs), removing a 100-billion tugrik ($71 million) threshold triggering Government level approval requirements for such entities investing in Mongolia. For purchases of stakes of more than 49% , the approval of Parliament will now be required for foreign SOE's operating in strategic sectors.

In a further sweetener to the new FDI deal, on November 1st 2014 Parliament ratified a new investment law, that dramatically alters the investment landscape in Mongolia. This new law offers a simpler and more open investment process, establishes a new agency to assist with the process, and provides an array of investment incentives. The Investment Law now requires that a foreign entity must either be registered as an entity with foreign investment (EFI) or as a representative office to conduct any activity in Mongolia. An EFI is defined as an entity that is incorporated in Mongolia and of which at least 25% is owned by a foreign investor whose minimum contribution to the entity is US$ 100,000. This means that foreign investors must now each place US$ 100,000 into establishing a foreign invested company rather than the cumulative US$ 100,000 total investment required previously. The Invest Mongolia agency responsible for administering foreign invested companies (the existing Foreign Investment and Foreign Trade Agency - FITTA - being structured out) can also now issue stabilisation Certificates, providing investors with certainty as to tax rates for a specified period. These are to be issued based on guidelines for the sector involved, the amount and location of the investment into Mongolia. This could mean that for an investment of 500 billion MNT or more in mining and infrastructure, invested within a period of 5 years, a company would receive a legally stabilised policy and tax environment for between 15 - 18 years (depending upon which region of the country they were investing in). For an investment of 30 - 100 billion MNT, this figure may be as low as 5-8 years. Investments in other sectors are eligible for Stabilisation Certificates from investments as little as 2 billion MNT (depending on the region in which it is invested). This will attract a Stabilisation Certificate for five years. Stabilisation Certificates are extendable and renewable to 1.5 times the total initial timeframe. These are positive policy moves, spurred by the stark recognition that capricious policy making can have very real impacts on a nation's economy. The sea-change in thought and action by Mongolian politicians is welcome but investors are likely to remain cautious for some time to come.

In terms of macro-projections, we at MAD Investment Solutions see growth remanning solid, but lower than in recent years come the end of 2014. Helped by the upscaling of production in the Oyu Tolgoi gold and copper mine, expansion of domestic manufacturing activities, as well as a rapidly growing construction market and a growing consumer culture in the retail sector, domestic growth will likely underpin continued good performance from mid 2015 onwards. Nevertheless, spillover risks from China's economic rebalancing, the virtual collapse of coal markets in Mongolia and the ability (and will) of authorities to reverse their fiscal and monetary policy stance are reasons to be cautious. These require close monitoring by potential investors. With construction sector lending accounting for a large percentage of total loans from commercial banks, a reversal in policy will be closely watched by developers and could adversely impact projects currently underway or early stage developments. This does signal excellent potential for those with a strong risk appetite and an eye for distressed assets and good deals in both residential and commercial assets. It also provides potential for growth of alternatives to bank financing, presently so dominant within the Mongolian economy. The resolution of Oyu Tolgoi phase two financing and taxation disputes with the Government of Mongolia will be a lynchpin moment in determining whether faith is restored in Mongolia, although it is now clear that this is unlikely to occur before the next round of Parliamentary elections have concluded at least. FDI is expected to remain sluggish as a perfect storm of falling coal exports and poor policy environment during 2012-2013 led to a dramatic flight of capital.

A very volatile national currency and risks associated with disposal in a down-market are forefront in real estate investors mind when they consider Mongolia at present. The bigger picture of balance of payment issues and risk of default on the Chinggis Bond also provides a sobering abutment to the high-growth heyday of 2011-2012. Nevertheless, the fundamental principles of economic growth remain strong in Mongolia. Mineral reserves have yet to be significantly exploited, or indeed explored. The upscaling of domestic retail markets means that this sector of the real estate markets is certainly one to watch with great interest in the mid-term, whilst low-end residential projects are assured of good demand for at least the mid-term. Our conclusion is; watch with extreme caution until mid-2015. There will be excellent potential for attractively priced assets for those willing to deploy with a mid-term outlook from early in 2015.

A great location, close to all the amenities and yet convenient to get to the CBD (3kms).

Ideally placed within the new high-net worth residential heart of UB.

Easy access to the city's best fine dining restaurants and casual coffee shops.

Access to an integrated sports complex that includes a swimming pool, fitness centre and full service spa.

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On-site underground heated parking garages.

Specially designed storage rooms

Healthy living close to nature and far from the worst of the air pollution.

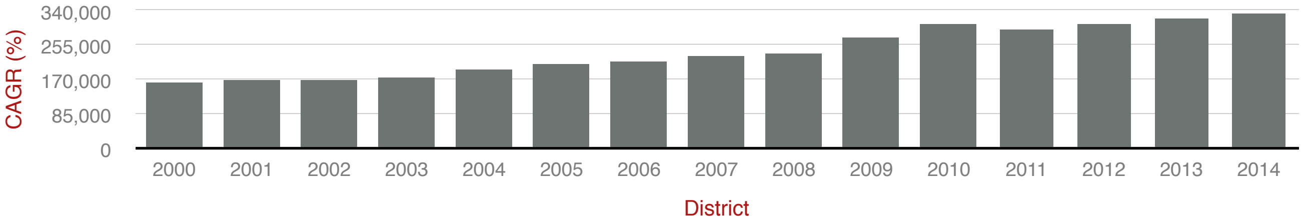
Contact to sales department:

Ulaanbaatar - 17012, Khan-Uul District, 11th Khoroo, Near the Academy of Management,
Millennium Challenge Building,"American Standard" showroom
Tel : 94 07 30 30 - 94 08 30 30 - 94 09 30 30 - 94 10 30 30
Website: www.imperial.mn - Email:sales@imperial.mn, delgermaa@imperial.mn

2. RESIDENTIAL MARKET

Within 2013 18,012 new residential units were brought online across Mongolia, up by 57% and a record number of new units within any single year in Mongolia's history. Bolstered by domestic economic stimulus programmes and the introduction of low-cost 8% APR mortgages into the residential market, residential construction alone accounted for 95% of total construction expenditure for the prior year. The total national supply of residential space has now risen to an estimated 11.383 million square meters.

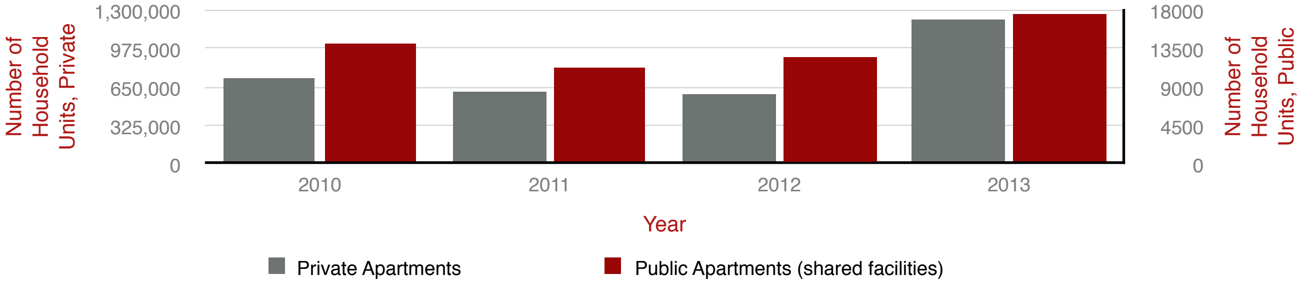
GRAPH 1: Numbers of Households Resident in Ulaanbaatar by Year



Source: NSOM

Ulaanbaatar's population has grown at an incredible pace since the transition from socialism to democracy began in 1990. As of 1st January 2014 there were a total of 1.3181 million people residing in Ulaanbaatar, with a total of 317,131 households (average household size was 3.9 persons in Ulaanbaatar). Around 46% of Mongolia's total population lives in the capital city, with 45.1% of the entire working population resident in Ulaanbaatar. Significant latent demand for housing is apparent in the fact that only 40% live in housing with access to permanent infrastructure, whilst 60% live in peri-urban areas in traditional Mongolian gers (felt-tents) or housing not connected to permanent infrastructure. This means significantly divergent demand and supply curves, with demand gradually being unlocked as wages rise and access to mortgage financing is extended.

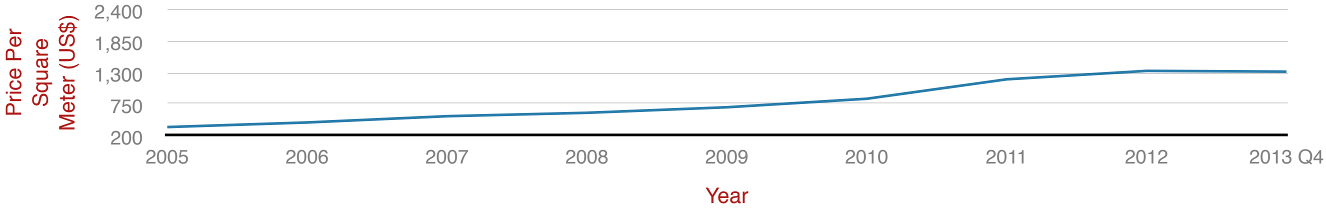
GRAPH 2: Sq.M of household Units Brought into Operation Nationally



Source: NSOM

However, from Q4 2012 - Q4 2013 indications are that residential prices contracted by 1.01%, down from 12% year-on-year growth 2011-2012. This comes on the back of concerns of prices rising too sharply amidst a slowing Mongolian economy.

GRAPH 3: Residential Purchase Prices for Ulaanbaatar - Average Market Price 2005 - 2013

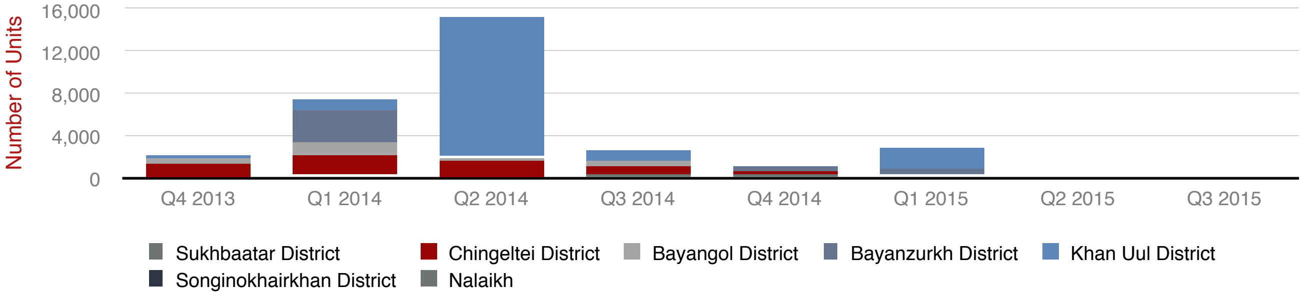


Source: MAD Research

By the end of Q4 of 2013 average per square meter prices across Ulaanbaatar's residential markets stood at US$ 1,316. In the upper end of the market prices stood at an average US$ 2,050 per square meter (primary market sales). High-end projects featuring low-density housing maintained a higher average price point of US$ 3,228 per square meter. Projections for price growth across the entire residential market indicate CAGR at 11.7% between 2014 and 2019, meaning prices will move higher from current levels at an average of US$ 1,316 per square meter, potentially as high as US$ 3,618 per square meter.

Rental markets appear to be experiencing steady growth, picking up towards the end of 2013 - rising 20.1% in August 2013 and 16% in September 2013 year-on-year. This growth in rental rates has stemmed a steady drop in housing rental yield rates. With yields at around 12% p.a. during 2010-2011, purchase price rises have dented yields in a very limited rental market. City centre rental rates of between 2.5 - 3 million MNT per month, displayed during 2012 and early 2013, have been trimmed back to more manageable levels of between 2-2.5 million MNT in response to falling demand from the expatriate community - precipitated by the flight of FDI.

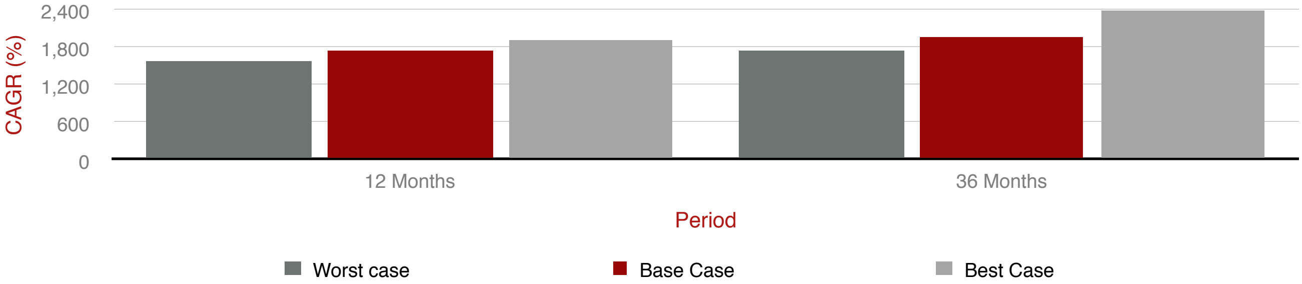
GRAPH 4: Completions of new residential units by quarter



Source: MAD Research

Make A Difference surveyed 110 residential projects underway across Ulaanbaatar and established a current supply pipeline up until the third quarter of 2015 of 32,130 residential units across all districts. Khan Uul District accounts for a full 14,269 (44%) of future supply. These figures incorporate the first stages of ger district redevelopments around the city and beyond 2015. It is these developments (estimated to be bringing 75,000 new apartments online up until 2020) that account for a significant pattern in known future supply. Based upon the projections above, it is estimated that within 72 months of the end of Q1 2014, up to 123,739 new residential units will have entered the markets in Ulaanbaatar, providing suitable financing can be maintained and the economy undergoes adjustment towards a more stable and sustainable growth basis.

GRAPH 5: Residential Price Growth Projections 12-36 months



Source: MAD Research

In 2013 the average apartment size across all sub-sectors of the market rose above tat of the previous year to 84.36 square meters. This has reversed a trend which saw the average size of residential units falling since 2007. In the lower end of the market, Bayangol district new build developments display the greatest range in terms of unit size, with average size of smallest units across all new developments standing at 49 square meters, rising to 67 square meters (average size of largest units across developments). Rapidly developing middle-class areas of Khan-Uul district display the greatest range in terms of unit size, with average size of smallest units across new developments standing at 66.5 square meters, rising to 119.7 square meters.

With so much discussion around potential bubble-dynamics in the residential markets and limited user-focused market research available, M.A.D. researchers conducted a detailed residential market survey, addressing market perceptions and consumer preferences in the housing market for 2014.

M.A.D. conducted a consumer sentiment survey of 243 households, between the ages of 25-60, in order to indicate whether of not they agreed with the statement: “*Ulaanbaatar apartments are presently overpriced at this time*”. In total 39% of respondents indicated that they agreed with the statement, with only 3% of respondents strongly disagreeing. In an effort to understand public perceptions of residential markets by geographical sub-segment, M.A.D. researchers also asked the same respondents to rate the overall reputation of six key mid-upper end residential areas of Ulaanbaatar. Around 51% of respondents indicated an above average or high reputation for the area city centre. Zaisan scored highest, with 71% of respondents indicating this area as having a high reputation. The 40,000 and 50,000 apartments scored lowest, with only 42% of respondents indicating that these areas of the city had an above average or high reputation. The

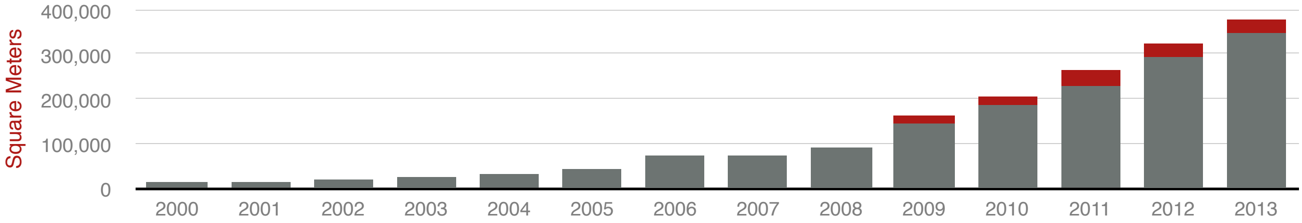
Garden area, Marshall Town area and Stadium area all scored around the same, with approximately 56% of respondents indicating a high reputation for these areas.

In terms of mortgage markets, total loans outstanding grew by 20.1% month on month and 44.9% year on year, directly following the introduction of the 8% mortgage scheme. Of mortgage loans outstanding, 41.5% were issued with the banks' own capital, 53.5% were issued by the "Housing Mortgage Program" (refinanced mortgage loans with a reduced rate of 8% per annum) and 5% were issued by other sources. As of August 2013, 95.3% of mortgage loans outstanding have been made in domestic currency and 4.7% have been made in foreign currency.

3. OFFICE MARKET

Ulaanbaatar's GDP growth has averaged 1.7 times the national rate of GDP growth since 2006. This indicates a clear focus upon the capital city in terms of financial investment and opportunities for growth. With over 40% of the total population of the nation presently resident in the capital city, the case for growth of commercial and service sector facilities remains somewhat untarnished. The core of Sukhbaatar District performs the function of the CBD, having traditionally been the home of the functions of the centralised Government of Mongolia. It now hosts not only Government Ministries, the Parliament building and established cultural institutions, but also the offices of top 10 Mongolian companies and key international firms in the mining and financial industries. As the CBD of a national capital that has experienced sustained double-digit regional GDP growth, this area has been the firm focus for commercial development in recent years, as well as a focus for new hospitality and high-end residential facilities.

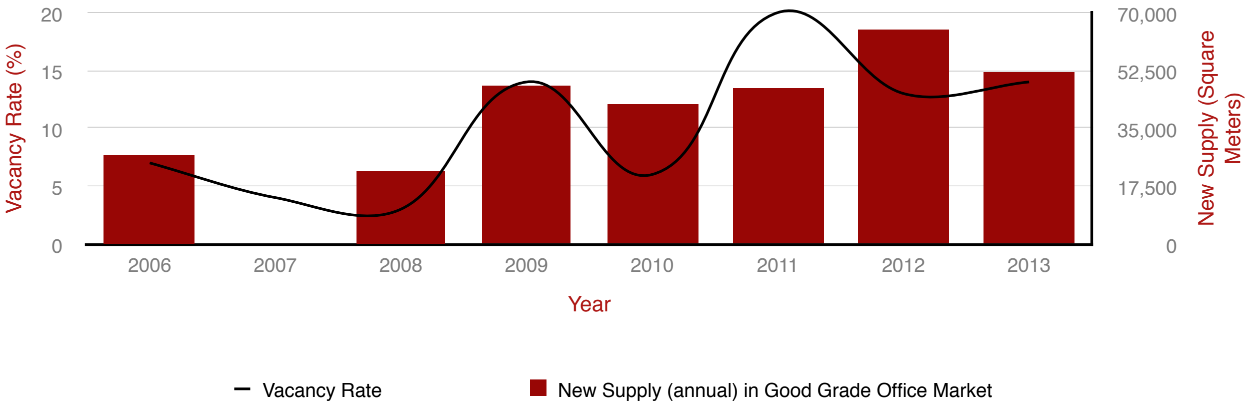
GRAPH 6: Historical Supply of Good Grade Office in Ulaanbaatar (Cumulative)



Source: MAD Research

Rapid price-rises in office rental rates over the past half-decade have left many market commentators fearing that office prices in Ulaanbaatar have reached their peak early. At the uppermost end of the market office rental rates per square meter per month peaked at US$ 63.7 (US$ 764 per annum).These have seen a drop during 2013 due to lowered demand for A grade office.

GRAPH 7: Historical Supply of Good Grade Office in Ulaanbaatar (Per Annum)

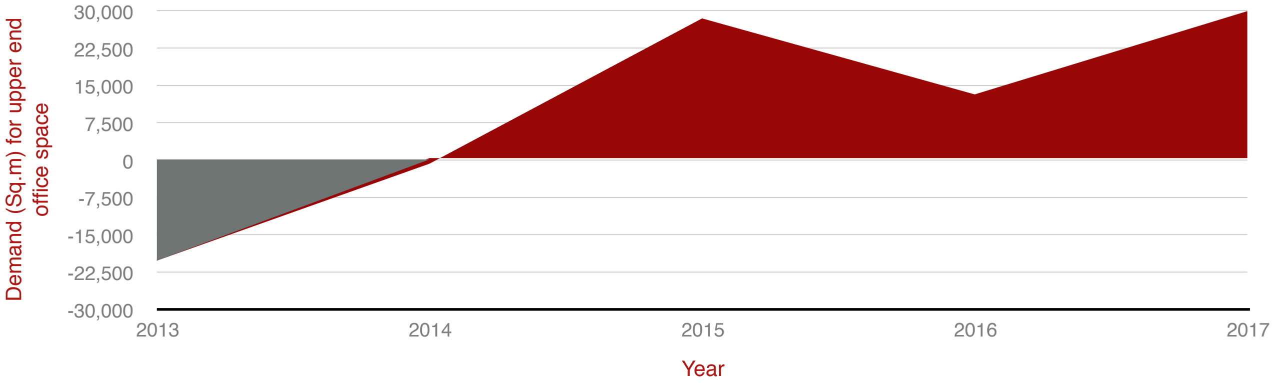


Source: MAD Research

Uptake and vacancy rates in the good grade office markets have typically followed a relatively rapid cycle, triggered by repeated demand shocks from changes in an economy heavily reliant upon commodities markets. These dynamics will continue to impact pricing in the Ulaanbaatar good grade markets and hence result in forecasted rental rate growth is between 2% - 11% year-on-year between 2014-2017.

By the close of 2013 observed vacancy rates were holding steady at around 8%. With a gradual recovery and high single-digit GDP growth expectations, uptake rates are expected to again be strong on the back of new job creation (projected uptake rates of 85% - 90%) over the coming 24 months. Nevertheless, with over 103,000 square meters of good grade office space coming online during 2014 and 2015, as part of projects such as Galaxy Tower, Mega Tower and the New Horizon Building, uptake rates are expected to fall back to 62% - 75% during 2015. Among the key projects coming online throughout 2013-2014 was Tsast Construction's ICC building. This provided an additional 31,000 square meters of office space at the upper end of the market, selling and leasing at US$5,000 per square meter and US$65 respectively. This project has been slow to fill throughout 2014 as a result of rices per square meter peaking at the high end of a cautious market.

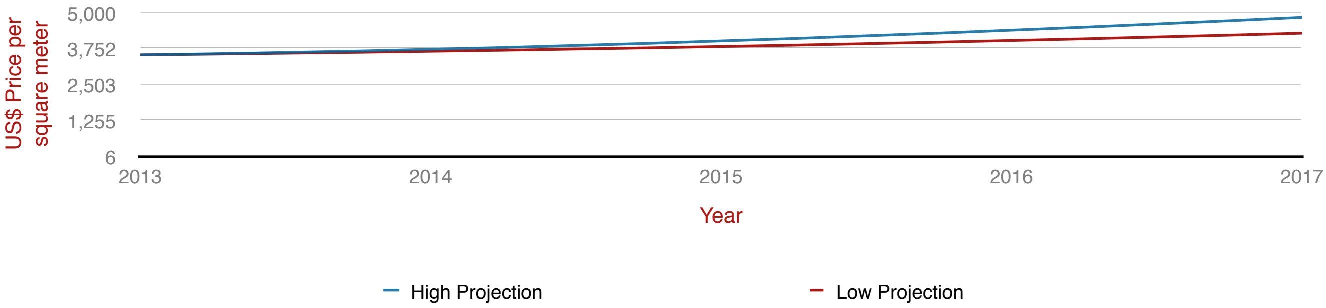
GRAPH 8: Estimated Future Cumulative New Office Demand and Supply



Source: MAD Research

As noted, uptake and vacancy rates in the good grade office markets have followed a relatively rapid cycle, triggered by repeated demand shocks as a result of macroeconomic downturns. These dynamics will also significantly impact pricing in the Ulaanbaatar good grade markets with forecasted rental rate growth of between 2% - 11% year-on-year from 2013-2017 projected. A steady and more robust recovery of the Mongolian economy, will likely result in projected rental rates projected for B grade (not city centre) office space of around US$ 28.49 per square meter per month after 12 months as a best case scenario and US$ 20.58 per square meter per month as a worst case scenario. After 36 months a best case scenario indicates rental rate growth of US$ 39 across the broad good grade office markets, with a worst case scenario of just US$ 34.57. This represents a CAGR of 14% and -8.3% respectively.

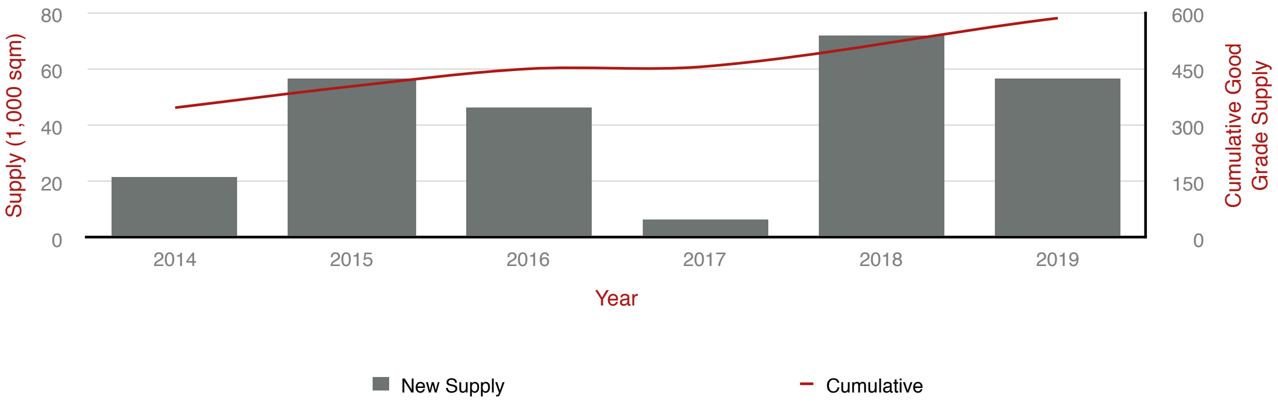
GRAPH 9: Price Projections in Good Grade Ulaanbaatar Office Markets 2013-2017



Source: MAD Research

As of the close of Q4 2013 the total A grade office stock was 65,750 sq.m, entirely developed since 2009. This brings combined good grade supply (A and B) to 378,240 square meters by the end of 2013.

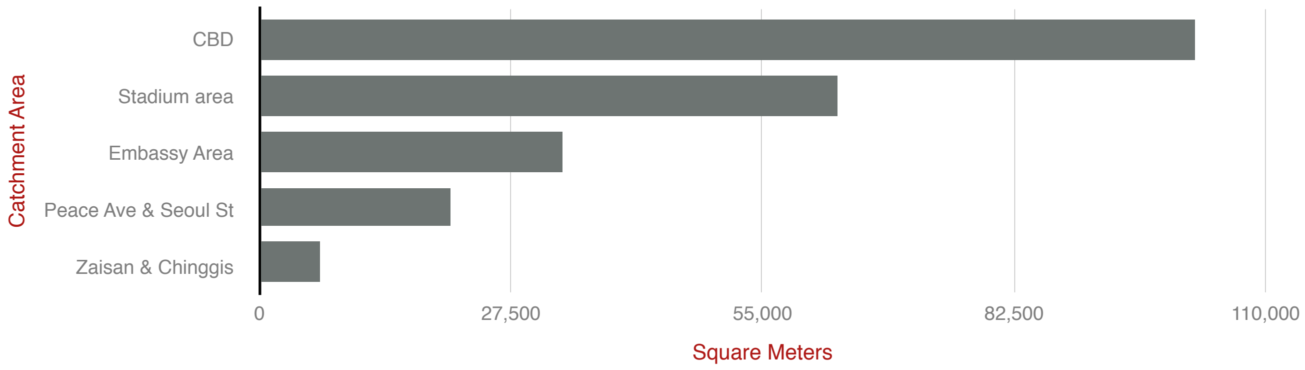
GRAPH 10: Good Grade Ulaanbaatar Office Forecasted Supply Growth



Source: MAD Research

Between 2006-2012 rental rates for good grade office in Ulaanbaatar increased at a CAGR of 8.8%. At the uppermost end of the market average prices averaged US$ 49.1 per square meter during 2013. The average asking rental rate for the broader grade B markets stood at US$ 26.1 per square meter for the same period, a full 53% lower than within CBD based B and A grade supply. Present falling demand from international clients, on the back of poor macroeconomic performance and falling confidence in mining markets, coupled with a significant A grade and B grade pipeline - with an average 4.2% growth per annum, equating to 43,300 square meters of good grade office supply per annum on average between 2014-2017 - means that fears of oversupply in this sector appear reasonably well founded. Prices across the B grade markets are expected to adjust downwards, along with A grade office facilities presently operating in the market, as they seek to retain existing tenants and reduce vacancies amid growing 'natural' vacancy rates.

GRAPH 11: Good Grade Office Future Supply by Catchment Area



Source: MAD Research

Three trends are expected to drive primary and secondary price growth between 2014 and 2017. These factors are considered of foremost significance in the future trajectories of Ulaanbaatar office markets:

- Higher rental rate potential in Khan Uul district, expected as a result of improving supply within projects such as Zaisan Square, Gegenteen and KH Tower. Despite a large new supply coming online in this districts (40,755 square meters expected overall) good grade market between Q4 2013 and 2017, improving facilities and access mean that good grade offices here will continue to see rental rate growth from a low baseline, potentially taking over form the more expensive CBD as mining companies look to consolidate operations closer to warehousing facilities to the south-west of the city and seek to avoid higher rents in the city centre.

- With slightly higher GDP growth expected during 2016 and an extremely limited new supply scheduled for this year - resulting in stabilisation of uptake and vacancy - rental price growth is expected to peak at 10%-11%. A significant tranche of new projects is not expected to emerge into the Ulaanbaatar office pipeline until 2016/2017.

- Growth will drop slightly during 2017 as a projected 102,000 square meters of good grade office emerges onto the Ulaanbaatar market in landmark projects including the Shangri-La (33,000 sq.m of office) and the first office building in Ulaanbaatar to be fully developed by an international developer - the International Finance Center (29,900 sq.m of office space). Projections indicate rental rate growth of just 6% - 9% year-on-year for this period, due to the market having to accept an extremely large new supply on the bad of projected GDP growth dropping back into mid-single digit territory (according to IMF estimates from Q2 2013).

Yields for office property have remained broadly on a downward curve over the past five years, stabilising at 9% at present. The soaring rental growth witnessed during 2012, which saw rental rates of A grade office space rise by close to 20%, has come to a grinding halt, entering contraction as domestic and foreign invested companies seek to lower overhead costs to weather a period of macroeconomic uncertainty. Low projections for capitalisation rates in the Ulaanbaatar good grade office markets result in a drop off of -1% until 2017, with capitalisation rates dropping back to around 8.1% for office properties. If the mining-based economic engine of Mongolia restarts on the back of stage-two financing for Oyu Tolgoi and significant new investment, then positive growth is expected in capitalisation rates, potentially boosting them back up to around 10% - based upon upscaling of domestic firms, new job creation and entry of international FIRE sector firms.

Estimated Office Yields Based Upon Strata Sals

Building	Transaction Date	Sales Price (USD per sq.m)	Asking Rent for Entire Building (USD per sq.m)	Implied Yield	Buyers
Blue Sky Tower	Q3 2011	9,000	52.50	7.0%	Bloomberg Mongolia TV
GS Tower	Q2 2013	4500	36.00	9.6%	Mongolian domestic firms
Galaxy Tower	Q3 2013	4,200	36 projected	10.3%	Mongolian domestic firms
IFC	Prospective	4,700	52.00 projected	13.3%	Not Available
Mega Tower	Prospective	4,500	45.00	12.0%	Mongolian domestic firms
Soyombo Tower	Prospective	4,500	48.00 projected	12.8%	Mongolian domestic firms
Victory Centre	Existing	3,300	25.00	9.1%	Mongolian domestic firms
	Averages	**4,957**	**44.92**	**10.6%**	
	Average current	**5,250**	**37**	**9.0%**	
	Average projected	**4,567**	**48**	**13%**	

Source: MAD Research

Price growth projections for primary office markets indicate CAGR at 7% per annum as a base case, with annual growth across this market expected to swing from around 6% to 11% per annum depending upon market conditions. This is, broadly speaking, a lower rate of growth than witnessed until 2012, based upon a cautious approach to office development and uncertain demand in the near future. Pricing projections indicate that after 12 months, pricing in the good grade office markets in Ulaanbaatar would average at US$ 3,065 per square meter as a worst case scenario (impacted by falling sales and pressure from growing bad debt), to US$ 3,640 as a best case scenario.

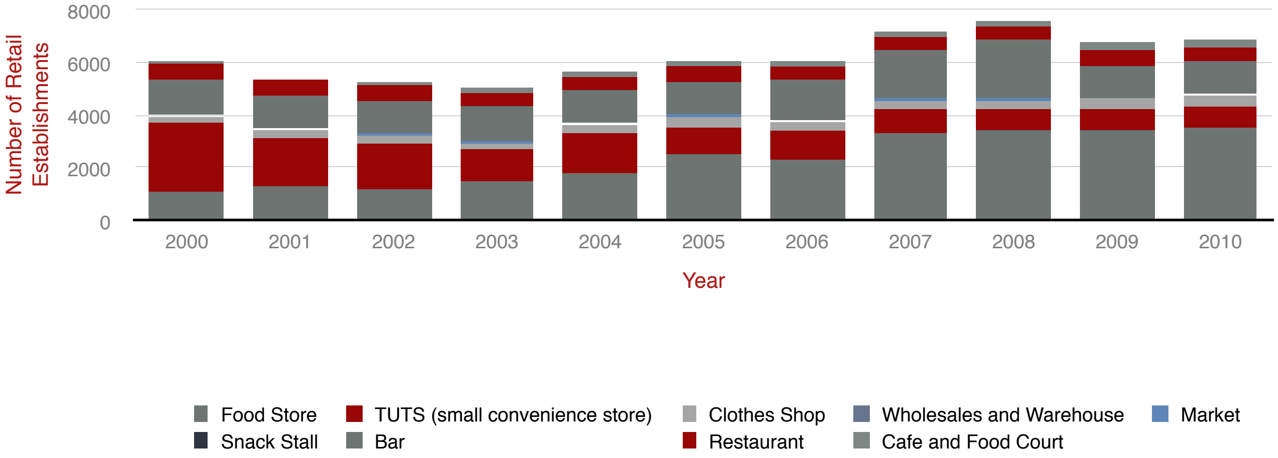
In terms of office future supply, CAGR is projected at around 4.2% of total existing supply per annum. This equates to an average new supply of space within the good grade (B and A) office markets of around 43,300 square meters per year. New pipeline supply is spread unevenly across the markets with several key projects having stalled in the early stages of construction (including MAK Tower). These, as well as projects such as the Moriin Khuur Tower and the Mon Uran Tower, are expected to bring significant new supplies of office space onto the markets, potentially averaging at 30,000 square meters per project. However, these projects rely greatly upon a return to form of the macroeconomy and are not even at the financing stage at present. By the end of 2015 demand is expected to begin to take off again with the up-scaling of new mining projects and development of the financial sector by both domestic and international firms. By 2017-2018 it is expected that upper-end commercial office supply will meet only around 75% of total new demand, with the city centre remaining the most desirable area for commercial space in the capital. Nevertheless, the excess demand balance is expected to be, in reality, less than 30,000 square meters of office space by the end of this period. This is not a significant incentive for new investment.

Expected new supply will also change the definition of what good grade office space is in Ulaanbaatar. Over the past three years, interest in the FIRE sectors, with emphasis on the financial services sector, has led to a host of new international companies establishing operations and representative offices within Mongolia. These include PwC, Ernst & Young and Deloitte. Coupled with an interest in the Ulaanbaatar market from companies such as GDF and Cushman & Wakefield, developers are having to carefully plan both the facilities and finishings, as well as contracting considerations around leasing, in order to bring all in line with the exacting requirements of international firms. Many significant projects contained in the current pipeline supply will incorporate features such as improved parking facilities, intelligent building monitoring and security systems, raised floors, suspended ceilings, superior lift and intelligent air-conditioning systems.

4. RETAIL MARKET

A.T. Kearney's 2013 Global Retail Development Index™ indicates that Mongolia is yet again on the rise in terms of retail potential. The 2013 GRDI ranks Mongolia 7th internationally, rising two places from 2012 and putting it firmly on the radar of retailers seeking entry into strategic new markets.

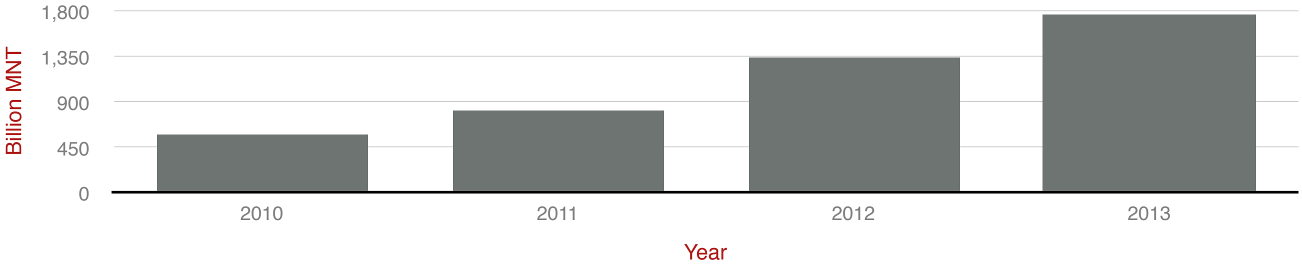
GRAPH 12: Numbers of Retail Establishments in Ulaanbaatar by Market Segment, by Year.



Source: UB Stat.

As new retail supply enters the market between 2013-2017 the mid- to long-term outlook of good grade retail markets is reasonably bright, with new entries of international brands and economic growth expected to undergird this sustained expansion. With 22,500 square meters of good grade retail space coming online during 2013, market growth remains good, although Ulaanbaatar is awaiting significant new projects and the overall economic slowdown during 2012 and 2013 has meant that across the market rental rates have only averaged small increases of between 1 - 4% on average year-on-year 2012-2014.

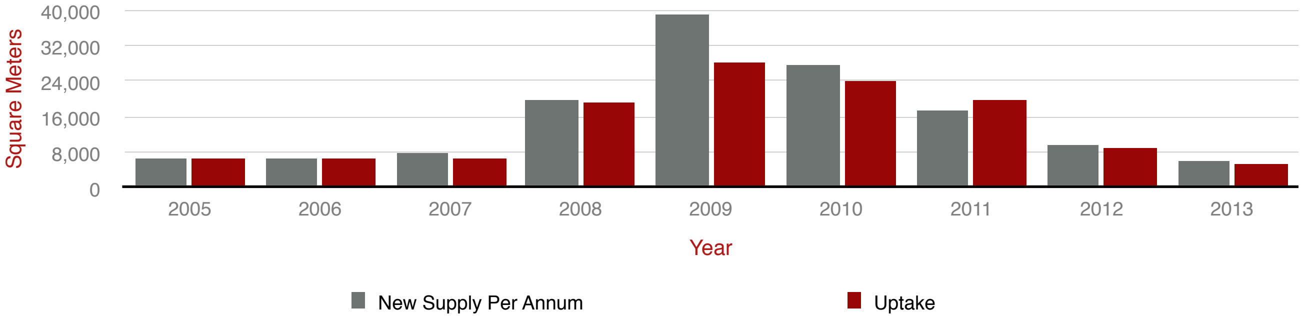
GRAPH 13: Total Retail Sales in Mongolia (billion MNT)



Source: NSOM

Nevertheless, retail markets in Ulaanbaatar are tipped for continued growth as a result of growing consumer demand and high potential that comes from limited market penetration by international brands. Whilst primary market sales pricing for retail space has risen ahead of rental rates, leading to falling capitalisation rates, it is expected that strong demand from domestic consumers and the potential of new market entrants from among the global top 100 brands will continue to push pricing. Mongolia's overall GRDI score places it ahead Kuwait, Malaysia, Kazakhstan, Russia and India and broadly on par with Turkey and UAE. Retailers will, therefore, be looking to capitalise upon a small buy buoyant mid- to luxury market, whilst carefully weighing their options and timing on entering a growing consumer marketplace if and when retail projects of suitable scale, offering suitable facilities, become available.

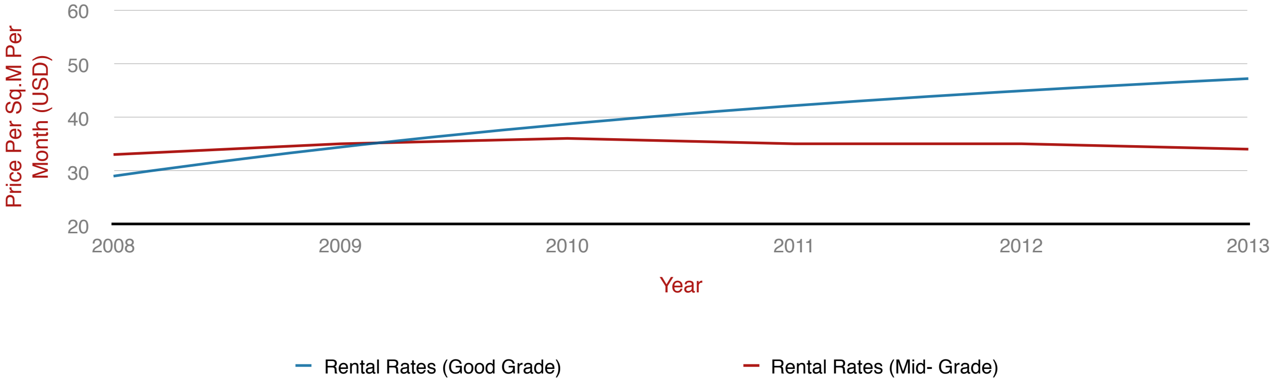
GRAPH 14: Supply, and Take-Up Performance of Good Grade Retail Real Estate



Source: MAD Research

A youthful population tends to mean more discretionary retail spending and Mongolia's demographics show a bottom heavy age pyramid, commensurate with potential for good market growth. Moreover, World Bank calculations indicate that between 2007 and 2011 domestic consumption in Mongolia almost doubled. In 2003 household final consumption as a percentage of GDP stood at 69.09%. By 2011 it had dropped to just over 50% of GDP. This indicates that despite consumption growth consumer spending has not kept up with growth in the national accounts. This provides the conditions for a potential consumption boom as consumer culture grows and the retail markets in Ulaanbaatar expand in terms of products and services offered. Beyond broad growth in market scale, the nascent state of retail markets means opportunities for retail concept diversification and introduction of new facilities.

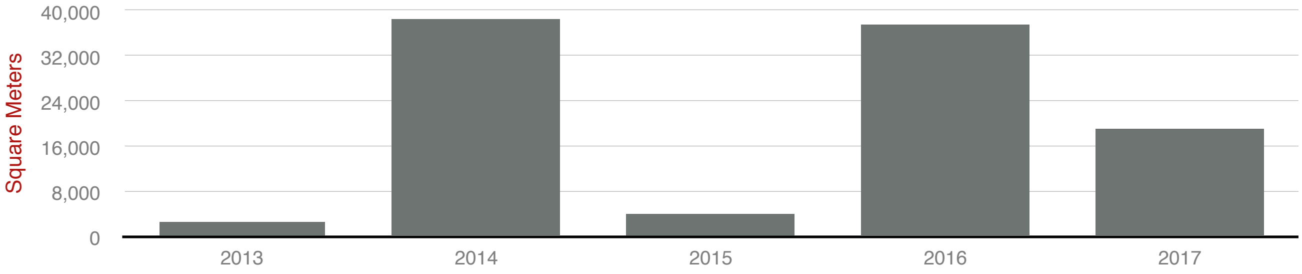
GRAPH 15: Average Rental Performance for Good Grade and Mid Grade Ulaanbaatar Retail



Source: MAD Research

During 2011 retail sales rose by an impressive 38% as the overall economy recovered from the shocks of the economic downturn and a fall in commodities pricing, rising by a further 26.2% year on year from 2011 to 2012. Total value of retail sales climbed again in the first 10 month of 2013, this time by 13.8% year-on-year. Within Ulaanbaatar the total retail and wholesale trade (at current prices) rose by 30.7% year-on-year between the first 10 months of 2012 and the same period for 2013. Within Ulaanbaatar there are presently 37 persons per commercial unit. This rose to a high of 52 during 2009 on the back of growth in numbers of small businesses - particularly food stores. This is now falling back as a result of centralisation and the development of supermarkets and other large chains, gradually hedging out smaller stores.

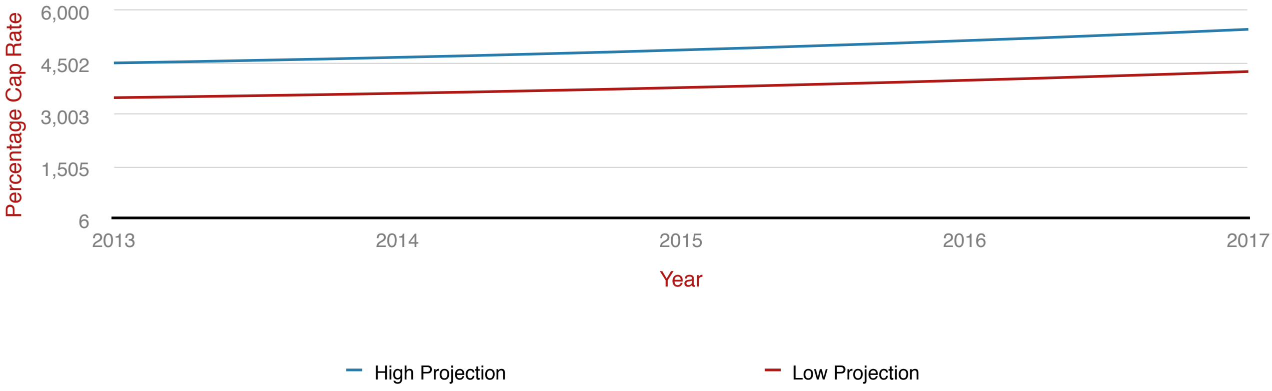
GRAPH 16: Future Supply in Ulaanbaatar Good Grade Retail Real Estate Market



Source: MAD Research

The pace of construction of good grade retail space in Ulaanbaatar has grown dramatically in order to accommodate demand following the transition to a capitalist economy. Since 2005 alone 133,598 square meters of good grade retail has come online in Ulaanbaatar, bringing the total good grade supply to 216,350 square meters. Prior to 2005 the existing stock of retail space was primarily made up of poorer quality market-style constructions and high street retail converted from existing ground-level apartments - although some of this retail space retains good quality status as a result of its location. Vacancy rates for good grade retail property stood at around 4-8% during Q1 of 2014, with key new shopping malls and developments having gradually filled during 2011-2012.

GRAPH 17: Price Projections in Good Grade Ulaanbaatar Retail Markets 2013-2019



Source: MAD Research

The most active retail sub-markets within the city centre are Peace Avenue, Beatles Street, Baruun Selbe Street, Seoul Street, Russian Embassy Street and the interior ring road, providing a total of around 5km of primarily street-front retail. Around this area there are approximately 570 retail properties, the majority being street-front stores. Seoul Street, already becoming a key retail location, has also seen the development of multiple larger format retail facilities, including the redeveloped Naran Plaza (a five floor retail facility, featuring international brand stores, a Coffee Bean and Tea Leaf franchise and several restaurants). In terms of tenancy, these central areas of street-front property are dominated by F&B, clothing and home-wares.

For good grade ground floor retail rental the CAGR in rental pricing between 2008-2013 was 10.3%, pushed by growth in retail markets. Financial year 2009 saw the highest rental price growth across the road retail markets, with an average of close to 21% y-o-y on the back of large-scale new entrants and growth in confidence - helped by demand pressures on a very small supply and low baselines for retail rents. Growth rates have dropped back again as a result of economic slowdown. During Q1 2013 the average ground floor rental of good grade retail property in Ulaanbaatar stood at USD 47.1 per square meter per month, with average street-front rental rates at around US$ 21 per square meter for good grade locations. From 2008-2013 the CAGR of average ground floor rental across the overall good grade market was 10%, displaying more steady growth than office markets.

Department Stores and Shopping Centres are able to charge the highest average rents per square meter per month, with the State Department Store and Ulaanbaatar Department Store charging USD 80 and USD 70 per month respectively for prime ground floor rental. Peace Avenue contains the most successful department stores in terms of rental yield per square meter per month. Shopping centres close to the city centre of Ulaanbaatar yield between USD 28 and USD 70 per square meter per month, depending upon location. High street locations tend to provide lower per square metre returns, usually in the range of 45 - 60 USD per square metre, depending upon proximity to retail power centres and facilities. Outside of key power centres of retail, or large-scale retail projects, rental rates achieved remain at 20 - 34 USD per square meter. Street-front retail locations display great variance depending upon facilities and location, with rates ranging from US$ 10 - 35 per square meter outside of key power centres.

Between 2012-2013 prices continued to grow for retail, pushing above office prices in the primary market as developers continue to see improved value in the retail sector. Prices peaked at an average of US$ 4,200 per square meter on the primary market within good grade retail, primarily developed as part of mixed use facilities. The highest primary market pricing was around US$ 4,600, indicating a tight spread across new facilities as developers peg their pricing to the latest sales.

Within the secondary markets for street-front retail property, market prices per square meter vary considerably depending upon proximity to power centres of retail. Purchase prices in this market vary from around US$ 2,100 - US$ 4,600 per square meter. The primary market for retail space has seen significant price growth, with a CAGR of 31% over the past 6 years. Such remarkable growth is mirrored across commercial markets, starting from a low point of just US$ 881 per square meter in 2008. Prices for retail, typically closely tied to those for all commercial, are also differentiating away from office purchase prices, rising above by around 5-15%.

Within the retail sector strata sale yields tend to be higher than en-block yields as a result of longer divestment periods and increased marketing expenses. Based upon market average rental yields and per square meter sales prices (primary market), average implied rental yields are around 11% in the Ulaanbaatar retail market. Future price growth in the retail rental markets are forecasted at 1-6% annually over the next five years, with capitalisation rates set to fall off into high single digits. Rental price growth in the retail sector over the coming 36 months is set to show recovery, with 2015 forecast rental growth at 5-7%, dropping back in 2016 to between 2 and 5%. The rally and drop-off comes with an expected influx of new brands into the market with the completion of key retail facilities, such as the Shangri-La and Olympic Residence retail facilities. In the meantime key retail players, including Nomin Holdings LLC and Naran Group, will continue to populate their own facilities with international high-street brands, filling current B+ grade space and driving competition for space in adjacent high-street and mall-style facilities.

Moreover, of the top 50 global retail brands in 2013 none are represented in the Mongolian market at present. Just over 40 major international retail brands presently represented in Ulaanbaatar, leaving a potential 80+ new market entrants expected in the coming years. Competition is already heating up in the race to bring new brands into this marketplace. With the opening of Naran Mall during 2013, housing 18 international brands (including clothing and cosmetics, alongside the first Coffee Bean and Tea Leaf franchise in the city). Overall pipeline supply in the Ulaanbaatar market consists of 101,464 square meters, scheduled to come online in the good grade retail markets over the next five years. This is a dramatic rise in new supply, meaning expected absorption levels, typically high, will likely drop off by 10-15% - particularly in overcrowded sub-markets (such as the department store and shopping centre sub-market).

Retail concepts do remain limited at present, although a number of developers have put forth plans for mega-mall style projects, with big-box style retail and Korean-inspired ‘shopper-tainment’ facilities also on the development radar. Mixed in with more typically Asian-style markets and malls, as well as Russian inspired department stores, the mix of retail options available in Mongolia belies the small population and shows great potential for continued concept differentiation. Second-tier brands, including Lacoste, Diesel, Dior, Benetton and Tommy Hilfiger, already have a presence in stores across the city, evidencing accelerated growth of retail markets into the mid-upper market - a trend likely to continue in the mid-term.

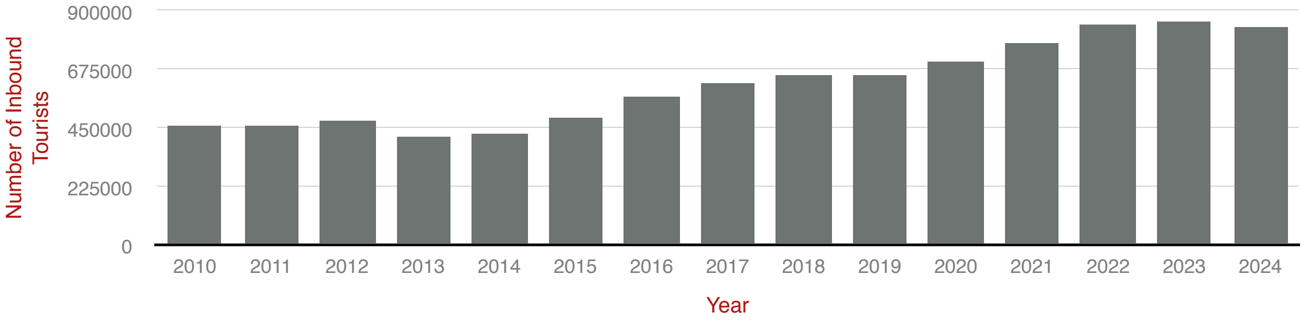
In terms of the geographical spread of new retail facilities, power centres appear to be moving southwards and to the west of the city at present. The Stadium area will see an estimated 30,193 square meters of new retail space, all mid-upper end, enter the markets within the coming six years. This is broadly double the expected retail space growth in the Zaisan area. With an in-situ residential population expected to be much larger than that of the Embassy Area, Yarmag or Peace Avenue by the mid-term, the Stadium area maintains a far higher population to future retail supply ratio than any of these areas. This is important as many key mid-end markets are highly proximity sensitive at present. The Stadium area retail markets thus represent significant untapped market potential. The Yarmag area will likely see the largest single square meter volume of new retail supply as part of future supply. This will be spread across several key ‘out-of-town’ shopping mall style facilities, including the Hunnu Mall and planned Centre Point Park project (both of which will bring over 20,000 square meters of retail space to the market).

As households upscale from around the city centre and seek to move to new residential facilities, such as the supply of new mid- to upper-mid end retail in the Stadium area, traditional retail power centres - based as they are upon proximity to a population with suitable spending power - are expected to move with them. A key target for this is the 3rd Sub-District of Bayangol District. Traditionally an area catering to mid-end retail facilities and a key power centre for high-street retail, the area is expected to begin to lose status over the coming five years. The extant tranche of retail facilities along the main shopping street of the 3rd District are often ageing and potentially inadequate to the requirements of new market entrants. As the in-situ population gradually moves away from this area to new housing in the Stadium area, Zaisan and new developments within Bayangol district, the purchasing power that has sustained these areas will move with them. New market entrants and existing domestic and international brands will also seek out more up-to-date retail facilities such as those being built in high-growth areas of the city. It is therefore quite plausible that the retail hub that has been the 3rd District may indeed transform in the mid-term.

5. HOTEL MARKET

The number of tourists visiting Mongolia during the first 10 months of 2013 decreased by 12.8% compared to the same period the previous year. During this period 366,095 people entered Mongolia for purposes of tourism. This drop off in tourism numbers by over 1/10th is likely attributable to the falling reputation of Mongolia in terms of FDI and a concomitant drop-off in number of business travellers entering Mongolia during 2013-2014 (which remain difficult to distinguish from genuine tourists based upon immigration figures). Based upon historical trends in tourism figures M.A.D. analysts estimated growth based upon development of travel infrastructure into Ulaanbaatar, expected exposure in international press and macroeconomic economic growth estimations. These lead to a projection of 841,346 tourists inbound into Mongolia per annum by 2024. This provides a CAGR for inbound tourists will be 6.5% from 2013 until 2024. This figure would equate to a demand for up to 714,000 room nights. High estimates in terms of supply growth would see 4,680 hotel rooms in the upper end of the Ulaanbaatar hotel market by 2024. This squares to around 1.62 million room nights (2.7 times the current supply and indicative of a CAGR of approximately 9% per annum). The low projection would see 3,834 rooms in the market by 2024, as a result of a continuing mistrust of the mining economy in Mongolia and slow FDI return - representing a supply of room nights in the market up to 2.27 times the expected demand according to market projections. The current market has an estimated number of room nights available at 586,000 and a total reported uptake of around 214,339 rooms per annum, equating to a supply 2.7 times that of demand.

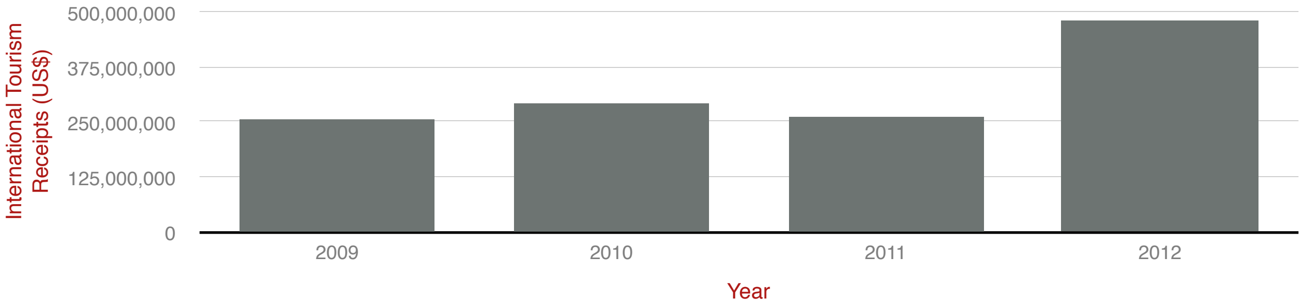
GRAPH 18: Inbound Tourism Projections Until 2024



Source: NSOM / MAD Research

Since 1994, the number of hotel rooms in the market has expanded with a CAGR of 10%, with fastest growth registered between 2009-2013. Over the known supply pipeline (2014-2020) key growth CAGR is 8.9%, representing a slight increase over recent years. The numbers of new rooms introduced at the upper end of the market represents around 82% of current 3*+ room supply. Total room nights in pipeline supply for Ulaanbaatar reached just over 419,582 nights per annum based upon new hotel project announcements during 2013 and 2014. Despite several projects being cancelled as a result of delays (with 1,165 rooms being removed from the future supply pipeline) the number of room nights in future supply - all concentrated within the domestic 4*+ markets and international 3*+ markets - will have significant impact on the existing market, forcing domestic hotel brands to realign at a lower price point. Fears of oversupply of hotel rooms is very real with business travel noticeably slowing during 2013-2014.

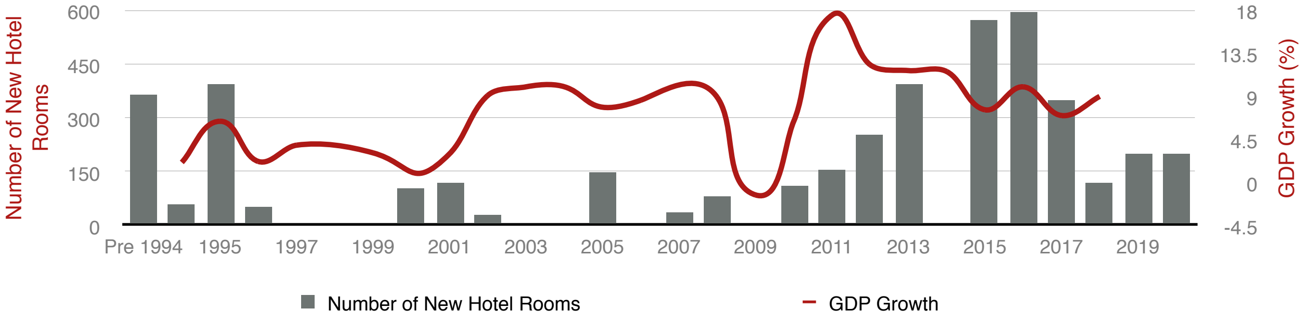
GRAPH 19: Intervational Tourism Receipts 2012



Source: NSOM

Average occupancy rates projected through the next five years are around 41% across the broad 3*+ market in Ulaanbaatar.

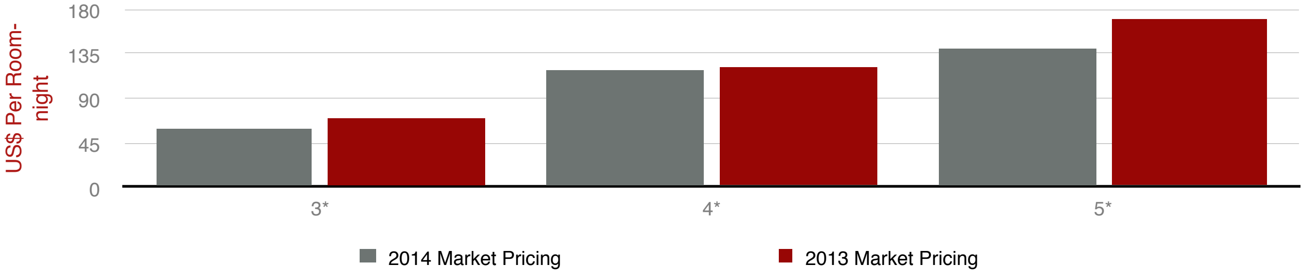
GRAPH 20: Numbers of New Hotel Rooms by Year in Ulaanbaatar Mapped Against GDP Growth



Source: MAD Research / World Bank

A factor which will significantly impact tourism in Mongolia is seasonality. The true tourism market remains highly seasonal and whilst business travel has taken on more of a year-round character, the mainstay of tourist and business travel in Mongolia occurs within the summer months (June to September). Peak occupancy in Ulaanbaatar hotels occurs within these months, whilst December to February display the lowest rates. Among high-end hotels occupancy may fall as low as 24 - 27% during the winter months, rising as high as 75% during the mid-summer season. At the peak of the 2013 tourism season, the estimated total room-night uptake in Ulaanbaatar's good grade hotel markets was estimated at around 50,000 room nights over the course of a month. This would mean that an estimated 1,720 rooms were occupied at any one time during August.

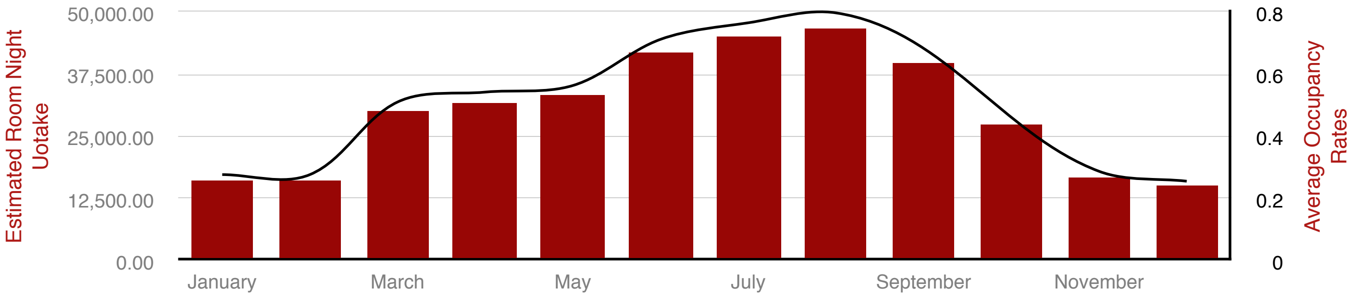
GRAPH 21: Average Market Rack Rates (Per Room Per Night), Lowest Achievable in Ulaanbaatar Hotel Markets 2013-2014



Source: MAD Research

The tourism industry alone in Mongolia was worth an estimated 292.2 million USD at the end of 2012, employing 36,500 people. This represents 3.4% of the total economy of Mongolia. The combined total value of the Mongolian travel and tourism economy was estimated for the same period at 757 million USD. Overall, mid-term projections indicate that growth in this area is expected to be slower than other areas of significant growth, with 2013-2020 estimated GDP growth in the travel and tourism industry projected at just 6.2% - below overall projected GDP growth for the same period.

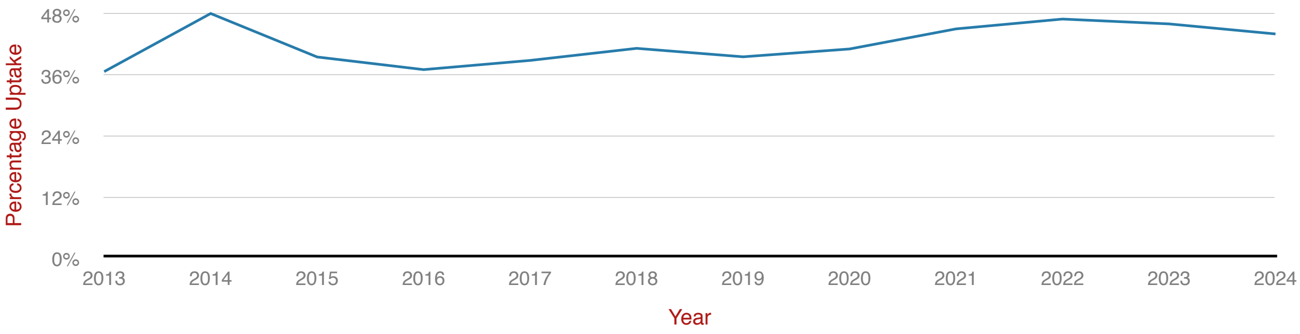
GRAPH 22: Seasonal Occupancy Reported 2013



Source: MAD Research

Within the World Economic Forum's Travel and Tourism Competitiveness Report 2013, Mongolia stood in 99th place out of 140 countries surveyed. The nation's travel and tourism sector scored most highly in the areas of safety, hygiene and health, price competitiveness and availability of qualified labour. Nevertheless, it scored low in terms of infrastructure for tourists and travellers. This remains a recognised and highly significant issue. The unified travel and tourism facilities and infrastructure required to effectively grow the market are not presently in place. Overall transport and infrastructure networks outside of the capital city and very limited, hampering suitable growth in volume of tourism to area of natural beauty across the nation. Moreover, market actors tend to operate in a highly competitive, unregulated and unintegrated manner, with limited co-operation or standardisation hampering the overall development of the sector.

GRAPH 23: Supply / Demand Uptake Projections - Occupancy Rates Projected unti 2024



Source: MAD Research

The Government officially indicated that tourism would be one of three sectors (along with mining and agriculture) to be the focal points of growth during the next few years. Prime Minister Altankhuyag has released optimistic projections for the tourism industry, stating that the Government is expecting a gradual increase in numbers of inbound travellers, with 600,000 projected for 2015, 800,000 for 2016 and one-million for 2017. These figures seem entirely too optimistic, even with the completion of a new airport. A more cautious approach is bourn out by empirical observations concerning the current emptiness of flights into and out of Mongolia and struggling domestic airline operators across the board. The Government announced during 2012 it that it would spend around 18.8 billion MNT on promotional, marketing and capacity building activities in the tourism sector until 2017. Plans also exist to increase the number of countries whose citizens can travel to Mongolia visa free from just 17 at present to around 50.

The upper end of the hotel market has seen significant growth over the past half-decade as a direct result of the overall growth in the Mongolian economy and dramatic increases in business tourism. A pipeline supply of 1,173 hotel rooms is expected to come online within the luxury and business segments over the coming four-to-five years. This represents a 140% rise in the current number of hotel rooms in this segment of the domestic and international market. A full 62% of the total projected supply of hotel rooms in the Ulaanbaatar will be implemented with foreign management or ownership, in contrast to the current 17% of the current supply. This sub-segment of future supply alone represents a full 47.9% of the total current room supply in Ulaanbaatar.

Statistic	Data
First international entrant into Ulaanbaatar hotel market	Kempinski Khaan Palace (2005)
Most recent international entrant into Ulaanbaatar hotel market	Best Western Premiere Tuushin (2013)
Average price per night in the current 4* market in Ulaanbaatar (low season SO to high season DO)	$82 - 339
Average price per night in the current 5* market in Ulaanbaatar (low season SO to high season DO)	$118 - 364
Per night price growth per annum 2009 - 2014 CAGR	9.54%
Highest rack-rate per night in the Ulaanbaatar market (low-season single occupancy)	Best Western Premiere ($264 per night)
Lowest rack-rate per night in the Ulaanbaatar market (low-season single occupancy)	Evergreen Hotel ($27.40 per night)
Highest number of rooms in a single project	Bayangol Hotel (215 rooms) In future supply the Shangri-La Hotel will contain 273 guest rooms
Current room supply across the 4*+ market	1,230
Future room supply across te 4*+ market	1,173
Average growth in number of rooms 1994-2014 CAGR	10%
Average number of new rooms entering the market 2014-2021	391

Source: MAD Research / NSOM

The drive towards the upper end of the market and concomitant entry of international hotel brands into Ulaanbaatar has been spurred by double-digit growth in the national economy and an upsurge in the numbers of business travellers. An influx of foreign business travellers was one significant reason for a jump in nominal tourism figures from 2010-2012. Numbers of inbound passengers into Mongolia jumped 11.9% during this period, before falling off again during 2013. Of those officially registered as tourists, figures jumped by 4% during this period, from 456,000 to almost 476,000. Due to the fact that most business travellers questioned travelled on tourism visas - these observations are backed by the strong correlation between business growth and tourism growth - it is a fair assertion that business travel has made up the majority of growth in the tourism/travel market and will continue to do in the mid-term.

The top performing hotels in terms of occupancy remain the Kempinski Khaan Palace and the Corporate Hotel, with Blue Sky now in the race for this title. Average occupancy recorded for the Kempinski Khaan Palace and the Corporate Hotel approach 70%. Blue Sky Hotel saw occupancy rates jump during the summer of 2013 and is rapidly becoming the go-to business hotel in Ulaanbaatar thanks to its location. At present 5 of the top 10 hotel management chains internationally are present in Ulaanbaatar (Hilton Hotels, Marriott International, Wyndham Hotel Group, Accor and Best Western). Overall there are seven international hotel brands represented in this market, with the inclusion of Shangri-La and Kempinski. Spanish chain Melia and Ritz Carlton are also expected to enter the market with partnership projects being initiated over the next year.

Opportunities exist at the uppermost end of the luxury market and the mid-end range. Heretofore, the luxury markets have been scantly catered to within Ulaanbaatar as local operators lack the knowledge, training and infrastructure to deliver the highest standards of service expected by discerning business travellers. At the mid-upper end of the market, groups such as Best Western Premiere and Ramada have established a presence in Ulaanbaatar, with Accor set to introduce a 120 room Ibis hotel in Khan-Uul District by 2016-2017. In terms of pricing, Ulaanbaatar hotel markets are expected to come more into line with international pricing trends at the upper end of the market. During 2014 the average price per night for 3 star accommodation was US$ 60 per night, with 4 star hotels averaging US$ 119 per room per night and 5 star hotels in the domestic market averaging US$ 140 per room per night.

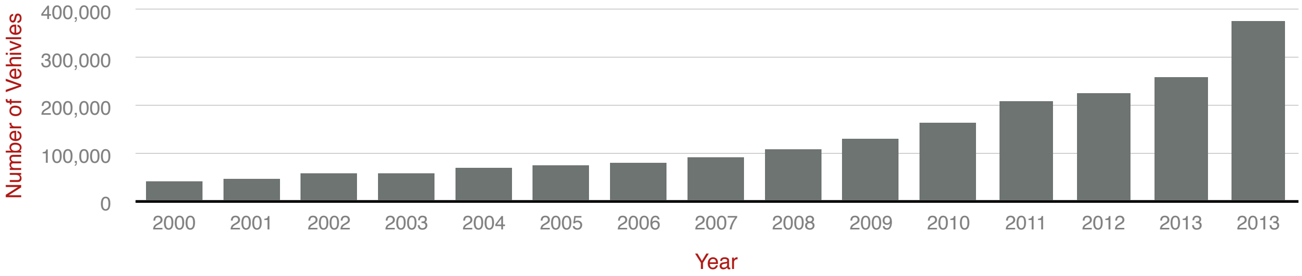
Analysis of differences between highest achievable rates (luxury rooms, double occupancy, high-season) and lowest achievable rates (basic rooms, single occupancy, low-season), indicates high variance. This is brought on by extremely low occupancy in low-season and a necessity to offer very attractive incentives. The 5* and 4* markets show distinct similarity between rates, with the lower end of the 5* range being around 30% higher than 4* rates. Hotels in the CBD of Ulaanbaatar can typically charge a premium based upon location factors. City centre hotels tend to be more established and able to achieve higher yields - in the order of 40% above the broader Ulaanbaatar city hotel markets (based upon analysis of lowest achieved rates). At present the average capitalisation rate pertaining across the Ulaanbaatar hotel market is 8.1% - based upon analysis of a limited number of transactions and valuations from a market that rarely seems hotel facilities transact at this time.

Overall, the Ulaanbaatar hospitality markets are driven primarily by location factors. A small but burgeoning CBD has become the nexus of business travel and hence of the upper end hotel market. With limited infrastructure to support a large luxury tourism segment the tourism markets are very much limited to backpackers and low-end travellers, who enjoin semi-formal and informal tour operators in arranging their travels in Mongolia. The overall sector still demands greater professionalisation and dramatic improvements in levels of service. With international luxury market entrants already lining up to initiate operations, the unerring attention to detail and out-of-the-ordinary levels of service expected by customers may finally become a reality in Ulaanbaatar.

6. PARKING MARKET

Demand for parking spaces far and away exceeds supply in Ulaanbaatar at the present time. With numbers of vehicles on Ulaanbaatar's roads increasing year on year, the situation is only getting worse. In 2008 108,000 cars were registered in Ulaanbaatar city. By the end of 2013 this had grown by to 375,000, with an average of 180,000 vehicles using the roads of central Ulaanbaatar on a daily basis. This equates to around 9,000 per hour during rush-hour periods. Government projections indicate that by 2020 numbers of vehicles using the capital city's roads will swell to around 920,000 unless there is significant intervention.

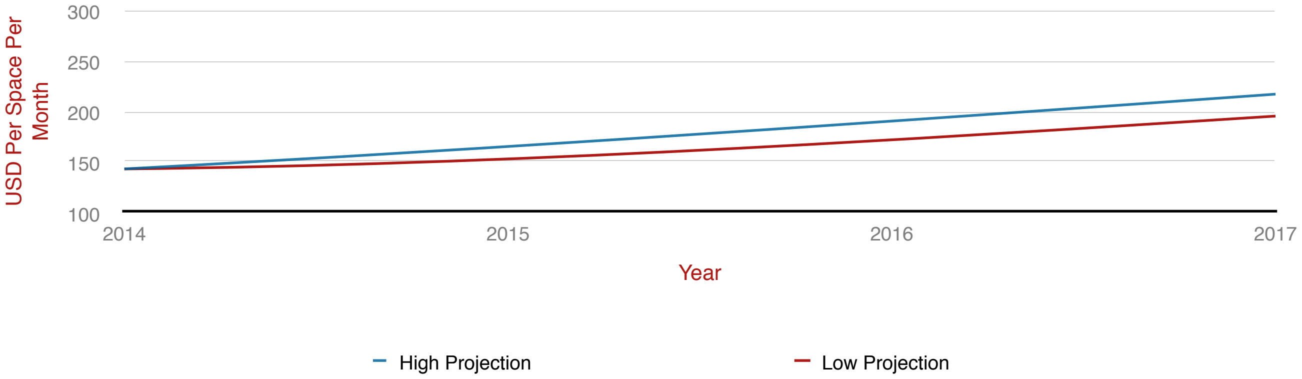
GRAPH 24: Number of Vehicles Registered in Ulaanbaatar



Source: UBStat.

The traffic situation is exacerbated by the fact that there are presently few off-street parking facilities in the city centre of Ulaanbaatar. In the early years of rapid commercial real estate development - following the 1991 transition - few developers paid significant attention to parking. The prohibitive cost of digging down to build significant stocks of underground heated parking (important when winter temperatures rarely get above -20 degrees centigrade) meant that most developers continued to build only limited supplies of parking.

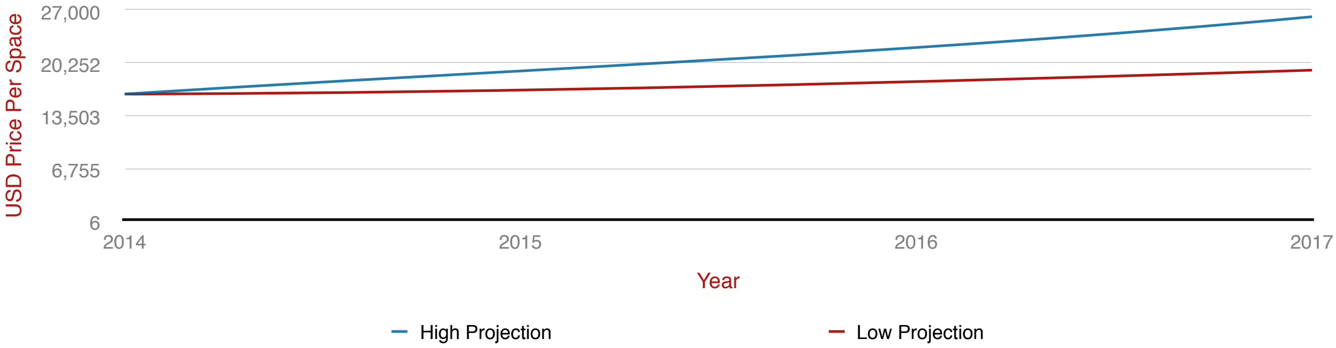
GRAPH 25: Parking Space Rental Per Month Price Projections



Source: MAD Research

The average pre-sales price of a parking space in under-construction residential developments during Q4 2013 was 19.853 million MNT, with spaces in upper end developments in Khan-Uul district topping the list at a average 25 million MNT per space. The densifying urban areas of Sukhbaatar, Bayangol, Khan-Uul and Bayanzurkh districts displayed average pre-sales prices per space of between 20.25 million MNT and 24.12 million MNT.

GRAPH 26: Parking Space Purchase Price Projections



Source: MAD Research

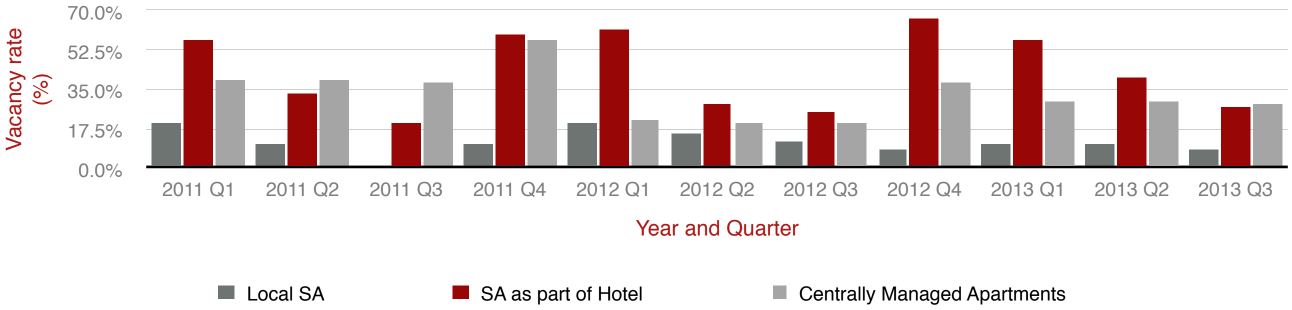
The overall highest pricing in the parking markets was recorded in Encanto Town, where a dedicated multi-level, indoor parking facility, the first of its kind in Ulaanbaatar, has been constructed. A space in this facility, which has now sold out, would set the buyer back 40 million MNT. Chingeltei and Songinokhairkhan district developments displayed by far the lowest average prices for garage space, at an average 15 million MNT and 14 million MNT respectively.

Garage rental rates are also significant. MCS Central Tower is renting spaces for a monthly fee of 250,000 MNT. This does not include weekend parking (added at extra cost or rented out on an hourly basis to shoppers and business users). Based upon current upper end prices for parking spaces in central Ulaanbaatar (where available), this would equate to a yield of 7.5-10% per parking space. Private garage rental markets indicate even better returns, with per month pricing of garages reaching over 300,000 MNT.

7. SERVICED APARTMENT MARKET

The serviced apartment concept involves creating a living space rather than business space for its customers. These may incorporate family spaces, fully equipped kitchens, high quality furnishings and personal care facilities, as well as shared on-site facilities. Internationally, high quality serviced apartments will offer hotel-style facilities such as fitness centres and business centre, which are significant advantages over private apartments for lease, particularly in expatriate and executive markets.

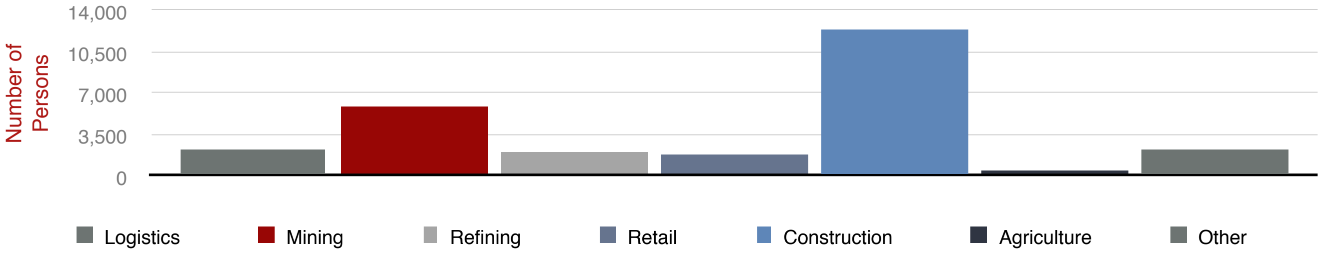
GRAPH 27: Vacancy Rates from 2011 to Q3 2013 Across the Ulaanbaatar Serviced Apartment Markets



Source: MAD Research

There are presently no international serviced apartment operators in Mongolia, despite several international firms having spent considerable time investigating the markets during 2011-2012. Within Ulaanbaatar only the Bella Vista project, developed and managed by MCS, operates under a standard serviced apartment model. The local market also contains variants on the serviced apartment model operated by local investors, including centrally managed stocks of apartments owned by private investors. This model is followed by MAD Investment Solutions, which maintains a significant supply of inner-city apartments, renovated to international executive standards.

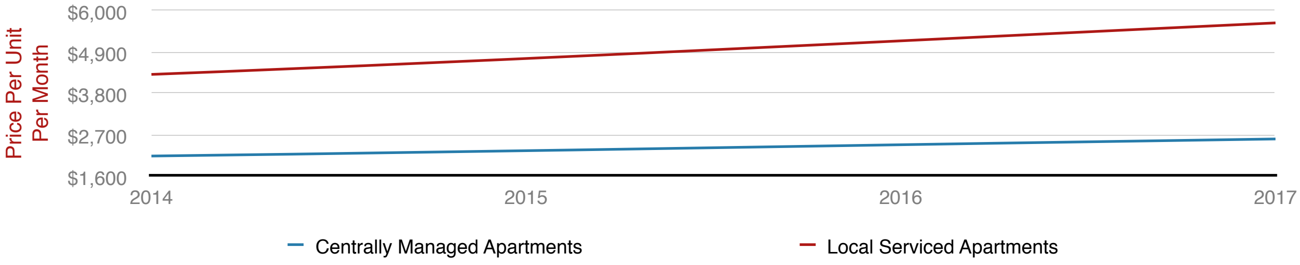
GRAPH 28: Number of Resident workers in Mognolia in 2013



Source: Mongolian Immigration

Between 2005 and 2013 a total of 42,860 foreign nationals received permission to work in Mongolia. Immigration Authority figures indicate that the total number of foreign workers resident in Mongolia is in 2013 was close to 37,000. The vast majority of these workers are Chinese, who make up 85% of the total legal foreign workforce in Mongolia. The Chinese labour force in Mongolia has provided the manpower and expertise to sustain the construction boom in the mining and real estate, although a slight slowdown in initiation of new construction projects and stricter immigration controls during 2012 meant that of Chinese nationals entering the country dipped below 2011 figures and has not risen above since. The remaining 20% of foreign nationals issued with work permits come from 108 countries.

GRAPH 29: Pricing Changes from 2011 to 2017 Projected Across the Ulaanbaatar Serviced Apartment Markets



Source: MAD Research

In the mid-term expatriate demographics in Ulaanbaatar are set to shift as the the build-up of expatriate technical and executive staff required by projects such as the lynchpin Oyu Tolgoi project tapers. Nevertheless, as numbers of management and executive level expatriates involved in mining diminish, the growth of the financial sector and renewed foreign investment will bring with it the need for more executive level international personnel. Moreover, Mongolian citizens who have repatriated after studying and working abroad often bring with them international tastes in terms of lifestyle and are boosting a growing executive and upper-end rentals market.

Serviced Apartment Submarkets

	No.of Units	Representative Projects	Description	Operation	Trends
Local Serviced Apartments	78	Bella Vista	78 Luxury residential units in two 20 level towers for long term lease by local operators.	These apartments are operated by the management of the Bella Vista facility (MCS) and maintain of-site facilities including spa/gym and restaurants.	Luxury market developers are increasingly proposing serviced apartment products as part of mixed use or residential developments in order to attract the upper end of the market.
Hotels with Serviced Apartments	6	Continental Hotel Corporate Hotel	Serviced apartments are offered within hotel developments by local hotel operators	A small proportion of rooms available will be fitted with small kitchens in order to cater to long-term guests.	As the local hotel market expands serviced apartment supply will increase as a small percentage of total rooms available on the domestic market.
Centrally Managed Apartments	28	Regency Residence M.A.D. Serviced Apartments	Serviced apartments in residential buildings held en-bloc or distributed apartments across the city center owned and managed by in serviced apartment style professional real estate companies.	Developers and investment managers serve as management companies for these units.	Presently the third largest sub-market in terms of number of units, this sector will increasingly merge with long term rental markets as international operators take up larger market share.
International Serviced Apartment Operators	0	None in current market	Projects under management of international operators	International standard facilities, including centralized management and facilities, aimed at international executive markets.	International operators have already explored the Ulaanbaatar markets and it is expected that international operators will offer serviced apartments in facilities such as the Shangri-La (completion in 2017)

Source: MAD Research

As of Q4 2013 occupancy rates remained high across the local serviced apartment and centrally managed serviced apartment sub-markets. Bella Vista estimated a vacancy rate of just 10% (a small rise over the previous year as a result of the slowdown in growth of the Mongolian economy and significant flight of foreign investment). M.A.D. Investment Solutions have reliably reported near 100% occupancy annually during 2012-2013. Hotel based serviced apartment facilities express higher vacancy rates, particularly during the winter season, with averaged annual vacancies of between 25-44% (it is of note that only the Corporate Hotel among upper-end of the hotel market maintains a very small supply of serviced apartment style rooms).

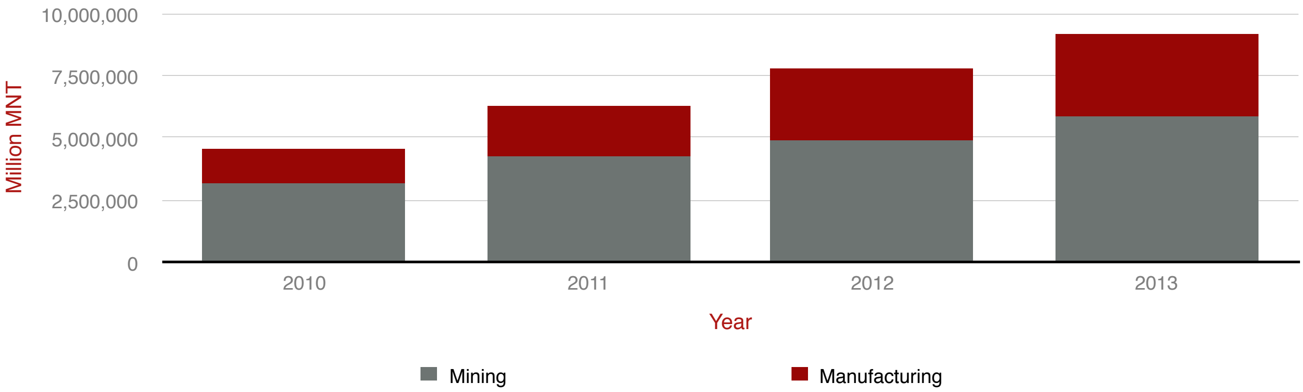
With a single domestically operated, centrally managed serviced apartment facility in Ulaanbaatar at present, pricing does not benefit from competitive adjustments. Bella Vista, by MCS Properties, is the only operator currently providing such facilities, charging a luxury market premium of between US$ 3,900 - 4,300 per month per apartment. When this is contrasted with the US$ 2,019 - US$ 3,898 per apartment per month for Fraser Suites in Beijing, prices appear to be closing in on the international markets already. Nevertheless, per square meter analysis changes the picture somewhat. Fraser suites charge around US$ 46 per square meter per month within their key Beijing property, whilst Bella Vista, with its stock of far larger apartments, yields, on average, just US$ 22.9 per square meter. New serviced apartment supply will be closer to the CBD, more efficiently designed and more compact, with potential for significant improvements in per square meter yields over the mid-term for new international operators managing international standard facilities.

Supply in this sector is set to grow rapidly from 2017 onwards as developers, already aware of the potential in this market, bring online a new tranche of upper end serviced apartments. These are set to incorporate integrated business and leisure facilities. Some future supply is already reliably indicated. This includes 52 serviced apartments as part of the MCS/Shangri-La project, coming online in 2016-2017 and the Gran Melia, expected around the same time (potentially 2018). In October 2011 MAK Group also announced that their MAK Tower project would include a stock of 22 serviced apartments as part of a Hyatt Regency hotel. However, the entire future of the MAK Tower project is presently in the balance as the project has failed to find suitable financing. Hyatt are reliably thought to have exited the project altogether at this time. Nevertheless, estimated total future supply in the current pipeline is 132 serviced apartments, to be completed up until 2017.

8. WAREHOUSING AND INDUSTRIAL MARKET

Whilst Ulaanbaatar boasts a copious supply of old and run-down warehouse facilities, heated, well insulated facilities with connections to infrastructure are not widely available. The majority of existing supply within Ulaanbaatar was built to house light industry, manufacturing and logistics during the socialist era. The precocious development of the mining and mining supply sectors in Mongolia has been the driving force behind development of the warehousing sector, although the transport and logistics sector is bolstering current demand both within the capital city. Warehousing demand is expected to grow significantly as the nation continues to import more and more of everything from basic food-products to automobiles and electronic goods.

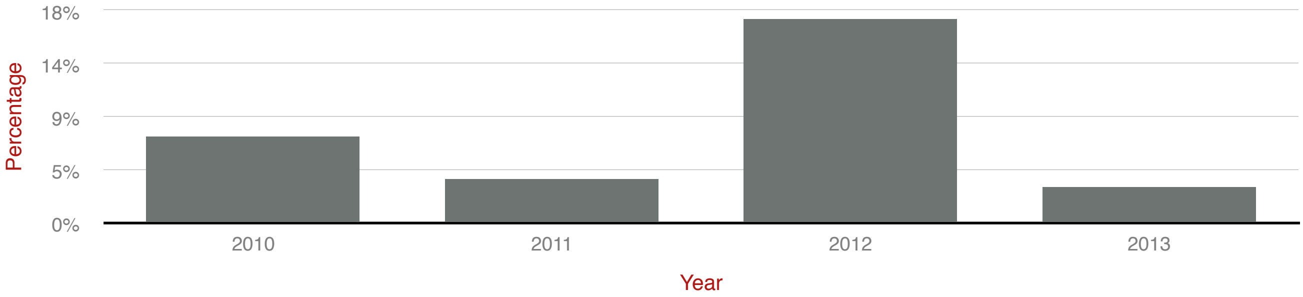
GRAPH 30: Contribution of Mining and Manufacturing Sectors to Gross Industrial Output of Mongolia



Source: NSOM

Analysis of the Gross Industrial Output of Mongolia indicates that industries that would require warehousing continue to grow in terms of contribution to GIO. Of these sectors mining remains by far the greatest contributor, providing between 58% and 62% of GIO since 2010.

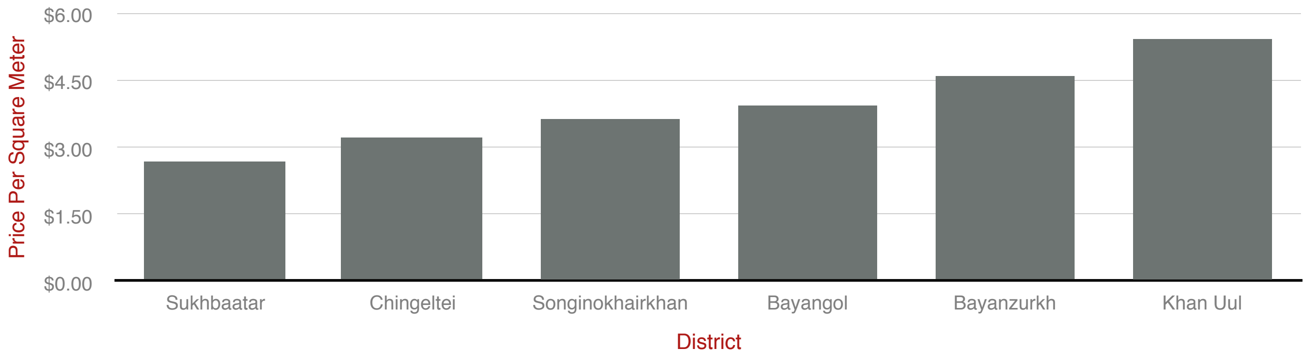
GRAPH 31: Percentage Contribution of Industrial and Warehousing Construction to the Total National Construction & Capital Repairs Output



Source: NSOM

At present there are nine existing rail terminals within Ulaanbaatar within the central areas of the city, these freight terminals require additional investment and are reaching the limits of capacity. This led to the Ulaanbaatar City Authority making the decision to partner with the private sector in order to relocate existing terminals. To this end the City Authority allocated 130 hectares of land and initiated a joint-venture with Tuushin LLC to develop a unified freight forwarding terminal for Ulaanbaatar. Supported by the ADB, the project is ready to initiate, based upon a unified freight and transport infrastructure for the city that links the airport and rail lines, whilst removing industrial and warehousing functions from around the core of the city towards the periphery. This will begin to free up more land for commercial and residential functions closer to the core of the city and redress inefficient land use policies familiar across formerly centrally planned economies that situated manufacturing and space-intensive facilities close to city centres as a result of a lack of demand-based allocation principles.

GRAPH 32: Warehouse Average Rental Pricing by District - Per Square Meter Per Month



Source: MAD Research

The proposed freight centre will include a container area, domestic bulk warehousing, customs warehousing, a bulk cargo area, wholesales area and all associated utilities. It will be have sufficient capacity to handle 45,000 - 480,000 containers per annum and offer transhipment facilities for 530,000 - 2,100,000 tons per annum. Bulk cargo transshipment capacities are projected at 1.5 - 11.5 million tones per year.

Average rental prices across the broad warehouse market in Ulaanbaatar were just US$ 3.44 per square meter per month during Q1 2014. Warehouse facilities in Songinokhairkhan district displayed the highest prices per month. This is due to the fact that this area, with more plentiful land for industrial redevelopment, has seen more new warehouse and distribution facility developments in recent years. This is also the industrial development hub of Ulaanbaatar at present, with excellent links to existing rail and road freight networks. This is set to change with the development of new out-of-town, integrated freight handling and distribution facilities. Warehousing in downtown locations does rent at a premium of around 30% higher than market average, with chilled warehouse facilities renting at close to 100% above market average at over US$ 6 per square meter per month. Facilities within easy reach of the railway typically incur a premium of around 20-25% over the market average. Newer, well serviced warehouse facilities tend to lease at the higher end of the current bracket, at around US$ 6 per meter per month, with some secure, partially climate controlled facilities leasing at around US$ 12 per square meter during 2013.

The highest rental price per square meter in Ulaanbaatar is presently being achieved out of Crown Relocation’s new 10,000 square meter warehousing facility in Khan-Uul District. Storage in this secure, climate controlled and ecologically friendly facility starts at US$ 45 per square meter, with most clients storing highly sensitive materials and documents in this world-class facility.

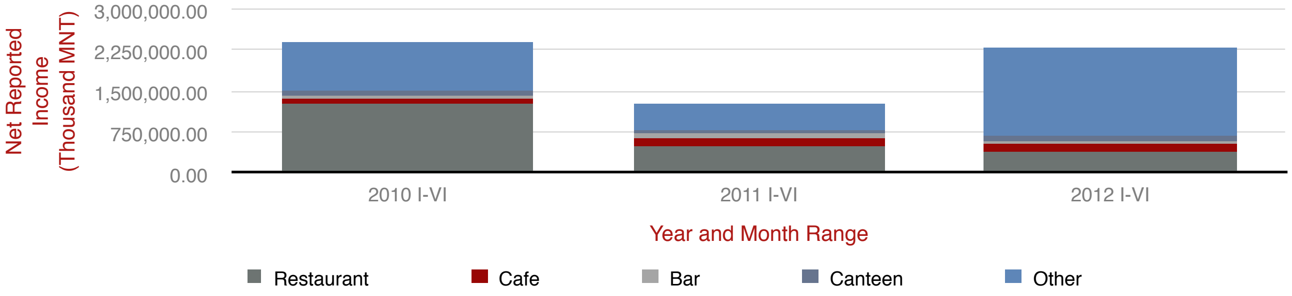
Whilst rising purchase prices are pushing down rental yields, warehousing in Ulaanbaatar, and beyond, continues to represent significant yield potential of up to 7.7% per annum (after taxes on income and property are paid - excluding purchase and disposal costs and utilities) for A grade facilities.

In terms of transaction prices recorded in the warehouse market of Ulaanbaatar during 2013, the average stood at US$ 220 per square meter, up from US$ 197 per square meter during the previous year (a rise of 11%). This would purchase a small, poorly maintained warehouse, not connected to infrastructure, located in Songinokhairkhan District of Khan Uul District, with reasonable access to transport networks. New B and A grade facilities transact at an average of around US$ 571 per square meter, edging towards retail prices as a result of high demand. At the upper end of the market, construction costs for new warehousing might run to US$ 1,299 per square meter (for a warehouse facility in Songinokhairkhan District with office facilities attached full security and excellent links to logistical hubs), although warehouse facilities tend not to transact very frequently tend to be owner occupied. Where they do change hands they are often repurposed - as is happening frequently across Khan Uul district’s southern corridor at present, with warehousing and industrial facilities being redeveloped as residential and retail/office spaces.

9. ENTERTAINMENT MARKET

Entertainment markets in Ulaanbaatar remain somewhat nascent. Nevertheless, as a young middle-class population - open to and knowledgeable about international entertainment trends - gains access to growing disposable incomes, entertainment is becoming a key growth sector and a lynchpin draw factor for mixed-use projects.

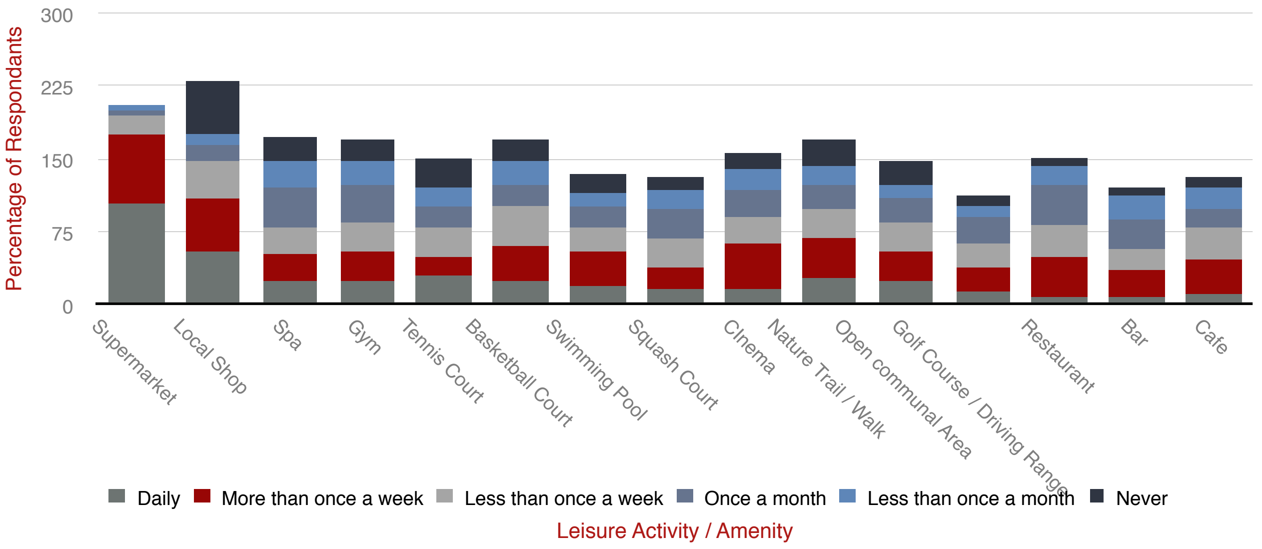
GRAPH 33: Net Reported Income of Food and Beverage Industry



Source: NSOM

There is increased impetus in recent years to develop alternative retail formats that fully take into account demand for entertainment facilities. Whilst the overall retail markets show little sign of fatigue, new lifestyle and 'shopper-tainment' concepts are emerging, with more sophisticated centres of retail power likely to be moving south into the Stadium area and east along the new airport road into the Yarmag area. The 'destination mall' type facility is expected to become a key component of the future retail markets in Ulaanbaatar. Successful facilities will require keen attention to shopper experience and expert management in order to succeed. Whilst a combination of present limitations on transport infrastructure and a small overall urban population (Ulaanbaatar is home to a little under 1.3 million people) remains a considerable barrier to entry for larger scale retailers and international high-street brands, Ulaanbaatar's consumer culture is developing at a rapidly, with the demand for new brands and new retail concepts unlikely to abate anytime soon.

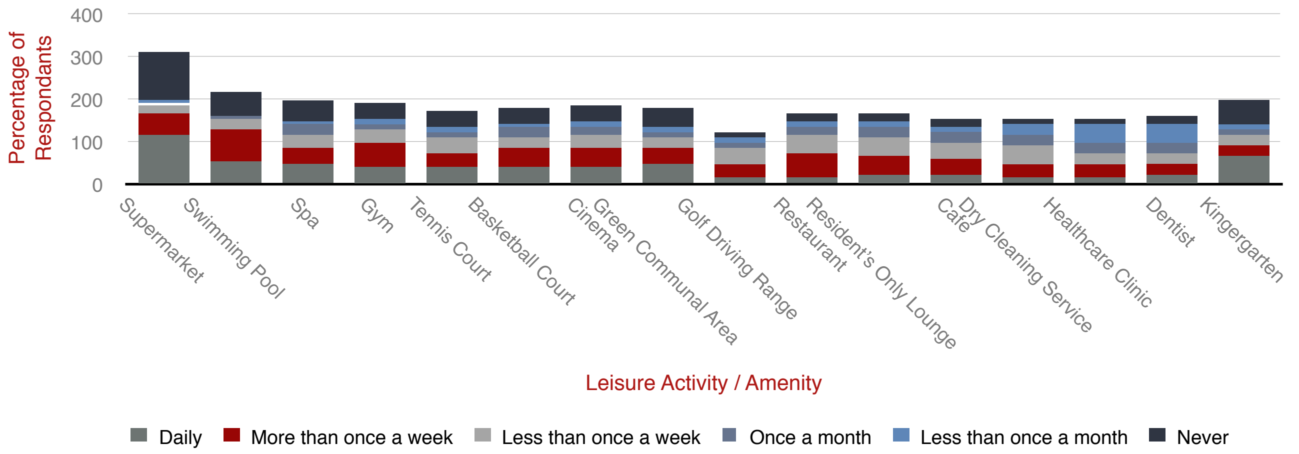
GRAPH 34: Frequency of Facilities Use Q1 2014



Source: MAD Research

A total of 63.3% of Mongolia's total population now live in urban centres, with the capital being home to a conservative estimate of 1.3 million people. Expected growth of entertainment markets is being fuelled by rising real wages and growing desire among the population of Ulaanbaatar for novel entertainment and new leisure activities. One key entertainment sub-market, and a burgeoning business within Ulaanbaatar, is the cinema industry. Presently there are four multiplex cinema facilities in the city, with a total of 14 screens, showing international blockbusters and local productions to inevitably packed auditoria on evenings and weekends. A total of 105 different foreign films were screened in cinemas in Ulaanbaatar during 2013, with 12 domestically produced films also screening. This represents a 54% increase in the numbers of foreign films available within the Mongolian market over a four year period, evidencing the significant demand among the Ulaanbaatar population for filmic entertainment and for international culture. The two major operators, Tengis and Urgoo, have developed exceptionally successful business models. Both are presently seeking to expand operations and bring new technology (including IMAX screens) into the Ulaanbaatar cinema markets.

GRAPH 35: Frequency of Facilities Use - Potential



Source: MAD Research

During 2013 there were 1,716 performances by professional art organisations. This number has fallen back since 2010 by around 18%, evidencing a movement away from traditional performance arts in the Mongolian cultural landscape, towards a concern with contemporary entertainment facilities. Visitors to museums grew sharply during 2013 to 595,300, up 75% year on year as a result of the construction of a temporary museum facility in Sukhbaatar Square, hosting temporary exhibitions including the display of the bones of the Tarbosaurus Baatar.

Cinema Future Supply

Project Name	Degree of Confidence and Notes	Timescale	Number of Screens	Project Name	Degree of Confidence and Notes	Timescale
Hunnu Mall	Will be implemented.	2014	3	**Hunnu Mall**	Will be implemented.	2014
Hunnu Mall	Will be implemented.	2014	3	**Hunnu Mall**	Will be implemented.	2014
Zaisan Hill	Will be implemented.	2015	Unknown	**Zaisan Hill**	Will be implemented.	2015
Theatre City	Potential for incorporation of cinema facilities (not confirmed)	2018-2019	Not yet in planning	**Theatre City**	Potential for incorporation of cinema facilities (not confirmed)	2018-2019
RC Site (Adjacent to Kempinski)	Cinema proposed as part of initial plans.	2018-2019	Not yet in planning	**RC Site (Adjacent to Kempinski)**	Cinema proposed as part of initial plans.	2018-2019
IMAX	Confirmed that two new screens will be implemented in an as yet undisclosed location.	2015	To be incorporated into existing facilities	**IMAX**	Confirmed that two new screens will be implemented in an as yet undisclosed location.	2015

Source: MAD Research

During Q1 2014 MAD researchers undertook a preference survey among a sample of 250 middle-class Ulaanbaatar households in order to determine preferences in terms of entertainment facilities. Part of this survey asked respondents to identify which facilities they frequented from a list of 15 entertainment, leisure and services facilities presently available in the capital. A full 28.7% of respondents indicated that they visited a cinema more than once a week, 23.2% of respondents used a gym either daily or more than once per week. Almost 20% of respondents never used tennis courts, although 20% also cited that they use such facilities less than once per month. 25.5% used a swimming pool more than once per week.

In terms of future supply, cinemas are again a leading player in the entertainment markets, with an estimated 9 screens planned (outside of the current development) up until the end of 2015. A majority are not in dedicated cinema facilities, but instead in mixed use facilities. This effectively represents a 64% increase in the numbers of seats available, although this is still not likely to meet expected demand, particularly in denser residential areas of the city.

Development of a discerning, fashion conscious, consumer society is continuing apace in the capital. Young people are ever eager to adopt trends and lifestyle elements borrowed from European, American and Korean cultures. The thirst for new entertainment mediums is thus growing very fast. The nascent entertainment industry has not yet developed sufficiently to take full advantage of the growing market among young people.

M.A.D.
INVESTMENT SOLUTIONS

REAL ESTATE VALUATION SERVICES

INTERNATIONAL STANDARD PROPERTY VALUATIONS IN MONGOLIA

It is difficult to accurately define a common 'value' figure as the perceptions of value are unique to each market entity. Nevertheless, a body of technical methods for assessing value does exist. Application of such techniques allows for an accurate estimation of value that reflects the unique nature of the property and the specificities of the local real estate market. There are innumerable reasons for valuing real estate assets, the most common being to:

- Support buyer and seller decisions
- Assess applicable taxes
- Establish collateral for loan security
- Provide the basis for an insurance quote
- Support compulsory acquisition / liquidation / expropriation of assets
- Reflect asset ownership or leasing in corporate financial statements
- Measure the performance of an investment portfolio

Carry out pre-investment market research.

M.A.D. is the only RICS Regulated and liability insured Firm in Mongolia with RICS Registered Valuers that provides International standard “Red Book” Valuations following the principles set out by the IVSC.

METHODS OF VALUATION

DIRECT COMPARABLE VALUATION

INCOME VALUATION

ALL RISK YIELD
EQUATED YIELD (DCF -TEY / QIA - MIA)
TERM & REVERSION
SYNERGISTIC VALUES
PROFIT

DEPRECIATED REPLACEMENT COST VALUATION

RESIDUAL LAND VALUATION

HIGHEST & BEST USE ANALYSIS

RICS QUALITY ASSURED
RICS
Registered Valuer

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10. LAND MARKET

The city of Ulaanbaatar extends over 4,704 square km of the Mongolian steppe with a residential core of around 224 square kilometres. Over 123 square kilometres of this space is given over to apartment buildings, whilst *ger* districts have grown to surround the city to the north, east and, to a lesser extent, the west, extending out into the foothills of the surrounding mountains. Presently urban areas account for just 7.7% of the total space encompassed within Ulaanbaatar's administrative boundaries. Within the six innermost-districts, urban space accounts for 7.2% of total allocated territory.

Urban development and land use within Ulaanbaatar was, during the socialist era, dominated by the twenty-year master plan. The first of these was implemented by the socialist government and was formulated by the Giprogor urban planning institute of Moscow, between 1954 and 1974. There have been four subsequent master plans created and implemented between 1964 and 2014. Only one master plan has been implemented since the transition to democratic government. After 1990, the government of the city switched tack and began to implement shorter-term development plans more in keeping with rapidly shifting structures and functions of a city changing in tune with the demands of market conditions. However, on the back of a turbulent early transition, government funds proved insufficient to construct a new plan for the ten years following 1990. As a result, city planning became haphazard and reliant to short-term goals as well as personal incentives. Research and planning on the fifth master plan began during 2004, with a feasibility study conducted by the Japanese International Cooperation Agency (JICA). Subsequent analysis led to the creation of a compact city model that would see much-needed housing developed in key areas of the city based upon a high-density plan. This was intended to reduce costs of extending basic infrastructure and transport provision as the city grows. Whilst the high-density model has attracted criticism for not adequately incorporating the views of community service providers and residents of the city, falling back on high capex, centrally planned solutions, it remains the foundation of Ulaanbaatar planning. The initial 2020 master plan was extended to 2030 as of last year and now incorporates a host of new transport and logistical projects, as well as a reworking of planning procedures within its extended purview.

In terms of commercial land markets, these remain heavily state-controlled. Whilst land is still meant to be allocated to private entities based upon centrally planned use values, the reality of the situation is that powerful developers use a number of means to get around such restrictions and, in practice, often build facilities totally at odds with their master-planning allocation. Land earmarked for tourism use may be used to develop retail and residential facilities, whilst land for residential use can easily be used for significant commercial projects by fudging planning applications. Bribes are also among the means for achieving such ends. The upshot of poor adherence to master plans and planning regulations is not only a city developing without attention to provisioning facilities, but also individual developments without suitable parking, significant safety concerns and whole tranches of commercial and residential property failing to attract residents or tenants as a result of being ill-situated. With such a small amount of land available that is attached to infrastructure, the overall impact of such ill-planned developments on Ulaanbaatar's economy is significant. Whilst movement away from centralised planning to a demand driven land market has taken place and is welcome, appropriate planning and careful regulation is also necessary such that the entire market can continue to thrive and is not choked by poorly executed projects by uninstructed developers using personal connections to circumvent both market principles and planning regulations.

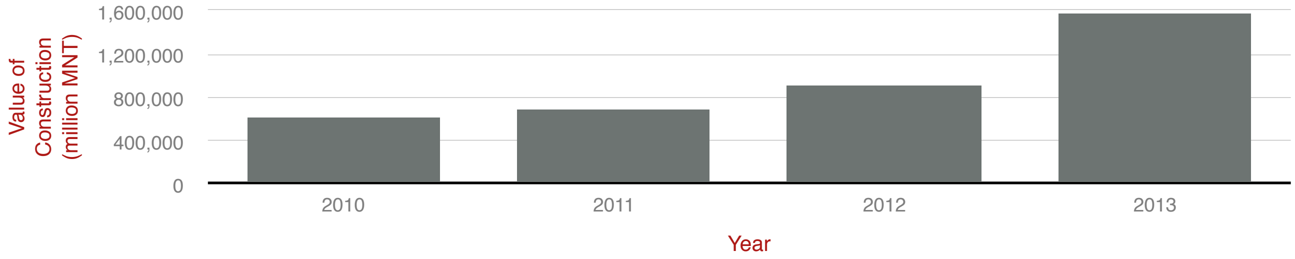
To this end the City Government of Ulaanbaatar has begun a campaign to tighten planning regulations and implement planning systems that more accurately determine highest and best use values. As of 2014 planning submissions and regulations are undergoing a thoroughgoing review with the assistance of the Asian Development Bank. Determining market values on the secondary markets for land remains a complicated affair, as large corporations often obtain favourable rates on use and possession rights for tracts of land for development. In inner-city areas, where land is less plentiful, land attached to existing property often transacts at high prices. The use value of land in these sought-after areas remains far higher due to the levels of revenue and high per square meter prices commanded by CBD based property, a well as current restrictions on green-field developments in the vicinity. Valuations in the past have tended to be based upon recent transactions, with variables of location, connection to amenities, current ownership structure, development potential and current structures all playing a role. Nevertheless, this represents a highly inefficient and ineffective means of valuing land and increasingly Mongolian companies are turning to more accurate residual land valuations. As the only RICS certified company in Mongolia, MAD Investment Solutions supports this movement.

Land Prices vary considerably by city district, with city centre districts of Sukhbaatar and Chingeltei attracting highest per square meter prices. Average observed transaction prices in Sukhbaatar district (including the central business district) were above US$3,000 in 2011 as a result of large transactions taking place for land attached to significant existing office and embassy structures. In 2012 and 2013 this average dropped back to US$ 1,460 for observed transactions. Nevertheless, this remains significantly higher than for Khan-Uul district - a hub of new residential and, more recently, commercial development - where land is in more plentiful supply and in which per square meter prices were around US$ 165 per square meter during 2013. In Songinokhairkhan district, a plot of over 2,000 square meters attached to an existing Immovable Property transacted at just US$ 48 per square meter during 2012. This is illustrative of the price disparities across the city and show how, with such wide variance, valuation of land based upon comparable transactions, continues to be open to error.

11. CONSTRUCTION SECTOR

During 2013 the construction industry grew by 78.5% over the previous year, with a total expenditure of 1,845.9 billion USD. During this period 1,237,300 square meters of residential space were brought into operation nationally, resulting in a total housing stock of 11.4834 million square meters. An increase in national housing stock by around 8.4% in the space of just one year is unprecedented and represents a new supply of 18,012 apartment units nationally. During 2013 construction and capital repairs had reached a nominal value of 1,845.9 billion MNT (just over US$ 1 billion).

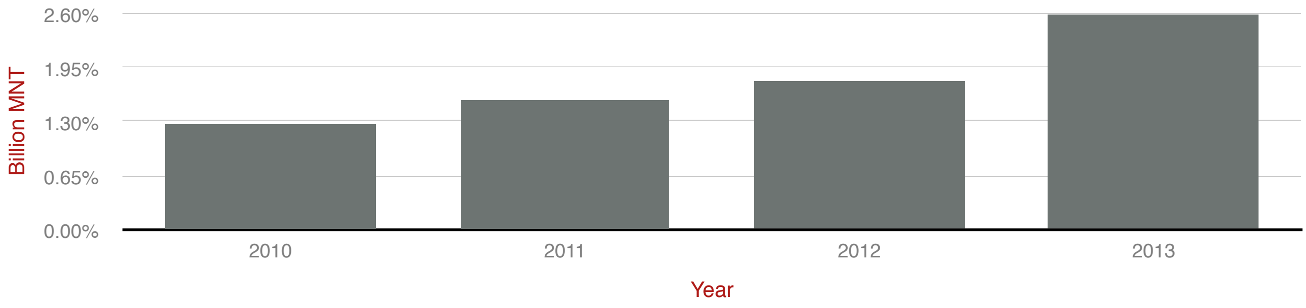
GRAPH 36: Construction & Capital Repairs - Total By Year



Source: NSOM

The second greatest investment within the construction and repair sector went into roads. Year-on-year 2012-2013 the increase in investment for road construction and repair rose by 745%, spurred by new projects to construct roads within Ulaanbaatar (including a highway to the airport and connecting roads within the capital city CBD to alleviate traffic congestion) as well as national level highway projects. Regional and national road-building projects were re-capitalised through off-budget spending via the Mongolian Development Bank.

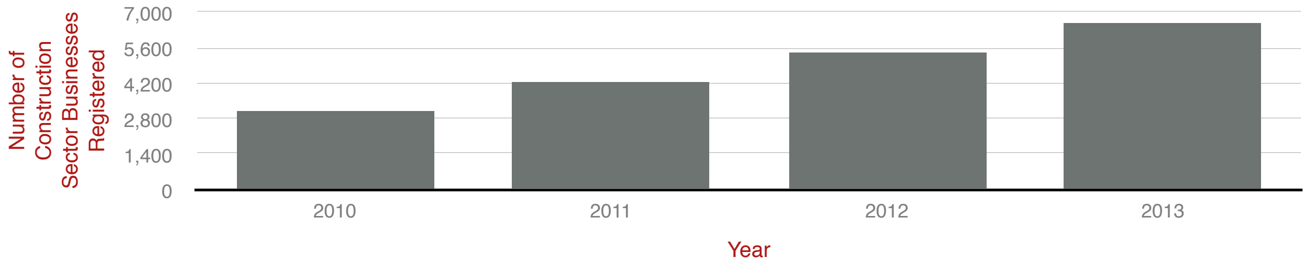
GRAPH 37: Construction Sector Contribution to GDP



Source: NSOM / World Bank

Nevertheless, the construction sector remains heavily focussed upon Ulaanbaatar. Whilst Ulaanbaatar has typically accounted for around 30-40% of the nation's total construction and repair output each year, 2013 saw this number rise dramatically to over 70%.

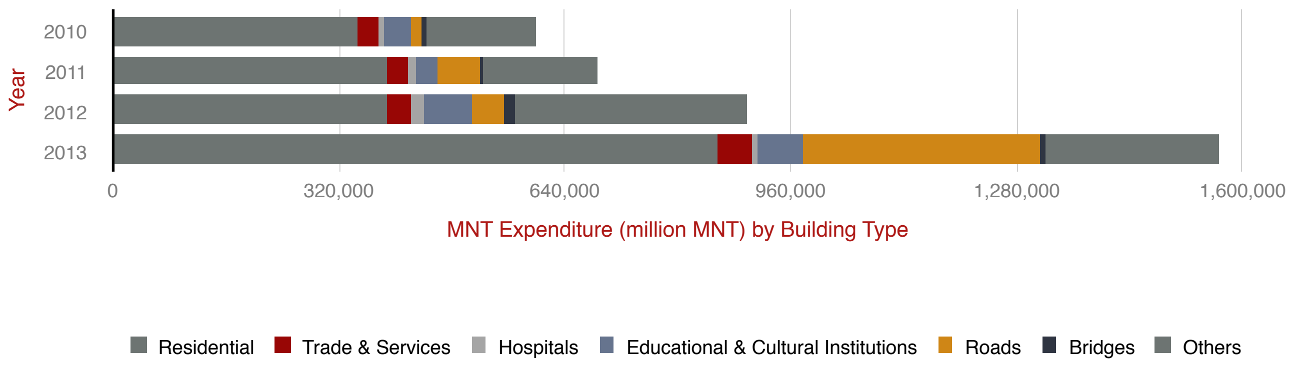
GRAPH 38: Number of construction Related Business Entities in Mongolia



Source: NSOM

This dramatic rise in construction spending comes on the back of a slowdown in mining construction and residential market growth. This is, in part, due to the impact of a Government backed low-cost mortgage scheme, which has expanded demand within the residential market and enabled developers to capitalise new projects through robust pre-sales. The 19 ger district redevelopment project taking place across Ulaanbaatar also account for part of the dramatic rise in construction spending. As the largest and most significant residential development to take place in Ulaanbaatar, these will providing a large percentage of an estimated 75,000 new homes to be constructed in the city over the mid-term, the majority of which will be built atop land currently occupied by the city's sprawling ger areas.

GRAPH 39: Expenditure on Construction by Building Type in Mongolia During 2013

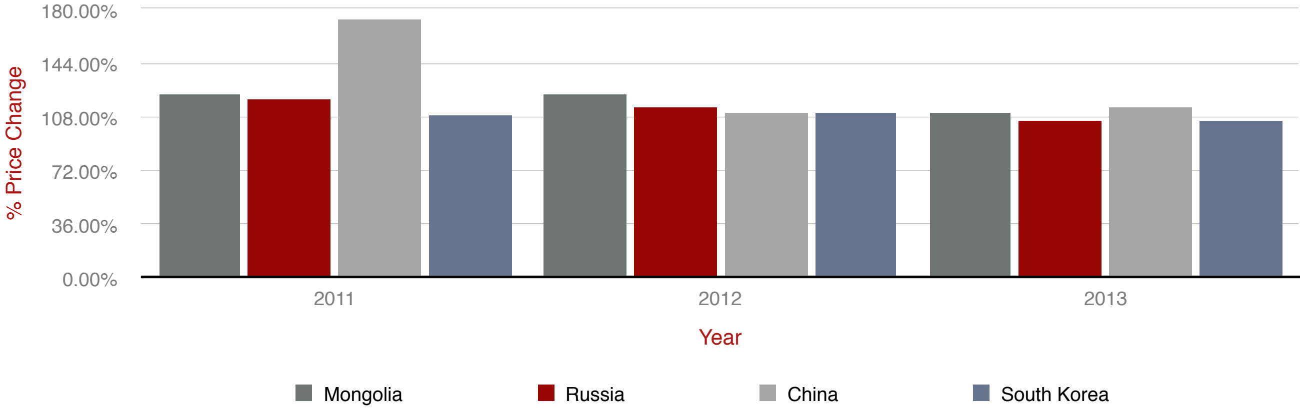


Source: NSOM

The construction sector increased its contribution to GDP by 44% during 2013. This follows on from a 36% increase year-on-year between 2011-2012 and a 120% increase since 2010. Nevertheless, this rapid growth continues to stoke fears of a construction bubble. There is certainly precedent for this. Between 2004-2008 rapidly rising house prices and construction sector activity met a sudden end when mineral prices fell and revenues upon which growth had been predicated, were abruptly curtailed. During this crisis those developments funded directly by revenues from mining activities felt the impact of the downturn in prices almost immediately. Liquidity in a nascent banking sector all but dried up and lending to the construction sector was highly constricted.

Local entities are conducting a majority of construction and repair work at present. During 2013 international entities performed just 7% of construction and capital repair projects in Mongolia, mostly within highly specialist sectors. Domestic entities were responsible for 126,362 million MNT worth of construction and repair work during the same period. There are presently no European or American construction firms working directly in the real estate sectors, although the Canadian construction company Buick are in talks with a number of developers over the potential for financing and construction of significant mixed use projects.

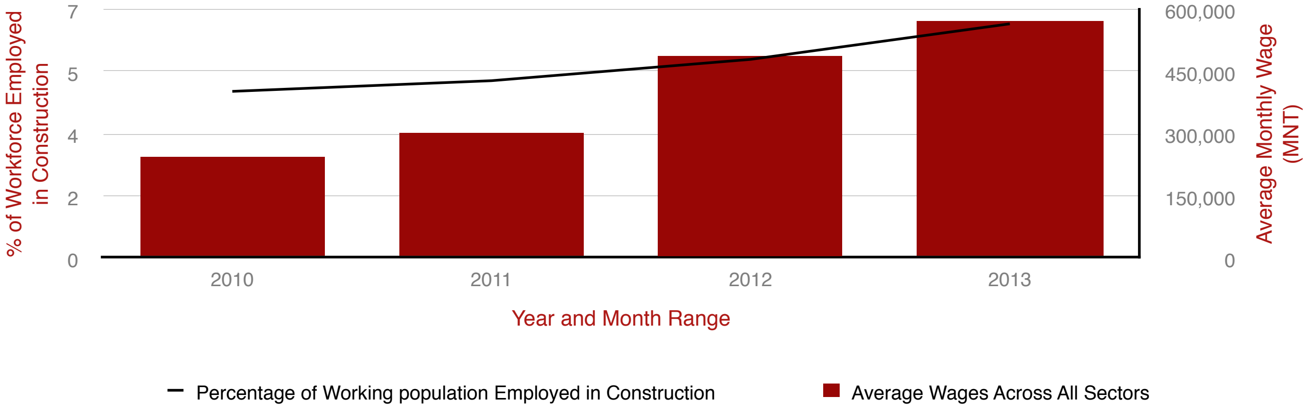
GRAPH 40: Price Changes of Major Construction Materials in Mongolia 2011 - 2013



Source: MAD Research / Barilga.mn / NSOM

Analysis of price changes in major construction materials in Mongolia, by manufacturing origin, reveal a familiar seasonal trend. From Q1 - Q2 2013 prices in construction materials rose across the board by 6.3%, with imports from Russia rising by 12%, from China by 5.9% and domestically produced materials rising by 6.5%. Whilst logistical and import bottlenecks contribute to the rising prices of Chinese and Russian materials during the Spring months, when the construction season ramps up to a frenzied pace, demand pressures on a small domestic supply of key materials such as concrete and bricks also forces prices up for these products. Overall price growth across all 26 basic building materials surveyed revealed 12.9% growth in price over the course of 2013. Materials from China rose the most, showing 15.9% price growth from Q1-Q4 2013. For the same period price growth in materials imported from Russia kept pace at 15.5%. Domestically produced materials rose in price by just 5.9% during the same period.

GRAPH 41: Construction Sector Average Wages Per Month and Employment Figures 2010 - 2013



Source: MAD Research

Taking a longer-term view, prices remain reasonably stable in terms of growth by jurisdiction. With the upscaling of domestic production, Mongolian produced products rose in price by only 10% 2012-2013, with Russian and South Korean imported products rising by only 4.0% and 4.5% respectively over the same period. Chinese products again saw the highest rise at 14% increase between 2012-2013. Over the three-year period assessed, prices across the board rose by over 200% in real terms as a result of significant upscaling of the construction industry leading to demand pressures, as well as the falling international purchasing power of the MNT.

12. SECONDARY CITIES

Whilst Ulaanbaatar has been the clear focus of economic growth and migration in recent years, a number of strategic secondary cities within Mongolia illustrate exceptional promise in their real estate markets, showing price appreciation that edges out the capital city and some significant value drivers behind future market growth.

The reason for such growth is clearly rooted in the mining sector. The influx of mining operations into the South Gobi region of Mongolia has driven up wages and, in turn, pushed pricing for residential and commercial property in the region. As the administrative heart of mining operations in Umnugobi Aimag, and the focal point for new developments - including an international standard school of mining - the population of this city is set to continue to grow for some time to come. Indeed, whilst rural to urban migration continues, leading to an estimated rural population of only 30% at the present time, employment opportunities created by mining and mining supply operations are coaxing migrants away from the capital (or even out from the capital) in order to take up well paying positions on mining operations. Dorngobi, Govisumber, Orkhon Darkhan Uul Aimags saw positive net in-migration between 2005 and 2010 as a result of this trend. The outlier in this equation is Darkhan Uul. This city, situated less than 120 miles from the capital, is experiencing in-migration by people in search of employment in small industry and trade sectors that benefit from close proximity to the capital. Darkhan Aimag does have the potential to become a mining centre, but this is not presently the driving force behind the city's growing economy. During the socialist period Darkhan city was an a centre of industry in Mongolia, benefitting from established infrastructure capable of supporting rapid growth and making the city an attractive location for new industries.

In terms of real estate growth for secondary cities, the figures appear impressive. During 2013 Dalanzadgad residential real estate was transacting at around US$ 657 per square meter, nipping at the heals of the low end of Ulaanbaatar primary market residential purchase prices. Moreover, the tiny conurbation of Khan Bogd, home to only a few owner-built properties, has shown a limited number of transactions at between US$ 595 - 670 per square meter. With renewed interest in this small town and low volume of transactions, it is expected that prices will rise sharply when new supply comes online. With most of the town's residents working for Oyu Tolgoi and earning well above average wages, this has been dubbed the wealthiest town in Mongolia.

The Government of Mongolia is also aiming towards the invigoration and expansion of key regional economies, not only as a means of reducing in-migration pressures on the capital, but also as a means of unlocking regional growth potential. The western region, Khangai region, the Eastern region and Central region will all receive 5,000 new housing units each under the national 100,000 homes project. The Government of Mongolia is also planning renewed and upgraded Government administration facilities, kindergartens and schools in Aimag centres across the country.

In supporting both the growth and sustainability of the Mongolian construction sector, as well as developing industry within secondary cities, 21 new construction material plants are proposed across regional centres. In further efforts to stimulate regional international trade and develop the outermost urban centres of Mongolia, seven border points are also earmarked for Master Plan style redevelopment - including the Gashuun Sukhait and Shiveekhuren border crossings, already strategic sites of trade with China. Some of these are likely to be developed as free-trade zones, an idea already forming part of trade policy with Mongolia's eastern neighbour.

Among key plans for the future growth of regional industry is the Sainshand Industrial Complex. The city of Sainshand is the first major conurbation after the border-crossing to China and is already a hub for trading. Government plans to establish value added production and processing facilities here are part of a broader scheme to move up the value chain, refining and processing raw materials to add value prior to export.

In terms of space to watch, the M.A.D. research team are seeing Umnugobi province tipped for extremely strong growth, home to Dalanzadgad and key mining operations, including the Oyu Tolgoi gold and copper mine. Dorngobi province will also see strong growth as major infrastructure projects such as the Sainshand Industrial Complex begin construction in the mid-term. Small towns and cities directly involved in mining and mining logistics/transport (such as Tsogttsetsii and Khan bogd) will see dramatic growth across the board, although represent far higher risk investments due to having relatively underdeveloped infrastructure. Border towns earmarked for Master Plan development also show a similar dynamic. Whilst many lack significant infrastructure, plans to increase cross-border trade, particularly in the mining and raw materials sectors, make for interesting early investment opportunities.

III. MONGOLIA IN MACRO-PERSPECTIVE

1. BACKGROUND

At the heart of Inner Asia, the vast nation of Mongolia extends over 1,264,116 square kilometres of steppeland, lush forests and barren desert. Over three times the size of France it is home to just over 2.75 million people, making it the most sparsely populated independent nation on the planet. Much of the nation still looks the same today as it did in the time of Chinggis Khan, with rolling steppe-land stretching into the Gobi desert in the south and forested mountains stretching across the northern border with Russia. Nevertheless, the country has undergone significant political, social and economic shifts in the past two decades that have laid firm foundations for precocious economic growth and have seen the urban environment undergo significant transformations of form and function.

Mongolia Economic Forecasts Until 2030

Indicator	2014	2015	2020	2030
Markets				
Currency	1827.50	1849	1721	1433
GDP				
GDP (billion US$)	11.52	18.12	22.83	31.8
GDP Growth Rate	9.5%	10%	3.15%	3.11%
GDP Annual Growth Rate	11.7%	11.62%	3.23%	3.42%
GDP Per Capita (US$)	1795.53	2956	4310	6985
GDP Per Capita PPP (US $)	4707.70	12532	21413	50116
Labour				
Unemployment Rate	7.8%	7.8%	7.8%	7.8%
Population (Million Persons)	2.84	2.93	3.12	3.45
Prices				
Inflation Rate	14.6%	13.31%	9.03%	5.16%
Money				
Interest Rate	10.5%	10.08%	10.54%	11%
Trade				
Balance of Trade (million US$)	-49.80	123	120	155
Exports (million US$)	552.90	701	778	1004
Imports (million US$)	545.30	578	658	849
Current Account (million US$)	-146.20	-11.81	-0.77	-0.98
Current Account to GDP	-27.89%	-25.68%	-0.22%	-0.05%
Foreign Direct Investment (million US$)	15470.50	16012	16381	16447
Gold Reserves (Mt.)	2.48	2.68	2.68	2.68
Government				
Government Budget (% of GDP)	-2%	-0.38%	-2.08%	-2.18%
Government debt to GDP	51.7%	59.57%	59.97%	59.98%
Credit Rating	36.25	-	-	-
Business				
Industrial Prodution (Growth Rate)	7.2%	5.31%	4.04%	4.14%
Taxes				
Corporate Tax Rate	25%	25%	25%	25%
Personal Income Tax Rate	10%	10%	10%	10%
Sales Tax Rate	10%	10%	10%	10%

Source: Trading economics.com

On June 28th 2012 the sixth set of legislative elections since the democratic revolution took place. These saw the Democratic Party grow significantly in representational power and become the majority party in the Mongolian Parliament, taking power from the incumbent Mongolian People's Party. The third Presidential election was concluded during 2013, with the Democratic Party nominee, incumbent President Tsakhiagiin Elbegdorj re-elected - defeating the Mongolian

People's Party nominee Badmaanyambuugiin Bat-Erdene and Mongolian People's Revolutionary Party nominee Natsagiin Udval, who was Minister of Health at the time of the election. Mongolia is now moving into a new phase in its history, not only politically, but also economically and socially.

The growth trajectory of Mongolia's economy has left its almost exponential trajectory and returned to 11.5% during 2013, down from 12.3% in 2012. This was largely as a result of significant drop in coal exports. On top of this the capricious law-making of 2012, designed to keep Chinese Government backed entities from acquiring significant Mongolian assets, has had a shattering impact upon FDI into Mongolia. With FDI down over 55% and mineral exports remaining weaker, the Mongolian economy is now challenged by significant external imbalances. Growth was boosted during 2013 by highly expansionary fiscal and monetary policies, designed to compensate for the marked slowdown in coal exports and mine development financed through foreign direct investment (FDI), both of which have been the drivers of growth in recent years. The Government has been roundly criticised for continuing to follow a strongly expansionist route, with balance of payment issues now a significant risk factor in the Mongolian economy.

In terms of the business environment, 2013 was dominated by the continuing stalemate between the Government of Mongolia and Rio Tinto over the US$ 6 billion financing of phase two of the Oyu Tolgoi project. Contention grew from concerns over cost-overruns on the project to the Government of Mongolia accusing Rio Tinto of owing up to US$ 130 million in unpaid taxes. Rio claims that all taxes have been paid and spent much of 2012 an early 2013 also blaming the Government for not clearing the way for the initiation of production and export.

Industrial production increased by 20.1% in 2013, contributing 5.1 percentage points to economic growth, driven by the construction sector, which expanded by 66%, having been pumped up through monetary and fiscal stimulus. Mining output expanded by 20.7%, thanks to the ramp-up of copper production at the Oyu Tolgoi mine, which initiated during June 2013. The agricultural sector also showed strong growth on the back of a mild winter between 2012-2013. Domestic consumption was the main driver of economic growth from the expenditure side, increasing by 16.3% in constant prices and contributing 13.7 percentage points to growth.

The 2010 census counted 68% of the total national population as living in urban areas, a figure which will almost certainly have grown slightly in the interim period. Swelling urban centres in the capital and in the south-Gobi mining belt brings renewed potentials and problems both socially and infrastructurally. The capital has been given the unenviable rank of the world's second most polluted city. Over 40% of pollution measured nationally is produced within the capital and the majority of this is generated from stoves which provide heat for up to 184,200 households living in peri-urban "ger districts" on the peripheries in the city and in its interstitial spaces. Nevertheless, only around 81,600 households live year-round in traditional Mongolian gers. The families that live in brick, wood or concrete frame housing in these areas will usually only have access to infrastructural connections if they live close to roadways - even then only if they are lucky enough to live within the short reach of the city's centralised heating, water and sewerage infrastructure. These households also use coal burning stoves for much of the year to heat their small permanent or semi-permanent housing structures, or else live in gers during the cold winter months.

With spending power hobbled by inflation, funds for even poor quality brown coal are often short supply in these households. Many resort to burning bricks dipped in tar, trash and car tires, adding to the noxious pollutants which enshroud the city particularly during the extremely cold winter months. The 2020 Master Plan for city development attempts to address some of these issues by proposing a 'compact city' model, which emphasises efficiency improvements in delivering resources to the sprawling communities which encircle the city. A large-scale, national home building project, under the title of the "100,000 homes", has already begun construction of 75,000 new residential units in the capital, with significant developments such as the 7th micro-district of Sukhbaatar ger area renewal program already well underway. In order to more fully realise their development plans, the Ulaanbaatar City Government has also extended the 2020 Master Plan until 2030. This new plan aims to provision housing in the form of apartments to 58.8% of the capital's population by 2020 and 70.1% by 2030. The plan also includes provision for new road development to alleviate congestion and integrate with transport networks - including rapid transit bus corridors. The 2030 Master Plan continues to operate on the "compact city" framework, identified and suggested as a result of a study by JICA (The Japanese International Cooperation Agency) and heavily criticised for its capital intensive, top-down, heavily centralised development approach.

Nevertheless, rising prices of labour and materials are forcing prices up to the extent that the lower socio-economic segments of society, who these homes were initially designed to benefit, may not be able to afford the finished products. To combat this, the Government of Mongolia has initiated plans to upscale industrial manufacture and production of construction materials domestically. Such self-sufficiency plans have been incorporated into national level Master Planning, although these objectives will take considerable time and capital to achieve.

Beyond these projects alone, rising real wages and political pressure to expand the mortgage market are creating favourable conditions for price growth. However, fears of oversupply in the upper end of the residential sector have already been impacting the decisions of investors and developers. At the same time, rising construction costs are creating problems for developers trying to manage costs within the ‘affordable’ segment of the residential market. Overall growth and foreign investment will continue to determine much of the trajectory of office and retail real estate markets - although a growing domestic SME sector is beginning to upscale, with increasing Government support likely for domestic businesses. Alongside the retail and trade sector, which has seen the largest growth in numbers of new businesses registered in recent years, the service sector is now seeing upscaling as Mongolian entrepreneurs begin to tap into new service demands of a society with gradually increasing personal and household disposable incomes. Start-up companies and SMEs, although not yet well measured as such under Mongolian statistical norms, will be the driving force for uptake of B grade office space in years to come. With wholesale and retail sectors being by far the most voluminous in terms of employment and business registrations in Ulaanbaatar - 21,072 business establishments counted in this sector during 2011 (up 162% since 2005) - there is likely to be continued demand for good B grade office space when the economy returns to stable growth.

Projections of mid-term growth remain hopeful. The economy of Mongolia could still have the chance to settle into a stable lower single-digit annual growth trajectory by 2030 as a result of FDI investment into mining, manufacturing and infrastructure projects. With the return of FDI into the Mongolian economy and significant (if difficult) adjustments to fiscal and monetary policy having been made, it is assumed that the national economy will rebalance and continue on far more stable foundations.

2. CULTURE

Mongolian peoples are of Central Asian ethnicity but often consider themselves culturally closer to Russia or the West than to China and other Asian cultures. The Russian influence is keenly felt even today in Mongolia. Russian goods are looked upon as of higher quality, whilst Chinese goods and food products, despite their necessary ubiquity, are viewed with suspicion. Mongolia has gone to great lengths to distance itself from China and the nation has been looking west throughout the twentieth century. Nevertheless, the Mongolian character remains firmly rooted in a history of nomadic pastoralism. Freedom of movement and a close and careful relationship with the land has made Mongolians highly adaptable, independent and stoic. They are also renowned for their direct and welcoming nature. When entering a Mongolian household you will usually be received with disarming warmth and generosity. This hospitality is a necessity rather than a pleasantry in the harsh winter steppe and travellers who arrive at a remote ger are greeted without undue fanfare but will be offered food, shelter and assistance that is extended to foreign guests as much as to Mongolians themselves. The emphasis on self-reliance has also given rise to a highly individualistic and entrepreneurial culture that is finding new expressions in a peculiarly Mongolian formulation of market capitalism. Contrary its more recent socialist history, Mongolia has been no stranger to trade throughout its history. Under the control of the Mongolian Khanate the silk road blossomed as a trade route, carefully tended by Mongolian guards and run under the '*pax Mongolica*', incorporating a series of well enforced trade terms that actively encouraged trading along this 4,000 mile stretch from Europe to China. The caretakers of these routes forcibly moved entire trading centres to be more accessible and even planted trees along the route to provide shade to travellers, who were rumoured to be able to travel in absolute safety for th e first time under Mongolian rule.

Cross-border trading has always occurred, even during the socialist period when Mongolia remained ostensibly closed to the outside world. With the legalisation of private trade, following the democratic revolution, existing 'illegal' trade networks flourished and access to new markets created new opportunities. Even today new markets are becoming more accessible each year. The establishment of a new direct flight between Ulaanbaatar and Istanbul in 2012, coupled with relaxation of Turkish visa requirements for Mongolian citizens, has resulted in hordes of Mongolian traders traveling between Mongolia and Turkey in search of European made products. Direct flights to Hong Kong, Singapore and Germany mean improved access to global centres of commerce. Whilst China remains the go-to market for essentials, furnishings and products that run the gamut from everyday to luxury, an increasingly mobile Mongolian population, linked to a global Mongolian diaspora, is sourcing goods and trading opportunities across Europe, the Middle East, North America and Asia.

At heart, Mongolia remains a true horse culture. The horse is inseparable from Mongolian life and tradition. It is not unusual to find children in the countryside riding almost from the moment they can walk. A good horse is treasured more than anything here and will be cared for as such. The annual 'Naadam' festival - based on Mongolia's traditional sporting events of horse-riding, wresting and archery - features national and regional horse-racing, for horses from 1 to 5 years of age. Winning horses in the racing events are highly prized. However, the Mongolian Ger, even more so than the horse, has been key in shaping the Mongolian psyche. These gers are traditional, wooden-framed, felt covered round dwellings. Similar versions are visible across inner-Asia but the Mongolian ger is unique in that it incorporates the eight-spoke wheel (the Dharmachakra) of Buddhism in the crown of the structure. The ger is the heart of Mongolian family life an the stove is the heart of the ger. In this space households live, work and rest together. A new ger was traditionally built or purchased upon marriage and remains the hub of all aspects of family life. In these spaces privacy is non-existent, with families sharing all aspects of life in the ger environment.

As direct Russian influence withdrew from Mongolia at the end of the socialist period, Mongolians looked to broader cultural influences and have been greatly affected by globalisation. After 70 years of relative isolation from anything other than socialist influences, the Mongolian people have a voracious appetite for global culture. Bollywood films, American cars and German foods are enjoyed across the capital city. On the streets the emerging middle class displays it's wealth with expensive international brands, such as Louis Vuitton and Dior. The upsurge in international influence finds its foil in a recent upwelling of pride in all things Mongolian. During the socialist period uttering the name of Chinggis Khan was all but forbidden, but his image and name is now emblazoned on all manner of goods and is visible in every corner of Mongolia. Streets, buildings and even the central square have been renamed in commemoration of the greatest leader of the Mongolian Empire. To celebrate the 800th anniversary of the founding of the Great Mongol Empire a new facade was added to the Mongolian Parliament, at the centre of which a huge statue of Chinggis Khan himself takes pride of place, watching over the statue of revolutionary hero Sukhbaatar that sits at the centre of the square that used to bear his name but was renamed Chinggis Square in 2014. The Khan has thus been returned to the core of Mongolian identity. However, national pride has found some less wholesome outlets. In the summertime, rallies and parades by ultra-nationalist groups are a frequent occurrence and, much to the disturbance of visitors to Mongolia, many of these groups have adopted the symbolism of German national socialism - being the inversion of a traditional Buddhist symbol in the first place. This minority aside, pride in the Mongolian nation usually blends well with the influence of global cultures to make 21st century Mongolia a heady and vivacious mix of national character and global influences.

3. LANGUAGE

The official language of Mongolia is Khalkha Mongolian, spoken by over 90% of the population. In the far west of the country Kazakh and Tavan are also spoken. The official alphabet is cyrillic, although in the past the Mongolian Script was also used. An official reintroduction of the official script was planned for 1994, but due to the practical difficulties of teaching this in schools after such a long time the project has not yet been systematically implemented. The traditional alphabet is, however, making a more gradual reappearance in some schools and on storefront signs. Russian is commonly spoken among older generations and throughout most of the socialist period was the standard language of instruction in higher education institutions. Nevertheless, English is gradually replacing Russian among young people and finding proficient English speakers in the capital city is not difficult. German and Korean have traditionally been popular languages to learn as Mongolia maintains close ties with both nations. A growing number of young Mongolians are also learning Mandarin as China continues to exert increasing economic power in Mongolia. Whilst it was briefly considered that English become the second language of Mongolia, this project was scrapped almost a decade ago. One year ago a law was passed indicating that Mongolian script must be given the most prominent positioning on any storefront signs, stemming the gradual cooption of high-streets and malls of Ulaanbaatar by English and Korean lettering.

INFORMATION BOX - LITERACY RATES

Literacy rates in Mongolia are high. The adult literacy rate in the country is 97%, placing it on par with Macedonia, Greece and Israel. However, literacy rates have actually fallen over the last 20 years (down from 99%), due to the withdrawal of social and educational services, such as seasonal boarding schools for children of nomadic families. Funding to these was cut in the 1990s. Nevertheless second language literacy is rising rapidly and English is the de-facto language of many business institutions. Primary and secondary education last for 11 years. Pupils entering the school system in 2008-2009 will now be given a 12 year education.

Higher education is comprehensive and there are many specialist language schools in the city, including the famous Russian school, to which the children of Mongolia’s leading political and business class still go. In 2011, the Voluntary Service Organisation published a report on the Mongolian Education Sector which indicated that Mongolian people still attach very high value to good education.

4. HISTORY

Palaeolithic era cave paintings in Khovd province, to the far north of Mongolia, show that human habitation began in the territory now covered by Mongolia almost 800,000 years ago. The beginning of statehood in Mongolia predates Chinggis Khan's rule by almost 1,500 years. The Hunic Xiongu empire was established within present Mongolian territory as far back as the 3rd Century BCE. This empire stretched from lake Baikal (modern day Russia) to the present site of the Great Wall of China in the south. Archaeological evidence indicates that these tribes may have in fact had contact with the Greco-Roman world, although this is somewhat inconclusive. The Mongolian territory changed hands between successive empires for centuries to come, ruled by the Xianbei, Nirun, Turkic groups, the UIghur and later by the Khitan.

The first time the name Mongol was known to define a confederation of tribes was in the 8th Century. The first recorded Khan, the leader of this confederation, was Khabul Khan. Khabul Khan was famed for repelling Jin Dynasty warriors from entering Mongolia and was the grandfather to Chinggis Khan. The great Chinggis Khan himself was born to Khabul's son Yesukhei Baghatur, a Chief of the Khamag Mongols. Yesukhei produced an heir in 1162 who was named Temujin, but soon after, in 1711, Yesukhei was poisoned by Tatars and Temujin, his mother and siblings were left to fend for themselves after the subjects of Yesukhei moved on without them. Despite this, Temujin grew to become a great military leader and with support of his father's allies and his blood brother, Jamukha, he was able to subjugate three confederations of tribes known as the 'Three Mergids', as a direct result of his efforts to free his wife, Borte, who had been captured by the Mergid confederations. The reputation of Temujin grew rapidly among the Mongolian tribes and the Khamag Mongol aristocracy eventually enthroned him, giving him the title Chinggis Khan.

By 1201, the Taichuud and Jurkhin tribes had been defeated and subjugated. As Chinggis Khan's reputation spread, more and more tribes and confederations joined his cause. Temujin resolutely defeated the Tatars in 1202 and by 1206 all tribes and confederations of the Mongolian steppe had come under the leadership of the great Chinggis Khan. In the same year he was enthroned again as Emperor of All Mongolia. At this point Chinggis Khan abolished all tribes and confederations under him, instead creating 95 '*myangats*' (literally meaning thousands). These administrative divisions were named as such because they would be responsible for producing 1,000 warriors per myangat. As the influence and power of the empire grew, peoples of lands as far west as Iraq, Armenia and Georgia fell in battle and subsequently fell under the influence of the Khanate. Following Chinggis Khan's death on the 16 of August 1227, Ogedei Khan was enthroned and founded Karakoru (known today as Kharkhorum), on the Orkhon river, as the new capital of the Mongol Empire. This had been a military garrison of Chinggis Khan since 1220. The new capital was reportedly home to twelve Buddhist temples, one Mosque and a Christian Church, becoming a city synonymous with religious tolerance and active theological debate that Chinggis Khan had initially encouraged. In 1234, Ogedei's forces finally completed the task that Chinggis Khan had set out to do and resolutely defeated the Jin dynasty of China. To the west the empire expanded again with the defeat of the Bulgar kingdom along the banks of the Volga river. Poland, Hungary, Moravia and Moldavia all came under Mongolian rule during Ogedei's reign. The empire continued to expand throughout the subsequent reigns of Guyug Khaan and Monghe Khaan, becoming the largest contiguous land empire ever to appear in the course of human history.

The establishment of the Yuan Dynasty in 1271, by Kubilai Khaan, was the start of the fragmentation of the great Mongolian Empire. Gradually, the unified empire split into the Yuan Dynasty, the Golden Horde, the Changatai Khanate and the Ikh Khanate. Kubilai moved the capital of the Mongol Empire to Dadu (modern-day Beijing) and in1269 he commissioned the Phagpa Lama to design a new system of writing to unify the writing systems of the multilingual Mongol Empire. This script was written down the page from top to bottom and could be used to write Mongolian, Tibetan, Chinese, Uighur and Sanskrit. This form, known as Phags'pa, after it's creator, can still be seen written in Mongolia today and is carried on all Mongolian banknotes.

The Yuan Dynasty fell in 1368, following what is known as the Red Turban Rebellion, that began as early as the 1350s. The remnants of this dynasty were eventually expelled from Chinese territory an were forced to return to Mongolian territory. At this time the decentralised elements of the great Mongol empire: the Golden horde, the Chagtai Khanate and the Ikh Khanate, spread out south and west. The Chagtai Khanate bloodline would later produce Timur, elsewhere known as Tamerlane. The Golden Horde spread out to the west to encompass the Volga region, the Ural mountains and the steppes of the northern Black Sea, as well as western-Siberia. This part of the empire lasted from 1243 until 1783, when the Russian Empire conquered the Crimean Khanate. The ikh Khanate, formed in 1256, comprised of Iran, Iraq , eastern Asia Minor and the Transcaucasus.

By the end of the 17th Century Russian expansion was tracking along Mongolia's borders to the north. Within Mongolia itself Qing Dynasty armies seized control and established a system of feudal Lords to govern Mongolia. During this period ordinary Mongolians were forced to bear the heavy burden of providing livestock and horses for Qing military campaigns, a role which took a great toll on the population and its resources. Mongolia remained under Qing rule until 1911, when the imminent demise of the dynasty led a group of Khalkha Mongol princes (the largest ethnic group in Mongolia today) to make the decision to seek Mongolian independence. After mounting a show of military force against the weakening Qing local government, Mongolia declared independence on the 1st of December 1911. Bogd Gegen was declared the emperor or 'Great Khan' of Outer Mongolia and the nation, finally free of long Chinese rule, entered a period of modernisation. The Russian Empire recognised Mongolia's independence in 1912, but it would be almost half a century before China decided to officially do the same. After the Russian Revolution began in 1917 China regained its claims to Mongolia and positioned a military force within the Mongolian capital at Urga (now known as Ulaanbaatar). During the occupation General Xu Shuzheng, of the Chinese military, forced the Mongolian Khaan to sign a document renouncing Mongolia's independence. Nevertheless, the Chinese hold upon Mongolia remained short-lived. Having been defeated in the Russian Civil War, Russian White Guard troops, under the command of Baron R. F. von Ungern-Sternberg, entered Mongolia in 1910. They encountered and engaged Chinese military forces and after fighting to enter the capital on several occasions this cohort of White Guard troops finally drove Chinese forces out of Ulaanbaatar in February of 1921.

It was also at this time that the Mongolian People's Party was established, influenced by the creation of the Soviet Union and socialist doctrine. The newly formed party sought aid from the Soviet Union, against the will of the Bogd Khaan. On the 18th of March 1921 the Mongolian Revolution began. Backed by the Soviet Red Army, volunteer Mongolian troops fought and won battles against both White Russian troops and remaining Chinese garrisons. Following victory against both the Mongolian People's Republic was declared on the 26th of November 1924. After these events Mongolia turned rapidly inwards. During the Socialist period herds belonging to nomadic pastoralists, that made up a majority of Mongolia's population, were collectivised. Private trade and transport were strictly forbidden and the monasteries and nobility of Mongolia were all but wiped out in brutal purges that are still remembered with horror. In the post-war years modernisation and creation of a socialist society accelerated. The city of Ulaanbaatar began to see rapid development as Soviet supported building projects got underway. Apartment style housing was built for the first time, alongside large neoclassical structures that housed political, administrative and cultural functions. Under the gaze of Stalinist Russia, Mongolia lost much of the de-facto independence it enjoyed in the early days of socialism but received significant aid, loan money, trade concessions and technical assistance for the cause of developing infrastructure and industry. Even then the mining industry, along with raw animal material production and processing and agriculture, made a significant contribution to the national GDP (the Erdenet copper mine, built in the 1970s, constituted up to 12% of national GDP, although new private projects now make the contribution of the Erdenet mine look diminutive).

After nearly 70 years of socialism the democratic movement in Mongolia began to take shape in the late 1980s and had its earliest public expression in a meeting of the Democratic Movement of Mongolia in 1989. Within just a few months this small gathering had burgeoned into a full-scale political movement, mostly made up of a well-educated urban youth. A watershed moment occurred in March 1990, when a Democratic Union meeting at the Yalult cinema attracted around 100,000 people, a gathering of unprecedented size. This evolved into a full-scale demonstration that marched on the House of Government to demand resignation of the Political Bureau of the MPRP and formation of a Provisional People's Khural within the month. When the communist government failed to acquiesce to these demands a hunger-strike was initiated by several members of the Democratic Union, lasting from 7 - 9 March 1990. This action led to the eventual resignation of the MPRP (Mongolian People's Revolutionary Party) Political Bureau and the initiation of political reforms. The very first democratic election to take place in Mongolia occurred in 1990 and the Constitution of Mongolia was approved in 1992. This set Mongolia on a path towards democratic civil society. The site of the 100,000 person protest is still home to a cinema now, but today crowds gather to watch international blockbusters.

Mongolia retains strong positive relations with Russia and close economic ties with the People's Republic of China, India, North and South Korea, Japan and the Unites States. China did not officially recognise Mongolia's independence until 1945 and diplomatic relations were not fully established until 1949, although with the end of the Cold War, China did attempt to emphasise its respect for Mongolia's sovereignty. Nevertheless, public perceptions of Chinese economic hegemony in Mongolia are still negative and the history of Manchu rule over Mongolia is frequently cited as a reason for distrust of Chinese interests in the country. In 1994, the premiere of the PRC, Li Peng, signed a treaty of friendship and cooperation with Mongolia. Despite widely held misgivings, the PRC has become Mongolia's largest trade partner as well as its largest sustained source of foreign investment.

Since the peaceful Democratic transition Mongolia has undergone rapid transformation to a liberal market economy and has been active in coaxing foreign engagement and investment mining and related sectors in particular. With freedom of movement now guaranteed, migration within the country has been a real driving factor in economic development. This has resulted in a meteoric population rise in the capital, although in recent years mining projects in the Gobi region are exerting the strongest economic pull on internal migrants. New landmark projects, including the Oyu Tolgoi gold and copper mine, have begun to secure Mongolia's future economic success and put it firmly on the global economic map. Successive Governments have also reiterated Mongolia's willingness to engage politically and economically on a global scale. this is evidenced by the engagement of Mongolian troops in campaigns in both Afghanistan and Iraq. In October 2011, Angela Merkel took time away from a crisis stricken Europe to make an official visit to Mongolia, emphasising the potential for Mongolia to become significant in a global market context.

It is of note that the nomadic groups, which banded together under Chinggis Khan to conquer much of the surface of the earth, had a relationship to the land beneath their feet that was formed from living a nomadic pastoralist way of life. Even now this influences the way Mongolian's think about land as property. During the time of Chinggis Khan pastureland was never privately owned. Feudal lords would oversee the use of this grazing land by those families under their control, but they did not claim ownership over any of the territory of Mongolia. Land was a shared resource and, whilst disputes are known to have frequently occurred over rights to grazing, nobody could call pastureland their own. As socialism rose in Mongolia, and the arm of socialist policy extended across the nation, the herds of Mongolian nomadic families were collectivised. Pasturelands became State property, under nominal control of collective farms. Individual farms had the authority to negotiate with their neighbours over the most appropriate use of pasture but, again, nobody truly owned land. With the dawning of democracy and the shift to a market economy, Mongolia saw the right to ownership of private property brought into constitutional law. Following the addition of a series of statute laws it became possible for Mongolian citizens to own immovable property and then land for the first time in a long and illustrious history.

5. RELIGION

The original religion of the Mongolian people was Tengerism, a religion that incorporates elements of shamanism, animism, totemism and ancestor worship. This religion emphasised reverence for the sky. Buddhism was introduced into Mongolian culture several times, beginning in the 5th Century, becoming the dominant religion in Mongolia. The Mongol empire was known for its religious tolerance and the capital Kharkhorum, was home to Buddhist temples, a Mosque and a Church. The empire itself had strongest leanings towards Buddhism, but allowed free religious practice and explicitly encouraged religious debate. However, with the coming of socialism, religion was brutally repressed, as it was across most communist countries. Targets of repression included the Mongolian Tibetan Buddhist Church, which had considerable ties with the previous feudal ruling classes. Buddhism and Tengerism continued to be practiced under socialism, but only in private and with a good deal of care. Nonetheless, the heart of Mongolian Buddhism, the Gandan Monastery in Ulaanbaatar, did remain open for most of the socialist period, as a concession to Mongolian traditions. With the transition to democracy came the Mongolian people’s right to follow any religion they choose. This right was subsequently enshrined in the new Constitution of Mongolia. In accordance with the 2010 Census figures, 53% of Mongolians identify as Buddhist, with 39% being atheist. The second largest religious group is Islam, accounting for 3% of the population. Most Muslims in Mongolia are ethnic Kazakh, living in the western provinces. Christianity is also growing in popularity in Mongolia, with over 40,000 people now identifying themselves as Christian. This is growing each year as a result of large scale missionary activity across the country. 2.9% of the population still identify as Shamanist. However, elements of shamanic practices and belief have been incorporated in ritual and belief across the population and the type of Buddhist practice prevalent in Mongolia displays elements of syncretism with shamanism or tengerism. There is certainly evidence to suggest that shamanic beliefs and practices are on the rise in urban areas of Mongolia.

INFORMATION BOX - ZAISAN BUDDHA

The Zaisan Buddha (Ikh Burkhan), is an imposing Golden Buddha statue standing at the foot of Zaisan hill. The statue is popular with worshipers on their visits to the Zaisan monument. Construction of the Buddha statue was heavily supported by ex-Mongolian President Enkhbayar, himself a Buddhist. The statue was seen as a part of a drive to expand Buddhism in Mongolia following the end of the socialist period and the enshrining of religious freedom in the Constitution of Mongolia. This was also part of a push to develop Zaisan into a recreational and social area as well as a residential destination.

6. GEOGRAPHY AND CLIMATE

Mongolia is almost three times the size of France and its landscapes are extremely diverse. To the south, the flat and rocky expanse of the Gobi desert stretches out into China and borders the Altai mountains to the south and west. These trace along the western border of the country, reaching a height of 4,373m in the far west, where Mongolian territory tapers into borders with Russia and China, with Kazakhstan located a short distance further west (although Mongolia shares no technical border with Kazakhstan). Much of the rest of the country is classed as steppe or grassland - made up of huge flat spaces hemmed in by mountains. The north and west of the country are dominated by larch-forests and mountains that are home to reindeer herders for much of the year.

Upon the lush eastern grasslands groups of gazelle roam freely even today. Within these landscapes, with their unique diversity of wildlife, cultures of nomadic herding have developed that still continue today as viable economic practice. Mongolia is one of the highest countries on earth. It's average elevation is 1,580m above sea level. At a remove of some 650km from the nearest sea, Mongolia also experiences an extreme continental climate. Temperatures throughout the year vary wildly from +30 Celsius in summer to -40 Celsius in winter. It's inner continental location makes the country dry, with average precipitation reaching no more than 310mm per year - most of which falls in July and August. This means that for much of the year the skies above Mongolia remain almost entirely free of cloud. These weather conditions are the reason for Ulaanbaatar being dubbed the coldest capital city in the world, as well as for Mongolia's rather more attractive moniker: the 'blue-sky nation'.

The seasons have huge impact on Mongolian life. Springtime is characteristically dry, dusty and still very cold. Shortages of food are felt most keenly around springtime as both animals and persons come out of the long winter and await the rains of mid- to late- summer, which turn the steppe from barren, rocky terrain into green pastureland. Summer is a time of frenetic activity and the change of pace is experienced as much in the city as it is in the countryside. During these short, hot summer months, train carriages traveling between Ulaanbaatar and the Chinese border town of Eriin are lengthened to cope with the upsurge of traders who travel, often with their whole families, to buy inexpensive Chinese foods, fruits and vegetables, electrical goods and almost everything else so that they can trade them back in Ulaanbaatar. Anyone questioning the entrepreneurial spirit of the nation will be silenced by rows of train-carriages stacked floor-to-ceiling with net bags of watermelons, air-conditioning units and car parts to be sold in the Mongolian capital. Autumn is a time of preparation for the long winter. The winter itself is typically a season of restfulness, during which time the extreme cold prevents too much activity. In the city, as much as the countryside, the pace of life traditionally slows from November through to April, although this is changing in the capital as the rhythms of international business take a firmer hold and business increasingly takes on a year-round character.

Average Monthly Temperature and Precipitation in Mongolia

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Temperature (C)	-25	-30	-12	-2	6	13	17	15	7	0	-13	-22
Temperature (F)	-13	-22	10	28	43	55	63	59	45	32	8.6	-7.6
Precipitation	0	0	3	6	12	30	75	55	24	7	5	3

Source: www.discovermongolia.mn

Climatic conditions around Ulaanbaatar are also contribute to the presence of high level of atmospheric pollution that have earned the city the dubious accolade of being the second most polluted city on the planet according to World Health Organisation data. Atmospheric pollution tends to hang lower in cold weather and so the extremely cold temperatures and lack of winter wind enable the smog produced by nearly 200,000 ger stoves in use around the city to linger in a thick blanket over the city centre.

The importance of nomadic pastoralism within Mongolia has also given rise to a specific characterisation of natural disaster known as the zud. The term zud (also termed dzuud or zud) refers to an extremely snowy winter in which livestock are unable to find fodder through the snow cover. The impact of a zud is made far worse when the summertime is hot and has little rain, which leaves low-lying plants weak. The worst zud on record in the 20th century was in 1944 and killed almost 7 million head of livestock. Between 1999/2000, 2000/2001 and 2001/2002 Mongolia was hit by three zuds in a row. These can and do have significant impact on the overall economy of Mongolia, hitting the agriculture industry and food security hard.

The result of these consecutive disasters was the death of 11 million head of livestock. The most recent zud of 2009-2010 saw almost 80% of the entire territory of Mongolia covered with a snow blanket of between 200-600mm. This caused between 4 and 8 million head of livestock to perish as a result of starvation. During this extremely severe zud 9,000 families lost their entire herds and a further 33,000 suffered losses of at least 50% of their animals. The United Nations estimated that around 17% of the nations entire livestock died during the 2009/2010 zud. Whilst the winter of 2012-2013 was not displaying crippling temperatures below -40 centigrade, heavy snowfalls during the course of the winter did lead analysts to speculate that the spring would bring new hardships and that animals may not be able to find suitable fodder beneath the packed snow early enough to prevent starvation. Herding communities and policy makers across Mongolia were therefore placed on alert for yet another zud. This did not come to pass and the following two winters passed without incident. The winter of 2013-2014 was so mild, in fact, that the agriculture sector received a much needed boost.

Following the most recent zud, the affected families who had lost most or all of their herds often moved in search of new livelihood. Many of these gravitated towards Ulaanbaatar in search of work, swelling the numbers of new migrants between 2009-2010 to over 40,000 persons and placing considerable new strain on the peri-urban environment of the city. In an effort to alleviate the effects of the zud, the Government of Mongolia initiated a series of aid payments to households who had lost their herds and international aid organisations distributed aid to stricken families. This, however, may have acted as somewhat of a perverse incentive, with many families becoming reliant on these aid payments and even giving up on their herds in order to obtain handouts.

INFORMATION BOX - REBIRTH OF AGRICULTURE... AND HORTICULTURE

Towards the end of the socialist period agriculture was a significant sector in the Mongolian economy. In 1985 agriculture accounted for around 18.5% of the national income and employed 33.8% of the labour force. The industrial focus of the economy at that time was on processing agricultural products, foodstuffs and animal products. Hence, agricultural production was critical as a supplier of the Mongolian industrial sector.

Agriculture in Mongolia began to rapidly expand during the 1950s, based on material and technical assistance from the Soviet Union. By 1960 agricultural production had become almost entirely collectivised, with 354 agricultural cooperatives (*negdel*) operating in Mongolia (up from 1239 in 1950). In 1962 Mongolia entered into Comecon and received more Soviet assistance in establishing and equipping new state farms. By 1985 the average collective farm had around 61,500 head of livestock, which was grazed over a total of 438,500 hectares of land at their disposal. Each farm was equipped with mechanised farm equipment and had an average of around 1,300 hectares of plowable land, from which it could harvest grain. Individual *negdel* members were still permitted to own a certain number of livestock, which varied depending upon the region in which they lived and worked. In desert areas a person would be allowed 15 head of livestock for private ownership, whilst in mountain areas this figure was reduced to 10. Nominally private plots were also allowed for basic food and fodder production.

Despite the predominance of animal husbandry, the Mongolian People's Republic put considerable effort into developing crop production. Initial efforts to introduce crop farming received a poor reception, so the Government created state farms for this task. By 1941 there were 10 state farms operating in Mongolia, covering 26,600 hectares of sown land. Following World War II, efforts intensified to expand crop production. 10 more farms were created by reclaiming virgin lands and implementing irrigation systems. Mechanisation of farms began occurring on a large scale in the 1950s, with Soviet assistance. By 1985 Mongolia had 85,200 hectares of available irrigated land, of which over 81,000 hectares were actually being irrigated.

Crop production was focussed in the early days on cereals, to which over 95% of sown areas were dedicated. Potatoes and other vegetables made up a further 4.9%. By 1960 Mongolia was entirely self-sufficient for cereals. In addition to these staple crops, the country also produced small amounts of oil-yielding crops, such as sunflower and rape. Small amounts of alfalfa, soybeans, millet and peas, were also grown to provide protein rich fodder for animals. Following the transition to a market economy, many farms lost significant funding and guaranteed buyers that were available during the days of socialism and inter-Soviet trading. Nevertheless, farming does continue, and in 2009 Mongolia produced 388,122 tons of wheat, 1,884 tons of barley and 1,512 tons of oats, the majority of which went to domestic processing plants. Crops produced in Mongolia presently include corn, wheat, barley, carrots, onions, cabbage, potatoes and Khovd's famous crop of watermelons.

Beyond this a new trend is beginning to come to light. Whilst large-scale agriculture such as was practiced during the socialist period is just now up-scaling to previous levels, a number of smaller farming facilities have been developed to take advantage of a growing domestic market for fresh vegetables and fruits throughout the year. Not typically a significant element in the traditional Mongolian diet, fruits and vegetables are now widely available in urban markets and supermarkets. However, most of the supply currently on offer are imported from China or Korea. Mongolia produced onions, carrots and potatoes in great numbers, although the harsh winter conditions mean that domestic growth of these basic foodstuffs diminishes significantly, with the gap in supply and demand being made up by Chinese, Russian and Korean imports. However, a number of organisations and entrepreneurs have begun to develop new growing practices involving various greenhouse technologies in order to supply year-round fresh vegetables and fruits.

Located to the east of Ulaanbaatar, the "Morino Iruka" organic vegetable farm grows around 60 varieties of vegetables throughout the year, with different varieties available each week. These range from carrots, corn, watermelons and pumpkins to chard, red lettuce, Japanese lettuce and herbs. Leafy produce is typically sold in bags of between 150g - 200g, with herbs sold usually in 50g packs and larger vegetables sold individually. The Japanese owner and investor has a history of working in food growth and processing, having supplied products to the luxury hotel market and Japanese department stores. The farm itself uses 100% organic techniques, although the growing technology is traditional in design. Plans already exist for novel growing technologies to be deployed in order to sustain year-round growing, capable of supplying urban populations of Mongolia. Oyu Tolgoi is also using greenhouse technologies to supply fresh vegetables to workers at its mine site.

During 2012 the Government of Mongolia began to actively support agriculture, aware that food security would continue to be an issue as reliance on China for imports of some basic foodstuffs grows. A number of local entrepreneurs are now engaged in fledgeling projects to introduce everything from rooftop gardens to eco-hotel concepts. This is all accompanied by a dramatic rise in the re-mechanisation and overall expansion of the agricultural sector in Mongolia.

IV. MACROECONOMICS

1. INTRODUCTION

The year 2013 has been a turbulent one for the Mongolian economy. Sustained double digit growth and assertions that Mongolia will remain one of the leading growth economies during 2014 obscure the fact that much of this growth is predicated upon debt and that the mechanisms for investing this money are far from robust, neither are national savings safeguards adequate any longer in the event of external shocks. It should be of concern that spending is outpacing production and that the policy environment (and this includes the growth of the public sector investments) are pushing out or inappropriately engaging with investors in key areas of the economy. Nevertheless, it should not be forgotten that Mongolia has made impressive strides in building its economy and that a turnaround in fortunes is possible with appropriate focus in shepherding by policy makers in terms of spending, a sea-change in interactions with FDI and fiscal discipline.

INFORMATION BOX - THE SHADOW ECONOMY IN MONGOLIA

The shadow economy, or 'non-observed economy', of Mongolia is not a new phenomena. During the 1980s peripheral urban spaces, including what has now become Ulaanbaatar's largest market (the so called 'Black Market'), became informal spaces of trade and commerce, overlooked by local law enforcement at a time when individual trade for profit was banned. By 2000, growth of the informal economy saw it reaching an estimated value of 18.4% of total GNP. The informal sector remains a significant component of personal earnings and wealth. It is estimated that informal earnings account for anywhere between 15-75% of household income, although robust figures are not available at this time. In Ulaanbaatar's peri-urban ger districts the informal economy accounts for a high portion of earning potential and is particularly significant as a contributor to household incomes since the welfare net of Mongolia has been steadily withdrawn. The informal economy flourishes under a loosely policed tax environment and where corruption and weak public provision of services are the norm. Nevertheless, with such a high impact on household incomes it is the case that a significant portion of these earnings make their way into formal consumption and even into real estate investments, actually propping up the formal economy.

Per capita income has experienced a five-fold increase over the past decade on the back of foreign direct investment financed development of the mining sector. Whilst there are significant issues to be addressed, Foreign Investors' optimism about the prospects of Mongolia are illustrated by a successful international bond issuance during 2012, raising a total of US$ 1.5 billion. With the economy already in turmoil, an attempt to issue the Japanese Yen denominated Samurai bond during 2013 failed to receive a positive reception by investors.

During 2013 the Mongolian economy has continued to grow rapidly, expanding by 12.5% in 2012 and 11.5% during 2013. Growth has been buoyed up by growth of the agricultural sector as a result of a mild winter 2013-2014 and 2012-2013. Growth has also been undergirded by expansionary fiscal and monetary policies, with these being deployed in order to compensate for the drop-off in coal markets and both planned and reactionary drops in FDI financing for mining and mining supply developments.

2. MACROECONOMIC HISTORY

During the late socialist period Soviet assistance accounted for one-third of the total GDP of Mongolia. When this disappeared, almost overnight, between 1990-1992 Mongolia was pushed into extreme recession. Prior to the political changes which took place during this period 80% of Mongolia's trade was with the former Soviet Union and 15% was with other CMEA countries. It was not until the late 1980s that Mongolia began to trade with non-communist Asia and the West. Tourism began to develop at around this time and became a promising, if relatively small, generator of national revenues. Major domestic privatisation programs which were overseen by the Democratic Union Coalition Government between 1996-2000, as well as fostering of a free-market system and courting of foreign direct investment, gradually saw Mongolia return to economic growth. Between 1995-1995 a growth trajectory began anew, although this was built upon an overallocation of bank credit, particularly to state-owned enterprises. In 1995 GDP growth reached above 6%, fuelled by rising copper prices on the global markets. Between 1996 and 1999 real economic growth stabilised at around 3.5%, impacted by a series of zuds (environmental catastrophes which resulted in the death of large numbers of the country's livestock), but bolstered by increases in world copper and cashmere prices. The Mongolian economy stalled in 1996 and the impacts of the Asian Financial Crisis led to collapsing exports and wiping out of public revenues between 1998 and 1999.

Another zud in 2000 led to a contraction of GDP growth to 1.3% following the loss of 2.4 million livestock. Nevertheless, the 2000s would see Mongolia's economy recover admirably, achieving GDP growth of 10.63% in 2004. By 2003 the state-owned enterprises that had constituted Mongolia's economy had been all but privatised and private companies accounted for 75% of total GDP. Between 2003 - 2007 average GDP growth fluctuated, achieving an average 8.86% growth, driven by gradual upscaling of mining operations, foreign direct investment and growth of the private sector. Between 2004 and 2007 GDP per capita increased from just 720 USD to 1,971 USD, almost a threefold increase. For a brief period Mongolia looked like becoming one of the fastest growing economies on the planet. By 2008 the nominal GDP of Mongolia reached 6.1 trillion MNT. However, this was not to be at that time as the Global Financial Crisis hit hard in 2009. The volume of foreign trade (amounting to 6.1 billion USD in 2008) dropped back by around 35% for 2009 and collapses in prices of main export items, such as copper concentrate, molybdenum concentrate, unprocessed gold and zinc concentrate plummeted between 34.8% and 49.2% on the back of initial crisis. Imports also decreased by over 31%. Domestic industries were hard hit as national banks ceased lending due to low liquidity. This had immediate impacts upon the construction and real estate sectors, with construction projects around the capital city grinding to a sudden halt due to non-availability of funds. During 2009-2010 residential real estate prices fell between 20%-30% across Ulaanbaatar. However, in hindsight, the rapid pace of construction sector growth between 2004-2008 was likely unsustainable, representing what might be termed a "bubble". The liquidity crisis which proceeded from the Global Financial Crisis served to take some of the air out of this bubble before it could burst with a more damaging ferocity.

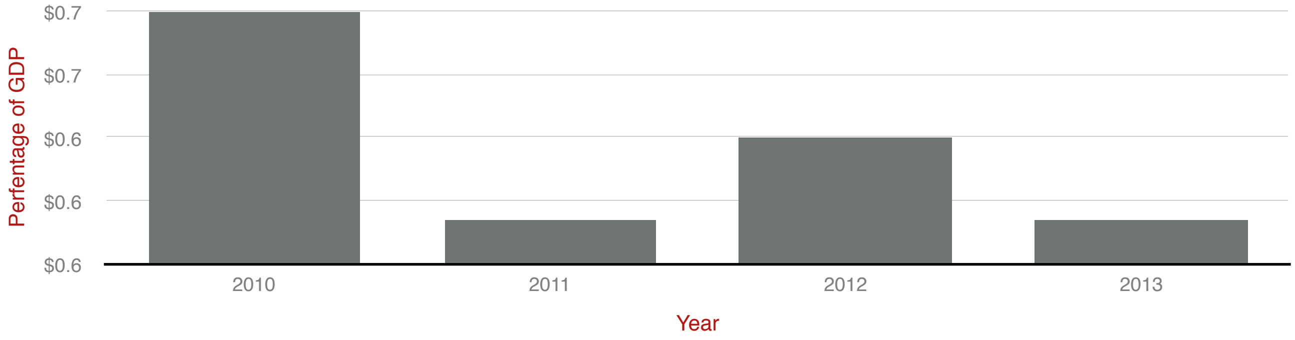
Recovery was already underway in 2010, with positive growth in GDP of 6.3%. By now the "Wolf Economy" had begun to hit global headlines. Having weathered the first impacts of the Global Financial Crisis Mongolia's GDP hit a record high of 17.26% growth in 2011, with GDP Per Capita at USD rates reaching 3,056 by the close of 2012. Speculation and high confidence on the back of world-leading GDP growth turned to cautious optimism by the start of 2013, although rising inflation, a falling national currency and increasing balance of payment pressures have soured that. The long-term outlook for Mongolia remains optimistic, with significant mineral assets under exploration and a gradually improving investment environment. Whilst fiscal and monetary stimulus packages put in place by the Government of Mongolia have enabled the economy to continue to grow using 2013-2014, multi-lateral organisations have asked the Government to cease all of these programs as they are encouraging internal growth whilst heaping on further balance of payment pressure. These pressures are exacerbated by demands on state budgets from the Chinggis Bond (the first maturity date of which is in 2017), for which concerns of default are already being raised.

3. CONSUMPTION

Mongolia's population is very low (just over 2.93 million as of 2013) meaning that internal consumption figures would have to jump drastically for it to have any significant impact on a GDP driven by mining activities. Nevertheless, once the natural resources reserves of Mongolia are tapped by new large projects (such as Oyu Tolgoi and Tavan Tolgoi) and production is in full swing, the Government should attempt to generate internal demand and increase consumption as opposed to boosting savings.

Between 2007 and 2011 World Bank data indicates that domestic consumption in Mongolia almost doubled. Final consumption during 2013 was up 21.3% by the third quarter and whilst other areas of the economy have grown to take a larger share of GDP, final consumption still accounted for over 64%. This is down from 2009 levels, dropping back to 62% by 2013 - falling off as projected for an economy undergoing transition. This has fuelled speculation that there could indeed be a consumption boom on the horizon as the economy recovers and confidence returns, allowing the population of Mongolia to deploy more of their stored wealth in consumer markets.

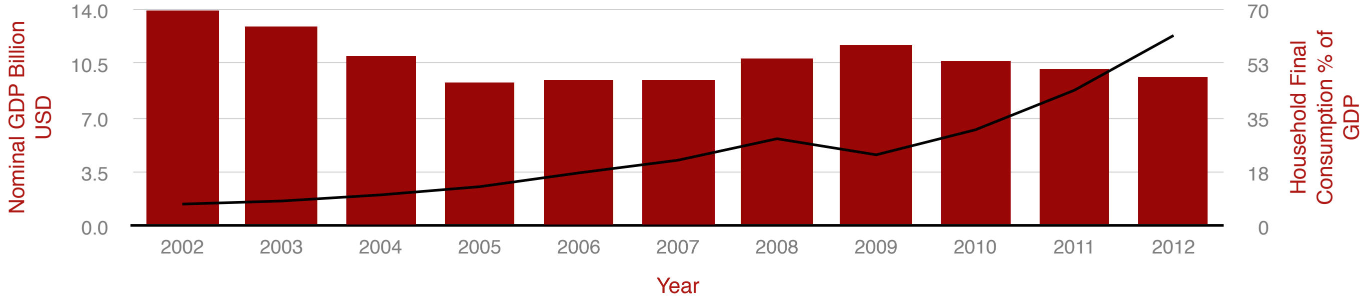
GRAPH 41: Final Consumption as % of GDP



Source: NSOM

In terms of household final consumption, a sharp contraction in GDP growth but sustained retail spending during 2009-2010 resulted in a household final consumption expenditure figure of 53.13% for 2010. By 2012 this figure had shown a decline to 48.3%, impacted by inflation and rising costs of living. It is expected to continue to fall and stay stable in the late 30s and early 40s over the mid-term, although, as noted above, this leaves significant space for a new retail boom to begin on the back of sustained GDP growth.

GRAPH 42: Household Final Consumption Expenditure as % of GDP in Mongolia and Nominal GDP of Mongolia



Source: NSOM

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Due diligence is one of the most complicated yet most essential parts of the investment process. In a market such as Mongolia, where business arrangements can often seem opaque, ensuring that your investment decision is based on accurate and reliable information is essential. As such, M.A.D. offers both legal and reputational due diligence services focused on property assets.

Legal due diligence: we put our understanding of the real estate planning and development process in Mongolia at our clients' disposal so as to ensure that everything is in oder. We can quickly and efficiently carry out a variety of checks on ownership of real estate in Mongolia, ensuring that the relevant authorisations and permits are in order, and that the property has not been pledged as collateral to any other institution.

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Carrying out due diligence in Mongolia can be challenging and complicated - public domain is all but non-existent. Nevertheless, M.A.D. does its utmost to verify that all is as it should be and that your investment decision is made knowing all the relevant information.

Please note that certain aspects of DD which are based on public domain or public access to information common in other markets is not always available in Mongolia and may therefore limit the scope of our research remit.

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LOCAL MARKET KNOWLEDGE

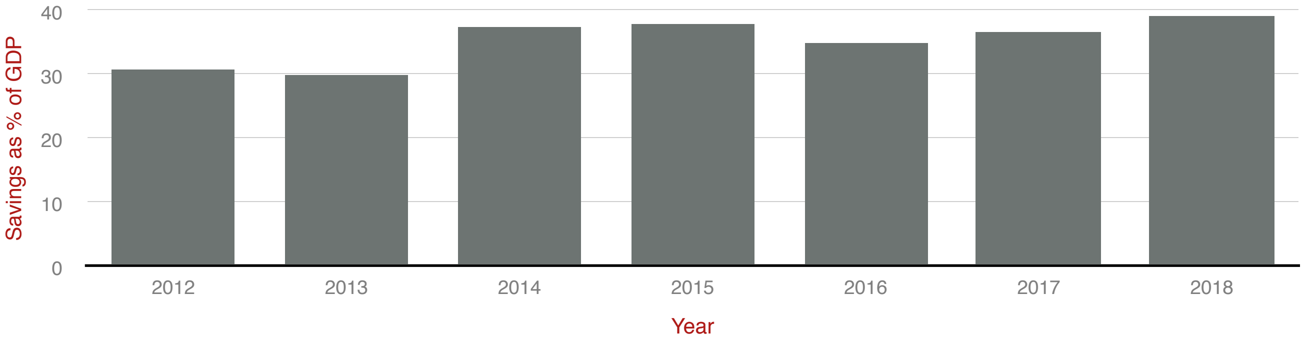
IN-HOUSE LEGAL VERIFICATION

CLARITY AND RELIABILITY OF FINDINGS

4. SAVINGS RATES

World Bank projections indicate that Gross National Savings as a percentage of GDP are broadly set to rise with overall GDP growth. By 2013 Gross National Savings stood at 29% of GDP. This figure is broadly in line with expectations for an emerging economy and is expected to fall over the longer term as consumers deploy more of their income into consumption. In the short-term expectations are that this figure will grow, with Mongolia weathering a tumultuous period and potentially experiencing the failure of key institutions within the banking system.

GRAPH 43: Gross National Savings as % of GDP



Source: NSOM

The 29% figure compares with 17% gross national savings as percentage of GDP for the United States during 2013 and 49% for China. In many ways Mongolia is experiencing a similar dynamic to China. As the nation pulled away from its massive social programs in the 1980s the Chinese people began saving to pay out of their own pocket for retirement, education and healthcare. Mongolian people have had to do the same, both officially and unofficially. Even though consumerism is booming in both Mongolia and China, conservative and spending habits are likely to remain entrenched.

INFORMATION BOX - PROJECTED WORSENING OF THE ECONOMY THROUGH THE WINTER OF 2014-2015

With the 100 day plan to intensify the economy ending in August 2914, Mongolian macro economic statistics continue to show decline. Despite Government led efforts to stimulate economic growth internally, international credit rating agencies have downgraded Mongolia's government bond ratings again. Shaken by the macroeconomic turmoils faced by Mongolia the nation has seen inadequate bond sales in foreign markets as well as ineffective monetary policy leading to downgrading across the board. The fundamental point is that Bond repayment will be paid from budget revenue and the budget is not being well managed to enable this, leading the Government of Mongolia down a slippery slope towards debt distress territory unless something is done. Investors are certain to be concerned that Mongolia will not be able to make repayments for the sovereign bonds released on foreign markets.

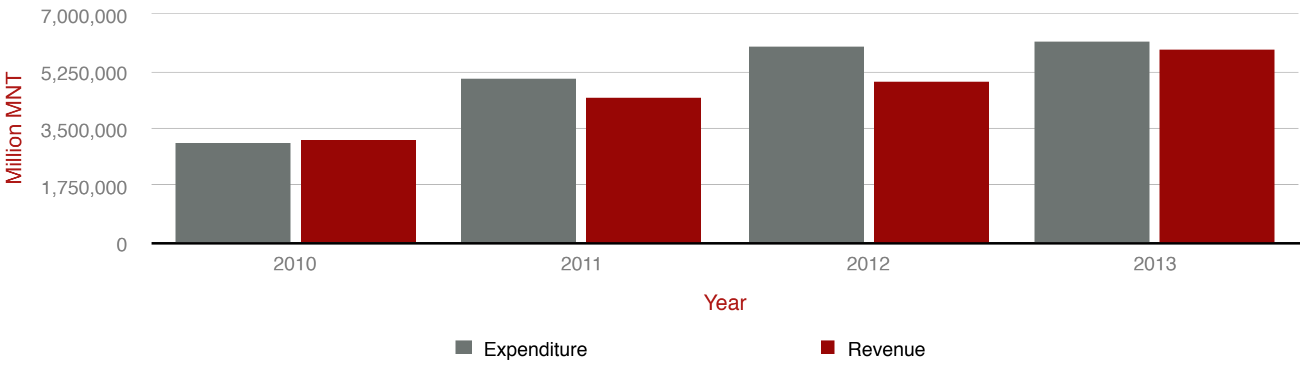
MNT depreciation is also a significant issue set to continue to impact the domestic markets. This is determined by two factors. The first corresponds to a decrease in foreign investment into Mongolia. The second is that the Central Bank, under the impetus of stimulating internal economic growth, has provided significant MNT denominated loans, which has swelled the supply of MNT in circulation and is causing long term negative impact in the macroeconomy. If the Central Bank had implemented a policy to de-escalate MNT supply we may not have seen such significant depreciation. The practice of issuing large loans to construction and real estate markets has been shown to be highly problematic in some high-profile cases. Vivid examples are Japan, Thailand, and Kazakhstan, even the U.S.A.
Whilst these sectors have been the engines of growth in a Mongolia struggling to find its feet again in terms of foreign investment, the foundations of growth in these areas are almost non-existent and based upon dangerous off-budget Government spending, as well as swelling of money supply to levels and issuance of mortgage loans without suitable checks-and-balances to account for changing economic conditions.

Moreover, a key concern is the use of debt financing by everyone from citizens to the Government itself. The debt raised by issuance of Sovereign Bonds, or borrowed from Multi-lateral organisations, is spent on projects that are literally not economical. For instance, pedestrian roads were fixed with bond funds, with no means of payback and no appropriate balancing of projects in the portfolio for which that debt was allocated that would ensure repayments were possible. Including interest, around 2.5 billion USD is required to repay bond debt alone. This is equivalent to Mongolia's yearly budget if estimated at the current exchange rate. Repayment will begin from 2017, meaning Mongolia will be hard pushed to make any capital repairs, build new schools, increase employment and wages in the public sector or pay other debts owing between 2017 and 2024.

5. GOVERNMENT EXPENDITURE

Government revenue reached 5,927.6 billion MNT during 2013, with expenditure reaching 6,178.0 MNT (excluding the expenditure of the Government owned Development Bank of Mongolia). The equilibrated balance shows a deficit of just 1.7%, within the bounds of the Fiscal Responsibility Law, although not quite accounting for the budgetary responsibilities that loans from the Development Bank of Mongolia add to this figure.

GRAPH 44: Government of Mongolia Revenue & Expenditure

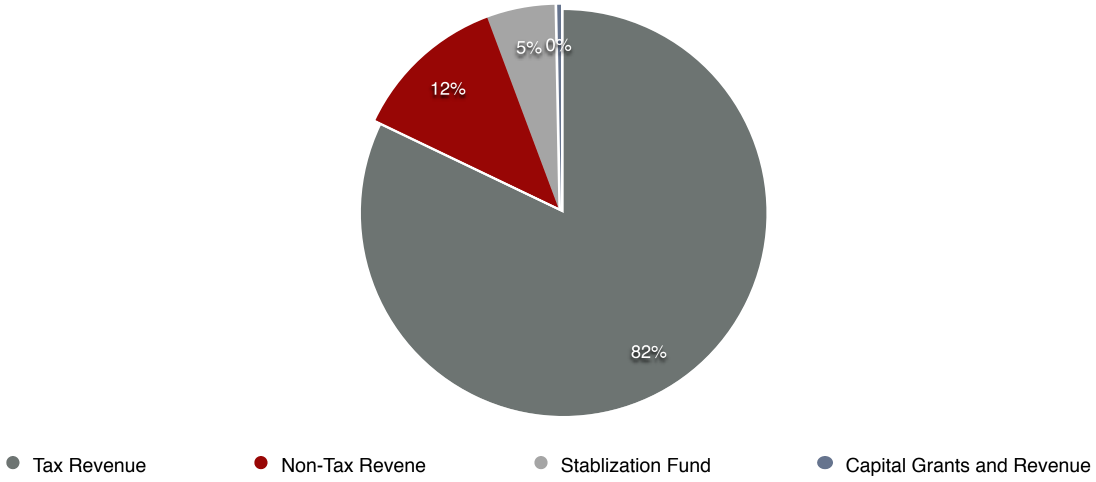


Source: NSOM

Government expenditure has been a hot topic of interest over the past 18 months, having considerable direct impact upon the construction and real estate sectors. Negative export growth and weakening FDI inflows, alongside delays to full commercial production of the Oyu Tolgoi mine, all resulted in downward revisions to GDP forecasts. In a desperate bid to chase growth at all costs the Government of Mongolia has ignored both experience and advice and fallen back on expansionary fiscal policy. Sustainable growth of the economy is thus imperilled by such a policy approach and requires immediate Government action. The fallout from the 2008-2009 economic crisis resulted in the drafting and passing of a new Fiscal Stability Law in 2010, which finally came into effect in January 2013, although this has subsequently been circumvented by lending practices of the Development of Mongolia.

The Fiscal Responsibility Law was hailed as a landmark move towards countercyclical fiscal policy. The law prescribes a 2% of GDP limit on the structural fiscal deficit. However, the 2011 budget was heavily inconsistent with the spirit of the law as well as with its specifics. Whilst the 2011 budget did not fall in line with the medium-term fiscal framework, authorities emphasised that they would bring their budgets into line with the numerical targets of the Fiscal Responsibility Law by 2013. The system of cash-transfers to the Mongolian population, which placed a heavy burden on national budgets, was key among the components of spending that were to be reigned back and made fiscally sustainable during 2013. The Government was quick to note that by cancelling these transfers they would instantly bring the budget into line with the demands of the Fiscal Responsibility Law. However, the unconditional monthly cash payment to each individual out of the Human Development Fund imposes an extremely high fiscal burden and places strain upon the extant macroeconomic structure and that the cash disbursements offered to the Mongolian populace under this program end up acting as a contributor to inflation.

GRAPH 45: Composition of Revenue of
General Government By Percentage



Source: NSOM

Despite all of this, Mongolia's fiscal policy has resumed its pre-crisis pro-cyclical pattern driven by increasing requests for more spending. As significant fiscal deficits continue to increase, the Ministry of Finance can no longer cope with sudden mineral market shocks, as there are not sufficient savings available as a viable fiscal buffer. The only way out of such a situation at present would be adjustment of spending that would result in significant shrinkage of the economy.

The reason for this is a spending spree on the part of the Government of Mongolia that appears to be undergirded by both the ethos that spurring the internal economy and diversifying the GDP base is necessary and a worrying unerring assumption that in the interim growth will simply continue no matter what. This is not necessarily a unique phenomena to Mongolia and leaders of nations who have subsisted and experienced growth on the back of international assistance and concessionary lending often find it hard to give up the notion that the world will simply come to their aid. For Mongolia, the limits of concessionary borrowing have all but been reached and their neighbour superpower China is currently their best hope for assistance.

Whilst the drive towards growth could be seen as laudable and necessary, the it may place the economy in a bind during the mid-term. With US$ 1.5 billion raised during 2012 through the sale of the Chinggis Bond, Government spending (on projects including the low-cost mortgage scheme) increased at the same time as foreign investment dropped and Chinese demand for Mongolia exports plunged (coal sales during the first half of 2013 alone dropped by almost 50%). To aid growth the Central Bank of Mongolia responded by reducing its policy rates. Nevertheless, the economy remained buoyant during 2013, financed by the debt raised the previous year. Other projects funded by the bond sale include the construction of roads linking six provinces to Ulaanbaatar and significant infrastructure projects.

Beyond fears for the fiscal stability of the nation, the World Bank has issued cautions that rapid growth in capital expenditures are unlikely to be well managed, cost efficient or high quality as a result of the fact that the public investment management frameworks operating in Mongolia at present are ill-equipped to handle such extensive and significant new projects. Contracting, monitoring, quality control and procurement systems, all still undergoing development, are not yet suitable to handle the rapid increase in capital budget spending. This factor alone means that significant projects to the future of the nation are put at heavy risk of failure or of resulting in unsuitable outcomes. With spending now outpacing production, structural factors such as limitations of skilled labour and poor logistical frameworks will push production costs higher, leading to higher levels of inflation and lowering appropriate levels of engagement by the private sector and foreign entities that would be able to bring experience, skilled labour and more sustainable market approach to the upscaling of facilities.

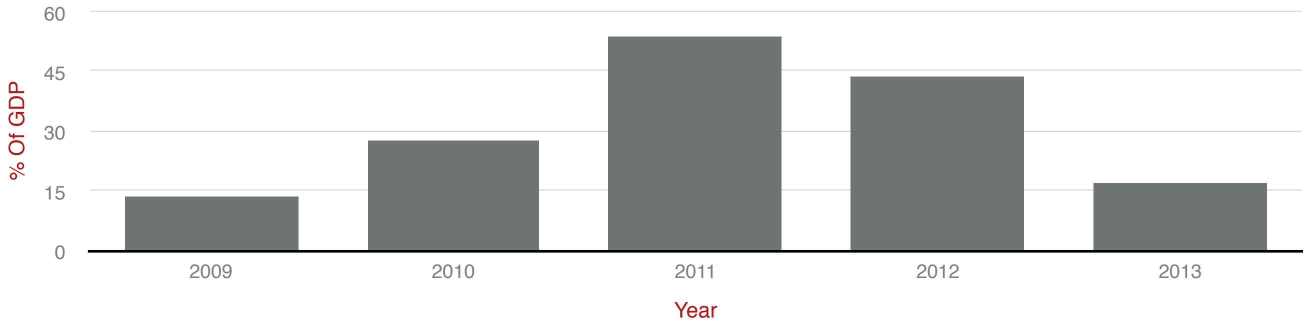
Off-budget spending has also been of overriding importance to macroeconomic policies since 2010. The Bank of Mongolia engaged in a major monetary stimulus program during later 2012 and going into 2013 that placed greater pressures on the balance of payments. These pressures were mostly reflected in a decline in the Bank of Mongolia's net international reserves. The Development Bank of Mongolia has also become a vehicle for dubious off-budget spending by the Government of Mongolia, providing an effective loophole for allocation of resources outside of the remit of the Fiscal Responsibility Law. Off-budget spending by the Government-owned DBM amounted to 3.4% of GDP during 2012, spending which is not included in the assessment of the fiscal policy stance, although should be as the DBM's debt is guaranteed by the Government and therefore is serviceable by the Government budget. A number of DBM projects are not revenue generating and therefore are likely to be wholly serviced by Government budgets, whilst others, such as the US$ 200 million payment to the Erdenes Tavan Tolgoi coking coal mine, look doubtful to be repaid int the mid-term. Whilst Government spending remained reasonably stable during 2013, the DBM increased its spending during 2013 to more than 6.5% of GDP within the first 8 months of the year alone. This effectively means a 30% increase in Government spending for the same period, none of which is covered under the Fiscal Responsibility Law.

Public debt has also been a growing cause for concern among ratings agencies, Mongolian industry and political commentators, as well as economic analysts. Public debt amounted to just under 70% of GDP by the end of 2013, a climb of approximately 28% in just two years. With Mongolia moving out from its 'third-world' status' the costs and risk profiles associated with this increased tranche of public debt are, on the whole, nowhere near as favourable. Many of these loans have been used to finance Bank of Mongolia foreign exchange rate sales in an attempt to curb Balance of Payment pressures. With a majority of debt denominated in foreign currencies, the volatility of the MNT is enhancing currency risks associated refinancing risk. The World Bank / IMF joint Debt Sustainability Analysis of Mongolia now shows that the nation is at moderate risk of debt distress by 2017, whilst rating agencies have downgraded the nation and its banks on consecutive occasions.

6. FOREIGN DIRECT INVESTMENT

FDI remains a key contributor to the economic development of Mongolia. According to UNCTAD, Foreign invested companies contributed a full 55% of GDP for 2011 and created around 180,000 jobs in recent years. Nevertheless, since 2012 Mongolia has been hitting headlines for markedly different reasons. FDI into Mongolia has been declining year on year since 2011, dropping from almost 60% of national GDP to just 16.5% during 2013 - levels not seen since 2009. One significant reason for this is that FDI into development of facilities for lynchpin mining projects has now been absorbed. These projects, including the Oyu Tolgoi gold and copper mining project, required significant multi-billion dollar capital investments, which swelled the overall GDP of Mongolia. Falling coal prices, a drop-off in coal sales and the slow upscaling of operations within the Oyu Tolgoi mine have meant that the expected contribution to GDP of these projects has not been realised. Coupled with an overall drop-off in FDI as large-scale investors in the mining sector expressed wariness about a deteriorating foreign investment climate and wrangling between the Government of Mongolia and Oyu Tolgoi, the overall rate of growth of the Mongolian economy has slipped back into low-double digits, along with the drop-off in FDI inflows.

GRAPH 46: FDI Into Mongolia as % of GDP

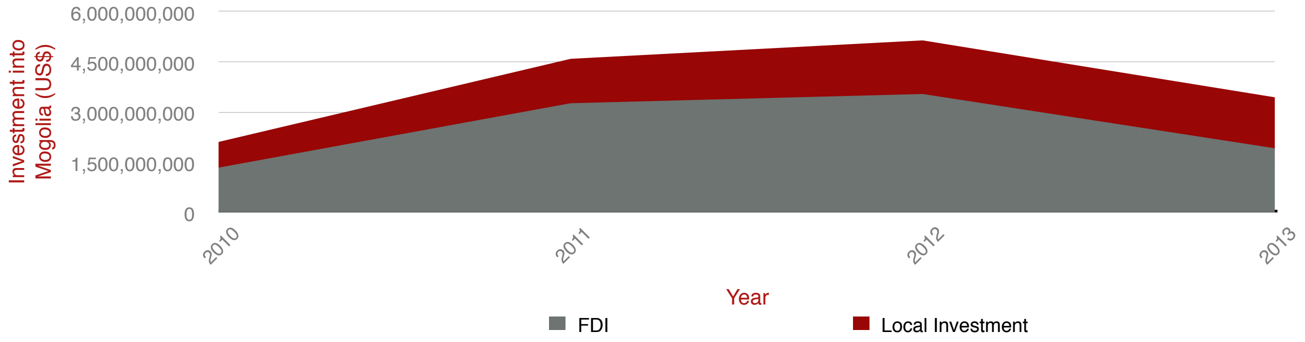


Source: NSOM

As noted above, a tranche of hastily passed policies concerning FDI, as well as sectors of great interest to FDI - including as mining and telecoms - have arguably precipitated the decline in investment into Mongolia over the past two years. Whilst the upward trend peaked during 2011, when 1.37 billion USD of FDI receipts were registered, this fell off by 17% during 2012. However, it remained a stable proportion of GDP at around 40%. By the end of 2013 FDI had dropped back, making up less than one-fifth of GDP. Whilst external shocks play a role in the fall-off in growth, measurement of currency performance against the currencies of other nations reliant on mining and minerals indicates that issues such as the collapsing MNT rate is at least in part a direct result of internal issues in the nation's political and economic environments.

During 2012 a new Law on Foreign Investment was cause for much concern among potential investors in the Mongolian mining sector. Article 6 of this new Law on Foreign Investment required that any and all foreign investments that lead to an acquisition of a stake above 33% in a company operating in a sector of strategic interest (SSI), or where the acquisition of an interest in an SSI business entity would allow the foreign investor to carry out executive management functions of the business entity, would be subject to an extended approval process. This approval process would slow investments and add additional costs. The law also stated that all foreign investments that result in acquisition of more than a 49% share of an SSI entity worth more than 100 billion MNT (USD 76 million) would require Parliamentary approval. Telecoms, certain areas of infrastructure and mining were identified as the three areas of sectors of strategic interest at the time the law was passed.

GRAPH 47: Investment by Source Per Annum



Source: NSOM

As FDI has been heavily skewed towards mining, the passing of this new law resulted in significant flight of FDI out of Mongolia. In 2012, the net FDI inflow declined by 17%, and continued to deteriorate sharply in the first months of 2013. At the end of 2013 FDI into Mongolia was just 54% of what it was during 2012. The decline in FDI reflects the expected unwinding of capital expenditure by the Oyu Tolgoi (OT) mine, which accounted for 70% of FDI in 2012. But it also signals the growing wariness of foreign investors over the investment climate in Mongolia. This decline coincides directly with the adoption of the SEFIL (Strategic Entities Foreign Investment Law) and cannot be attributed to external factors.

INFORMATION BOX - DECIDING THE FUTURE OF FOREIGN INVESTMENT IN MONGOLIA

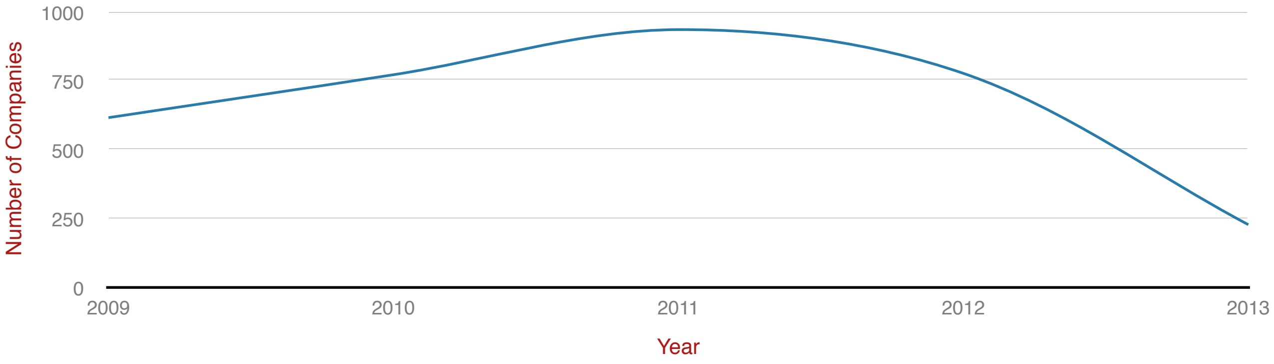
Anyone who has ever made an investment, large or small, knows that the so called ‘investment environment’ is a crucial determinant in making the decision to invest. Despite a tranche of new laws being brought in to clarify and stabilise the investment environment in Mongolia, the overall opinion of investors remains cautious. Levels of FDI continue to drop and are likely to do so for a while.

The reason for this is that the investment environment of Mongolia has been tarnished and suffers several chronic issues. The first is that it is difficult to understand or find reasoning for the functioning of many administrative institutions and their decisions. Companies operating in Mongolia can rarely find rhyme or reason for the pronouncements of the Mongolian tax office and while a company may submit almost identical tax returns year-on-year, they will receive different decisions each year as to whether they have paid enough tax, too little or too much. Tax laws are loosely interpreted and tax officials have both too much power and too little technical grasp of the laws in effect. One recently cited case is the penalty of 130 million USD charged to Oyu Tolgoi on the basis of claims that they avoided taxes for a number of years. One might be concerned that the Tax Office doing should have identified these issues years ago.

National level projects are also subject to capricious decision making. Investors are given permission to invest and yet, in a year’s time, projects may be terminated. Railway construction is one good example. Works to extend the nation’s rail capacity began in May 2012 and aborted in October of the same year. Investment requires that investors have confidence in the environment in which they are investing. A jurisdiction in which they cannot predict outcomes, either in terms of dealings with local authorities or in terms of the trajectory of a given project, will not receive significant investment as the risks will be perceived as too high. Both domestic and international investors are now shying away from investment into key sectors of the Mongolia economy such as mining and transportation for want of a more stable environment. Changes in the law do assist in providing more stability, although only time will tell if these are being appropriately implemented. Once investors witness a sustained period of stability they may well embrace Mongolia again.

As a result, the Government of Mongolia made significant alterations to the SEFIL during early 2014, adopting a renewed framework that only gives the Government of Mongolia powers to vet potential investments where the investing party is more than 50% owned by a foreign State entity. The Government of Mongolia proposed to amend its regulatory framework for investment activities in a bid to reverse a decline in foreign investment and to revive this component of the economy. In order to attempt to attract investment back into the country, the Government also passed legislation enabling foreign invested companies to benefit from a stabilised tax environment and policy environment for part of the life of the investment, depending upon the scale of the investment in question.

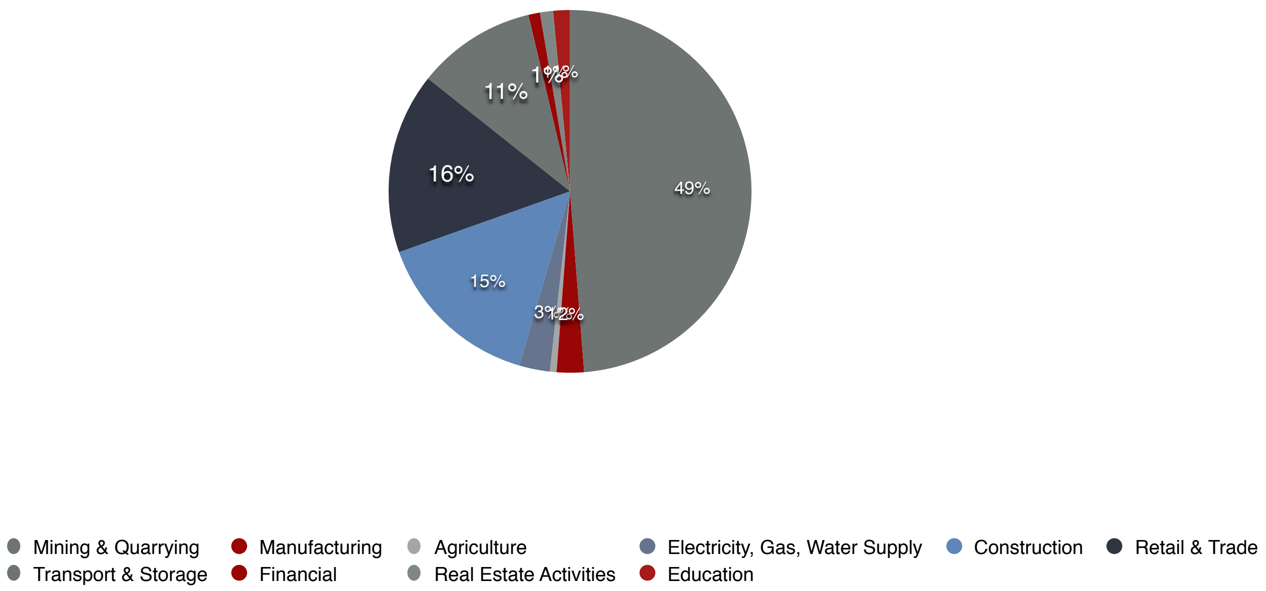
GRAPH 48: Number of Foreign Invested Companies in Mongolia



Source: NSOM

It is hoped that this will reverse the trend in foreign investment both in terms of capital invested and numbers of foreign invested companies registered in Mongolia. Since 2011 the actual number of foreign invested firms has also been falling as successive bouts of policy have increased restrictions upon foreign invested firms, raising the threshold of required investment from US$50,000 to US$100,000 in order to register as a wholly owned foreign company (below this amount a foreign citizen or entity cannot be majority owner of a Mongolian corporate entity). Restrictions on staff numbers, origin of capital and sector specific restrictions under the SEFIL framework have all led to the closing down of foreign invested companies within Mongolia and a significant slowing in new registrations. During 2013 just 224 new foreign invested companies were registered, down from over 900 during 2011, at the height of Mongolia’s growth trajectory.

GRAPH 49: Investment by Sector



Source: NSOM

Despite having been the target for so much negative policy (leading to Mongolia being identified as the world's worst policy environment by the Heritage Foundation and 18 our of 25 by Behre Dolbear Mineral Industry Advisors), a full 49% of investment into Mongolia (domestic and foreign) was in the mining sector during 2013. Mining and the mining supply chain remains a key sector underpinning national growth and represents the only option for moving forward at this time considering the precarious fiscal position of the Mongolian Government at present. Construction has risen to account for a full 15% of investment during the same period, although domestic construction markets alone will not be enough to fill this gap despite continuing growth.

INFORMATION BOX - NGO AID AND ITS IMPACT

Between 1991 and 2001 Mongolia received over US$4.056 billion in official development assistance from bilateral and multilateral donors. Official development assistance in 2009 alone totalled US$257.47 million. It is therefore unquestionable that a large amount of donor money is entering into Mongolia. However, the question does remain: is this aid helping or hindering Mongolia? The impact of *some* aid has certainly had a deleterious impact on Mongolia, as it has elsewhere in the world. International aid and the restrictions and requirements that come with it, has had a highly varied impact upon different sectors of the Mongolian economy as the nation undertakes the difficult transition to a market economy. Nevertheless, any analysis of the aid situation must take into account the situation Mongolia faced at the end of the 1980s. In 1989 Mongolian Government expenditures were equal to 65% of GDP. GDP per capita in 1989 was just US$270 and the nation consumed far more than it produced. Support from the Soviet Union was coming at a heavy cost and the total debt owed to the Soviet union at the end of 1990 stood at an absolutely staggering 478% of Mongolia's GDP.

When the Soviet Union disintegrated, the supplies of Soviet funds that had kept Mongolia's economy functioning were cut off and the trade agreements with Soviet bloc countries, on which Mongolia's industrial and agricultural sectors relied, were halted overnight. Having been in a state of isolation from anything outside of the Soviet world for almost 70 years, Mongolia's infrastructure, trade, economy, transport links and even its electricity supply were linked inextricably with the now collapsing economy of the Soviet Union and were dragged along with them into economic decline. In summation, at the end of the 1980s Mongolia was in absolutely no state to weather the end of the Soviet Union and its own economic transformation.

This being the case, as Mongolia underwent the tectonic economic shocks that come with movement to a market economy, it was assured that unemployment would rise and poverty would grow. The task of developing new economic growth under these conditions was, of course, a highly challenging one, and one in which support from international aid would play a crucial role. Early assistance provided the necessary stimulus to improve conditions in the Mongolian economy as a whole, providing a more stable environment to attract foreign investment. Whilst withdrawal of state support mechanisms have precipitated an increase in poverty and certainly led to rising unemployment, the overall impact upon the economy has been unquestionably positive, with GDP per capita moving toward US $5,000 by the end of 2012. It is now that the Government of Mongolia, with their economic future underwritten, can begin to consider distribution of this new found wealth to address issues of poverty and unemployment arising during the transition.

Retail, trade and manufacturing are likely to grow significantly in the mid-term, with a new upsurge in international brands entering the market and a growing consumer class. Lynchpin industrial projects such as at the Sainshand Industrial Plant will also add percentage points to GDP growth once they come online, resulting in these two sectors combined potentially outstripping the mining sector in terms of investment by 2016-2017, depending upon the development of new mining mega-projects.

7. MINING SECTOR IMPACT UPON REAL ESTATE MARKETS

Mining and real estate markets are worlds apart in terms of policy environment within Mongolia. Real estate markets opened up swiftly to foreign money and little regulation has been placed upon the rapid and often unchecked growth of real estate development both nationally and particularly within the capital city.

Mongolia's precocious economic growth has, nevertheless, been entirely undergirded by exploration and exploitation of its considerable mineral wealth. There are over 8,000 individual deposits in Mongolia, containing a wealth of over 440 different minerals. Of these, around 600 deposits and outcrops have been fully explored and their extent determined. These include over 180 gold deposits, 5 copper and molybdenum deposits, a lead deposit, 5 tin deposits, 10 steel iron deposits, 4 silver deposits, 42 deposits of brown and coking coal, 42 fluorspar deposits, 12 salt and 10 sodium sulphate deposits, 6 semi-precious stone deposits, 9 crystal deposits and over 200 deposits of minerals used in production of construction materials, as well as a wealth of rare-earth metals.

In terms of natural resource reserves, Mongolia is presently ranked tenth in the world, with over 80 known useful commodities beneath its surface and a present in-situ commodity value estimated at USD 1.4 trillion. However, most of Mongolia's mineral wealth currently remains under-explored and undeveloped.

Mining is far from a new phenomenon in Mongolia. Operations began during the socialist period and even then sustained the country's economy (albeit on a much smaller scale and without the influence of foreign capital). One example of a successful existing project is the Erdenet copper mine. Established in 1978, with an initial production capacity of 4 million tons per year, the mine was producing nearly 24 million tons per year by the transition period and still has enough reserves to keep the mine producing for up to 40 years hence.

Nevertheless, during 2008-2009, commercial real estate development in Ulaanbaatar ground almost entirely to a halt. External shocks from collapsing mineral prices (copper fell 65%) and export demand (China's production growth fell from 16% y-o-y in mid-2008 to 5% in Q1 2009), as a result of the global downturn, exposed structural weaknesses in the rapidly burgeoning Mongolian economy. In 2008-2009 commercial real estate development in Ulaanbaatar ground almost entirely to a halt. High inflation led to negative real interest rates on domestic currency deposits. The Bank of Mongolia repeatedly increased its policy rates to 14% to counteract a lack of confidence. Previous loose monetary policy and very high domestic inflation had led to a credit boom which now threatened the Mongolian banking system. Lending portfolios at the time of the crisis were heavily exposed in construction and real estate.

Rising commodities prices and increased exports resulted in growth restarting in 2010. Within the construction sector growth began as early as Q1 2010, with a 7.9% increase in output year-on-year. Following this tumultuous period, the Mongolian banking sector introduced a host of new reforms and a new Fiscal Responsibility Law was drafted. This would pave the way for a smoothing of boom-and-bust cycles. The Bank of Mongolia increased capital adequacy requirements on domestic banks and implemented a deposit guarantee law (which ceased during 2012). Savings rates were enhanced on the back of a new-found confidence. A fiscal spending cut and temporary suspension of non-concessional foreign borrowing during 2009 also relieved pressure on the current account.

The new Fiscal Responsibility Law promotes budget discipline by ensuring that the structural balance of the consolidated budget shall have a deficit of no more than 2% of GDP and that the growth of total budget expenditure shall not be greater than the greatest non-mineral GDP growth rate of that particular year (and the average of non-mineral GDP growth rate for 12 consecutive years). The Fiscal Responsibility Law would gear overall monetary policy toward containing inflation and safeguarding the banking system, as well as providing for counter-cyclical fiscal policy. The 2011 budget was inconsistent with the spirit as well as with the letter of the law. Authorities were subsequently forced to underscore their commitment to the Fiscal Responsibility Law and a resolution was made to implement the Government budgeting in full accordance with this law as of January 1st 2013.

The downturn in 2008 had the advantage of cooling off a banking sector in danger of early overheating. Prudential fiscal policies and tighter restrictions on banks were part of a package which prevented over-leveraging, particularly in a rapidly growing construction sector. The Mongolian banking sector has not seen the same kind of influx of cheap lending that the Kazakh banking system did during the period from 1999 - 2007. The residential markets have seen a CAGR in the mid 20% range since 2009, evidencing strong growth despite periods of overall cooling and external economic shocks. The overall economy in Mongolia rebounded sharply, displaying 17.3% GDP growth during 2011. During 2012, expected high growth was curtailed due to a fall in prices for major mining commodities, particularly coal - which became Mongolia's top export after exports climbed 74.88% year-on-year 2008-2009 and a further 137% year-on-year 2009-2010. In 2012 Mongolia became the leading exporter of coal to China, replacing Australia. However, with China posting consecutive months of slow-down in its manufacturing sector and the Tavan Tolgoi mine slowing its production, Mongolia's exports to China began to drop. Even though the amount of coal exported by Mongolia rose by 1.3% Q1 2012-2013, the value of this coal dropped by 57% for the same period, as falling prices began to impact tax receipts to fiscal budgets and mining company profits. Overall export income fell 2.6% in 2013, with coal sales continuing to slide. Evidence suggests that the production of the Tavan Tolgoi mines will be around 10 mtpa during 2014, giving the Government of Mongolia the capacity to retire debts accrued to Chalco this year before starting new growth.

With lending having again began to take off in Mongolia by the end of 2012, construction sector loans considered substandard, doubtful or in arrears, accounted for 9% of the total outstanding loans in the construction sector by Q4 of 2012. The consolidated stock of construction sector loans held by domestic banks represented just under 1.1% of the total consolidated loan stock, but around 20% of sector-wide NPLs, illustrating continuing structural weaknesses. Nevertheless, seeing the potential of the Mongolian real estate markets, loans and equity purchases from private funds and institutions such as the European Bank for Reconstruction and Development, helped ensure sufficient funding in the market to allow large-scale commercial real estate ventures to continue construction at the outset of the 2013 build-season. For this reason estimates indicate that the construction sector has not contracted as far as it did in 2008.

In the long-term, Mongolia will see its commodity export base diversify and grow, with the MNT expected to also appreciate on the back of this jump in export revenues. Moreover, despite the downturn, the commercial sector has seen continuing growth in pricing, with office retail development prices growing 22%+ y-o-y Q1 2012 - 2013 and residential markets showing a slower, but respectable, 13% average growth. A grade commercial rents rose in some areas by close to 40% from Q2 2012-2013, whilst in B grade supply rents displayed slower growth but are set to rise rapidly as soon as new growth becomes visible. Within the residential sector, the trickle-down effect of new investments in the mining sector lead to rising real wages, new job creation and has spurred the upscaling of the financial intermediation sector, which now boasts the highest monthly salaries of any sector of the Mongolian economy (above the mining sector). Along with capitalisation of the mortgage markets, this will spur the overall development of the residential sector during the mid-term. Nevertheless, the entire real estate sector remains heavily tied to mining fortunes.

8. BUSINESS ENVIRONMENT

The past year has been a roller coaster for those doing business, or looking to do business in Mongolia. During 2013 Mongolia removed the distinction between domestic and foreign companies when it comes to investing in the country in an effort to help attract more investment. Nevertheless, relations between foreign investors and the Government of Mongolia also fell to an all-time low point as a result of the Strategic Investment Law and continuing wrangling between the Government and Oyu Tolgoi.

From November 1 2013 foreign companies would not need to seek government or parliamentary approval before investing in Mongolia. This will only be the case if the company is 50% or more owned by a Foreign Government. Where a foreign Government does own more than a 50% share in an entity looking to acquire a project in certain strategic sectors within Mongolia it cannot own more than a 33% share in that project. What appears to be an opening up of the economy is in fact an exercise in back-peddling by the Mongolian Government who scared off significant amounts of investment when the passed the with hasty protectionist law in 2012 requiring that any and all foreign investments that lead to an acquisition of a stake above 33% in a company operating in a sector of strategic interest (SSI), or where the acquisition of an interest in an SSI business entity would allow the foreign investor to carry out executive management functions of the business entity, would be subject to an extended approval process. This approvals process would severely slow investments and add additional costs. The law also stated that all foreign investments that result in acquisition of more than a 49% share of an SSI entity worth more than 100 billion MNT (USD 76 million) would require Parliamentary approval. Telecoms, certain areas of Infrastructure and Mining were identified as the three areas of sectors of strategic interest at the time the law was passed, although fears of expansion abounded and rocked sectors including real estate.

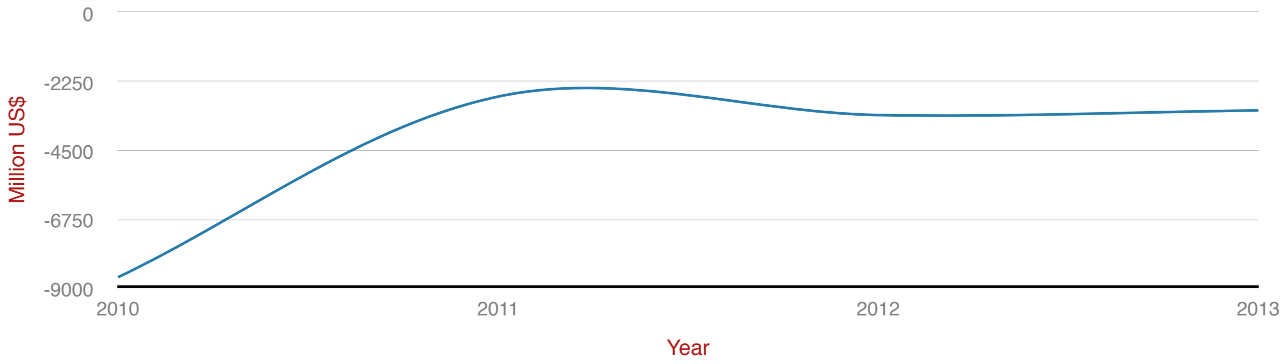
The upshot of this was distrust of large-scale investments on the part of many mining sector investors. Moreover, this new law, coupled with falling exports, resulted in the lesson that that hot money flows out just as fast as it flows in. This new legislation did, however, provide significant improvements in terms of taxation structures. Where a company invests over a certain amount, the tax structure and rates cannot be amended by future legislation unless those changes benefit the investor. It also removes all restrictions on the movement of assets in or out of the country and also provides protection against nationalisation of the investors' assets. These are significant forward moves for large-scale mining investments and the Government of Mongolia hope that these will restart the FDI growth engine over the short-term.

The restructuring of FDI administration means that companies registered with FDI into Mongolia will no longer need to register with a separate entity (the Foreign Investment and Foreign Trade Agency FIFTA), although the administrative and legislative procedures behind registration are still in the process of being defined. For the time being the same registration process as continues to be followed for registering and administering a foreign owned entity.

9. NET EXPORTS & REGIONAL TRADE

For 2013 Mongolia's foreign trade balance was in deficit by 2.1 billion US$, down 11.3% from its 2012 level. during the same period imports fell by 2.6% and imports fell 5.6%. During the same period the balance of payments deficit decreased by 4.48% in line with improved fiscal spending and revenues. The capital and financial account fell dramatically, to below 2010 levels, with just 1.4 billion US$ at the end of 2012, contrasted with 4.9 billion US$ at the close of 2012.

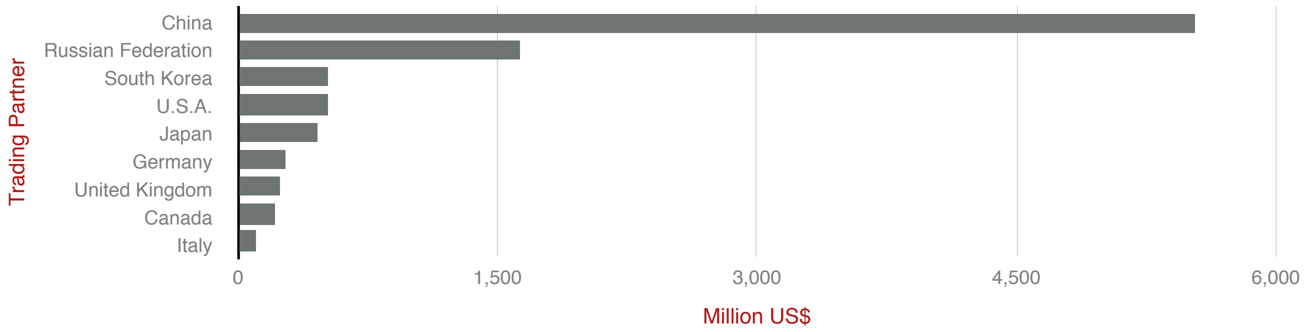
GRAPH 50: Balance of Payments



Source: NSOM

China remained Mongolia's largest trading partner, with a total trade turnover of 5.528 billion US$ during 2013, down 13.4% on 2012 trade turnover and 23.7% on 2011. The graph below indicates quite how important China remains to the Mongolia economy, responsible for 86.8% of total exports from Mongolia, down from over 90% during 2012. In terms of imports, China continues to dominate, responsible for 28.7% of imports into Mongolia. The Russian Federation, Germany, South Korea, the U.S.A. and Japan also account for significant numbers of exports into Mongolia.

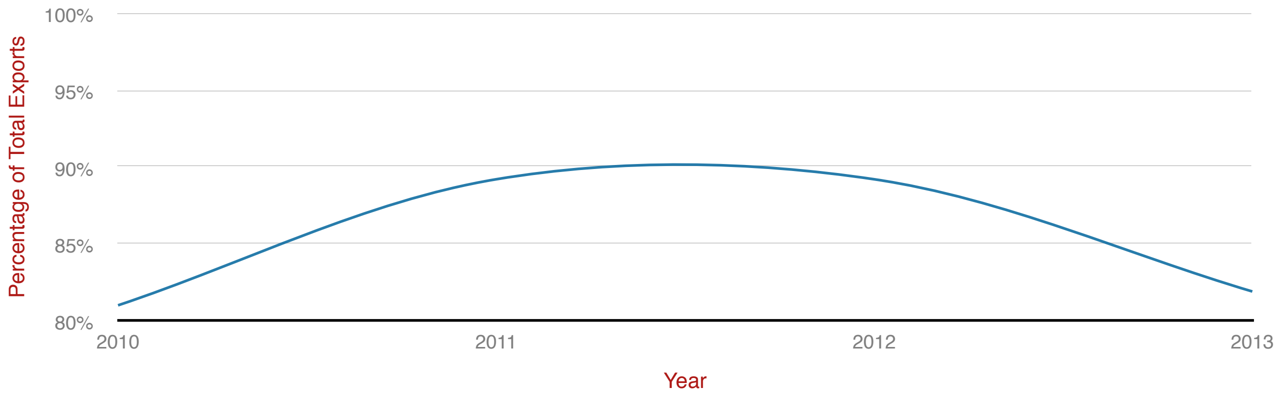
GRAPH 51: Total Turnover by Country



Source: NSOM

In terms of exports by product, coal and crude petroleum oils made up the largest export commodities by value and volume. 18.373 million tonnes of coal were exported during 2013, down from 20.96 million in 2012, with 5.24 million barrels of crude petroleum oil being exported during 2013, the majority of which went to China. This figure is up on 2012 levels, when only 3.58 million barrels were exported. Other key exports include 4.07 tonnes of cashmere, a staple luxury raw material exported from Mongolia and 649 thousand tonnes of copper concentrate, the vast majority of which was produced by the Oyu Tolgoi mine and the Erdenet Copper Mine. With Oyu Tolgoi now online and producing, copper concentrate exports actually rose by just under 22% (from a low base), unlike most key mineral exports.

GRAPH 52: Mineral Products - Change in % Composition 2010 - 2013



Source: NSOM

Mineral products made up a total 81.9% of exports by value during 2013, down from 89.2% during 2012, with precious metals making up 7.3% during 2013, mostly as a result of gold exports. Textiles made up a further 6.6% of exports during 2013, based upon export of raw cashmere. The graph below shows how mineral products as a percentage of total composition of exports horse during 2011-2012 and have since dropped back to 2010 levels as a result of falling demand and pricing on the Chinese import market.

10. FOREIGN RESERVES & EXCHANGE RATES

A very tangible indication of economic growth is the state of Mongolia's international reserves. These remain an excellent barometer of the efficacy of Government strategies to attract growth and inure against economic bust.

Foreign reserves reached US$2 billion in 2010 and climbed to reach just under US$2.3 billion in 2011. However, the head of The Mongol Bank, the national bank of Mongolia, warned in 2012 that up to 40% of the nation's foreign reserves are classed as so called 'hot money', capable of being withdrawn at any moment. Nevertheless, the increase of nearly 250% in Mongolia's foreign reserves over the period between 2011-2012 was truly remarkable and, despite calls from some corners of the Government to spend these reserves, Mongol Bank initially stated a position of caution, preferring a path of long term stability, which was to be won by building up reserves and continuing to increase the nation's overall credit rating.

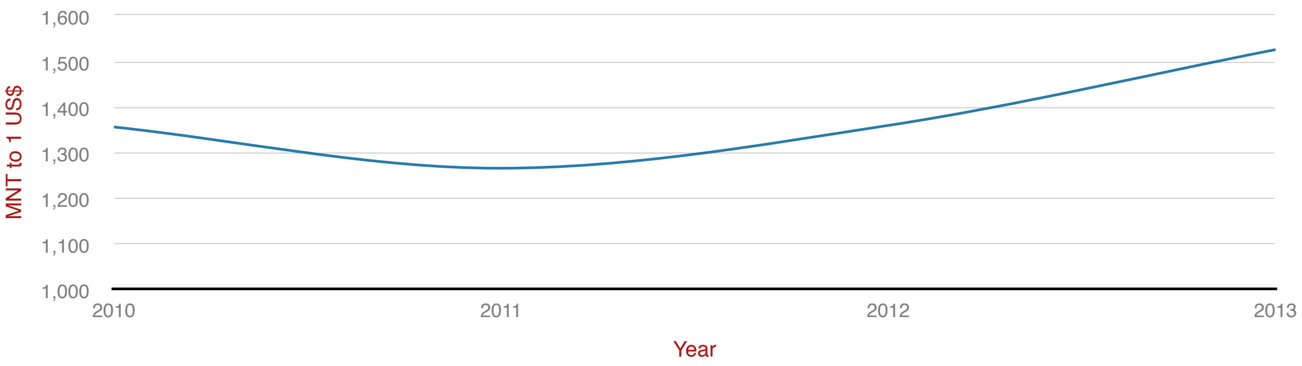
This warning is was based on robust precedent. During 2009-2010 the sudden drop in copper prices that had such a major impact upon the Mongolian economy in 2009-2010 precipitated a fall in exports and pressure on prices. The trade deficit placed pressure on the domestic currency to depreciate, which it did in April 2009. The Bank of Mongolia then waded in, as is its remit, to intervene directly in the foreign exchange market in order to prevent further depreciation by selling foreign currency out of its reserves. The bank did not stop selling foreign currency until its reserves were as low as 500 million USD. At this point it had not choice other than to let the currency depreciate.

However, by May 2014 gross reserves had fallen 11.9% month-on-month and 52.6% year-on-year, a record drop in the recent history of the Mongolian banking system. Despite an increase of 2.9% in foreign currency deposits during 2013 net international reserves fell by over 300%. Whilst in 2010 foreign reserves represented 33.3 weeks of goods imports, by 2013 this had fallen to a precarious 9.8 weeks.

The reason for this started some time before the announcement of Rio Tinto at the end of July 2013 that they will need to delay the development of the underground deposits. Pessimistic sentiment prevailed in the market and the Mongolian MNT was been sold off more aggressively. Although the attitude of politicians are much more friendly than before, the deteriorated trust between Mongolia and foreign investors will still take some time to return and new deposits were looking weaker than expected throughout 2012 and 2013. The Bank of Mongolia has, as stated above, been reluctant to intervene to the FX market so far as they believe a flexible foreign exchange regime is best suited for Mongolia, however, they did take some action to try and stem the decline of the MNT against major currencies, particularly the USD, through foreign currency sales. This was necessary as the MNT was dropping in a precipitous way against the USD, making it the sixth worst performing currency on the planet against the USD in 2013, down from one of the best performing in 2010-2011. The Bank of Mongolia is also looking to extend a bilateral local currency-swap line with the People's Bank of China for three years and double its size to 20 billion yuan from an already active 20 billion yuan swap. This should give Mongolia an adequate reserve buffer to maintain overall macro balance. With exports rising during 2014 and falling trade- and current- account deficits, demand for foreign exchange should be reduced.

In terms of average exchange rates, the MNT slid across the board for another year, falling by 12% against the US$ 2012-2013 year-on-year, ending 2013 on 1,659.34 to 1 US$, falling throughout 2014 to reach 1,867 MNT to 1 US$ by Q4 2014. Again, the MNT is likely to appreciate as Mongolia's trade and current account deficits reduce and confidence returns to the market based upon revisions of foreign investment laws.

GRAPH 53: MNT - USD Exchange Rate Average Per Annum



Source: NSOM

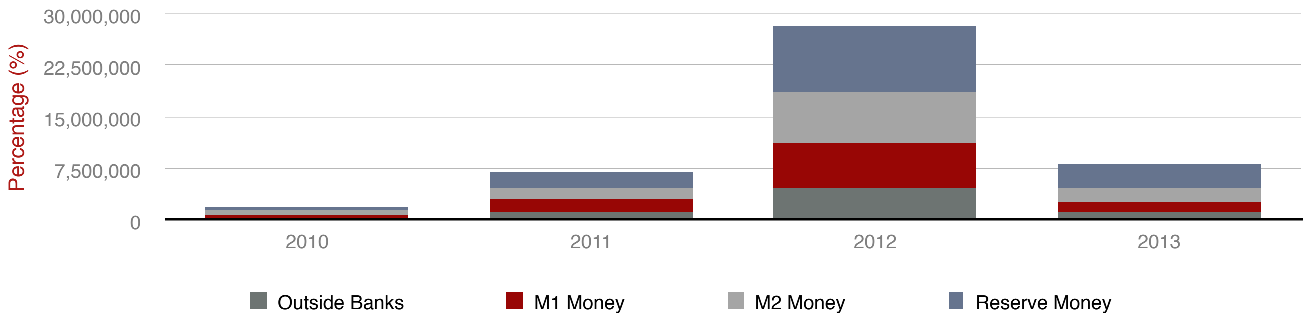
MNT Foreign Exchange Rates at End of Period 2013				
Currency	2010	2011	2012	2013
USD	1,257.18	1,396.37	1,392.10	1,659.34
EUR	1,679.97	1,806.76	1,835.83	2,288.81
RUB	41.13	43.44	45.66	47.83
CNY	190.78	221.63	223.39	274.17
KRW	1.12	1.21	1.30	1.57
JPY	15.45	18.00	16.15	15.80
GBP	1,948.57	2,155.30	2,240.03	2,735.17

Source: NSOM

11. BANKING AND CURRENCY

At the close of 2013 money supply (M2) in the economy reached 9,451.0 billion MNT, up 24.1% year-on-year. Currency deposits amounted to 4,917.2 billion MNT at the close of 2013, representing a 41% increase compared with the previous year.

GRAPH 54: Money Supply in Mongolia by Year



Source: NSOM

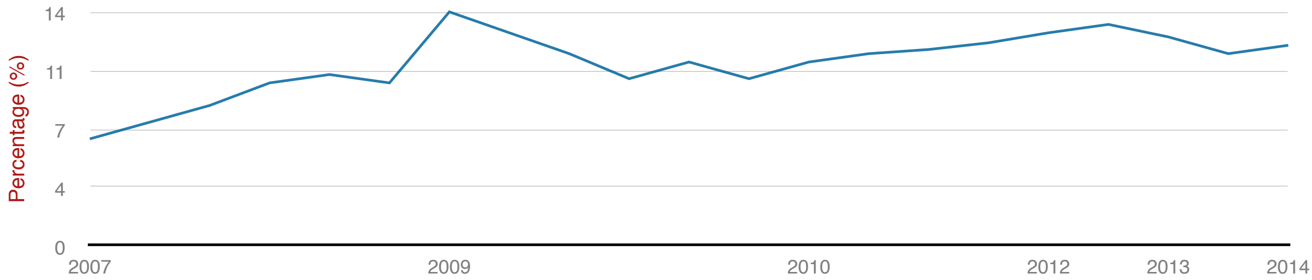
Individual deposits within Ulaanbaatar during 2013 rose to 3,705,183 million MNT (equivalent to US$ 2.23 billion). This represents 80% of national individual deposits of 4,625,800 million MNT.

INFORMATION BOX - STOCK MARKET CEO RESIGNS

On January 15th 2014 the Mongolian Stock Exchange's chief executive officer and his deputy resigned. CEO Altai Khangai submitted his resignation some time prior to this date. He had been in the position since 2011 and indicated that the resignation had been planned as he believed he had completed his tasks within the organisation. He presided over the exchange during a period of rapid growth and headed up a transformation of the legal environment surrounding the Mongolian Stock Exchange, the expansion of operations and collaboration with the London Stock Exchange to implement new systems and structures. Hardware for a new trading system was shipped into Ulaanbaatar during 2011. The system was supposed to be up and running by the end of November or early December 2011, although delays to policy concerning the clearing house and implementation of reforms in the exchange mean that plans to bring the Mongolian Stock Exchange onto a similar system as the LSE have been pushed back by years.

As a result of strong growth of money supply and inflation the Bank of Mongolia further tightened its monetary policy stance by raising its policy rate by 1.5 percentage points to 12.00 percent in July 2014. All licensed banks must also meet the reserve requirement which is applied against both Togrog and foreign currency deposits. Both computational and compliance periods are for 14 days. On February 23, 2011 the rate on the reserve requirement was increased by 4 percentage points to 9.0%, where it currently stands. Reserve requirements for foreign entrants into the banking sector are higher. These measures are deemed to be necessary to bring CPI inflation down, to reduce the growth of credit and monetary aggregates. Even with the adoption of tight monetary policy, the risks that contribute to higher rate of inflation still remain. Keeping in view an expansionary fiscal policy.

GRAPH 55: Bank of Mongolia Policy Rate Changes



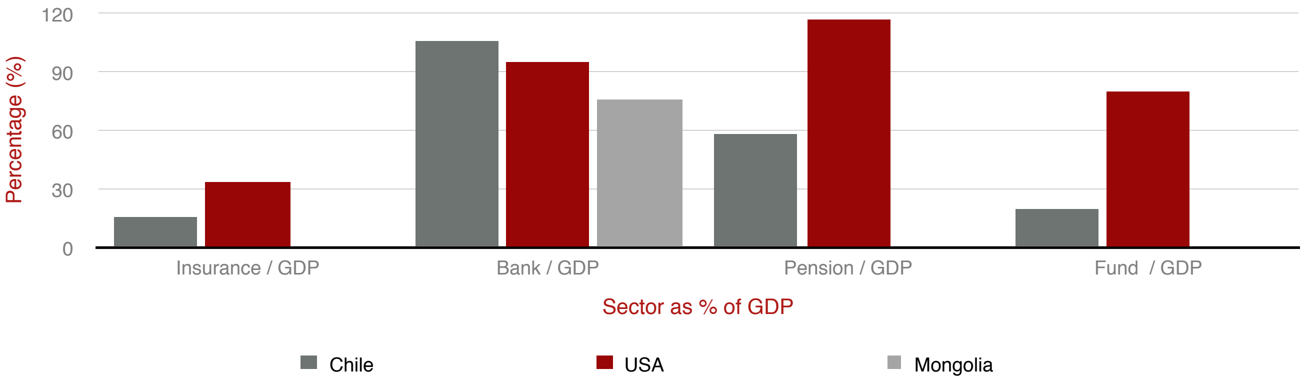
Source: Central Bank of Mongolia

12. BANKING SECTOR IMPACT UPON REAL ESTATE MARKETS

The banking and finance sector in Mongolia has critical bearing upon the fortunes of the real estate markets, being a key source of financing, a key operational and policy partner in establishing international financing, as well as the source of mortgages within the domestic market. The Mongolian banking sector consists of 14 commercial banks, 195 NBFIs, 162 savings and credit cooperatives and 17 insurance companies. The largest three banks make up 70% of total assets and 68% of total loans. In accordance with the Central Bank Law of 1996, the Bank of Mongolia has focused on price and exchange rate stability, whilst ensuring adequate money supply.

As a result of the downturn of 2008-2009 on the back of the global financial crisis, Mongolia's fourth largest domestic commercial bank went into receivership. Following this new regulations were adopted in 2011, defining the minimum capital requirement for commercial banks as 16 billion MNT (12 million USD). Minimum share capital requirement for a Mongolian subsidiary of a foreign bank is set at USD 50 million, although protectionist practices are presently responsible for keeping international banks out of the Mongolian finance sector at present.

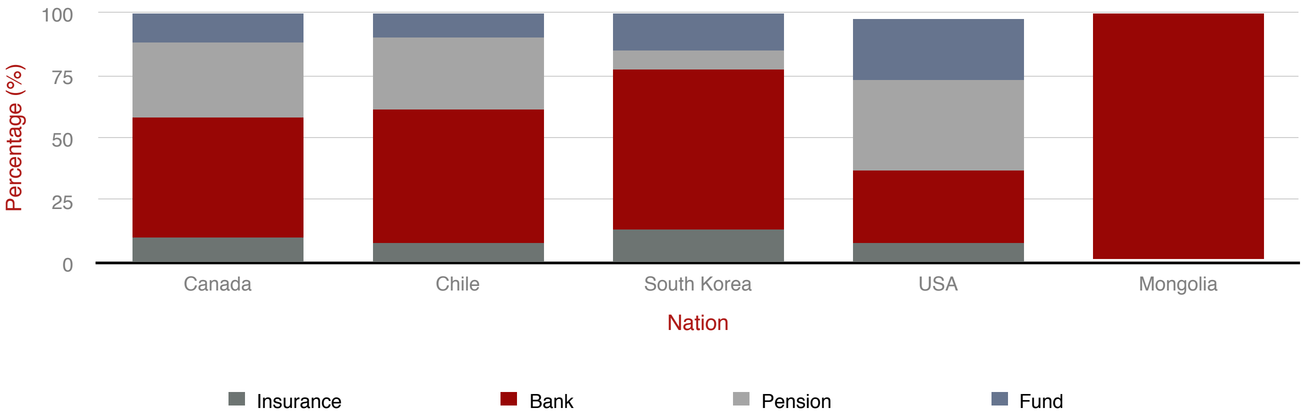
GRAPH 56: Sector Assets as % of GDP



Source: Mandal Group Research

Presently, investment in financial instruments are not very sophisticated. A significant portion of bank assets remain in cash and central bank bills. As the graphs above indicate, a conservative banking industry continues to dominate the financial sector in Mongolia, with around 99% market share in the financial sector. Lack of diversification in the financial sector has been one key reason behind diminished liquidity and lack of suitable investment opportunities. Nevertheless, future trends are clear: growth of the fund, pension and insurance sub-sectors. The current dominance of the banking sector represents an opportunity to investors who can offer new financing options and innovative financial products in the Mongolian markets. In real estate in particular, conservative bank lending practices have led to a significant demand for fund financing. Funds at present make up a negligible percentage of GDP, although demand for financing from high quality commercial real estate and infrastructure projects mean new opportunities will continue to grow in this area. The passing of a new Fund Law during the first quarter of 2014 will open the way for REITs and other real estate investment tools to enter the Mongolian market, although at present a lack of liquidity in the Mongolian Stock Exchange and lack of clarity over the policy environment around this bourse means that domestically listed REITs remain an unattractive prospect.

GRAPH 57: Market share in the Financial Sector (2011)



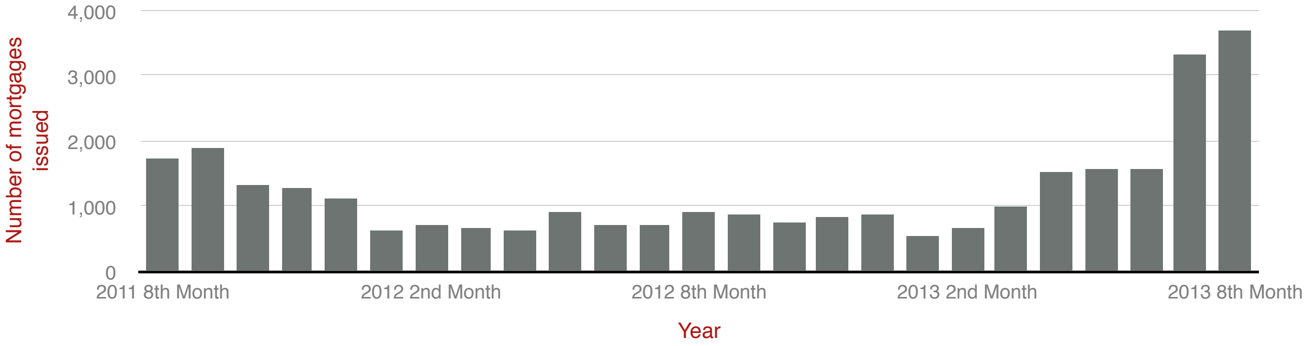
Source: Mandal Group Research

The monetary authorities of Mongolia already embarked on monetary easing programs during 2013 to offset the slowing credit growth in the earlier part of the year. This was been carried out through policy lending programs on discounted terms. This included targeted additional construction and housing development programs, encompassing MNT 1.1 trillion of low-interest rate mortgage lending and MNT 430 billion for construction companies since June of 2013. Around 60 percent of the liquidity provided by monetary easing programs has been used to support the construction and housing sectors.

Loose monetary policy has led to accelerating credit growth during 2013, particularly in the construction and housing sector saw credit growth jump close to 50% percent by September. The loan to deposit ratio picked up to 128% by late 2013, from 99% percent at the end of 2012. Heavy acceleration of credit growth can be seen to be exacerbating external and internal imbalances, as shown by volatile exchange rates and dramatic rises in inflation. The banking sector is increasingly vulnerable in its current state to market downturns and policy loans should be issued with caution.

The mortgage markets are a key component in real estate growth and the Mongolian markets have been showing dramatic upscaling in recent years. Annual growth rate of mortgage loan accelerated since June 2013, as the government launched the "Housing Mortgage Program" with an interest rate of 8 percent per annum. Targeted at first time buyers, this scheme allows buyers to purchase a home of less than 80 square meters with just a 10% deposit, over a period of up to 20 years, at an annual interest rate of just 8%. The success of this scheme, backed by Government funds from the Chinggis Bond release, has led to dramatic increases in outstanding mortgages and numbers of mortgage borrowers during 2013, although fears remain as to how the Government of Mongolia will continue to extend and finance this scheme now that the first tranche of financing is all but exhausted.

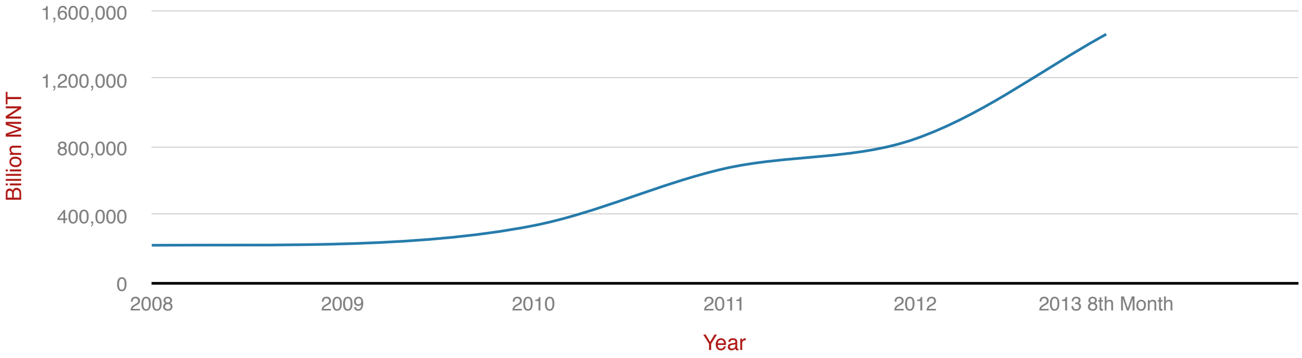
GRAPH 58: Number of Borrowers Issued Mortgage Loan by Month 2011-2013 Q3



Source: Mongolian Mortgage Corporation Report 2013

Total loans outstanding grew by 20.1% month on month ad 44.9% year on year directly following the introduction of the 8% mortgage scheme. Of mortgage loans outstanding, 41.5% were issued with the banks' own capital, 53.5% were issued by the "Housing Mortgage Program" (refinanced mortgage loan with reduced rate of 8% per annum) and 5% were issued by other sources. As of August 2013, 95.3 percent of mortgage loans outstanding have been made in domestic currency and 4.7% have been made in foreign currency.

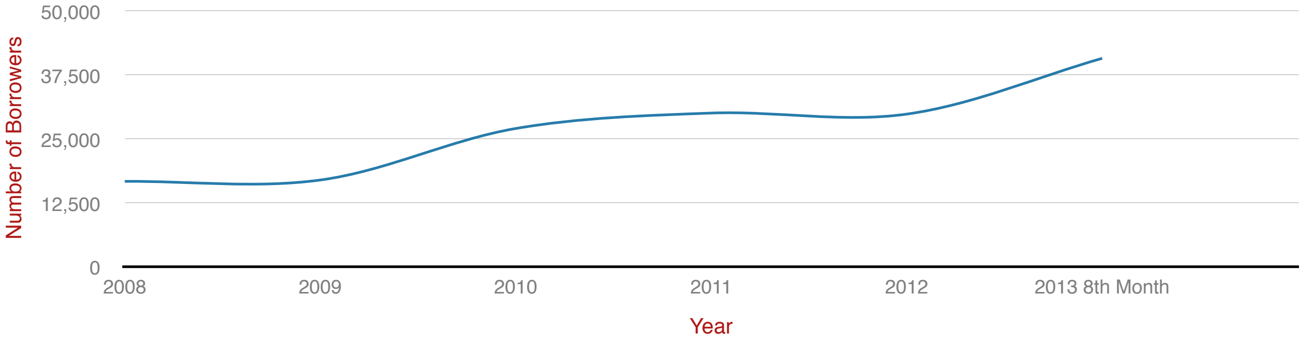
GRAPH 59: Mortgage Loan Amount Outstanding



Source: Mongolian Mortgage Corporation

Reporting from the beginning of Q4 2013 indicates that around 40,596 borrowers received a mortgage loan Y-T-D, with 21,832 of these (53%) taking loans under the "Housing Mortgage Program", at the 8% interest rate.

GRAPH 60: Number of Mortgage Borrowers (total)



Source: Mongolian Mortgage Corporation

At the end of Q3 2013, the term and interest rate of mortgage loans issued ranged between between 1 to 20 years and has the weighted average term was 17.3 years or 207.4 months, up from just 100.7 months in 2008. The weighted average rate for loans issued has been on a downward trajectory since 2008, presently standing at around 8.9% as a result of introduction of Government backed mortgages, down from 19.8% six years ago.

As is expected, the capital city makes up a full 79.6% of mortgage lending at this time, with 69% of all borrowers domiciled in Ulaanbaatar (26,232 borrowers). The average interest rate for loans in the capital is 9.3%, with the average borrowing term higher than the national average at 210.9 months.

The close synergy between the 100,000 Homes Project and 8% Housing Finance program mean that numbers of borrowers are expected to grow as buyers take advantage of relatively low-cost financing to upscale as well as to purchase apartments as first-time buyers.

13. MINING SECTOR

The mining sector has been viewed as the engine of Mongolia's development. Increased tax revenues, export earnings, employment opportunities and infrastructure development especially in rural areas are undergirding the growth of the nation, although this must be carefully managed.

There are over 8,000 individual deposits in Mongolia, containing a wealth of over 440 different minerals. Of these, around 600 deposits and outcrops have been fully explored and their extent determined. These include over 180 gold deposits, 5 copper and molybdenum deposits, a lead deposit, 5 tin deposits, 10 steel iron deposits, 4 silver deposits, 42 deposits of brown and coking coal, 42 fluorspar deposits, 12 salt and 10 sodium sulphate deposits, 6 semi-precious stone deposits, 9 crystal deposits and over 200 deposits of minerals used in production of construction materials, as well as a wealth of rare-earth metals. By 2011, well over 200 deposits are already being exploited. The vast majority of currently active individual mining operations are in gold deposits, with copper, coal, salt and other minerals making up the remainder.

Mining is not a new phenomenon in Mongolia. Operations began during the socialist period and even then sustained the country's economy, albeit on a much smaller scale and without the influence of foreign capital.

One example of a successful existing project is the Erdenet copper mine. Established in 1978, with an initial production capacity of 4 million tons per year, the mine was producing nearly 24 million tons per year by the transition period and still has enough reserves to keep the mine producing for up to 40 years hence. At it's peak the mine accounted for 12% of the total GDP of Mongolia. This mine is 51% owned by the Mongolian Government and 49% by the Russian Government. Mongolia's strategically important deposits of uranium have also been explored by joint Mongolian-Soviet ventures since the 1950s, although uranium mining was not undertaken on a large scale within Mongolia during this period.

Mining sector news was dominated during 2013 by the stalemate between the Government of Mongolia and Oyu Tolgoi. By mid-2014 Rio Tinto and the Mongolian government had been at loggerheads for more than a year on the terms of a $4 billion project finance package to fund expansion at the underground mine, where 80% of Oyu Tolgoi's wealth lies. In August, Rio laid off 1,700 workers at the venture following a decision to delay expansion and talks between the two sides will continue up until the Sept. 30 deadline for project-financing terms to be agreed.

The deal which undergirds Rio Tinto's investment into Mongolia was formally struck in October 2009 with the Government of Mongolia after six years in the making. Ivanhoe Mines and Rio Tinto, reached a joint investment and development agreement for the Oyu Tolgoi copper and gold deposit. The deal represented a truly landmark moment for investment in Mongolia. Located in the South Gobi desert, the Oyu Tolgoi reserve is the largest untapped gold and copper deposit in the world and is included on Mongolia's list of strategic deposits (a list of the most important deposits in the country). The agreement emphasises significant responsibilities of the private partners to provide guarantees concerning local employment and procurement. Oyu Tolgoi were scheduled to begin operations in late 2012 and production is was scheduled to commence in 2013.

Soon after, revenues from this mine were expected to double Mongolia's annual GDP. The signing of this agreement led to a jump in confidence that saw Mongolia's Mining Policy Potential Index score jump back to 35.7, on par with Turkey, Romani, Zambia and Argentina. Research by the Fraser Institute in 2010 indicated that 30% of mining companies surveyed considered Mongolia to be a country that encourages investment in the industry. Capricious Government actions in respect of land restrictions were cited during the survey as the greatest deterrent to investment. Nevertheless, the Government of Mongolia is highly aware of the importance of foreign direct investment into mining. Calls by some politicians to renegotiate the Oyu Tolgoi agreement - in order to give the Government a larger share of the investment - were summarily dismissed at the start of the autumn 2011 parliamentary session, although fears still exist that, with an election on the horizon, parliamentarians will continue to call for re-negotiations as a political manoeuvre to gain favour among a populace that does not have a great deal of trust in the activities of mining companies. The current wrangling between the two parties can be traced back to these calls, which initially were dismissed by many as a ploy to renegotiate a larger equity share for the Government.

The intervening year has seen tit-for-tat accusations on the part of both parties. In the latest issue to arise between the government and the project developers, Mongolia's Tax Authority last month claimed Oyu Tolgoi has unpaid taxes, penalties and disallowed entitlements associated with the venture. The disputed amount is approximately US$ 130 million. Plans for Mongolia to start charging interest on allegedly unpaid tax. Oyu Tolgoi said on February 5th 2014 that it pre-paid $150 million in tax in 2010 and 2011 and was due to receive credit for it last year. Mines Minister Davaajav Gankhuyag countered that the payment was a loan and tax obligations are still outstanding and are now subject to interest.

Turquoise Hill LLC indicated that Oyu Tolgoi had paid all necessary taxes. The Government also contends that Oyu Tolgoi's slow ramp-up in production is a stalling tactic and that Rio Tinto is also stalling over phase two financing issues. Prior to this Oyu Tolgoi reproached the Government for not effectively clearing the way for operational commencement through slow enactment of its responsibilities to help provision certain aspects of infrastructure and administrative assistance.

As the largest new copper development the Oyu tolgoi project is highly significant for Rio Tinto, although for Mongolia it remains even more important, making up a potential third of Mongolia's GDP when full production is initiated. The underground part of the Oyu Tolgoi project, (Phase 2) will cost a further US$ 5-6 billion to build and yield a majority of the benefit to the project, equalling over 400,000 tonnes annually alongside copper mined from the open pit portion of the project. The development was first put on hold after Rio and the Mongolian Government disagreed over existing costs and tax benefits, as well as the future costs of the project. With costs being so high the Government contended that it would not see suitable returns in terms of revenues or tax receipts. The opening salvo by the Government of Mongolia took a familiar form of a call to rethink the split of revenues between the State and Rio over the decades-long life of the project.

Whilst Mongolian banks do not have excessively high direct exposure to mining, the deteriorating operating environment for the country's key export sector heightens wider macro risks to the banking system. Several banks, including Golomt Bank, once thought to be exceptionally stable, have faced difficulties over the past year as large doubtful loans to the mining sector have surfaced.

List of Strategic Mining Deposits in Mongolia

Deposit Name	Minerals	Location	Resources Present
Asgat	Silver	Bayan-Ulgii, Nogoonnuur	6402.6 thousand tons (351.09 g/ton Ag)
Boroo	Gold	Selenge, Bayangol	24.523 thousand tons of 1.6 g/ton Au
Baganuur	Brown Coal	Ulaanbaatar, Baganuur	600m tons
Burenkhaan	Phosphate	Khovsgol, Alag-Erdene	192.24m tons
Dornod	Uranium	Dornod, Dashbalbar	10 560 thous. tons
Erdenet	Copper Molybdenum	Orkhon, Bayan-Undur	1200m tons of 0.51% Cu, 0.012% Mo
Gurvanbulag	Uranium	Dornod, Dashbalbar	16467 thousand tons of 0.175% U308
Mardai	Uranium	Dornod, Dashbalbar	924.6 thousand tons of 0.119% U308
Nariin Sukhait	Coal	South Gobi, Gurvantes	125.5m tons
Oyu Tolgoi	Copper molybdenum	Dorngovi, Mandakh	10.63m tons *oxide* of 0.32% Cu, 0.011% Mo and 241.1m tons of *sulfate* of 0.53% Cu, 0.018% Mo
Shivee Ovoo	Brown Coal	Govisumber, Shiveegoi	646.2m tons
Tavan Tolgoi	Stone Coal	South Gobi, Tsogttsetsii	6420m tons
Tsagann Suvarga	Copper Molybdenum	Dornod, Mandakh	10.64m tons of oxide of 0.42% Cu, 0.011% Mo. 240.1m tons of sulfate of 0.53% Cu, 0.018% Mo.
Tumortoi	Iron Ore	Selenge, Khuder	229.3 m tons of 51.15% Fe
Tumurtein Ovoo	Zinc, Lead	Sukhbaatar, Sukhbaatar	7689.4 thousand tons of 11.5% Zinc

Source: Mineral Resources Authority of Mongolia

A. COAL

Coal has become a key export commodity in recent years, taking the lead from copper in terms of Mongolia's biggest export. However, the sector was severely knocked in 2012 when news that Chalco of China was interested in purchasing a 60% stake in the Mongolian South Gobi Resources company met with suspicion from the Government of Mongolia. South Gobi Resources' licenses were summarily suspended and the fallout from the bid became the basis for development of the new Law on Foreign Investment that now defined mining as a sector of strategic importance, subject to Government intervention in deciding whether or not to allow FDI into mining projects where foreign interests may take a significant share.

INFORMATION BOX - MONGOLIA CONSIDERS GOING NUCLEAR

Plans to build a nuclear power station in Mongolia 's Gobi region are being discussed as a green alternative to fossil fuel power, with both Russia and China competing to get into the country's nuclear sector. The latest consultations between Japan and Mongolia over nuclear power took place in August 2011, where Mongolian nuclear officials reiterated their commitment to nuclear power, even after the Fukushima Daichi plant incident. Mongolia plans to begin construction of a nuclear plant in 2012 and completion is expected by 2017-2020.

Mongolia possesses significant uranium deposits - over 60,000 verified tons. Increased nuclear generation in China and India present Mongolia, as a supplier of raw materials, with an opportunity. Bartering the outsourcing of processing in for raw materials is one option open to Mongolia at this time.

Mongolian coal mines gradually shifted toward the modern industrial production methods between 1940 and 1970. However, formal resource estimations, tests for coking qualities and modern geological studies were not conducted until the late sixties. However, even at the turn of the twentieth century, Russian geologists had published their observation of some of the most famous deposits today, such as Tavan Tolgoi, Egiin Gol and Choir. During the twentieth century, open-pit coal mines were created in almost every aimag so that Mongolia's domestic demand for thermal coal was completely met. Mongolia has over 300 known coal deposits with an estimated 152 billion tonnes of coal resources. Of these, detailed geological studies have been completed at about 80. Estimates indicate that Mongolia has 152 billion tonnes of coal resources in-situ.

Having experienced dramatic growth of the coal markets, particularly spurred by large scale projects such as the Erdenes Tavan Tolgoi coking coal mine, Mongolia gained the top position of largest supplier to Chinese market in 2011 and retained it last year, after floods in 2011 and labor disputes last year reduced production and exports from Australia. However, since December 2012, Mongolian coal trucked to the Chinese border lost market share to seaborne Australian coal, whose exports to China actually soared 2.5 times year on year to 21 million tonnes in the first 9 months of the year. Proximity to China means that coal should be relatively inexpensive to distribute in the largest coal market on the planet, although lack of infrastructure means that most coal is trucked over dirt roads, significantly raising the costs of export.

INFORMATION BOX - COAL MARKETS, A RETURN TO FORM

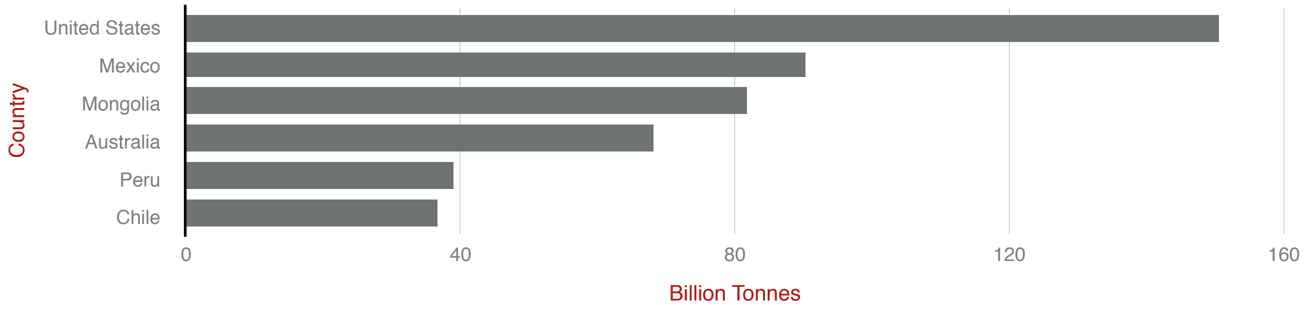
Research conducted by the Australian Government indicates that coal prices are expected to make a recovery after 2017. This echoes a broadly downbeat sentiment in the market at present. Mongolia should also therefore be prepared to transact coal at lower prices and to upscale infrastructure so as to enable profit from the sale of low-priced, lower-quality coals. The construction of a new railway infrastructure plays a vital role in driving down export costs to acceptable levels in order to maintain a competitive advantage. The government approved construction of a narrow gauge railway track to support export products, although implementation is slow. On top of this, the government agreed to supply coal at a considerably lower price of 20 to 30 USD in their most recent agreement with Chalco (a State-owned Chinese company that presently purchases coal from Mongolia's state-owned Tavan Tolgoi coal mine). Due to this, Mongolian private coal companies have had to reduce their prices to remain competitive.

As the Tavan Tolgoi mine neared the end of its contract with Chalco a new deal was struck on October 25, 2013. Following high-level meetings in China a memorandum of understanding with China's Shenhua Corporation was signed for the supply of coal over the next 20 years, securing volume demand in the long term. The mine closed during the Spring of 2014 for overburden removal, although is in operation again now. With mounting debts and difficulties meeting operational costs, the future of this mine appears at threat without significant investment in the near future. Rumours that the Government owned portion of the mine is seeking an international partner or buyer began circulating during mid-2014.

B. COPPER

With coal markets in the doldrums after pricing and demand fell from China, exports of copper concentrate are on the up with the initiation of production and export from the Oyu Tolgoi mine during 2013. Despite slower than expected production from Oyu Tolgoi, Mongolia still exported 649.8 tonnes of copper concentrate, up 13% year-on-year 2012-2013, from a relatively stable base in the mid 500 tonne mark. With Oyu Tolgoi expected to contribute more than 37% of the GDP of Mongolia when fully operational, the significance of copper exports to the nation are huge in the mid- to long-term.

GRAPH 61: Benchmarking of Copper Reserves (Billion Tonnes) - International Comparison



Source: Copper Alliance

Mongolia is ranked second in the world in terms of copper reserves, with the Oyu Tolgoi copper deposit considered to be over three times larger than the Erdenet mine. Nevertheless, the Erdenet copper mine (operated by the Erdenet Mining Company - 51% owned by the Mongolian State Property Committee and 49% owned by the Russian Government) is still producing 25 million tons per annum and in 2010 was responsible for 13.5% of Mongolia's GDP and 7% of tax revenue. Once the Oyu Tolgoi copper and gold deposit comes online, Mongolia will begin to access wealth from the world's largest known untapped deposit and will reap the benefits of revenues consummate with the scale of this project.

C. GOLD

Today Boroo Gold, a 100% subsidiary of Centerra Gold, remains the largest single player in the Mongolian gold sector. The first significant foreign investment for industrial development in Mongolia since 1979. Located 110 kilometers west-northwest of Ulaanbaatar, the country's capital, Boroo began commercial production on March 1, 2004 and produced more than 1.5 million ounces of gold (including gold produced during commissioning) in that year. In 2013 gold production was 90,318 ounces as mining ceased at the end of November 2010. The Boroo operation continues to mill lower grade stockpiled ore while the company waits for the final approvals for the a new Gatsuurt project.

In 2006 the Montsame News Agency indicated that Boroo was estimated to have increased the entire country's GDP by between 5% and 7%. Boroo is well positioned with respect to existing transport infrastructure, with the Irkutsk highway and Trans-Mongolian railway both running within 20 km of the mine site, lowering logistical costs associated with extraction. However, in 2009 Boroo Gold had its mining license suspending following charges by impropriety by the Mongolian Government around issues of record keeping, inappropriate land use and operational procedures. The licenses were reinstated just 1 month later, but heap-and-leach facilities remained closed pending further permitting. More than three years later Boroo received the regulatory approval necessary from the Government of Mongolia to resume heap-and-leach operations, expecting to continue to produce around 2,000 ounces of gold a month beginning again in December 2012.

With reserves at Boroo's main site are already running low, a new open-pit gold mine, the Gatsuurt Gold Mine, is in planning and awaiting license approvals. When the Oyu Tolgoi gold and copper mine came online in 2013, the projected 330,000 ounces of gold it will produce annually was expected to significantly bolster exports. During 2013 gold exports rose from a stable 2.1-2.8 tonnes per annum between 2010-2012 to 7.6 tonnes.

With Oyu Tolgoi being the second largest gold and copper deposit ever discovered and the largest unexploited deposit globally, hopes for this project remain high despite political wrangling over the future of the project since 2012.

D. URANIUM

Mongolia has around 49,000 tons of reasonably assured uranium resources, plus Inferred resources. This is more than the total supply of uranium mined globally in 2005. Mongolia actually has a long history of uranium exploration, dating back as far as the 1950s, during which time Mongolian-Russian joint exploration projects were initiated. Deposits were found in the Dornod and Gurvanbulag area, where uranium is present in volcanogenic sediments. Dornod represents Mongolia's best uranium deposit prospect. The main uranium deposit in this area was mined by Erdes Mining Enterprises between 1988 and 1995 and transferred to Russia for processing. Around 535 tons was produced during this period, all from open pit mining. Privatised Russian uranium mining company Atomredmetzoloto indicates that Russia spent over US $600 million on uranium exploration and development in Mongolia up until 1995. In April 2008 Russia and Mongolia signed a new high-level agreement to cooperate in identifying and developing Mongolia's uranium resources. This aimed to restore and consolidate Russia's involvement in Mongolia's uranium sector, notably Dornod. Among the largest private sector players in Mongolia's uranium industry is Areva. This company first arrived in Mongolia under the name COGEGOBI, a joint venture in which COGEMA, now Areva, had a 70% interest. GOBIGEO, a Mongolian company, was their domestic partner, with a 30% share. Initial explorations were carried out in Dornod and Dariganga. It was, however, not until 2006 that Areva signed an agreement with the Mongolian Ministry of Commerce and Industry, illustrating the terms and scope of collaboration and technical support AREVA would provide for uranium mining and exploration.

After signing a cooperative accord with the Mongolian Nuclear Power Agency in 2009 Areva's engagement in Mongolian uranium mining was on track. Areva Mongol presently holds 28 exploration licenses for uranium, covering an area of over 14,100 square kilometres. Exploration is primarily concentrated in the Gobi desert, particularly in the East Gobi region. Canada's Denison Mines, Marubeni, Century City International, China Nuclear Energy Industry Corporation, East Asia Minerals, Red Hill Energy and Mega Uranium all hold uranium exploration licenses. The Canada-based Khan Resources Inc. (KRI) has had a 69% share in the Dornod project, mostly through a 58% owned subsidiary Central Asian Uranium Co. Ltd (CAUC). Khan Resources was at the centre of a dispute over uranium mining licenses in 2010.

In July 2009, the Mongolian Mineral Resource Authority suspended the company's uranium mining license, claiming the firm had violated Mongolian law by not fully declaring its resources. Shortly afterwards the Mongolian Nuclear Energy Agency announced that Dornod Uran LLC, a MonAtom-ARMZ venture, would develop the Dornod project to the tune of 2,000 tons a year. This decision was challenged by Khan Resources by means of arbitration, on the grounds that this was clearly expropriatory. Khan Resources were successful in their arbitration bid and their Dornod license was reinstated. They are now continuing to seek compensation for damages in the international courts.

MARKET RESEARCH SERVICES

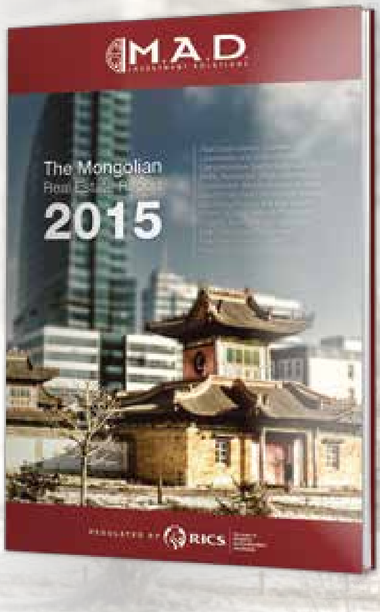
MAXIMISING VALUE AND POTENTIAL

As the premier real estate focused research organisation in Mongolia, market research is M.A.D.'s flagship product. We publish the only truly comprehensive and unbiased annual report of the Mongolian real estate market, and have considerable experience in providing tailor-made research for both commercial and donor-funded projects.

Our team of qualified researchers will carry out extensive inquiry to find all the relevant information for your project. We then provide detailed analysis so as to ensure that you have a thorough understanding of the market, its opportunities and challenges, including:

- Macroeconomic analysis
- Asset class analysis
- Area analysis
- Development mapping and competitor analysis
- Case studies of successful and failed developments
- Financial and project feasibility assessments
- Perception or design preference surveys
- Projected growth in demand, supply, rents & capital value

In essence, our research briefs can be as detailed or as concise as you wish, suiting your unique requirements. Regardless of scope, we provide high standard research conducted according to internationally accepted methodologies, providing our clients with impartial and independent information and recommendations that can be used to attract investment or refine your project.



THE MONGOLIAN REAL ESTATE REPORT 2015

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14. POLICY ENVIRONMENT & POLICY RISKS

Macroeconomic and political factors are a significant risk in any emerging economy. The tectonic shift from a centrally planned to market led economy has been undertaken with reasonable grace and significant success in the Mongolian case, but legislative directions are far from secured and an unpredictable Government, with limited experience of the market context has been known to alter policy and legislation with limited warning. Repeat events, such as a petition by members of Parliament to renegotiate the Oyu Tolgoi mining contract prior to the 2012 legislative elections have shown how high levels of corruption and populism serve to de-stabilise the investment environment. An overall protectionist stance on certain key areas of the economy has also been cause for continuing concern. Capricious policy-making in the mineral sector has led to Mongolia falling to last place on the Fraser institute's International Policy Index for 2014, making it the world's worst jurisdiction in terms of mining policy. Nevertheless, real estate acquisition remains an area with little Government interference and low levels of corruption. By contrast, real estate development has been subject to increasingly stringent regulation at both national and local Government levels.

INFORMATION BOX - THE 2012 LAW ON FOREIGN INVESTMENTS

The new law on foreign investment implemented in 2012, whilst not directly impacting real estate, does provide for stricter regulation over foreign investment in so called 'sectors of strategic importance'. At the present time these sectors of strategic importance are confined to mining and telecommunications and infrastructure, although there is no reason why this definition should not be extended to incorporate real estate of various kinds were a residential bubble or sectoral overheating to become a politically salient issue. This new legislation is hardly out of step with an economy growing so rapidly and attempting to secure its interests in the longer term.

Pursuant to Article 6 of this new law, Government approval will be required for all Foreign Investments that: lead to an acquisition of a stake above 33% in a SSI company; or where the acquisition of an interest in a SSI business entity would allow the foreign investor to carry out executive management functions of the business entity or to appoint a majority of the management teams or board of directors; or that give the foreign investor the right to veto management decisions of the business entity operating in SSI; or that may create buyer or supplier monopoly in mining raw materials or commodity markets both internationally and within the Mongolian market; or that may affect the market price of Mongolian mining exports; or that may dilute share holdings in companies in SSI. Article 3.7 of the new law also states that all foreign investments that acquire more than a 49% share of an SSI entity worth more than 100 billion tugriks (US$ 76 million) will require prior Parliamentary approval.

All approvals must be sought from the Foreign Investment Agency (FIFTA), which would then submit its own recommendation to the Government of Mongolia on whether to grant approval to each specific foreign investment in question. After this the Government would have 45 days to decide wether to grant the approval or not. The new law does not yet provision for any retrospective application, however, this is not ruled out at present.

In terms of implications for foreign investors, the most obvious is a further delay in effecting foreign investments. The true implications for investors do somewhat depend upon how the law is to be interpreted. For example, there is no clarification as to what the 49% and 100 billion MNT value threshold for Government approval actually refers to. It could be the book value of a SSI company, the market value of the shares of a SSI company or the value of the foreign investment transaction proposed. Nevertheless, the final version of the Law on Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance represents a significant improvement for most investors over the original draft bill introduced earlier in 2012 that limited foreign investors to a maximum 49% stake in an entity in a SSI if the deal is valued at above 100 billion MNT.

This originates in response to genuine concerns over construction safety, appropriate urban planning and corruption in planning processes. At present, the Government of Mongolia has shown signs of a complete sea-change in rhetoric. Legislative changes have accompanied new steps towards opening up the markets and securing a more stable environment in terms of foreign investment. For the first time since the second quarter of 2012, optimism is returning around FDI into Mongolia.

DEGREE OF IMPACT	**HIGH**	• Natural Disaster • Social Unrest and removal of the parliament • Collapse of the infrastructure grid (power).	• Outflow of investment • Distress in construction sector resulting from lack of financing • High fiscal debt, leading to fiscal instability	• Heavy involvement of the Government in private sector • Deterioration of investment policy environment
	MEDIUM	• Collapse of Mongolian Banking system - leading to nationalisation of banks • Arrival of foreign retail banks on the market, offering low interest mortgage rates.	• Poor liquidity in domestic banks • Scarcity of lending, resulting in lower economic turnover • Increase in trade deficit	• Continued decline in global commodity prices and demand • Increase in NPLs • Increased foreign exchange fluctuation • Rising inflation
	LOW	• New laws / taxes restricting foreign ownership of property in Mongolia. • Construction of metro goes ahead.	• Rising fuel import costs • Harsh winter with heavy loss of livestock • Cancellation of the 8% mortgage programme. • Reduction in social welfare and cash payments to citizens.	• Slow recovery of the global economy • Slow recovery in commodity prices • Mongolia requires a new IMF bailout
		LOW	**MEDIUM**	**HIGH**
		PROBABILITY OF OCCURRENCE		

V. DEMOGRAPHIC TRENDS

1. KEY DEMOGRAPHIC TRENDS AT A GLANCE

Key Demographic Data of Mongolia and Ulaanbaatar

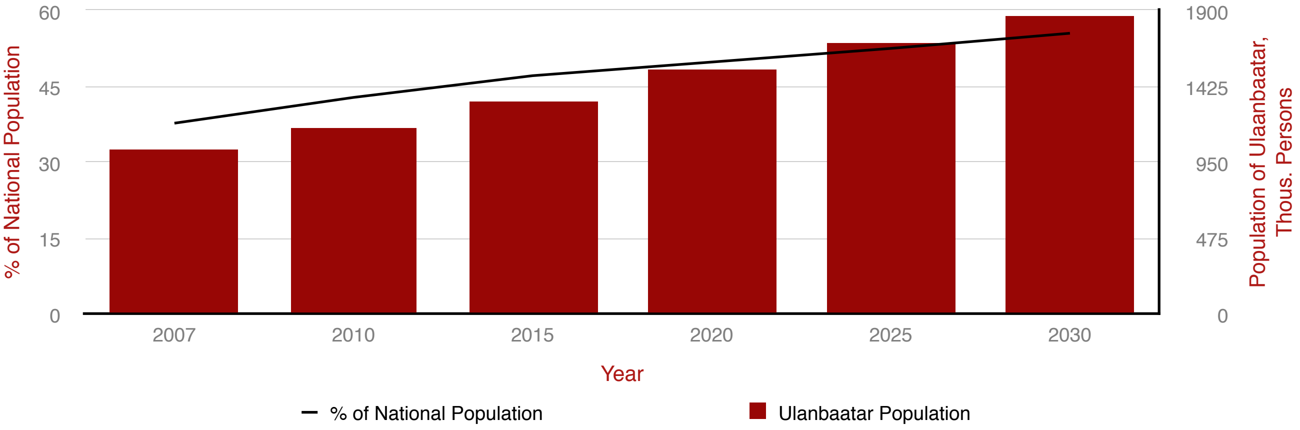
			Figure	
Metric	**Year**	**Source**	**National**	**Ulaanbaatar**
Population	2014	Ulaanbaatar City /NSOM	2,930,100	1,372,000
Male / Female Split	2013	Ulaanbaatar City /NSOM	1,425,600 M 1,504,500 F	652,100 M 719,900 F
Number of Economically Active Persons	2013	Ulaanbaatar City /NSOM	1,198,300	831,100
Average Household Size	2013	Ulaanbaatar City /NSOM	3.8	3.4
Annual Average Population Growth Rate	2014	Ulaanbaatar City /NSOM	2.18%	3.5%
Monthly Average Household Income	2013	Ulaanbaatar City /NSOM	959,247 MNT per month	1,057,430 MNT per month
Total Fertility Rate	2013	Ulaanbaatar City /NSOM	3.0	2.87
GDP Per Capita	2013	Ulaanbaatar City /NSOM	US$ 3,964	US$ 4,500
Urbanisation Rate	2014	NSOM	66.9% urban	100% urban

Source: NSOM / UBStat

2. INTRODUCTION

Favourable demographics have much to do with the future of emerging markets and the demographics of Mongolia indicate a young and economically active population that will provide the necessary labour to drive forward the economy as it expands in coming years. They include steady population growth, a young population which has access to increasing household income as a result of rising wages, and rapid urbanisation as a result of economic migration from rural areas to the capital, as well as expanding tier-2 cities.

GRAPH 62: Population forecasts for Ulaanbaatar city 2007-2030



Source: Asian Development Bank

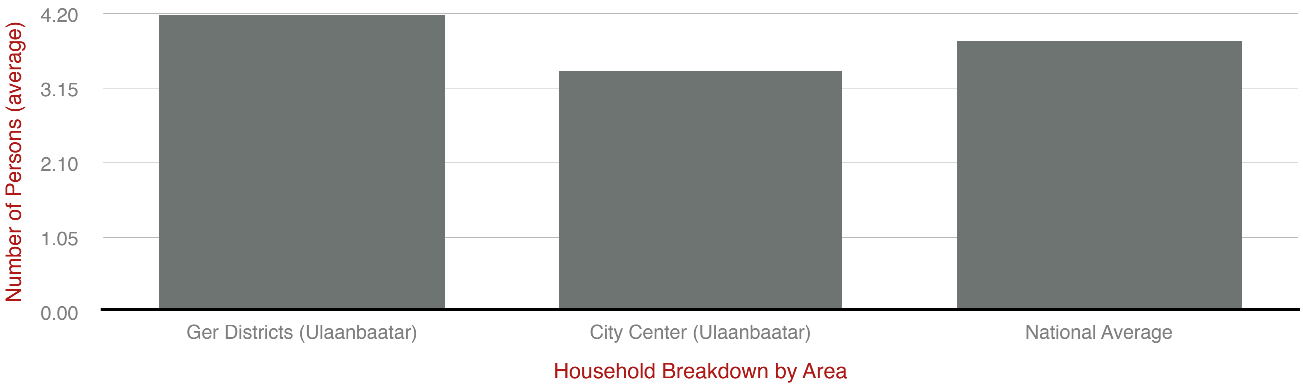
Over the past two years the demographic factors which have been driving change in the real estate markets have been those associated with consumption trends and upscaling of households from ger districts into low-cost housing.

Overall, population density in the capital has increased by two-thirds from the 2000 to the 2010 census, standing at 246 persons per kilometre. This is in stark contrast to the national average of just over 1 person per square kilometre for the entire country. A breakdown of migrants by age reveals that migration is highest among young people between 15-24 years of age. Many of these young people elect to migrate for purposes of obtaining an education - moving to Ulaanbaatar and other smaller university towns (such as Khovd) to complete their education before settling in urban centres in search of employment. They also migrate in search of work and, as already noted, for marriage. On a national scale, Mongolian has the smallest population density in the world, reported at just 1.77 persons per square kilometre following the 2010 census. Inter-census figures indicate that this may now have risen to an average of nearer to 2 persons per square kilometre, although this still puts Mongolia at the top of the table in terms of lowest population density on the planet.

Results of a 2008 World Bank survey indicated that only 50% of Ulaanbaatar ger district residents said that they were born within the district in which they lived. Of the remaining 50%, over 90% indicated that they originally came from outside of Ulaanbaatar, with the other 10% having moved from a different district of the capital. Within the built-up city centre, populations are notably more sedentary. In the same survey 60% of respondents from Ulaanbaatar's city centre were still resident in the district of their birth. The study indicated that marriage was responsible for more than 40% of migrations to the ger districts, followed by employment at 19% and education at 14%. This kind of rapid in-migration is causing simultaneous expansion and densification of existing ger areas.

The third demographic factor of significance to development of the housing market in Mongolia is household composition. The average household size in Mongolia was 3.8 in 2010, although household sizes within the ger districts of Ulaanbaatar were slightly higher at 4.2 persons per household. For the city centre of Ulaanbaatar average household size remains less than the national average, at 3.4. This is indicative of a general shift in composition towards smaller households, with less multi-generational occupancy in the city as a result of young people being able to secure well paying jobs and increasingly electing to leave family homes for individual accommodation.

GRAPH 63: Average household size - Number of persons (2010 Census)



Source: NSOM

Fertility rates continue a steady downward curve that started in the 1970s. Mortality rates have also been improving since the 1950s. A declining birthrate will place less pressure on social services in the short term and tends towards improvement of welfare within families, resulting in more disposable income for urban households.

Aside from underpinning economic growth on a macro-level, it is known that population demographics impact on asset prices in various ways, primarily where risk exposure trends are concerned. Demographic research conducted in the U.S.A. during the 1990s indicated that for people in their 20s and 30s, housing and durables constitute the most desirable investments, over and above equities and savings. The median age of Mongolia's population is 26.2 years (25.8 for male and 26.6 for female).

3. HISTORY OF DEMOGRAPHICS IN MONGOLIA

Standardised demographic sampling began in Mongolia in 1918, at which time there were just 647,500 persons resident within the territory of Mongolia. The one-millionth citizen of Mongolia was born some 44 years later, in 1962. During the course of the 20th Century the population of Mongolia increased by 3.7 times. Presently there are just over 2,754,000 citizens of Mongolia residing in the country (in accordance with 2010 census figures). Overall, the population of Mongolia has increased 16.1% between 2000 and 2010 - a nominal increase of 381,200 persons. This indicates a reasonably steady population growth, being 0.1% higher than the growth rate observed between the 1989 and 2000 censuses. Annual population growth remains at a stable 1.5% per annum.

District by District Population Figures

District	2006	2007	2008	2009	2010	2011	2012	2013
Baganuur	25,731	25,969	25,877	25,875	26,905	27,036	27,036	27,900
Bagakhangai	3,827	3,864	3,742	3,615	3,647	3,727	3,727	3,800
Bayangol	160,818	165,159	169,278	174,851	185,104	192,111	192,111	200,200
Bayanzurkh	211,614	221,565	235,192	250,241	265,997	283,289	283,289	304,300
Songinokhairkhan	211,056	220,295	232,326	241,410	252,264	257,140	257,140	277,300
Sukhbaatar	123,041	129,486	133,108	135,103	136,917	137,834	137,894	133,300
Nalaikh	27,297	28,152	29,115	30,215	31,458	32,513	32,513	33,200
Khan-Uul	90,925	94,670	98,815	104,166	112,055	119,843	119,843	131,100
Chingeltei	132,883	136,014	140,019	139,765	147,438	153,117	153,117	155,900
Residents in Capital	987,192	1,025,174	1,067,472	1,106,719	1,161,785	1,206,610	1,206,670	1,267,000

Source: NSOM, UBStat

The nation, like the majority of emerging markets, displays a bottom heavy demographic profile, where a large portion of the population is within the most productive age bands of 25-59 years of age. This means an abundance of labour to boost the country's economic development. Within the next five years nearly 300,000 people will enter this 25-59 age bracket (currently accounting for 42% of the total population - with a total economically active population aged over 15 years of 1.129 million). During this same period only 2% will age beyond this bracket. This is not only representative of an increase in available labour power, but also, and equally importantly, makes for enlarging consumer and housing markets.

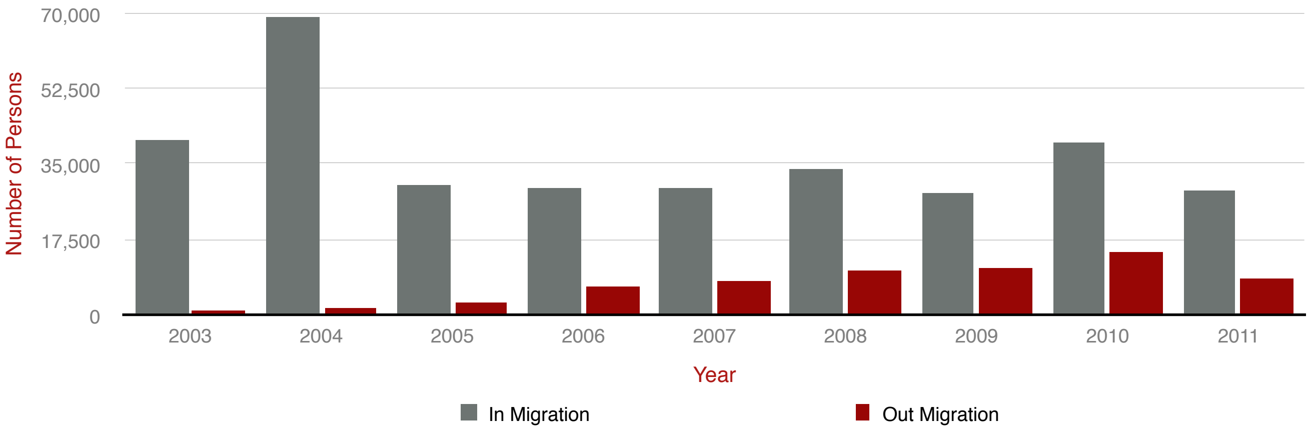
The second significant demographic trend driving housing demand in Mongolia is migration. In a nation where traditional economic practices are rooted in nomadic pastoralism, less than 28% of the population now live in Mongolia's vast rural areas, down from 43% in 2000 and 68.3% in 1989. 67.9% of the Mongolian population are now considered to be urbanised. The increase in Mongolia's urban population is roughly consonant with the overall growth in population in Mongolia over the past 30 years. The majority of the Mongolian population, 64.2% presently lives in the cities of Ulaanbaatar, Erdenet and Darkhan. The populations of other Tier 2 cities represents only around 26.9% of the total population of Mongolia.

Of the 739,000 individual households in Mongolia (counted by the 2010 census), 53.7% live in permanent buildings and 45.2% reside in non-permanent dwellings, typically the traditional Mongolian ger. Of the total urban population of Mongolia, 65.9% dwell in apartment, houses and other permanent structures, while 32.7% still live in gers on a national level. Within the capital, Ulaanbaatar, around 184,200 families, 60% of the city's total population, reside in the ger areas of the city, with 122,600 households residing in residential apartments in the central urban areas of the city. When compared with figures obtained from the 2000 Housing and Population Census, the number of ger dwelling households living in urban spaces has actually increased relative to the number of households living in immovable properties. This reflects the continuing inability of existing housing stock in urban centres (including the capital) to absorb high levels of in-migration from rural regions.

This is not a new phenomenon. Housing stock in urban centres of Mongolia has not, since large-scale migration began in the 1950s and 1960s, been able to adequately meet demand. In 2002 the total living space available in apartments and houses in Mongolia was approximately 6.663 million square meters (these figures use the standard measurement deployed during the socialist era, which excludes utility spaces, including bathrooms and kitchen space, they also exclude ger dwellings from all calculations). This represented around 2.8 square meters of built living space per person.

4. MIGRATION

GRAPH 64: In and Out Migration - Ulaanbaatar City - 2003 to 2011



Source: NSOM

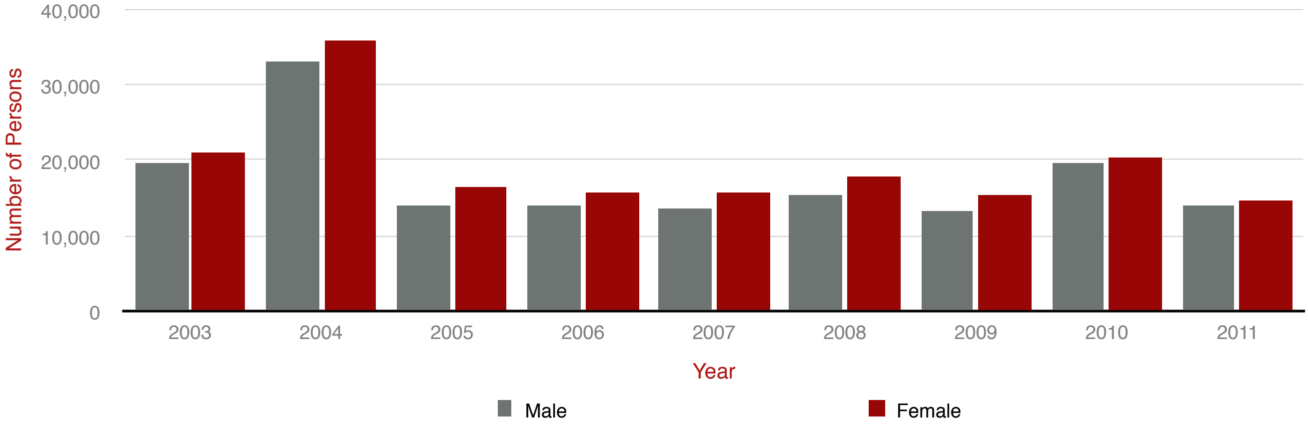
A critical component of the changes that resulted from Mongolia establishing a democratic multi-party system and free-market economy from 1992 onwards was freedom of movement within the country, as well as freedom to travel abroad. The past two decades has witnessed record numbers of Mongolians choosing to a move either within Mongolia or abroad. This has had profound consequences upon the political, social and economic fabric of the country, particularly within the capital, the population of which has swelled from just 570,000 in 1992 to over 1.26 million officially by 2013 (with some figures, such as those produced by the ADB, indicating that there could be well over 1.3 million people already residing in Ulaanbaatar). Mongolians are choosing to migrate overseas in search of higher paid jobs and a better quality of life for themselves and their families. Mongolian migrants, most of whom are male, are mainly traveling to the Republic of Korea, the Czech Republic and the United States. Official sources estimate that there are approximately 120,000 Mongolians residing abroad; however, unofficial sources in 2008 state that this figure might be as high as 250,000. In terms of numbers of immigrants into Mongolia, 2013 figures published by the International Organisation for Migration was just 0.6%.

Remittances from international sources to Mongolia were last quantified in 2012 at US$ 288.09 million. Typically remittance outflows were lower than inflows, although these shot-up during 2011 to US$ 336.35 million on the back of concerns over stability within the county, increased overseas banking and investment/trading on the part of groups or families in and through international markets. Remittances as a share of GDP equate to roughly 0.01% - 0.03% from 2011-2013.

Internal migration was last published in Ulaanbaatar city in 2011, as a follow-up to the census. These figures show a gradual rise in the numbers of migrants to Ulaanbaatar from the regions of Mongolia.

The astonishing rate of migration, which saw 39,701 people migrate to Ulaanbaatar in 2010 and 14,547 migrate out of the city (resulting in a net in-migration of 25,254 persons), slowed dramatically in 2011, during which time 28,593 persons migrated to the capital city, with just 8,502 migrating out of Ulaanbaatar (resulting in a net in-migration of 20,091). Of these 7,982 people (27.6%) settled in Bayanzurkh District, 7,507 people (26.2%) settled in Songinokhairkhan District, 3,362 people (11.8%) settled in Chingeltei District, 3,328 people (11.6%) settled in Bayangol District, 2,622 people (9.2%) settled in Sukhbaatar District, 2,619 people (9.2%) settled in Khan-Uul District and the remaining 1,243 people 4.4% settled in Baganuur, Bagakhangai and Nalaikh Districts.

GRAPH 65: In Migration to Ulaanbaatar by Gender 2003 - 2011



Source: NSOM

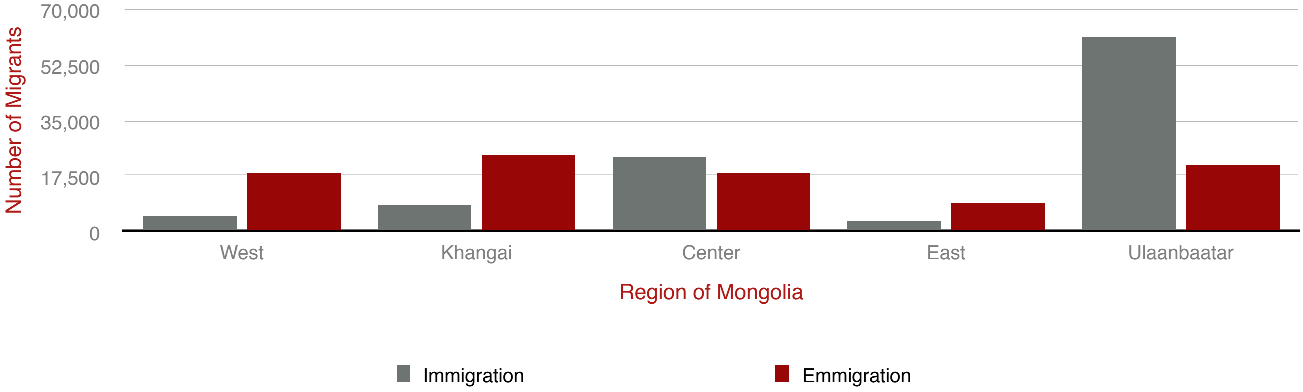
There is a distinct gender disparity in terms of migrants to the capital city. In-Migration figures show consistently more women migrating than men, such that between 2003-2011 16,368 more women migrated from region of Mongolia to the capital city. This represents 9.5% more women than men in the migrant population. The reason for this is that women more commonly migrate for reasons of education and remain in the city for work. In fact several longitudinal studies of rural areas of Mongolia have reported rural villages where a majority of young women have moved to urban centres to study or work, leaving a mostly sedentary male population. Migration patterns to urban centres in Mongolia display a distinctly cyclical character, often impelled by natural disasters such as the "gan" and "zud", which affect herders in rural areas, lead to the death of livestock and, when serious enough, result in households having to give up what remains of their herds and pastoralist lifestyles. Of course, not all factors impacting migration are negative. Urban areas, particularly the capital, offer the promise of stable employment opportunities and safe, potentially more comfortable working conditions for those with appropriate skills.

Although the up-scaling of mining operations in Mongolia is changing where people from the countryside are moving to. Since 1991 the capital city has exerted the strongest pull on rural-to-urban migrants in search of employment, education and a higher standard of living. It must be noted that historical figures for migration and residency in urban centres of Mongolia have, in the past, been based on numbers of persons 'registered' as residents. The discrepancy between actual residents and registered residents is illustrated by the fact that in 2004 official figures state that 68,808 people were counted as officially migrating to Ulaanbaatar. However, most of these - 27,200 people - had already lived in the city for some time and at the time of a "taxation waiver" were registered as residents.

The graph below represents a snapshot of migration across the regions of Mongolia at the time of publication of Census data during 2011. This indicates that in-migration into Ulaanbaatar is higher than for all other regions of Mongolia combined, with 60% migrants moving into the capital city during that year. The capital also accounts for 22% of all out-migration. The Khangai region of Mongolia had by far the largest out-migration profile, representing 23% of out-migrants for the year 2010-2011 alone. This would have been largely as a result of herders leaving their traditional pastoralist lifestyle and moving across the country to urban settings (often to Ulaanbaatar) as a result of severe winters decimating animal herds in the region. In winter 2009–2010 80% of the country's territory was covered with a snow blanket of 200–600mm. During this winter 9,000 families lost their entire herds while a further 33,000 suffered 50% loss. By May 2010, the United Nations reported that eight million, or about 17% of the country's entire livestock, had died as a result of the arctic oscillation pushing much deeper into Central Asia, bringing prolonged extreme cold weather. In 1999–2000, 2000–2001 and 2001–2002, Mongolia was hit by three zuds in a row, in which a combined number of 11 million animals were lost.

Central Mongolia, surrounding Ulaanbaatar and containing significant mining projects, as well as significant secondary cities such as Erdenet and Darkhan, saw the second largest levels of in-migration outside of the capital. This is clearly as a result of growth of opportunities in secondary cities, as well as upscaling of mining sector operations.

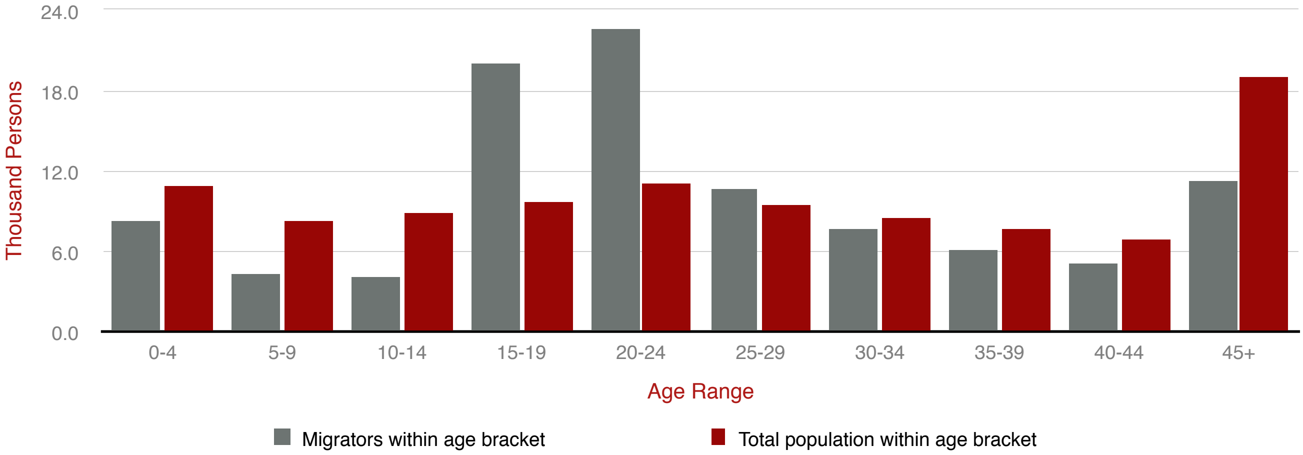
GRAPH 66: Migration of Inhabitants by Region 2010-2011



Source: NSOM

Nevertheless, as the administrative heart of mining operations in Umnugobi Aimag, and the focal point for new developments, including an international standard school of mining, the population of this city is set to continue to grow year on year for some time to come. Dorngobi (568 persons), Govisumber (610 persons), Orkhon (2516 persons) and Darkhan Uul (404 persons) Aimags have also seen small positive net in-migration between 2005 and 2010. Most of this migration is also the result of new employment opportunities created by mining and mining supply operations, with each of these provinces maintaining mining projects of various scales. The exception to this rule is Darkhan Uul. This city, situated less than 120 miles from the capital along a well paved road, is experiencing in-migration by people in search of employment in small industry and trade sectors which benefit from close proximity to the capital. Darkhan Aimag does have the potential to become a mining centre, but this is not presently the driving force behind the city's economy. However, during the socialist period Darkhan city was an a centre of industry in Mongolia, therefore benefitting from established infrastructure capable of supporting rapid growth and making the city an attractive location for new industries seeking an appropriate location outside of the capital in which to base operations.

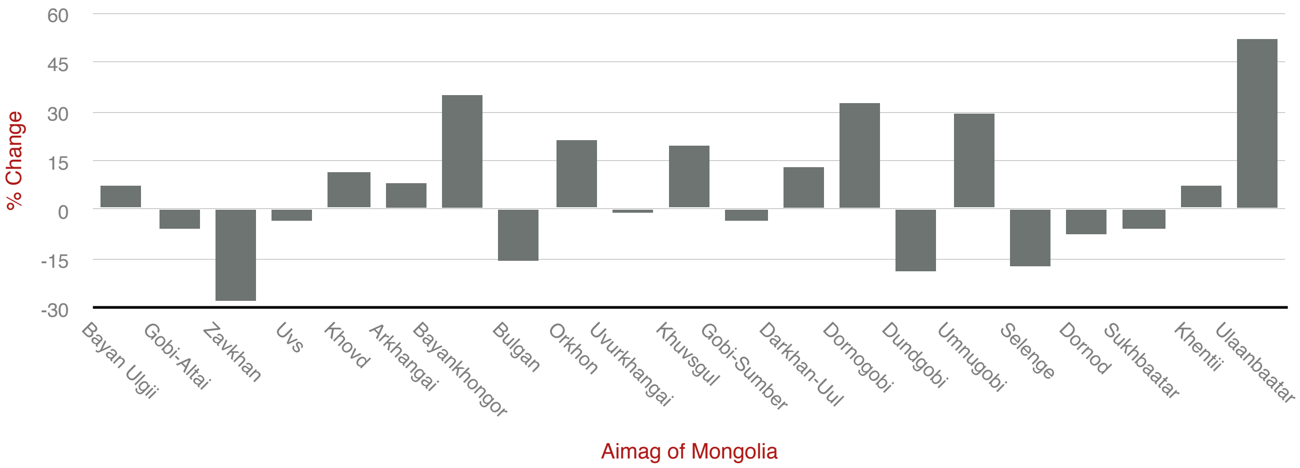
GRAPH 67: Migration by age ('000 people)



Source: NSOM

Broadly speaking, two concurrent population movements can be described in Mongolia over the past 20 years. The first of these is the large-scale influx of people to Ulaanbaatar. This particular trajectory of migration shows no signs of slowing dramatically in the near future. With average population increases per annum in Ulaanbaatar reaching 4.2% between 2008-2012 (highest between 1956 - 1963 when the city grew by an average of 9.5% per annum) indications are that this trend of urbanisation will continue. Since 2000 around 380,000 people have officially moved to Ulaanbaatar, whilst only around 60,000 people moved out from the city to rural regions. The in-migration figure is, in fact, considered to be reasonably low by some estimates. Whilst this is set to change, due to the draw of regional hubs of economic growth, the overall scale of positive in-migration to Ulaanbaatar is unlikely to remain.

GRAPH 68: 2000/2010 % change in total population by Province of Mongolia



Source: NSOM

In 2011 8,502 officially moved their place of residence to other provinces from Ulaanbaatar city, whilst 28,593 moved into the capital. This represents a slowing down of in-migration vis-a-vis out-migration. This was partly due to the fact that weather conditions were more favourable and therefore less families were forced to migrate. It was also due to the fact that other secondary cities are offering increasingly tempting draw-factors in terms of employment, services and education. The Oyu Tolgoi backed School of the Gobi project is one reason why so many people are choosing to move to rapidly growing Dalanzadgad, based in Umnugobi Aimag, southern Mongolia. This world-class mining vocational training centre is a significant draw for those looking to access the sector with among the highest wages of any in Mongolia at present. Beyond mining, Master Plans for Mongolia's secondary cities are focussing upon upscaling manufacturing and construction material production sectors, as well as value-added processing of ores, coal and oil products. This is resulting in significant projects such as the Sainshand Industrial Complex, a key multi-billion dollar project in the eastern region of Mongolia. Coupled with improved infrastructure, lower pollution and higher income to expenditure ratios in some cases, secondary cities will begin to see more significant in-migration and less out-migration as urbanisation in Mongolia marches forward.

INFORMATION BOX - MONGOLIA'S HEATHCARE SYSTEM

Over the years during which Mongolia was a socialist state, the Soviet Union assisted in setting up a system of free healthcare for all the people of Mongolia. This system was paid for by the Mongolian State (but sponsored in greater part by the Soviet Union itself) and consisted of a number of state hospitals in Aimag centres, as well as larger hospitals in the capital Ulaanbaatar. Doctors were mostly trained in the Soviet Union and medical equipment was also manufactured in the Soviet Union. This has meant that when the Socialist system collapsed in Mongolia almost all financial aid, as well as the supply of equipment and medical training, ceased overnight. This has led to a subsequent collapse of the medical services sector. The medical sector in Mongolia is only now slowly coming out of its state of lethargy, up until recently there were only a few remaining public hospitals in Mongolia. The level of care and the quality of equipment has always been poor, but ever since the collapse of the centrally planned economy no new investment have been made into the city's medical infrastructure and those issues are now starting to become major problems. The inherited Semashko system has since evolved into a health system with a mix of revenue sources, private sector service delivery and a plurality of actors. New hospitals such as the SangDo Private Korean clinic as well as the SOS centre have sprung up to replace the aged state infrastructure.

Today, at the national level, diagnostic equipment has been used for 20-30 years and 50% of equipment does not meet current requirements. Inadequate and ill-maintained diagnostic technologies and poor training for staff have resulted in many cases of misdiagnosis and late diagnosis, fostering patient dissatisfaction and leading an increase in numbers of Mongolians seeking healthcare abroad. As Mongolia transitioned to democracy during the 1980s and 1990s the structure of medical specialties continued to reflect both the needs of the young and rapidly growing population and the concentration of scarce resources on public health, control of epidemic diseases. The most common medical specialty during the Soviet era was paediatrics, which accounted for 21% of all physicians in 1985. The next most common were general practitioners, making up 15% of medical specialists; obstetricians, 6%; public health specialists, 6%; and physicians specialising in the prevention and treatment of epidemic diseases, 6%. Since 1985 the numbers of healthcare specialists have decreased considerably in Mongolia. However, the 1998 joint order A-1\41\63\33 of the Ministers of Health and social Welfare, Finance and Education, indicates that every province and district of Ulaanbaatar should have at least one adolescent unit. Currently 83% of health facilities have adolescent units, with 77% of facilities nationally having specialist doctors - 30% of them being gynaecologists, 50% paediatricians and 10% health educators. There are presently 9 hospitals and large private clinics in Ulaanbaatar. Four of these are public hospitals, funded by the Government of Mongolia. There is one public trauma clinic and a further four private clinics/hospitals set up with Mongolian, Korean and European funds. As part of the 2020 Ulaanbaatar Master Plan, the Government of Mongolia intends to extend the number of beds available in Ulaanbaatar to to a ratio of 9 per 1,000 people by the year 2020, with an estimated total necessary supply of 14,960 new beds across the city and satellite towns. Presently there are around 5.8 hospital beds per 1,000 people in Mongolia, a number that has actually been falling almost consistently since the end of the socialist period.

With Mongolia more open than ever to the outside world and the various opportunities that international work and education afford, a growing number of Mongolians are electing to live overseas for extended periods. In accordance with 2010 census figures, there were at least 107,100 Mongolian citizens living abroad for periods of more than 6 months, with 16,428 foreign citizens or stateless persons residing in Mongolia for a period of 6 months or more at the time the census was taken. Whilst there are considerable numbers of Mongolian citizens residing in the United States, European Union Countries and China, Korea is presently home to more expat Mongolian nationals than any other nation.

Projections from a Japanese International Cooperation Agency study, as part of the Ulaanbaatar 2020 Master Plan, indicate that the capital city will also continue to swell, with as much as 55.5% of the total population of Mongolia residing within the capital by 2030. This represents a real population increase of over 716,000 people in the next two decades. With housing stocks and infrastructure already unable to handle the city's population, the only possible recourse for most households arriving in Ulaanbaatar is to set up accommodation in the ger areas surrounding the city centre, and this they have done, in their hundreds of thousands, resulting in the creation of expansive 'ger districts'. These are relative anomalies in terms of urban space as they are areas in which land ownership is relatively well allocated and rights of ownership and disposal defended, whilst atop most privately owned land plots there are only informal housing structures, offering limited infrastructure and causing significant pollution and health issues for the city as a whole.

The ger districts have become far from undifferentiated in terms of housing available therein. Within the ger areas of Ulaanbaatar only around 81,600 families live in traditional Mongolian gers year round, whilst the majority, over 100,000 families live in informal housing situated within the ger areas of the city for at least part of the year, potentially living in their gers during the winter months. Migrants to the city do not, however, often have the option of such accommodation, with only 3.1% of families who moved to Ulaanbaatar since 2010 currently living in houses, formal or informal. Most remain living in gers. Whilst only around 55% of families in Ulaanbaatar live in houses connected to the central heating system (a decrease of 5.4% compared with 2010 figures), only around 3,307 families across the city do not have access to basic electricity supplies.

The ger districts are now in line for dramatic transformation as the 100,000 homes project, established by the Government of Mongolia as early as 2011, gets underway. During 2012/2013 private construction companies were asked to tender for rights to redevelop the city's ger areas in segments of up to 40-60 hectares at a time. Those selected were put forward in local referendums for residents to decide upon the best Master Plan for their area. A total of 19 projects saw established construction and development companies pitching diverse projects - from standard high-rise, high-density residential models, to pre-fab towns incorporating significant green spaces and commercial areas. By 2013 construction was already underway on some projects, including the landmark 7th District redevelopment in Sukhbaatar District, one of the most central ger areas in the city. These projects should bring over 75,000 new homes online over the mid-term, demolishing existing ger areas and providing residents not only with new homes but with working infrastructure (with installation into new project areas being paid for by the Government of Mongolia).

5. EMPLOYMENT AND WAGES

During 2013 the economically active population a 1,198,300 in Mongolia, the majority of the economically inactive population were of 15 years or below, in keeping with a bottom-heavy age pyramid. Of these a full 92.1% were employed, meaning the gross employment ratio across the entire population is 75%.

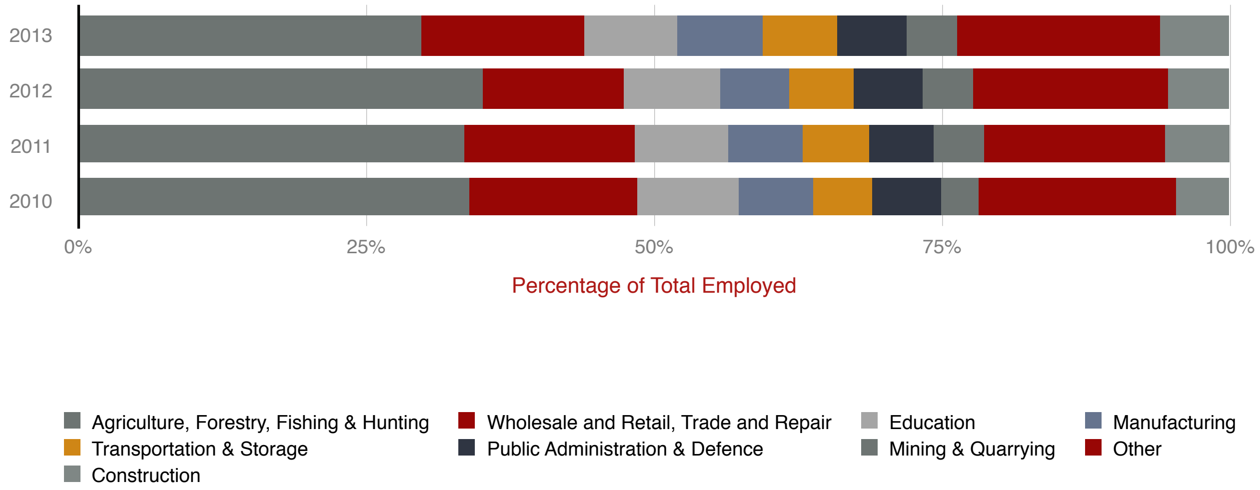
INFORMATION BOX - LOUIS VUITTON SALES HIGHLIGHTS EMERGENT AFFLUENCE OF MONGOLIA

The French luxury brand opened a store in the middle of Ulaanbaatar in 2009. Situated in the MCS Central Tower, the 5,300 square ft. store is situated in the MCS Central Tower, overlooking Sukhbaatar Square. It features a round VIP room, shaped like a ger. LVMH - 'Louis Vuitton Moet Hennessy' is already a pioneer in emerging markets, opening in China in 1992. As LVHM posted a sharp jump in 2010 profits and sales, which rose by 73%, they cited Mongolia as one of the stars of their Asian operation, with the second highest sales in the region after Ho-Chi-Minh city.

Rumours have it that on the second day of operations of the shop, a Mongolian high net-worth individual walked in and purchased the entire stock of the shop. Louis Vuitton is one of a number of luxury brands that have entered the Mongolian market in recent years. Mont Blanc, Apple, Burberry, Hugo Boss, Dior and Vertu - to name but a few - have taken up space in grade A retail locations around the city. The majority of these are situated in the MCS Central Tower Mall. Since late 2012 this facility has, however, experienced falling visitor traffic and the stores within are reported to have seen dramatically falling sales revenues. One reason for this is the density of high-end and luxury brands within a single mall. Whilst this portrays an enviable image for MCS's current flagship retail location, it is actually not a particularly useful framework for developing a sustainable retail location. With most stores selling high-value per square meter products, foot-traffic volume is bound to be low. Under a difficult macroeconomic climate the stores in this mall have seen foot traffic drop off to next to nothing. With no mid-end stores to attract new customers the Mall itself is seeing many truants struggle.

Despite its status as the economic engine of the nation, mining only accounted for around 4.6% of total employment during 2013, with forestry, agriculture and hunting making up the largest single sector by employment in the nation at 29.8% of total employment. Wholesale retail and trade was the second largest sector in terms of numbers employed, making up a total of 14.1% of the workforce, with education being the third at 8.1%. Nevertheless, whilst the agriculture and education sectors are showing year on year contraction in numbers of employees, wholesale and retail, construction, transportation and storage are all showing annual growth in line with the rapid development of these sectors within Mongolia.

GRAPH 69: Employment by Industry, Percentage Share of Total



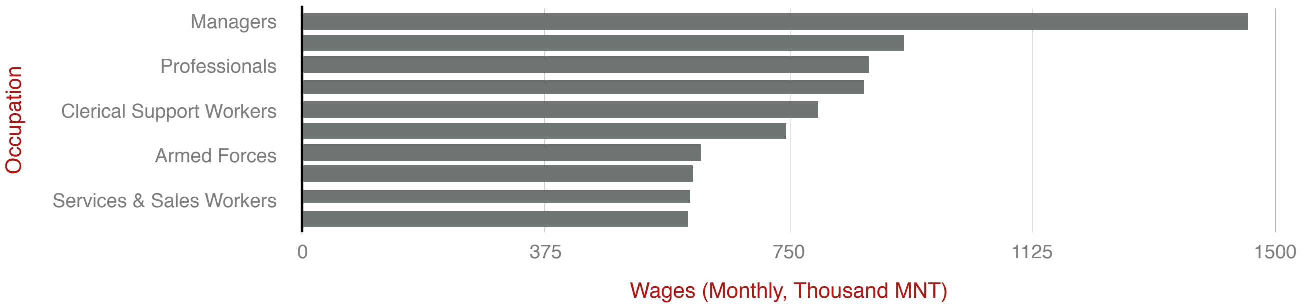
Source: NSOM

National reporting on wages has been split by industry into employees with more than and less than 100 employees. This provides a more fine-grained analysis of large and small industry in Mongolia at present. In terms of establishments with less than 100 employees mining remains at the top of the list, with average national wages in the mining sector at 1.022 million MNT per month, completing a three year period where mining and mining supply chain wages have outstripped the national average wage across all sectors. By 2013 mining sector wages were over 38% above the national average, with the Financial and Insurance sector offering the second highest wages at 927,300 MNT per calendar month, 32% over the national average. Wages in the agricultural sector remained among the lowest and have not moved from the lowest position for several years. Within establishments with over 100 employees mining again takes the top spot, paying average wages of 1.443 million MNT. Financial intermediation and insurance pays the second highest average monthly wages at 1.2397 million MNT per month. In this segment of the economy is is the arts, entertainment and recreation sector which pays the lowest monthly wages at just 307,500 MNT per month, just under twice the subsistence level in

Ulaanbaatar during 2013 (149,000 MNT per month per person). This is below the 360,400 MNT average wage for agriculture. Among companies with 100 or more employees average wages are 813,500 MNT per person per month.

Interestingly, wage disparity between men and woman seems more pronounced in larger organisations than in smaller ones. Across 20 sectors surveyed, organisations with 100 or more employees displayed a wage gap in which female employee salaries and wages were 28% lower than those of make employee salaries and wages. Among organisations with 100 or more employees this drops to just a 7.6% difference, with average male salaries being higher.

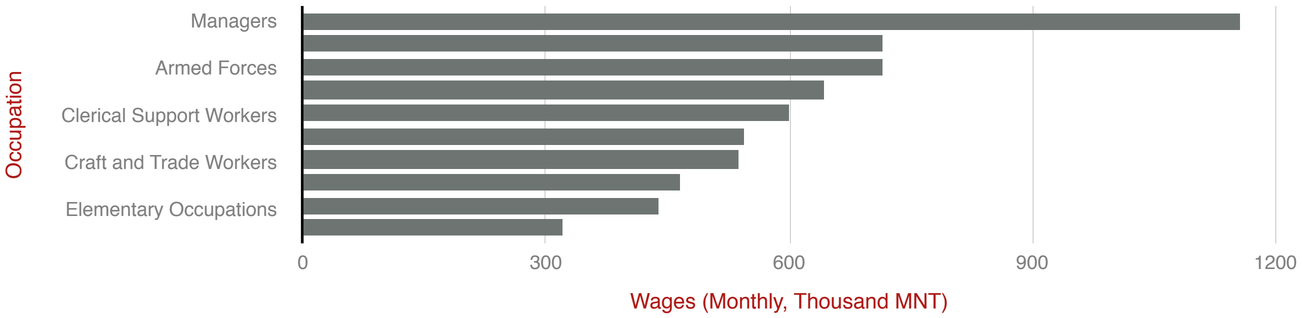
GRAPH 70: Monthly Average Wages and Salaries by Classification of Occupation in Establishments with Over 100 Employees



Source: NSOM

When taking a view of wages in these larger firms by classification of occupation, management level salaries clearly stand ahead of the pack, at almost 1.5 times the average wage within such an organisation.

GRAPH 71: Monthly Average Wages and Salaries by Classification of Occupation in Establishments with Less Than 100 Employees

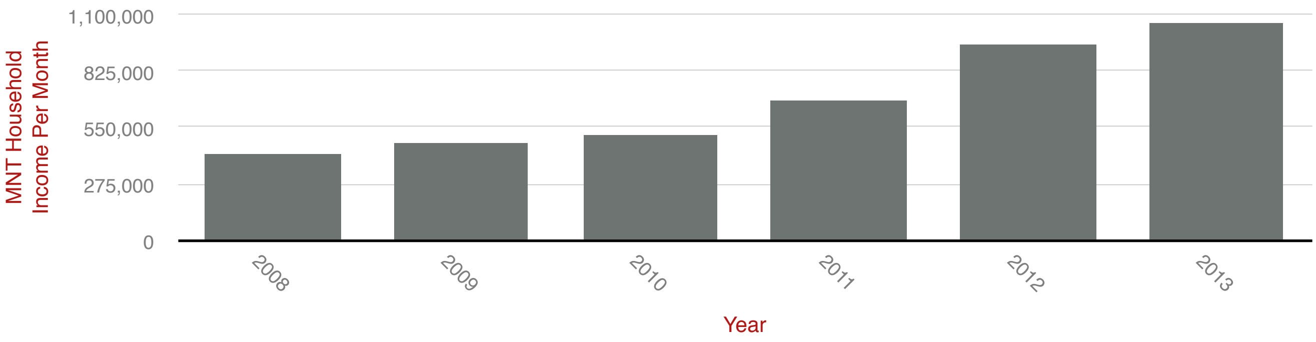


Source: NSOM

Within organisations with less than 100 employees management level salaries still almost double average wages across the board, although wages by classification occupation are around 51% higher in organisations with 100 or more employees than those with less than 100 on average.

Taking a look at Ulaanbaatar specifically, household incomes have risen steadily to surpass the 1 million MNT mark on average during 2013. As the graph below indicates, household incomes have been on the rise since 1992, with a CAGR of 12.7%.

GRAPH 72: Ulaanbaatar Average Household Income Per Month



Source: UB Stat

Although inflation has hit household incomes hard in recent years, with a rate of 15.1% in Ulaanbaatar by Q3 2014 despite a Government mandate to maintain a national inflation rate of 8% or below, incomes do appear to be rising steadily, albeit at 3.5% lower than the present rate of inflation. This has led to a present scenario in which the average urban household income is just US$ 4.27 more than the average household expenditure., a gap which has remained narrow, if not in negative territory, turin the past four years. Nationally, average household incomes are around US$ 1.32 less per month than household expenditure, whilst rural areas are displaying a larger gap of around US$ 10 per month deficit in average household incomes. This is largely due to dramatic inflation on the back of unchecked expansionist fiscal and monetary policies on the part of Government. Loose spending and borrowing controls have led to a situation of inflation that is outstripping annual wage rises despite their significance.

INFORMATION BOX - ALCOHOL - A SOVIET LEGACY

Among the problems faced by Mongolian society, alcoholism stands out as a severe and endemic problem. Alcoholism has a severe impact on workforce productivity as well as the overall social fabric, it is possibly one of the least pleasant aspects of the Soviet legacy in Mongolia.

Total consumption of alcohol per person per year (over 15 years of age) stands at an average of 9 liters, well above the World Health Organisation's recommendation of 2 litres. When we consider that in most former Soviet countries consumption is underreported by as much as half, the actual figure may be significantly higher. Abstinence rates are 38.2% in Mongolia, compared with 20.8% in Russia, placing Mongolia within the 10 highest consuming countries internationally. Over 70% of the market for alcohol in Mongolia is vodka, although beer is increasing its share year-on-year with wine making a slow appearance amongst wealthier groups.

The effects of alcoholism on life expectancy and society are severe. 60% of all domestic violence is alcohol related and underage drinking is a serious problem, with 15-19 year olds having the highest mean alcohol consumption despite a legal drinking age of 21.

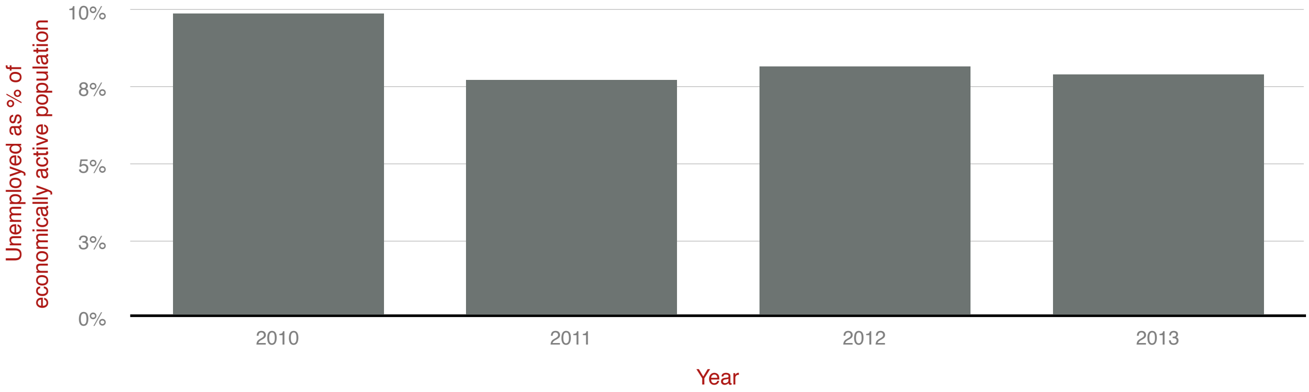
Responses to the problem are largely uncoordinated and not very effective. In Ulaanbaatar, the first Friday of each month will be a 'dry' day, whereupon stores are not permitted to sell alcohol. But this does little to limit abuse or drunkenness as people will just stock up on alcohol the day before. Provincial Governments around the country also impose more stringent regulations on when alcohol may be sold. This is, however, doing little to stem the problem. Many Mongolian and nearly all foreign corporations will impose strict no-alcohol policies to their staff.

In response to the growing health and social costs of alcoholism, a proposal was drawn up by the City Government of Ulaanbaatar, prohibiting the sale of alcohol on Friday nights. Whilst such a law would do great harm to the revenues of bars, clubs and restaurants, it is unlikely that it will actually be passed through Parliament. Similar laws pertain in a number of secondary cities and Soum centres and the sale of alcohol is prohibited on the first day of every month in Ulaanbaatar (traditionally payday), as well as on election days.

6. UNEMPLOYMENT

Of those who are economically active in Mongolia during 2013 92.1% were employed (7.9% unemployed). This makes for a gross employment rate across the entire population of 57.0%. The unemployment rate fell by 0.3% from 2012-2013, meaning creation of close to another 47,000 persons over the past year. This comes despite heavy layoffs in the mining sector from operations forced to close due to dwindling FDI and poor sales of coal to China. Among the most notably of these was Oyu Tolgoi's laying off of 15,000 staff as a result of delays and associated overruns, many of which were blamed upon the Government of Mongolia during 2013.

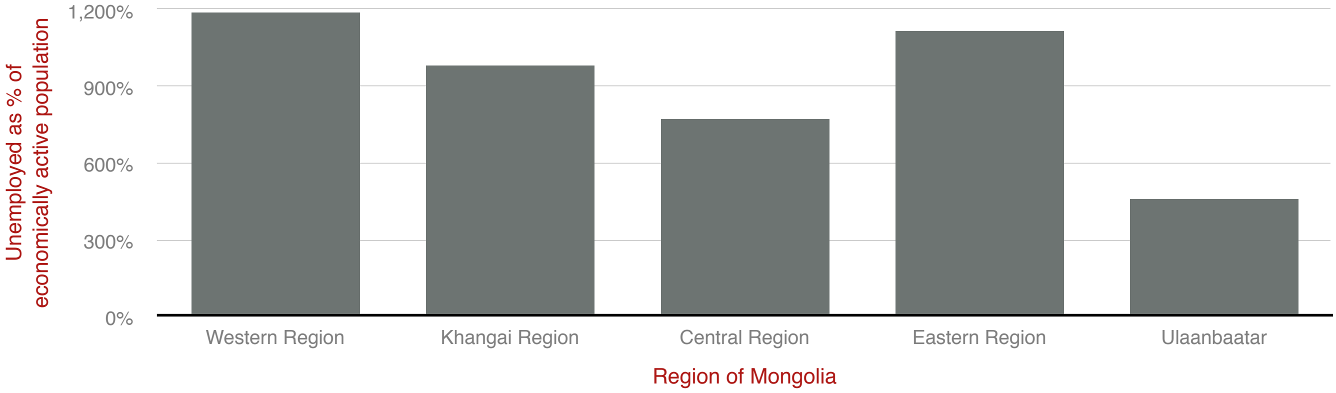
GRAPH 73: Percentage of Unemployed in Economically Active Population



Source: NSOM

Whilst Ulaanbaatar has the highest economically active population in the country, with 447,300 economically active persons during 2013 (up by 13.7% in just one year) it displays the second lowest regional unemployment rate, as indicated by the graph below. This is indicative of the impact of creation of new Government jobs in the capital, as well as the robustness of Ulaanbaatar's economy even during a national slowdown in growth.

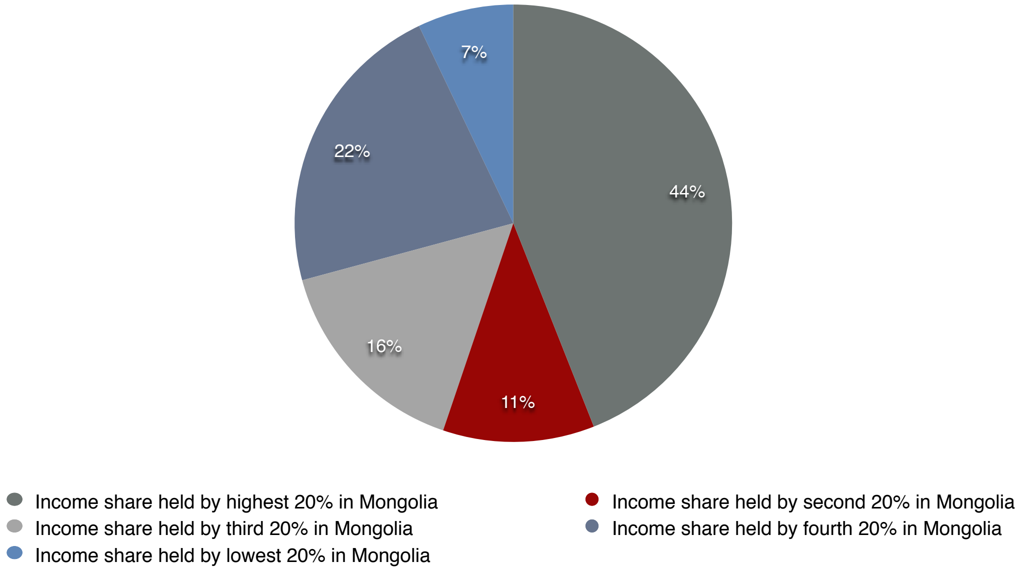
GRAPH 74: Unemployment Rate by Region of Mongolia 2013



Source: NSOM

7. WEALTH DISTRIBUTION & HUMAN DEVELOPMENT

GRAPH 75: Income Distribution in Mongolia



Source: NSOM

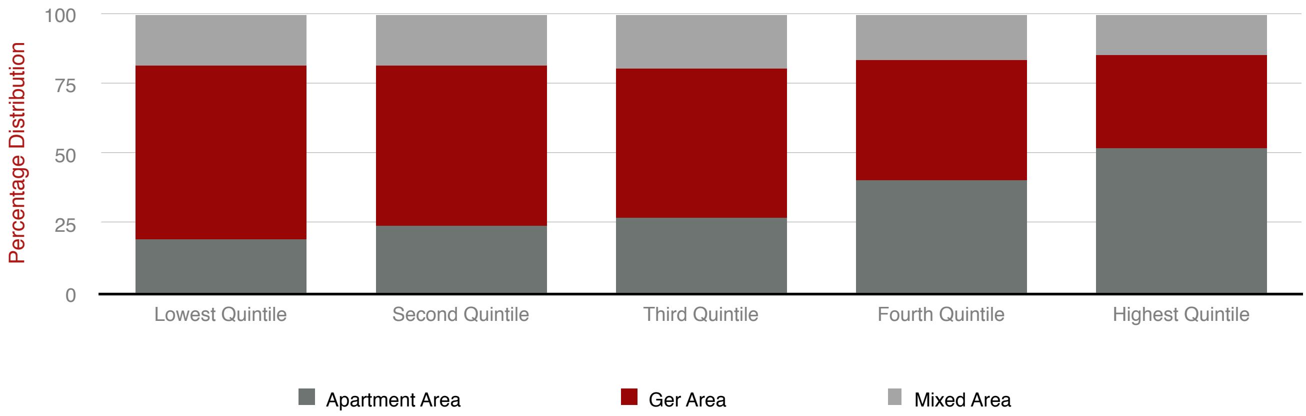
Mongolia's GINI coefficient was defined by the World Bank in 2008 at 36.5, broadly on par with Vietnam and Armenia in terms of equitable income distribution. Just under half of the nation's total income is concentrated in the hands of the highest valued 20% of the population. At first sight this appears problematic for development of a flourishing property market, until we consider that in the United States 20% of the population own almost 85% of the total wealth. By this benchmark Mongolia's wealth divide appears less severe. Nevertheless, the salience of the wealth divide is a source of continuing disaffection and the mitigation of a large wealth gap remains a key social and political issue. The government has sought to tackle this issue through various wealth redistribution mechanisms, including the distribution of mining revenues and the allocation of shares in the Tavan Tolgoi mining company to each and every citizen of Mongolia. Nevertheless, certain non-universal benefits have been withdrawn as a result of attempts to control spiralling budget deficits. Schemes such as the 8% mortgage program have had a more lasting impact not only on the construction sector but also upon the lives and assets of middle-income and lower-income households, enabling many to purchase a dwelling for the first time as a result of more favourable lending rates.

INFORMATION BOX - 40 INDIVIDUALS IN MONGOLIA WORTH OVER US$ 30 MILLION EACH

Wealth-X is a unique report focussed upon persons with a net worth of 30 million USD and above. The report provides valuable insight into ultra-high net worth individuals and offers a window onto the dynamics of nations in which they are nationals. Japan topped the Asian list in terms of gross numbers of ultra high net worth individuals, with 12,830 persons sharing a total 2,075 billion USD in 2012. This represents a decline of -8.6% in total wealth among these individuals since 2011. Mongolia appears 19th on the list in terms of numbers of ultra high net wealth individuals, situated between Azerbaijan and Tajikistan. The Wealth-X report indicates that there are presently 40 individuals residing in Mongolia with a net worth of over US$ 30 million and that these individuals share a total net worth of US$ 6 billion, 70% of the entire GDP for 2011. The most impressive aspect of Mongolia's entry in the Wealth-X report is the year-on-year growth reported since 2011. The population of ultra high net worth individuals grew by 14.3%, with their total share of wealth increased by an impressive 20%. Within Asia only Indonesia saw a higher growth in total wealth of high net worth individuals between 2010-2011 (41.2%).

Wealth-X also produces a 5 year forecast for each jurisdiction, as well as a yearly outlook. Total wealth of all high net wealth individuals is expected to grow by an average of 7.82% over the coming five years, with numbers of ultra wealthy individuals approaching 60 within the same period. Wealth-X's macroeconomic projections see GDP growth as stable within Mongolia, whilst currency and equity growth will turn negative. Nevertheless, property values and luxury spending are considered to be on the up.

GRAPH 76: Household income Distribution by Quintile



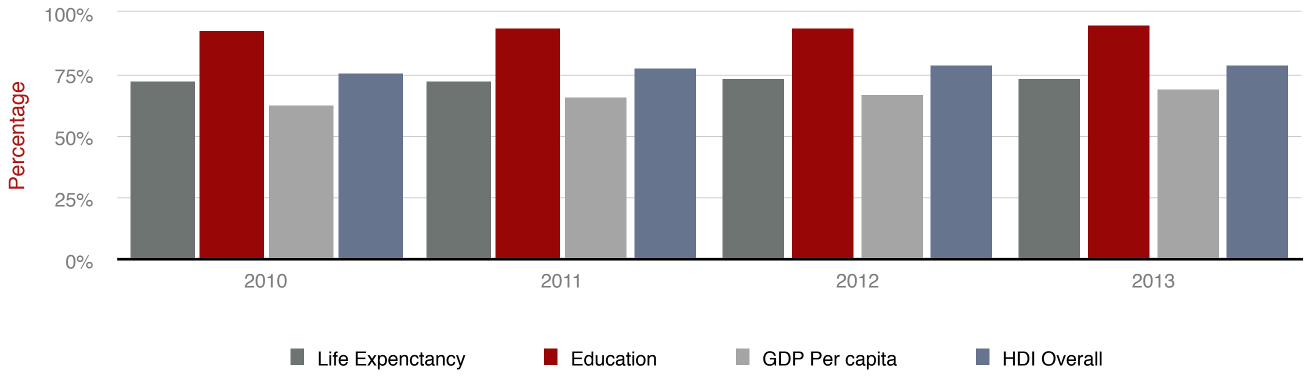
Source: World Bank

Annual Human Development Index profiles published by the Mongolian National Statistics Office indicate improvements in overall standard of living across the population. The Human Development Index (HDI) s a summer measure of the human development capacity of a nation. It measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, as measured by life expectancy at birth;
- Knowledge, measured by adult literacy rates and the combined primary, secondary and tertiary education enrolment ratio;
- A good standard of living as measured by GDP per capita ($PPP).

The HDI is an average of these three dimension indices. These rankings run from 0-100%, with 100% meaning highly developed and 0% meaning no development in each dimension.

GRAPH 77: Human Development Index Results



Source: NSOM

The graph above indicates gradual improvements in the overall HDI Index ay 0.787, ranked 103rd globally (of 187). This puts Mongolia broadly on par with the Maldives, the Dominican Republic, Tonga and Suriname, rising three places ahead during 2014.

Selected Indicators from the Mongolia HDI Index			
	2011	**2012**	**2013**
Proportion of Government External Debt in GDP	24.1	20.9	37.4
Proportion of Government External Debt in Revenue	87.1	91.6	103.6
Percentage of Enforcement of Judicial Decisions	72.3	75.1	77.0
Cellular Subscribers per 1,000 of the Population	1056	1207	1465
Internet Users Per 1,000 of the Population	164	245	263
Financial Deepening	57.8	54.4	53.9
Percentage of Exports of Goods and Services in GDP	25.9	26.3	31.5
Infant Mortality Rate (Per 1,000 Births)	16	15	15
Under 5 Mortality Rate (Per 1,000 Births)	20	19	18
Poverty Headcount Ratio	33.7%	27.4%	-
Share of Poorest Quintile in National Consumption	7.8%	7.7%	-
Labour Force Participation Rate	62.5%	63.5%	61.9%
Ratio of Female to Male Students in Tertiary Education	1.43	1.40	1.41
Share of Women in Employment in Non-agricultural Sectors	46.5	47.8	47.8
Proportion of Pupils Starting Grade 1 Who Reach Grade 5	93.2	94.5	94.0

Source: NSOM

In terms of gender equality in the workplace and education, Mongolia ranks highly, with high participation rates in both, although far less participation in employment than in tertiary education, indicating that some signifiant disparity remains. Whilst financial indicators such as proportion of Government external debt in GDP are concerning for the future stable growth of an equitable society, improving infant mortality rates, connectivity and poverty headcount ratio all indicate that this society, in which the gulf between rich and poor remains dramatic, is seeing some of its wealth trickle down to the lowest economic quintiles of the population.

VI. RISK FACTORS

1. DUTCH DISEASE

In any economy so heavily reliant on natural resources the threat of ‘Dutch Disease’ looms large and in 2012 has reared its head again. Dutch disease broadly refers to the apparent economic relationship between the increase in revenues from sales of natural resources (or influx of aid) and a decline in the manufacturing sector. An increase in revenues from natural resources (or inflows of foreign aid) will make a given nation's currency stronger compared to that of other nations, resulting in the nation's other exports becoming more expensive for other countries to buy, therefore reducing the competitiveness of the manufacturing sector. However, the ‘dutch disease’ terminology has been deployed more broadly to refer to the deleterious effects of large increases in foreign currency within a given economy or a substantial increase in resource prices. Huge inflows of foreign direct investment into Mongolia on the back of mining success is certainly likely to reduce competitiveness of manufactured goods produced herein, although the production sector in Mongolia remains small. The animal product processing and export industry, including cashmere processing and export, have already been impacted by earlier currency upswings and price rises, although luxury imports such as cashmere are somewhat inured against rising export prices due to their luxury nature. Moreover, the market for processed raw materials remains largely limited to China, a jurisdiction in which Mongolia bears little change of being competitive at the present time. Impact upon manufacturing and materials aside, the second impact of ‘dutch disease’ is being felt far more acutely in Mongolia at this time. This relates to a dramatic increase in imports. Most recent available figures from the NSOM indicate that imports in Mongolia actually decreased to 579.10 million in July of 2012, from 585.30 million in June 2012. Nevertheless, the year on year increase in nominal value of imports from 2011 I-VI to 2012 I-VI has been 22.95%. The vast majority of imports into Mongolia are of machinery and equipment for mining purposes, electrical appliances, spare parts, vehicles, food products and base metals. In recent year construction at the world-class oyu Tolgoi and Tavan Tolgoi mine sites have kept net exports deep in negative territory. With construction on the Oyu Tolgoi mine concluding and operations beginning in ernest in 2013 exports of machinery and materials for this project with a capex of over US$ 5.5 billion, imports are set to fall off sharply as exports of gold, copper and coal increase (dependent upon sustained demand among trade partners and pricing). The expected inversion of the current net exports graph, taking Mongolia well into positive net export status, will, however, not alleviate out the dependence of Mongolia upon imported food products, fuel, machinery and electrical appliances.

As explored in the Expenditure section, Mongolia does have a strengthening institutional framework and macroeconomic policy capable of minimising the effects of Dutch Disease. Controlling the resulting effects on the non-mineral economy requires the maintenance of a carefully restrained fiscal policy, flexible exchange rates and reforms to Government money transfers and civil service pay, as well as improvements in the overall business climate in sectors alongside mining. A Sovereign Wealth Fund is already in place and the Government of Mongolia is exploring the potential of hedging contracts. The Fiscal Responsibility Law that comes into play in January 2013 should, if well adhered to, remove some potential fiscal risks such as over-borrowing by the Government. The primary concern for Mongolia will therefore be the impact upon a still developing industrial sector. New projects such as the industrial processing facilities planned for Sainshand will have the advantage of being close to sites of raw material extraction, but will require careful planning in order to be competitive with regional processing and manufacture competition.

2. BOOM AND BUST CYCLES

Mongolia is vulnerable to boom and bust cycles due to commodity price fluctuations and pro-cyclical policies that act to exacerbate cyclical fluctuations. The overall share of the mining sector in the Mongolian economy has increased significantly, although production of major export commodities such as copper and gold as been somewhat more static since the early 2000s. Gold production remains at around 15-20 tons, with copper concentrates remaining reasonably stable at 600,000 tons per annum. Nevertheless, it is coal which is making headlines as Mongolia's biggest export. Between 2005 and 2010 exports of coal rose fro just 2.2 million tons to 16 million tons, making it the largest single commodity exported by Mongolia, accounting for 30% of total exports. Economic growth in Mongolia is, of course, reliant upon sustained growth in exports, but it has also been a function of increases in the prices of Mongolia's major export commodities. Coal prices peaked dramatically in 2008 on the global markets and copper began a rapid rise through 2006-2008. It was sudden drop in copper prices that had such a major impact upon the Mongolian economy in 2009-2010. Once revenue from commodity exports begins to fall rapidly, prices experience pressure, as do exchange rates, the Government current account, international reserves and therefore the entire banking sector. Liquidity and lending dried up and construction and real estate were hit hard in 2009-2010 thanks to a drop in copper prices that could not easily have been avoided at the time.

The trajectory of the crisis was clear: export revenues decreased by 25.6% in 2009. The trade deficit placed pressure on the domestic currency to depreciate, which it did in April 2009. This forced the Bank of Mongolia to intervene directly in the foreign exchange market in order to prevent further depreciation by selling foreign currency out of its reserves. The bank did not stop selling foreign currency until its reserves were as low as 500 million USD. At this point it had not choice other than to let the currency depreciate.

Nevertheless, the crisis that ensued could have been partially mitigated had the Government of Mongolia not been in favour of pro-cyclical policies. As revenues from the mining sector increased sharply, so did Government expenditure. New forms of social security were implemented, as has happened in 2011-2012. Nevertheless, when Government revenues from the mining sector did not meet expected targets in 2008 and 2009 Government spending came under pressure. The close association between fiscal spending and revenue makes it difficult for the Government and the economy as a whole to react to downturns in commodity prices. In fact, Government spending in Mongolia seems tightly linked to commodity price fluctuations, offering little time to react and little safety net.

The Mongolia Development Fund was one mechanism designed to break with pro-cyclical fiscal policies. This structure would collect receipts from a newly implemented "Windfall Tax" on mineral exports, with a third of all receipts being allocated to a fund that would stay in reserve in case of a sudden shock to the economy. Nevertheless, the fund was also used to finance social security programs and when windfall receipts fell the fund quickly ran out of liquidity. The repeal of the windfall tax less than four years after its inception closed this chapter in non-cyclical fiscal policy.

Monetary policy has also been typically pro-cyclical, with money supply increasing during periods of economic growth and contracting during periods of economic slowdown due to inflationary concerns. This has led to a familiar cycle of limiting credit and then making it abundantly available. The resulting impact of this upon the real estate sector was easy to see during 2009-2010. Unfinished skeletons of buildings littered Ulaanbaatar's skyline as construction companies desperately sought financing to finish their projects.

The fundamental risk in any commodity export driven economy, such as that of Mongolia, is that production cannot easily be adjusted. Rapid changes in commodity prices therefore represent a major risk to economic stability.

3. POLICY ENVIRONMENT RISK

The year 2013 saw significant improvements to the overall policy environment, with the enactment of two new laws that would significantly reduce risk for large-scale foreign direct investment into Mongolia, particularly within the mining sector. The passing of a new Foreign Investment Law directly addresses concerns raised by foreign investors over the stability of the Mongolian policy environment. The new investment law is one of the first steps in reversing the current slowdown of Mongolia's economy and increasing the inflow of foreign direct investment. Under the Investment Law, which is considered to be a more favourable re-draft of the law on investment in strategic sectors passed during 2012, any domestic or foreign investor may invest in any industry or sector without any limitation or government approval, except that any foreign state owned enterprise (SOE) investing in more than 33% of an entity in the minerals, communication or financial sectors must obtain approval from a newly established Invest Mongolia Agency. A foreign SOE is defined as an entity of which a foreign sovereign state owns directly or indirectly more than 50%. The new law removes Parliament from the approval process where foreign SOEs are involved, and ends the distinction between foreign and domestic investors.

In a critical addition addition, any investment tax stabilisation agreements made prior to the effective date of the Investment Law will still be valid, and approval by the Invest Mongolia Agency will not apply to changes to share structure of entities in which a foreign SOE already owned a 75% interest or above. Stabilisation Certificates provide investors with certainty as to tax rates for a specified period and are issued based on the sector involved and the amount and location of the investment in Mongolia. The law incorporates indications as to the length of stabilisation time-frames by sector of the economy and amount invested. The Invest Mongolia Agency may extend the time period within which the investment must be made by two years, upon an investor's request, with agreements being renewable up to 1.5 times the initial agreement period. More details on these agreements are included in this document, within the section on Legal and Political Environment.

The new Foreign Investment Law does go some way to providing a stable tax and policy environment for foreign investors. The Government of Mongolia's tendency towards capricious policy making is, nevertheless, a risk factor to be considered. Particularly around election years, populist electioneering tactics become clearly apparent in Governmental discourse. Whether it be the passing of a windfall tax on mining revenues or the summary revocation of mining licenses in alluvial gold mining and uranium mining sectors, the Government of Mongolia's tendency to develop and deliver policy erratically continues to have by far the most deleterious impact upon the nation's stable development, reliant as it is upon FDI into the mining sector. A recent case concerns the 2012 the new Law on Foreign Investment, which came to be a significant cause for much concern among potential investors in the Mongolian mining sector. As noted above, the 6th article of this new law requires that any and all Foreign Investments that: lead to an acquisition of a stake above 33% in a company operating in a sector of strategic interest (mining, infrastructure or telecommunications); or where the acquisition of an interest in a sector of strategic interest (NSSI) business entity would allow the foreign investor to carry out executive management functions of the business entity or to appoint a majority of the management teams or board of directors; or that give the foreign investor the right to veto management decisions of the business entity operating in NSSI; or that may create buyer or supplier monopoly in mining raw materials or commodity markets both internationally and within the Mongolian market; or that may affect the market price of Mongolian mining exports; or that may dilute share holdings in companies in NSSI. Article 3.7 of the new law also states that all foreign investments that acquire more than a 49% share of an SSI entity worth more than 100 billion tugriks (US$ 76 million) will require prior Parliamentary approval. Mining assets fall firmly within the remit of sectors of strategic interest. As proposed, this new legislation is hardly out of step with an economy growing so rapidly and attempting to secure its interests in the longer term, however it did cause significant concern within foreign investment circles, particularly within the mining sector.

4. POLITICAL & SOCIAL RISK

The year 2012 was a watershed year for Mongolian politics. Legislative elections were held on June 28th 2012 to elect 76 members of the State Great Khurak (Ikh Kural). Election campaigning revolved around key issues, including corruption. All parties campaigned vigorously against corrupt practices, particularly within the mining sector. After having left the Mongolian People's Party to form the Mongolian People's Revolutionary Party (previously the name attributed to the existing MPP until the 'revolutionary' element was dropped to appeal more to the contemporary international political context in which Mongolia exists), the former President Nambayrn Enkhbayar was arrested on April 13th 2012, less than two months before the national legislative elections in which the Democratic Party took a majority.

On the day of the legislative elections the city braced itself, concerned that the events of 2008 would be repeated, whereupon protests against purported election rigging turned violent. Following a clear MPRP victory the Democratic Party Chairman, Tsakhiagiin Elbegdorj, declared that his party would not accept the electoral results and alleged that the entire election was rigged. On the evening of 1st July protestors sacked the MPRP headquarters in downtown Ulaanbaatar. Soon after the military was deployed onto the streets of Ulaanbaatar. Five protestors were killed (four were shot and a fifth reportedly died of carbon-monoxide poisoning) and around 700 protestors were arrested, around 140 of who were later sentenced to between 2 and 7 years in prison. A four-day state of emergency was subsequently declared. In a press conference six days later the Democratic Party insisted that there had been large irregularities with voter registration, the counting process and potential instances of voter bribery. International observers who had been monitoring the electoral process in Ulaanbaatar declared that the elections were conducted in a free and fair manner. Ten police officers were arrested on the 15th and 19th o August 2008 in connection with the shootings on the nights of the 1st and 2nd of July. This prompted further demonstration, this time on a smaller scale. Mr. Elbegdorj insisted that the Democratic Party would boycott the opening session of Parliament that year unless the 200 protestors still being held by the police were released, although on the day of 23rd July all Democratic Party members were present for parliament's inaugural session. At the opening session Elbegdorj delivered his party position and then left Parliament flanked by the 27 elected members from the Democratic Party. As a result the new members of Parliament were not formally sworn in with their MPRP counterparts.

Within a month the political crisis began to subside. Most Democratic Party representative decided to attend a Parliamentary session on 28th August 2008 and all but the party Chairman, Elbegdorj, were formally sworn in. He would later be sworn in on 11th September, the same day that S. Bayar was elected Prime Minister of a coalition government between the MPRP and the DP. One year later Elbegdorj defeated the incumbent Democratic Party candidate Enkhbayar, in the Presidential elections.

Despite the tensions, the 2012 legislative elections in Mongolia saw no hint of a repeat of the events of 2008 and the elections passed without incident. The Democratic Party took a majority of 31 seats (35.32%), whilst the Mongolian People's Party, took just 25 seats. (31.31%). The renamed and expanded Justice Coalition, led by former President Nambaryn Enkhbayar, took third place with 11 seats and the Civil Will-Green Party, led by Sanjaasurengiin Oyuun took fourth place with 2 seats (5.51% and no movement since the 2008 elections). Despite the use if electronic voting machines for the first time there was a delay on issuing the result. Both the MPP and DP asked for hand counts alongside the electronic count and this brought to light discrepancies in numbers of votes registered and delays in receiving votes from certain electronic voting machines around Ulaanbaatar city. The day after the election, when the results should have been issued, saw the DP claim a victory with 36 seats, however, it was June 30th before preliminary counts indicated that the DP had won with 35.32% of the overall vote. No party gained an overall majority and all parties did accept the formal results. A coalition Government was formed in August 2012.

A year later, during 2013, the Presidential elections passed without incident. incumbent President Tsakhiagiin Elbegdorj was re-elected, defeating both Mongolian People's Party nominee of parliament member Badmaanyambuugiin Bat-Erdene and Mongolian People's Revolutionary Party nominee Natsagiin Udval, who was Minister of Health at the time of the election. Elbegdorj was inaugurated on 10 July 2013 for his second term in office.

Despite the events of 2008 Mongolia remains one of the most functional democracies in Asia and is remarkable for its political stability and the expressed commitment of dominant political parties to the principles of economic liberalisation. Nonetheless, Mongolia's mining boom has already prompted skeptical responses from voters concerning the predominance of foreign mining companies in exploiting Mongolia's mineral resources. The signing of the Oyu Tolgoi agreement in 2010 received an ambivalent response from many citizens who did not trust inexperienced and ambitious politicians to negotiate effectively with highly experienced mining executives. Many also saw the expansion of Mongolia's mining industry without reaping Government promised benefits. The Government of Mongolia has begun to implement programs to address these issues, although the cash transfers being given to each and every Mongolian citizen have been roundly criticised for placing excess pressure on Government budgets and contributing to inflationary pressures. With inflationary pressures eating into real wage rises and standards of living squeezed by external shocks within the mining exports sector many Mongolian people are beginning to look to their Government to be less frivolous with the nation's future. Whilst some in the Government would rather tap into a rich vein of nationalist sentiment and proclaim that foreign firms are responsible for the country's decline in fortunes - a rhetorical line easily peddled to a nation that has been relatively closed for most of the last century and is just now rediscovering its national identity outside of the overbearing, if distant, gaze of the Soviet Union - the fact is that the Mongolian Government must do everything it can to attract foreign investment back into the country of continue to face significant threats to economic stability.

When it comes to redistribution of mining wealth, the most significant redistributive mechanism thus far implemented by the Government was the release of shares from the new Tavan Tolgoi coking coal mine to all citizens of Mongolia. However, the proposed release of shares was pushed back repeatedly and fears were raised over the fate of this project as another Government promise that may transform in implementation into quite a different deal for the people of Mongolia. On April 11th 2012 a meeting of the Cabinet of Ministers resolved finally to distribute 20% of the shares of Erdenes Tavan Tolgoi for free to the people of Mongolia in place of the promised 1.5 million MNT promised to every citizen of Mongolia before the 2008 elections. Each citizen born before the date of the new resolution would be issued 1,072 shares, minus cash and non-cash payments already made to citizens who had claimed their allowance through other mechanisms (e.g. cash handouts to the amount of 1.5 million MNT issued from the Mongolian Human Development Fund to elderly and disabled people, who were given the option to receive the value of their shares in cash in advance). Furthermore, the resolution produced on April 11th indicated that an auction of 10% of Tavan Tolgoi shares to Mongolian registered private entities be organised. The Minster of Social Welfare and Labour, Minister of Finance and the State Property Committee were all tasked with developing funds necessary to purchase shares back from citizens who wished to sell their shares at a confirmed price to the Government rather than holding them and selling later on the open market. Students, the elderly and disabled people have had the option of receiving their promised payments in the form of cash, tuition fee contributions and health insurance payments. Every Mongolian citizen has also had the opportunity to receive small, frequent payments from the Human Development fund around of US$ 15 per month, although this handout has been decried as placing undue pressures on Government budgets at a time of falling receipts from mining taxes and assets.

These efforts intended the share the country's wealth, as well as stoking inflation, are doing little to quell the feeling of growing disparity between rich and poor in Mongolia. With an estimated 40 people sharing up to US$ 6 billion in wealth and 27.4% of the nation officially living in poverty, the gap is only set to grow, stoking the fire of political risk if the country's newfound potential is not well managed by the new Government.

Overall, the Government of Mongolia has resorted to cash handouts to quell calls for better redistribution of the country's potential mineral wealth. It has too often fallen into a protectionist stance, in which nationalist rhetoric is enough to irk and concern many investors, already aware of rising crime rates and risks to the safety of foreign citizens on the streets of Mongolia from nationalist groups. Whilst incidents of attacks against foreigners are reasonably rare they are on the increase. A widening wealth gap within the nation and falling fortunes for some as a result of a slowdown in the growth of the Mongolian economy means that foreigners are easy targets upon which to pin anger at the decline of the nation. Some in the Mongolian Parliament would seek to fuel this trend in pursuit of their own aims, although most are more welcoming than ever of the considerable benefits of FDI.

5. CURRENCY

Risks associated with exposure to the MNT have been thrown into sharp relief during 2013-2014. After a period of great confidence in the MNT throughout 2011, 2012 brought sustained drops against the US$ for Mongolia's national currency. In 2010 the MNT appreciated 13% against the USD, compared with 11.4% depreciation in 2011 and, following an early run of appreciation (4.4% from January to April - although the MNT consistently depreciated against the US$ until October 2012 brought a 0.6% appreciation based upon monthly average. Nevertheless, December 2011 - December 2012 the MNT depreciated against the USD by just 4.3%. High domestic inflation has been mirrored by a weakening currency within Mongolia. External factors are also playing a key role in keeping the MNT down against the US$. Global risk aversion and declining commodity prices have contributed to depreciation in various emerging mineral rich economies. From 2013-2014 the MNT slid across the board for another year, falling by 12% against the US$ and ending 2013 on 1,659.34 to 1 US$. The Mongolian Togrog continued falling throughout 2014 to reach 1,867 MNT to 1 US$ by Q4 2014. Again, the MNT is likely to appreciate as Mongolia's trade and current account deficits reduce and confidence returns to the market based upon revisions of foreign investment laws.

INFORMATION BOX - MNT TRANSACTIONS ONLY

Companies operating in Mongolia are required to charge all of their transactions in MNT only and not in any other currency, including RMB or US$. Until recently the economy was becoming increasingly dollarized, leading to the Mongolian Government imposing a new regulation, necessitating that all transactions taking place in Mongolia take place in MNT, this includes Real Estate transactions as well as its various services. While the MNT is not pegged to the US$ it has traditionally followed the dollar, although as mining exports take off in Mongolia we will likely see the kinds of deviations displayed in 2010, where the MNT makes gains against the US$.

Historically, between 1996 and 2012 the USD-MNT averaged 1243.9, reaching an all time high of 1642.6 in March 2009 and a record low of 601.7 in September of 1996. Previous IMF commentary on volatile exchange rates indicated that they bode well for the Mongolian economy, cushioning against inflation and helping inure against external shocks. The growth of the mineral sector is set to being with it significant exchange rate changes in the medium term. However, the record high international reserves that were held by the Bank of Mongolia in 2010 have since been depleted through the Bank's policy of intervening to stem currency depreciation by selling foreign reserved to commercial banks. By May 2014 gross reserves had fallen 11.9% month-on-month and 52.6% year-on-year, a record drop in the recent history of the Mongolian banking system. Despite an increase of 2.9% in foreign currency deposits during 2013 net international reserves fell by over 300%. Whilst in 2010 foreign reserves represented 33.3 weeks of goods imports, by 2013 this had fallen to a precarious 9.8 weeks.

Whilst projections of most analysts still indicate that the long-term future of the MNT is bright once large-scale mining operations such as Oyu Tolgoi and Tavan Tolgoi come online, currency appreciation and depreciation against the US$ remains somewhat cyclical - with periods of depreciation tending to be felt during the wintertime and appreciation in the summer. Nevertheless, the MNT continues to look very vulnerable to external shocks in raw materials pricing and demand, particularly considering the current trade and fiscal deficit. The potential for the MNT to slide dramatically gives investors something to think about in terms of hedging risks, particularly where investment is in foreign currently and revenues from real estate are earned in MNT, as they must be by law.

SURVEY SERVICES

RELIABLE DATA IN A CHALLENGING ENVIRONMENT

Surveying is a powerful tool for providing primary information. In Mongolia, such information is often hard to come by, but surveying provides a way for you to fill gaps in information. At M.A.D. we have long offered surveying as a part of our market research services and, given the latent demand for such services, we have since decided to offer it as a standalone service. M.A.D. have conducted surveys for both commercial and public sector clients and, in addition to perception and satisfaction surveying, we also conduct mapping surveys, focus groups and in-depth interviews. All our surveys are accompanied by comprehensive analysis and data sorting for our clients.

All of these tools are structured so as to provide you with accurate quantitative and qualitative data that can be used to inform your planning, investment, or development decisions. Most importantly, we provide information and subsequent analysis that comes directly from potential and future customers or stakeholders. In addition, we design our surveys to be as flexible as possible, tailoring them to the project at hand, ensuring that only the most relevant data and information is obtained. All our surveys are carried out on iPads and other IT suport systems enabling real time data feeds, geotagging and reducing user error.

TYPES OF SURVEYS

PERCEPTION SURVEYS

SATISFACTION SURVEYS

MAPPING SURVEYS

IN-DEPTH INTERVIEWS

FOCUS GROUPS

Makedifference LLC - Sukhbaatar District, 4th Khoroo, 67/1, Ulaanbaatar, Mongolia
Web: www.mad-mongolia.com - **Email:** info@mad-mongolia.com - **Tel:** +976 - 11 - 312 500

6. NATURAL DISASTER: EARTHQUAKE / FLOOD

Since 1900, Mongolia has experienced three earthquakes classed above magnitude 8 on the Richter-Scale. Two in the month of July 1905, which extended across central Mongolia, measuring approximately 8.4. The third occurred in December of 1957, in the Gobi-Altai region, with a magnitude of 8.1. The multi-organisational Global Seismic Hazard Assessment Program concluded that eastern Mongolia is at relatively low risk from earthquakes. Nonetheless, western Mongolia remains in a nominally “high-risk” zone. Western-Mongolia experiences several minor earthquakes each year, peaking at a magnitude of 4-5. These are usually not felt in Ulaanbaatar, which sits on the boundary between low- and high- risk zones. On January 10th 2010 an earthquake measuring 5.1 struck 10km north of Delgetsort Soum, Dundgobi Province. This quake was felt in Ulaanbaatar but no reports of casualties or damage to property were received.

A press release from the Mongolian Energy Sector in April 2010 indicated that the “ first 40,000” and “50,000” apartments, among the oldest residential constructions in Ulaanbaatar, would be at greatest risk of critical damage during an earthquake, as a result of their un-reinforced masonry construction. According to their projections, a quake of magnitude 7 or 8 would eliminate the majority of this housing stock, whilst newer apartments would be less badly damaged. Nevertheless, the low height-to-thickness ratios of older buildings would reduce the risk of catastrophic structural failure in the event of a low magnitude earthquake. There are fears that the earthquake vulnerability of the first 40,000 and 50,000 apartments has been exaggerated in order to further the desires of some developers and politicians to redevelop these apartments. Claims made in 2010 that the first 40,000 and 50,000 apartments were a significant risk to human life in the event of an earthquake began to appear regularly in press releases and informal studies. However, these studies were not scientifically rigorous and residents put little stock in their assumptions. A Russian study team was commissioned in 2011 to undertake a full and robust study of Ulaanbaatar’s built environment and its risk profile in relation to seismic activity. The results of this study have yet to be released, but it is expected that the first 40,000 and 50,000 apartments will fair reasonably well.

Concerns have also been raised over the capacity of buildings constructed between the 1970s and present to withstand seismic shocks in the unlikely event of a high-magnitude earthquake occurring close to Ulaanbaatar. Predominantly constructed from reinforced concrete, these buildings do offer some of the stiffness, strength and ductility required to withstand tectonic shocks. Nevertheless, quality of materials in these buildings is often low and construction codes have not been well followed, if at all, making new buildings potentially as vulnerable as older ones in the event of a high-magnitude earthquake. Because of public fears over an earthquake in Ulaanbaatar, many new buildings make a point of using high-resistance engineering methods and actually advertise their earthquake resistance.

In the event of an earthquake in Ulaanbaatar, loss of property and life would likely be high, particularly if the earthquake occurred during the extremely cold winter months. Insufficiently maintained infrastructure and lack of medical/rescue facilities would severely hamper rescue operations. Ill-equipped disaster recovery and medical facilities around the city are largely housed in buildings constructed between the 1970s and 1980s and would be among the worst hit by an earthquake. Aware of this risk, international organisations including the ADB and World Bank are already making provisions for the construction of secure, earthquake-proof facilities for their staff. Domestic insurance companies do offer earthquake insurance for immovable property and some, such as Mandal Daatgal, are well re-insured by international reinsurers. However, in the event of an earthquake, the likelihood that domestic insurance companies will still be capable of functioning is very limited, making payouts on claims very protracted, if not impossible.

INFORMATION BOX - FLOODING IN ULAANBAATAR

2012 saw almost unprecedented levels of precipitation during the summer of 2012. Bayanzurkh, Songinokhairkhan and Sukhbaatar Districts of Ulaanbaatar were all hit by flooding associated with heavy rainfall on June 19th 2012 and were placed on high alert. Flooding caused major and minor injuries to over 240 citizens, whilst 11 households lost their gers as they were washed away. These families later received new housing from the reserve fund of their respective districts of residence.

The First Deputy Governor of the Capital City, B. Baatarzorig, indicated intent to heighten preparedness in flood danger zones and ensure that where flooding has occurred, all associated Government agencies work in close concert to reestablish facilities to affected areas in a timely manner. He also indicated that citizens living, without authorisation, in the vicinity of flood flow routes and ravines would be rehoused on more appropriate land in order to prevent harm to them in the event of flooding.

Ulaanbaatar is built around two large rivers, the Tuul and the Selbe. Of these the Tuul is the largest and supplies water for washing and for livestock of households living on the city periphery. In the late spring, when temperatures start to reliably rise above freezing, melt-water from ice and snow on surrounding mountains flows down into the Tuul, causing water levels to rise. Levels stay high during the summer months, where late torrential rains cause the river to rise yet again. In August 2009 3cm of rain fell in a single day, causing the worst floods to hit Mongolia since 1966. A total of 24 people were killed by flooding, six in Ulaanbaatar alone. A further 1,830 families were affected by the floods, with 126 rendered homeless. More than 1,000 gers were swept off in these floods, which damaged three bridges and ten power stations nationally.

Among the worst hit of all areas was that around the Zaisan memorial, the site of high-end developments. All of the underground garages beneath high-end apartment complexes were flooded, including those of the river front property Bella Vista. The floods caused heavy damage and workers were busy for days pumping water out from basements. Construction did continue in Zaisan once the damage was repaired, although the extent of the flooding raised significant concerns for those seeking to purchase property in the Zaisan area.

Ultimately, the likelihood of a large-scale earthquake hitting Ulaanbaatar is still very low, although secondary cities to the west of Mongolia are at somewhat greater risk. The Seismic, Volcanic and Tropical Storm risk map above (produced by the United Nations Office for the Coordination of Humanitarian Affairs Regional Office Asia, in 2007), highlights the spread of earthquake risk in Mongolia. Earthquake intensity zones indicate where there is a calculated 20% probability that degrees of earthquake intensity shown on the map will be exceeded in the next half-century. Ulaanbaatar sits on the boundary between degree I - V earthquake risk and degree VI earthquake risk, meaning that up to a category VI earthquake (on the Mercall Scale) is a potential occurrence here. The provinces of Bayankhongor, Khovsgol and Zavkhan have the highest earthquake risk rating, with risk levels reaching from IX - XII.

Flooding remains a significant concern in Ulaanbaatar. The city itself is build around two major rivers: the Tuul and the Selbe. These are fed and swelled in the spring by melt-water from surrounding mountains, as well as by heavy mid-summer rainfall. Flooding occurs regularly around this time of year and whilst not always endangering property, there have been occasions where real estate in the north and south of the city have been severely flooded. To the north the danger is mostly felt in the ger districts, which lack suitable drainage to deal with run-off from melting ice and snow on mountainsides. This type of meltwater runoff has caused significant damage to informal structures and gers in past years. To the south the danger is felt most keenly along the banks and flood-plains of the river Tuul. This large river also takes up meltwater from surrounding mountains and can rise quickly. Building upon the river's flood-plain (notably in the Zaisan area) has put resident populations at risk of flooding and several major luxury constructions did experienced serious flooding in 2009, which saw the Bella Vista underground garages completely filled with water. Plans are in place as part of the 2020 Master Plan to prevent further development on the Tuul river flood-plain and also to create barriers (including raised roadways) between the flood-plain and the city. Insurers in Ulaanbaatar are now beginning to offer flood insurance, although costs are reasonably high and rates of payout are reasonably low across the board.

INFORMATION BOX - WHAT IS A ZUD?

A dzuud (also termed *zud* or *zuud*) is a Mongolian term for an extremely snowy winter in which livestock are unable to find fodder through the snow cover. The impact of a dzuud is made far worse when the summertime is hot and has little rain, which leaves low-lying plants weak. The worst dzuud on record in the 20th century was in 1944 and killed almost 7 million head of livestock. Between 1999/2000, 2000/2001 and 2001/2002 Mongolia was hit by three zuuds in a row. The result of these consecutive disasters was the death of 11 million head of livestock. The most recent dzuud of 2009-2010 saw almost 80% of the entire territory of Mongolia covered with a snow blanket of between 200-600mm. This caused between 4 and 8 million head of livestock to perish as a result of starvation. During this extremely severe dzuud 9,000 families lost their entire herds and a further 33,000 suffered losses of at least 50% of their animals. The United Nations reported that around 17% of the nations entire livestock died during the 2009/2010 dzuud.

Following the most recent dzuud, the affected families who had lost most or all of their herds often moved in search of new livelihood. Many of these gravitated towards Ulaanbaatar in search of work, swelling the numbers of new migrants between 2009-2010 to over 40,000 persons and placing considerable new strain on the peri-urban environment of the city. In an effort to alleviate the effects of the dzuud, the Government of Mongolia initiated a series of aid payments to households who had lost their herds and international aid organisations distributed aid to stricken families. This, however, may have acted as somewhat of a perverse incentive, with many families becoming reliant on these aid payments and even giving up on their herds in order to obtain handouts.

7. INFRASTRUCTURE RISKS

Technical analysis of infrastructure capacity in both the Mongolian capital (Ulaanbaatar) and nationwide, reveal significant deficiencies that restrict growth and pose significant operational threats. The stated intent of the Ulaanbaatar Master Plan is for 82% of households to be connected to central networks of heating, water, electricity and sewerage by the time of its conclusion in 2020. However, the number of families residing in Ulaanbaatar's ger districts has increased dramatically in recent years. By the end of 2011 around 184,200 families were living in the city's ger areas (60% of Ulaanbaatar's total population). Of these households, around 81,600 live in traditional Mongolian gers year-round and have no access to central heating, sewerage or piped potable water into their homes. Around 100,300 families reside in informal houses with limited connection to infrastructure. Overall, only around 55% of the total population of the capital city have reliable access to central heating systems, requiring most to use coal-burning stoves to provide heating for their homes and for cooking. These stoves remain the single biggest contributor to pollution in Ulaanbaatar.

With current rates of construction, Ulaanbaatar will be requiring close to another 260 G/kal of heating energy by by the end of 2012. The city's current supply of thermal power plants cannot meet this demand at present and several areas of the city have experienced power outages on a regular basis. Heating systems, which cover only the central areas of Ulaanbaatar, also cannot keep pace with new developments. Current infrastructure makes extension of the network difficult and the 3rd, 4th, 12th, 13th, 15th and 17th Sub-districts, as well as the Zaisan area and the far east of Ulaanbaatar city, presently have issues with reliable provision of heating due to pressure and supply problems.

Water and sewerage systems for the capital are also limited to a small area of the city centre. Potable water delivery therefore takes place via two separate mechanisms in Ulaanbaatar. In the city centre apartment blocks are attached to centrally plumbed supplies, which provide running water directly into each individual apartment. In the ger districts, individual homes and gers have no connection and so households either collect water from water-delivery kiosks connected to the central delivery system.

Electricity supply reaches more homes in the capital than any other utility. The ease of erecting new power lines means that many ger district households now have access to electricity supplies, although not always a reliable one. Presently Ulaanbaatar's three power-stations produce a total load of 690 MW. When power purchased from Russia is added to this, the total energy capacity of Ulaanbaatar rises to 782 MW. Nevertheless, the peak electricity load of Ulaanbaatar reached 711 MW as early as the winter of 2010, edging dangerously close to the city's limits. In 2012, power usage rose by a further 3.5%, with around 20,000 households of Chingeltei District experienced power shortages on a regular basis, whilst power outages were also experienced in the ger districts of Dambadarjaa, Belkhiin Am, Bayankhoshuu and Doloon Buudal. In 2011 Mongolia signed an agreement to purchase electricity from China and has accepted assistance from the ADB to begin construction of a fifth power station to the east of the city, which will supply Ulaanbaatar as it expands. Construction on this project is set to begin in 2013 on a site in Bayanzurkh district. However, completion of this project is not likely until 2016. Between now and then Ulaanbaatar will surely experience an increasingly intermittent electricity supply.

Each of these factors are key in decision making practices of real estate developers. Developers continue to pay a premium for centre property and land, with potential connection to existing infrastructure, whilst land not connected to infrastructure transacts often at no more than a few dollars per square meter. A number of developers have sought to develop on greenfield sites beyond the reach of the city's current infrastructural reach, however, this brings with it the challenge of creating reliable, shared, off-grid solutions. If a developer wishes to extend existing infrastructure to an out-of-town development, they run the risk of incurring significant costs and potentially receiving severely curtailed services due to overall lack of capacity in Ulaanbaatar's infrastructure.

Logistical infrastructure has also been a topic of hot debate since the rapid expansion of Mongolia's mining sector. Costs of excavating raw materials in Mongolia remain relatively low by international standards, however, once past the mine gate, logistical costs force export prices up significantly. The reason for this being that both Mongolia's roadways and railway infrastructure are often ailing and ill-equipped to handle the huge loads that now traverse these roads day and night. During the first eleven months of 2011 over 18.4 million tons of coal was exported from Mongolia, the vast majority of this to China. During the same period the Mongolian railways carried 16.7 million tons of freight, the majority of which consisted of exports and imports from Russia and China. The coal and raw materials not carried by train are usually carried by road, with up to 7,000 trucks presently operating in the South Gobi region of Mongolia, hauling coal and other materials across the border to Chinese buyers.

Despite such heavy reliance upon roadways to transport Mongolia's key commodities, the country only has 1,500km of paved highways at present, with a further 1,440km of gravel surfaced roads. The remaining 49,250km of primary roads are little more than improved earth tracks. The railway infrastructure of Mongolia also remains inadequate to the task of providing logistical support to a burgeoning mining sector, as well as a construction sector reliant on heavy imports from China, leading to reliance on costly road transportation.

The railway network of Mongolia currently comprises of 1,815km of broad gauge track, of which 1,110km run from north-to-south, linking Ulaanbaatar with Russia to the north and China to the south. The “trans-Mongolian railway” is the arterial transport route of the Mongolian nation. With no sea-ports of its own, Mongolia is reliant on railways, as well as its roads, as its primary means of reaching a broader group of trading partners as its mining export industry expands. The company that now owns Tavan Tolgoi, Energy Resources LLC, drew up detailed plans, working with the German state-owned railway Deutsche Bahn AG, to build a railroad southward - connecting it with the Chinese rail network. That plan ran into heavy resistance from Mongolia’s political leaders, who feared that too great an economic dependence on China could leave them with less influence over foreign policy. Another route planned for delivery of mineral resources to international markets, a route approved by Mongolia’s parliament, would stretch 1,100 km to the Russian border. This railroad would use Russian-style wide-gauge rails rather than narrow gauge rails used in China. Transportation Minister Battulga Khaltmaa indicated that this route would “greatly boost the economic development of Mongolia...Instead of shipping raw materials directly to one market, jobs and value-added production will be created in Mongolia”. In accordance with Battulga’s statement, the proposed rail line will link with a proposed large industrial complex in Sainshand, in the gobi region of Mongolia. This processing facility will take raw materials from within Mongolia for processing, adding value before export via Russian sea-ports. Encouraging the development of the Sainshand complex was a significant factor in deciding the final route of the Tavan Togoi railroad, although a distrust of too great an economic reliance on China and a time honoured preference for the Russian way of doing things are assuredly the deciding ones.

An entrenched desire not to become dependent on China for exports is understandable as when the Dalai Lama visited Mongolia in 2002, China expressed its displeasure by summarily closing the Mongolia-China border. Many in the Mongolian Government have expressed a fear that China could do the same again after a new railway is built, effectively closing export routes if the Chinese Government perceives a threat to competitiveness of Inner Mongolian processing facilities. Mongolia hopes to sell coal and other minerals to South Korea and Japan. Taking a route to these markets through Russia, to sea ports at Vladivostok, does make sense in terms of diversifying export bases and securing uninhibited access to new markets. Nevertheless, Mongolia remains reliant upon China as the number one importer of Mongolian raw materials. The Mongolian economy remains yoked to the fortunes of the Chinese economy, particularly the manufacturing sector. 2012 provided a singularly poignant example of this fact. When a slowdown in Chinese manufacturing led to reduced demand for steel, coking coal exports from Mongolia to China dropped significantly, leaving up to hundreds of thousands of tons of coal waiting at the border and revenues to both Mongolian companies and the Government severely lower than those projected for the year.

Plans to improve infrastructural capacity across Mongolia are manifold. Within Ulaanbaatar, the development of the fifth power station will be a rubicon point in the development of the city, whilst continuing improvements of the capital’s road infrastructure (including the opening of a new flyover linking Khan-Uul and Bayangol Districts during the summer of 2012 - a project funded by Japanese aid money) are helping reduce pollution and develop the overall economic efficiency of the city. Nationally, mining projects have become heavily engaged in upscaling infrastructure. Oyu Tolgoi, the flagship copper and gold mining project in Mongolia, has contributed in the order of billions of dollars of investment to infrastructure and capacity building projects, including development of an international standard airport at their mine site and investment into housing and basic infrastructure across the Gobi region. The Government of Mongolia is also making use of public private partnership frameworks, as well as concession offerings, to tempt private sector investment into up-building of road and railway infrastructure. A number of companies are seeking to develop toll-roads that will enable more efficient links to the Nariin Sukhait border post with China, as well as other underdeveloped crossing points.

VII. POLITICAL, LEGAL AND TAXATION SYSTEMS

1. POLITICAL SYSTEM OVERVIEW

Mongolia has now successfully undergone six sets of legislative elections and four sets of Presidential elections. Despite accusations of electoral rigging in 2008, which led to widespread protests in the capital city, no proof of anything but fair elections has been produced. Democracy has achieved a good foothold in the nation and freedom of expression, and of the press, are untrammelled. The boundary between business and politics remains vague and poorly policed, leading to high levels of dissatisfaction concerning practices of Mongolia's political elite. In the run-up to the 2012 legislative elections corruption became a key election issue, with the Anti-Corruption Bureau active in investigations of former political leaders, including former President Enkhbayar. Since the election the newly incumbent Parliament has also set about addressing corrupt business practices and tax evasion among some of Mongolia's largest economic entities. Questions have been raised over the exact nature of these investigations and some among the business community have interpreted these investigations as motivated by political persecution. However, stricter policing of corporate actions and the boundaries between politics and business is more broadly seen as a positive move.

INFORMATION BOX - 2008 RIOTS

Following the announcement that the MPRP (Mongolian People's Revolutionary Party - known as the MPP or Mongolian People's Party since 2011) had won a majority in the 2008 Parliamentary Elections, fears spread through the population of Ulaanbaatar that electoral fraud had occurred. A large number of people took to the streets intent on a peaceful protest. A crowd gathered in front of the MPRP headquarters - between the Ulaanbaatar Hotel and Sukhbaatar Square. However, the peaceful demonstration took a disastrous turn as a small number of people broke into the MPRP headquarters building and looted the liquor store therein, in the process setting fire to the building. The fire raged out of control, gutting the building and killing a number of people as it spread.

The Government of Mongolia reacted to this by sending in large numbers of police to quell the situation. Huge numbers of arrests ensued, with the majority of those arrested being nothing more than onlookers and peaceful protestors. Whole families were rounded up by police who, by this time, were being supported by nationalist thugs. The situation descended further the next day as army tanks appeared upon the streets in a display of force by the Government, who arguably overreacted to the situation. A curfew was called and the centre of Ulaanbaatar was all but closed down. Within a few days these heavy handed measures were withdrawn and rebuilding could begin. The Government of Mongolia did eventually agree upon a coalition Government, which, to its' credit, has been instrumental in extended confidence in Mongolia's industry and includes the conclusion of the Oyu Tolgoi agreement among its' achievements. The MPP headquarters were subsequently reconstructed and opened again in the summer of 2011. It should be noted that no incidence of electoral fraud has ever been confirmed over the two decades during which Mongolia has held democratic elections.

The present Government of Mongolia is organised around a unicameral Parliament, known as the Ikh Khural of Mongolia. The highest executive power in this system is the Prime Minister, although Mongolia also has a President, who acts as Commander in Chief of the military and represents Mongolia as Head of State. The Ikh Khural is located in the Saaral Ordon (Government Palace), which overlooks Sukhbaatar Square in Ulaanbaatar. Since 1996 the Ikh Khural has consisted of 76 single-seat constituencies, with Parliamentary representatives elected on a majority-vote basis. The Presidential system was introduced in a reorganisation of what was then the People's Ikh Khural in 1990. The Ikh Khural elected Mongolia's first President, Punsalmaagiin Ochirbat, in September of the same year. Mongolian citizens are allowed to vote from the age of 18 if they are resident within Mongolia and are eligible to be elected to office from the age of 25. The Government is dissolved if either the Prime Minister or half of the ministers in the Cabinet resign. The Ikh Khural also may be dissolved if the President dissolves it or if the members of the Ikh Khural vote by two-thirds majority to dissolve it.

The President incumbent is Tsakhiagiin Elbegdorj, nominated by the Democratic Party, Civic Will Party and Mongolian Green Party. The last Presidential elections in Mongolia were held in June 2013, during which Tsakhiagiin Elbegdorj was re-elected. The Prime Minister incumbent is Norovyn Altankhuyag of the Democratic Party, who was elected into power following the 2012 election, replacing Sukhbataryn Batbold of the Mongolian People's Party. The two largest parties in Mongolian politics are the Mongolian People's Party (formerly the Mongolian People's Revolutionary Party) and the Democratic Party. These parties, along with some of Mongolia's most influential third-parties, are described in the table below:

Key Political Parties of Mongolia	
The Mongolian People's Party	The Mongolian People's Revolutionary Party (*Mongol Ardyn Huv'sgalt Nam*) was the ruling party throughout Mongolia's socialist period. This party remains one of the largest, most unified parties in Mongolia. They presently control about half of the *Ikh Khural*. Whilst retaining its socialist roots, the party currently maintains a stated commitment to developing a liberal market economy in Mongolia. In 2011 It removed the term 'Revolutionary' from its name to become the Mongolian People's Party (MPP). As soon as the party did this the former Prime Minister, N. Enkhbayar, registered the name 'Mongolian People's Revolutionary Party' and initiated a new political party of his own.
Democratic Party	The Democratic Party (*Ardchilsan Nam*) is a result of the union of the Mongolian National Democratic Party and the Mongolian Social Democratic Party in December 2000. The two parties that form the DP were part of a ruling coalition from 1996-2000, when they held 50 of 70 seats in the *Ikh Khural*. The Democratic Party is a significant political force in Mongolia and in coalition with the Mongolian People's Party, have overseen the development of Mongolia's mining sector.
Civic Will Party	The Civic Will Party was founded in March 2000 by S. Oyun, an MP and the sister of S. Zorig, otherwise known as the father of the democratic revolution in Mongolia. S. Oyun is a well respected politician and to date the only woman in the Mongolian Parliament. The Civic Will Party has combined with the Republican Party to become the Civil Will - Republican Party.
Justice Coalition	Headed by former President Nambaryn Enkhbayar, the Justice Coalition was formed in 2012 out of the new Mongolian Peoples Revolutionary Party (formed and named by former President Enkhbayar after the existing MPRP dropped the Revolutionary component from its title, becoming the MPP) and Mongolian National Democratic Party. The coalition won 11 seats in the elections after running on a manifesto of resource nationalism.
Motherland Democracy Coalition	The Motherland Democracy Coalition is formed of the Motherland party and Democratic Party. They remain a major player in Mongolian politics and promote democratic principles within Mongolia.

Source: Political Party Websites

2. LIST OF MINISTRIES AND THEIR FUNCTIONS

LIST OF GOVERNMENT MINISTRIES		
Ministry	**Minister**	**Party**
Ministry of Foreign Affairs and Trade	Luvsanvandan Bold	DP
Ministry of Finance	Chultem Ulaan	MPRP
Ministry of Environment and Green Development	Sanjaasuren Oyun	CWGP (Civil Will-Green Party)
Ministry of Defense	Dashdemberel Bat-Erdene	DP
Ministry of Education, Culture and Sciences	Luvsannyam Gantumur	DP
Ministry of Construction and Urban Development	Tsevelmaa Bayarsaikhan	DP
Ministry of Health	Natsag Udval	MPRP
Ministry of Culture, Sport and Tourism	Tsedevdamba Oyungerel	DP
Ministry of Mining	Davaajav Gankhuyag	DP
Ministry of Factory and Agriculture	Sharavdorj Tuvdendorj	DP
Ministry of Labour of Mongolia	Sanjmyatav Yadamsuren	DP
Ministry of Economic Development	Nyamjaviin Batbayar	DP
Ministry of Energy	Mishig Sonompil	MPRP
Ministry of Population Development and Social Welfare	Sodnomzunduin Erdene	DP

Source: Government of Mongolia

The Ministry of Roads, Transportation, Construction and Urban Development is directly responsible for decisions concerning planning of infrastructure and urban development on a national level. This Ministry oversees decisions pertaining to the development of transportation, provisioning of infrastructure necessary to stimulate and sustain economic growth, implementing construction policies and developing cooperative links with investors and external development agencies. The Ministry does not oversee planning permissions personally, rather, these are handled by City, District and Soum level administrators, who are legally empowered to make decisions on such matters, as well as to allocate land. The rights and responsibilities of these particular institutions are dealt with in the sections on the Legal Environment and in the section on Land Rights. The Ministry of Nature, Environment and Tourism is directly responsible for defining sate policy on tourism and advising on policy frameworks designed to promote tourism - including matters related to the hotel and hospitality industry.

INFORMATION BOX - THE NEW PARLIAMENT TOWER

The Mongolian Parliament building off of Sukhbaatar Square is adjoined, on it's northern facade, by a small park, which has been a popular recreational location, representing one of the few remaining parkland spaces in the city centre. However, in 2010 plans were announced to build a large tower on this land as an adjunct to the existing Parliament building. Up to a 20 floor structure was planned, financed by the Kuwaiti Government - who also financed the new facade to the Mongolian Parliament, constructed between 2005-2007. In 2010 hoardings were put up around the outside of the park and it was closed to the public. Already wary of intentions for the Children's Park to the south, and fiercely protective of what little open space remains in Ulaanbaatar, the public staged protests and expressed significant disapproval of plans to develop this green land. The Government eventually relented and removed the fencing and re-opened the park. The project to build a new tower for Parliament has been put on hold for the time being.

whilst the tectonic shift from a centrally planned to market led economy has been undertaken with reasonable grace and significant success in the Mongolian case, but legislative directions are far from secured and an unpredictable Government, with limited experience of the market context has been known to alter policy and legislation with limited warning. Repeat events, such as a petition by members of Parliament to renegotiate the Oyu Tolgoi mining contract prior to the 2012 legislative elections have shown how high levels of corruption and populism serve to de-stabilise the investment environment. An overall protectionist stance on certain key areas of the economy has also been cause for continuing concern. Capricious policy-making in the mineral sector has led to Mongolia falling to last place on the Fraser institute's International Policy Index for 2014, making it the world's worst jurisdiction in terms of mining policy. Nevertheless, real estate acquisition remains an area with little Government interference and low levels of corruption. By contrast, real estate development has been subject to increasingly stringent regulation at both national and local Government levels. This originates in response to genuine concerns over construction safety, appropriate urban planning and corruption in planning processes. At present, the Government of Mongolia has shown signs of a complete sea-change in rhetoric. Legislative changes have accompanied new steps towards opening up the markets and securing a more stable environment in terms of foreign investment. For the first time since the second quarter of 2012, optimism is returning around FDI into Mongolia.

INFORMATION BOX - ZORIG AND HIS INFLUENCE

Zorig Sanjaasuren was born in 1962 and became prominent as a Mongolian politician and key leader of the 1990 democratic revolution. Zorig studied philosophy at Lomonsov University before working as an instructor for the Mongolia Revolutionary Youth League in Ulaanbaatar. In 1986 he became a lecturer in scientific communism at the Mongolian State University. Despite this vocation he was driven by a desire to bring democracy to Mongolia. In 1988 he founded the "New Generation" group of young dissidents, with the aim of spreading the word of democracy in Mongolia and in the run up to the democratic transition Zorig played a leading role. On December 10th 1989, just one month after the fall of the Berlin Wall, Zorig led a group of 200 activists in a public protest, demanding free elections and a free market economy. By 1990 Zorig and the group of democrat dissidents began staging weekly protests in Sukhbaatar Square. Over the months that followed the crowds attending these protests swelled and began to represent a significant concern to the Communist government of Mongolia.

Zorig's stalwart defence of peaceful protest made him an icon of the peaceful democratic revolution. By March of 1990 the Mongolian Politburo had resigned, following a protest and ensuing hunger strikes by protestors. In June of 1990 Zorig was elected into the People's Great Khural and remained there through the elections of 1992 and 1996, the first time as a minority member and the second time as a member of the Democratic Union as they became Mongolia's first non-Communist government since 1921. He became minister of infrastructure in 1998, during a tumultuous year for the Mongolian Parliament. When Ts. Elbegdorj was forced to step down from his role as Prime Minister in April, as a result of a Communist party walkout in protest over privatization of the state owned Reconstruction Bank, minister Zorig was proposed ad a compromise candidate to be the new Prime Minister. This decision was to be announced on October 5th 1998. However, on October 2nd 1988, two men entered Zorig's apartment and stabbed him to death. Four days after his assassination a vigil was held in Sukhbaatar Square and mourners crowded in by candlelight. Zorig's body lay in the Government House before burial on Wednesday 7th of October. Zorig's sister Sanjaasurengiin Oyuun was elected to his seat in the Mongolian Parliament soon after and later served as Minister of Foreign Affairs. She believes her brother was murdered to prevent him from mounting an anti-corruption campaign as Prime Minister. She later founded the Civic Will Party and the Zorig Foundation as a non-profit organisation promoting democracy through youth action programs. A monument has been erected to Zorig in Ulaanbaatar, across from Sukhbaatar Square and the central post office.

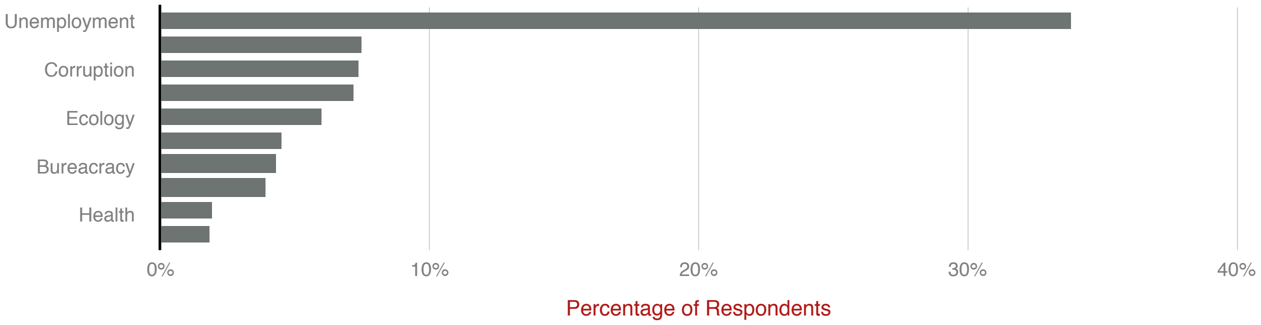
During 2013 the Mongolian people again went to the polls to elect a new President. Whilst fears abounded during 2012 of a reprise of the violence of the 2008 elections, the 2013 Presidential race came and went with no such foreboding. The elections were held on 26 June 2013. The Democratic Party nominee, incumbent President Tsakhiagiin Elbegdorj was re-elected, defeating both Mongolian People's Party nominee of parliament member Badmaanyambuugiin Bat-Erdene and Mongolian People's Revolutionary Party nominee Natsagiin Udval, who was Minister of Health at the time of the election. Elbegdorj was inaugurated on 10 July 2013 for his second term in office. President Elbegdorj won the election with 50.23% of total votes, with Baterdene Badmaanyambuu and Natsagiin Udval getting 41.97% and 6.5% respectively.

Changes to campaign laws were made in 2011 that restricted the amount of television and poster advertising a candidate could use. These also increased penalties for violators. The intent was to have the candidates judged on the merit of their platform rather than the budget of their campaign. This change increased the role of social networking such as Facebook and Twitter in candidates campaigns in elections during 2012 and 2013.

Nevertheless the citizens of Mongolia frequently express disillusionment with politician's unmet promises of payoffs from the nation's mineral wealth, while regular reports of corruption only serving to exacerbate levels of dissatisfaction. Fears continue to persist that Mongolia and it's resources are being exploited for the gain of foreigners and a handful of politicians. Such a fear of exploitation is heavily rooted in a complicated history of trade-offs of Mongolia's interests by Chinese and Russian influences.

During December 2013 the Independent Authority Against Corruption, the Asia Foundation, the Sant Maral Foundation and the Mercy Corps jointly released the Survey on Perceptions and Knowledge of Corruption as part of the Strengthening Transparency and Governance in Mongolia project funded by USAID. This survey provides nationwide data on perceptions of corruption from1,360 surveyed households surveyed during 2012-2013. During this survey 88.8% of Mongolians survey said they believe corruption is common in Mongolia, compared to 92.2 percent in 2006 who thought so. Corruption continued to the the third most important problem in the country according to respondents, with unemployment and inflation ranking above. Inflation as a major problem had dropped from 8.7% in November 2012 to 7.5% in March 2013, but rose by September 2013 to 21.5%. The relative significance of corruption as a problem does appear to be decreasing among respondents however. This comes after corruption was ranked fifth in terms of the nation's problems during 2012 and second in 2006. Corruption as an important social issue actually declined by 21.8% since 2006. Whilst 8% of respondents indicated that corruption was an important issue in November 2012, by March 2013 7.4% indicated this as a problem. Respondent's indicated that there is a strong correlation between politics and grand corruption and that this is growing. This supports the finding of the Survey on Perceptions and Knowledge of Corruption that political parties are ranked by public perception among the top five corrupt institutions, including large-scale businesses among the most corrupt.

GRAPH 78: Major Problems in Mongolia - Identified in the Perceptions and Knowledhe of Corruption Survey



Source: The Asia Foundation

4. THIRD NEIGHBOUR POLICY

Mongolia's international relations policy is dominated by the so called 'third neighbour' principle. Developing close links with economic and diplomatic partners beyond Russia and China has been a key concern for the Mongolian Government in recent years. To this end Mongolia has long cultivated favourable relationships with America (the country hosting the second largest number of expatriate Mongolians after Korea) and was quick to join the coalition of the willing, contributing troops to campaigns in Iraq and Afghanistan. A strong western ally, Mongolia also has strong trade and financial connections with Europe. The Mongolian Stock Exchange is developing with the support of the London Stock Exchange and the LSE's trading software platform is being installed in the MSE in early 2012. In October of 2011 the German Finance Minister, Angela Merkel, left crisis stricken Europe to an undertake an official visit to Mongolia, indicating the economic importance of this emerging economy. Trade relations are also strengthening with India and Gulf States.

Mongolia's relationship with Russia are generally on good terms. During the socialist period Mongolia was known as the 16th Soviet Republic, with Soviet support supplied on a frequent basis. In the post-socialist period relations remain cordial, but they are not without their suspicions. In the summer of 2011 Mongolia ran critically short on diesel fuel as a result of Russia cutting off exports. The official reason given was a shortage in domestic fuel supplies, but many Mongolians still believe that the moratorium on exports was a political manoeuvre rather than a necessity. One testing ground for the third neighbour policy in recent years was a new railway project designed to connect major mining operations to export markets. Debate abounded through 2009-2010 as to whether to connect to Russia using broad-gauge rails or else build a narrow-gauge link with China. The final decision to connect to Russia, approved by the Mongolian Parliament on June 24th 2010, makes geo-political sense, as Mongolia seeks to diversify its reliance on exports away from China. Nonetheless, the decision has received not unwarranted criticism on pure economic grounds. A World Bank study confirmed speculation that extra transport costs involved in rail-freighting materials to Russian sea-ports and then to Chinese and other Asian markets would reduce revenue by as much as 90% compared with current export revenues. With a 50% stake in the Mongolian Railway Authority, it is likely that Russia can exert extreme pressure over the development of Mongolia's rail network, nevertheless it remains to be seen what the real economic benefits of this course of action will be.

In summary, Mongolia's primary trading partner is mineral resource hungry China. Beyond China landlocked Mongolia has one other export option, Russia. Indeed, export via Russian sea-ports to other markets has emerged as the politically (even if not economically) favourable solution to tapping into other markets. With Mongolia now riding a new wave of political and economic freedom, brought about by accessing of it's massive mineral reserves, the third neighbour policy appears politically and economically efficacious. Indeed, Mongolia's second biggest trade partner by volume is now Canada as a result of the Government entering a partnership with Ivanhoe Mines on the Oyu Tolgoi gold and copper mining project. Nevertheless, the Mongolian populace is rightly skeptical of deals struct in it's name by ambitious politicians. The nation perhaps runs a greater risk of falling into a trap of corporate clientism than of being torn between the political machinations of Russia and China, although such political vulnerability is surely still a potential problem.

5. THE FUTURE OF RUSSIA AND CHINA RELATIONS

With Russia looking eastwards for trade, having signed a deal to supply China with natural gas during 2014, Mongolia finds itself at the crossroads of trade between these two jurisdictions. For a nation that spent the last century balancing the interests of these two superpower neighbours, often to its own advantage, Mongolia finds itself in an interesting position. During the Qing Dynasty, Mongolia was incorporated into the empire. With the fall of the Qing dynasty in 1911, The Republic of China was established and Mongolia declared its independence after more than 200 years of foreign rule. During this period, the Republic of China as the successor to the Qing, claimed Mongolia as Chinese territory however lacked any stable control over the region due to massive civil wars in the south and the rise of the Warlord Era. Consequently, Mongolia sought Soviet Russian support to reclaim its independence. In 1921, Chinese forces were driven out by White Russian forces led by baron R.F. von Ungern-Sternberg. Some months later they were driven out by the Red Army of the Russian Soviet Federative Socialist Republic, the Far Eastern Republic and pro-Soviet Mongolian forces. In 1924, the Mongolian People's Republic was proclaimed.

The history of feudal rule of Mongolia by China means that there is no shortage of anti-Chinese sentiment in Mongolia, neither is such sentiment particularly veiled. However, it is the fact that Mongolia shares its longest land border with the fastest-growing big economy in the world that makes foreign investors so interested in it. Such sentiments also belie the fact that China remains far and away the largest trade partner with Mongolia. During 2013 exports to china accounted for a full 87% of total, falling from 92.5% during 2012 as a result in Mongolia's slowing coal exports to the largest coal consumer on the planet. Imports from China make up close to one-third of total imports into Mongolia, with this figure growing. The upshot of this is an uncomfortable dependence on an economy that will neither be loyal to Mongolia as a supplier of crude minerals and coal, nor one that looks particularly stable as it undergoes the shift to a consumption driven economy. Mongolia's economy was left in ruins by the collapse of the Soviet Union, if China's economic health suddenly deteriorates Mongolia will see dramatic consequences. There is already somewhat of a trend in terms of inflation rates in China hitting Mongolia markets, due to the reliance of Mongolia on imports of domestic goods from China. Even if China's economy continues to grow at a dramatic pace, its role as Mongolia's inevitable trade partner provides Beijing with significant power: When the Dalai Lama has visited Ulan Bator in the past, China has expressed its displeasure by closing its border with Mongolia for a few days as a clear reminder that the economic reliance of Mongolia on China comes with an attendant political price.

Well aware of this, Mongolia's political and business classes are keen to ensure that China cannot leverage the free-market to political ends. In direct response to Chinese Government owned Chalco's US$ 1 billion bid for a majority share in Mongolian coal producer South Gobi Resources during early 2012 Mongolia's government rushed a law through parliament to make it harder for companies owned by foreign states to invest into strategic Mongolian assets. The 6th article of this new law impacted any and all Foreign Investments that would lead to acquisition of a stake above 33% in a company operating in a sector of strategic interest, or where the acquisition of an interest in a sector of strategic interest (SSI) business entity would allow the foreign investor to carry out executive management functions of the business entity or to appoint a majority of the management teams or board of directors, affect the market price of Mongolian mining exports, or that may dilute share holdings in companies in SSI. Such investments would require an extra level of approvals. Moreover, all foreign investments that acquire more than a 49% share of an SSI entity worth more than 100 billion tugriks (US$ 76 million) would require prior Parliamentary approval. This new law sent shockwaves through the foreign investment community. Despite the obvious intentions of the Government of Mongolia to target potential acquisitions by Chinese Government interests, the application of this law to any and all foreign investment met with significant reproach. This led to the Government of Mongolia passing a new Foreign Investment law during 2014, offering a stabilised policy and tax environment to foreign investors as well as removing restrictions and approvals procedures for foreign investments unless the foreign entity in question is 30% or more owned by a foreign Government.

During 2013-2014 currency swaps between Beijing and Ulaanbaatar are already increasing the leverage held by China over the Mongolian economy. If the Mongolian Government wish to reduce potential reliance on China one route is to stabilise spending and reign in foreign debt to reduce the risk of having to be reliant upon China in order to counter balance of payments threats.

At the rather more extreme end of the spectrum of thought on the future of geopolitical relations in the region refer back to the time when Mongolia was considered to be part of China. A map of China, with the independent country of Mongolia on China's northern border highlighted in red, has been retweeted more than 15,000 times since it was first posted on China's massive, Twitter-like Weibo platform on March 16 2014. A satirist who goes by the online moniker Cui Chenghao posted the map to his 2 million-plus followers, captioned with the charge: "Crimea has broken away from Ukraine through a referendum, and there are still some among you who applaud this? Or don't you know? In October 1945, the Soviet Union also encouraged northern Mongolia to hold a referendum, and with less than 50,000 voting participants, ripped away 15 percent of China's sovereign territory." It is, of course, to be noted that Mongolia had been in dependent from China since 1911 and the charge here leverages the Chinese geopolitical worldview against the actions of Russia at present. There is indeed a significant anti-Russian sentiment among some parts of the Chinese population, although many would also see the relationship as a positive alliance.

Ultimately, the future of Mongolian-Chinese relations will be determined by trade and commerce. With a Russian alliance with China growing stronger, Mongolia stands in an interesting historical and political relation between these two entities which both places it in the political firing line and enables it to draw upon strong relations in order to facilitate trade between the two entities. The Trans-Mongolian railway represents a significant asset in this sense. The potential for upscaling of value-added processing within Mongolia is also heightened as a result of growth of systematic trance between Russia and China, although this is a careful balancing act and Mongolia may find itself yet again caught in the strong political currents of Sino-Russian relations.

6. CORRUPTION

Corruption remains a significant issue in Mongolian politics. As already noted, the line between politics and business remains heavily permeable. Great strides have been made to appropriately definite and crystallise legislative and discursive frameworks apt to diagnose forms of corruption within a liberal economy and democratic political sphere. This explains some of the upsurge in identification of corruption and corruption prevention in recent years.

In 2006 the Mongolian government ratified the Anti-Corruption Law (the legislation requires that the president of Mongolia, parliament members, judges, central bank governors, auditors, prosecutors, civil servants of ministries, local government authorities, and state-owned entities submit their yearly "Asset and Income Disclosure" (AID) statements). During January 2007 it created the IAAC, the Independent Authority Against Corruption. In August 2007, the Criminal Procedures Code was amended and the IAAC was added to the list of state bodies authorised to conduct investigations.

The Anti-Corruption Agency has a remit to educate the public against corruption and organise preventative measures, oversee the declaration of assets and interests by officials, investigate corruption complains and prosecute corruption cases. Each year a task-force is assigned from banks, Civil servants, the National Audit Office and the National Statistical Office to assist in anti-corruption activities. The Agency also produces indexes of corruption for national and international indexes.

INFORMATION BOX - CORRUPTION - HIGH PROFILE CASES BEGIN TO CHANGE THE LANDSCAPE

The political, administrative and business spheres are not clearly bounded in Mongolia at present. Corruption is an entrenched practice in many bureaucratic and political spheres and is accepted as part of business in many areas. The 2010 Transparency International Corruption Perceptions Index graded Mongolia 2.7, ranking it 116th in the world in terms of corruption. A 2009 World Bank survey of corruption practices in Mongolia reported that 30.4% of companies indicated that they expected to make informal payments of various kinds to Government officials in order to speed up process or garner special dispensation with regard to taxes, regulations, services and customs.

Nevertheless, as an election year, 2012 was a watershed year for Mongolian politics. Legislative elections were held on June 28th 2012 to elect 76 members of the State Great Khurak (Ikh Kural). Election campaigning revolved around key issues, including corruption. All parties campaigned vigorously against corrupt practices, particularly within the mining sector. After having left the Mongolian People's Party to form the Mongolian People's Revolutionary Party (previously the name attributed to the existing MPP until the 'revolutionary' element was dropped to appeal more to the contemporary international political context in which Mongolia exists), the former President Nambayrn Enkhbayar was arrested on April 13th 2012, less than two months before the national legislative elections in which the Democratic Party took a majority.

Investigation of taxation irregularities since the 2012 elections, as well as the widely reported investigations of Aimag Governors, has led to a real and visible sense that anti-corruption activities are expanding. With the definition and crystallisation of legislative and discursive frameworks apt to diagnose forms of corruption within a liberal economy and democratic political sphere developing, an upsurge in corruption prevention and its accurate identification seems inevitable. With clearer definitions of conflicts-of-interest, laundering and vested-interests the principles that underpin endemic corruption are becoming recognised and activities which may even have been accepted as a sort of informal redistributive justice by some are now being called into question.

In the context of real estate, the highest levels of corruption are experienced in the construction sector, where a 56 point approval is still required before a building can be pronounced complete and immovable property certificates issued. Interviews with construction company executives indicate that corruption payments for building permission can range from 10 - 200 million MNT depending on the scale of the project.

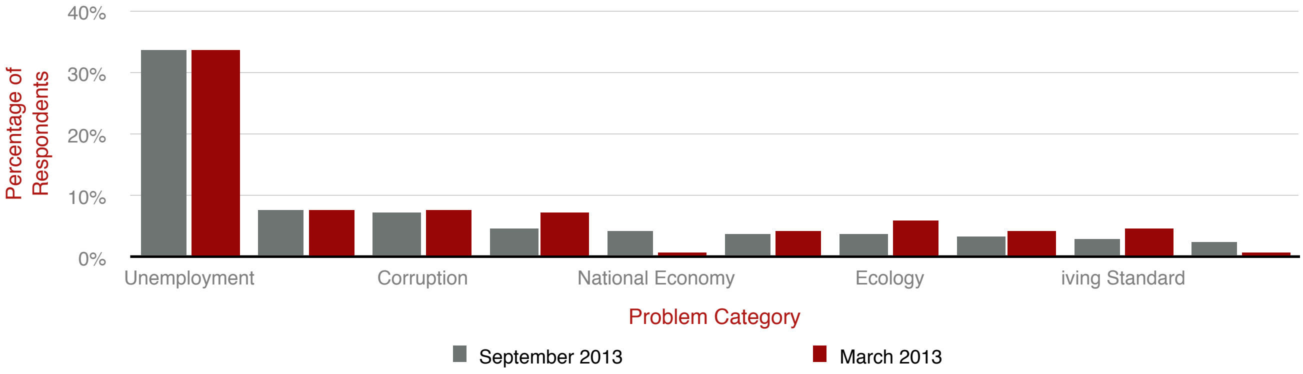
Nevertheless, it is possible to do business in Mongolia without resorting to corruption. Permissions, within the scope of the law of Mongolia, may be obtained without resorting to corruption payments and all business processes can be completed without engaging in corruption. For the most part these act as a catalyst or bureaucratic lubricant - not a necessity and certainly not as easy to get away with as it once was. Firms, large and small, across Mongolia have found themselves under investigation for all forms of fraud and corruption as a result of enhanced investigations by Corruption and Taxation authorities. Corruption it seems is no longer an option for successful businesses in Mongolia.

One such survey, which delves deeply into the causes and perceptions of corruption in Mongolia, is the Survey on Perceptions & Knowledge of Corruption, organised jointly by USAID, The Asia Foundation, Mercy Corps and the Anti-Corruption Agency. During 2013 the third such survey was completed, capturing data on people's perceptions of corruption at every level in society. These semi-annual surveys provide a framework for evidence based improvements. The 2013 survey identified some interesting changes in perceptions of corruption as an issue within Mongolia.

Land utilisation, local procurement tenders and mining continue to be perceived as the most corrupt sectors. Respondents' perception of a link between grand corruption and politics is growing, supporting another finding that political parties remain ranked in public perception as among the top five most corrupt institutions, including large-scale businesses. Interestingly, public opinion has moved away from punitive measures to control corruption and moved towards more State control over public administration. This represents a movement back towards centralised control rather than devolution of functions. Nevertheless the IAAC saw a considerable growth in public confidence as leading the fight against corruption.

The most interesting changes have occurred in people's ranking of corruption as a problem within Mongolia. The same survey, conducted during November 2012, indicated that unemployment was by far the most significant problem facing Mongolia, with 30.1% of respondents indicating this. Poverty, ecology and inflation were within the top four, with corruption being the fifth most major problem identified by respondents, with just 8% citing this. By March 2013 corruption had moved up to third place, although with only 7.4% of respondents indicating it as a major problem. Employment remains the most signifiant problem in the eyes of respondents, with 33.8% indicating this as the number one issue for Mongolia. With the purchasing power of household incomes being eaten away at by inflation this became the second most major problem identified by respondents, with 7.5% of those surveyed indicating inflation as a problem for the county.

GRAPH 79: Major Problems in Mongolia - Identified in the Perceptions and Knowledhe of Corruption Survey



Source: The Asia Foundation

INFORMATION BOX - THE CHILDREN'S PARK SAGA

The National Amusement Park, or Children's Park as it is otherwise known, is situated to the south of Sukhbaatar Square and covers an area of almost 400,000 square meters. This space was open until around 2005 and contained mostly parkland, along with an athletics track and attractions for children. In 2006 the park was enclosed for renovation and the residents of Ulaanbaatar eagerly awaited a rejuvenated Children's Park that would once again be the heart of family entertainment and an important social space. Bodi Corporation was selected to undertake renovation works and was the the principle partner in the new Children's Park and immediately placed high hoardings around the park, sectioning it off from the city. The people waited, but nothing happened. By July 2009 most of the children's park remained undeveloped, apart from a small section in the far south-east corner. At this time a new development was getting underway in the north-eastern corner. As it turns out, MCS and Shangri-La had managed to secure the north-eastern corner of the park and were developing the new landmark Shangri-La hotel there. Control for the rest of the available land has remained with Bodi, who are responsible for maintaining it. In 2009, a representative from Bodi indicated that land disputes had caused the delay in construction of the park, although the nature of these disputes was never revealed. In time for the children's day (1st of June) 2011 the new Children's Park finally opened, containing a large ferris wheels, carnival rides, an artificial lake, food-court and other indoor facilities that can run all year round. However, this park only covers around one-quarter of the land covered by the original park. Moreover, families can no longer enter for free. Bodi Group have been given the management concession on this park and charge an entry fee of 1,000 MNT per adult - although small children are allowed entry without payment. The fair-ground attractions now cost around 4,000 MNT per ride, putting the joys of this park well outside the range of some poor families. It is understandable that Bodi Group must make back some of their investment in the park's facilities and infrastructure, although this six year saga has ended with one of Ulaanbaatar's most beloved open spaced becoming enclosed and all but inaccessible to the city's poorest residents. Today around 60-70% of the park is still fenced off and public fears are that the space has all been allocated to developers, who sooner or later will begin large-scale development works thereon.

7. OVERVIEW OF THE LEGAL SYSTEM

The framework of land tenure and property rights in Mongolia continues to evolve and remains a lynchpin issue in the development of robust mortgage markets, as well as in the calculations of investors. Mongolia finds itself straddling the boundary between preliminary and developed stages of land and property market creation, wherein secure tenures have been legally structured and private ownership established, but fully fledged land and property markets are still a little way off. This status creates uncertainty around how land will be portioned out and traded in future, although indications from the Immovable Property Office are that numbers of transactions are rising each year. In 2010 nearly 13,000 sales and purchase agreements were made for Immovable Property in Mongolia, up 10% from the previous year. Immovable property protections for individual persons remain both robust and enforceable. Foreign citizens are entitled, by law, to the same protections and rights accruing to Mongolian citizens concerning Immovable Property ownership and need not reside in Mongolia, nor maintain financial or contractual connections within the country in order to sustain ownership of property here. Structures of ownership are somewhat different for land and, at present, only Mongolian citizens may own land. Businesses or foreign entities may not exercise this particular right. They are, however, allowed to lease land for improvement (construction) and commercial operations.

The legal environment in Mongolia is heavily informed by the Romano-Germanic system and follows the familiar division between civil and public law. Criminal law is, at times, defined under a separate classification, although it is technically regarded as a part of public law. Statutes are the main originator of law in the Mongolian system and the right to adopt laws remains with the legislative branch of the State. Law itself is legislation enacted solely by the State Great Khural as defined according to its constitutional authority. Only members of the State Great Khural, the Government and President of Mongolia may initiate a draft law.

The court system in Mongolia is based on the continental legal system inherited from Russia and Germany. Mongolia does not operate a common law system and so no decision issued by the various courts have procedural value. Judicial decisions by the Supreme Court of Mongolia are also limited to individual cases. Legal doctrine is therefore not considered as a source of law. The Supreme Court provides official interpretations related to the correct application of all laws, with the sole exception of the Constitution. The court system itself is divided between three levels of ordinary court: Soum, Inter-soum and District, Aimag. Above all of these is the Supreme Court. Soum, inter-soum and District courts have jurisdiction only in the first instance and primarily deal with less serious crimes or civil disputes wherein the amount in question is below 10 million MNT (approximately US$ 8,000). Aimag courts are located in province capitals. These have first jurisdiction in terms of more serious crimes and civil matters where the amount in question is above the 10 million MNT threshold. These courts also handle appeals from lower courts. The Supreme Court, based in Ulaanbaatar, deals with matters which do not fall within the purview of lower courts, as well as handling appeals related to decisions of the Aimag courts.

Public law in Mongolia is concerned with the legal relations between the citizen and the state, whilst civil law concerns the regulation of conduct between individuals. Transactions undertaken between public bodies and individuals, including all Government contracts, are governed by civil law rather than public. The 1992 Constitution of Mongolia lays out all procedural principles and is the guarantor behind the rights of citizens in relation to court proceedings. These include the right to use the national language (Mongolian) in court, the independence of judges and their subordination only to the law, the equality of all citizens before the law and the necessity for open examination of all cases at all levels of the juridical system. The vast majority of cases that come before a judge in Mongolia today are civil rather than criminal. Contractual disputes are very common. Appeals, however, are predominantly related to criminal cases. Training has been an issue in the Mongolian legal system for some time. Judges are now required to keep track with a rapidly developing legal environment and, tending to be younger than their counterparts in the west by almost a decade, have less experience. To alleviate this problem training has been made available in commercial, contract and company law. Knowledge of commercial law and how to implement it is now improving across the legal system.

Mongolia also has Administrative Cases Courts, which deal with matters relating to public law only where they are outside of constitutional matters. In effect, Administrative Case Courts handle disputes arising between public authorities and individuals arising from exercise of public authority. These courts cover all areas of public life, including policing, school regulations, roads and civil service issues. There is also a Constitutional Court (known as the Tsets). This court examines constitutional disputes at the request of the State Ikh Khural, the Prime Minister, and the General Prosecutor. Most petitions to this court concern human rights violations by state officials.

8. THE LEGAL PROFESSION

The legal profession in Mongolia consists of prosecutors, advocates and notaries. Notaries were traditionally part of the Aimag administrations. Many Aimags still have a single notary, although in Ulaanbaatar there are many new independent notaries. Their primary role was to authenticate documents, although all will now keep template documents that can be used in transactions. Any and all transactions involving real-estate require the involvement of a notary. With the advent of housing privatisation the workloads of notaries has grown significantly, as they are now required to act in all immovable property and land transactions. Any contract of sale, gift or bequest of property must be notarised before it can be accepted by the Immovable Property Office.

Mongolia has well over 300 judges, who are appointed for life based on the recommendation of the General Council of Courts. All judges must have a law degree (although it is not necessary for them to have studied law in Mongolia). They must also be at least 25 years of age and have three years of legal experience. Supreme Court judges must be at least 30 years of age and have 10 years of experience. Many judges still sitting within the Mongolian court system studied law either in Mongolia during the socialist period, or in the former Soviet Union. All decisions by judges which are not voluntarily executed by parties involved in a case are executed by bailiffs, this includes seizure of goods from debtors.

Prosecutors supervise enquiries by police officers and represent the State in both civil and criminal proceedings. They also supervise the execution of criminal penalties once handed down. The General Prosecutor, who supervises all prosecutorial activities, is appointed directly by the President of Mongolia in consultation with the Ikh Khural. All other prosecutors are appointed directly by the General Prosecutor.

During the socialist period, Mongolian citizens generally had little need for legal advice unless they were party to a criminal case so advocacy was not a well developed profession in Mongolia until recently. Citizens rarely seek legal advice before entering into a contract, although notaries fulfil some advisory functions concerning contract law. More general legal advice is routinely sought from the General Prosecutor’s Office and local Governments or Ministries rather than from lawyers. Nevertheless, advocates have been operating in the Mongolian legal systems since 1928 and the right of a defendant to retain council and seek professional advice was written into the Constitution of Mongolia in 1992. There were no restrictions at this time as to who could act as an advocate and so any adult citizen could represent someone in a court of law. The Law on Advocacy (1995) legally defined and regulated the structure of advocacy as a profession and allows advocates to give advice on legal matters, prepare legal documents and represent clients in court. Nevertheless, there is still nothing to prevent an individual from allowing a lay person to represent them in these matters.

9. INTERNATIONAL LAW AND ARBITRATION

International law became part of the Mongolian legal system with the introduction of the Constitution of 1992. This states that international treaties to which Mongolia is a party shall become effective as domestic legislation, although Mongolia shall not abide by international treaties which are not compatible with its Constitution. Investments into Mongolia are governed by a number of international treaties and protections. The Government of Mongolia has ratified a number of basic international conventions including the Treaty on the Civil and Political Rights (New York, 1966) and the Treaty on Economical, Social and Cultural Rights (New York, 1966). Mongolia has been a member of the World Trade Organisation since 1997. The Government of Mongolia has also signed Double Taxation Agreements with 26 countries, trade agreements with 79 countries and mutual protection of investment agreements with 19 countries.

The Mongolian Government supports arbitration and international settlement procedures, ratifying the Washington Convention and joining with the International Centre for Settlement of Investment Disputes in 1991. Having signed the New York Convention on Arbitration in 1994 Mongolia is obliged to recognise arbitration awards as binding and enforce them as such. Mongolian businesses who are partnered with foreign investors do accept the use of international arbitration, as do Government agencies who contract with foreign investors. Mongolia does operate its own arbitration court: the Arbitration Bureau, under the auspices of the National Chamber of Commerce and Industry. However, this domestic arbitration agency is not always perceived to be impartial and both Mongolian and foreign entities view the organisation as highly politicised, preferring to resort to international arbitration in many cases.

10. LAW AND PROPERTY RIGHTS

As already noted, private property rights receive very robust protection under Mongolian law. The Constitution of Mongolia provisions for protection of all forms of private property, providing it is properly registered with state authorities. Land ownership is governed by the Law on Allocation of Land to Citizens of Mongolia and the Land Law of Mongolia, whilst immovable property is secured based on the Law on Mongolia on the Registration of Immovable Property. This determines that Immovable Property rights only accrue to a structure once it has been properly registered and issued with an Immovable Property Certificate.

Article 4 of the Law of Mongolia on Registration of Immovable Property sates that:

- Subject to the provisions of the law, the right of a person or legal person to own the immovable property arises upon the registration at the Registration Office.
- Agreement to transfer of immovable property to the ownership, possession and use of another person shall be valid upon the registration at the Registration Office, and the rights of ownership, possession, and use of the immovable property shall then arise as provided by the agreement.

According to Article 9 of the law:

- Mongolian citizens may make an application for registration of immovable property with a completed application form, a document certifying the applicant's right to ownership and a document by a competent authority setting out the dimensions and valuation of the property, all notarised. Sub-section 8 of this article requires non-residents of Mongolia to make application for registration through an authorised representative who is a permanent and certified resident of Mongolia.

(In practice, it is possible for foreign citizens to register property at the Immovable Property Office without enjoining the services of any authorised representative, providing they have a good grasp of the Mongolian language and the procedures involved. It is worth noting that this may change as the real estate market and its administrative underpinnings become increasingly professionalized).

11. THE RIGHTS OF FOREIGN CITIZENS

In almost all senses, foreign citizens and Mongolian citizens are afforded the same rights, protections and responsibilities under Mongolian law. This extends to ownership of immovable property, taxation and rights in relation to fair treatment before the courts of law. The only significant deviation in foreign rights concerns land ownership. Presently only Mongolian households and individuals are eligible to own private land. Foreign invested companies are prohibited from actually owning land, although they may lease it from the Government of Mongolia for a period of up to 60 years (renewable for a further 40) under the terms of "possession".

Article 8 of The Law on Legal Status of Foreign Citizens states that:

- All persons legally residing in Mongolia shall be equal before the law and the courts.
- Foreign citizens in Mongolia shall exercise the rights and freedoms equally to citizens of Mongolia provided for by the legislation of the country.
- In establishing the rights and duties of foreign citizens in this law, other legislative acts and international treaties of Mongolia, Mongolia shall adhere to the principle of reciprocity with the country of which the person is a citizen.
- In exercising their rights and freedoms, as provided for in the legislation of Mongolia and its international treaties, foreign citizens shall not infringe on the interests of Mongolia or the rights and freedoms of Mongolian citizens or other human rights.

It remains possible that the Government may act to impose quotas on foreign ownership of property or attach more stringent requirements foreign ownership (such as required residence) in future years, depending on how supply, demand and speculation by foreign investors develop as aspects of the Mongolian property market. There are presently no discussions of this kind occurring among legislators, although precedents abound in nearby China and across Asia. It is not inconceivable that the Government of Mongolia will seek to avoid the type of market bubble that China is presently experiencing by curtailing foreign ownership using techniques such as quotas or residency requirements.

12. EXPROPRIATION

Expropriation in Mongolia has occurred to date only in relation to mining licenses, or where significant infringements of responsibilities outlined in possession agreements have taken place. There has not been a single known case or arbitrary expropriation in the past 20 years.

The Mongolian Government does maintain rights connected to the expropriation of private property and real-estate for purposes of public good. This is a feature of law common to most western countries, elsewhere termed a “compulsory purchase order”. However, enacting compulsory purchase has proven difficult for the Mongolia Government due to the legal strength of property rights in the country. Planned infrastructural improvements and new developments have frequently been frustrated or scuppered by the refusal of single households to relocate.

In mid-2010 plans to redevelop the 7th Khoroo of Sukhbaatar District (in the capital, Ulaanbaatar) got underway, as part of the 2020 Master Plan for the city. A compulsory purchase scheme was discussed to facilitate this project, although such a move would be politically highly contentious and the latest plans for obtaining necessary land for this project involve buying back land at rates of between 100,000 and 250,000 MNT per square meter (via cash purchase and land/housing swaps). Over the course of a year the Government and its commercial partners have succeeded in buying back just 19 land plots out of a total of over 90 required to enact one stage of extensive redevelopment plans in the 7th Khoroo. Since this time the private developer has managed to purchase back the land necessary in order to move the project forward and the first phase will be completed during 2014. This state of affairs does highlight the difficulty the city Government faces when it continues to be unable to undertake compulsory purchase orders without significant contestation. Were legal recourse to compulsory purchase made available it would have to accord with present restrictions on expropriation outlined in the related Articles below.

Article 37 of the Law on Allocation of Land to Mongolian Citizens for Ownership, entitled “Expropriation of Land Owned by Citizens”, states that:

- 37.1. During occurrence of environmental or public disasters such as damages to lives and health of many people, loss of animals and livestock, earthquakes, strong wind, drought, *zud*, flood, fire, outbreak of lethal infectious diseases that may cause significant damage to property and environment or emergency situations such as large scale industrial accident, loss of radio active or poisonous chemical substances, land owned by Citizens may be expropriated according to procedures provided by law and based on decision of authorised state entity for the purpose of taking measures in order to protect and rescue the population, livestock, animals and property and to eliminate the negative consequences. Damages caused to Citizens owning land due to such expropriation shall be compensated to the full extent.

- 37.2. If it becomes impossible to return the expropriated land, the owner shall be compensated for the value of the land and damages, according to the market rate of that time, or the damages shall be compensated by allocating other land, not worse than the expropriated land by its status and quality.

- 37.3. If there is a dispute regarding the determination of the rate of the expropriated land and damages caused to the land owner, it shall be resolved by the Courts.

Article 38 also provisions for confiscation of land owned by citizens if they violate procedures on possession, use, administration and disposal of land.

Article 40 of the same law, entitled: “Citizens Right to Own Land When Replacing or Taking Back the Land Owned by Citizens Based on Special Needs of the State, with Compensation”, indicates:

- 40.1. Activities directed at replacing or taking back the land owned by citizens, with compensation, based on special needs of the state, shall be carried out after implementation of the following measures:

- 40.1.1. In case it is possible to replace the land owned: land not worse than the previously owned land by way of status and quality, shall be allocated for ownership.

- 40.1.2. In case of the state taking back land: its value shall be paid to the owner.

- 40.1.3. The value of immovable property attached to the land previously owned by the Citizen shall be paid.

- 40.1.4. Investments in improvements of the land made by the owner of the land shall be paid.

- 40.1.5. Damages caused to the owner due to replacement or taking back of the land based on the special needs of the state, shall be paid to the full extent, according to Civil Code and legislation.
- 40.2. The land owner shall be notified in writing, not less than one year prior to making the decision on replacing or taking back land owned by a citizen, based on the special needs of the state.
- 40.3. If the term of one year has passed after receiving the note described by paragraph 2 of this Article by the land owner, and if the measures provided by paragraph 1 of this Article have been carried out, the land owned by a Citizen will be replaced or taken back based on the special needs of the state.
- 40.4. Compensations for immovable property built or costs of other measures taken to significantly increase the land value after receiving the note described by paragraph 2 of this Article shall not be paid.

These clauses ensure legal recourse for full and appropriate compensation for expropriated land.

One significant case of late that has called the sanctity of ownership into stark question is the case of a new law put before the Parliament of Mongolia during the second quarter of 2014 concerning repossession and redevelopment of the 40,000 and 50,000 housing supply in the inner city of Ulaanbaatar. This new law, put before Parliament during June 2014, lays our a framework for redevelopment of the 40,000 and 50,000 apartment areas of Ulaanbaatar on the grounds that these apartments may no longer be safe in the event of a natural disaster. Whilst any Government should be commended for taking an active stance on protecting the health and safety of its citizens, it appears in this case it is doing the exact opposite. The new law contained provisions that were tantamount to expropriation. In accordance with this law, if a building is deemed unfit apartment and commercial space in that building can be taken away and redeveloped without any compensation being offered. Moreover, if just 20% of a building's households agree to vacate one of the 40,000 or 50,000 buildings then the law allows for all infrastructure to be cut so as to force the remaining residents to leave.

The legislation contained no clear legal framework to ensure appropriate relocation of displaced residents and there was, in most cases, no legal necessity to compensate current residents or business owners appropriately for their losses should they be forced out of their homes and commercial spaces. The 40,000 and 50,000 apartments play a critical role in the economic life of Ulaanbaatar, but also to social and cultural life of the capital city. Each summer more and more residents of this area take part in a more and more vibrant array of cultural and social events along Peace Avenue and Beatles Street. Far from the feel of newly built neighbourhoods, where people live in high-rise buildings and barely know their neighbours, this area is actually home to an increasingly vibrant social and economic community. It is perhaps one of the few places in Ulaanbaatar today where this is true.

Therefore, the repercussions of enacting such legislation would potentially be devastating, not only on a social level but also to the city economy. An initial estimate shows that over 2,000 retail jobs would be lost and local businesspeople who have invested heavily in their businesses and their premises will lose everything they have worked so hard to create. What is worse, the legislation states that because the initial function of the 40k and 50k buildings was a residential one, then owners of ground-floor retail space need only be compensated with residential space. In place of a thriving store or business they may be, at best, given a small apartment, and would have no choice in the matter.

Since being announced no further action has been taken to pass this law and it is assumed that the negative response has forced the parties involved in drafting it to take it back to the drawing board. This is not the first time that such legislation has been discussed in Parliament, backed by developers who are longing to get their hands on prime real estate in the city centre without paying an appropriate price. The underlying fact is that developers can see the value of these properties and the land on which they sit and are more interested in grabbing this through political manoeuvres than in making a real attempt to solve the outstanding issues of safety, social growth, efficiency and economic development of Ulaanbaatar's city centre. If the objective here were really to secure the health and safety of the residents of these apartments then why not apply the same criteria to new residential and commercial units built in the last 20 years. Many of these have been built using poor quality materials, with little or no thought for earthquake safety. The fact is that an earthquake would likely pose a greater overall threat to many new constructions than to the 3 or 4 level 40,000 and 50,000 buildings whose thick walls and short height go a long way to mitigating earthquake related risks.

Such manoeuvres are of significant concern and it is likely that developers will try again to co-opt this signifiant stock of apartments. Nevertheless, to date the robust property ownership laws of Mongolia have stood firm in favour of the rights of citizens and property owners, as defined and enshrined within the Constitution of Mongolia.

13. MONGOLIAN LEGAL ENVIRONMENT IN INTERNATIONAL COMPARISON

The legislative trajectory Mongolia vis-a-vis real estate is broadly commensurate with other post-socialist jurisdictions across Central Asia and the former Soviet Union. Phenomena such as separate structures land and immovable property ownership, staggered privatisation of national land and assets, as well as a notional and legal set of private property protections that appear almost reactionary in the strength with which they secure of the rights of owners and developers, more closely mirror the legal environments of Soviet Bloc than those of Asian markets.

Whereas the post-socialist states of Eastern Europe and Central Asia have been successful in implementing broadly market-oriented reforms (albeit at very different rates and with different levels of success) Chinese and East Asian real estate markets, in some cases, seem to be moving backwards, past Central Asian markets, towards greater restrictions on foreign investment in real estate. In Thailand, for example, laws currently limit foreign freehold of condominium units to 49% of the total area of any building at any one time.

Not an issue in Bangkok, although a significant one in Phuket, where the number of foreign buyers in certain segments of the market outnumber domestic buyers. This also poses problems for investor's exist strategies, as changes in the quota may mean they cannot sell on to another foreign investor. In Singapore there are very few restrictions on foreign invested entities owning commercial property, although since 1973 foreign citizens have been prevented from owning vacant residential land, landed residential property (e.g. a detached house or semi-detached house) and landed property in certain strata developments. A foreign person is also not allowed to acquire all of the apartments within a residential building or all the units within a condominium without prior permission of the Minister for Law. In China and Indonesia land remains under State control. Indonesia in particular prevents foreign investors (whether legal entities or natural persons) from owning land directly - although a properly structured Property Management Company can own lease on land providing it is earning income from something other than just owning land and transacting its own land leases.

China's real estate market has been open to foreign investment since 1988, almost a decade years before Immovable Property began to be Privatised in Mongolia. The Chinese market is highly developed but carries with it a distinct set of concerns for investors. In more recent years fears of overheating property markets, fuelled by speculation, have meant concerns for investors. Aside from market risks, the rapid pace of growth in both volume and price within the market have led to significant alterations to the legal environment in China, which has been adjusting in response to concerns over affordability and speculation by reducing economic freedoms of investors in the real estate sector. In Q4 2010 the Ministry of Housing and Urban-Rural Development, along with the State Administration of Foreign Exchange indicated that foreign companies would only be able to purchase commercial property that they are planning to use themselves and reintroduced the limit on residential property ownership by foreigners - entitling them to just one residential unit per person, and then only for self-use. Regulation has existed since 2006 indicating that only foreigners who have lived in China for one year or more can purchase real estate for residential purposes. In fact the Chinese Government is by now well known for adjusting legal restrictions in order to stimulate or reign in growth. It was only in 2009 that Beijing lifted restrictions on foreigners purchasing real estate in order to stimulate the market during a slump in uptake of new residential space. Neither land cannot be privately owned in the strict sense of the word in China and neither can immovable property. Rather, leases are given for a period of 50 to 70 years depending on the district and land type. The PRC only adopted land leasing as the basis of land use rights in 1990 so this will not become an issue until 2050 at the earliest. However, debate abounds around this issue and there are as yet no firm estimates as to what the potential cost of renewing leases may be. Whilst leasehold (thorough a mechanism of 'possession rights' is the only means of foreign companies gaining access to land in Mongolia, foreign rights over immovable property are given on a basis of full and unequivocal ownership - with foreign investors enjoying the same rights to purchase, use and dispose of immovable property as Mongolian entities and natural persons.

In contrast Central Asia's markets display a certain amount of regularity. Kazakhstan offers one of the most accessible markets for foreign investment in this region and remains somewhat ahead of Mongolia in terms of and law reforms. Foreign entities and foreign nationals may own land and immovable property within Kazakhstan without discrimination. Providing a foreign resident is registered within the Government they may own land or property and enjoy the same legal protections and responsibilities as Kazakh citizens. In Russia foreign individuals are with national regime. In Kyrgyzstan foreign nationals are not permitted to own land but can lease it for periods of up to 99 years for their own construction and use projects. This system is similar to that which still pertains in Mongolia, with dual land regimes for foreigners and Mongolian nationals. Overall, Mongolia's land and property law environments well defined and, where foreign investments are concerned, reasonably well implemented. Disputes investigates by the Land Office and which are brought before the court system primarily involve privatised plots of land. Boundary disputes and disputes arising in relation to land sold against the terms of possession are among the most common causes of legal dispute and usually involve only Mongolian citizens. Many of these cases arise from lack of appropriate understanding of land laws and possession contracts by both land owners and authorities.

It is presently difficult to project the direction of Mongolian immovable property and land law. Privatisation free of charge for Mongolian citizens is continuing apace, particularly in the capital, Ulaanbaatar. This is now running into direct competition with City Government plans to develop low cost housing in ger areas and improve infrastructure around a compact city model by 2020. The contradictory trajectories of privatisation and urban planning are creating bottlenecks at the low end of the real estate market, whilst the high end is catering to a small but significant population of middle-class Mongolians and foreigners. As the Mongolian real estate market continues to go the domestic press is already promulgating the theory that the Mongolian real estate market is overheating and edging out Mongolian buyers. Market sentiment surveys carried out by MAD during Q1 2014 back up this idea, with a majority of would-be buyers indicating that they thought that residential units are overpriced in Mongolia at this time. Whilst it is true that many Mongolian buyers who do not already own apartments are well outside of the market at the present time, those who have been given apartments free of charge during privatisation are experiencing high growth in their property assets (although this only represents around 22% of the total population). Fears of a crash are assuaged somewhat by the fact that less than 10% of the residential market is mortgaged and commercial developments tend to be well capitalised by domestic developers. Nevertheless, if the Government perceives significant electoral support for a policy reigning in or excluding foreign capital then they may follow other East Asian nations in imposing foreign ownership quotas of requiring foreign individual and corporate investors to enter into joint ownership agreements with Mongolians or be resident in Mongolia in order to own residential property.

There is equal chance that the legal context in Mongolia will take the opposite trajectory, towards a single market in which land quotas and Government use plans are increasingly abandoned in order to facilitate a more competitive free market, wherein foreign citizens could eventually own land once the infrastructure of major conurbations has been extended so as to support such demand.

14. OVERVIEW OF THE MONGOLIAN TAX SYSTEM

The Mongolian tax system is perhaps the greatest concern for foreign businesses working in the real estate sector. Whilst the total tax component of purchase costs can be as low as 0.1% of gross and total disposal costs can be 2.1% of gross for Mongolian citizens, for companies - particularly foreign companies - costs may be far higher. In recent years the focus of the Government of Mongolia has been on creating a robust and well defined tax environment for mining investment, leaving real estate tax laws languishing and not well defined. The tax laws lack clearly written definitions of asset classes and do not cover the range of transactions and transacting parties who can currently buy, sell and use property within Mongolia. Interpretation of the laws relating to property tax thus depend greatly on the interpretations applied by individual tax inspectors and are apt to diverge significantly on a case by case basis. With the laws being so poorly defined, companies have little recourse to challenge tax decisions in a legal context as even the courts do not rely on standardised interpretations, instead relying on the discretion of judges.

The 2007 Income Tax law alterations can be read as differentiating between income from property and income from paid labour and investments, charging only 2% on gross value of sale for property rather than the 10% charged on most other forms of income (both corporate and personal). A Mongolian citizen selling property to an individual or company should, by this reading, only be charged 2% tax on gross sales price, not 10% on the gross sale value of the property. However, foreign invested companies registered with FIFTA (which enjoy the same tax regime as Mongolian companies) who buy, hold and sell property as assets, have in many cases been charged 10% income tax.

Foreign owned companies not incorporated in Mongolia are technically liable for 20% tax on property transactions where they purchase property from a Mongolian citizen (as this is considered repatriation of funds). This is actually classed as a withholding tax and the citizen or company who purchases the property is technically liable to withhold 20% of the gross sale amount. This may also pertain when property in Mongolia is transacted between two foreign companies not incorporated within Mongolia, however, the law in this case is too vague to be able to make clear determination of liability.

Even basic real estate terms used in Mongolian tax law are equivocal. One example of this is the term ‘residential’. Residential may either be interpreted as ‘any immovable property used for residential purposes’ or ‘an immovable property used as a residence for the owner(s) alone’. In practice tax officials can use both definitions and still be within the bounds of the law. For the owner this asymmetry in definitions means the difference between charging V.A.T. on rental of a property (as a service) or not. V.A.T. is payable on purchases of newly built property on the primary market and also upon rental of commercial property (retail, office, warehouse etc.). According to V.A.T. Law, immovable property used for commercial purposes does not attract V.A.T. so, according to one interpretation, rental of a residential unit will attract 10% income tax on income earned from that property but is not liable for V.A.T. However, if residential property is defined as ‘an immovable property used as a residence for the owner(s) alone’ then V.A.T. becomes payable on rental income. Furthermore, there have also been cases where FIFTA companies who buy, hold and sell property as assets have been charged V.A.T. on property transactions as a result of audit, after individual tax inspectors concluded that sale of property was among the services offered by a company. In these cases property was arbitrarily reclassified as something consumed rather than as a long-term asset.

This somewhat bewildering array of potential taxation scenarios around property makes the Mongolian tax environment difficult to navigate and taxes difficult to predict. As case and point, a large and well established foreign invested company in Mongolia, which deals in real estate, submitted their tax returns on an annual basis in exactly the same manner, containing identical types of transactions (rental, purchase, sales) of identical types of properties (both new build and secondary market). Over three consecutive years, three different tax inspectors returned with different conclusions on their audits; the first that a fine should be paid for improper payment of tax; the second that the returns which had been voluntarily made were fine; the third that a fine and outstanding taxes should be paid. This case points to two overarching problems in the Mongolian real estate tax environment. The first is that the taxes themselves are ill-defined and the second is that there is very little standardisation in interpretation of tax laws between tax officials and different tax collecting agencies.

A note of caution is therefore necessary. In the following section, this report outlines the taxation environment in Mongolia as written into law. These interpretations are not necessarily followed by tax officials and, because of their inherent ambiguity, may be interpreted very differently.

The structure of taxation in Mongolia is divided into ‘State’ and ‘Local’ taxes. State taxes include: 1) Income tax on business entities and organisations 2) Customs duty 3) Value Added Tax 4) Excise tax 5) Tax on auto fuel and diesel 6) Payment for use of mineral resources. Local taxes consist of: 1) Personal Income tax 2) City tax 3) Real estate tax 4) Stamp duty 5) Motor-vehicle tax 6) Land payments 7) Inheritance and gift taxes 8) Taxes related to use of plant, animal and other natural resources (excluding mineral resources).

Rates for State taxes are defined exclusively by the State Ikh Khural. Aimag Khurals and the Capital City Citizen's representatives set the rates for local taxes (with the sole exemption of animal and natural resource use taxes, which are set nationally by the Government and approved by the State Ikh Khural). The Ministry of Finance is directly responsible for proposing tax policy and reforms, alongside the Fiscal Policy Department. Enforcement of taxes and tax laws is conducted by the Ministry of Finance for state and local taxes. Customs and social insurance levies are administered and enforced by the General Customs Department and Social Insurance Agency respectively.

Tax collection systems in Mongolia are not fully automated or integrated, making collection of income taxes patchy. Because of this, tax evasion is rife. Businesses which sit on the boundary between formal and informal trade are often guilty of large-scale tax evasion. Nevertheless, tax collection systems are increasingly becoming computerised and subsequently more accurate in their identification of tax evaders.

Until the end of 2012 Immovable Property Tax was levied at 0.6% of the value of the immovable property on an annual basis. For tax purposes, the value of the property registered with the Government registration authority (Property Office) is used. Where a property is unregistered an insured value may be used. Where neither value exists the accounting value is used to determine tax payments. From the 1st January 2013 an amendment to tax law came into effect which places the Immovable Property Tax on a sliding scale.

M.A.D.
INVESTMENT SOLUTIONS

DEVELOPMENT APPRAISAL SERVICES

UNDERSTANDING AND MITIGATING DEVELOPMENT RISK

Assessing whether a real estate project will be financially viable and worthwhile is one of the most important investment decisions, understanding the underlying risks is essential and must be done prior to any capital expense.

Development appraisals are an important analytical tool that allows potential developers to understand the financial and project risk that they may face. They are aimed at landowners who wish to accurately asses the potential residual value of their land, developers who wish to estimate potential profits of a development projects or even private and institutional investors wishing to ascertain the financial viability of a project.

The development appraisal can be adjusted to represent different shares of debt and equity financing, as well as financing rates. It shows the critical points in the project in terms of cash flow, as well as the ultimate financial viability of the project. In addition, the sensitivity analysis allows you to see which of the variable in costs, duration and revenues are most critical to the success of the project, allowing you to plan ahead to mitigate risk. This structured tool incorporates elements, using either your own financial assumptions, or cost and income projections drawn from our own database.

DEVELOPMENT APPRAISAL ELEMENTS

PERIOD-BY PERIOD CASH FLOW FOR LAND

PERIOD-BY-PERIOD CASH FLOW FOR PROFIT

DISCOUNTED CASH FLOW

SENSITIVITY ANALYSIS

15. PROPERTY TAXES

Despite endemic problems with ambiguity and common interpretation in the Mongolian real estate tax environment, the regime - at least on paper - appears relatively lenient. Sales taxes on immovable property and land are technically limited to an income tax that is calculated as 2% of the total sale value of the property in question (this is based upon the value of the property registered on the Immovable Property certificate, or if no valuation exists, on the defined sales price of properties on the primary market). There are presently no capital gains taxes levied on immovable property sales in Mongolia.

The Immovable Property Tax Law of Mongolia, Article 7.1.2., does exempt residential units from annual property taxes, which remain payable on commercial property, as well as on residential units earning a rental income. This was charged at a rate of 0.6% of the value of the immovable property until the end of 2012. From January 1st 2013 an amendment to tax law came into effect which places the Immovable Property Tax on a sliding scale from 0.6% to 1% of the value of the immovable property in question. The percentage charged now depends on size of the subject property, location and market demand. New-build properties will be charged at the upper end of the scale, whilst older properties outside of the immediate city centre will accrue tax liabilities at the lowest end of the tax bracket. The taxable value of the property is determined in the first instance according to the registered value of the property at the Immovable Property Office. If no valuation exists an insurance valuation or valuation held on accounting books will be used). Property determined to be for public use is also exempt from this annual tax. Annual property taxes accruing to immovable property are to be paid based on the value of an immovable property as established on the 15th of January each year. Legal persons (corporate entities) are liable to pay tax before the 15th of the last month of each quarter. Citizens of Mongolia, foreign citizens and stateless persons who own immovable property in Mongolia will pay tax on this property before the 15th February. Taxpayers must submit immovable property tax returns to the tax office before the 10th of February each year.

According to the Law on V.A.T., value added tax is only payable on the purchase of newly built properties, or on rental of commercial premises. However, as discussed above, there are occasions on which V.A.T has been deemed payable on sales revenue, where the seller is a company dealing in real estate assets.

Income tax is charged on all income from property rental. If an apartment owned by a company not incorporated in Mongolia is rented to a third party the company in question will be liable for 20% corporate income tax on the earnings from this property. A Mongolian incorporated entity, FIFTA company, or individual Mongolian citizen is required to pay 10% income tax on these earnings.

16. VAT TAX

V.A.T in Mongolia is charged at a flat rate of 10% and the threshold for registration as a VAT payer is 10 million MNT of taxable sales revenue. After this point companies are legally required to register. Businesses operating below this threshold may voluntarily register, providing they have proper book-keeping and are not engaged exclusively in exempt activities. This registration threshold is comparatively low by international standards.

Within Mongolia VAT is payable on properties transacting on the primary market. That is to say any new property purchased directly from the developer will incur a standard 10% VAT charge. This, however, is usually incorporated into the per square meter price, although it is always worth checking that this is the case. The other circumstance in which property transactions become VAT liable is when a property, residential or commercial, is purchased from a firm which counts that property among its assets and has purchased that property with the intention of re-selling it. In this sense the property becomes a commodity. Mongolian tax law does not effectively differentiate between short-term assets and long-term assets and so it is therefore left to the discretion of tax officials to decide whether a property transaction is VAT taxable. A company selling a property that it has held for its own operations over several years would be at no risk of paying VAT on the sale.

17. PERSONAL INCOME TAX AND INSURANCE

Personal Income Tax is charged to any citizen of Mongolia, foreign or stateless person who resides in Mongolia and earns income subject to tax within the country. Personal Income Tax, for both Mongolian citizens and foreigners, is charged at a flat rate of 10%. This rate was reduced as part of the 2007 tax rationalisation, from a 20% rate for foreign citizens to its present flat 10% rate.

A Personal Income taxpayer is defined by the Mongolian Law on Personal Income Tax as:

- **6.1.1.** An individual with a residence in Mongolia;
- **6.1.2.** An individual who resides in Mongolia for 183 or more days in a tax year;
- **6.1.3.** A civil servant of Mongolia appointed to work overseas.

This encompasses any foreign individual who is residing in Mongolia for over 183 days or who has registered as residing in Mongolia. In order to obtain a work permit or long-term visa in Mongolia all foreign citizens must be registered as residents within Mongolia. This automatically makes them liable as personal income tax payers. Mongolian residents are taxable on their worldwide income, whilst non-residents are taxable only on Mongolian sources of income. This is applicable to legal entities and natural persons. Tax reports are compiled by the taxpayer or tax agent. These must be submitted on paper and electronically and must be written entirely in Mongolian. All supporting documents must also be in Mongolian or be accompanied by certified Mongolian translations.

The following income of a taxpayer earned in a tax year shall be subject to tax:

- **8.1.1.** Salaries, wages, bonuses, incentives, and other employment income similar to these;
- **8.1.2.** Income from activities;
- **8.1.3.** Income from property;
- **8.1.4.** Income from sale of property;
- **8.1.5.** Income of a herdsman family and individual with livestock;
- **8.1.6.** Income from creation of scientific, literary, and artistic works, invention, product design and useful design, organising and participating in sports competition, art performance, and other income similar to these;
- **8.1.7.** Income from remuneration for art performance, sports competition, and festivals;
- **8.1.8.** Income from quizzes, gambling, and lotteries;
- **8.1.9.** Fringe benefits.

Total taxable income is defined as aggregate annual income minus all allowable expenses. Provisions for exemption of income from taxation do incorporate clauses relating to property. A private individual purchasing a private apartment (for residential purposes only) for the first time, from their income or a loan with a banking and financial organisation, will have income exempt from tax up to and not exceeding 30 million MNT of funds that went towards purchase of that property.

18. CORPORATE INCOME TAX

Corporate income tax law in Mongolia governs the taxation of profits of Mongolian economic entities, as well as foreign economic entities, who have headquarters in Mongolia, as well as economic entities that earn income in Mongolia via other mechanisms. Foreign companies not headquartered in Mongolia cannot have a taxable presence under current tax laws and payments received by these companies are taxable at higher rates (20%) as repatriated funds.

In accordance with the Economic Entity Income Tax Law, there are three types of taxable income:

Mongolian corporate income tax is calculated based on a progressive scale from 10% - 25%. Annual income of up to 3 billion MNT (approximately US$ 2.5 million) will be liable for the 10% rate. Any income in excess of 3 billion MNT will be charged at the 25% rate.

However, certain types of income are taxed at different rates. These are outlined below:

Foreign entities repatriating income from Mongolia must pay a 20% tax on income. FIFTA companies and joint ventures do not pay any tax on funds reinvested within Mongolia. Dividends and royalties are both taxed at 10%. Tax statement losses may be carried forward for two years, providing the annual loss carry-forward does not exceed 50% of taxable income.

Related party transactions are valued for tax purposes at the contract value. Where related parties transact above or below this rate, the tax authorities may alter the value used. Where a party holds 20% of common stock of another party, has the right to receive at least 20% of dividends of another party, or where a party has the right to appoint at least 20% of management, a party is considered to be related.

General expenses associated with the earning of aggregate annual income are deductible for Corporate Income Tax purposes, although these may only be deducted where properly documented with V.A.T. receipts (these are not usually supplied by merchants and have to bas produced especially, upon request - make sure you carry your company number with you at all times so this can be added to official V.A.T. receipts). Interest paid to third parties is also deductible. Interest paid to shareholders is subject to a debt to equity restriction of 3:1. Depreciation is calculated using the straight line method over the defined economic life of a particular asset. Buildings and constructions have a 40 year life, whilst full depreciation of IT equipment occurs within just 3 years. Explicitly disallowable expenses include lease payments, fines and penalties, expenses incurred during the earning of exempt income and expenses not documented properly. Payments from which tax is not withheld, but is required to be withheld, are also disallowable as expenses.

Annual corporate income tax statements are due on 10th February of each year and quarterly tax statements are due on or before the 20th of each month following the end of the tax quarter. Payment schedules based on these are to be issued by the tax authorities by the 25th of each month. Where withholding taxes are due, these must be paid within 7-10 working days of receipt of the payment on which they are calculated.

Wherever total tax paid exceeds the total tax liability companies may credit the excess against future taxes or other tax payments due. Whilst it is legally possible to receive tax refunds, the practice of doing so is not clear and rarely used.

19. IMPORT TAXES AND DUTIES

Stamp duties are imposed under The Law of Mongolia on State Stamp Duties. Duties are imposed on the following:

- Monitoring of, and decisions on matters of legal status by the law courts of Mongolia;
- Registration of business entities;
- Permissions to register business entities using foreign investment, as well as allowing persons to be employed with representative offices of foreign organisations;
- Permission to carry out services which require special expertise;
- Registration of copyrights and grants of certification proving copyright, patent or trademark;
- Granting of permission to carry out activities involving securities, including registration and authorisation to issue securities;
- Other services not defined by the present law.

The Trade Policy and Cooperation Department is responsible for coordinating trade policy, as well as for facilitating, promoting and overseeing export development. This Government department also regulates import and export activities, including duties, in relation to the Customs Law of Mongolia -1996.

No approvals are required to import goods into Mongolia, although importers have to be registered with the State Registry Office and the Tax Office before they can begin imports. Where licenses are required for imports these are generally considered to be a means of protecting livestock health, human health and national security.

Mongolia's customs tariffs are determined in accordance with the following principles: General tariffs; most-favoured nation tariffs; preferential rates; bound and applied tariffs. Tariffs are calculated ad valorem, based on the value of the goods, minus costs of transport, insurance etc (essentially the landed cost of the goods). A most favoured nation tariff of 5% is applied to most imported goods, however, 49 tariff lines have a zero tariff applied. These include live animals for breeding purposes, information development machines, information dissemination, certain medical equipments and transistor diodes. Vegetables and flour receive a seasonal import rates of 15% between 1 August and 1 April in order to protect domestic producers, at all other times these fall within a 5% tariff. All tariffs outside of the MFN (Most Favoured Nation) rate are at 20%. Excise taxes are levied on goods considered damaging to health, as well as on luxury items and goods for gambling purposes.

The current Customs Law does allow for temporary admission of machinery and equipment. Provided machinery is re-exported under the same conditions in which it was imported, it may be imported duty free for use in demonstrations and exhibitions. Goods covered by this temporary import relief must be re-exported within one year of the import date.

Customs Law also provisions for a number of duty exemptions. The following goods are exempt from customs duties on entering Mongolia:

- Appliances for use by disabled people, or equipment and raw materials necessary to make these appliances;
- Goods for humanitarian services;
- Equipment, materials, raw materials and facilities, as well as petroleum, diesel fuel, food, appliances, and consumer items for employee and private needs required for oil related activities. These are exempted according to an agreement made by the Government on product sharing in the oil sector;
- Heavy machinery and technological equipment to be installed for industrial and technological purposes by businesses with foreign investment that invest in identified priority sectors, as well as in export oriented industry;
- Exportation of a foreign contractor's share of oil;
- Goods for official use by organisations or representative offices who enjoy diplomatic privileges or immunities, as well as household articles of families and persons enjoying those privileges;
- Traveler's personal affects;

- Diagnostic facilities and packages required for the guaranteed and safe transportation of blood, blood products, body products and organs to be used for medical purposes;
- Gas fuel designated containers, equipment and special machinery;
- Private vehicles of a Mongolian citizen returning to the country after more than one year appointment in a consular or diplomatic mission of Mongolia in another country or international institution;
- Re-exportation of equipment and facilities temporarily imported for use in oil exploration;

Mongolia provisions one-stop customs services at most customs points. Valuation, processing of documents by customs authorities, payment of customs duties and all other taxes and customs evaluation may be completed at these one-stop locations. Since 2001, Mongolia introduced the GAMAS system (Automated System for Customs Information Management), which allows customs clearance and payment of duties to be carried out on-line. Customs brokers may also be used in accordance with regulations of the Customs General Administration.

20. DOUBLE TAXATION TREATIES

The present tax treaty network of Mongolia is based upon the UN model, operating in accordance with international laws. In June 2012 the International Monetary Fund completed a report destined for the Government of Mongolia, advising that the Double Taxation Agreement environment in Mongolia be thoroughly revised in order to close loopholes which, in some cases, limit or entirely prohibit the payment of tax on interest, royalties, services fees, lease payment and withholding tax on dividends within Mongolia. With activity increasing apace in the mineral extraction sector, the present DTA regime provides foreign investors with manifold opportunities for tax planning in order to minimise their overall taxation burden. The IMF report indicates that only a handful of the 30 DTAs which Mongolia has negotiated in the last two decades are potentially harmful to the Mongolian tax base and that these should be selectively renegotiated. Nevertheless, the Mongolian Government has indicated that it will go so far as to terminate all DTAs presently in effect pending their renegotiation.

The Mongolian system of Corporate Income Tax considers a permanent establishment to exist if a non-resident is engaged in activities pertaining to construction for a period of more than 6 months. Most of Mongolia's DTAs provide for more favourable conditions as they stipulate a longer period before a permanent establishment can be recognised by Mongolia. DTAs with China, Russia, the UAE and Turkey stipulate periods of over 12 months, allowing more time than the international average.

All DTAs signed in Mongolia include a transfer pricing provision which allows Mongolian tax authorities to challenge profits realised on transaction between associated entities. However, a number of DTAs (those with Belgium, Canada, the Czech Republic, Germany, India, Luxembourg, Malaysia, Poland, Singapore, Ukraine and Vietnam) do not contain any obligation to apply a corresponding adjustment to taxes paid. As such double taxation may occur.

Service income is taxes as business profit if a service provider maintains a permanent establishment through which the services are performed in Mongolia. Where a service provider does not maintain a permanent establishment in Mongolia, but performs a service in Mongolia, payments are subject to a standard 20% withholding tax. A number of DTAs active in Mongolia deem the existence of a permanent establishment if services are rendered within a given timeframe. In most DTAs an aggregate of 6 to 12 months within any 12 month period is required before an organisation furnishing services becomes considered to be a permanent establishment.

In several DTAs Mongolia has been able to safeguard its right to levy a limited tax, through withholding or otherwise, on 'technical fees'. DTAs with Canada, Malaysia and Vietnam. These provisions enable a maximum source country tax of 5%, 10% and 10% respectively to be paid. DTAs with India, Italy, Luxembourg, The People's Republic of Korea and the Netherlands contain a separate provision regarding technical fees included within the articles relating to royalties. These allow the source country to levy taxes of between 5% and 15%. only one half of DTAs protect the domestic taxation of technical fees in one way or another, either through establishing service entities of technical fees.

Dividends, interest and royalty payments to nonresident taxpayers are subject to a withholding tax of 20%. This is in contrast to the 10% withholding tax for resident taxpayers, whether individuals or legal entities. Most DTAs reduce the withholding tax rates on dividends to between 10% or 15%. China, the People's Republic of Korea and Kuwait all provision for 5% withholding tax on dividends. The DTA with the UAE does not allow the source state to levy any withholding tax. in DTAs with the Netherlands and Luxembourg the withholding tax rate on dividends paid to qualifying companies is zero percent. For Singapore and Kuwait the zero-rate applies to State-owned enterprises. In all of these DTAs qualification for lower withholding tax rates depends on the size and quality of shareholding within each specific company.

Whilst entering into DTAs that do not allow levying of domestic withholding tax on dividends provides fertile ground for international tax planning, the continued application of withholding tax on interest payments typically raises the cost of borrowing for Mongolian companies as the interest rate on cross-border loans are often specified as the "net of all taxes".

The Corporate Income Tax Act of Mongolia proposes that a portion of the capital gain realised on the sale of shares of an entity, which holds an exploration or mining license in Mongolia (either directly or indirectly) is subject to a tax of 30%. In practice the portion of the license and other depreciable assets used in a mining activity in Mongolia is taxable under this act. However, the capital gain is only taxed if more than 50% of the value of the shares is attributable to such an exploration license, a mining license, and/or other depreciable assets utilised in mining activities within Mongolia, and if at least 10% of the shares of this entity are sold.

Significantly for the real estate sector, some DTAs contain a provision allowing for the source country to tax capital gains on the sale of shares if the value of these shares is derived principally from immovable property situated in that country (sale of immovable property), including mining licenses. Most do not actually provision for capital gains tax on the sale of shares where derived principally from immovable property. Whilst no such capital gains tax presently exists, it would create a significant loophole were any to be enacted without alteration to extant DTAs.

Resident taxpayers are allowed to reduce their tax liability by the foreign tax paid on that part of their income received abroad. All Mongolian DTAs, except for that with Hungary, provision for ordinary foreign tax credit for residents. Nevertheless, most countries are not willing to give a tax sparing credit to its taxpayers for exempt income abroad.

At present Mongolia maintains no provisions under its domestic tax legislation dealing with international tax planning other than the potential to question and modify income on transactions between associated persons or entities. DTAs with Italy and the United Kingdom both contain a specific anti-avoidance provision disallowing treaty benefits and all DTAs provide for limited taxation rights for payment of dividends, interest and royalties conditional entirely upon the recipient being the "beneficial owner" of these payments. However, the concept of "beneficial ownership" is not well developed at this juncture.

Double Taxation Treaties in Force with Mongolia

	Country	In Force Since
1	The People's Republic of China	1993
2	The Republic of Korea	1993
3	The Federal Republic of Germany	1997
4	The Republic of India	1997
5	The Socialist Republic of Vietnam	1997
6	The Republic of Turkey	1997
7	The United Kingdom of Great Britain and Northern Irelans	1997
8	The Republic of Hungary	1997
9	Malaysia	1997
10	The Russian federation	1998
11	The Republic of Indonesia	1998
12	The State of Kuwait	1998
13	The Republic of France	1999
14	Czech Republic	1999
15	The Kingdom of Belgium	1999
16	The Republic of Kazakhstan	2000
17	The Republic of Kyrgyz	2000
18	The Republic of Poland	2002
19	Grand Duchy of Luxemburg	2002
20	The Republic of Bulgaria	2002
21	The Swiss Confederation	2002
22	Ukraine	2003
23	Canada	2003
24	The United Arab Emirates	2003
25	The Republic of Singapore	2005
26	The Democratic People's Republic of Korea	2005
27	The Republic of Australia	2005
28	The Kingdom of the Netherlands	2005

Source: Government of Mongolia

The agreement between Mongolia and the United Arab Emirates for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, as well as the agreement between Mongolia and the State of Kuwait for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income were terminated as of January 01, 2015.

The agreement between the Government of Mongolia and the Grand Duchy of Luxembourg for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and the Convention between Mongolia and the Kingdom of the Netherlands for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income were both terminated on January 01, 2014.

21. THE MONGOLIAN TAX ENVIRONMENT IN INTERNATIONAL COMPARISON

The table below provides an overview of the taxation environments of geographically adjoining investment locations as well as taxation regimes considered favourable within central and eastern Asia. Mongolia's tax system is similar in structure to that of Kazakhstan and ranks accordingly in terms of tax load and navigability. However, the flat-tax system makes Mongolia more attractive than Kazakhstan as an investment location, despite a highly bureaucratic administration, which makes submitting tax returns and applying for rebates a cumbersome process when compared with more developed economies.

The Mongolian Tax Regime in International Comparison

	Mongolia	China	Hong-Kong	Russia	Kazakhstan
Restrictions on foreign ownership	None for immovable property. Cannot purchase land	Restricted to purchasing in specific locations only	None – land is government leased.	None	None
Ownership restrictions for citizens	None for immovable property, although there are restrictions on land ownership	Citizens limited in the numbers of properties they can own	None	None	None
Income Tax (foreign workers)	10% if resident, 20% if non-resident.	After an initial tax deduction of 4,800 yuan each month foreign citizens can apply for deductions	15%-20% salaries tax	30% non-residents, 13% tax residents; 6% on dividends. Also paid on lease of property for visiting employees.	10% for residents, 15% for non-residents.
Income Tax (citizens)	10%; 10% social tax on gross salaries for employees and a further 11% from employers	The tax on an individual's income is progressive. As at 2011, an individual's income is taxed progressively at 5% - 45%.	15%-20% salaries tax	13% tax residents. Tax on salaries is progressive	10%; 11% social tax on gross salaries
Corporate income tax	10% or 25% if taxable profits exceed 3 billion MNT. 20% if non-resident	Corporate tax rate for domestic and foreign companies is 25%. Small companies pay 20% corporate tax in certain cases.	16.5% or 15% for unincorporated businesses	24% 20% non permanent establishment; 15% dividends from Russian entities.	20%, although the Corporate Income Tax rate will be reduced to 17.5% in 2013 and 15% in 2014
Property buying taxes	None	2% maintenance tax, 1.5% contract tax Stamp tax rates range from 0.005% to 0.1%	Up to 4.25% if property value more than HKD 21,739,120. HKD 1- 2 million value property reduced 0.75% of fixed HKD100 Non-residential exempt from stamp-duty.	0.001%-1% registration fee; 18% VAT	No stamp duty, but the authorities may impose a levy on various legal actions, such as for the issuance of documents by state bodies
Property ownership taxes	0.6% per year - increasing to a scale between 0.6% and 1% in January 2013 depending upon property value and location	Urban Real Estate Tax is imposed at a flat rate of 12% on annual rental income of the leased property or 1.2% on the purchase cost of self-used property. A discount of 10% to 30% on the purchase cost is often offered by some local governments	Property tax is charged at a standard rate of 15% on the net assessable value of any land or buildings Any building occupied by the owner as residence is exempted from tax	Tax is imposed at rates up to 1.5% of the cadastral value per annum	For legal entities the rate is 1.5%. Individuals are subject to a tax of 0.05% to 1% on a progressive scale.
Property sales taxes	2% income tax on sale	17% income tax on sale	The maximum duty on the sale and conveyance of property is 4.25% of the value of property transferred.	None	None
VAT	10%	17%	None	0% / 10% / 18%	12%
Inheritance taxes	None – in the event of no immediate heir property reverts to state ownership.	None	None	None (13% tax on real estate gifts).	None

Source: Price Waterhouse Coopers doing business guides, World Bank Doing business Guides, Global Property Guide

VIII. REAL ESTATE OVERVIEW

1. THE HISTORY OF PROPERTY RELATIONS IN MONGOLIA

Nomadic pastoralists of Mongolia have rarely encountered problems with mobility, but their urban dwelling counterparts in Ulaanbaatar were far more heavily restricted in their movements during the socialist period. Throughout the socialist era apartments in the city were distributed based on a complex system that took into account employment, performance, number of awards and existing living conditions, among other factors. Households were not able to move freely from one apartment to another as they are under the market system. Nevertheless, during this time tenants were entitled to hereditary, indefinite rights of occupancy. Rents were also extremely low and eviction was all but impossible to enact. Any kind of buying or selling of land and built property was utterly forbidden before the end of the socialist period, with one notable exception; housing cooperatives operating in Mongolia were allowed to pool funds to build or purchase apartments. These cooperatives would receive what was known as “cooperative tenure” for a building. This was, in effect, a joint title and entitled them to lease or sell apartments in a context where private sales and rentals were illegal.

Policy and Laws concerning Property in Mongolia	
Constitution of Mongolia	1992
Civil Code (revised)	1994
1st Land Law	1994
Law on Special Protected Areas	1995
Law on Land Fee Payment	1997
Law on Registration of Immovable Property	1997
Land Valuation Resolution No, 152	1997
2nd Land Law	2002
Law on Mongolian Citizen’s Ownership of Land	2002
Land Fees - Resolution No. 103 Valuation and Methodology	2003
Law on Subsoil	1989
Forest Code	1995
General Law on Environmental Protection	1995
Law on Registration of Immovable Property	1997
Law on Mineral Rights	1997
Law on Cadastral Survey and Land Cadastre	1999
Law on Immovable Property Tax	2000

Source: Laws of Mongolia

A functioning free market requires a mobile workforce, able to re-train and re-deploy in response to new opportunities. This kind of mobility is facilitated by an effective housing market that provides opportunities and choices for relocation. Alongside labour force mobility the real estate market in Mongolia also creates a significant store of wealth, which, with the development of mortgage markets, may be used as collateral for borrowing. Following the move to a market economy, establishment of private property rights thus became an instant concern. The Constitution of Mongolia, adopted in 1992 indicated that the State would henceforth recognise private and public property in all forms and would protect the rights of the owner by law.

> Article 5.1 of the Constitution of Mongolia states: Mongolia shall have an economy based on different forms of property consistent to universal trends of world economic development and its own country’s specifics.

- 5.2. The State recognises all forms of public and private property and shall protect the rights of the owner by law.
- 5.3. The owner’s rights shall be limited exclusively by grounds specified in the law.

With new legal frameworks in place, the process of privatisation was able to begin in earnest during the early 1990s. State enterprises were privatised through a voucher system, whilst existing retail and commercial spaces were sold directly to new, private owners. The earliest step taken in Mongolia towards the creation of a housing market was the creation of private real estate. The Law of Mongolia on Registration of Immovable Property was adopted in 1997 and indicate that rights of ownership of immovable property arise upon registration of said property with State offices. State owned residential apartments were privatised through a specialist administrative division known as the ‘Privatisation Department’, which handled the administrative task of registering private ownership.

INFORMATION BOX - THE GER, A NOMADIC HABITAT USED IN AN URBAN SETTING

Traditionally, when a couple gets married their families build or buy them a new ger. These traditional dwellings are constructed of wood and felt. These round, movable structures are ubiquitous across Central Asia and come in a number of varieties. The Mongolian ger is constructed from a wooden latticework, which makes up the walls. The lattices support long roof poles, which meet in the middle at a central ring. Layers of felt are then draped over the frame and covered with white cotton. Ropes wrapped around the body of the ger keep the layers together. In the wintertime a simple stove heats the ger, whilst in the summer the bottom foot or so of covering may be turned up to provide extra ventilation.

Interior arrangements of the ger are defined by tradition. The kitchen is to the right of the door, whilst the family alter or shrine is in the back (opposite the door) and beds are kept to the left and right of the shrine. When invited into a ger, guests are seated at the left hand side of the ger, those who are most important are seated furthest from the door. The family who lives in the ger will sit to the right.

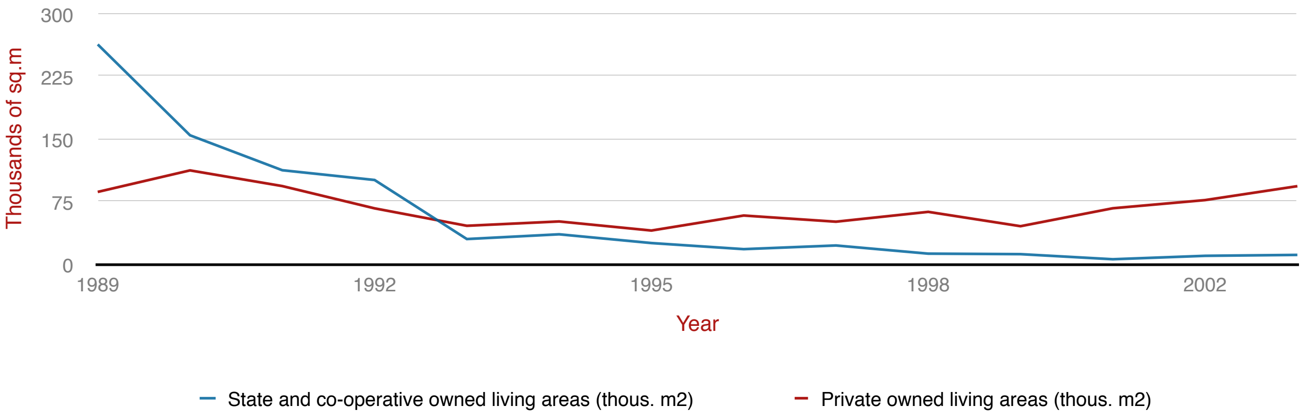
Ger-like structures are prevalent all over Central Asia and variants exist in (although are not limited to) Turkestan, Kazakhstan, Tajikistan and Afghanistan. Mongolian gers have some unique features that come from Mongolia's long engagement with Buddhism. The crown of the ger (toono) contains the Dharmachakra, the eight-spoke wheel of Buddhism. Most central Asian 'yurts' do not contain this feature, the crown instead being constructed of overlapping wooden beams within a wooden wheel (as can be seen on the Kyrgyz flag and Kazakh coat of arms).

Today gers are still widely used in Mongolia and provide permanent or seasonal housing for over 76,400 families in Ulaanbaatar alone. Most of these urban households no longer take advantage of the portability of the ger (which can be packed up ready to be moved in under an hour and easily fits on the back of a truck - or on three or four camels). City gers are remain in one place and provide permanent housing to those who do not wish to, or cannot afford to move to other forms of housing. City gers are erected on small plots of land known as *Khaashas*, which in Ulaanbaatar vary from around 250 to 700 square meters in size. These small plots serve as space for housing and often as sites for small businesses. The proliferation of gers in Ulaanbaatar is, however, not necessarily a good thing for the city. Traditionally families lived with their herds, spread out across the vast Mongolian steppe. In the city they are crowded together in the hundreds of thousands. With the majority of ger dwelling households still using inefficient stoves - which burn poor grade coal - Ulaanbaatar's densely packed stock of gers continues to be the major contributor to high levels of air pollution, particularly in the wintertime.

The functions of this department subsequently evolved into the Immovable Property Office that handles the task of registering Immovable Property today. Privatisation of apartments began in 1997 and by 2004 was almost concluded. Within this period almost the entire housing stock of Mongolia was transferred to private ownership. Households living in state owned apartments were able to register private ownership of these apartments without payment. As the graph below indicates, uptake of the opportunity to privatise was high within 1997, dropping steadily, year by year until the conclusion of the privatisation process. Not only did this mean that around 22% of the Mongolian population became homeowners almost overnight, it also meant that they had at their disposal a store of illiquid capital that could later be liquidated as housing and mortgage markets improved.

This is important for the growth of the Mongolian economy as, by enabling people to realise a part of their wealth stores in real estate, consumption spending can be stimulated. As a mechanism of investment real estate is also possessed of certain characteristics that set it apart from other forms of investment, and which makes it an obvious early investment choice in transitioning economies. The immovability and long-term nature of real estate investments makes it important as a provision for later in life, or as an intergenerational store of wealth. Real estate is also a reasonably stable and secure asset for a Mongolian population who have lost access to a robust social safety net. Finally, it is eminently tangible. Of course, the relationship between financial and housing sectors also bears potential pitfalls. In times of recession within the property market, wealth stores in the form of real estate cannot be realised, thereby depressing both investment and consumption. Conversely, in cases where an economy is overheating, wealth mobilised from stores in property just adds fuel to inflation and balance of payment pressures. The case of Kazakhstan's banking crisis is one very instructive example of a system overexposed to the real estate market. When the bubble in real estate prices - fuelled by speculation - finally burst and Kazakhstan's real estate market went into recession between 2007-2010, the banks were faced with large numbers of non-performing loans, secured against assets now worth far less than the outstanding loan amount.

Housing Stock of Mongolia During Transition - Breakdown by Type of Ownership



Source: Ulaanbaatar Property Office

Apartments Privatised in Mongolia between 1997 and 2004

Year	Privatised Apartments	Privatised Cooperative Apartments	Total Amount
1997	8,016	109	8,125
1998	23,819	219	24,038
1999	14,981	293	15,274
2000	6,084	308	6,392
2001	5,435	345	5,780
2002	2,184	797	29,810
2003	1,997	965	2,962
2004	3,339	1,029	4,368
TOTAL			70,010

Source: GTZ report on Land and Real Estate in Ulaanbaatar and Darkhan

Immovable Property Registration Office Statistics for Mongolia 1997 - 2010

Type of services			1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
1	Initial registration of ownership rights and issuance of a new certificate for all types of property.		10,806	34,600	19,168	9,247	11,557	13,224	15,335	26,739	41,543	38,862	42,206	46,792	28,728	39,234	378,041
	a	Validation of privatised apartments from the state	10,520	32,365	16,966	5,270	1,992	5,408	4,539	5,747	3,369	2,059	2,529	1,706	847	1,045	94,362
	b	Initial registration of ownership rights and its' validation on immovable properties	286	2,235	2,202	3,977	9,565	7,816	10,796	12,245	14,896	16,822	17,403	17,871	14,990	21,274	152,378
	c	Initial registration of ownership of privatised land								8,747	23,278	19,981	22,274	27,215	12,891	16,915	131,301
2	Total number of Property Due diligence certificates issued			65	450	598	3,497	7,196	15,176	19,940	21,761	21,766	24,789	26,033	21,960	30,974	194,205
3	Other types of property registration			1,003	912	9,296	2,000	5,271	7,710	1,584	2,096	1,837	2,995	3,817	3,473	4,666	46,660
4	Total numbers of individual operations undertaken by the property office		3,781	7,107	19,885	21,475	30,641	47,841	73,606	93,657	105,377	122,868	148,407	129,638	103,248	126,957	1,034,488
	a	Collateral agreements completed	730	1,353	5,187	6,183	11,837	23,690	42,061	52,846	54,403	64,464	70,025	57,768	44,072	56,562	491,181
	b	Sales and purchase agreements registered	2,481	3,528	3,817	2,074	3,916	3,312	3,313	4,665	6,451	8,529	13,209	11,522	8,425	12,898	88,140
	c	Property Gift agreements	9	68	5,928	4,025	7,464	7,919	8,621	10,843	13,426	13,748	15,503	12,246	9,905	10,067	119,772
	d	Registration of other agreement made	561	2,158	4,953	9,193	7,424	12,920	19,611	25,303	31,097	36,127	49,670	48,102	40,846	47,430	335,395
5	Total number of personal files held at the property office or its archives		10,806	34,600	19,168	14,247	16,099	13,218	15,394	26,248	42,694	39,241	42,691	47,491	29,375	39,887	391,159

Source: Property Office of Ulaanbaatar

2. LAND OWNERSHIP

As the table below indicates, privatised and nationally owned land in Mongolia are defined by different baskets of rights and tenure structures.

Land Ownership Structures in Mongolia

Privatised Land	Nationally Owned Land
Only Mongolian entities are able to take possession	Mongolian nationals and foreign nationals and entities may purchase the right of use over nationally owned land
Ownership confers indefinite rights to land	Only the right of possession can be purchased, normally for 60 years maximum (renewable for a further 40 years
Most currently privatised land is situated in urban ger districts or on newly assigned plots	The city centre of Ulaanbaatar and other city centers remains almost completely nationally owned, as do pasture-lands.
Privatised land is not leased or rented from the Government but privately owned. Land used for family homes are charged taxes at vastly reduced rates.	Annual taxes to be paid on use of land.
Privatised land may not be expropriated by the State except under exceptional circumstances or if contract of possession is breached	Permits may be withdrawn by the State for projects of national interest or scale, of if conditions of use or permission are not met.

Source: Based on the laws of Mongolia

The vast majority of land in urban areas of Ulaanbaatar remains the property of the state (as does the majority of cropland and all pastureland in the country). In Ulaanbaatar, the common areas surrounding apartments, including courtyards, remain under state ownership and cannot be privatised - although land plots within urban areas can technically be leased under 'possession' rights from District and Soum governments (in Ulaanbaatar leasing of virgin land in the city centre land is all but forbidden after the City Government, anxious over rapacious development, issued a decree to halt all new development on this land. This means that new construction in the city centre must take place on redeveloped plots).

The first renewable, tradable and inheritable long term possession and use leases available within Mongolia were established by the Law of Mongolia on Citizen's Ownership of Land, adopted in 2002. This document portioned out the land available in Mongolia into three separate categories. Agricultural land was defined as "land that includes hayfields, croplands, lands for cultivation of fruits and berries, fallow lands and other lands under agricultural production." Pastureland was defined as "rural agricultural land covered with natural and cultivated vegetation, suitable for grazing livestock and animals". Beyond these two there is the catch-all category of "Land", which is used to refer to urban spaces and other types of land not classed as pastureland or agricultural land.

Most of Mongolia's total 1,564,000 square kilometres of land is classified as pastureland or agricultural land (1,153,326 hectares or 73.87%). A further 142,793 square kilometres is classified as forest land. Land dedicated to infrastructure accounts for just 4,006 square kilometres, with 6,881 square kilometres defined as land beneath water resources. Just 6,099 square kilometres of Mongolia's total area is presently given over to urban spaces. Mongolia's pastures comprise the world's larges contiguous area of common grazing land. 27% of available pastureland is classified as mountain/steppe and 30% is dry grassland. Cropland is low, at 7%. Although, during the socialist period this land did produce enough staple crops to make Mongolia self sufficient in cereals, with enough left over to export to Russia. Today, patterns of rural land use in Mongolia are transforming rapidly. Just over 248,000 square kilometres is allocated as land for special purposes (the majority of which is defined as land under which there exist strategic mineral resources).

Households are more sedentary than ever before in the nation's history, with the urban population of Mongolia reaching 67.9% in 2011. Even in rural areas pastoralists are becoming increasingly sedentary. This is having a huge impact on the country's pastureland. Permanent grazing is increasingly common around villages and artificial wells, leading to land becoming damaged through overgrazing. At the same time, pastures in remote areas have been under-grazed in recent years, rendering them less suitable as pastureland. Near to villages and urban areas the concentrations of herds often far exceed safe carrying capacity of the land, leading inevitably to degradation.

Privatisation of agricultural and cropland proceeds via a different process to other forms of land (addressed below). Land classified as agricultural may only be privatised by way of sale from Mongolian authorities to a Mongolian citizen provided he or she had been the possessor of that plot of land previously. If a citizen of Mongolia who does not already possess agricultural land wishes to acquire a plot they may acquire one as a result of Government auction. These auctions are organised by regional level governments and are land prices are set according to base rates figures determined by central Government (see the table below for an overview of these).

Prices for different types of land in different regions of Mongolia

ZONE	Cropland				Pastureland	Hayfields	
	Price in MNT per hectare	land tax at 0.6% per hectare in MNT	Minimum land fee (0.01%) per hectare in MNT	Maximum land fee (0.01%) per hectare in MNT	Price in MNT per hectare	Zone	Price in MNT per hectare
Changai Mountain	3,859,000	23154 (official) 1158 (5%)	386	1,158	548,200	Mountain Grassland	2,478,300
Altai Mountain	2,253,000	13518 (official) 676 (5%)	225	676	202,900	Mountain Steppe	2,027,600
Gobi Desert	1,738,000	10428 (official) 521 (5%)	174	521	208,600	Flat Country	912,200
Steppe	3,843,400	23060 (official) 1153 (5%)	384	1,153	381,700	Flood plain	2,090,900
						Lowland	2,675,300

Source: Government of Mongolia 1997, reproduced and edited in GTZ report on Real Estate Market, Mortgage Market and Cadastre in Ulaanbaatar and Darkhan-City, Mongolia.

Along with definitions of land types, three types of land tenure were established in the 2002 Law of Mongolia on Land, which still pertain today:

- Ownership - legitimate control of land that entitles the owner to sell, rent or lease land. This form of tenure may be applied to all land, excluding pastureland, land for common tenure and land demarcated for special Government use.
- Possession - Given by license for periods of up to 60 years, renewable for a further 40 years. This type of land tenure is available to Mongolian citizens, companies, organisations and companies with foreign investment.
- Use - Land use licenses can be obtained by foreign countries and international organisations as well as by Mongolian citizens and entities (although land is available to the latter on more favourable terms through possession). The initial duration of use licenses if 5 years, although they are renewable. Use licenses are given in order that land or its characteristics will be made concrete and defined use of. This usually involves construction on the land. Once the built structure is complete the land can revert back to the original owner, the State, without adversely impacting immovable property rights.

When it was initially passed, the Land Law entitled family households, not individuals, to take ownership of a plot of land in urban ares for residential purposes. Single, unmarried people who were not living with a registered family, could not be allocated land. Upon registration of land the family was entitled to identify all adult household members on the title document so that ownership was effectively shared. All registered parties then had rights over the land as joint owners. An alteration to the law on allocation of land made in 2008 now enables individuals of Mongolian citizenship to apply for land in Mongolia. This has, of course, increased the demand for privatizable land plots in Mongolia.

The size and value of individual land plots available for private ownership varies depending upon location. Each year district and Soum Governments define numbers of land plots available for possession for commercial and residential purposes. Where a household already resides on a plot of land they have priority of privatisation of that plot, otherwise they are able to select a plot of land from the annually produced list for privatisation. Commercial organizations can only hold possession rights over land (this is a form of leasing rather than outright ownership and lasts for a period of 60 years - renewable for a further 40 years). A person applying for ownership of a land plot may only make a claim to this plot in the city, Aimag or Soum wherein they are registered as resident.

Privatized Land Plot Sizes by Location

Location	Size (hectares)	Size (Sq.m)
Within Ulaanbaatar city	0.07	700
Within other regional base cities (including Darkhan and Erdenet)	0.35	3500
Within other Aimag and Soum centres	0.5	5000

Source: GTZ report on real estate and cadastre in Ulaanbaatar and Darkhan and Government of Mongolia

An exception is made for residents of Ulaanbaatar, who are also allowed to apply for land in their place of birth. The table below indicates the sizes of land plots available for the different defined locations around Mongolia. Acquiring a fully transferable, marketable title, requires that a plot of land be first privatised and them registered with the land office. The land registration process takes an average of 11 days and costs, on average, around 2% of the value of the overall value of the property in fees. In practice, the process of registration is often woefully inefficient, with owners of private land forced to visit several different administrative offices in order to complete the process.

INFORMATION BOX - POLLUTION IN ULAANBAATAR

When it comes to polluted cities Asia leads the world. There are more than 800,000 premature deaths each year attributed to air pollution across Asia. Among these Ulaanbaatar stands out as being the most polluted capital city on the planet. This is primarily due to the household coal and wood burning for cooking and heating. Given the long, harsh winters, the use of coal for cooking and heating is prevalent and a leading cause of air pollution - outdoor and indoor. According to WHO investigations during the late 2000s levels of PM10 (particles of 10 microns or less per cubic meter) in Ulaanbaatar reaches 279 micrograms per cubic meter of air (ug/m3). This compares to 81ug/m3 recorded in Shanghai or the average of 50 for Bangkok or Kuala Lumpur. By 2013 highest PM2.5 24-hr average was around 630.6 micrograms per cubic meter in Ulaanbaatar, higher than the 600 figure that sent the world's media into a frenzy over the choking conditions in Beijing. This value exceeds the WHO PM2.5 24-hr average guidelines by a factor of 25. Moreover, whilst Beijing may experience these high PM2.5 values for a few days a year, but this is the norm in Ulaanbaatar, with monthly average values during winter months on par with the very worst levels of pollution experienced in Beijing for mere days at a time.

The extent of the problem is startling and is reflected in healthcare statistics. Research conducted during 2013 also indicated increased risk of miscarriage in Ulaanbaatar during winter months, with potential links to increased air pollution. The Urban Air Pollution Analysis for Ulaanbaatar Study, conducted in 2007, indicated that the annual health impacts based on the modelled average PM10 concentrations were estimated at ~7,000 premature deaths and ~US$ 290 million in incurred costs for the city in 2006. The situation has only worsened significantly since.

The pollution has also had a significant impact upon real estate markets, as well as upon the socio-economic fabric of the city. As pollution spread so did talk about it causes and solutions. Those with means and wishing to remove themselves from the heavily polluted CBD, where coal smoke from ger stoves mixes with emissions from over 300,000 cars traversing Ulaanbaatar's core arterial roads each day, moved further out of the city. This was one of the prime impetuses behind the development of the Zaisan area of the city and remains a critical motivating factor in movement towards a compact city model that can provision centrally heated and well provisioned apartment housing for the residents of Ulaanbaatar's sprawling and expanding ger areas, the main locus for pollution production based upon the fact that during the long winters people burn coal in inefficient stoves to heat their gers. For those unfortunate enough not to be able to afford coal, bricks dipped in tar, car tyres are plastics are also burned.

Sales prices for a single unit of land are determined by the central Government in accordance with fixed parameters concerning location, land use, geological and environmental conditions and socioeconomic factors. In the case of Ulaanbaatar, the city is divided up into five separate land valuation zones according to income level and location. The land fee is applied uniformly across all properties in a given zone. In Ulaanbaatar the standard valuation of a plot of privatisable land for household for individual use of 0.7 hectares (700 square meters) is presently around US$8,000. When privatisable land, Mongolian citizens who intend to use the plot in question for residential purposes are entitled to a reduction in land prices of between 95% and 98%. Before allocation of land began 61,753 families living in ger areas around Ulaanbaatar were identified whose existing places of residence were deemed appropriate for privatisation. Separate provisions were made for families whose plots were identified as being located in a unfavourable location. New settlement areas were provisioned for 11,484 families living under power lines or on flood plains. They could then opt to privatise land in these new locations rather than in their existing location. Problems presently confronting the privatisation process include conflicts over land titles - particularly were multiple families occupy the same khashaa (fenced land plot) - boundary conflicts and situations where city planning and land administration have earmarked land for other purposes, such as infrastructural development, meaning families are prevented from privatising land they already occupy.

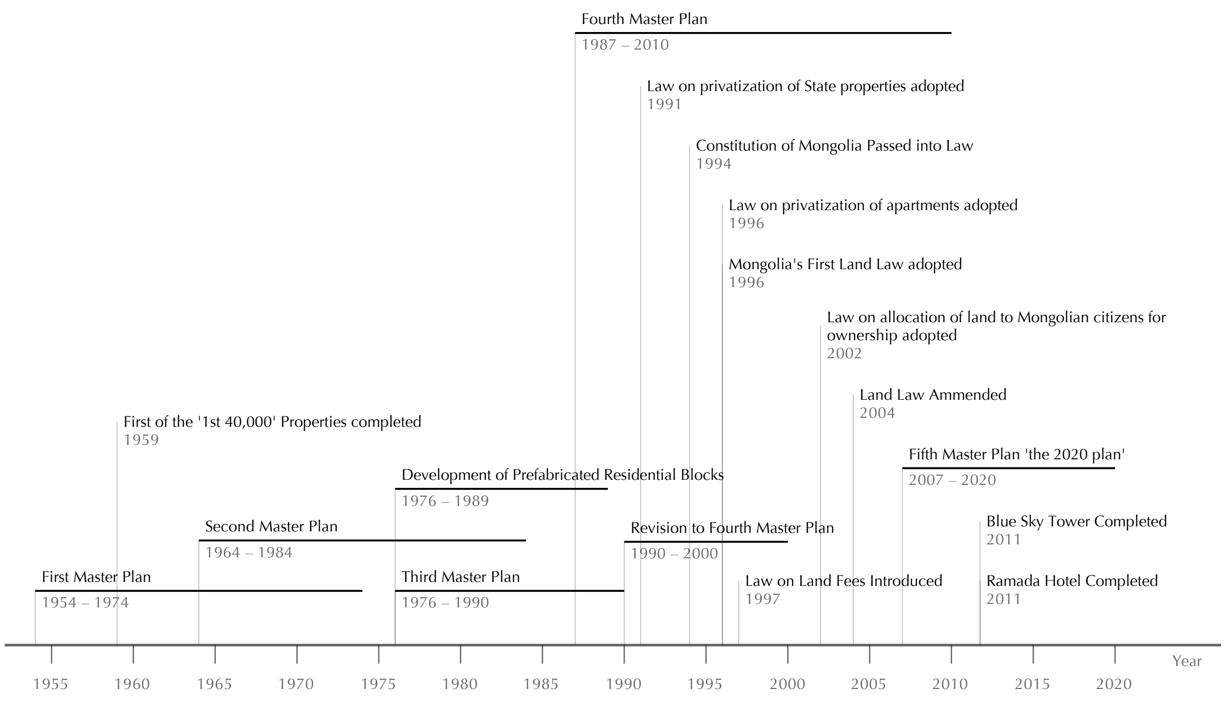
Figures released by the Mongolian Administration of Land Affairs, Construction, Geodesy and Cartography approximate that by 2010 two-thirds of residential land plots in Ulaanbaatar had been privatised, alongside 90% of such plots in urban centres around Mongolia. Nevertheless, by 2011 less than 10% of the population eligible to take up private ownership of land had actually opted to do so. In 2011 the total number of hectares of land "owned" by Mongolian citizens stood at 24,457 square kilometres, with 32,605 square kilometres under temporary possession for projects including mining and construction. The vast majority of privately owned land is still limited to urban centres. In rural areas land privatisation remains low. It has been posited that residents of rural areas have not been well enough informed about reforms, or that they simply consider privatisation to not be useful within the framework of economic demands that define their everyday household activities.

In 2012 the Environment, Food and Agricultural Standing Committee of the State Great Khural proposed a new piece of legislation that would prolong the period of land privatisation for Mongolian citizens. The initial period of privatisation of land by Mongolian citizens is presently due to expire on May 1st 2013. The new legislation would extend the period during which land could be privatised by a further five years, until 1st May 2018. As already noted, the land privatisation law for household purposes has been in effect since 2003, with the land privatisation law for Mongolian citizens having been in effect since 2008. In 2011 104.7 hectares of land was allocated to be privatised to Mongolian citizens. However, despite reported high levels of privatisation within urban centres, only 9.19% of the total Mongolian population have opted to enact their right to privatise a plot of land.

The initiator of the bill, D. Gankhuyag, member of Parliament, indicated that extending the period of land privatisation would have no negative impact and that it would ultimately provide opportunities for around 2.5 million people to take up their rights according to the constitution and land laws of Mongolia. The law seeks to ensure that all members of society can use the real estate they are guaranteed by law for their own use, for financing and as an inheritance for future generations.

Organisation, monitoring and implementation of land privatisation laws of Mongolia are implemented by the Administration of Land Affairs, Construction, Geodesy and Cartography.

A. HISTORY OF URBAN PLANNING IN ULAANBAATAR - SOURCE: CITY OF ULAANBAATAR



3. PROPERTY OWNERSHIP RISK FACTORS

A. MARKET CHARACTERISTICS

Mongolia remains a developing economy and investing in real-estate here comes with the same set of risks shared by property investments in similarly developing economies around the world. Even in Ulaanbaatar, the real-estate market is very small, very much less liquid than established markets, and based only loosely on market fundamentals and regulations. There is very little historical data available on potential market movements, so projections in the market are based on short term (less than 20 years) timescales, which do not give a full indication of the array of shocks and responses that the market might undergo. The Mongolian real-estate market continues to function based upon last market price or market prices for similar property transacted at similar times. Fundamental values of property neither underpin valuations nor collateralisation contracts. This, however, is expected to change in the short term, as mortgage lending procedures are standardised and the real estate market is forced to adopt valuations based more and more on fundamental values. Mitigating this risk of lack of market information is not an easy task and tends to involve hands-on familiarity with the marketplace.

B. CURRENCY RISK

Exposure to the Mongolian property market brings with it exposure to a currency that has recently displayed significant volatility against the US$. Whilst it is expected that good performance of the MNT will be undergirded in future by growth of the natural resource sector in Mongolia, 2012 performance of the MNT has shown that currency devaluations may occur due to falling demand and falling prices on international commodities markets. The MNT will continue to be heavily influenced by commodity price shifts and Chinese demand for raw materials. In a global marketplace set for overall slow recovery downward pressures are not expected to disappear from the horizon in the near future. Large scale investments should potentially be hedged against this eventuality. That being said, the general market consensus is that the value of the MNT is set to appreciate against the US$ in coming years. Whilst 2012 brought depreciation 2011 brought appreciation against the US$ despite a negative balance of payments.

Until recently the vast majority of real-estate transactions between private individuals in Mongolia still took place in cash, regardless of size. It is still not unusual for real estate transactions to be carried out in cash and thus buyers end up walking around town with bags quite literally filled with banknotes. Bank transfers are becoming more common as most purchases now involve significantly higher sums than they did pre-2009. However, escrow accounts are not common and so transfers remain limited by a desire to ensure the safety of funds during the transaction process. With only 20% of the secondary apartment market making use of mortgages at this time, the situation does not look set to change in the short term. However, reliance on cash transactions is one indicator that market growth is not overly reliant upon credit and thus not at risk from volatility in the credit markets. Escrow accounts are available within commercial banks and may be used for higher value transactions.

C. RELIANCE ON KEY ‘ON-THE-GROUND’ PERSONNEL

As noted above, investment in a small, developing market, such as that in Mongolia, is very dependent upon on-the-ground expertise. This means finding, appointing and placing individuals in a position to effectively manage investments. This can only usually be accomplished with greatest efficacy when key individuals are situated within the market for an extended period, making investments reliant on key personnel who are not necessarily readily interchangeable. A number of companies are offering investment services within the Mongolian property markets and with more data and investment mechanisms becoming available on the Mongolian markets each year the necessity to maintain a permanent presence in order to effectively manage investments will gradually diminish. However, as in most emerging markets, the best deals will always be sourced by those on-the-ground.

D. LEGAL ENVIRONMENT

Mongolia has already adapted quickly and effectively to the free market, but has yet to develop, or in some cases effectively implement legal structures, accounting practices, auditing standards and reporting mechanisms in a way investors in more developed markets may be comfortable with. Mongolian laws regulating and protecting foreign investment are generally favourable, offering foreign investors comparable rights to domestic ones for investments which do not involve mining assets or areas of strategic importance. Nevertheless these laws have, in the past, developed in unpredictable ways as the short-term demands of parliamentary politics and resource nationalism throw up potential problems - examples include calls to renegotiate the Oyu Tolgoi agreement in the run-up to the 2012 elections. The general framework or laws and regulations concerning taxation, foreign investment, trade and currency regulation are reasonably new and should be considered eminently open to change. The new law on foreign investment implemented in 2012, whilst not directly impacting real estate, does provide for stricter regulation over foreign investment in so called 'sectors of strategic importance'. At the present time these sectors of strategic importance are confined to mining and telecommunications, although there is no reason why this definition should not be extended to incorporate real estate of various kinds were a residential bubble or sectoral overheating to become a politically salient issue.

E. TAXATION

Taxation law and practice in Mongolia is not yet solidified and, whilst simple to navigate, is is not necessarily well adapted to the demands of a changing fiscal environment as it is in developed markets. Currently there is no legislation in place that distinguishes between foreign invested and domestic entities in terms of taxation, although repatriation of earnings for foreign companies is charged at 20%. There is also potential that current tax law, its implementation or understanding, may change. There is already a fact that property tax may rise (although not prohibitively) from 0.6% at present to 1% in January 2013.

F. EXPROPRIATION

Real estate expropriation is neither notionally nor practically considered to be popular in Mongolia. Rights over ownership are fiercely protected by public opinion. Nevertheless, the state does maintain an eminent domain clause in the Constitution of Mongolia. It states that expropriation of land owned by citizens may only occur 'During occurrence of environmental or public disasters such as damages to lives and the health of many people, loss of animals and livestock, earthquakes, strong wind, drought, zud, flood, fire, outbreak of lethal infectious diseases that may cause significant damage to property and environment, or emergency situations such as a large scale industrial accident, loss of radioactive or poisonous chemical substances." Under such circumstances land owned by citizens may be expropriated according to procedures provided by law based on the decision of an authorised state entity for purposes of taking measures in order to protect and rescue the population, livestock, animals and property, and to eliminate the negative consequences. The law also provisions that damages caused to Citizens owning land due to such expropriation shall be compensated to the full extent. Article 3.2 of the Land Law of Mongolia indicates that: "If it becomes impossible to return the expropriated land, the owner shall be compensated for the value of the land and damages according to the market rate at that time, or the damages shall be compensated by allocating other land not worse than the expropriated land by its status and quality." Disputes concerning expropriation and compensation are governed by Article 37.3: "If there is a dispute regarding the determination of the rate of the expropriated land and damages caused to the land owner, it shall be resolved by the Courts." It is extremely unlikely that expropriation of property within urban areas of Mongolia could ever be enacted without stirring severe public outcry. Lobbying by developers to expropriate properties within the 'first 40,000' area of Ulaanbaatar on the basis of safety in the event of an earthquake has been halted in its nascent stages by public organisations and residents.

G. CORRUPTION AND POLITICAL FACTORS

Macroeconomic and political factors are a significant risk in any emerging economy. The tectonic shift from a centrally planned to market led economy has been undertaken with reasonable grace and significant success in the Mongolian case, but legislative directions are far from secured and an unpredictable Government with limited experience of the market context has been known to alter policy and legislation with limited warning. Events such as a petition by members of Parliament to renegotiate the Oyu Tolgoi mining contract prior to the 2012 legislative elections have shown how high levels of corruption and serve to de-stabilise the investment environment. Nevertheless, real estate acquisition remains an area with little Government interference and low levels of corruption. By contrast, real estate development has been subject to increasingly stringent regulation at both national and local Government levels. This originates in response to genuine concerns over construction safety, appropriate urban planning and corruption in planning processes.

H. INSURANCE

The insurance and re-insurance market in Mongolia for real estate assets is very new and not well capitalised across the board. Many, if not most, buildings are not presently covered by insurance. There is a single foreign owned insurance company operating in Mongolia - Mandal insurance - which offers property insurance re-insured by international insurers. There are, however, no guarantees that the present Mongolian insurance market will grow quickly enough to be able to cover new insurance contracts and honour these contracts in the event of claims. Most domestic insurers do not undertake full risk assessments and their representatives are not well trained in carrying out rigorous fire safety checks. It can also be difficult to obtain payouts as the industry is not well regulated. Most insurers offer earthquake insurance, although in the case of a large-scale earthquake, insurance companies operating in Mongolia will likely also suffer catastrophic losses, making it all but impossible for them to pay out or effect payouts from re-insurers.

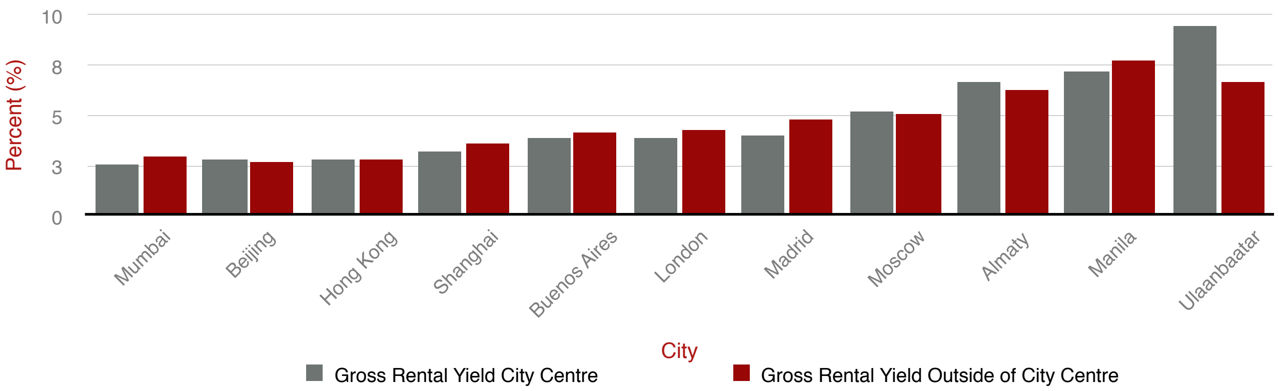
I. BOOM AND BUST CYCLES

The overall economic situation in Mongolia can, as in any jurisdiction, have significant impact upon the real estate sector. The sector is an excellent overall barometer for the health of the nation's economy which, at present, continues on a growth trajectory. However, as already noted, Mongolia is vulnerable to boom and bust cycles due to commodity price fluctuations and pro-cyclical policies by Government and the central bank that act to exacerbate cyclical fluctuations. The impact of national level boom and bust cycles upon real estate will be felt most strongly in two key areas related to real estate; liquidity and construction. Addressing construction first, it is known that the Mongolian Government has, despite claiming otherwise, favoured a pro-cyclical fiscal policy. As revenues from the mining sector increased, so did Government expenditure. In recent years fiscal spending has closely matched rising commodities prices and, therefore, rising receipts from taxation of these. Taking a broad view of Government programs, from the 40,000 Homes project and 100,000 Homes project, through to the “up-building” program and road construction, have mining revenues somewhere in their mix funding mix - and it usually plays no small part. One the one hand investment in infrastructure and a broad “up-building” approach is an effective means of increasing social good and improving the long term growth prospects for a nation. On the other, such a heavy emphasis on public sector edges out private sector involvement. It is, presumably, for this reason that the newly elected Government has decided, it its new “up-building” approach, to heavily favour private sector engagement as a means of reducing expenditure to within the levels set by the Fiscal Responsibility Law. Liquidity is the second problem and this stems from somewhat pro-cyclical and reactive policies on the part of the central bank. Money supply has, historically, increased during periods of economic growth and contracted during periods of economic slowdown as a result of inflationary concerns. This has led to a familiar cycle of limiting credit and then making it abundantly available. The upshot of this is that commercial banks lending to the construction and mortgage markets see swinging liquidity and interest rates (easy to see during 2009-2010) that as house prices rise and the market becomes more heavily mortgages, could have incredibly detrimental impacts.

4. INTERNATIONAL BENCHMARKING OF PRICES ACROSS ALL SECTORS

Sales of commercial properties in the Asian region amounted to around US$65.3 billion in the first half of 2012, according to Real Capital Analytics figures. This compares with US$78.1 billion in the pre-crash year of 2007. Nevertheless, figures are up on post-crash 2009, when only US$ 31.3 billion of commercial real estate transacted. The Asian markets are suffering from a state of anxiety over bubble dynamics and overpricing. Demand drivers in key Asian markets, including China remain at times unconvincing given disincentives and falling yields. However, there is a broad consensus that prices are set to rise in key Asian markets. Nevertheless in key areas of major Asian markets cracks are showing. Singapore office rents fell between 15%-20% during the first half of 2012 and capital values have tended to follow suit. Foreign investment in Chinese commercial property fell in the first half of 2012 by an amount equal to 22% of the total Chinese market (CBRE figures). Nevertheless, despite fears for the market China began to see renewed price appreciation in the residential sector. Easing of bank reserve requirements has ed to a recovery in the markets. In other Asian markets momentum remains limited. South Korea saw price growth slow to just 1% year-on-year during Q2 2012, whilst prices around the Greater Bangkok area in Thailand depreciated by 3% year-on-year during the same period. Indian residential prices betrayed a slight deceleration, mirroring overall conditions within the Indian economy.

GRAPH 80: Global Rental Data Comparison

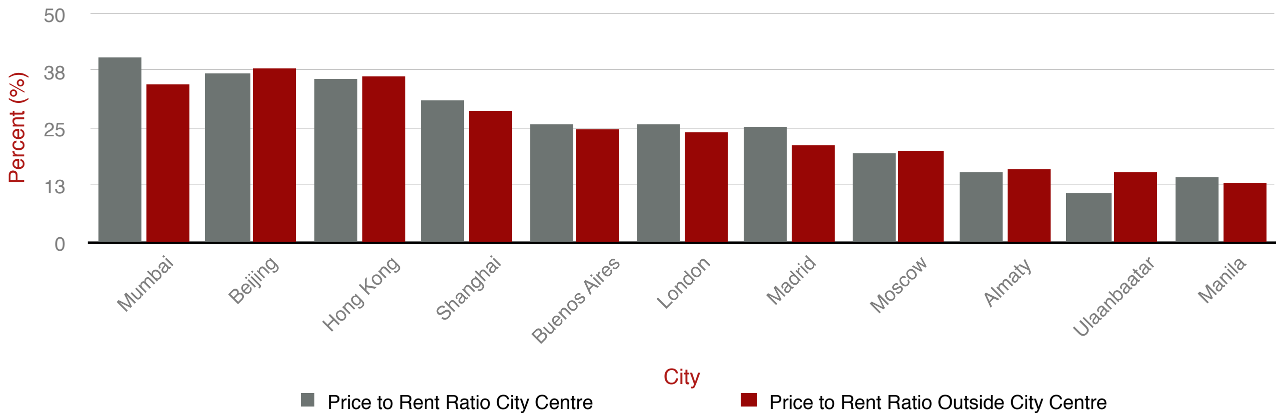


Source: Numbeo.com

The Indian real estate market would appear to be an excellent opportunity, although borrowing costs remain high for developers and price growth has eased significantly. Nevertheless, house prices have rises 17% in Delhi y-o-y Q1 2011-2012, with Hong Kong displaying 7.35% rises for the same period. Shanghai, Thailand and Tokyo saw contractions for this period, with Tokyo being hit the worst, with a -1.98% drop y-o-y 2011-2012 Q1, although Chinese prices have been rebounding in the latter half of 2012. Returning to frontier markets, Myanmar has received significant attention from alpha-seeking investors over the pat 18 months. Much of the attention that was focussed on Mongolia during 2010-2011 has shifted towards the newly opening nation, with real estate being a key area of interest. Burmese cities appear to be at the very beginning of their real estate ascendence. Myanmar and the city of Yangon have been the focus of real estate sector growth. Among ASEAN cities Yangon represents significant potential for developers, with just 60,000 square meters of office space currently in operation, compared with 1 million in Hanoi, 6 million in Manila and 8.1 million in Bangkok. This paucity of supply is pushing up prices at alarming rate, with office transactions reaching US$6,000 per square meter.

So is there a bubble in Asia, is Mongolia a part of it? In China the fact that construction accounted for a full 10% of GDP in 2011 and the fact that property assets account for around 40% of household wealth, as well as the huge numbers of properties being purchased in China purely for “investment” purposes may all indicate bubble dynamics. Throw in lower urbanisation rates than in Mongolia and many people are convinced that the Chinese property market, particularly the housing market, is toppling.

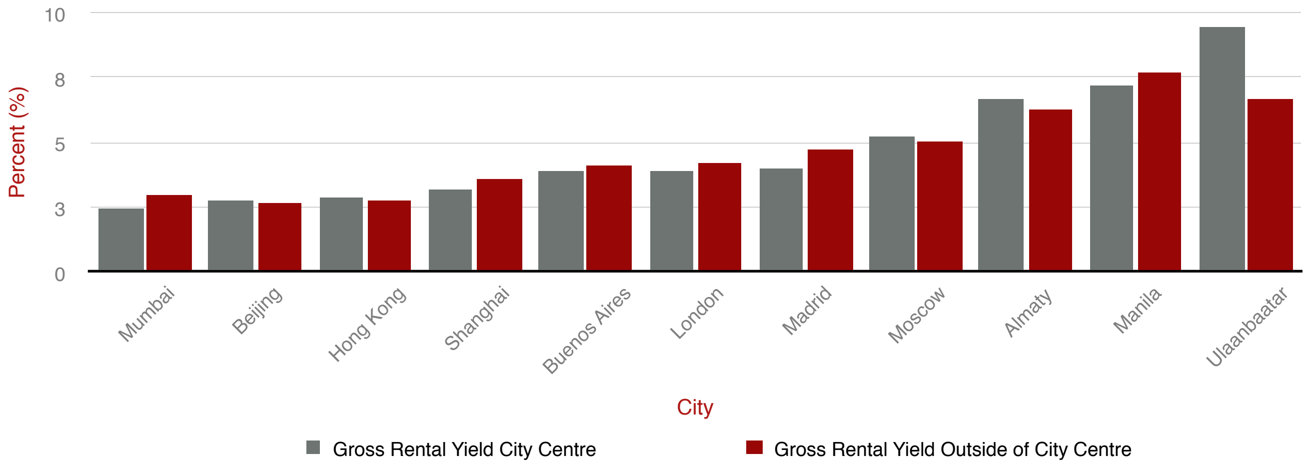
GRAPH 81: Price to Rent Ratio CBD and Outside of CBD



Source: Numbeo.com

Nevertheless, a convincing argument in favour of a no-bubble scenario comes from the argument presented by Shanghai E-House and PwC. The standard rule of thumb is that house prices are acceptable and affordable if they can be expressed in a ration of 1 to 4 with household income. In China this ratio peaked at 1 to 8.1 according to Shanghai E-House figures, now dropping back to reach 7.4 in 2011 and set to drop further as prices slow and wages rise. As an argument against bubble dynamics this could be applied in Mongolia. Household incomes are rising with real wage increases in some sectors tipping above 30% 2011-2012, and average household incomes tipping above US$ 712 during 2012. Average house prices outside of the city centre averaging around US$1,538 average salary to house prices sits at around one to 7.2 - 7.5., broadly on par with China then. This is not a great start to explaining away the stability of the Mongolian residential market, although annual rises in salaries and wages will lead to greater affordability across a broader segment of the market providing prices do not continue to grow and inflation falls.

GRAPH 82: Global Rental Data Comparison



Source: Numbeo.com

As the graph above indicates Ulaanbaatar city centre residential property presently yields among the highest among high growth markets. Prices have been pushed as a result of rising rental prices and therefore purchase of apartments as both investments and sores of wealth is becoming increasingly common within Ulaanbaatar’s domestic markets, as well as among international investors. The graph below shows this trend from a different angle. Prices have not soared to heights seen in the bubble dynamic price to rent ratio remains low.

CONSULTING SERVICES

LEVERAGING OUR CONSIDERABLE EXPERTISE TO OUR CLIENT'S ADVANTAGES

Having worked on property development across all asset classes, as well as on urban development projects funded by bodies such as the World Bank and the Asian Development Bank, M.A.D. has built up a considerable body of experience on Ulaanbaatar both as a market and as an urban centre. As such, we offer consulting services to clients, allowing them to incorporate our local market knowledge on a flexible and cost-effective basis. We offer strategic consulting services in Mongolia to three types of clients:

- **The International Financial Institutions** such as the ADB, World Bank, EBRD, Asia Foundation, JICA and others for whom we work as real estate advisors and carry out survey work.
- **The International Property Investment and Management Companies** such as JLL, Cushman & Wakefield, CBRE, Knight Frank, DTZ with local data and valuation services.
- **The Mongolian Developers and Property Investors** requiring Development Appraisals, Financing Support, Market Studies, Feasibility Studies.

Our consulting services are entirely built around the client, and focused on providing all aspects of the research chain but include the following as our primary services:

OUR CORE AREAS OF EXPERTISE

MARKET DISCUSSIONS & PRESENTATIONS

HIGHEST & BEST USE RECOMMENDATIONS

DEVELOPMENT CASE STUDY PRESENTATIONS

FINANCING & CAPITAL STRUCTURE

SUSTAINABLE URBAN DEVELOPMENT INSIGHT

SENSITIVITY AND RISK ANALYSIS

POLICY CONTEXT AND REGULATIONS

DEVELOPMENT APPRAISALS

MARKET / PROJECT FEASIBILITY STUDIES

USAGE & SPACE RECOMMENDATIONS

5. INTERNATIONAL MARKET COMPARISONS

INFORMATION BOX - PRIVATISATION ACROSS THE SOVIET UNION

Privatisation took a number of different courses across post-socialist Central Europe. Sometimes it was initiated from above, by ministries and Government agencies. In other contexts it was started from below, by enterprises. It is unequivocally the case that the entire residential property privatisation process is highly significant to the process of developing a free-market economy, in that it eventually enables free transaction of property on an open market and thereby enables movement of households for economic purposes. In economies no longer based upon central planning, but open to competition, this fosters a more mobile labour market. The second advantage to privatisation is the distribution of significant stores of wealth, which can subsequently be liquidated to stimulate growth and consumption on the free-market, as well as providing some level of security. Of course, there are several potential problems with this process, which had also to be addressed during the course of privatisation. One of these problems was the necessity to take into account implicit property rights to assets earmarked for privatisation.

The solution in Mongolia was a simple one, and one repeated across for the former CIS countries. The households who dwelt in the country's small housing stock at the time of transition had first refusal and overwhelmingly became owners. This led to around 22% of the country's population becoming owners of previously state-owned housing overnight, and free of charge. The Russian Federation, Ukraine, Kazakhstan and Lithuania also used this mechanism of delivering apartments into the hands of their existing long-term occupants. In the Russian Federation, the Law on Privatisation of Housing Stock specified that at least 18 square meters of housing per person, plus 9 square meters per household, must be transferred to existing tenants free of charge. In Mongolia the law was not this specific and entire dwellings were given over to their de-facto owners. Of course, the housing stock of Mongolia was far smaller than that of Russia, meaning that equitable distribution of the nation's real estate wealth was unlikely, leaving just over one-fifth of the population with large immovable assets and the majority without.

A. CHINA

For China 2011 seemed to be the year the bubble began to burst on the real estate markets, whilst 2012 was the year in which authorities engineered a legislative soft landing for the residential property market. Initiatives such as imposition of limits not eh number of properties households can purchase, caps on the value developers can charge for properties and restrictions on numbers of residential units able to be owned by foreign citizens all sought to carefully control liquidity and pricing in the market.

Despite such curbs and efforts at keeping speculation in check, which in the annual Chinese wealth report from Boston Consulting Group and China Construction Bank Corporation were said to be responsible for around 28% of wealthy investors in Chinese real estate seeing losses, price appreciation has continued. In Beijing, new home prices were up 16%, Shanghai 17% and Shenzhen 20% from a year ago by the end of Q3 2013. As in Mongolia, limited alternative investment vehicles continue to make real estate, particularly residential real estate, a go-to investment opportunity. Without well developed financial markets citizens have limited options in terms of good quality and trustworthy investment opportunities. Real estate has attracted majority share of household investment in China, according to Standard Chartered Plc. It has made up more than 60% of household assets since 2008, compared with about 20% for cash deposits. That compares with 48% in the U.K., 32% in Japan and 26% in the U.S.. Whilst the scales are dramatically different, some of the dynamics between these two markets are somewhat similar.

During the course of 2013 surveys by the Urban Land Institute of China indicated that investor sentiment was improving. Shanghai moved up into top position in terms of development prospects, moving ahead of Chengdu. Shanghai is viewed as one of the two most mature, deepest, and most liquid markets in China, strong in all sectors. The maturity of Shanghai as a real estate market is reflected by the fact that the city's residential prices—while clearly still on an upward trend overall, are less volatile than most. The mature office markets in China's capital and second largest city led this sixty to move up from 16th to 5th position.

The largest sector in terms of growth have taken place in the distribution and industrial sectors. The Urban Land Institute indicated that Involvement increased from just over 40% among respondents in 2010 to almost 60% by the end of 2013. With key contributions from lynchpin infrastructure projects such as the Shanghai Free Trade Zone, 2013 responses reflect a growing interest in the industrial and distribution sectors as a direct response to China's lack of modern warehousing and distribution facilities. Mongolia also has a very real lack of appropriate distribution and facilities. The collaboration between the City Government of Ulaanbaatar and, the Government of Mongolia and Tuushin Group to develop a unified freight handling and forwarding port outside of Ulaanbaatar represents one very real response to the fragmentary and outdated freight and distribution facilities of Ulaanbaatar's capital. With China being Mongolia's largest trading partner for the foreseeable future the connections between upscaling distribution facilities in both nations are expected to develop apace, with warehousing and distribution being a sector to watch closely in Ulaanbaatar also. Whilst key industrial projects and the growth of e-commerce are the driving forces behind growth of the Chinese distribution real estate sector, in Mongolia export capacity and cost, particularly in the mining sector, are the key driving forces. In the capital city demand is driven by growing import and trade markets.

Having seen so much emphasis of Municipal Governments on residential projects in the past, this being a principal source of municipal revenue, land release planning is now being motivated by a desire to develop more mixed use commercial space, providing improved operating environments for business rather than residential enclaves and therefore stimulating local economies. This is directly representative of the Central Government's directive that fixed-asset investment should be more focussed on facilities that increase domestic consumption. Nevertheless, outside of first-tier cities, there are real caps upon what occupiers are willing to pay for rent. Sales of strata-title is becoming more common as a means of diversifying exit strategy. Again, this is already happening in Ulaanbaatar, where the majority of office supply was build-to-lease up until around 2011. From 2012 onwards new supply of office has been, more often than not, sold off under strata title agreements.

With the residential bubble in China at bursting point, developers are retreating from luxury markets, with ULI 2013 survey respondents indicating that they are moving to mid-market properties. Average property sizes in the residential markets in China dropped to around 90 square meters in a bid to squarely place themselves within the mid-market bracket. This is not dissimilar to the impact the 8% mortgage has had on housing sizes in Mongolia, with average apartment sizes dropping to enable at least a significant trance of properties even in upper end developments to fall below the 80 square meter cut-off point for qualification for an 8% mortgage loan.

The Chinese Government initiated the first economic reforms of the real estate market in 1979. The welfare-oriented home distribution mechanism, under which a firm assigned apartments to their employees, was terminated and replaced with a market for residential real estate. The Chinese Property Market began its first boom in the 1980s as a result of carefully controlled sales of apartments. At this time, the Chinese Government began by selling only new developments. Existing housing stocks were not privatised as they were in Mongolia. At this point, foreign citizens were only able to own property in certain, government defined developments. it was not until 1988 that legislation was passed enabling foreign investment companies to use Chinese land to develop new real-estate. Within four years of this point the seeds of the first Chinese property boom had been sewn, as investments in property flowed in from Hong Kong, Taiwan and Singapore, as well as from increasingly wealthy domestic investors.

The History of the Chinese Property Boom

Period	Trend
1979	Started to sell houses in a new developments
Second half of 1980	Housing belonging to state owned companies were disposed of on the market
1988	Foreign investment companies allowed to use Chinese land for development
1992 to 1996	Based on Deng Xiaoping's policy talk in the southern region - " the 1st Property Investment Boom" is initiated
1997	Asian Currency Crisis

Source: China Daily

The second Chinese property boom took place between 2000 and 2005. During this time rapid development of government policy related to housing and real estate undergirded the establishment of housing loan system and implementation of capital gains tax exemptions for real-estate. This encouraged both construction and purchase among a rapidly urbanising Chinese populace.

However, the most significant real estate price rises in China occurred in more recent history. Within the past eight years alone average land prices in China have risen a remarkable 788%. Residential housing investment as a share of China's GDP tripled from 2% in 2000 to 6% in 2011 (the U.S. bubble burst at 6.1% and the Japanese bubble in the 1970s collapsed at 8.7%). All real-estate (including commercial) contributed 14% of nominal GDP growth over 2009-2010. High price-to-income and price-to-rent ratios, as well as average land share in housing values, provide compelling evidence of a growing bubble dynamic, building since 2005. Combined with huge vacancy rates in commercial property and large numbers of unoccupied residential units, the case for a Chinese real-estate bubble appears, for some analysts, to be conclusive. Estimates reported in China Daily in 2011 indicate that a staggering 64 million apartments in China remained empty for six months or more during 2009.

As previously noted, controls on lending and stringent mortgage markets do impose stringent requirements when compared with counterparts in Europe and America (in the U.S. the ratio of housing loans to GDP reached a high of 79% before the crash, compared with just 15.3% in China). The tradition of requiring large down-payments and paying for housing mostly from savings, inures the Chinese mortgage market from the kind of deleterious dynamic experienced in the United States. Nonetheless, concerns have been consistently raised since 2007 over the quality of mortgage loans issued in China. Mongolia, by way of similarity, has a tradition of cash payments for housing and, although this is now beginning to change in the primary markets as mortgage lending grows year on year. By the end of 2011 the nominal worth of mortgage debt held by Mongolian banks was US$ 468 million, up 158% from 2009, with number of borrowers increasing almost threefold during this period. Fears that lowering mortgage rates and easing conditions on mortgage lending in Mongolia will spur a real estate crisis are, however, very premature. Provided that banks support rapid development of a robust market, offering collateral suitable for secondary mortgage markets, then crisis could be avoided in the mid term whilst allowing for short to mid term market growth.

As for urbanisation as a driver of price growth, with 48% urbanisation China remains far behind well developed regions (75%) and only slightly above urbanisation rates for less developed countries (45.3%). Analysts have posited that China's urbanisation rate is not yet high enough to account for meteoric real-estate price rises. Mongolia displays a markedly different dynamic, with urbanisation clearly playing a significant role in pushing up the price of an as yet inadequate stock of residential real estate. The urbanisation rate of Mongolia stands at 68%. Despite its small total population, this high figure is placing increasing strain on available housing stocks, keeping demand high in both the capital and rapidly urbanising secondary cities.

A further and final point of significant concern comes from legally defined land ownership structures in China. As was the case in Mongolia until recently, land cannot be privately owned in the strict sense of the word in China. Rather, leases are given for a period of 50 to 70 years depending on the district and land type. The PRC only adopted land leasing as the basis of land use rights in 1990 so this will not become an issue until 2050 at the earliest. However, debate abounds around this issue and there are as yet no firm estimates as to what the potential cost of renewing leases may be. Within Mongolia robust immovable property protections means that once a property is built on land the rights of the owner cannot, under the present law, be infringed, be the owner Mongolian or foreign.

Despite the obvious differences in scale, legislative environment and economic baseline between China and Mongolia there are many congruences between their respective real estate markets. The reliance of citizens upon real estate as an investment vehicle, the saturation of luxury residential markets and move towards mid- and lower- end developments, up-scaling of consumption economies and a push towards good grade retail space, as well as heavy impetus towards improving industrial and distribution facilities on a national level. With economies being so closely linked it is no wonder that there are some parallels. Nevertheless, investment in Mongolian real estate does come with somewhat reduced police environment risk. Whilst the Mongolian Government may well consider similar sets of restrictions in terms of investment into property as those put in place by the Chinese Government, this seems highly unlikely at present, not least because Government Ministers themselves often have significant property holdings and can no longer risk antagonising a small group of foreign investors engaged in real estate. With both nations displaying high urbanisation rates, demand for new urban residential space remains high. Enhanced by lower cost financing, residential markets look set to expand dramatically over the next two years, although the future of the 8% mortgage program is already very much in question and costs and time-scales for developing new infrastructure mean that demand pressures may still outstrip supply in mid-market residential, sustaining robust price growth as a result of good demand and growing GDP per capita.

B. KAZAKHSTAN

With a total population of 16,500,000 and an urbanisation rate of 54% (2011 figures), Kazakhstan is often cited as a parallel to Mongolia in terms of development. As another central asian economy driven by its natural resources, Kazakhstan has grown wealthy on extraction and sale of oil and gas. Significant projects such as the 'Karachaganak' natural gas and gas condensate field, and the 'TengizChevroil' joint venture are among the most significant contributors to the overall Kazakh economy. In the early transition years Kazakhstan and Mongolia experienced remarkably similar dynamics. Between 1993 and 1995 the Kazakh Tenge saw extremely high inflation and real GDP fell rapidly with contraction of manufacturing. By 1995 the Tenge had stabilised and the Kazakh Government had begun to focus on economic policy designed to keep inflation in control and maintain growth.

Mongolia too went through an early phase of high inflation and economic contraction before stabilising and beginning to court new foreign investment for large scale mining projects. The development of the real estate market in Kazakhstan occurred far faster than in Ulaanbaatar, helped by very significant investments in oil and natural gas projects and the development of an enviable and highly credit-worthy banking sector. In 2006 Almaty's real estate market was reaching a historic high, with prices leaping from around US$250 per square meter in 2002 to over US$3,600 per square meter in 2006. In this time Kazakhstan's banks delivered over US$ 6 billion to finance construction and US$4.5 billion to finance mortgages, a third of which went to Almaty commercial and residential real estate alone. At this point, as Shodyrov (2006) notes, over half of the real estate market in Almaty was an instrument of investment rather than of investment potential, actually creating conditions of housing shortage within Almaty.

The Kazakh banking system, considered to be the most well developed and stable of central Asia, had used its privileged position in international markets to borrow heavily. By 2007 the foreign debt of Kazakh banks stood at over US$ 40 billion, the majority of which went straight to financing real-estate development rather than development of long-term housing financing.

Purchase financing was provided by the Kazakhstani Mortgage Company, with mortgage loans available over periods of 3 to 10 years, with LTV ratios of not more than 70% and initial payments of not less than 30%. This effectively mirrors the conditions of the contemporary Mongolian mortgage market, although in the present Mongolian real estate sector mortgages are used sparingly to fund investment (and even purchase) as a result of high commercial interest rates. Nevertheless, the Mongolian Mortgagee Corporation is working closely with the Government of Mongolia to produce favourable conditions to sustain low-interest mortgage lending.

Property prices in the Kazakh capital Almaty, alongside large cities such as Astana, have seen reasonably stable price growth in recent years. However, price to income ratios bespeak of a crisis in affordability and price rises are not expected to continue as many Kazakh buyers have now been priced well out of the market. At the end of the first quarter of 2007 the Kazakhstan real estate market actually began to flatten and then contract. This drop in prices occurred as a result of the fact that the pre-crisis years in Kazakhstan saw both construction companies and banks base lending decisions on what turned into overly optimistic assumptions about the purchasing power of the population. Speculative construction was fuelled by rapid GDP growth based around high raw materials prices and the number of residential houses commissioned began a steep year-on-year climb from 1,105,000 in 1999 to 8,103,800 by 2007.

Mongolia must also be wary of this dynamic. The dramatic growth of the Mongolian economy offers developers and investors a good deal of confidence in increased demand, as well as increasing prices, in the Mongolian residential real-estate market. Nevertheless, for this demand to exist the general populace of the nation must see the fruits of economic growth in rising wages and increased economic opportunities. Wealth distribution, in this sense, has the edge over macroeconomic trends as an indicator of how a burgeoning real estate market will fare. In 2010 our estimates indicate that up to 11,650 new residential units were constructed within Mongolia. Whilst this figure has been rising in recent years, it does not indicate speculative development on anything like the level experienced in Kazakhstan, with around 50% accounted for by individual detached housing built by individual households on small privatised land plots. By the time the Almaty real estate market peaked average residential prices per sq.m on the secondary housing market had reached 450,000 Tenge (approximately US$ 3,000 USD) per square meter and the primary market (based in off-plan sales) had reached 300,000 Tenge (approximately US$ 2,000) per square meter. This was as as a result of meteoric price rises of nearly 500% since January 2004 in the secondary market and 260% in the primary market.

In Mongolia, secondary market average prices reached US$1,056 in mid 2011, rising to over US$ 1,500 by 2012 across the residential supply of Ulaanbaatar. Prices in the Ulaanbaatar luxury market are now reaching well above US$3,000 on the primary market. This is an indication that prices in the Ulaanbaatar market are already moving towards those seen in Kazakhstan, although this rise is not based on speculation financed by lending as in Almaty. Our indications are that real demand and a very limited supply of quality real estate has far more impact on property price rises in the Mongolian capital.

During the first half of 2012 the Almaty housing market saw the introduction of the state housing construction program known as the “Affordable Housing 2020” program. Aimed at provisioning affordable housing to the population of Almaty, the Affordable Housing 2020” program is similar in aim to the 100,000 homes project being implemented in Mongolia at present. With prices still well above the level of affordability for most residents of Almaty this scheme, similar in design to Mongolia’s 100,000 homes project is worth watching as a potential example of best practice in implementation of affordable housing strategy.

C. MYANMAR

Media reports during 2013 indicate that land in downtown Yangon, Myanmar’s financial centre, has continued to skyrocket in price and can cost up to $800 per square foot (US$ 2,624) , now that the government has permitted three-year leases to owners. Sustaining a trend of urgent demand for office space as foreign investors pour into the country, buyers are now speculating on land in the former capital's central business district in order to build high-grade condominium buildings. A price of US$ 2,624 is around 62% of the price of per completed square meter of office space in Ulaanbaatar at present and, whilst land prices are difficult to compare across such divergent contexts, is broadly above the average transacted value for bare land in central Ulaanbaatar by around 60%. The small modern residential stock on Myanmar is also pushing at the upper end of the market, with 2013 per square meter prices comparable to major cities. Media reports again cite that a standard condo – 100 by 100 feet – will cost a buyer about $8 million. This represents a price of around US$ 2,624 per square meter, around 53% higher than average market prices for residential property in Ulaanbaatar and certainly competing with only the uppermost end of the luxury markets in Mongolia at present.

The reasons for this are, of course, clear. Limited current supply and risks associated with investment in such a potentially unstable region are pushing up premiums. The outstripping of supply by demand does not mean that prices can keep rising, however. Well-off landowners in prime real estate areas are holding out for higher prices in a market they know will only go up, but many buyers have reached their limit in terms of pricing and foreign investors are increasingly wary of investing in a market that appears to be experiencing a rapidly growing bubble.

Despite all of this, Mongolia and Myanmar share a common trajectory in many senses. Both are only now seeing nascent financing markets develop, with Mongolia somewhat ahead of Myanmar in terms of its domestic finance industry. Expectations in Myanmar are that financing will reduce costs and enable suitable new supply to be built as to stabilise prices. In Mongolia's residential markets this has certainly been the case. Lower cost mortgages (pegged at 8% APR) backed by the Government resulted in growth of mortgage originations by 30% over just one quarter during 2013, enabling construction companies to capitalise their projects through more robust pre-sales. This, in turn, has resulted in a dramatically expanded residential pipeline, leading some developers to have to fall back on pricing as a framework for competitive advantage in a crowded marketplace. This has stalled rapidly rising prices in their tracks during 2012-2013, resulting in a stabilisation or drop in market pricing across the residential market by 1-2%.

In terms of overall stability Mongolia is a preferable investment destination. With a robust, if evolving, land-rights and development rights framework, a growing finance sector, excellent international trade prospects in the mid-term and no political instability the nation represents a safer investment location that can still offer returns in the region of 28% IRR on developments and close to double digit returns on leasing. Once key issues, such as phase 2 financing of the Oyu Tolgoi mine, are resolved, foreign direct investment is set to resume gradually, bringing continued macroeconomic growth and pushing real estate prices once more on a more stable trajectory, with a broad residential market CAGR projected at about 11.7% 2014-2019.

X. KEY TRENDS AND AND DRIVERS IN THE MONGOLIAN REAL ESTATE MARKET

1. KEY TRENDS AT A GLANCE

Real estate demand/supply trends in Ulaanbaatar and across Mongolia were driven and impacted by six factors during 2013 - 2014:

Growth in the Construction Markets: The construction sector in Ulaanbaatar has been propped up during this period by large-scale lending from Government backed projects. This money has flowed particularly strongly towards residential pre-sales, as a result of demand spurred by the Government backed 8% mortgage lending scheme.

After having weathered the liquidity crisis from 2009-2010, the Mongolian construction sector responded rapidly to increasing demand pressures throughout 2011. By the third quarter of that year 96 new and recently completed residential projects were observed within Ulaanbaatar city centre. Within H1 of 2012 expenditure on construction had reached 103.9 million MNT, with over 4,180 new apartments brought online in the city in this period alone. Four large-scale hotel constructions, containing retail and other commercial spaces, were continuing in development during 2011, with three slated to be managed by international companies. In 2011, 28,651 square meters of new A and B grade office space came online and a further three grade A office and mixed use developments already nearing completion in the city centre. Within 2012 around 66,960 square meters of office space in these two market segments reportedly came online across Ulaanbaatar, although some office facilities reporting end of 2012 completion during the third quarter of 2012 were be pushed back into early 2013 as a result of construction delays, swelling the market during 2013.

INFORMATION BOX - SEASONALITY OF PROPERTY MARKETS

Like most activities in Mongolia, real estate markets display seasonal characteristics. Not only is construction curtailed by the harsh winter, but purchase and rental markets also slow in autumn and only pick up in spring. Summer is a time of commerce in Mongolia, up until the Naadam festival, when, during mid-July, almost all business transactions slow up for 2-3 weeks. Many people take their savings and investments and place them in seasonal businesses based in tourism, retail and services, only to liquidate and put them back in the bank for the winter period. The numbers of properties advertised for sale and rent also tend to dwindle in winter, although with each passing year real estate markets are showing less drop off during the wintertime. One reason for the attenuation of the market in winter is that the expatriate community diminishes significantly as non-residents leave to escape the cold. Since 2011 the mass out-migration of the expat community appears less pronounced consultants are present well into early winter. With Ulaanbaatar adopting a more year-round business culture it is expected that the pace of business will even out over time. Even Mongolian real estate laws contain seasonal clauses. Laws defining penalties for inappropriate use of possessed land indicate that possessors cannot be evicted from said land for violations during the winter months.

Despite slowing macro-growth, the construction sector was propped up during 2013 by the introduction of lower-cost lending via Government backed mortgages at a fixed 8% APR for qualifying first-time buyers. Following the introduction of this scheme mortgage issuances shot up by over 30% in one quarter, helping developers capitalise residential projects across the board. Along with lenient lending by domestic commercial banks, this led to the Mongolian construction sector seeing the most dramatic growth in its recent history.

Awaiting Recovery: FDI into Mongolia has been declining year on year since 2011, dropping from almost 60% of national GDP to just 16.5% during 2013 - dipping to levels not seen since 2009. For 2013 Mongolia's foreign trade balance was in deficit by 2.1 billion US$, down 11.3% from its 2012 level. Imports fell by 2.6% and exports fell 5.6% during the same period. The overall balance of payments deficit decreased by 4.48% in line with expanded fiscal spending and reduced revenues.

With the ADB having cut the mid-year forecast for Mongolia's GDP growth to single digits (9.5%), the recovery is going to be slower than expected. This downward revision from a previous 14% estimate is indicative of a growing consensus over the trajectory of the Mongolian economy. A long-awaited agreement over a $6 billion expansion of Rio Tinto's copper-gold Oyu Tolgoi (OT) mine, expected by September 2014, now looks to be up to two years away. For most investors and analysts, Oyu Tolgoi represents a barometer for the country's business climate. International investors, whose confidence in this frontier market has flagged over the last 18 months, will be happy to wait for the legal and political wrangling over the second phase of the project to be resolved prior to deploying funds into Mongolia. The government did successfully bolster the slowing economy through generous fiscal and monetary policies in 2013, although FDI inflows declined by around 55%. Nevertheless, an ADB report labelled the expansionist policies of the Mongolian Government "unsustainable," calling on Parliament to phase them out or face insurmountable balance of payment pressures. Quoting directly from the same report, all in all, Mongolia's outlook remains "promising", although there are "downside risks" that have to be taken into account.

The depreciation of the MNT has stabilised the current account deficit, relieving signifiant balance of payment pressures. Nevertheless, stabilising a falling MNT and containing inflation will require a tightening of economic policy. one significant problem is that current economic policy leaves little space to cope with external shocks such as falling export demand. The full consequences of this limitation have, perhaps, yet to be felt.

Mongolia's slowing growth trends are very much a result of falling pricing and Chinese demand for Mongolian coal, with Mongolia losing its spot as top-exporter to China to Australia during 2012 and 2013. Nevertheless, Mongolia remains in a strong position to export coal and raw materials to China as a result of its location. With major coal mines situated less than 200 kilometres from the border of the world's largest consumer, Mongolia should be able to export inexpensively to China - particularly as labour costs are cheaper than in Australia. Nevertheless, the fact that most of the coal exported is trucked along poorly maintained dirt roads adds significant costs in time, losses and inefficient transport. Investment in infrastructure is required in order to bring Mongolian coal, which is typically of poorer quality than sea-bourne Australian coal, within a suitable price range. With the Government of Mongolia having presided over the signing of an agreement with China's Shenhua Corporation to supply over supply of coal over the next 20 years - representing a commitment of over 1 billion tonnes - volume of demand is secured in the long-term, although at price points potentially unfavourable to Mongolian producers. If and when a resolution is reached over phase 2 financing of the Oyu Tolgoi mine, national revenues are expected to develop quickly, contributing of over a third of Mongolia's economy.

Rapid urban growth: With a total population of just over 2.75 million people in 2010, the entire population of Mongolia hardly constitutes a mid-size town in China, let alone a tertiary city. However, the freedom to move exercised by the Mongolian people, coupled with dramatic economic changes, has resulted in rapid urbanisation. In a nation where traditional economic practices are rooted in nomadic pastoralism, less than 32% of the population now live in Mongolia's vast rural areas, down from 43% in 2000 and 68.3% in 1989. Ulaanbaatar is now home to 1,287,100 people and saw a net in-migration of 20,091 people during 2011 alone. Projections by the Japanese International Cooperation Agency indicate that the number of residents of Ulaanbaatar city will be close to 1.5 million by 2015. The capital city will, therefore, very likely house the majority of the nation's citizens within the next five years. Secondary cities linked to mining operations are also seeing growth - including Dalanzadgad, Sainshand, Khan Bogd and Erdenet.

Lack of urban infrastructure: Even during the socialist period migration to the capital routinely outstripped the projections of urban planners. This has led both to urban sprawl and to densification of the capital's ger districts, as well as excess pressure on social and infrastructural services. Insufficient funding to rapidly expand infrastructure in both the capital and secondary cities created bottleneck conditions around urban infrastructure that continue to push demand pressures by constricting potential construction of new supply. At present only 55% of the capital's residents have reliable access to central heating, potable water and sewerage systems.

Demand for housing still unmet: As of 2011, approximately 184,200 families resided in the ger districts of Ulaanbaatar, with 122,600 families residing in residential areas in buildings, serviced by full infrastructure. Of the families residing in ger districts around 100,300 families presently live in informal or small houses, often on land to which they maintain nominal title as a result of 'privatisation' by the city Government. The remaining 81,600 families live in traditional Mongolian gers year-round. This means that a majority of households in Mongolia's burgeoning capital continue to have limited access to infrastructure, running water, centrally provided heating or reliable electricity supplies during certain times of the year. As wealth continues to grow, new job opportunities are created and real wage rises being seen across the population. This will push demand for housing. These drivers also act as urban pull factors, spurring renewed rural-urban migration. In 2011 alone, 28,593 persons migrated from across Mongolia to Ulaanbaatar, with average in-immigration to the capital standing at 36,500 persons per annum since 2003. Average net migration into the capital for the same period stands at 29,524 persons per annum.

New Growth Centres Emerging in the City: As a young and rapidly developing urban space, it is expected that the urban fabric of Ulaanbaatar will transform and grow at a pace just as dramatic as we have witnessed over the past 20 years. As a result of rapid urban expansion new power-centres of retail growth and residential neighbourhoods are being created and crystallised across Ulaanbaatar. These include the presently undeveloped Yarmag area, which is expected to house multiple mall facilities of over 20,000 square meters and up to 55,000 households over the mid-term; the Stadium area, with the most rapidly growing residential profile outside of Zaisan, is set to be a key retail and entertainment hub according to current development plans for the area. A number of key developments in this area are presented below as a case study into the development of an up and coming power-centre for Ulaanbaatar.

Sandwiched between the CBD (less than 4km from the heart of the city centre) and the affluent and suburban Zaisan area, the Stadium area offers relative ease of access to the heart of Ulaanbaatar, but without suffering from the same pollution blight and dense traffic that would discourage wealthy families from living in the city centre. The Stadium area offers a clear advantage over the southern Zaisan, Garden and Marshall Town areas, as a result of enhanced access to basic facilities, better roads (constructed by Suruga Mongol LLC as part of the Four Seasons Gardens project) and an increasingly lively and well provisioned atmosphere for families.

The Stadium area is tipped for very strong market growth within the mid-term. Nine new projects are proposed in the area, bringing significant supply of new commercial, residential, sporting and cultural facilities into the market. This 30 level mixed-use facility will house several museums and cultural facilities, as well as a tranche of office and retail space. The GEM company is also planning sporting and office facilities within this area. The pipeline supply of office space planned for the Stadium area is 109,931 square meters. This would place future supply above the CBD if it were not for entry into the CBD pipeline of a number of massive projects - including the proposed Mon Uran Tower, which will incorporate over 30,000 square meters of commercial space alone if the project is successfully implemented. Coupled with more premium end residential facilities (as part of the M-Oil, Jiguur Grand Romana Residence and Four Seasons Gardens projects), the reputation of the area as a middle- to upper- income residential area is set to become entrenched.

Future Projects in the Stadium Area

Project Name	Office GFA	Retail GFA	Residential GFA	Number of Residential Apartments
M-Oil Project	-	3,000	52,980	513
Success Rider Project	15,431	5,523	3,191	16
Romana Residence	-	-	-	80
Gegenteen Complex	11,800	5,870	-	180
Galaxy Tower	9,480	-	-	-
Moriin Khuur	15,000	18,000	-	-
Four Seasons Gardens	48,620	456,240	584,685	1,614
Hunnu 2222	-	-	370,000	3,716
KH Tower	9,600	800	-	-
PROJECTED TOTALS	**109,931**	**489,433**	**1,010,856**	**6,119**

Source: MAD Research

The section below incorporates overviews of several significant projects within this area.

A. FOUR SEASONS GARDENS

During 2006 and 2007 Stabilisation Agreements were created with the Government of Mongolia for a large-scale mixed use project known as Four Seasons Gardens (often colloquially referred to as Japan Town). Infrastructure work was completed between 2005-2011, including initial clearance of land, installation of electrical substations, water supply, sewage, roads and heating. Four units have so far been completed or are under construction, bringing a total of 393 residential units onto the market as part of the Four Seasons Gardens development, with a further 88 units under construction (scheduled for completion during 2014) as part of a 16 level building dubbed C4. The developer also completed initial construction on the International School of Ulaanbaatar in 2009. At present an expansion building is being added to this facility, alongside the addition opposite of a well equipped Primary school to be run by Orchlon.

Four Seasons Gardens Complete Project Program

Building Type	Completed	Under Construction	Planned buildings to be Built
Residential Buildings	3 buildings	1 building	12 buildings
ISU	Main building, gymnasium and subject specific classrooms (constructed in 2007 - 2009)	Expansion building (phase-1)	Expansion building (Phase-2 and phase 3)
Orchlon Primary School	None to date	Phase-1	Phase-2 and Phase-3
Office Buildings	1 building	None	4 buildings
Hotel	None	None	1 building
City Primary School	None	None	1 building
Shopping Mall	None	None	1 building
Hospital	None	None	1 building

Source: MAD Research

B. M-OIL PROJECT

The M-Oil Project will be a mixed use project in the Stadium area. The project site is 18,400 square meters (1.8 hectares) and is located in an area around which 70% of the built environment is dedicated to residential facilities, with 30% dedicated to public service facilities, including the Olympic Committee Building and the National Stadium. This project is also based upon a perceived gap in the market for premium residential accommodations and retail facilities within this area of the city.

Overall Program of Development - Recommended May 2014

Type		X	Total Sq.M GFA	Ratio / NLA to Gross (%)	NFA (excludes rooftop garden)
Indoor Retail and Cinema	Podium Retail, x 2 levels, incorporating cinema facilities	-	3,600	80%	2,880
Office	No office included in program	-	0	-	
Indoor Parking	Indoor heated parking spaces	843	32,885	45%	14,798
Outdoor Common Areas	Common areas as part of rooftop garden facilities (excluded from GFA)	-	10,000	-	10,000
		TOTAL	46,485		17,678
	Penthouse (210 Sq.m)	3	630	85%	
High Rise Residential	Penthouse (170 Sq.m)	3	510	85%	
	120 Sq.m	282	33,840	85%	
	80 Sq.m	225	18,000	85%	
	TOTAL	513	52,980	85%	45,033
		GRAND TOTALS	99,465		62,711.25

Source: MAD Research

The facility will contain around 3,000 square meters of retail space, spread across two levels, as well as an interior courtyard that will be usable by residents. Expected price-points for this development will be between US$ 2,500 and US$ 2,700 per square meter for residential units, and around US$ 3,800 per square meter for the small tranche of commercial space. Construction on this project was scheduled to begin during Q4 2014, although it is now expected to be initiated in mid 2015. The developer is working closely with Korean Engineering and Construction company Posco in order to implement international standard construction and finishing.

C. SUCCESS TOWER

The Success Tower project is being constructed by Coyote Group and managed by the Success Rider company. This mixed use project will provide good grade commercial and residential facilities within a geographical catchment set for sustained demand growth in the mid-term. This project will contain 5,523 square meters of podium retail space, with direct access to street-frontage along Chinggis Avenue. 63% of this project will be B grade office space, with good grade residential making up the remaining floor space towards the top of both towers. The project maintains excellent visibility and access to public transport facilities, linking directly to the CBD.

SUCCESS TOWER PROJECT DATA

Project Market	Commercial and Residential - Mixed use
Project Location	Khan-Uul District
Project GFA	24,144 Sq.M
Inception Date	February 2013
Forecasted Completion Date	February 2015
Project Footprint	5,000 Sq.M
Program Mix	Retail 5,523 sq.m Residential 3,191 sq.m Office 15,431 sq.m
Projected Sales Price (per sq.m)	Retail 4,000 USD Residential 2,600 USD Office 3,500 USD
Construction Cost (per sq.m)	1,864 USD (inclusive of all project costs)
Estimated Total Project Costs	45 million USD
Project Overview	A 16 level high-class, European standard office and service center close to the city center of Ulaanbaatar.

Source: MAD Research

SUCCESS TOWER PROGRAM

Program component	Floor	Sq.m	Quantity	Total Sq.m	
Parking	B1-B3		132		
Trade & Service	1	157.4	1	157.4	5522.88
	2	1,655.62	1	1655.62	
	3	2,354.98	1	2354.98	
	4	1,354.88	1	1354.88	
Office	1	794.44	1	794.44	15,430.78
	6-14	1,626.26	9	14636.34	
Apartments	15-18	214.45	4	857.8	3,190.56
		191.89	4	767.56	
		191.89	4	767.56	
		199.41	4	797.64	
TOTAL				24144.22	

Source: MAD Research

Retail facilities will be spread over four floors, with a high NLA to GFA ratio. The residential component of this project consists of just 32 apartments, ranging from 191.89 to 214.45 square meters in size. These are targeted at the upper end of the market, with an expected pre-sales price point of US$ 2,600 per square meter. Such expansive apartments come at a baseline total cost of just under half-a-million USD and are therefore expected to be targeted more at the upper end of the market, including upscaling high-net worth individuals.

D. GEGENTEEN TOWN

This expansive development by Jiguur Grand Group is formed of housing for 180 households, 11,800 square meters of office space and 5,870 square meters of retail and service facilities. Situated at the crossroads between the new ‘Millennium Road’ and Chinggis Avenue, this site is 3.5km from the city centre. The total development consists of 7 blocks, with underground parking for 131 cars.

Block I: 16 level office building with 1st floor retail and service facilities. Each office floor is split into smaller office suites of either 110.8 square meters, 90.61 square meters or 106.5 square meters in size.

Block II: 16 level office building with retail on the first floor. Office suites on these floors are sized at between 90.61 and 106.5 square meters.

The adjoining Gegenteen Entertainment Centre will contain 4 cinema screens, each with seating capacity for between 75-100 persons. This entertainment facility is presently under construction and should be completed during 2015. Ground floor retail space in the existing facilities is being sold at US$ 4,500 per square meter, with upper floor retail space selling at US$ 4,100 per square meter. Approximately 500 square meters of retail space remains available for sale, with freehold units of between 55-140 square meters open for purchase. The residential component of the Gegenteen complex is firmly targeted at the mid-end of the market, competing with the now ageing Orgil trade centre opposite.

E. MORIIN KHUUR TOWER

Located to the south of CBD, within the 15th Khoroo of Khan Uul District. This is a mixed use facility, containing residential office and retail facilities. The top of the building, which will be shaped like a traditional horse-head fiddle, will be over 300m high. The project developers have planned to include several cultural facilities in the development, including a ceremonial hall, museum of Mongolian State Great Khans and a large library facility. A World Museum, art gallery and genetic centre for Mongolian peoples, astronomy centre, museum of archaeology and anthropology and Mongolian ger museum are also proposed.

The tower will incorporate 30 above ground levels and it is planned that there will be 4 underground levels, of parking. The tower will feature three levels of high end shopping mall facilities, an ensemble and concert hall, an estimated 19 levels of office space, fitness centre and swimming pool. Total Office NFA is projected at around 15,000 square meters, although this is subject to change. Total retail space is also expected to also total 15,000 square meters.

The project is in the final preparation phase and construction is scheduled to begin during 2015-2019, although financing has not yet been confirmed. If completed according to existing plans, this development will add significant value to the Stadium area.

F. ROMANA RESIDENCE

Developed by Jiguur Grand Group, the Romana Residence is located next to the forthcoming M-Oil residential project and current Corporate Hotel & Convention Centre. This mixed use facility will consist of a single tower containing two levels of retail space, 12 floors of residential apartments targeted at the upper end of the market and a top-floor lounge and restaurant. The project will feature 9 residential unit types, ranging from 68.98 - 155.1 square meters and will target the premium market. The project is currently under construction and the majority of the carcass had already been slip-formed by the end of summer 2014. Project completion is set for Q2 2015 and is ready to begin sales, A price point of US$ 2,400 has been established for residential units (pre-sales as of Q2 2014). Price points for commercial facilities are set at US $4,500 for ground floor retail and US$4,100 for upper floor retail space.

G. HUNNU 2222

Image: Hunnu 2222 Project Rendering

Spread across a 370,000 square meter site, this expansive development, being developed by Khurd Group, is located directly south of Four Seasons Gardens. The facilities have been designed by Chang Architects and Engineers as a mid-upper end, high-density housing project.

Master planning for this development includes 18 towers containing 51 units each, served by two schools and community services. A total of 3,716 apartment and housing units are planned for the overall site, with 1,416 apartments under construction as part of the first phase. This initial phase should be completed during the first quarter of 2015, containing apartments of between 49.95 square meters and 117.83 square meters. Five layout types are presently on offer as part of the first phase.

Hunnu 2222 Phasing

Phase	Number of Units
Phase 1	1,416
Phase 2	916
Phase 3	1,384
Commercial Phase	No residential units, commercial and office facilities.
Town Housing	124 townhouses and 11 luxury stand-alone houses.

Source: MAD Research

The average size of apartments in this complex is lower than competitor projects within the Stadium area and has been designed to cater for a more price sensitive market. However, reports that sales of the smallest size apartments have been sluggish indicate that one bedroom apartments of around 50 square meters, do not meet current market demand for the ‘Stadium’ area demographic.

2. SUPPLY DEPRECIATION

With such a limited housing supply, physical depreciation of assets is not a major hindrance to price increases. The staged, segmentary construction of pre-1990 housing stock in Ulaanbaatar makes separating pricing factors of property age, location and build quality difficult, if not somewhat moot. Unlike in cities such as London and New York, wherein a long history of construction has given rise to highly varied urban forms occupying the same space, developments in certain areas of Ulaanbaatar retain a good deal of homogeneity in terms of date of completion, construction technique and materials, as well as in terms of facilities and pricing. The very oldest housing supply within Ulaanbaatar dates back to the late 1950s and is situated within Chingeltei and Sukhbaatar Districts. Due to their central location these low-rise (3 and 4 level) concrete and brick constructions have grown in price more rapidly in value over the past five years than any other type of development in the city. Moreover, owners are becoming increasingly aware the extent of these price rises in their apartments and, expecting further rises, are often electing to renovate rather than move to new-build apartments. However, during June of 2014 a bill was put before the Parliament of Mongolia that would enable developers to demolish and redevelop whole swathes of the city centre. The rationale behind this was that a number of the 40,000 and 50,000 apartment units were identified as presenting risks in the eventuality of an earthquake. Whilst these were not build with up-to-date earthquake proofing very few new builds in the city are either and the motivations behind this legislation, currently under discussion, are being called into question as highly suspect.

Existing rumoured plans to redevelop these apartments began to seem a very remote possibility when in the summer of 2011 the Ulaanbaatar City Government began a large-scale capital works project designed to renovate and rejuvenate public areas of around apartments; fixing and repairing their street-facing exteriors as well as fitting new enclosed balconies and renovating courtyards. The public works, concluded in 2012, arguably served to enhance desirability in city centre properties and push prices higher. The city centre 40,000 apartments (and to a lesser extent the 50,000 apartments) do draw apartments draw a significant amount of their fundamental value from the fact that in many cases the communal areas surrounding the apartments have not been co-opted for new developments and have been reasonably well maintained as communal areas. Whilst new-build apartments at the upper end of the luxury market may be more spacious on the interior, the exterior spaces of the 40,000 apartment buildings, including communal green spaces and play areas, are a significant source of value. Unlike in many new build apartments, residents of 40,000 apartment units will either overlook a main street or an expansive and quiet courtyard.

The 7th, 8th, 18th and 19th Districts in Bayangol District (Ulaanbaatar) are examples of constructions of the kind known locally as “Brezhnev era” buildings. Built in the 1980s, using prefabricated concrete construction techniques, these apartments are of poorer build quality than those of the 1950s/1960s and suffer from considerable structural and technical problems, including malfunctioning lifts in buildings with at least 10 floors. New build properties have also not been immune from concerns over build quality. In an effort to keep costs low and maximise profits, construction companies, in the early days after privatisation, sometimes built using inferior materials and insufficiently skilled labour. This resulted in projects that did not stand up to the rigours of the extremely cold Mongolian winter. Many of these developments are now in a state of disrepair, displaying warped facades and poorly maintained interiors. It is for this reason that many of the new-builds from the 1990s and early 2000s experience among the slowest price-appreciation within the mid- and upper-residential market segment.

Beyond Ulaanbaatar the housing stocks of Mongolia are even more prone to depreciation. In 2012 the Government of Mongolia initiated an ambitious new plan to rejuvenate the urban infrastructure and built environments of Aimag centers across the country. Capital works plans include construction of new Government offices, new kindergartens, primary and secondary schools, healthcare facilities, roads and housing. For most Aimag centers this will be the first major construction works to take place since the 1980s - 1990s. Whilst private investment has in some cases filled the gap, with many secondary cities receiving small stocks of new retail and residential real estate in the past decade as a result of private development. Office space and social facilities have not been renewed, apart from in a few high-growth cities such as Dalanzadgad. Existing stocks of residential real estate in these small conurbations tends to be constituted of old apartments which weather the extreme climatic conditions poorly. In towns such as Sainshand less than half of the existing supply of residential real estate is connected to all amenities. However, high-growth cities such as Dalanzadgad have seen frenetic construction activity. As a hub of mining this city has reaped the rewards of investment and accrued a new Government office facility, as well as seeing construction of four new residential developments and numerous office spaces that would not seem out of place in the B grade supply of the capital city. Dilapidated constructions in cities such as this are taken to be investment opportunities rather than social and economic problems. However, the disparity in wealth division across the nation, which sees growth in wealth around mining centers, makes continuing depreciation of old housing stock a national problem. Nevertheless, private investment by companies including Oyu Tolgoi, are undergirding new growth in housing markets in high-growth towns and cities, including Khan-Bogd and Dalanzadgad, with the private sector expected to lead the way in redeveloping and re-provisioning depreciated stock.

3. PLANNING AND INFRASTRUCTURE IN ULAANBAATAR

Building codes in Ulaanbaatar have been typically very lax and not well enforced. Part of the issue with this is that they are spread over several documents, which themselves contain limited practical illustrations for the criteria they lay down, thereby hindering effective implementation. Norms, standards and regulations outlined in both the Construction Law and Urban Development Law are wide open to interpretation, only providing the most general of guidelines. Where these codes are breached, the fines that were usually imposed were less than a meal for two at a mid-end restaurant. Some serious infractions only attract a fine equivalent to a cab-fare. Nonetheless, it was predicted last year that, as the Master Plan gradually permeates the legislative regions of Government, building regulations and norms will be reworked and implemented more strictly in order to prevent development of poor quality or even dangerous housing in the ger districts. After public outcry at the deaths of two citizens (one a minor) due to poor construction site safety over the summer of 2012, the City Khural of Ulaanbaatar imposed a brief halt on construction and proposed not only that construction site safety must be improved, but also opened discussion as to what is to be done with poor quality and dangerous constructions, suggesting that a number be torn down. Whilst this has not yet come to pass it is likely that extremely poor quality constructions, particularly those which might impact the health and safety of children, will face considerable scrutiny over the coming year and demolition is not ruled out.

In lieu of a tightening of building codes, as well as tightening of land allocation codes, the City Khural also imposed a moratorium on construction within the city centre of Ulaanbaatar. In August 2012 the Capital City Representatives Khural (City Council), concerned about illegal and semi-legal granting of construction permissions within the territory controlled under Capital City jurisdiction, forbade the granting of permissions for land use except where granted by Government land auction. Over 1,300 hectares of Ulaanbaatar’s city centre were included under the moratorium, which was proposed by the Democratic Party of Mongolia. Permissions for construction on sidewalks, pavement areas, on school or kindergarten grounds and around hospital land were also summarily revoked. The decision was hailed in Parliament as “historic” and has put many developers plans on hold indefinitely.

INFORMATION BOX - WIRELESS NATION

Chinggis Khan’s army was reputedly the first institution to use the Pony Express system of communication. Networks of relay stations staffed by horse-riding messengers were stationed across the vast Mongol Empire, delivering critical messages back and forth. Today in Mongolia, communication over vast distances is critical, but rather than the horse and rider, the mobile phone is now the preferred method of communication. By Q2 2011 there were around 2,712.7 mobile telephone subscribers in Mongolia (within a population of 2.7 million persons).

This indicates that many people have at least two phones. These figures are up an astonishing 14% year-on-year. This is compared to total landline subscriptions of around 135,100 in Q3 2011. Mobile telephony in Mongolia is perhaps an obvious choice given the lack of infrastructure and the vastness of the country. Calls are cheap, a few cents per minute. The largest mobile telephony operator in Mongolia is Mobicom - a joint Mongolian-Japanese venture set up in 1996. They introduced their first 3.5G service in 2009 and mobile internet is now widely available, at least within large urban areas. 4G services are bring introduced and high-speed data is the norm. Competing operators SkyTel and Unitel are developing their market share on a yearly basis.

During the course of 2012, the City Government and Administration of Ulaanbaatar has begun to chip away at the legislative inefficiencies related to planning and infrastructure. An ambitious series of capital works projects has been announced over recent years, including the national 100,000 Homes Project, the new nationwide ‘Up-Building’ program, alongside several urgent infrastructure programs announced in May of 2012. At this time Mongolia’s cabinet announced repair and extension works including 5,572 km of roads and 900 km of highways which would need to be built to connect Ulaanbaatar with provincial centers. These were appended to the “New Up Building” capacity building program. The initiative, budgeted at US$ 3.75 billion, will have US$ 3.5 billion earmarked for construction and infrastructure in Aimag centers around Mongolia. Each of these new developments brings with it the potential of new legislation that will serve to improve planning and implementation of new construction and infrastructure projects. Following a period of unchecked development in Ulaanbaatar, following liberalisation, the city is now wresting back control of the urban landscape and we can expect to see both new legislation and more robust implementation of existing zoning laws during 2013 ,in keeping with the demands of the existing city mater-plan.

However, the number of families residing in Ulaanbaatar's ger districts has increased dramatically in recent years. By the end of 2011 around 184,200 families were living in the city's ger areas (60% of Ulaanbaatar's total population). Of these households, around 81,600 live in traditional Mongolian gers year-round and have no access to central heating, sewerage or piped potable water into their homes. Around 100,300 families reside in informal houses with limited connection to infrastructure. In total, around 55% of Ulaanbaatar's inhabitants do not have access to central heating or reliable water and sewerage systems.

The rapid growth in development of simple houses within ger areas is a concern as, whilst some are well constructed and fully inspected, many are not considered suitable accommodation for a dense urban space. A large number not only rely on coal burning stoves for heat and cooking, they also have no central sanitation connection and sit atop large construction footprints relative to apartment buildings, adding to urban sprawl. As already noted, their often unstructured arrangement actually creates a hindrance to the expansion of amenities infrastructure in the city. The City Government aims to check the expansion of these individual, private settlements, as they severely complicate urban planning and do not perform well as safe, environmentally friendly homes. The compact city model proposed as the future for Ulaanbaatar would see high-density apartments replace individual homes, reducing urban sprawl and requiring less extension of sewerage, electricity cables and heating pipes in order to supply the same population.

A. ELECTRICITY AND HEATING

The first electronic lighting system for Ulaanbaatar was introduced as early as 1922. Electricity supply expanded rapidly during the socialist period, with the construction of eight thermal power plants to provision residents of Ulaanbaatar with reliable electricity and later heating. The nationwide usage of energy peaked in 1989 but then decreased as Mongolia moved towards a market economy and industrial facilities which previously relied on electrical power stalled and ceased to be economically viable. Electricity supply within Ulaanbaatar is being placed under increasing strain as increased use of electrical home appliances and new apartment construction push up energy consumption on a yearly basis. Across the city blackouts are increasingly common throughout the year. Presently the capital city, Ulaanbaatar, is home to three power-stations, which produce a total load of 690 MW. When power purchased from Russia is added to this, the total energy capacity of Ulaanbaatar rises to 782 MW. Nevertheless, the peak electricity load of Ulaanbaatar reached 711 MW as early as the winter of 2010, edging dangerously close to the city's limits. In 2012, power usage rose by a further 3.5%, with around 20,000 households of Chingeltei District experienced power shortages on a regular basis, whilst power outages were also experienced in the ger districts of Dambadarjaa, Belkhiin Am, Bayankhoshuu and Doloon Buudal. Even established apartment districts, such as the 10th and 13th districts, have been losing power during the late summer. as the load on the heating system increased in the run up to winter, officials feared that power outages would be necessary in order to maintain vital heating supplies.

In 2011 Mongolia signed an agreement to purchase electricity from China and has accepted assistance from the ADB to begin construction of a fifth power station to the east of the city, which will supply Ulaanbaatar as it expands. Construction on this project is set to begin in 2013 on a site in Bayanzurkh district. However, completion of this project is not likely until 2016 at the very earliest. Between now and then Ulaanbaatar will surely experience an increasingly intermittent electricity supply.

The central heating system of Ulaanbaatar was initiated in 1959, when a 10km pressure water pipeline was installed and inaugurated. The electricity and heating systems of the capital are intrinsically linked as the coal burning power plants make use of the energy generated from combustion to generate hot water that is piped under pressure around Ulaanbaatar for heating purposes. Presently the city's three coal fired thermal power plants supply a total of around 1,555 G/kal of thermal energy to over 6,000 individual constructions throughout the capital city via 290.8km of heating pipeline. The system presently contains 13 headers and 8 pressure pumps in order to aide in reaching the city's furthest points.

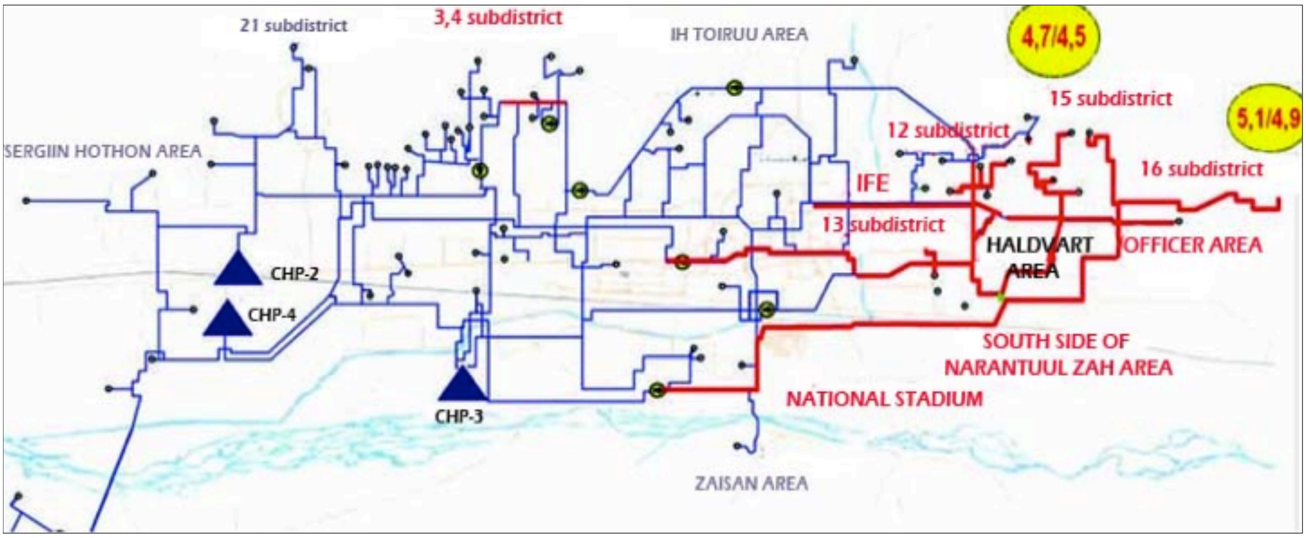
According to the 2020 Master Plan of Ulaanbaatar City, there will be an expected demand of 1,000 G/Kal thermal energy in Ulaanbaatar city within the next five years as a result of new constructions and planned redevelopment of ger areas. With current rates of construction, Ulaanbaatar will be requiring close to another 260 G/kal of heating energy by the end of 2012. The city's current supply of thermal power plants cannot meet this demand with its present capacity.

Current Energy Supply Capacity in Ulaanbaatar

Central Heating Plant	Current Capacity G/kal per hour	Total provision of energy (volume) (G/kal hour)	New consumer's expected uptake of thermal energy (G/kal hour)
Power Plant 2	55	54	7
Power Plant 3	485	485	38
Power Plant 4	1,045	1,016	215
TOTAL	1,581	1,555	260

Source: Ulaanbaatar City Government

It is already difficult to provide reliable heating to certain areas of the city. The 3rd, 4th, 12th, 13th, 15th and 17th Sub-districts, the Zaisan area and the far east of Ulaanbaatar city presently have issues with reliable provision of heating (as indicated on the diagrammatic map of Ulaanbaatar's heating infrastructure below).



These issues are due to insufficient infrastructure to extend the city's heating provision to these outer areas. In recent years the volume of thermal energy required has increased annually by around 80-123 G/kal per year due to increased construction and urban expansion, with the present infrastructure unable to keep up with such heavy expansion.

The general trend of development of the heating supply sector is to extend current lines and increase pump capacities across Ulaanbaatar city. However, heating system development has not, thus far, been able to keep pace with urban development in the capital. According to a survey by the Bureau of Construction and Urban Development Planning, expansion of the heating system to meet demand will require dramatically increased investment if it is to meet projected demands. The present current system of funding remains totally inadequate to meeting this task. Heating remains heavily Government subsidised, with each resident of the city paying a heating fee of around 350 MNT (US$0.3) per square meter from 15th June through to 15th September, almost doubling in the wintertime, with many new developments charging extra for heating as a result of infrastructural costs.

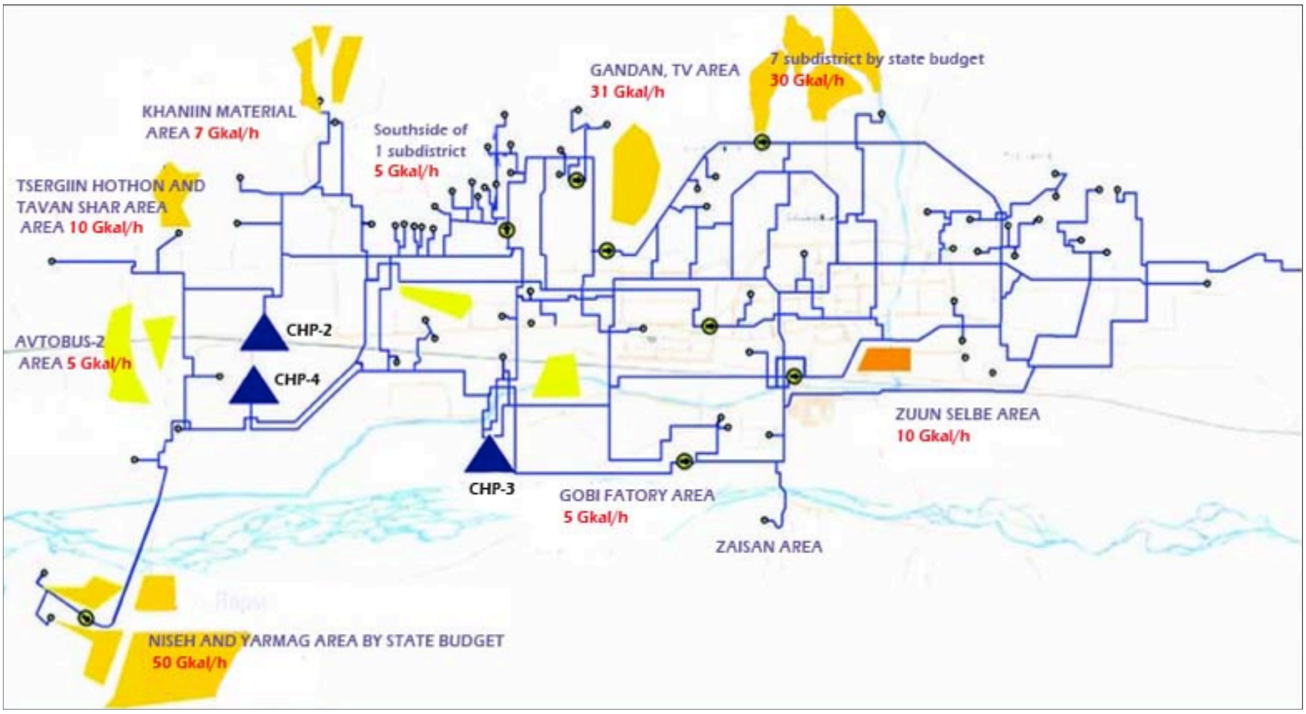
The 5th thermal power-plant, planned to enter operation during 2016, has experienced significant delays in the planning phase. The proposed location for this facility has been altered several times over the past three years.

The diagram below indicates areas of the city wherein large-scale new developments are scheduled under the 2020 Master Plan as well as private developments. These are as are being targeted for further investment, with construction of new facilities and pumps to meet increased demand.

By far the most significant development in the improvement of electricity and heating supply in Ulaanbaatar city is the implementation of a new power station. In December 2012 a meeting of Ministers decided that the 5th Thermal Power Plant of Ulaanbaatar would be constructed in Bayanzurkh District, 2km east of the Bayanzurkh road marker post, in an areas known as the Khuliin Golyn Valley, between the railroad and Urgakh Naran Apartment complex.

43 hectares of land was set aside for construction of the new Thermal Power Plant and appropriate zoning regulations are now being put in place, as well as plans to move current residents of the site to more suitable locations. Construction of the new power plant will commence in 2013 and is expected to finish by 2016. The project will involve both Government and private funds under a 'Build-Use-Transfer' scheme. A total of 36 companies (both domestic and foreign) applied for

the tender to build and use the facility. Presently Mitsui Co. Ltd., Samsung-KOSPO, International Power PLC, Newcom LLC and Daelim-Lanco remain in the running.



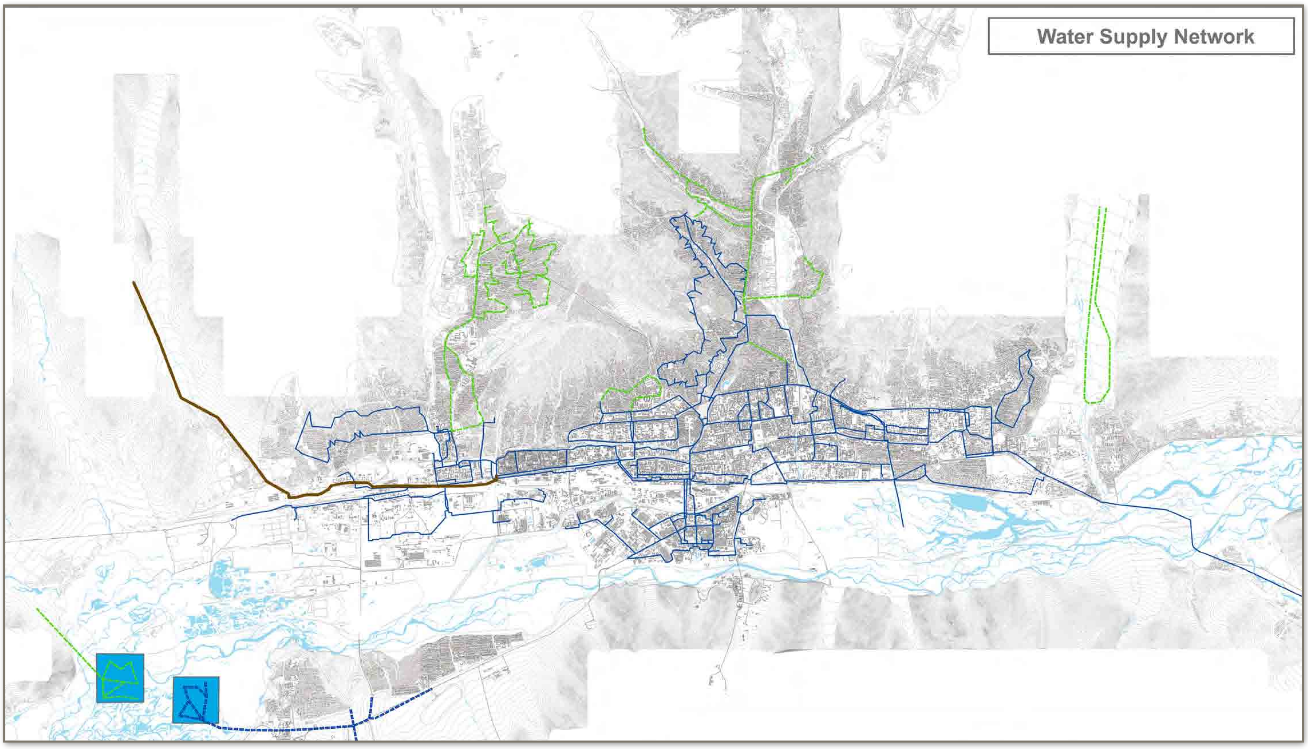
INFORMATION BOX - NEWCOM WIND FARM

In March 2012 Newcom Group, the European Bank for Reconstruction and Development and the Netherlands Development Finance Company signed an agreement to finance a wind farm project in Salkhit. The 50 megawatt wind farm, the very first in Mongolia, marked a turning point in Mongolia's energy trajectory, opening the way to clean, renewable energy. Located just 70km southeast of Ulaanbaatar, the Salkhit wind farm involved cooperation between the EBRD, Netherlands Development Finance Company, the Millennium Challenge Account, the Government of Mongolia and Newcom LLC. General Electric 1.6 MW turbines power the farm, which will cut carbon emissions by 200,00 tons and save over 2 million tons of fresh water over coal fired power station generation. Power from the new wind farm will be provided directly to the central power grid of Ulaanbaatar.

B. WATER

Potable water delivery takes place via two separate mechanisms in Ulaanbaatar. In the city centre apartment blocks are attached to centrally plumbed supplies, which provide running water directly into each individual apartment. In the ger districts, individual homes and gers have no connection and so households either collect water from water-delivery kiosks connected to the central delivery system, or from large water tanks that are supplied daily by water trucks. A network of almost 600 water kiosks has been created across the ger areas of Ulaanbaatar, the majority of which are managed by a state public water supply and sanitation utility company. Each kiosk serves a population of between 900 - 1,200 people and Government regulations indicate that no household should be more than half a kilometre from a water kiosk.

Connecting individual detached houses in the ger districts to water supplies and sewerage is a hugely expensive prospect, ranging from approximately US$ 4,000 to US$ 11,000 per household depending on proximity to existing networks. This makes the current system of water delivery kiosks far more affordable and practical at the present time. When compared with the cost of connecting individual ger district houses to water supply, the cost of connecting apartment blocks to water and sewerage infrastructure are low, equating to around US$ 0.19 per cubic meter of water. This is compared with US$ 0.67 per cubic meter for water kiosks. While apartment residents are charged for their water supply based on flat rates (or on a metered basis in new apartments), ger district residents are charged a nominal fee each time they visit a water kiosk. At approximately US$ 0.01 per litre, this does not represent a significant cost to most households, although the amount charged does not effectively cover the full cost of maintaining kiosk supply services (roughly US$0.20 per cubic meter). Most households store water supplies, necessitating two or three trips to kiosks per week, typically collecting between 10 and 30 litres per visit. Water is transported using carts and trolleys for those living close by and by vehicles for those living further away. The 2020 Master Plan indicates plans to extend central water supplies further into peripheral ger areas in order to facilitate the creation of more centrally fed kiosks, although there are presently no plans to connect individual ger district households to central supplies.



Present wastewater production for a population of over 1.2 million persons is estimated to be nearly 360,000 cubic meters per day. As the map above illustrates, connection to sewerage systems is limited to the city centre, as well as residential areas to the south of the city (including Zaisan). Within the ger districts a majority of wastewater is disposed of in pit latrines or directly onto the ground, posing significant health risks as well as a threat to the city's water-table.

As part of the 2020 Master Plan, the Ulaanbaatar City Government intends to extend sewerage networks that currently only serve the centre of the city, running around 5km north-to south and 12km east to west. New pipelines are proposed for the north and south of the city and construction is already underway on a new east-to-west pipeline, as well as extensions of existing branching networks in the city centre. According to the JICA Master Plan study, the total length of new sewerage piping to be installed around the city will be 88.8km, extending capacity to outlying areas that presently do not have any access to sewerage. A total of three new wastewater treatment plants are planned to handle increased demand from a growing population. There are also plans for new treatment plants in Buyant-Ukhaa and Yarmag. These extensions are expected to be completed within the 2020 timeframe, but face considerable hurdles. The most significant of these is the lack of road infrastructure in the ger districts under which to run new pipeline. The oftentimes irregular arrangements of land plots in these areas makes road constriction and pipeline installation a costly and difficult prospect.

5. TRANSPORT INFRASTRUCTURE

A. ROAD NETWORKS

The road networks of Mongolia have been in development since 1929. A total of 49,250km of roadways have been developed since this time. The top-tier road networks connect regional centers with the capital city and cover just over 11,200km, of which only around 1,500km are paved. Around 1,440km of this network has gravel surfacing, with 1,346km having an improved and levelled earth surface. Over 6,900km of the network is bare earth tracks. Nationally, road infrastructure also includes 365 bridges. Of these 178 are wooden construction.

A further 38,000 km of roadways connect regional (Aimag) centers with their surrounding conurbations and rural regions. Of this second-tier road network a mere 400km is paved and 500km has a gravel surface. 96% of this total second-tier road network comprises of unimproved earth tracks. At present the two paved roads connect Mongolia with one of its two neighbours is the road connecting Zamiin-Uud with Erlian (China) across a busy southern border. The second connects with a Russian border post just north of Sukhbaatar City. The Zamiin-Uud road was only recently completed in its present form.

The Mongolian Department of Roads was assigned as the Government Implementing Agency for development of the state road network, including carrying out of road-related policies and provision of road construction and maintenance. The Agency has worked in close cooperation with the Ulaanbaatar City Government in recent years to arrange renovation and resurfacing of the capital's ailing road infrastructure. The poor quality of inter-city roads within Ulaanbaatar both increases fuel consumption and the overall cost of road transportation. The situation is made worse by unsatisfactory intersection geometry and outdated signalling systems that make controlling traffic in the city almost impossible - requiring police to be stationed at major intersections on a daily basis. The results of this are clear to see during rush-hour, when inner-city roads become jammed with barely moving traffic. With over 209,000 vehicles now registered in Ulaanbaatar (up 96% since 2008) traffic congestion is getting worse, adding considerably to the pollution that in 2011 caused the World Health Organisation to designate Ulaanbaatar one of the most polluted cities on the planet.

With 67% of all vehicles registered in Mongolia being registered in Ulaanbaatar, the city's chronic traffic problems have been singled out for special attention in recent years. The general enforcement of a sustainable urban transportation network within the capital city remains a high priority project in terms of alleviating pollution, maximising economic opportunities, enhancing safety and provisioning appropriate routes for urban growth. Unplanned urbanisation continues to represent a challenge to the increasing number of vehicles that travel the city's road network and to the masses of people who crowd onto an overstretched public transportation network each day.

In 2010 most intersections in the city centre of the city were so severely congested that average speeds reached no more than 5-8 km per hour during peak rush-hours in the mornings and evenings. Insufficient inner-city parking management, lack of pedestrian facilities, poor driver discipline and inadequate traffic signalling all exacerbate the issue further. Traffic accidents are common and, when they occur, tend to involve lengthy in-situ investigation by authorities in order to determine fault, rather than swift resolution in favour of keeping traffic moving. Persons from lower socio-economic backgrounds tend to suffer disproportionately as a result of the poor transportation system and overstretched public transportation network in Ulaanbaatar as most of these live on the outskirts of the city in the city's underserved peri-urban 'ger districts'. They face longer travel distances, often higher costs and significant delays to their travel times.

Poor road infrastructure also remains a serious barrier to sustainable development of ger areas. The wide, often uneven, dirt paths lining the ger areas do not have basic street lighting or drainage, posing safety and sanitation risks as well as hindering access by public and private transport. Improvements to road infrastructure in these areas would give residents easier access to transportation and amenities as well as reducing traffic pollution, but the process of creating a well planned road network is all but impossible. Land re-plotting and improvement of roads goes hand in hand with design infrastructural expansion, therefore, access planning will require consultation between residents and urban planners and will necessitate the city Government taking powers to re-border existing land plots in order to allow roads to move smoothly through ger areas. As has been frequently noted above, any interference with private property by Government is generally frowned upon, and so it may be some time before city planners receive powers to enact this kind of rebounding.

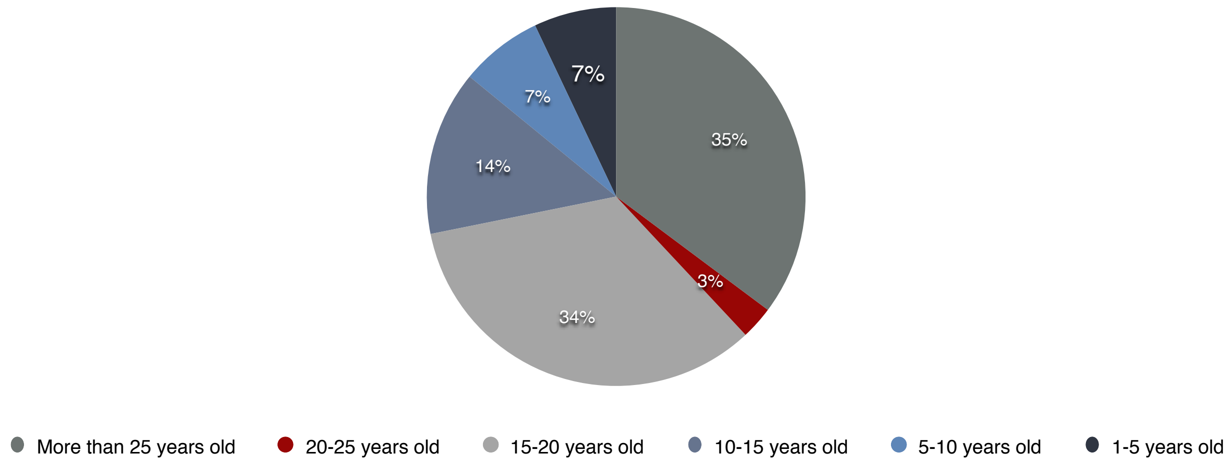
Until recently the road network of Ulaanbaatar was not expanded to meet the increased population and vehicle numbers present in the city. Between 2007 and 2011 only 42.5km of new roads were completed and 68km rehabilitated. Prior to this (from 1990 until 2006) just two road construction projects were carried out - each financed by bilateral donor agencies. Around 65% of Ulaanbaatar's road network remains in a poor condition. During 2012 the Ulaanbaatar City Government planned to carry out 19 separate Government funded projects of road building and renovation. In the same period 58.2km of new roads were proposed, alongside a 135m length concrete bridge, 2 new junctions and one underground passageway, all as part of City Government infrastructural expansion plans.

However, heavy rains during the summer of 2012 hampered construction works considerably. Nevertheless, a number of roads around the city centre were successfully resurfaced, including large sections of Peace Avenue. The City Government also introduced new traffic management measures, including clearly marked pedestrian crossings, railings to prevent crossing at dangerous intersections and new traffic-flow regulating islands. During the summer months crossing guards were deployed on major crossings throughout the city to instil better pedestrian crossing practices and ensure that pedestrians did not commit the common transgression of running out into traffic regardless of what colour the crossing light might be.

A total of 37km of new road was successfully completed in Ulaanbaatar during 2012, with 107km of road being redeveloped, using a Government allocated budget of 114 billion MNT (Around US$ 80 million USD). The late summer of 2012 also saw the opening of a new flyover in Bayangol District, built with Japanese aid and cooperation. The flyover was designed to provide new options for traversing the railway line that bisects Ulaanbaatar city centre. Prior to the completion of this bridge the only crossing points within the city were Peace Bridge (a two-lane each-way bridge) and a two-lane-each-way level crossing further west. This caused significant bottlenecks as drivers attempted to move from the north to the increasingly populated south of the city during rush-hours (8-9.30am and 4.30-7pm). Increased access routes to southern residential and factory districts will lower car journey times and likely contribute to the overall economic development of the city's south. A cut in expected journey times between Zaisan and downtown, from over 40 minutes to less than 20, will likely slow the trend of people moving from Zaisan back into the city centre to avoid daily delays.

Land and property near the access roads to the new bridges will also likely see significant rises in value and increased interest from developers. Already these areas are becoming attractive for developers of mid-income level housing. Between 2008 - 2011 a number of significant real estate projects, including the Ramada Hotel, Max Mall and Jiguur Grand Plaza, were planned and completed for the western side of the city (Bayangol District). One of the earliest high-end residential developments in the city centre, Golomt Towers, was also located next to the western crossroads linking the inner-ring road with Peace Avenue. These developments indicated a gradual westerly movement of the city's up-scale facilities. However, in the interim period attention has turned sharply inwards, refocussing upon the city centre and the area around the Children's Park of Ulaanbaatar. Nevertheless, Orchlon Construction has considered a large-scale mixed use development near to the new westerly bridge. Chono Group have also indicated a potential large scale mall project in Khan-Uul District, a short distance south of the new fly-over. Both projects indicate that new transport routes may well breathe new life into the real estate fortunes of this part of the city.

GRAPH 83: Age of Roadways in Ulaanbaatar



Source: NSOM

Expansion trends for Ulaanbaatar city are being led by Government planning and land allocation at the present time. In accordance with Government Master planning, the trends are unquestionable. In order to accommodate a rapidly growing population the City Government will continue to allow and promote residential growth of the city eastwards, towards the Nalaikh and Baganuur areas of the city, as well as south-westwards, towards the current airport. Construction of new apartment blocks designed for low-income families has already begun along the road east. A number of manufacturing and processing plants are also planned for the eastern part of the city, including the new Thermal Power Plant number 5. The existing industrial areas of Khan-Uul district (home to the current power plant number 3 and the now demolished power plant number 1, have been re-zoned for residential and retail, precipitating the gradual removal of existing industrial infrastructure to new areas outside of the city.

By far the most well known road project in Mongolia at the present time is the Millennium Road Project. Submitted to Government in 2001, this project precipitated a new law on customs duty and VAT exemption on road construction machinery and equipment relating to this project. The road was planned to extend east and west from Ulaanbaatar, creating a highway from the western Aimag centers to the capital and east towards the border with China. The road would the be bisected by axial roads that would link with more densely populated northern and southern urban centers. The Millennium Road project was a favourite of many ministers who originally came from the west of Mongolia, although progress upon its completion has been slow and fraught with difficulties. Part funding for the project was received from organisations including the Asian Development Bank.

During 2014 the City Government of Ulaanbaatar took important steps to alleviate traffic congestion within the city centre by beginning construction on several new feeder roads linking major arterial routes. These include a north-south road linking Peace Avenue with Seoul Street. This is the first of the new roads to be constructed and will be located to the east of the Prime Ministerial residence.

With only one train-line currently traversing the boarder to China, road transport takes up the remaining strain in terms of export logistics. In 2012 there were estimated to be 7,000 trucks on the Gobi Desert operating in the coal and ore distribution industry. These trucks plough along roads ill designed to take such heavy traffic carrying coal loads which often well exceed the recommended carrying capacities of these vehicles. Each of these 7,000 trucks makes at between 10 - 15 trips per month across the border into China and back. The roads and overweight loads mean that each truck has to have its tired replaced around every 22nd trip, leading to great expense for haulage companies which operate in the Gobi region. Despite plans to significantly enhance railway infrastructure, it is estimated that there will be as many as 15,200 trucks on the roads between mining sites and the Mongolian-Chinese border at Zamiin-Uud by 2017, making an average of 16,934 trips per month.

B. RAIL NETWORKS

The railway network of Mongolia currently comprises of 1,815km of broad gauge track, of which 1,110km run from north-to-south, linking Ulaanbaatar with Russia to the north and China to the south. This “trans-Mongolian railway” is the arterial transport route of the Mongolian nation, carrying most of the 16 million tons of freight which entered into, exited, and traveled along Mongolian railway lines in the first 11 months of 2011. Being the shortest east-west connection via Ulaanbaatar, the fibre-optic cable that links Mongolia, Russia and China also runs under this rail line (installed in 2004).

This railway was built between 1949 and 1961 with Soviet assistance. A 50% share in ownership and operations was retained by the Soviet Government (inherited by the Russian Government after the collapse of the Soviet Union). The rest of the railway is owned by the Mongolian Government. The agreement which apportioned out the Mongolian rail network in this way has not been reviewed since it was signed in 1949. However, since the 1990s the Mongolian Government has repeatedly expressed interest in negotiating a change in its ratio of ownership, although Russia has been reluctant to back away from its 50%. Russian Railways, who is responsible for the Russian share, does fulfil all of its obligations in terms of provisioning support for the Ulaanbaatar railway. However, with the rapid expansion of mining activities underway in Mongolia and two large, world-class mineral extraction projects expected to come online in the next five years, the railways are more important than ever to Mongolia's economic success. For this reason such a high level of Russian involvement remains a cause for concern.

With no sea-ports of its own, Mongolia is reliant on railways, alongside its roads, as its primary means of reaching a broader group of trading partners as its mining export industry expands. The company that now owns Tavan Tolgoi, Energy Resources LLC, drew up detailed plans, working with the German state-owned railway Deutsche Bahn AG, to build a railroad southward - connecting it with the Chinese rail network. That plan ran into heavy resistance from Mongolia's political leaders, who feared that too great an economic dependence on China could leave them with less influence over foreign policy. Another route planned for delivery of mineral resources to international markets, a route approved by Mongolia's parliament, would stretch 1,100 km to the Russian border. This railroad would use Russian-style wide-gauge rails rather than narrow gauge rails used in China. Transportation Minister Battulga Khaltmaa indicated that this route would "greatly boost the economic development of Mongolia...Instead of shipping raw materials directly to one market, jobs and value-added production will be created in Mongolia". In accordance with Battulga's statement, the proposed rail line will link with a proposed large industrial complex in Sainshand, within the Gobi region of Mongolia. This processing facility will take raw materials from within Mongolia for processing, adding value before export via Russian sea-ports. Encouraging the development of the Sainshand complex was a significant factor in deciding the final route of the Tavan Tolgoi railroad, although a distrust of too great an economic reliance on China and a time-honoured preference for the Russian way of doing things are assuredly the deciding ones.

An entrenched desire not to become any more on China for exports is understandable. An anecdotal example of China's existing power over Mongolia's export capacity comes from 2002, when the Dalai Lama visited Mongolia. China expressed its displeasure by summarily closing the Mongolia-China border. Many in the Mongolian Government have expressed a fear that China could do the same again after a new railway is built, effectively closing export routes if the Chinese Government perceives a threat to competitiveness of Inner Mongolian processing facilities. Nevertheless, with coal now making up a majority of Mongolia's exports, and an overwhelming majority of coal exports presently going to China, the Mongolian economy is already irrevocably tied to Chinese markets for raw materials.

Mongolia hopes to sell coal and other minerals to South Korea , Japan and coal hungry India. Taking a route to these markets through Russia, to sea ports at Vladivostok, does make sense in terms of diversifying export bases and securing uninhibited access to new markets. Of course, Russia likely also played a key role in this decision. Their 50% stake in the Mongolian railway carries a lot of weight in Mongolian infrastructural decision making circles. Russia has even offered to pay for part of the new construction, following their refusal to allow an American company to audit for the MCA railway project. In addition to its desire to build up its own industrial capacity, Mongolia also finds Russia a more palatable partner in this process. Whilst the northern export route will add heavy costs to export, it is hoped that value added by processing will absorb and surpass these. The Government will open a tender on construction soon and this will most likely go to a Chinese company, as these have the most regional experienced and can offer lower costs. Plans indicate completion of the new railroad by 2015-2017.

INFORMATION BOX - THE ULAANBAATAR METRO

Ulaanbaatar is a city choking under weight of traffic. It's road infrastructure is ailing and designed for a maximum capacity of less than a third of the cars that now plough the streets on a daily basis. Transport networks in Ulaanbaatar are presently limited to buses and trams in terms of formal transit. Semi-formal mass-transit systems include micro-buses, which offer transport for lower rates and are often overcrowded. In terms of average passenger volume, the Ulaanbaatar rush-hour sees over 9,000 passengers per hour transiting along the east-west corridor of Peace Avenue. Between the hours of 8am and 9pm this figure never drops below 5,000 persons per hour. With over 180,000 vehicles traveling through the city daily and an expected 970,000 vehicles using Ulaanbaatar's roads each day by 2020, the situation is expected to result i significant costs to health, the economy and growth of the city unless significant measures are taken to slow growth of car registrations and improve public transport.

Proposals drafted include plans for two metro lines to cross the city, one running east to west along Peace Avenue and one running north to south, potentially reaching as far as the existing Chinggis Khan International Airport. The two lines will serve 29 stations, running 26.6km east-west and 20.6km north to south. The two lines will have an interchange in an underground station near to the central Sukhbaatar Square. The City Government is seeking funding from agencies such as the Asian Development Bank to enable the building of this ambitious project that South Korean companies Su Song and Seoul Metro Consortium have been jointly selected to build. Concerns have been raised over the capacity of such a significant project to pay for itself in any reasonable time-frame, considering the low fare ceiling that would be applicable in Ulaanbaatar. Fares would likely have to remain under 500 MNT per journey (in order to be affordable and suitable for a mass transit system), whilst preliminary figures state that at least 4.5 billion USD will be required to complete the project (an LRT metro costs on average between 30 and 90 billion MNT per kilometre while a metro would cost between 80 and 1.2 Trillion MNT. The running costs of the two systems are also different with the LRT being considerably cheaper). It is estimated that by 202 15,000 passengers an hour will travel into and out of the city centre of Ulaanbaatar during peak times, this is more than enough to support a metro system of the proposed size.

In addition to extension of the rail network towards new sea-ports, greater integration between the existing rail air and road infrastructure networks is being sought through new projects such as a 65km spur is planned to link the new Ulaanbaatar airport with depots planned for Tolgoit and Nalaikh - combining a large new freight handling facility in the new airport with national logistical networks. From there the railway will rejoin the trans-Mongolian arterial route. The diversion of rail freight out of the city is expected to increase safety and decrease bottlenecks caused by competing demands of passenger and freight rail services. It will also enhance efficiency of import-export logistics within Mongolia.

C. THE BOGD KHAN RAILWAY PROJECT

The Ministry of Roads and Transportation announced that a proposed Bogd Khan railway project will be implemented between 2012 and 2016. The railway will connect the Mandal and Bagakhangai stations, crossing Tov Province and linking Batsumber, Altanbulag and Bayan Soums. The cost of construction of this 170km stretch of railway will amount to 326.8 million USD. The railroad will offer an alternative means of transportation for residents of the capital, connecting with light-railway transportation that is envisaged as taking passengers from one side of the city to the other in just 15 minutes when operational. Adding yet another means of transportation to Ulaanbaatar's urban framework can only improve the present codetermined problems of congestion and pollution. By offering rapid rail transport and replacing the current Ulaanbaatar section of the railway with electrically powered locomotives it is hoped that two sources of pollution will be tempered - cars and fossil fuel burning locomotives. The Ministry of Roads and Transportation are presently seeking private sector partners in order to implement this project. The first new trains to run this route were unveiled to the public during the spring of 2014.

D. BUS SERVICES

Within Ulaanbaatar there are 95 different transport routes, served by buses and trolleybuses. This represents the overwhelming majority of bus services throughout Mongolia. Inter-city bus services available, although these are usually run by private individuals who have a bus at their disposal and will happily transport passengers as far afield as Bayan-Olgii (3 days by road) for a minimal fee, providing they don't mind the cramped and bumpy conditions of travel. Ulaanbaatar's ailing public bus services received a significant boost in 2012 when city authorities announced a new initiative for the capital's roadways. Trolleybuses and buses would be allowed to travel in the first lane of the central section of Peace Avenue, whilst no other cars would be permitted to do so. It was hoped that this would reduce waiting times for buses along the city's most crowded main artery. Effective from 10th December 2012 taxis (those meeting Government standards) and buses carrying children to school were also allowed to use these lanes (by this time marked off with bollards).

Bus services in Mongolia are highly limited at present The 2009 JICA study indicated that the vast majority of bus users in Ulaanbaatar adopt this mode of transport because they have limited other options. Low fares and reasonably quick travel times are cited as good reasons for using this mode of public transport. Whilst the JICA survey team indicated that people were reasonably satisfied with the operating conditions of the buses and trolleybuses themselves, the security and comfort (both on-board and at bus-stops) were considered highly unsatisfactory - with theft a major issue on Ulaanbaatar's busses at present. Therefore recommendations for the master plan include improvement of bus waiting conditions that are now being met by recent initiatives. The Public Transportation Department of Ulaanbaatar stated, in late 2012, that in 2012 alone 136 new buses were brought into operation by private companies now operating public transportation in Ulaanbaatar. In 2013 the city is planning to purchase a further 100 new buses and 20 new trolleybuses.

E. NEW INTERNATIONAL AIRPORT PROJECT

As numbers of tourists and business travellers entering Mongolia increase year on year, alongside meteoric rises in air-freight into and out of the country, greater stress is placed upon Mongolia's only first grade international airport, the Chinggis Khan International Airport. Established in 1958, the Chinggis Khan International Airport began receiving regular flights in 1961. The airport was extended and upgraded between 1994 and 1997 with help from the Asian Development Bank. The current airport, with its two international gates, receives over 4,000 tons of cargo each year and receives nearly three-quarters of a million passengers. The rapidly expanding volume of both passengers and cargo through the airport, as well as a desire for the capital, to have a truly international standard aerodrome, led to the Government of Mongolia making plans to build a new airport in Tuv Aimag. In 2008, the Japan Bank for International Cooperation agreed financing of US$385 million for the project.

INFORMATION BOX - EZNIS CESES TRADING

Launched in 2006, this airline, owned by Newcom Group, established a dominant position int he Mongolian air travel market, carrying its 100,000th passenger by 2008, doubling its fleet size during 2012. However, on 22 May 2014 Eznis ceased all operations due to the financial difficulties after restructuring efforts failed. Over the past three years the airline industry in Mongolia has seen dramatic growth, both in terms of numbers of new competitors and the addition of new routes. Competitors have been vying for passengers on established domestic routes, creating competition around price points that is, in part, responsible for the financial difficulties experienced by Eznis. Plans for Eznis to introduce a national chain of regional branded hotels have now also been shelved as a result of this cessation of operations.

The new airport will be situated on a 6,600,000 square meter plot of land, with the total area of the new passenger terminal planned at 98,899 square meters. The total footprint of the constriction will be 132,900 square meters, with second and third levels consisting of 98,000 and 62,900 floor-plates respectively in a tapering structure.

Initial plans incorporated 15 gates, 10 baggage claim areas, 20 customs check sites, 30 immigration booths and 50 check-in counters. The airport is designed in order to handle the annual increase in cargo moving through the current international airport, with a weighting of 70:30 in favour of cargo transportation facilities. Initial plans for a 57,300 square meter cargo terminal are open to revision, although it is expected that this facility will make a sizeable improvement in cargo movements into Ulaanbaatar. On-site facilities will include a thermal power-plant for heating and electricity supply to the airport facility, a separate administration building, a dedicated fire-station, dedicated gas station for ground-vehicle refuelling, security facilities and full support and auxiliary facilities.

Initial plans for the first phase of development incorporate single runway, although a future extension plan indicates potential for a second runway to be built at a later stage. The airport will be linked to the capital city along a 70km road that will allow for speeds of up to 80Km/hour. This road will be four lanes in width and contain 5 interchanges. Work was initiated in 2011 on the existing section of road that links the current airport with the city, widening and repaving this roadway in order that it can later be joined to the new section of road being built out towards the new airport.

From the outset the new Ulaanbaatar International airport will receive international flights from nine international airlines, hoping to expand the number of flights per week, as well as passenger volumes, as well as air cargo transfers.

F. REGIONAL AIRPORTS

The domestic aviation markets have been hit by successive shocks in the past two years. Among those tipped for success was Eznis airlines. Following a period of rapid expansion, this scheduled and charter airline captured a significant market share in the internal travel market, as well as running routes to China and Russia. Launched in 2006, this airline, owned by Newcom Group, established a dominant position int he Mongolian air travel market, carrying its 100,000th passenger by 2008, doubling its fleet size during 2012. However, on 22 May 2014 Eznis ceased all operations due to the financial difficulties after restructuring efforts failed. Over the past three years the airline industry in Mongolia has seen dramatic growth, both in terms of numbers of new competitors and the addition of new routes. Competitors have been vying for passengers on established domestic routes, creating competition around price points that is, in part, responsible for the financial difficulties experienced by Eznis. Plans for Eznis to introduce a national chain of branded hotels have now also been shelved as a result of this cessation of operations.

In December 2012 the Civil Aviation Authority of Mongolia met with associated parties in order to discuss plans to expand urgently needed airport facilities across the nation. The Chinggis Khan International Airport is the only first-rate ranked airport within Mongolia that accepts international passenger flights, with regional airports ranked second and third rate, with five regional airports ranked as fourth-rate. The aerodrome at the Oyu Tolgoi mine site is also first-rate ranked, capable of handling a Boeing 747 and with terminal and cargo facilities that are capable of handling more volume, with better conditions, than the existing Chinggis Khan International Airport. However, this airport only usually accepts and sends charter flights for mine workers and those traveling on mine-related business at present. The route is operated by domestic carrier Eznis.

Despite only having a 17 regional airports, Mongolia also contains 8 aerodromes with paved runways and 14 aerodromes with earth-road airstrips, not all of which are in regular use. With interest in the aviation sector increasing, privately owned and run airports have been discussed as a potential solution to the lack of airport facilities. Privately owned airports are already planned in Tsetserleg and Mongoin Gol (Khuvsgul Aimag), Durvuljin (Zavkhan Aimag), Dari and Khushuut (Khovd Aimag), Tseel and Altainkhuder (Govi-Altai), Shinejinst (Bayankhongor Aimag) and Sinahsna and Zamyn-Uud urban centres of Dorngovi Aimag. The Civil Aviation Authority is also considering projects to widen or repave airstrips at existing aerodromes or renew technical infrastructure of existing aerodromes with private support.

VIDEO PRODUCTION SERVICES

PROFESSIONAL YET COST EFFICIENT DOCUMENTARY VIDEO PRODUCTION

M.A.D. has over the years successfully produced a number of exceptional documentary videos focused on different aspects of the Mongolian marketplace and its real estate environment. Strong from that experience, M.A.D. is now producing professional, high quality documentary style videos for external clients.

Our videos are all produced and shot in Mongolia using our own in-house crews and top of the line equipment which gives us both a cost advantage as well as an excellent control over the quality of the production. Our main strength lies not only in our on-the-ground experience but also in our ability to communicate with our clients on a constant basis through our country office and our professional expat staff.

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RESEARCH AND INTERVIEW PLANNING

TALENT ACQUISITION

SHOOT MANAGEMENT

A & B TAPE SHOOTING

VIDEO EDITING

TRANSLATION

FINAL EDITS AND PRESENTATION

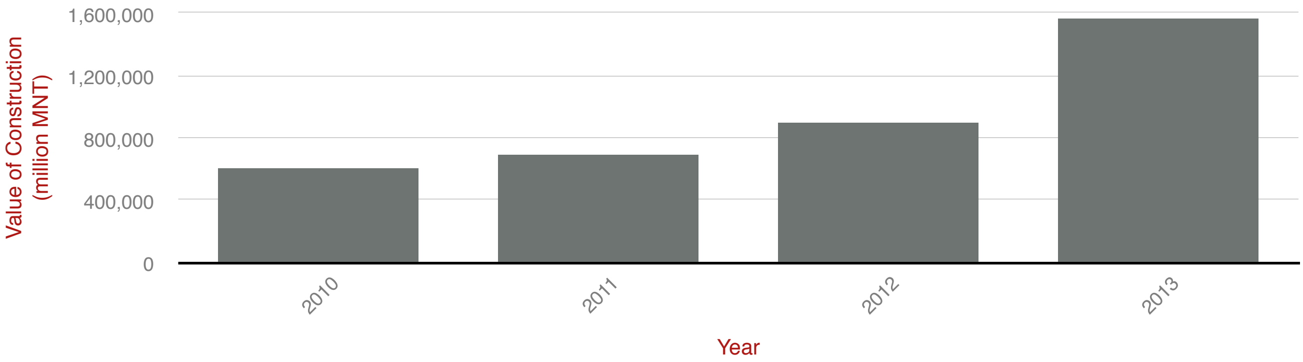
SOCIAL MEDIA RELEASE

XI. CONSTRUCTION SECTOR OVERVIEW

1. INTRODUCTION

The Mongolian construction sector saw the most dramatic growth in its history between 2012-2013. During FY 2013 the construction industry grew in by 78.5% over the previous year, with a total expenditure of 1,845.9 billion US$. During this period 1,237,300 square meters of residential space were brought into operation nationally, resulting in a total housing stock of 11.4834 million square meters. This represents an 8.4% increase in total residential space nationally, within the space of just one year - equivalent to 18,012 new apartment units.

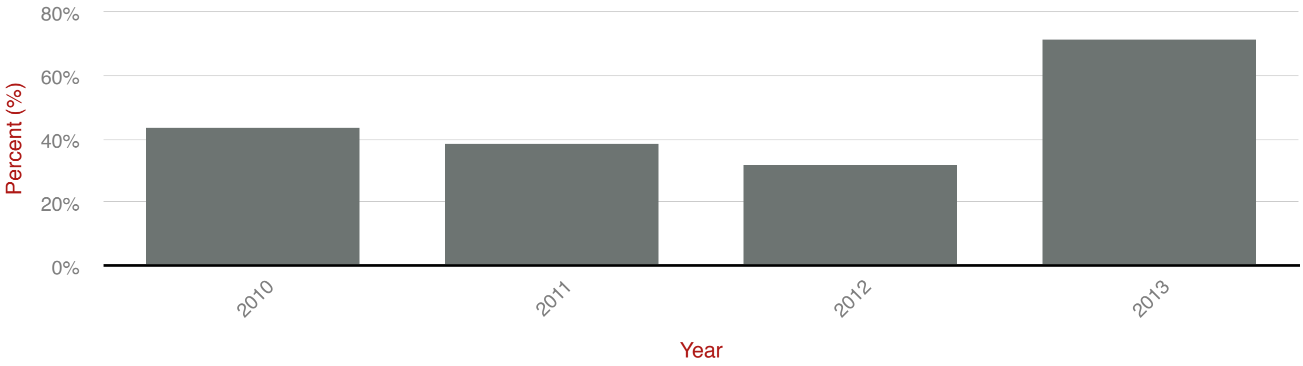
GRAPH 84: Construction & Capital Repairs - Total By Year



Source: NSOM

The construction sector remains heavily focussed upon Ulaanbaatar. Whilst Ulaanbaatar has typically accounted for around 30-40% of the national total construction and repair output each year, 2013 saw this number rise dramatically to over 70%.

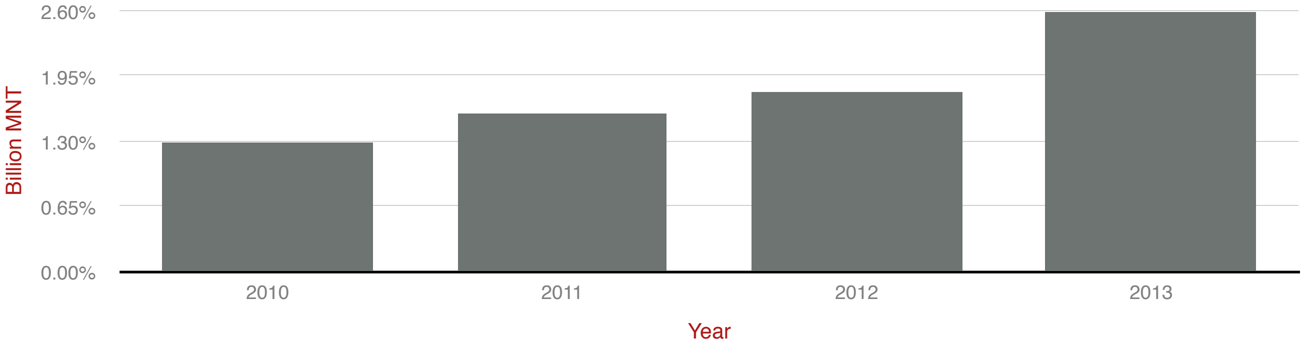
GRAPH 85: Construction & Capital Repairs in Ulaanbaatar as % of National Total



Source: NSOM

This comes on the back of a dramatic slowdown in mining construction and a rise in new constructions within the residential market - focussed heavily upon Ulaanbaatar. This is, in part, due to the impact of the Government backed low-cost mortgage scheme, which has expanded demand within the residential market and enabled developers to capitalise new projects through robust pre-sales. The second impact has been the related initiation of her district redevelopment projects. The 19 ger district redevelopment project taking place across Ulaanbaatar are the largest and most significant developments to take place in the capital, with the aim of provisioning around 75,000 new homes atop land currently occupied by the city's sprawling ger areas.

GRAPH 86: Construction Sector Contribution to GDP



Source: NSOM

The boost in construction sector output and investment meant its contribution to GDP rose by 44% during 2013. Such a rise was the stated aim of the Government of Mongolia in their efforts to prop up the domestic economy This follows on from a 36% increase year-on-year between 2011-2012 and a 120% increase since 2010. Nevertheless, this rapid growth continues to stoke fears of a construction bubble that could eventually burst. There is certainly precedent for this. Between 2004-2008 rapidly rising house prices and construction sector activity met a sudden end when mineral prices fell and revenues upon which growth had been predicated, fell abruptly. During this crisis those developments funded directly by revenues from mining activities felt the impact of the downturn in prices almost immediately.

INFORMATION BOX - REAL ESTATE AND CONSTRUCTION MARKET LOAN GROWTH

Growth in the rate of loans to the real estate market increased by 75.5% during the first quarter of 2014. This is compared with a 19.9% increase during Q1 of 2013. During the same period loans to the construction sector increased by 62.4%. The non-performing loan rate i this sector remains low, at 4% of the total balance in Q1 of 2014, down from around 6-7% during the first quarter of 2011. This highlights dramatic growth within this sector, buoyed up by lending by municipality-run and commercial banks during 2013-2014.

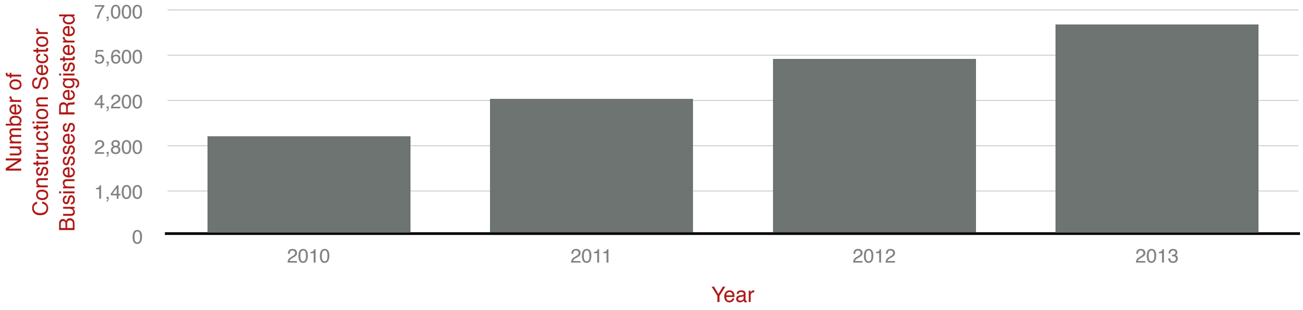
Those using debt funding were also impacted, although a little later as a result of a squeeze on liquidity. It is known that the Government of Mongolia operates a somewhat pro-cyclical policy approach and that this has impelled somewhat reactive policies on the part of the central bank. Money supply has, historically, increased during periods of economic growth and contracted during periods of economic slowdown as a result of inflationary concerns. This has led to a familiar cycle of limiIng credit and then making it abundantly available. The upshot of this is that commercial banks lending to the construction and mortgage markets see swinging liquidity and interest rates (easy to see during 2009-2010), which, as house prices rise and the market becomes more heavily mortgaged, could have incredibly detrimental impacts. At times of interest rate rises and liquidity squeezes (2008-2009 is an example) construction companies have been unable to obtain financing at favourable rates, if at all, leading to slowdowns in the construction sector. During 2012 a dramatic slowdown in coal exports to China precipitated this same dynamic, leading to a slowdown in money supply and rising interest rates. With continued financing for the 8% mortgage program already uncertain, this situation may well again pertain.

2. MARKET HISTORY

The construction industry in Mongolia was fully state controlled prior to 1990. At this time the construction sector as a whole employed nearly 28,200 people. The transition period hit the construction sector hard. Privatisation led to an annual fall in contribution to GDP of between 14%-16% per annum between 1990 and 1995. By the turn of the century Mongolian construction companies were responsible for building no more than a handful of apartments annually (around 300 per year). Nevertheless, the fortunes of the construction industry in Mongolia was set to improve with the development of the 40,000 Homes construction program. This Government initiative began in 2000 and was designed to provision low-cost housing to families living out in the sprawling ger districts of urban centres. Since the inception of this project around 2,500 new construction and development companies have been created in Mongolia across all areas of the industry.

At present there are 6,529 businesses registered nationally within the construction sector, representing a 20% increase in numbers of entities in just a single year.

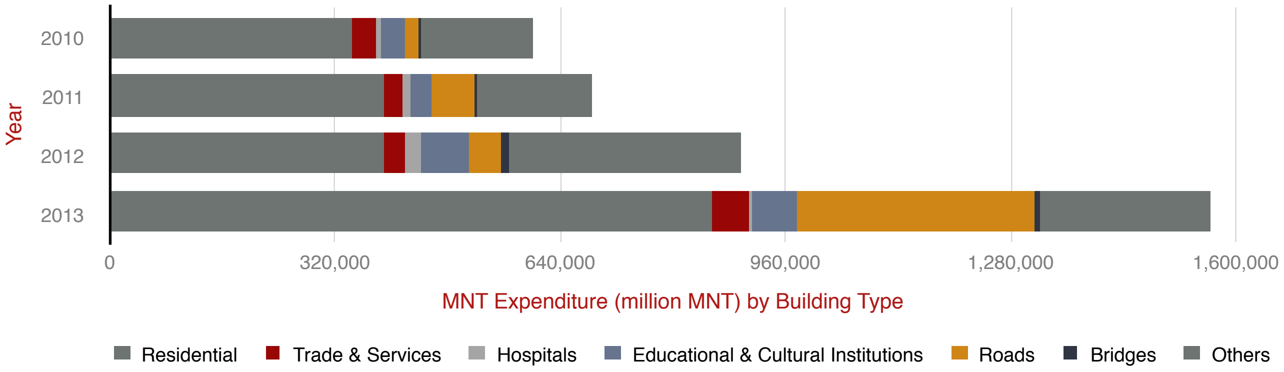
GRAPH 87: Number of construction Related Business Entities in Mongolia



Source: NSOM

The recrudescence of the Mongolian construction industry was, in large part, led by foreign companies from Korea, Japan and Russia. However, most of the largest construction firms operating in Ulaanbaatar today are Mongolian companies. The 2008-2009 economic downturn caused many construction projects in Mongolia to be put on hold. Nevertheless, recovery was clear during 2011. During the first quarter of 2011 the residential construction segment in Mongolia was worth an estimated 30 billion MNT ($23.4 million US), up from just 10 billion MNT ($7.8 million US) for Q1 2010. In 2011 10,747 new apartments were completed within Ulaanbaatar alone, across 101 developments (representing 305 billion MNT of total investment over the construction lives of these projects). By 2013 construction and capital repairs had reached 1,845.9 billion MNT (just over US$ 1 billion).

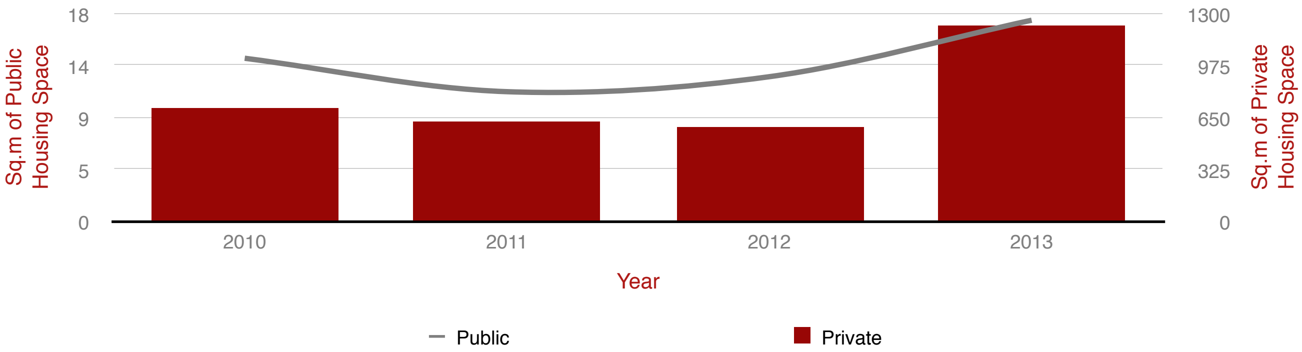
GRAPH 88: Expenditure on Construction by Building Type in Mongolia During 2013



Source: NSOM

This means a 78.5% increase year on year 2012-2013 in construction sector spending. As the graph above illustrates, the great majority of this increase came from upscaling of the residential sector, which itself makes up over 95% of the total expenditure of the Mongolian construction sector the previous year. This is due to Government stimulus lending within this area as well as Government backed measures including the 8% mortgage scheme providing for dramatic demand growth over the course of 2013.

GRAPH 89: Square Meters of Housing Put Into Operation During 2013



Source: NSOM

The second greatest investment into construction and repair during 2013 went into roads. Year-on-year the increase in investment for road construction and repair rose by 745%, spurred by new projects to construct roads within Ulaanbaatar (including a highway to the airport and connecting roads within the capital city CBD to alleviate traffic congestion). Regional and national road-building projects were also re-capitalised through off-budget spending via the Mongolian Development Bank, a Government owned independent development bank. The upshot of this dramatic stimulus to the construction markets, in particular the residential sector, is that completions of private housing space rose by 205% from 2012-2013 (as indicated by the graph above).

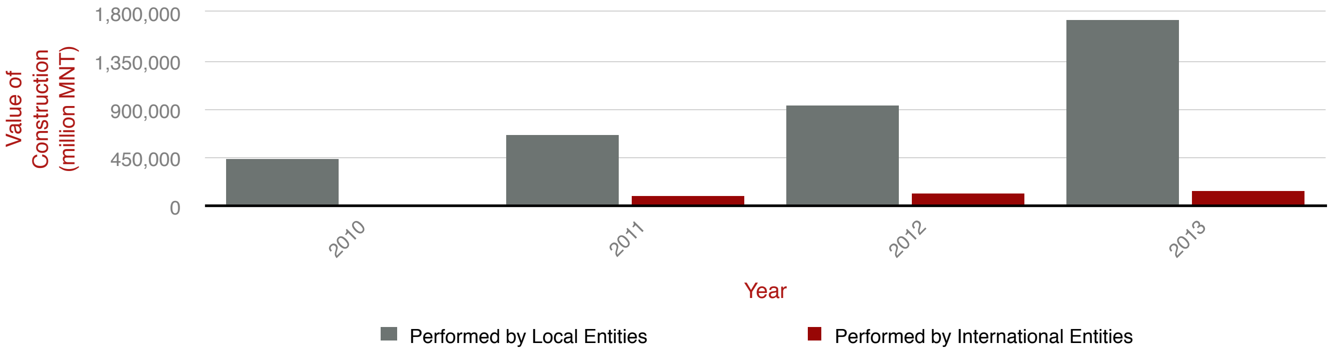
INFORMATION BOX - Q1 2014 HOUSING SUPPLY UPDATE

During Q2, 2014,there were a total of 228 construction projects in 7 districts of Ulaanbaatar underway, as a result of which 40,285 units are being constructed. 196 of the projects under construction are residential apartments, equating to 39,296 units. A full 989 units will be stand-alone or terraced housing. Around 21% of the units presently under construction are on the primary market for less than 1.8 million MNT. A further 57% of those units under construction are entering the primary market at between 1.8 - 2.8 million MNT. Those above 2.8 million MNT account for just 22% of the supply under construction at present. District-by-district breakdowns indicate that 78 projects are located in Bayanzurkh District, 69 in Khan-Uul District, 29 in Songinokhairkhan District, 20 in Bayangol District, 21 in Sukhbaatar District and 5 in Chingeltei District. A further 6 projects are also underway in Nalaikh District.

While Ger area redevelopment project process is optimistically estimated at around 20% completion, with first phases across all 19 projects estimated to reach completion in 2015. When this project completed, that will supply 24% of the total housing projects in UB, although the 2015 phase one completion schedule is highly optimistic at present, with MAD analysts having reviewed all 19 projects and indicating a 2016 - 2017 completion date for some that are still locating initial investment.

Local entities are also conducting a majority of construction and repair work at present. During 2013 international entities performed just 7% of construction and capital repair projects in Mongolia, mostly in highly specialist sectors, whist domestic entities were responsible for 126,362 million MNT worth of construction and repair work.

GRAPH 90: Value of Construction & Capital Repairs by Entity Type



Source: NSOM

There are presently no European or American construction firms working directly in the real estate sectors, although the Canadian construction company Buick are in talks with a number of developers over the potential for financing and constructing significant mixed use projects within Ulaanbaatar.

3. MATERIALS

Bottlenecks in supplies of building materials continue to exert pressure on prices in the construction industry. Mongolian companies continue to supply cement to the domestic market, as well as a limited range of iron products, although most construction materials remain imported from China, Russia, Germany and Korea. However, with external price shocks having signifiant impact upon construction materials

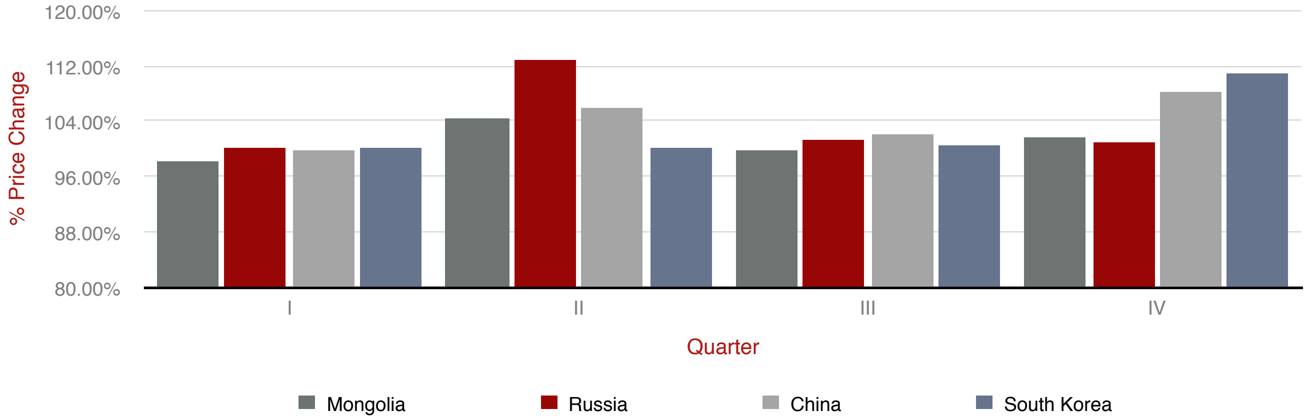
Mongolian Domestic Cement Production Capacity - 2011

Facility	Installed Capacity	Operations Commenced
Erel Cement	180,000 tons per year	1968
Hutuul Cement	500,000 tons per year	1984
Central Asian Cement	280,000 tons per year	2014/2015
Remicon JSC	300,000 tons per year	2013/2014
MAK	3,000 tons per day	2014/2015
TOTAL DOMESTIC CAPACITY AT 100% EFFICIENCY	1,860,000 tons per year	

Source: Reports from Manufacturers, Central Asian Cement

Logistical demand is another very significant driver of construction material prices. Each year volume on the national railway increases as imports of mining machinery continues, mining exports continue to ramp up, and the construction and industry grows. This is creating severe bottlenecks along the road and rail transport routes which bring construction materials across the border from China. With supplies being limited, mining and large construction firms are willing to pay premiums for materials, thereby driving up costs across the sector.

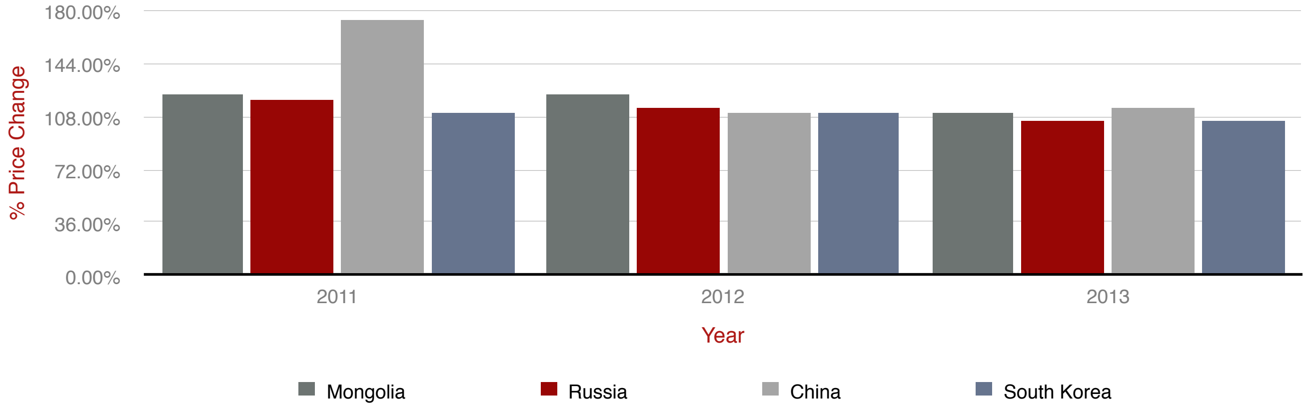
GRAPH 91: Price Changes of Major Construction Materials in Mongolia by Manufacturing Origin 2013 by Quarter



Source: NSOM

Analysis of price changes in major construction materials in Mongolia by manufacturing origin during 2013 reveal a familiar seasonal trend. From Q1 - Q2 prices in construction materials across the board rose by 6.3%, with imports from Russia rising by 12%, from China by 5.9% and domestically produced materials rising by 6.5%. Whilst logistical and import bottlenecks contribute to the rising prices of Chinese and Russian materials during the Spring months, when the construction season ramps up to a frenzied pace, demand pressures on a small domestic supply of key materials such as concrete and bricks forces prices up in the domestic market. Prices tend to drop back by the third quarter and may show price increased at the end of the year as winter makes import more difficult. Companies are also now beginning to import earlier in the year in order to stockpile before the Spring construction season gets underway. This is evening out price variations due to demand/supply mismatch, although the Q4 2013 spike in prices is most likely due to dramatic demand increases with unprecedented levels of construction industry growth throughout the past 18 months. Overall price growth across all 26 basic common and basic building materials surveyed revealed 12.9% growth in building materials. Materials from China rose the most, showing 15.9% price growth from Q1-Q4 2013. For the same period price growth in materials imported from Russia kept pace at 15.5%. Domestically produced materials rose in price by just 5.9% during the same period. It must be noted that during this same period the Mongolian Togrog depreciated against the CNY by 18.5% and against the Rouble by 9.6% accounting for perceived changes in price in import products. Nevertheless, prices used to provide analysis above are pegged to a single exchange rate.

GRAPH 92: Price Changes of Major Construction Materials in Mongolia 2011 - 2013



Source: NSOM

Taking a longer-term view of pricing, prices remain reasonably stable in terms of growth by jurisdiction. With the upscaling of domestic production facilities, Mongolian produced products rose in price by only 10% 2012-2013, with Russian and South Korean imported products rising by only 4.0% and 4.5% respectively for the same period. Chinese products again saw the highest rise at 14% increase between 2012-2013. Over the three-year period represented above prices across the board rose by over 200% in real terms as a result of significant upscaling of the construction industry leading to demand pressures on price, as well as the falling of the MNT against international currencies. Chinese products rose the most in real terms with a three year growth of 141%, displaying a higher CAGR of 2.15. During the same period domestically produced products rose by just 60%. Imports from other major jurisdictions remained more stable due to lower demand and therefore also less logistical bottlenecking on import. Imported construction materials from Russia, South Korea therefore saw price rises over the past three years of just 15% and 11% respectively.

INFORMATION BOX - DEVELOPMENT BANK OF MONGOLIA FINANCING FOR CONSTRUCTION COMPANIES CONTINUES

Despite fears over dramatic growth in off-budget spending by the State Development Bank of Mongolia, the bank continues to finance construction projects within Mongolia. 36 construction companies have presented their projects to receive financing from this organisation during 2014 so far. The Development Bank of Mongolia is not regulated by the Fiscal Responsibility Law and despite being Government backed, does not fall under the same budgetary restrictions designed to reign in Government policy. Whilst this mechanism has been used to spur growth in the internal economy it has attracted considerable criticism for lending to infrastructure projects that have little potential for repayment.

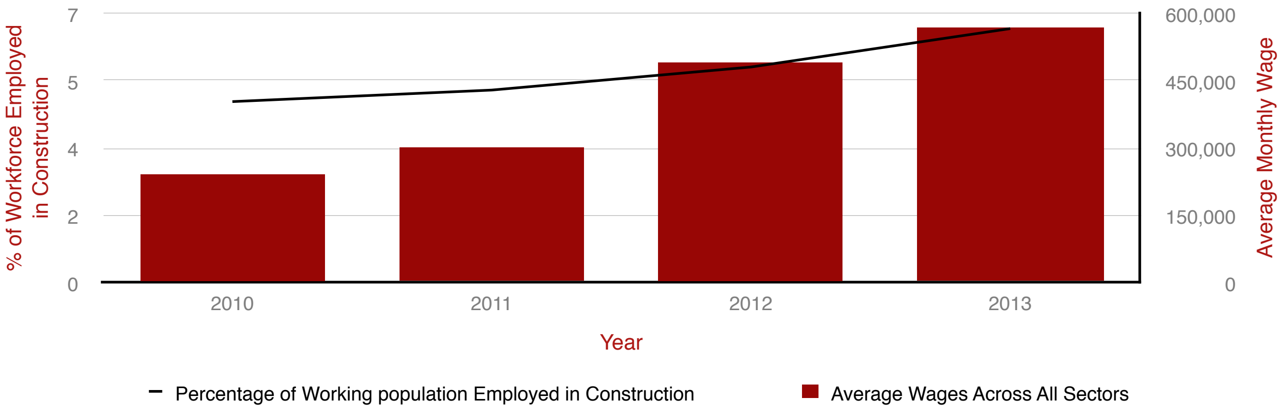
4. LABOUR

The construction sector continued to move from strength-to strength during 2013, requiring significant upscaling of labour power and expertise.

During 2013 he construction sector continued to grow at its fastest pace yet in terms of percentage share in total employment, currently accounting for 6.6% of the nation's total workforce, up from 5.6% during 2012 and 5.0% during 2011. Wages continued to rise during 2013, with employees in construction based firms with less than 10 employees earning an average of 569,200 MNT per month (US$ 311) and those employed in companies with 100 or more employees earning an average of 813,700 MNT per month (US$ 444). This represents a minimum 16.5% increase year-on-year 2012-2013. Such growth is both above inflation and almost 4% higher than the average wage increase across all sectors during the same period.

Desperate for skilled and semi-skilled labourers, Mongolian construction and mining sectors, swelled by Government spending on capital projects and large-scale mining constructions nearing completion, have had to increase wages by almost double the average rate of wage inflation from 2011-2012, with continued strong growth projected in the mid-term.

GRAPH 93: Construction Sector Average Wages Per Month and Employment Figures 2010 - 2013



Source: NSOM

The legal baseline wage is still defined as 1,930 MNT per hour for part-time or casual labourers and 2,136 MNT per hour for contract or project based employment. Chinese electrical engineers are being offered salaries of between 500,000 MNT and 800,000 MNT per month. Large-scale project engineers from China are currently being offered around 700,000 - 800,000 MNT per month. The cost of unskilled assistants ranges from 350,000 to 400,000 MNT per month. Large companies such as MCS and mining giant Oyu Tolgoi have also been known to offer skilled Mongolian labourers and foremen salaries well in excess of 1,500,000 MNT per month. Whilst this represents a positive future for employment within the sector, the concomitant increase in construction costs put projects in the low cost residential sector in danger of missing the affordability range of their target demographics.

Chinese and even North Korean labour remains widely used in construction projects of varying scopes and scales. In fact, the vast majority of large-scale major construction projects in Mongolia are completed using migrant Chinese labourers. The number of legal Chinese workers present in Mongolia at any time during the summer months was estimated at 80,000 in 2010. However, this figure was subsequently considered to be somewhat exaggerated. Reports that Oyu Tolgoi actually employs more than a third of its workforce from China. This means that up to 5,000 employees and contract workers currently on site would be Chinese workers. The Mongolian media initially reported these findings during May of 2012, reporting that as many as half of the workers at the Oyu Tolgoi facility were Chinese nationals. Whilst this is considered an exaggeration, the reports prompted an Government probe in late May. With resource nationalism evidently on the rise, such a discovery at Mongolia's foremost mining resource was not welcomed by the Mongolian public.

The Law of Mongolia on the Legal Status of Foreign Citizens actually states that the total number of all foreign citizens in Mongolia, including workers, students, travellers and foreign residents should not exceed 3% of the entire national citizenship. The total number of immigrants should not exceed 1%. in terms of volume of workers received by Mongolia by origin, In terms of registered origin of foreign citizens in Mongolia, China tops the list, with North Korea coming in second and South Korea third. Estimates compiled on May 1st 2012 indicate that there are around 17,000 Chinese workers currently employed in Mongolia. The Labour Ministry of Mongolia has attempted to hold reasonably fast to the rule that no more than 28,000 foreign workers from one particular country should be allowed into Mongolia at any one time and so proposals by mining and construction organisations to receive up to 40,000 foreign workers in order to meet heavy workloads have fallen on deaf ears for the time being. Once the quota for new workers and residents is exceeded, new workers, once their visa applications are approved, must be added to a 'wait list' (currently around 11,000 long) and must wait to move to the top of the list under Mongolia's revolving door immigration policy

Where Chinese workers are allowed into Mongolia they usually enter on joint visas, which give them highly limited autonomy for the duration of their employment. They are required to work and live only on the designated construction or mine site. Immigration caps imposed by the Mongolian Government limit the number of foreign workers allowed into Mongolia to work on a specific construction project to 600 (although for large scale strategic projects such as Oyu Tolgoi this restriction has been heavily relaxed) and receives a tariff for each worker. Cases where migrant Chinese workers have been found to violate immigration restrictions, or where a company has hired illegal workers, often end in mass deportation. This occurs frequently and usually results in workers not receiving outstanding remuneration for their labour. It has been rumoured that Chinese labourers have been hired illegally and once construction was completed unscrupulous developers would report their own companies to the immigration authorities for violations. Paying the fine for employing illegal migrant workers in these cases worked out much cheaper than actually paying the wages the workers were owed.

Aside from their availability, Chinese workers are often preferred by Mongolian construction companies because they are better skilled and willing to accept lower working conditions than their Mongolian counterparts. A semi-skilled Chinese labourer may expect to earn around $470 per month at the low end, but will work extremely long hours in order to finish demanding construction projects within defined schedules. Oftentimes their Mongolian counterparts are paid only slightly less, but labour under far more favourable conditions.

In order to secure the growth of the domestic construction industry and reduce reliance on Chinese construction labour the Government of Mongolia has set about addressing a shortage of skilled labour in the domestic Mongolian market via a number of mechanisms. The first of these is a unified effort to boost job creation and vocational education within the construction sector. Presently 41,195 vocational labour workers are employed within 1,584 construction enterprises across Mongolia. Of these around 13,198 are technical grade and 27,997 are vocational workers. Government estimates indicate that the requirement for construction workers will expand to 1.5 times the current workforce, with 20,000 new vocational workers needed in the construction sector until 2019.

To this end job stimulus programs have been drafted into new legislation, including a component of the legislation underpinning the 100,000 homes project. In terms of training facilities, a new vocational training facility is soon to be completed in the Nalaikh district of Ulaanbaatar. This facility is the first large-scale vocational training facility to have been built in Mongolia since 1974. Ground was broken on this new educational complex in June 2012. The complex, is being developed in partnership between Oyu Tolgoi and the Ministry of Education and will educate and train thousands of Mongolian students. This first vocational centre is one of three planned by Oyu Tolgoi as part of the company's commitment to developing, training and employing Mongolian nationals. Oyu Tolgoi is to spend around US$ 82 million over a five year period, from 2010 - 2015 on developing new training facilities. The Nalaikh facility will be a truly world-class institution, one of the largest vocational schools established in Asia and the largest ever established in Mongolia. When completed, the education on offer in these facilities will include training in 23 different disciplines, including electrical work, plumbing, mechanics and heavy machinery operation. In addition to building three new centres of vocational learning, another of which is situated in Dalanzadgad, Oyu Tolgoi is also providing curriculum upgrades for existing vocational centres in Erdenet, Ulaanbaatar, Choir and Darkhan.

Such investment will continue develop up to 5,000 Mongolian students into skilled labourers in a five year period. However, with construction and mining sectors expanding rapidly, it remains questionable as to whether or not event these facilities will turn out a labour workforce of the scale required in order to meet construction demand. Those Mongolian labourers who are highly trained will often seek out jobs with large mining companies, who can pay significantly high wages than domestic construction companies. Because the Government of Mongolia has identified this situation as a driver of construction price inflation it has incorporated training into its plans for the new '100,000' homes construction projects. Each phase of the project will actually require a certain quota of Mongolian be employed and trained, with budget set aside for doing so. The Government has also determined that at least 70% of all building materials involved in the project must come from domestic factories by 2016. This ambitious project is designed to stimulate growth around the construction industry further and create jobs in the skilled and semi-skilled construction markets, which already employ many of the lowest earning members of the Mongolian population. The budget for this project, presented to Government, is 800 billion MNT, over half of which will be allocated to companies working directly within the construction sector.

5. TIMESCALES

Construction schedules in Ulaanbaatar, and across Mongolia, are impacted primarily by two very significant factors. The first is climate. In the world's coldest capital city construction is still a highly seasonal affair. During the winter season (October – March) extreme cold halts most construction projects as temperatures plummet down to a low of around -35 centigrade. In contrast, the summer months see frenetic construction activity, with work continuing around the clock on high profile projects. For large multi-level constructions, the average length of construction in Ulaanbaatar city is between 18-36 months, split over two to three summer seasons.

One way Mongolian construction companies have dealt with the short building season is to rapidly deploy more up-to-date construction techniques, doing away with older construction methods. Steel-frame construction is becoming increasingly popular, despite its prohibitive costs. Mongolian construction companies also make good use of slip-forming techniques for large towers.

Obtaining construction permits is another part of the construction process in Mongolia that may extend construction schedules considerably. A Mongolian National Chamber of Commerce and Industry report published in 2009 indicated that it takes 73 days, on average, to procure a construction permit within Mongolia. This is 30 days longer than the regional average, but less than a week above the global average. Once construction is concluded - before Immovable Property certificates can be issued - any new apartment building must also undergo rigorous inspections. Until recently, this required 124 approvals and signatures, although as part of an effort to reduce the bureaucratic burden on the construction industry this has now been streamlined to a 56-point approval. Nonetheless, if one intends not to pay corruption, the process of obtaining all necessary approvals has been known to take over a year. The Government of Mongolia have expressed an interest in further reducing this lengthy process, but as yet no new firm revisions to inspection policy have been made.

Despite the fact that no new frameworks for property inspection are in place, most developers in Ulaanbaatar are expecting significant delays following a decree released by the Chairman of the Ulaanbaatar City Citizens Representatives Khural (D. Battulga) prohibiting new construction works in Ulaanbaatar city centre. The decree was delivered on July 24th 2012. The decree was issued in relation to a number of grievances voiced by Ulaanbaatar residents, including removal of children's gardens and blocking of pedestrian rights of way by new constructions. Only works funded by the State and Capital city are to be conducted until further notice.

6. COST OF CORRUPTION

The cost of corruption is moderate to high within the Mongolian construction industry. In order to gain construction permits a company may expect to pay significant bribes to expedite processes. Reports of corruption payments for permission to build on a plot of land range from 10-50 million MNT. One developer interviewed paid 200 million MNT in bribes to obtain construction permission for a construction containing 40 mid-upper market apartment units. Corruption costs for foreign construction companies are generally higher than for domestic. Foreign firms approached for interview have indicated that they have been expected to pay an average of between 30-40 million MNT to get construction permission, whilst local companies indicated expected payments more in the order for 10 million MNT for permission to build on a medium size plot of land (around 500-750 square meters). It is difficult to assess the true cost of corruption as bribes may be paid in cash or given in the form of assets; including apartments, land and hospitality. Nevertheless, it is usually possible to engage in construction without paying corruption, although delays are to be expected for this to be the case.

Reductions in the approval process are to be expected following further Government consideration, although in the short-term corruption seems likely to remain part of the construction process. Nevertheless, heightened awareness around issues of corruption and diminishing tolerance in both the public and political spheres makes avoidance of current development legislation more difficult. Many of the most experienced and well connected developers in Ulaanbaatar have had to concede that, following the decree of the Chairman of the Ulaanbaatar City Citizens Representatives prohibiting new construction works in Ulaanbaatar city until further notice, their city centre development plans will have to be put on hold indefinitely.

7. CONSTRUCTION LAW

Construction and Planning regulations within Mongolia have typically been interpreted as administrative and operational definitions. When it comes to defining how laws should be implemented present legislation is inadequate. This, however, is set to change rapidly since the 2012 elections.

During the summer of 2012 two accidental deaths due falling construction materials and machinery halted construction across the city temporarily and stirred up public outcry against construction companies whose lax attention to public safety were placing the population of the city, particularly its children, in significant danger. As a result construction projects across the city were required to immediately remedy violations of safety codes, including erecting proper fencing, overhead protection where works are being carried out near to public walkways and roads, appropriate warning signage. It is expected that safety procedures will become increasingly salient in future incarnation of construction laws as a result of these regrettable incidents.

The JICA report commissioned by the Government of Mongolia recommendations to remedy the uncontrolled slew of poor quality constructions, which fit imperfectly into the capital city's overall development plan situation, by creation of legal codes governing city zoning, and within this specific regulatory indicators such as floor area ratios, building coverage ratios, height limits and enforceable regulations on setback limits from rights of way (particularly an issue in some areas of the city centre where extensions to shop fronts continue without appropriate planning permission). Construction laws are currently up for discussion on a city legislative and national level and so these changes, among others, are expected to be brought into force even as planning and inspection processes are streamlined and brought into line with citywide land usage and overall development strategies.

Construction codes in Mongolia do presently exist but are spread across multiple legal documents, are difficult to follow and provision few practical guidelines to allow either experienced construction managers or lay persons to implement them. The JICA team proposed rationalising this system and creating a construction law that prescribes the rules of construction, technical norms and safety regulations. This would go a long way towards controlling urban development and ensuring safe and energy efficient housing, particularly in ger areas.

The section below details the current process of application for planning permissions and inspection of completed buildings - from initial drawings through to issuance of a property certificate - via the various Government and external agencies currently controlling the construction permissions process.:

Request and obtain an environmental impact assessment from the City Environmental Office

Article 4.6 of the Law on Environmental Impact Assessment, adopted in 1998 and amended on July 20, 2006, provided that authorised investigators should make a general environmental impact assessment within 12 working days. If necessary, the related state authority may extend this time. In reality, this initial part of the planning process takes on average 28-30 days. The Environmental Impact Assessment is conducted by the City Environmental Office. No charges are levied by this office for the assessment.

Request and obtain land possession agreement and permission to build

Permission to build can be obtained from the Land Department of the Office of the Capital City Governor or, outside of Ulaanbaatar, from the office of the Soum Governor. The Land Affairs, Geodesy and Cartography agency is responsible for ratifying the permissions and should issue all appropriate permissions within 15 days of request. There is no charge for processing and issuance of these permissions.

Request and obtain approval of preliminary drawings from the Urban Planning Department

This part of the process requires submission of a set of drawings and letter of intent to the Urban Development Department. This will first need to be approved by the Capital City General Architect (located within the Urban Development Department). The drawings will then need to be approved by the District architect. Both approvals are then stamped on the same page and returned back to the architect. This process usually takes around 14 days and incurs a submission fee of 60,000 MNT.

Request and obtain approval of preliminary drawings from the Technical Commission

The developer must next obtain an approval from the Technical Commission stating that the proposed construction work will not affect and heating, electrical power, water, sewage or telecommunications lines. The Technical Commission consists of members from the Heating Network Authority, Electric Power Network Authority, Water Use Authority, Telecom Mongolia, the Radio Network Authority, Housing and Public Utilities Authority, Environmental Protection Authority, Hygiene and Sanitation Control Authority and Fire Fighting Department. Each representative of each different authority delivers its own verdict to the Technical Commission and there is no necessity to visit each and every authority separately. This process takes, on average, 14 days. There is no charge levied for this part of the process.

Request and obtain technical conditions from all agencies through the Technical Commission

The next stage in the planning process requires the developer to submit a letter of application to receive technical specifications from each of the agencies listed in the previous stage. No other processes are necessary for obtaining power connections, although all other agencies require further steps to be achieved in order to obtain connection to the city's centrally controlled utilities. Obtaining all technical conditions takes an average of between 24 - 30 days. Cumulative fees for this part of the process vary from around 75,000 MNT to 390,000 MNT depending upon the project. The individual submission requirements for each agency are listed below.

Request and obtain approval of final drawings from the Fire Department

For a building of less than 3,000 square meters approval of final drawings can be requested from the City Fire Department. Project drawings are inspected and a fee for approval is calculated on a schedule set by the Organisation of Special Emergencies. For constructions over 3,000 square meters further permissions are required at ministry level. Permissions usually take no more than 1-2 days to obtain at an average cost of around 150,000 MNT.

Request and obtain approval of final drawings from the Sanitation Department

A request should be submitted for approval of final drawings from the Sanitation Department directly. This requires submission of final drawing copies and a letter, along with a fee of 25,000 MNT. Approval from this department takes, on average, 14 days.

Request and obtain approval of final drawings from the Chief Architect

A copy of the sketch, working drawing, certification from the Fire Department and certification from the Sanitation Department must all be submitted to the Chief Architect at this point in order to obtain approval. The Land affairs, Geodesy and Cartography Agency handles this approval process. Approval takes an average of 7 days and costs 60,000 MNT.

Request and obtain approval of final drawings from the State Technical Expert

The expert examination of a construction drawing must be made by a consultant selected by the Agency of Land affairs, Geodesy and Cartography. The actual expert examination is put out to tender and costs vary depending upon the consultant elected to undertake the task. Typical fees may range from around 9,700 per square meter to 1,300 per square meter depending. This process takes approximately one month to complete.

Request and obtain a license "to engage in construction works" (permission to build)

Before actual construction can commence, a license must be obtained to "engage in construction works". The Ministry of Construction and Town Planning is responsible for issuing this permission. Construction law permits a period of 21 days for issuance of this license although, in practice, issuance may take longer. There is no charge for obtaining this permit.

Request and receive inspection from the Water Use Authority

The water use authority is responsible for planning use of water resources among the urban population. New developments are required to submit to inspection of plans by this authority. Inspection usually takes no more than 2 days and there is no charge for the inspection.

Request and receive inspection from Telecom Services

The water use authority is responsible for planning use of telecommunications infrastructure among the urban population. New developments are required to submit to inspection of plans by this authority. Inspection usually takes no more than one day and there is no charge for the inspection.

Connect to water services through the Water Use authority

Once inspection by the Water Use Authority has been successfully undertaken connection to the water service must be arranged. Providing infrastructure exists this should take no more than two days and incurs no charge. However, where developments exist beyond the limits of existing infrastructure there will be charges for extension of this infrastructure to meet the requirements of the development.

Connect to telecom services through the Telecom Services authority

Once inspection by the Telecom Services Authority has been successfully undertaken connection to the available telecoms service must be arranged. Providing infrastructure exists this should take no more than one day and incurs no charge. However, where developments exist beyond the limits of existing infrastructure there will be charges for extension of this infrastructure to meet the requirements of the development.

Request on-site inspection from the Technical Commission

Once construction is completed the post-build inspection process begins with an on-site inspection from the Technical Commission. This can take around 14 days to arrange but there is no fee for completion of this inspection.

Request on-site inspection from the State Inspection Authority

Once approval from the Technical Commission has been received a further inspection by the State Inspection Authority must be arranged. The State general Specialised Inspection Department is responsible for carrying out this inspection and ensuring that the construction meets all codes and specifications pertinent to its agreed design. This inspection, once scheduled, takes just one day to complete and there is no charge for arranging it.

Request on-site inspection and obtain approval of the building by the State Commission

Once all other inspections have been completed the developer can request inspection from the State Commission. On average this takes a week or so to arrange and the developer might expect to wait a further 10 days for approval. There is no charge for this inspection or approval.

Register the building in the Real Estate Registry

Having successfully passed all inspections and received approval of the finished construction, the developer can apply to the Office for Registration of Ownership and Related Rights to register ownership of the property. This takes an average of 14 days from the sate of submission and incurs a fee equal to 0.01% of the value of the real property. A certificate will be issued by the Real Estate Registry detailing ownership and formally registering the property.

This Government of Mongolia has expressed an interest in reducing the number of steps involved in final inspection and approval of real estate in an effort to reduce potential opportunities for corruption that currently exist. Nevertheless, the current regime remains somewhat protracted when compared with similar jurisdictions, with an average approval period of 208 days and 19 separate procedures.

XII. MASTER PLANNING & KEY PROJECTS

1. GER DISTRICT REDEVELOPMENTS

The 74% increase year on year 2012-2013 in construction sector spending, which saw numbers of completed residential units growing by 57%year-on-year to 18,102 during 2013, is bolstered by key projects in the residential sector. These include the 100,000 homes project, which itself incorporates 19 ger district redevelopment projects undertaken by domestic developers.

The table below details five key projects which together make up about one-third of the entire proposed residential stock as part of the ger district redevelopment projects. These projects are unique not only in scale but also in the way they are administered. Residents of the 19 different areas designated for redevelopments were asked to vote in a referendum during 2012, during which developers who wished to tender for the project were asked to put forward proposed redevelopment plans. These plans must have first passed an initial stage of approval by city authorities. The 19 companies selected via referendum were then accorded with the remit to purchase land from residents and begin construction.

INFORMATION BOX - BUYANT UKHAA TOWN CONSTRUCTION WORK COMPLETED WITH 130 BILLION MNT CAPEX

Housing demand in Ulaanbaatar is particularly strong with the introduction of new lower cost mortgage financing, backed by the Central Bank and Government of Mongolia. Whilst the upper end of the market has seen stagnating prices and tenuous demand, low-cost housing is a key area for growth in Ulaanbaatar. In some cases low-cost housing developments have become so oversubscribed with potential buyers that they have had to find novel ways to distribute the new homes. The Buyant Ukhaa 1 low cost project, consisting of 1,764 units, found itself well oversubscribed. They have therefore organised a lottery, which took place in May of 2014, in order to determine which consumers could purchase one of the new units. This led to some industry analysts insisting that if sales of certain residential constructions were limited to certain groups then this would improve this situation and lead to more equitable distribution of new apartments, keeping prices lower. However, this type of interference in a growing free-market, in which real estate still remains a key asset and store of wealth, would also pose potential problems.

The second phase of the Buyant Ukhaa project is now underway on the back of a 130 billion MNT tender. The State Housing Corporation and the State are partnering on market and land-use research and are planning to develop a policy of constructing a number of new apartment complexes across the provinces of Mongolia in future. There is already 35-27 billion MNT of planned projects underway in four provinces, with up to 1,000 units planned for up to 10 provinces of Mongolia by the Ministry of Construction and Urban Development.

Initially, these projects, part of the 100,000 homes initiative, got off to a slow start. Construction companies often found it difficult to keep the costs of purchasing plots to a manageable level and were stuck purchasing plots in the middle ger ares, whilst those residents who owned land plots adjoining existing roadways would often hold out for more favourable deals. Nevertheless, companies have gained traction, with several projects beginning first phase construction. Among these, the 7th district redevelopment is notable for being the first to get underway, with phase one of this project being completed during 2014.

INFORMATION BOX - PREFABRICATED HOUSING

Visitors to Sukhbaatar Square in the winter of 2012 may have been surprised to see a number of wood and panel houses being erected upon the southernmost part of the square. This display was part of a show to raise awareness of ecologically friendly pre-fabricated housing construction techniques among the population of Ulaanbaatar city. The present supply of small, detached housing units, is close to 100,000 in Ulaanbaatar. This is equivalent to 80% of the inner city and urban residential apartment stock of the capital. With over half of the residents of Ulaanbaatar's ger districts living in this style of housing for at least part of the year, addressing issues of pollution and sustainability in the ger areas in the short term will rely upon adoption of new technologies and construction techniques in the construction of such units. Detached units in inner city ger areas sell for as much as US$20,685, with such units in fringe ger areas selling for around US$13,245. New technologies on display are designed to meet these requirements, using flat-pack wood and metal frame construction, as well as liberal use of insulation materials. Whilst proper construction is necessary in order to obtain the fullest thermal-insulation benefit from these units, it is hoped that introduction of these technologies will assist in lowering fuel costs and raising energy efficiency in the ger districts in the near term. However, in the longer term, Government plans to redevelop entire areas of the city may well be hampered by the rollout of such new prefab technologies. With more and more people able to build low-cost homes on their ger area land, the political and economic costs of arranging wholesale clearance of land for redevelopment will continue to spiral.

Developers are using barter agreements as well as cash payments when purchasing ger district land for redevelopment. Typically a household owning a *haashaa* of around 250-300 square meters will be offered a small two bedroom apartment, with an added incentive of a small cash payment to enable them to rent a property during the construction period. On top of this, indications are that households with savings or other collateral are electing to purchase multiple apartments in the new developments as investment properties.

The 19 ger district redevelopment projects taking place across Ulaanbaatar display markedly different characteristics. Some are highly vernacular high-density housing projects, designed to be built quickly and at low cost. Others seek to incorporate robust urban planning principles - creating retail opportunities, communities and commercial spaces that will become draw factors. Projects such as Zag Group's ger area development project incorporate innovative pre-fabrication techniques from Turkey and a planned commercial/residential integration that will enable the flourishing of an already significant commercial centre of the city (the Zuu-ail construction retail and wholesale area).

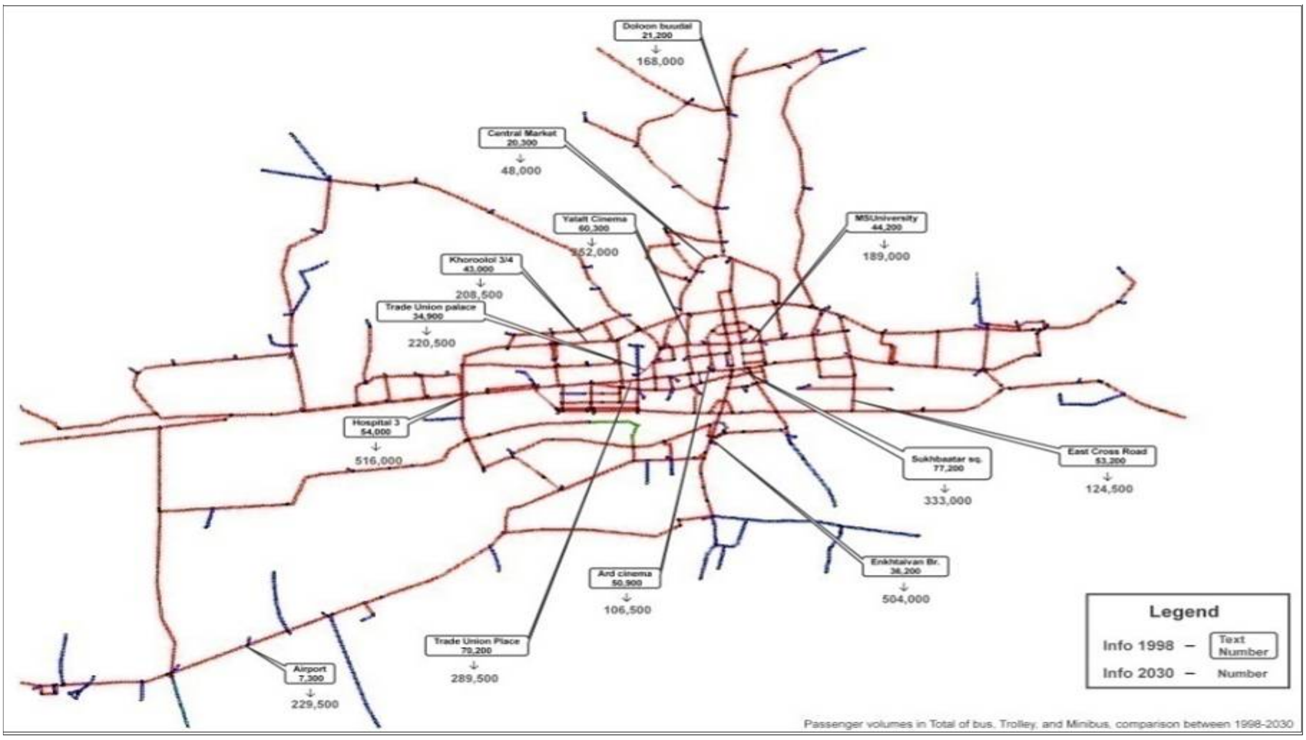
Key Projects Ger District Redevelopment Projects

Project Name	Facilities	/sq.m/	Residential Units	Sales Price Point / sq.m/	Land plot to unit ratio
Bagant Urguu	School, kindergarten, sports complex, green park area, shopping center, library, cinema	303,000	4,650	$1,065	65.2
Gangar Holding	Townhouses, school, kindergarten, sports complex, green park area, shopping center, library, cinema, hospital	390,000	5,600	Not yet announced	69.6
Zag Group	9200 student school, kindergarten, hospital, 4,500 sq.m office, 30 ha. garden, shopping center, playgrounds	665,000	10,956	$1,314	60.7
Beren Group	1,315 patient hospital, 7,500 pupils school, 3,500 child kindergarten	59,124	15,500	$971	3.8
Hera Holdings	980 student school, 120 child kindergarten	1,200,000	3,772	$860	318.1

Source: MAD Research

2. URBAN TRANSPORT DEVELOPMENT PLAN

Transport networks in Ulaanbaatar are presently limited to buses and trams in terms of formal transit. Semi-formal mass-transit systems include micro-buses, which offer transport for lower rates and are often overcrowded. In terms of average passenger volume, the Ulaanbaatar rush-hour sees over 9,000 passengers per hour transiting along the east-west corridor of Peace Avenue. Between the hours of 8am and 9pm this figure never drops below 5,000 persons per hour. In terms of numbers of vehicles, this up to 1,800 vehicles per hour use this route, which is ill-sited to carry such high densities of traffic. Presently public transport makes up just 1% of daily traffic, although it transports 60% of passengers in Ulaanbaatar, covering around 5% of total roadways in the city. By the end of the third quarter of 2013 375,000 vehicles were registered in Ulaanbaatar city alone, using a road network designed for around a third of this number. Over 180,000 vehicles travel through the city daily and this is expected to reach 970,000 vehicles by 2020 unless significant measures are taken to slow growth of car registrations and improve public transport.



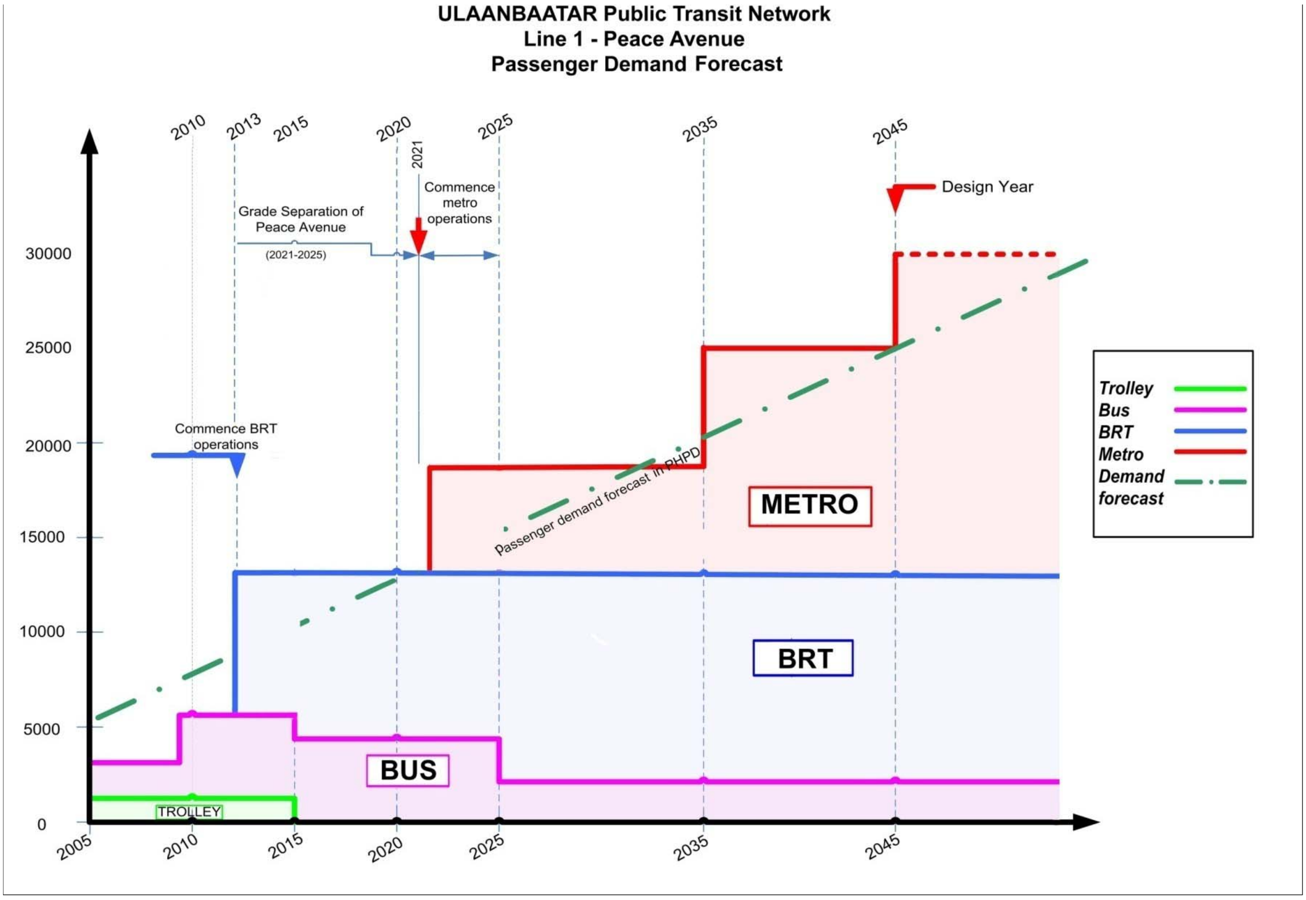
Passenger volumes in Total of bus, Trolley, and Minibus, comparison between 1998-2030

The map above indicates the main thoroughfares of Ulaanbaatar, showing current and projected daily numbers of card using these roads. By 2030 it is projected that a inner city roads will see an increase in traffic load of over 400%, causing catastrophic breakdown of the current infrastructure. To this end the Government of the City of Ulaanbaatar have planned a significant upscaling of public transport facilities, as well as shorter term traffic alleviation works.

The graphs above indicates the planning framework according to volume of passenger demand. This involves expanding the capacity and penetration into suburban areas of the existing bus network, developing a bus-rail transit network and a cross city metro system. The Metro system, as the single highest apex intervention into urban transport in Ulaanbaatar, is scheduled to come online during 2021.

Proposals drafted include plans for two metro lines to cross the city, one running east to west along Peace Avenue and one running north to south, potentially reaching as far as the existing Chinggis Khan International Airport. The two lines will serve 29 stations, running 26.6km east-west and 20.6km north to south. The two lines will have an interchange in an underground station near to the central Sukhbaatar Square. The City Government is seeking funding from agencies such as the Asian Development Bank to enable the building of this ambitious project that South Korean companies Su Song and Seoul Metro Consortium have been jointly selected to build. Concerns have been raised over the capacity of such a significant project to pay for itself in any reasonable time-frame, considering the low fare ceiling that would be applicable in Ulaanbaatar. Fares would likely have to remain under 500 MNT per journey in order to be affordable and suitable for a mass transit system.

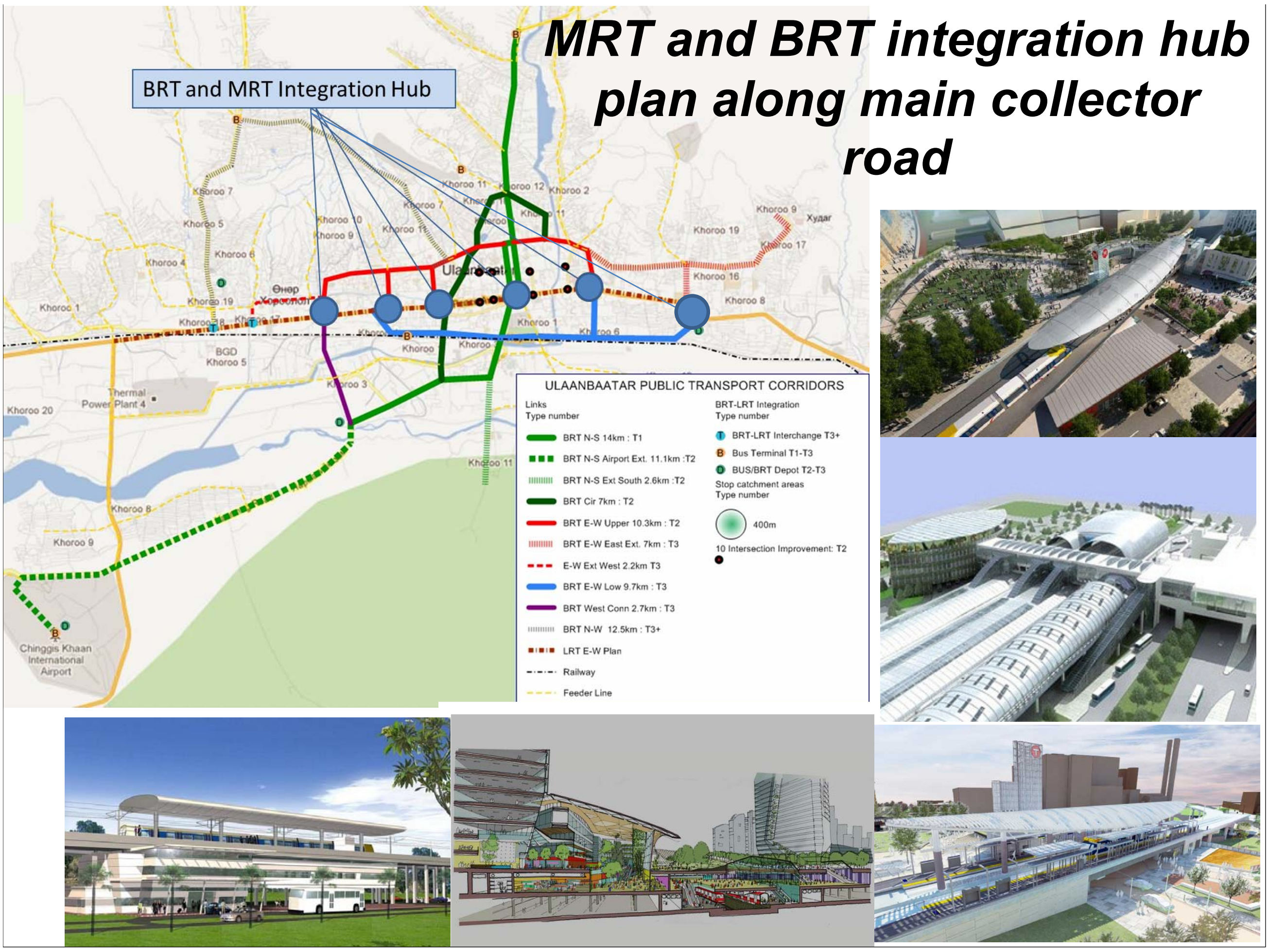
The Bus Rapid Transit system was scheduled to enter operation during 2013. The creation of dedicated bus lanes during 2013 went some way to initiating this acme and operations are continuing to build capacity and develop road-planning that will ensure clear bus rapid transport routes around Ulaanbaatar.



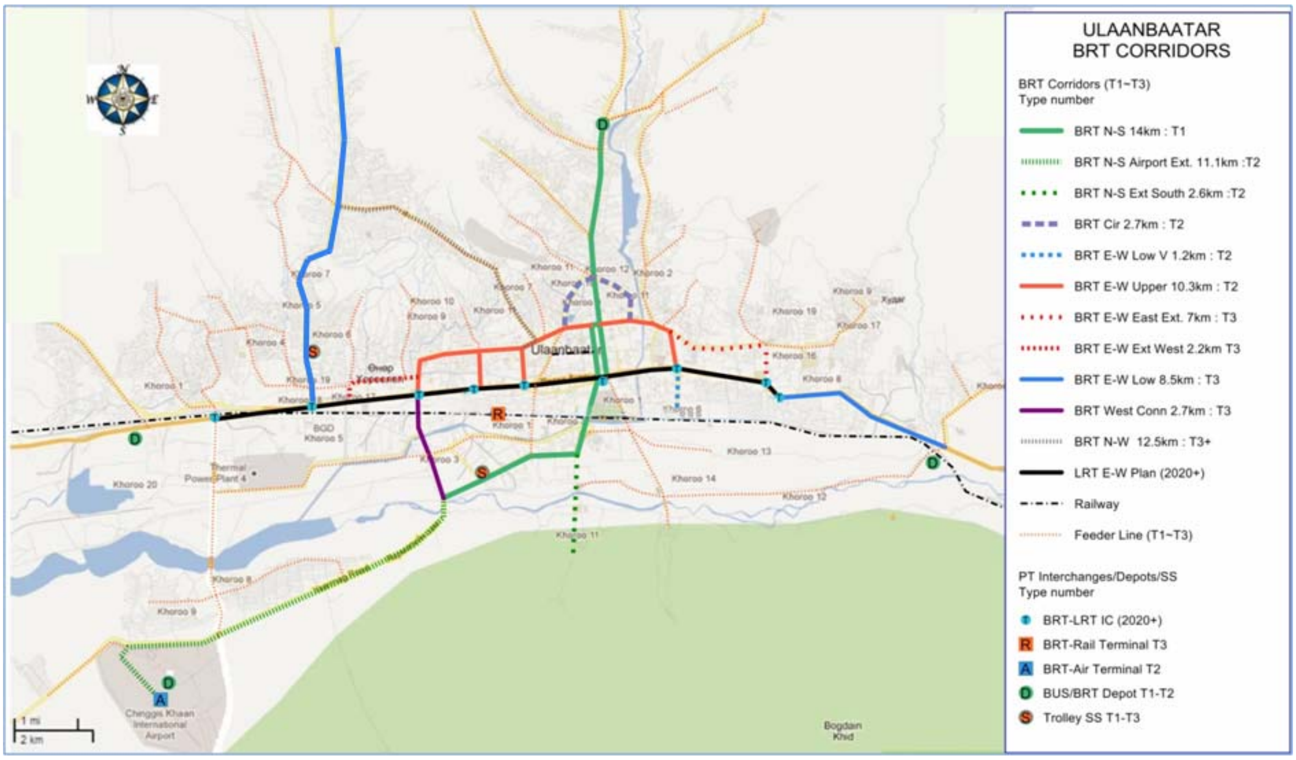
The map below shows the existing bus-rapid-transport (BRT) corridors of Ulaanbaatar. The BRT corridors of Ulaanbaatar will take up the majority of projected passenger demand up until around 2024, although from 2021 the Metro system will combine with the BRT system at six hubs along the length of Peace Avenue, as shown in the diagram below. These transport hubs, spreading out from Sukhbaatar Square and including a large station/underground promenade opposite the State Department Store, will form the transit nexus points of Ulaanbaatar city.

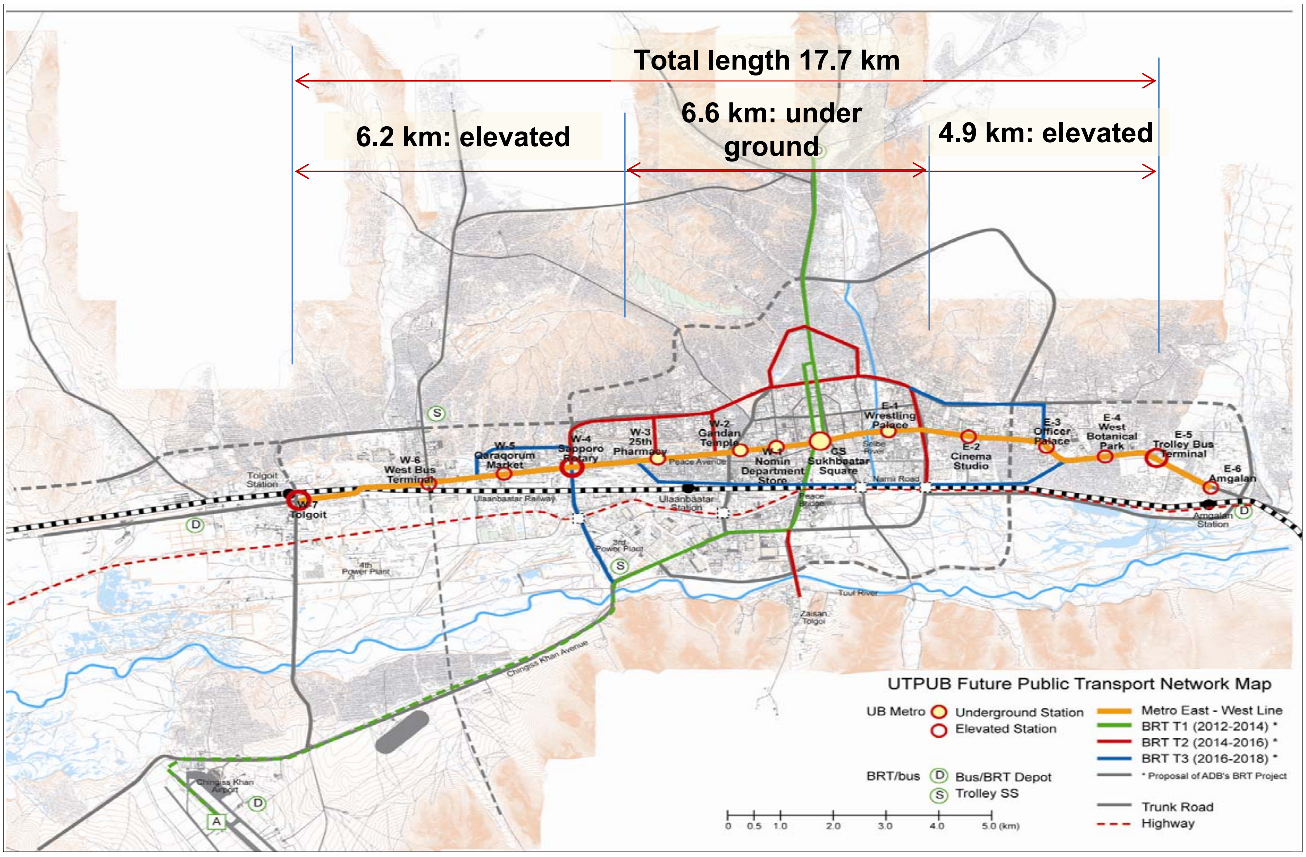
INFORMATION BOX - FINANCING OF “STREET” PROJECTS

During a Cabinet meeting on May 10th 2013 Parliament approved the spending of US$ 139 million (from a soft loan of US$ 500 million expected to be granted to the Government of Mongolia from the Chinese Government) on the so-called “Street Project”. These funds will be spent on financing the Tuul River high-road in central Ulaanbaatar and the Yarmag bridge in the western part of the city. Chinese contractors will be enjoined to assist in completion of these projects.

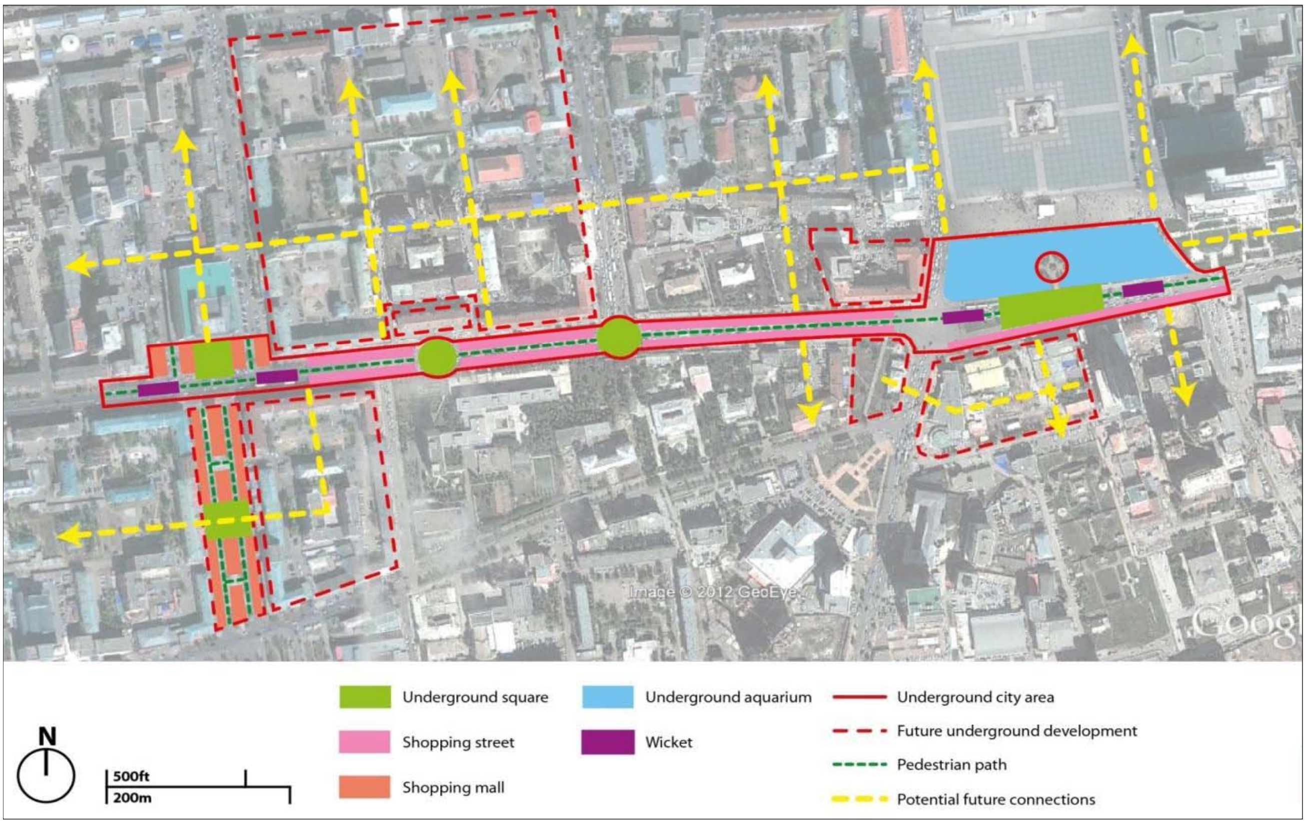


The maps below illustrates the route of the east-west metro line, integrating with BRT stops and serving a total of 14 stations from Tolgoit to Amgalan, covering a total length of 17.7 km, featuring a 6.6km underground section in the centre of Ulaanbaatar.





These underground sections will be integrated in large station complexes not only with BRT but also with commercial facilities, constructed underground. and above ground. This will include a large-scale underground shopping mall along Tserendorj Street and a planned underground aquarium attraction in front of Sukhbaatar Square.



3. UB MASTER PLAN 2030

The Government of Mongolia and City Government of Ulaanbaatar have been engaging with the construction sector around eight key policy areas, aimed at ensuring sustainable, broad-based and quotable growth within Ulaanbaatar. These areas of engagement include problems of: overcrowding, bottlenecks in transportation, unemployment, severe pollution, ecological deterioration, persistent poverty, lack of social infrastructure and disproportionate urban in-migration. The Government aims to tackle these persistent problems by through improvements to infrastructure, expansion of housing supply, creation of a new skills base and rural development. In tackling these issues improvements have been made to the Master Plan of Ulaanbaatar City up until 2020, with new development concepts added to extend the plan until 2030.

Whilst Ulaanbaatar does face a unique set of planning problems - ger districts which are semi-formal residential developments that, unusually for such spaces, are protected by strong household ownership protections, a significant pollution problem, extremely harsh winters and an ailing transportation network - it is also facing challenges in terms of providing appropriate solutions. A highly diverse set of organisations has converged upon the city over the last two decades in order to address the manifold and imbricating issues that beset this rapidly growing urban landscape and provide services to the inhabitants of Ulaanbaatar. Whilst there is significant agreement as to the scope and severity of the issues facing the city, there is limited consensus in terms of solutions and implementation of these. This has led to a situation in which organisations follow their own remits, whilst platforms for coordination remain very limited, resulting often in competition for resources and poor interaction between multi-lateral organisations and Government officials. Civil society actors, communities and local service providers are not well represented in the planning process, whilst Government and agency actors are in a constant state of negotiation.

INFORMATION BOX - BAYANKHOSHUU AND SELBE AREAS WILL BE DEVELOPED AS SUB-CENTERS USING ADB SOFT LOANS

On June 30th 2013 the Minister of Economic Development Batbayar and ADB Country Director Robert Schoellhammer signed a 104.5 million USD Loan Agreement under the "Ger Areas Development and Investment Support Program”. This is the first tranche of lending in which the ADB and the European Investment Bank will provide soft loans, including commercial loans and grants estimated total of 82.08 million USD. The Ulaanbaatar Administration have agreed to finance a further 22.42 million USD. The objective of this three year project to restructure the Ger Districts in Ulaanbaatar in direct participation with residents by expanding water supply, sewerage and heating service systems, improving socio-economic infrastructure and, in accordance with the Capital City General Plan, develop strategic territories of Bayankhoshuu and Selbe as new suburban sub-centers of the capital city.

Such sub-optimal implementation and outcomes in terms of planning and implementation of services and solutions are exacerbated by a nascent legal system that merges nomadic traditions with robust individual ownership rights even within the city, an engrained ideology of centralised planning inherited from the socialist era with an economy and urban landscape being opened up to the demands and planning imperatives of capital, as well as unclear separation between private entities and Government - leading to significant corruption.

One issues has been the tendency of Mongolia to accept copy-and-paste solutions from more developed nations. The 2020 Master Plan was undergirded by research conducted by the Japanese International Cooperation Agency (JICA). This extensive research alighted on recommendations that the city should follow a highly condensed development trajectory, seeking to model itself on very compact cities as - high-rise housing and smaller, less capital intensive development of services and transport networks. Nevertheless, this would have required far-reaching changes to property laws and recourse to eminent domain repossession by the Government of Ulaanbaatar. Whilst some of the recommendations of this report are only now getting underway with the ger district redevelopment projects, the timing and sheer scale of these projects leave analysts wondering how these can be commercially successful. With an average of 3 apartments being built for every one given away in barter to a household in exchange for their land, each of these 19 projects will enter into competition to attract buyers from across Ulaanbaatar. Whilst some offer significant draw factors in terms of quality and location others may face problems with financing future phases.

Smaller scale interventions such as the ADB’s engagements in upscaling facilities within ger area commercial and transport hubs have had significant results, enabling a more organic and less capital intensive growth in economic fortunes of residents and reinvestment into ger areas. These projects take a more gradual approach that is frowned upon by those who would wish to see dramatic action taken to alleviate chronic air pollution that is damaging the health of all residents of Ulaanbaatar.

Ultimately the revised and extended 2030 Master Plan carries with it the legacy of socialist style centralised planning. Its undergirding research exhibits a shocking lack of engagement with communities, service providers and residents as well as requiring huge capital expenditure. Financing of such domestic projects has kept the Mongolian economy grouting at double-digit levels during 2013, although it is questionable as to whether the Government can continue to allocate resources in this way and maintain the stability of the economy in the mid-term. It is time to develop a platform for greater integration not only between projects but also engage in more ground-up responses to the planning issues and urban problems of Ulaanbaatar, using new technologies, pre-fabrication and less capital intensive development frameworks, as well as establishing more favourable public-private partnership frameworks that enable investment with suitable operating returns.

As a component of the 2030 Master Plan a scheme to demolish 6,100 old housing units that are not resistant to earthquakes and replace these with new constructions got underway during 2013. This represents around 14% of the existing housing stock across six districts and sub-areas identified as art of this scheme (of a total of 24,264 residential units as part of old housing stocks within the city centre).

Beyond Ulaanbaatar, revisions have been are to the Master Plan for the Sainshand industrial park development, with similar alterations to the development plans for the mining growth town of Tsogttsetsii, Khanbogd and Gruvantes within South Gobi Aimag. New Master Plans have also been proposed for Gashuunsukhait and Shiveekhuren border crossings, as well as for smaller border crossings at Bulgan, Khangi, Bichigt, and Borshoo.

XIII. REAL ESTATE DEVELOPMENT LEGAL ENVIRONMENT

1. PROPERTY RELATIONS

A functioning real estate market is a critical ingredient of a free-market economy. The freedom to transact immovable property and land is a both necessary for growth of private industry and a healthy labour market. In any transition economy, as economic growth drives job creation across the country, housing stocks must be made available to deal with migration for economic reasons. If these stocks are insufficient a developing country may end up with the proliferation of informal housing developments and makeshift accommodations. This kind of informal community has been growing around Ulaanbaatar since the city was formed and even the strict controls of a socialist system could not prevent levels of migration outrunning Government projections. Initially, these informal developments coalesced around manufacturing and light industry that grew up in Ulaanbaatar since the 1960s. However, with the end of socialism in Mongolia and a general relaxation on movement restrictions from rural to urban areas in-migration to the capital accelerated rapidly, swelling the population of Ulaanbaatar from 588,400 in 1989 to its current population of 1,372,000 in just 25 years. City planners and legislators now face the dual task of transforming Ulaanbaatar into a 21st century city - providing new infrastructure and provisioning housing and facilities for a large population, whilst maintaining a commitment to the sanctity of private property which has underpinned the growth of the free-market over the last two decades. This section addresses the legal developments which have been the foundations of the development of Mongolia's real estate sector. It also considers possible directions for the future.

INFORMATION BOX - MONGOLIAN REAL ESTATE MARKETS LACK CREDIBLE VALUERS

The real estate market in Mongolia is not well regulated or professionalized. In contrast to more established markets in Europe, America and Asia, numbers of trained valuers operating in Mongolia are negligible. Prices on the real estate market in Ulaanbaatar are entirely determined by demand and supply dynamics. Even mortgage lenders tend to base their lending decisions on present market values rather than taking into account fundamental property values. The Government of Mongolia does provide a training course, which results in issuance of a State valuation license. However, the training is based largely on outmoded means of price determination established before the market economy came into being. Very few professional real estate agencies have obtained this license and with no restrictions on who can value property, it confers absolutely no authority at this time.

Companies such as Price Waterhouse Coopers are entering into the Mongolian market but conducting property valuations does not accord with their remit in the nation. For institutional investors and funds based around property this poses significant barriers, as official valuations of real estate assets are extremely difficult to obtain and, where they are conducted by multinational companies, are based upon limited market knowledge.

M.A.D. Investment Solutions remains one of the only companies in Mongolia to maintain Government certification as qualified real estate valuers, whilst also being officially RICS certified. In fact M.A.D. remain the only RICS certified real estate valuers in Mongolia. Underpinned by unique research and industry exposure, M.A.D. is able to provide valuation services that range from individual residential unit valuations right up to bankable standard valuations of commercial properties.

The Constitution of Mongolia, adopted in 1992, was the first document to ensure rights over private property. The Constitution provided the basic conditions for private land and immovable property ownership. However, the national supply of property and land could not be distributed to the population without a further series of firm statute laws, which were to follow later. The earliest of these statutes was the Land Law of Mongolia, which came into force in 1994, and which regulates the relationship between citizens, organizations and companies concerning rights and responsibilities of land possession. It defines different entitlements to land for different persons. This law defines two separate forms of land tenure: land possession and land ownership. Possession allows for legitimate control of land in accordance with a defined purpose of use and under terms and conditions specified in a lease from the Government of Mongolia. Ownership, by contrast, entitles legitimate control of land “with the right to dispose of that land”. This is an important distinction as possession does not allow for land transfer without consent of the District Government, with whom all possession contracts are made. Only Mongolian citizens may legally own land and then they are restricted in the size of land plot they can lay claim to. Agricultural land remained legally under state ownership, but a person or family who already possesses land for agricultural purposes would be entitled, according to the Land Law, to a preferential right to buy this land for agricultural purposes. Where no possession right was already established, agricultural land may only be made available for possession via Government auction. The Land Law, coupled with the Constitution of Mongolia, entitled land owners to robust rights to over land and disposal thereof, but explicitly forbade them from transferring it to foreign citizens and stateless persons.

Establishment of land fees was the next legislative movement and became enshrined in law as a result of the 1997 Law on Land Fees. This put in place systems for defining the high and low price points for land fees for each year and also defined baseline vales for land to be given for possession by Government auction.

Essentially, land fees must be paid for land given over for ownership, whilst possession rights (purchased at auction) are based upon base land values. Land fees are higher in the city than they are in rural areas and were initially established at rates of 44 to 440 MNT per square meter in city centres. Outside of the defined city centre land fees were initially defined as between 40 and 80 MNT per square meter. Provincial land costs vary depending upon use and these are defined according to population density, varying between 4 MNT and 50 MNT per square meter. In large Soums, fees were initially set at 0.8 MNT per square meter and 0.5 MNT per square meter for small Soums.

Herders are exempted from paying fees for pastureland and fodder producing fields and Mongolian citizens are exempted from paying 90% of their land fees for possession of an area of up to 0.07 (in urban areas) hectares for use exclusively for residential purposes. All kindergartens, children's camps, secondary schools, orphanages and nursing homes are exempt from land fees. In 1997, the first year in which land values were determined, the Government set the value for land compensation per square meter at between 13,200 and 44,000 MNT. Agricultural land was valued higher at 1,738,000 to 3,858,000 MNT per hectare. These values relate to land sold by way of Government auction. The price of developed land (meaning land is attached to infrastructure or near to roadways) is, in practice, more expensive than the base rate. In 2010 the price of 0.7 hectares of land in outlying districts of the city was valued at approximately equivalent to US$8,000. In the heart of Ulaanbaatar's CBD, land considered suitable for high-rise constructions transacted at up to US$ 2,400 per square meter during 2012.

All owners of land are liable for land tax, presently defined as 0.6% of the total cost of the land. This is defined under the Immovable Property Tax Law of Mongolia. An amendment to this law passed in 2004 entitled citizens to a 95%-98% (depending upon location) exemption from immovable property tax on the land they possess for residential purposes, providing it does not exceed 0.07 hectares in size. Land in the city is entitled to the lower 95% exemption, whilst Soum-level land is eligible for a 98% discounted rate.

In summation, Mongolia finds itself straddling the boundary between preliminary and developed stages of land market creation, wherein secure tenures have been legally structured and private ownership established. However, state controlled systems of land distribution are already proving to be a barrier to proper market functioning. This status creates uncertainty around how land will be portioned out and henceforth traded in future. In terms of restrictions on land ownership, the Law on State Special Protected Areas, passed in 1995, defined protected areas of land and set legal classifications of national conservation parks, natural complex areas, natural reserves and national monument areas. In these areas no foreign legal entities, international organizations, foreign citizens or stateless persons may use land. Limited amounts of land are available in conservation areas, natural parks, nature reserves and monument areas for use by Mongolian citizens, business entities and organizations. Land fees for these areas was set at three times the baseline amount as determined according to the law on Land Fees.

Immovable property (pertaining to the built environment) distribution and ownership was Governed by the Law of Mongolia on Registration of Immovable Property. This law states that ownership of immovable property, and the rights and responsibilities accruing thereto, arise only on registration of the property at an Immovable Property Registration Office (which are located in Aimag centres and in the capital, Ulaanbaatar). All transfers and collateralisation of immovable property must, by law be registered at an Immovable Property Office. Taxes payable on Immovable Property are Governed by the Immovable Property Tax law, which initially applied a blanket tax of 0.6% of the registered value of the property per annum on any build property generating income, or being used for commercial purposes. However, as of January 2013 this tax has been transferred to a sliding scale of between 0.6% and 1%, depending upon the location, characteristics and value of the property in question. Properties used for residential purposes (this does not apply to rental property) are exempted from this property tax. Income tax is payable on immovable property sales, although this is a low 2%. There is a high level of confusion over whether the base income tax of 10% is also on gains related to property, although the 2% tax is the only one technically payable on property owned by an individual. Companies and organizations are more liable to pay income tax on gains from property.

In summation, the legal environment of Mongolia, as it pertains to property ownership, is very robust but can be considered a work in progress. Immovable property allocation occurred rapidly (between 1997 and 2004 most of Mongolia's housing stock was privatised, along with many commercial properties) and gave over a large existing apartment stock to around 22% of the population. As households choose to liquidate or collateralize this stock in years to come, the increasing stores of wealth this housing stock represents should stimulate spending and boost the consumer economy. Land allocation for private use is now taking off. In 2011 104.7 hectares of land was allocated to be privatised to Mongolian citizens, however, despite reported high levels of privatisation within urban centres, only 9.19% of the total Mongolian population have opted to enact their right to privatise a plot of land, leading to a call to extend the privatisation period past 2013, when the initial round of land privatisation is due to expire. By way of contrast, land auctioned for commercial use is receiving uneven interest. As noted in the section on the Ulaanbaatar 2020 Master Plan, land is allocated for auction based upon yearly land use strategies defined by the Government of Mongolia. Whilst prime plots for commercial development receive significant attention, some spaces defined for manufacturing or industrial purposes receive very little (if any) interest, as these sectors are not yet sufficiently developed and competitive. Whilst restrictions on land use are useful for purposes of rationalising the spread of Ulaanbaatar, they may, as this case illustrates, not be suitable for development of competitive and market-driven profiles of land use, wherein the most successful companies can pay the most for the best plots and thereby are likely to make the most productive use of them.

It is expected that as land ownership becomes the norm in Mongolia numbers of legal land disputes will rise. For 2009 alone, the legal firm Anderson and Anderson LLP reported that there were 2,652 land dispute cases brought to the attention of the Administration of Land Affairs, Geodesy and Cartography. A majority of these were related to land possession (56%), whist land ownership disputes accounted for only 17% of cases. The most frequent reason for dispute concerns the purchase of real estate without the consent of the land owner or of the State. Another reason for legal dispute is disregarding or misunderstanding of a clause in possession contracts which states that land if land is not used for a period of two years then possession may be forfeit and revert to the State.

Violation of land possession contacts and non-payment of land fees are also the cause of a good deal of legal cases. Many such disputes arise from lack of understanding, on the part of citizens, of the legal codes governing land possession and ownership. At present, there is very little available information on land and immovable property law and the Government should work to improve this before the land market can grow without incident. There have been reported cases of legal expropriation in Mongolia, but these have only arisen where citizens and companies have breached the terms of possession or violated environmental laws concerning proper use of land. When the State Specialised Inspection Agency undertook to inspect land plots as part of their “Protect Environment and Civil Responsibility” program in 2010, they found over 300 violations of Land Law across the capital and surrounding areas. As a result of these violations being brought before a court of law some citizens had their land lease contracts cancelled. It should be noted that these cases of expropriation are directly linked to misuse of land or breach of contract. There have been no reported cases of arbitrary expropriation of land or property, even in cases where state projects are involved (Although, as noted in the section on Mining Policy Environment, expropriatory actions have been taken by the Government concerning mining licenses. However, these are covered by a somewhat different legal framework).

2. LEGAL STRUCTURES OF IMMOVABLE PROPERTY OWNERSHIP IN DETAIL

The robustness of property rights in Mongolia provides a sense of security for investors concerned about expropriation of foreign investments.

As noted above, the basic guarantee of Immovable Property ownership is written into the Constitution of Mongolia, Article 5, which states that:

- Mongolia shall have an economy based on different forms of property consistent to universal trends of world economic development and own country's specifics.
- The State recognises all forms of public and private property and shall protect the rights of the owner by law.

Immovable property was originally defined by law within the bounds of the Law of Mongolia on Registration of Immovable Property. This document outlines the legal status of registered immovable property and regulates matters relating to the protection of rights of ownership over immovable property.

Article 2.3 of the Law of Mongolia on Registration of Immovable Property states that:

- Any property situated in the territory of Mongolia, being property with certain boundaries measurable by actual and abstract methods, such as land and buildings, which would lose their purpose and economic value if separated from land...except land which contains buildings owned by the state and local property for public use, shall be registered at the Registration Office in accordance with the paragraph 3 of Article 77 of the Civil law.

In accordance with this a property must be registered with the Immovable Property Office before it becomes subject to the legal protections afforded by the laws of Mongolia. Any immovable property may be registered, although without an immovable property certificate being issued ownership is neither conferred by law, neither are protections in place concerning the trade and use of the property in question.

The Immovable Property Office, which functions under the Minister of Justice, is responsible for registration of all Immovable Property in Mongolia, as well as record keeping concerning immovable property and receipt of stamp duties. All Aimag centres contain an office of this kind. Ulaanbaatar’s Immovable Property Office is located to the rear of the City Government and Administration Building.

M.A.D.
INVESTMENT SOLUTIONS

RELOCATION SERVICES

RELOCATION ASSISTANCE FOR MONGOLIA

It is never easy arriving in a new country knowing very little about the place and people that reside there. M.A.D. is here to help make your transition easier with a range of services that are tailored to help you settle into your new home. We leverage our extensive knowledge of the country and its people to make your stay as pleasant as possible. We make it easy for individuals, families and employees to adapt through the use of professional orientation services, assisting in finding Temporary Housing, Home Finding, Settling-In Programmes, and Tenancy Management to name a few services we offer.

With M.A.D's help you will save time and energy, our aim is to work with you to make a difference in your life while you adapt to the new environment that is Ulaanbaatar. The first step in the process is a discussion to find out your requirements and expectations, this will help us to create the most comprehensive overview and plan for your life here in Mongolia. Please get in touch with us today to get your relocation process started.

SERVICES WE OFFER

- TEMPORARY ACCOMMODATION
- HOME FINDING
- SETTLING-IN / INTEGRATION ASSISTANCE
- SCHOOL REGISTRATION ASSISTANCE
- LOCAL GOVERNMENT REGISTRATION
- MONGOLIAN WELCOME KIT

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3. REGISTERING AN IMMOVABLE PROPERTY

Rights accruing from legal ownership only apply to a person or legal entity upon registration at the Property Registration Office (also known as the Immovable Property Office).

When applying for registration you will need two things:

Firstly, a document identifying the applicant's right to ownership of the immovable property in question. This routinely takes the form of a notarised contract, which acts as a promise of sale rather than proof of ownership. Providing money has changes hands and all taxes have been paid, this contract of sale is sufficient to identify the right of ownership.

Secondly, a document by a competent authority setting out the dimensions and valuation of the property. At present professional valuers or surveyors are not routinely employed in property transactions within Mongolia. Therefore, a description of the property is usually given in the notarised contract of sale. This is sufficient description for Government records. It should also be noted that, for residential units built within the past 20 years, usable space usually includes all available floor-space within the unit. However, the system of property allocation in use during the Soviet era worked according to different sizing conventions. Property certificates for older properties will often define living-space only. This actually excludes kitchen, hallway and bathroom floor-space, representing only a fraction of the actual floor-space within a unit. Before transacting and applying for an Immovable Property Certificate, it is advisable to double-check the actual floor-space of the property in question so that the floor-space defined on the Immovable Property Certificate can be altered, if necessary, to accurately reflect the total size of the unit. This definition does not impact ownership rights but may be problematic in two cases. The first is in the unlikely event of compulsory purchase by Government, whereupon an exact definition of the property size would inure against underpayment. The second case concerns insurance of the full property.

- Properties under joint ownership shall be registered under a single application, containing the written consent of each applicant. When pledging or transacting property that is jointly owned all parties will need to be present.
- The Law on Registration of Immovable Property indicates that if the applicant is a non-permanent resident of Mongolia, he or she should make application for registration or withdraw an application through an authorised representative who is a permanent resident in Mongolia. In practice this is never strictly applied and foreign citizens can apply themselves for registration of immovable property providing they have sufficient grasp of the Mongolian language and registration processes. The Registration office may refuse to accept an application if any dispute arises concerning ownership and possession of title to the property in question. No Immovable Property Certificate can be altered until all taxes and stamp duties accruing to the transaction have been paid at the bank.

The Property Register records the following information:

- Location of the property, its dimensions and purpose (e.g. residential / commercial);
- The full name, residential address and signature of the property's owner, along with his or her passport number;
- If the owner is a corporate entity or other form of legal person then its name, address and State Registration number will be recorded, alongside the full name, address, signature and passport number of a person authorised to represent the legal person;
- The legal ground for registration of the immovable property, e.g. the contract of sale;
- The data of application to register an immovable property under a new name;
- The full name of the Notary who certified all documents;
- Notes on transfer of ownership, possession, use of or pledge of the property as collateral (which may also be appended later);

The Registration Office maintains records concerning use of property as collateral, insolvency declarations by the courts, asset recovery decisions against the property and legal disabilities imposed by the courts on property owners. It is required by law that the property owner registers any collateral agreements against the property with the Immovable Property Office that holds the records for that particular property. The Immovable Property Registration Office does have the power to create preliminary records to protect the rights of buyers/successors. This involves entering a caveat in the registry until all obligations pertinent to a transaction or transfer have been met. If the buyer fails to fulfil their obligations the caveat can be removed and ownership remains as it was. If all requirements are met then the certificate transfers to their name. This system is not used regularly, although it may become more common as more complex financial mechanisms and ownership structures emerge into the Mongolian housing market. At present, the predominance of cash transactions and the speed of completion (contracting, transacting and registration usually takes just one day to complete) renders such a facility unnecessary.

4. LAND POSSESSION RIGHTS IN DETAIL

Three types of land tenure were established in the 2002 Law of Mongolia on Land, which still pertain today:

- **Ownership** - legitimate control of land, which entitles the owner to sell, rent or lease land. This form of tenure may be applied to all land, excluding pastureland, land for common tenure and land demarcated for special Government use.
- **Possession** - Given by license for a period of between 15 to 60 years, renewable for a further 40 years. This type of land tenure is available to Mongolian citizens, companies, organisations and companies with foreign investment.
- **Leasing** - Land use licenses can be obtained by foreign citizens, foreign countries and international organisations, as well as by Mongolian citizens and entities. The initial duration of these licenses if 5 years, although they are renewable. Use licenses are given in order that land or its characteristics will be made concrete and defined use of. This usually involves construction on the land. Once the built structure is complete, the land can revert back to the original owner - the State - without adversely impacting immovable property rights.

One year after the first land law was introduced the “Law on Allocation of Land to Mongolian Citizens for Ownership” was passed. The latter became law in May 2003 and defined the purposes of ownership as for family requirements, agricultural purposes or ‘other Purposes’. Family households, not individuals, were initially the only entities legally entitled to take ownership of a plot of land. Single, unmarried people, who were not living with a registered family, could not be allocated land. The law entitled families to a land allocation if they registered a marriage prior to May 21st 2003. Upon registration of land the family could then identify all adult household members on the title document. All registered parties then have rights over the land as joint owners. This las has since been amended to enable all individuals of Mongolian citizenship (by birth) to obtain their land allocation on an individual basis.

INFORMATION BOX - PRIVATE OWNERSHIP OF LAND

It has now been decade since all Mongolian citizens gained the right to own land, but only 8% or 98,002 of citizens have privatised the land atop which they live or been granted land in the Soum of their birth. A total of 52 blocks of land across the country of the country, representing an areas of 13,509 hectares, have been portioned out and privatised. In order to extend this process, rationalise it and prevent widespread corruption in land allocation processes, there will be an electronic privatisation process starting from August, 2014.

Land possession rights are accorded by way of a license, which may be accorded to Mongolian citizens, companies and organizations, as well as entities with foreign investment. These licenses cannot be accorded to foreign and stateless individuals. Granting of a possession license is one of the only ways of gaining access to land as a company or organisation. An academic article by Chinzorig Batbileg delivered in 2007 notes that between 2003 and 2006 in Mongolia around 611 citizens and companies took part in auctions of possession rights for around 92.2 hectares of land in Ulaanbaatar city, spread across 109 different locations.

The Law of Mongolia on Land provisions for three types of land possession license; for household needs; for government organizations; for companies and organizations.

Land for possession by citizens, for their private gers and houses, shall not exceed 0.07 hectares. Land given to citizens for cultivation of vegetables, fruits and fodder plants may not exceed 0.01 hectares. Citizens Representatives’ Khurals, who govern individual Soums, have legal powers to establish the maximum size and location to be possessed by citizens for either housing or cultivation, in accordance with land resource demands, the requirements of individual families and overall property density within a Soum. The size of land accorded to a company for production and industry will be determined by the Government Cabinet. Possession licenses may be given to Mongolian citizens, companies and organisations, as well as entities with foreign investment, for a period of between 15 and 60 years. This may be extended for a further 40 years. For citizens land possession titles may be transferred by way of inheritance, providing the inheritor is identified as a legitimate heir.

5. WHERE CAN LAND BE POSSESSED

Land available for possession is identified by city or Soum governments in their annual land management plans. These documents are produced yearly by city, Soum and capital city governments, identifying plots of land available for use and possession. Included within this allocation is land to be made available for commercial purposes, as well as land for household use.

Almost all land available for household use is taken up each year, although land for commercial use does not always enjoy the same level of uptake as it is allocated for specific uses, which market demand does not always so tightly accord with. Where land is specifically requested for possession it shall have been marked in the annual land management plan.

6. LAND POSSESSION PROCESS

In making an application for land possession individual citizens must identify in their application the government issued identification number for the territorial unit requested (in accordance with the land management plan), along with a description of the plot's size and location. Each household wishing to obtain privatised land should provision, alongside their application, a full description of the intended purpose and duration of land possession. Companies and organizations must provide the same information, as well as a copy of their state registration certificate. By law, citizens and companies should attach a proof of creditworthiness to their request for land possession.

Governors of Soums and districts shall make final decisions as to whether to allocate land to households, companies and organizations. Where land is made commercially available via silent auction (in which companies and organizations place closed bids on land plots), the Governors will be responsible for notifying the winner of the auction directly. If the person who received the notification for the license payment does not pay within the time required, the right to possession of that land shall be automatically passed to the next highest bidder, be it a citizen, a company or an organisation. If the next highest bidder refused, the license shall be auctioned again.

Citizens, companies and organizations who have acquired the right to possess land must, by law, have a general environmental assessment test made within 90 working days after receiving notification of the intention to give possession rights. After this assessment test is completed, a contract on land possession shall be made and the license issued. If the general environmental assessment test made on the land to be possessed by a citizen, a company or an organisation shows that the intended use of the land will be harmful to the environment, or to important natural resources, a land possession license shall not be issued.

In this case, the next highest bidder shall be offered the opportunity of undertaking an environmental assessment test in relation to their proposed use of the land. The auction bid price shall be returned to the first winner of the auction in such circumstances. If activities of all citizens, companies and organizations who participated in the auction showed negative results in the same environmental assessment test, another auction shall be organised.

The contract on land possession will include the following information: An explanation of justification for giving land for possession and reference to the relevant Government decision; the purpose of land possession; a map showing the size, location, and boundaries of the land; a full description of the characteristics of the land and its quality; the duration of land possession; the land fee paid and terms of payments; rights and responsibilities of the parties to the contract; an agreement on handling constructions and other property on the land upon termination of the land possession right; terms and procedures for compensation in case the land is taken back or is replaced; actions to be taken for land protection and rehabilitation; any and all other issues considered necessary.

The certification on characteristics and quality of land, as well as the assessment of impact on nature and environment, will be attached to a the contract of land possession. Both parties to the contract shall have the opportunity to review the contract's implementation on a yearly basis. Where land is possessed on a joint basis only one contract may be made.

7. LAND AUCTIONS AND TRANSFERENCE OF LAND LICENSES

Land auctions have been approved as means of distributing land - according to market mechanisms - to companies and organisations around Mongolia. Land earmarked for distribution in annual land plans is auctioned off by silent auction. Soum and district governors shall set the starting price at auctions of land possession licenses, according to a formulae approved by the Central administrative organisation in charge of land issues. This shall be considered the real value of the license.

License holders may transfer their licenses or put them as collateral, with the exception of FIFTA registered foreign invested companies, which, as foreign organizations, may not pledge land or sell it on. Such transfers and pledges may be undertaken only between Mongolian citizens, companies and organizations.

Parties wishing to enact a license transfer transaction shall submit their request to do so with the following documents attached: A contract or a will certified by the notary; a proof that a person receiving the license agrees completely with rights and obligations arising from receiving the license; documents proving that license transfer fees have been paid.

Governors of soums and districts must verify the transfer application before it can be approved and registered. They will check the validity of the license as well as whether the legal person set to receive the license has the right to take it on. The decision as to whether to allow license transfer will also be made within 15 days of receipt of a request. License holders may pledge their licenses as collateral in compliance with the Civil Code; in this case, they have to have the pledge registered with the land official of the soum or district Land Department. Fees for transfer of licenses and for extension of licenses, which are determined by the Cabinet, should be paid to the land protection and rehabilitation fund.

8. RIGHTS OF LICENSE HOLDERS

License holders enjoy rights over use of the designated plot of land according to the purposes set forth in the contract. This includes the ability to transfer the license or put it as collateral upon approval of the person who made the decision on giving the land possession license in the first place. The license holder has the right to have the license extended upon its expiration providing they have met their obligations relating to the land and the contract on land possession.

License holders are obliged, under the terms of their contract, to meet all conditions, to use the land efficiently and rationally and to comply with legislation on environmental protection. They are also required to pay land fees in a timely manner and not to infringe the rights and legitimate interests of others that are related to land possession by their use and occupancy of the land in question.

The license holder is responsible for submitting a request for extension of the term of the license. This is to be submitted to the governor of the relevant soum or district at least 30 days prior to the existing license expiration date and should contain the original license, documents proving that all land fees have been paid and proof of implementation of recommendations made on the environmental impact assessment. The governors of soums and districts are obliged to review extension requests within 15 days of receiving them. Providing all conditions have been met the license will be extended.

9. EXPIRATION AND TERMINATION OF A POSSESSION LICENSE

Land Possession Licenses may expire in the following circumstances: If no request has been made for its extension at the time of expiry; if a license holder has died or been announced dead or missing and the license holder has no legitimate successors; if a legal person has been dissolved or liquidated; if a license holder requested to terminate his license possession rights; if a compensation has been paid in full to the license possessor for land if taken for special government needs.

Governors of soums and districts retain the power to terminate licenses and may do so under the following circumstances: If their license holder has consistently or seriously violated obligations set forth in the land legislation and provisions and conditions of the land possession contract; if it was established that the land has been used to detriment of human health, nature protection, and interests of national security interests; if a license received from others is not registered, and a new contract is not made; if recommendations made upon the general environmental assessment are not implemented; if the license holder has not paid land fees payable according to the law, on time and in full.

In case such misuse, of failure to attend to responsibilities, is proven, Governors of soums and districts shall issue an order terminating the license and shall notify the license holder or the person who has taken the land as collateral of their decision. If the license holder, or the person who has taken the license, considers the Governor’s decision to be illegitimate, they shall have the right to appeal to court within 10 working days after the date of the Governor’s order. If the license holder appeals to the courts a new land possession license for this land shall not be issued until a final and valid court decision is rendered.

Citizens, companies and organizations possessing land are required by law to vacate the plot of land in question within 90 days of expiration of their licenses, unless otherwise stipulated in the law, or in their land possession contract. The land must then be transferred into the jurisdiction of the governor of soum or district. Where breach of terms and conditions has occurred, the possessor shall pay all expenses related to the release of the land. If land is to be removed from possession based on a statement made by a professional organisation that the land is no longer suitable for its initial purpose, due to natural disasters or emergencies, the land possessor may submit a request to terminate the land possession contract. In this case land rehabilitation expenses may be financed by the central or local government budget. However, expenses of transferring constructions, buildings and other property shall be borne by the person who possessed the damaged land. If land is not vacated within the 90 day period after cessation of the possession contract, Governors of soums or districts have the right to organise a forceful eviction.

The relevant government authority may, only in agreement with the land possessor, remove his or her land with or without replacement and with or without compensation, fully or partially, for special needs of the government. A request to make this removal must be submitted via the Cabinet, who must agree this removal. Governors of soums or districts shall, on the basis of the Cabinet decision, make a contract with the land possessor citizen, company or organisation and remove the land from their possession - with or without replacement and with compensation. If residential land is removed with or without replacement, vacation of this land may take place only between 15th of May and 15th of September, in order to not necessitate movement within the harsh wintertime.

The decision of removal of land with compensation shall take into account the prior agreement with the land possessor, the value of immovable constructions and other properties, as well as the costs to vacate the land, estimated at current prices. Where compensation is deemed necessary, it shall be paid to the land possessor from the State central budget, via governors of soums or districts. This must be paid within 60 days after the the contract of reversion is signed. The land possessor then has a further 30 days after receiving full compensation to vacate the land, unless otherwise stated.

10. LAND USE RIGHTS

Under the Mongolian Law on Land, foreign countries, international organizations, as well as foreign legal entities (not including foreign invested companies registered with FIFTA) may be accorded use rights, having no recourse to apply for possession rights. Where land is required for diplomatic purposes the principle of reciprocity shall be applied, where necessary, in establishing the size of land and the amount of fees for land which is to be used by foreign diplomatic missions and consulates, as well as resident offices of international organizations. Conditions and procedures for use of land by foreign diplomatic missions and consulates, as well as resident representatives offices of international organizations shall be established by international treaties of Mongolia.

Governors of soums and districts shall make decisions on giving land for use to foreign citizens and stateless persons permanently resident in Mongolia (for more than 183 days) through land auctions, for household needs only. Not more than 0.05 hectares of land, given as a residential lot, may be accorded for permanent residents in this category. Land may be given for use for up to 5 years on the basis of a lease contract. This contract may be extended by up to 5 years at a time. Foreign citizens and stateless persons must obtain a certification from the relevant authority in charge of foreign citizens' issues, in this case immigration, before submitting their requests for land use.

Unless otherwise stipulated in the Law and contracts, the rights of the owner to use their constructions and other properties on the land shall also expire upon expiration of rights to possess or use that land (although constructions which have their own immovable property certificates attached will remain under the ownership of the person or entity listed on the immovable property certificate and may be used and, accessed and disposed of by them). Also, unless otherwise stipulated in the Law and contracts, citizens, companies or organizations who possessed or used the land shall return this land to its initial condition upon expiration of rights to possess or use the land.

11. POSSESSION OF LAND ATTACHED TO IMMOVABLE PROPERTY

One mode of obtaining land is to purchase a plot attached to an existing immovable property. This is increasingly becoming the only way of obtaining land in the city centre of Ulaanbaatar, but comes with its own set of legal problems. Legally, the land beneath an immovable property is connected to that building but does not necessarily belong to the owner of the property, in fact it usually reverts to state ownership the moment the immovable property certificate is issued. The immovable property certificate is proof of a floating freehold rather than possession in the strictest sense. Nevertheless, land is frequently transacted as part of an immovable property and permission to possess the land for construction (if this is the intended use of the land) must then be sought separately based upon an assumed and not legally secured first right to ownership because of ownership of immovable property thereupon.

12. LEGAL PROTECTIONS AND EXPROPRIATION

Examples of expropriation have only occurred under circumstances wherein projects of national significance are concerned. All natural resources in Mongolia are property of the state and in order to explore for mining purposes or to mine in Mongolia one must be permitted via Government mechanisms. In 2010 the Government of Mongolia reviewed more than 1,700 mining licenses to be terminated under regulations aimed at protecting the environment, including 254 gold mining licenses. The latter were eventually revoked, although several international companies have appealed and successfully had their licenses reinstated. Relevant International Investment Law and Bilateral Trade Agreements have been cited as means of seeking recourse against this kind of Government interference with foreign investments.

INFORMATION BOX - ARCHITECTURE

The capital city of Mongolia, Ulaanbaatar, maintains a unique, if little known, architectural heritage. Soviet era buildings, designed by renowned, Moscow based developers of workers cities - GIPROGOR - are juxtaposed against new towering steel and glass structures and a few remaining Chinese/Tibetan imperial style palaces. Early religious buildings borrowed heavily from Chinese and Tibetan traditions, including quadratic designs. Among the first quadratic temples designed in Ulaanbaatar was that of Batu-Tsagaan (1654), designed by the famous Mongolian sculptor and artists Zanabazar. The traditional Mongolian style ger also influenced static architecture, with a remaining example being the Daschoilin Khiid Monastery in Ulaanbaatar, which exemplified ger-style architecture. The quadratic Tsogchin temple in Gandan monastery in Ulaanbaatar is a combination of the Mongolian and Chinese traditions. Socialist era Mongolian architects continued to use some traditional elements in their architectural practices, including meandering ornaments and round shapes in architectural forms.

The socialist revolution brought with it social progress in Mongolia, but also mass destruction of traditional culture. Over 800 monasteries were demolished as thousands of lamas were purged, along with their intellectual culture and knowledge of traditional architecture. Constructivism and rationalism took centre stage in developing a new architectural form for Mongolia. The Ministry of Internal Affairs (Sukhbaatar District) and the Military Club of Mongolia (Bayanzurkh District) are among the buildings which remain today as icons of rationalist architecture in Ulaanbaatar. The legislative heart of Ulaanbaatar was designed by Soviet architects, developing quite a different tradition to constructivism. Classicism, akin in some senses to the Stalinist architecture evidenced in metropolitan centres of the Soviet Union, was the dominant architectural motif for these areas of the city. The architecture of Ulaanbaatar's downtown area was undertaken at the initiative of B. Chimed, the architect of the Drama Theatre, the Natural History Museum, and the Ulaanbaatar Hotel. Interestingly the Drama Theatre deploys not only neoclassical columns but also the double-tier marquee roof of Mongolian architectural heritage.

From the 1960s onwards, the design of architecture was dictated by the requirements of economy and mass production. The influence of Kruschchev and Brezhnev era construction techniques was heavily felt in Ulaanbaatar as Soviet Union funded housing projects sprang up around the city, as well as in urban centres throughout Mongolia, to house a burgeoning population. Chinese and Soviet competition for grater influence in Mongolia led to greater investment by both parties in the country's infrastructure and real estate. Both Peace Bridge and the older districts of Ulaanbaatar, to the south of the Dund-gol river, were built by Chinese workers. When hostility between the USSR and PRC grew to untenable levels, Mongolia sided with the USSR and the influence of Soviet architecture became apparent again, this time in 4, 5 and 9 level apartment blocks that sprang up in their monotonous rectangularity across Ulaanbaatar during the 1960s and 1970s. During this period the cities of Darkhan, Erdenet and Baganuur were founded and the capital city saw aggressive real estate development in all directions. The visit of L. Brezhnev in 1974 was followed immediately by the donation of the modern housing district that is now Bayangol District. The district was initially constituted of 9 level apartment blocks decorated with V-shaped 12 level buildings, giving the main street of the new district the appearance of Kalinin Avenue in Moscow. This street is today known as the 13th District shopping area and is famed for its mid-end retail facilities. During the socialist period the state made little or no effort to develop the ger districts which surrounded Ulaanbaatar as new residents moved to the city only to find insufficient housing stocks and little access to those that did exist. These areas henceforth became shanty-towns, served only by a few bathhouses.

Perestroika and the transition in Mongolia to democracy resulted in a liberation of Mongolian architectural values from the yoke of Soviet imperatives. Both traditional culture and liberal thinking concerning architectural forms were embraced. A group of artists and architects led by famous actor Bold, developed an ambitious project to develop Ulaanbaatar into a profoundly Asian city, although the gates and shades they constructed were soon overshadowed by the onset of economic crisis and the ascendance of modern architecture, including imposing glass and steel structures.

The skyline of Ulaanbaatar continues to this day to be transformed by architectural forms resonant with the identities of an emerging global capitalist class. This internationalism has come to define the times, places and, most critically, the audiences which make certain architectures iconic. Contemporary architecture is therefore increasingly ascribed with iconicity and uniqueness within any given locality in reference to the institutions of transnational capitalism. In Mongolia the looming presence of Blue Sky Tower and Monnis Tower attest to the increasing associations of architecture with a brand of international capitalism. The production of iconicity is the corporate-led goal of much contemporary architecture and its symbolic and aesthetic uniqueness are always qualities constituted in dialogue between its situatedness within perceived local architectural traditions and the pervasive demand for novelty defining of globalization. Nevertheless, great architectural projects are often defined in terms of its ability to successfully integrate novel architectural forms and high-level functionality within an existing perceptions based in specific cultural and high-end socio-demographic spheres. Market research has shown that in Mongolia, high-level facilities and novel architectural forms are not necessarily as important as having a safe, inviting family home. With a history of living in single-level apartments, even stairwells are looked upon with a certain amount of distrust as these may be highly unsafe for small children.

XIV. ULAANBAATAR OVERVIEW

1. INTRODUCTION

Mongolian real estate markets evidence a robust and resilient growth trajectory. Cries of a ‘bubble’ dynamic operating within the market continue to remain largely unconvincing, mitigated by relatively low leveraging at in the market at present. However, overall price growth cooled dramatically during 2013-2014, with an overall negative growth of -1.01% across the Ulaanbaatar residential markets. Sukhbaatar District saw the greatest drop, with average prices falling up to 14%. Chingeltei and Bayanzurkh Districts saw 4.3% and 3.9% drops in prices respectively, whilst the remaining districts saw maintained growth of between 1% - 10%. Within such a relatively small market, areas of the city which have seen sustained development from reputable and well financed developers have faired well. Areas with limited developable space, or which host ongoing residential projects that have faced financing difficulties, have seen slumps in pricing as older stocks of housing are knocked on the secondary market by a domestic lack of confidence in growth over 2013 and 2014.

One positive upshot is that the current global and regional economic climate may precipitate a cooling off of bubble dynamics without significant intervention. The dynamics of the Ulaanbaatar residential market since 2008 evidence the considerable impact of the financial crisis on on Mongolian real estate. A global drop in commodity prices, coupled with rising inflation in Mongolia, and lack of liquidity in the property market, led to falls in rental and purchase prices across a majority of districts between 2008-2009. Our figures show that between 2009-2010 the overall market retained low levels of growth, although low- to mid- end housing purchase prices contracted in four of six of Ulaanbaatar’s central districts as a cautious population moved back from the market. Nonetheless, between 2010 and 2011 the market showed signs of a recovery and prices rose at record rates to surpassing pre-crisis figures by the end of 2011. 2012 Saw more moderate price appreciation in the secondary markets alongside a slowdown in construction brought about by a second liquidity crisis within the Mongolian banking sector. Dramatically falling Chinese demand for raw materials has put the brakes on cash-flows from mineral revenues, whilst Mongolian banks, who have been ramping up their lending in recent years, finding themselves without the capacity to do so. Efforts to recapitalise commercial banks and the the impact of the Chinggis Bond financed 8% mortgage scheme, have led to dramatic renewals of liquidity in the construction sector, particularly around residential developments, eager to take advantage of an expanded residential market among the middle and lower-middle classes of Ulaanbaatar. The result has been frenetic construction seasons during 2013 and 2014, with FY 2013 showing record growth in outputs within the construction sector.

INFORMATION BOX - ANNUAL SUPPLY OF RESIDENTIAL BUILDINGS SET TO GROW

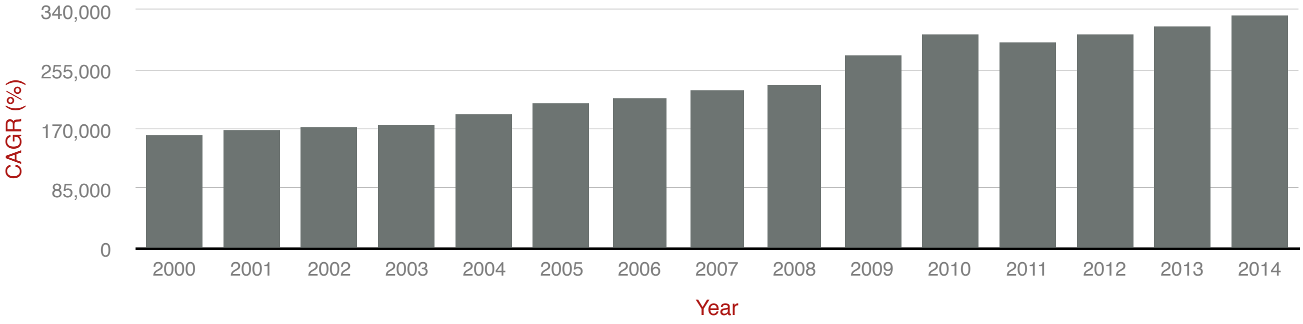
Real estate markets in Ulaanbaatar are driven by dramatic unmet demand in the residential sub-sector. With around 700,000 people still living in peri-urban areas of the city with limited access to good roads and basic infrastructure, the imperative to construct quality housing is echoed from the highest levels of Government, nationally and locally. To this end programs such as the 100,000 homes project and supporting finance mechanisms including the 8% mortgage program, are spurring heretofore unseen growth in residential markets. Government figures suggest that the weighted average increase of construction this year was 20-25%, whilst in 2014 the increase will be around 18%. Around 32,000 residential buildings are currently in the pipeline, with Mongol Bank collaborating to provide 800 billion MNT worth of affordable mortgage loans. This lending is spurring new apartment sales. From 2001-2012 only 780 households received mortgage loans in the city of Ulaanbaatar, a tiny percentage of even this small market. With renewed liquidity in financing and more favourable rates more households will be able to buy apartments. New supply is also increasing competition among developers, forcing prices to remain competitive and preventing increased overheating that was the case due to demand outstripping supply.

Whilst the introduction of lower cost mortgage financing has been instrumental in broadening the Ulaanbaatar housing markets, the real estate markets, particularly the 19 ger area redevelopments, have been hobbled by the fact that project implementing companies do not have sufficient funds or expertise to compete in terms of obtaining foreign investment. Domestic investment is heavily dependent upon bank liquidity, with the domestic banks in Mongolia known to be open to external shocks. The real estate market presently makes up around 1% of Mongolian GDP. Master properties LLC have released research indicating that the total value of the real estate markets in Mongolia is is around 4 trillion MNT, with estimated demand worth around 5 trillion MNT.

2. RESIDENTIAL HOUSING SUPPY IN THE MONGOLIAN CAPITAL

As of 1st January 2014 there were a total of 1,372,000 persons residing in the capital of Mongolia, Ulaanbaatar. This represents 333,379 households, an increase of whom resided in the capital, Ulaanbaatar. This represents a 4.2% increase in the number of families in the capital since the 2010 census was completed. In 2005 58.6% of 5% over the past year alone. Since 2000 the number of households resident within the city has grown with a CAGR of 5.03%, with the highest rises being between 2008-2010 on the back on natural disasters (*zuds*) which saw a significant proportion of the total livestock of the country decimated by long, harsh winters and dry summers.

GRAPH 94: Numbers of Households Resident in Ulaanbaatar by Year



Source: UB Stat

By 2010 60.15% of the capital's population were residing in ger districts, although this number is falling year-on-year. As of 2011, around 184,200 families resided in the ger districts, with around 157,000 people residing in residential areas in buildings serviced with full infrastructure. By the start of 2014 around 53,700 households still resided in traditional Mongolian gers almost year-round (equating to around 217,940 persons), with a further 75,000 - 90,000 households around the central six districts of Ulaanbaatar residing in informal houses or apartments situated within her district areas. Many of these households would live in a her for at least part of the winter months as without suitable connections to city heating systems, inefficiently built houses are exceptionally expensive and difficult to heat with stoves alone.

When compared with figures obtained from the 2000 Housing and Population Census, the number of ger dwelling households in urban spaces has actually increased relative to the number of households living in immovable properties. This trend reflects the continuing inability of existing housing stock to absorb high levels of in-migration to urban centres, indicating significant new housing demand in urban centres as a result of in-migration. In a nation where traditional economic practices are rooted in nomadic pastoralism, less than 32% of the population presently live in the vast rural areas of Mongolia, down from 43% in 2000 and 68.3% in 1989. This very rapid urbanisation rate places Mongolia well ahead of China and broadly on par with the Ukraine, Switzerland and Italy.

By separating housing occupancy by rural and urban location, the extent of the movement out of gers and into available housing stock is shown to be statistically salient. Nevertheless, around one-third of households in urban centres around Mongolia still reside in moveable gers rather than permanent structures (this figure rises to around 40% - 45% in Ulaanbaatar). This is due to a lack of affordable housing available across the capital and a broader lack of housing available in secondary cities following virtual cessation of construction during the early transition period. Only key growth cities such as Dalanzadgad and Sainshand, Erdenet and Darkhan, all cities either close to major mining and infrastructure projects, are seeing large-scale housing development. The private construction sector is now growing rapidly, having weathered the shock to liquidity that the global financial crisis brought. As mentioned above, residential construction is spearheading new growth following an injection of new liquidity from the 8% mortgage program. Numbers of new apartments constructed in the capital and growing steadily and growth secondary cities are seeing flourishes of construction work for the first time since the 1990s.

3. DISTRICT BY DISTRICT OVERVIEWS

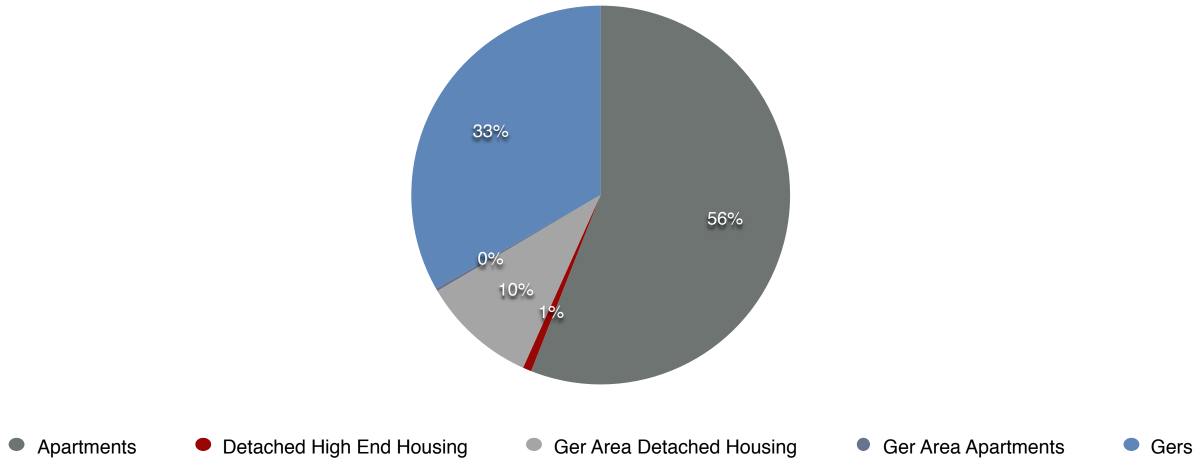
INFORMATION BOX - NAIRMDAL

Songinokhairkhan District is not widely known for its high-end real estate. The far western district of Ulaanbaatar is more widely associated with low-cost housing, warehousing and industrial production facilities. Yet to the north of the district, in the foothills of the surrounding mountain, is the area of Nairmdal. Home of the Nairmdal International Children's Centre, a well known recreational centre for children of Ulaanbaatar, the Nairmdal area has also attracted some of the city's wealthiest - helped by the fact that the first golf course in Mongolia was developed here. The area boasts some of the most expensive real estate in the city and has a housing profile mostly comprised of large, detached houses which are developed by their owners, almost exclusively for personal use. Many of the wealthiest families of Mongolia have maintained property here. Residential property purchase prices in Nairmdal are well above the average for the District, averaging between US$1,500 to $3,500 per square meter.

A. BAYANGOL DISTRICT

Situated to the west of Ulaanbaatar city centre, Bayangol District covers an area of just 29.49 square kilometres, making it the smallest administrative district in the capital. It incorporates the area surrounding Gandan Monastery, the oldest and most well established ger district in Ulaanbaatar. Bayangol District was originally created as an administrative unit in 1965 under the name "October" district. At the time 63,000 citizens were resident over an area of 29.5 sq.km. Since the district first constituted in its present form the population has almost tripled in size to 192,111 persons, constituting 48,596 households. Bayangol district contains around 36,568 apartment units and stand alone housing units connected to infrastructure as of 2013. Informal housing in ger areas accounts for 6,333 units.

GRAPH 95: Bayangol District Housing Breakdown



Source: Bayangol District Office

Ulaanbaatar's railway network extends through Bayangol District, serving the power plant there and connecting the city with the rest of the country and beyond. This is a key hub for trade and transportation, bringing considerable wealth to the district. The summer months see particularly frenetic railway activity, wherein whole families take frequent trips across the Chinese border to the border town of Erlian, from where they carry back fruits and vegetables, electronic equipment and all manner of items to trade. Next to the passenger station there have grown up large markets which mostly deal in imported food products and are among the cheapest wholesale locations in the city. The city's railway linkages are set to be expanded with the introduction of the new 'rail-bus' network, linking the east and west of Ulaanbaatar via the existing Ulaanbaatar railway station. District infrastructure consists of over 60 schools and a district hospital serving the local population.

Bayangol District's eastern border with Sukhbaatar District runs along the edge of the Gandan ger district. This is one of the most stable, and certainly oldest, communities in Ulaanbaatar. Despite huge developments all around, Gandan's community remains spatially configured in much in the way it was nearly a century ago. The core of this area is the Gandan Buddhist Monastery. This monastery is home to over 400 monks and has existed on the same site since 1835, when the fifth Jebtsumdamba, the highest reincarnated lama of Mongolia, founded the temple of Gandantegchinleng. The Monastery was closed in 1938, during the height of the socialist purges, but avoided the destruction that so many religious sites saw under the socialist regime. Indeed, Gandan was allowed to reopen in 1944 and remained the only functioning monastery under socialism as a nod to Mongolia's historic association with the religion. The surrounding ger district contains relatively few gers these days and a majority of households, having gained ownership of their land early on in the privatisation process, have since built brick or wood structures thereupon. Many have access to electricity, telephone lines, even plumbing, due to the proximity of these buildings to the city's infrastructure routes. Next to the monastery is another hub of religious life, a shamanic centre. Here a council of shamans resides in a permanent ger which serves as a site for frequent rituals. Visitors to this site may be able to have their fortunes read for a small fee around the time of regular rituals.

Bayangol District Landmarks

Name	Type
UB Palace	Cultural
Gandan Monastery	Religious / Cultural
Urgoo Movie Theatre	Entertainment
Max Mall	Grade A Mixed Use (retail)
Jiguur Grand Plaza	Grade A Mixed Use (retail)
Max Mall	Grade A Mixed Use (retail)
ROKMON	Grade B Office
Kekushu Tower	Grade B Office
Moscow Center	Grade C Residential
Orgil Trade Centre	Grade C Retail
Tumbash Shopping Centre	Grade C Retail
TBD Anduud Shopping Center	Grade C+ Retail
White House Hotel	Hotel
Ramada Hotel	Hotel
White House Hotel	Hotel
Ramada Hotel	Hotel
13th District Shopping Street	Landmark Retail Area
Ulaanbaatar Mosque	Religious
Korea Town	Residential
The Hillside Residences	Residential
Inel XXK	Residential
Brezhnev Era Apartments	Residential Area
Ulaanbaatar Railway Station	Transport
Ulaanbaatar Western Railway Flyover	Transport / Infrastructure

Source: MAD Research

Opposite the Monastery, to the south, is Golomt Towers. This is a mid-upper residential development developed by Bodi group, completed in 2006 and, for a time, some of the most sought after real estate in the city. This development remains somewhat unique in being high-rise mid-upper residential accommodation near to the city centre. Beneath the five tall towers are shopping and office facilities developed and maintained by Bodi. Street-front retail attached to this development is presently primarily occupied by Bodi owned companies. This development stands in stark contrast to the monastery opposite but, unlike the Monastery, has not kept its appeal over the years. Purchase prices have plateaued in Golomt Towers and being nearly 2km from the business district has caused its popularity to fall in recent years as new, high-end developments take shape closer to the city centre. Now favoured by mid-income expats and middle-class Mongolians.

A short distance west is the Jiguur Grand Plaza, one of the first A grade shopping facilities in Ulaanbaatar. Opened in 2009, the 30,000 square meter plus development has yet to be populated by large international brands but does contain domestic chains such as MIR bookstore. At a remove from the city centre, the accompanying Jiguur Grand Office building has yet to reach capacity and space therein is being sold off by Jiguur Grand Group, who maintain ownership of the shopping facilities. Nevertheless, this development and the new Max Mall opposite - boasting the impressive Ramada Hotel as part of a new development opened in 2011 - are indicative of a westerly movement of retail functions in Ulaanbaatar city centre that is giving developers cause to consider Bayangol District as one of Ulaanbaatar's up and coming areas. This hotel has experienced slack visitor numbers since its opening, accounted for by its westerly location, at a remove of over 2km from the central business district of Ulaanbaatar.

INFORMATION BOX - GANDAN MONASTERY

Gandan (full name Gandantegchinlen Avalokiteshvara at Gandantegchinlen) is a Tibetan Style Monastery in the Mongolian capital of Ulaanbaatar. The Monastery was established in 1838 by the Fifth Jebtsundamba, then Mongolia's highest reincarnated lama. This monastery at Dalkha Hill became the center of Buddhist Sutra-Tantra teaching in Mongolia. It grew into a complex of colleges, including a college of basic Buddhist teachings, alongside departments of Astrology and Medicine. The earliest temple of the monastery was constructed of wood and earth, after Mongolian national architectural designs. The roofs of the early temple was plated with gold and contained Buddhist symbolic designs and decorations at their peaks. The Vajra-Tara temple was built in 1840-1841, using stone and brick, as well as ceramic for the roofs. The main altar in the temple is the Vajra Tara's statue, crafted by Rimpoche Zanabazar in 1683. The site also contains a two level building designed and built as a library for the Fifth Incarnation of the Mongolian living Buddga, Chulten-Jigmid-Dambijantsan. This buildings remains in use as the library of the monastery, containing over 50,000 books.

When socialism took hold in Mongolia persecution of the nation's religious class, who were closely connected with the ruling nobility, was ruthless. More than 15,000 lamas were killed and all but a few monasteries were destroyed. Gandantegchinlen Khiid was one of the few monasteries to escape the destruction and was closed in 1938 only to reopen in 1944. This became the only functioning Buddhist Monastery, with a skeleton staff in place. The socialist Government allowed the Monastery to remain open as a homage or even a museum to Mongolian culture and religion. With the end of Marxism in Mongolia in 1990 all restrictions on worship were lifted. Gandan monastery is home to one of the largest standing Buddhist statues in the world - the statue of Megjid Janraisag. Originally this statue was erected to restore the sight of Bogd Javzandamba (Bogd Khan), Emperor of Mongolia. However, this original statue was dismantled in 1938 and used for munitions. The current statue of Migjid Janraisig was rebuilt in 1996 using donations from the Mongolian people. It contains 2,286 precious stones and is entirely gilded with gold leaf. Gandan is still the largest and most important Monastery in Mongolia as well as being one of Mongolia's most impressive landmarks and the centre of a thriving community. Today there are still over 150 monks in residence. The Gandan monastery complex is surrounded on all sides by a ger area which has grown up since the establishment of the monastery itself 173 years ago. Whilst the urban fabric of the Gandan ger area has changed dramatically - a vast majority of residents now living (at least in the summer months) in reasonably large brick, concrete or wooden construction houses, many of which have electricity, plumbing and telecoms infrastructure installed by virtue of their city centre location - the configuration of land plots (*Khaashas*) remains remarkably similar to how it was as Mongolia entered the twentieth century. This long-standing community is still, in significant part, based around the operations of the Monastery.

Household living in Residential districts (built-up sections of the Bayangol District)

Khoroo number	Apartments						Individual Houses						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	3,318	3,799	12,866	14,404	3.9	3.8	8	13	34	67	4.3	5.2	-	-	-	-	-	-
2	1,603	1,818	7,371	7,768	5	4.3	11	21	43	76	4	3.6	-	-	-	-	-	-
3	1,725	1,707	7,499	7,464	4	4.4	12	12	98	98	8	8.2	-	-	-	-	-	-
4	2,866	3,107	10,558	11,526	4	3.7	6	11	37	32	6	2.9	-	-	-	-	-	-
5	2,356	2,277	8,675	8,449	3.7	3.7	52	58	203	231	4	4.0	-	-	-	-	-	-
6	3,703	3,617	13,548	13,105	3.7	3.6	53	186	189	734	4	3.9	-	-	-	-	-	-
7	2,588	2,690	10,422	10,719	4	4.0	85	85	256	289	3	3.4	-	-	-	-	-	-
8	2,454	2,576	10,607	10,764	4	4.2	15	24	63	73	4	3.0	-	-	-	-	-	-
9	695	614	2,376	2,310	3	3.8	-	-	-	-	-	-	-	-	-	-	-	-
10	417	354	1,548	1,491	3.7	4.2	-	-	-	-	-	-	-	-	-	-	-	-
11	178	178	765	756	4	4.2	10	-	45	-	5	-	-	-	-	-	-	-
12	2,663	2,717	10,706	10,956	4.0	4.0	-	-	-	-	-	-	-	-	-	-	-	-
13	1,089	1,080	4,448	4,624	4.1	4.3	-	-	-	-	-	-	-	-	-	-	-	-
14	1,240	1,220	4,786	4,755	3.9	3.9	1	1	5	5	5	5.0	-	-	-	-	-	-
15	1,251	1,263	5,089	5,131	4.1	4.1	-	-	-	-	-	-	-	-	-	-	-	-
16	175	207	620	724	3.5	3.5	-	-	-	-	-	-	-	-	-	-	-	-
17	1,895	1,937	7,307	7,685	3.9	4.0	6	8	30	34	5	4.3	-	-	-	-	-	-
18	2,217	2,226	8,595	8,817	3.9	4.0	8	7	37	37	4.6	5.3	-	-	-	-	-	-
19	1,500	1,468	6,042	6,012	4.0	4.1	6	42	14	129	2.3	3.1	-	-	-	-	-	-
20	872	1,242	2,792	4,657	3.2	3.7	2	3	10	11	5.0	3.7	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Bayangol District	34,805	36,097	136,620	142,117	3.9	4.0	275	471	1,064	1,816	4.5	4.3						

Source: Ulaanbaatar City, NSOM

By far the largest single land use category in Bayangol District is residential. The majority of existing residential space in the district dates from the 1970s and are known as the Brezhnev era apartments, in reference to a visit by Leonid

Brezhnev in 1974, when he was still the General Secretary of the CPSU. During this time the Soviet Union pledged assistance in developing Mongolian infrastructure, including residential space, in exchange for allowing stationing of soviet troops in Mongolia. The new high rise apartments that sprang up rapidly around Bayangol District were actually meant to spell USSR from the air (in cyrillic). These high rise, 10 floor plus constructions were built using precast concrete and prefabricated materials shipped from Russia. They continue to be thought of as lower quality housing stock, but are located on the edge of one of Ulaanbaatar's best shopping districts, so are still sought after. The density of housing in Bayangol district is among the highest in the city due to the prevalence of these high-rise structures. Further west the 16th and 14th district apartment complexes are some of the largest complexes in the city. These are built around courtyards in the traditional fashion but are concrete high-rise constructions, again erected during the late socialist period in Mongolia's history. Next to these is the city's third remaining cinema, the Soyombo complex. This entertainment centre lacks the lustre of it's city centre counterparts but is still well frequented by local residents.

Household living in Ger district (low-end of the market of Bayangol District)

Sub-Kh No.	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	-	-	-	-	-	-	-	-	-	-	-	-	51	13	183	50	4	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	2	2	16	16	8	-	23	14	75	62	3	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	7		12	-	-	-	10	-	18	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	31	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	22	-	80		4	-	-	-	-	-	-	-
7	7	7	25	25	4		50	50	253	253	5	-	43	43	190	190	4	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	32	62	176	310	6	-	1,392	471	5,678	1,770	4	-	1,288	474	5,277	1,715	4	-	-	-	-	-	-	-
10	21	0	109	0	5.2	-	1,947	1,118	7,619	4,621	4	-	1,853	853	6,460	2,927	3	-	1	3	1	3	1	-
11	0	10	0	45	0	-	1,578	907	6,180	3,697	4	-	1,345	533	5,246	2,106	4	-	2	-	7	-	4	-
12	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	6	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-	-	2	-	11	-	6	-	-	-	-	-	-	-
16	33	33	180	174	5.5	-	1,162	1,175	4,978	5,038	4	-	491	510	2,043	2,132	4	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-	-	8	15	39	51	4.9	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	-	15	-	65	-	-	102	82	432	330	4.2	-	505	385	2,157	1,510	4.3	-	3.0	3.0	5.0	6.0	1.7	-
21	-	-	-	-	-		-	979	-	4,365	-	-	-	805	-	3,545	-	-	-	8.0	-	33.0	-	-
22	-	30	-	113	-	-	-	866	-	3,383	-	-	-	1,038	-	3,879	-	-	-	-	-	-	-	-
23	-	-	-	-	-	-	-	676	-	2,484	-	-	-	823	-	3,199	-	-	-	2.0	-	14.0	-	-
Total for BGD	93	157	490	732	3.9		6,233	6,333	25,156	25,969	4.8		5,631	5,522	21,761	21,421	4.1		6	16	13	56	2.1	
	0.20%		0.26%				13.25%		13.59%				11.97%		11.76%				0.01%		0.01%			

Source: Ulaanbaatar City, NSOM

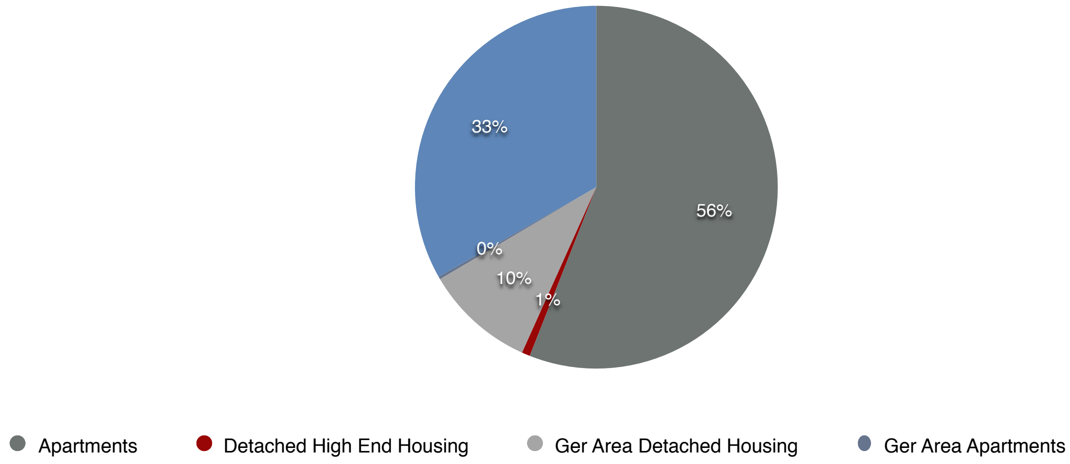
The 13th District is famed for it's shopping facilities. The shopping district actually bi-sects a number of micro-districts, extending from the north of Gandan right the way to the western tip of the northern main road. Most of the retail property herein is high-street shop-front and our estimates indicate over 30,000 square meters of ground floor retail property lines the major road that runs through this area. The majority of stores are small, domestic retailers, bars and restaurants, although some large brand names (Benetton and Adidas) retain stores in this district - eager to tap the middle class Mongolian market, along with a KFC opened during 2013. The area also contains significant Mongolian chains such as BSB electronics, which has its own two level outlet store along this stretch. The Urgoo cinema is also located along this street. This is one of two modern cinemas in Ulaanbaatar and is always busy with movie-goers eager to see the latest releases in 3D. Other entertainment facilities include the UB Palace, a large entertainment arena that holds regularly hosts entertainment and music events. This is situated just behind a large unfinished steel structure that was to be the city's new sporting arena. Despite the popularity of this area, it is speculated that the development of sub-markets such as the Stadium area and Yarmag will gradually draw retailers, both domestic and international, away from the third-district and into newer retail developments. This will coincide with the expansion of the Ulaanbaatar entertainment markets into new areas (two cinema facilities are presently planned for the Stadium Area alone). The now ageing supply of both residential units and commercial space around the 3rd district will, therefore, potentially devolve into lower end retail space.

The central section of Bayangol District, which traces along the route of the railway lines, has recently received a boos to its fortunes with the completion of a new railway flyover. Built with Japanese cooperation, this ambitious transport infrastructure project was opened to the public in Q3 of 2012. Designed to alleviate traffic pressures on Peace Bridge, it now links the north and south Ulaanbaatar, connecting Bayangol district with areas of Khan-Uul district to the south. With traffic congestion being a major drawback for those living south of the railway bridge, it is expected that the opening of this bridge (the first of two to be constructed in Ulaanbaatar), property prices immediately south of the bridge, both commercial and residential, will continue to be boosted. Despite waning influence of westerly retail and hotel sites on the horizon due to new high-end inner-city developments, a number of developers have sought to capitalize upon new accessibility and depressed prices in this area of town. New developments have been indicated by major developers both to the north and south of the flyover. Among these is the new multi-use development by Orchlon Construction based on brown-field land to the south of the flyover.

B. BAYANZURKH DISTRICT

Bayanzurkh District is the largest of Ulaanbaatar's districts, covering an area of 1,244.1 sq.km to the south and east of the city centre. It is presently home to 265,997 persons, constituting 71,448 households. Bayanzurkh district contains around 23,198 apartment units and stand alone housing units connected to infrastructure as of the end of 2013. Informal housing in ger areas accounts for over 2,200 units.

GRAPH 96: Bayanzurkh District Housing Breakdown



Source: Bayanzurkh District Office

Bayanzurkh District was previously known as Nairmdal, created as an administrative unit of Ulaanbaatar on April 4th 1965. This original administrative territory covered an area of 650 sq.km, approximately half of what is today Bayanzurkh District. Through in-migration and development of infrastructure the district has grown considerably to reach its current form, brought into being as Bayanzurkh District in 1992. The built environment of Bayanzurkh district is highly varied and encompasses sprawling ger districts to the east of the city. New housing developments in Bayanzurkh District are largely high-rise units built for the mid- to low-income market.

Bayanzurkh District also encompasses the well-known Sansar area to the north-east of the city, settled on the edge of the ger districts that extend well into the surrounding hills. Sansar, literally translates to mean "outer space" and was so named because the first residential units therein were completed around the times of the first Soviet space missions to include Mongolian cosmonauts. Today, the area is mostly low-cost housing and in terms of physical environment is a mix of properties from the 1960s, resembling those of the First 40,000, 1970s and 1980s prefab constructions, as well as more recent high-rise builds such as "American Denj" (meaning American Hill). This was initially intended as a high end development when it was completed in the 1990s. Now it is upper low-end to lower-mid in it's socio-demographic appeal.

The developer Italian Properties are developing two new residential properties in the are, the Romeo and Juliet Towers. These mid-upper end residential units offer a hope of revitalising the mid-upper residential market within Bayanzurkh District. These are being built close to the existing American Denj building, behind the Kempinski Khan-Palace Hotel, which, until 2011 was the only internationally managed hotel in Ulaanbaatar. There are also plans to construct a new hotel opposite the site of the existing Kempinski Hotel, although these are not confirmed. This facility is expected to be over 30 levels tall, incorporating a five-star Gran Melia hotel facility and supporting retail. Other sites, closer to the CBD are also rumoured to be considered for this project.

Bayanzurkh Landmarks

Name	Type
Jukov Museum	Cultural
Bukhiin Urgoo Wrestling Palace	Cultural / Sporting
British Embassy	Diplomatic
Sky Department Store	Grade A Retail
Home Plaza	Grade B - Retail
Colorado Business Centre	Grade B Office
Sunday Plaza	Grade B Retail
Sansar Centre	Grade C Retail
Jobi Center	Grade C+ Office/Retail
Song-Do Hotel	Hotel
Chinggis Khan Hotel	Hotel
Kempinski Khan Palace Hotel	Hotel
Russian Orthadox Church	Religious / Cultural
100 ail Area	Construction Materials Retail hub
Narantuul Market (The Black Market)	Retail - Open air and enclosed market
American Denj	Residential development - early upper-end
Romeo & Juliet	Residential - new development by Italian Properties

Source: MAD Research

The area surrounding the eastern, crossroads has experienced significant new development over the past two years, with a signifiant tranche of new B- and C grade office coming online around this crossroads. Well established construction companies, such as Baganat Urguu, have also been erecting new office space in the vicinity of the Wrestling Palace in the hope of tapping into an expanding domestic market for lower-cost office space.

INFORMATION BOX - GATSUURT

Gatsuurt is situated to the east of Ulaanbaatar. This medium sized town is part of the Ulaanbaatar administrative area and is home to almost 4,000 people. Its population has swelled in recent years as it has become another preferred location for wealthy Mongolians as a site for summer houses. Approximately 30 minutes by road from central Ulaanbaatar, Gatsuurt is prized for its natural beauty and proximity to the Tuul river. It is home to 'Hotel Mongolia', a large traditional style hotel development at the heart of the town, which receives foreign and Mongolian visitors in the summer and is regularly used for conferences and banqueting events. The urban fabric is based around individual villas built on private land. However, in the past two years developers have begun to build small multi-unit apartments in the town. As a result of this area's desirability land prices have risen rapidly. A plot that would cost US$30,000 five years ago will now cost US$ 65,000 - 75,000.

Bayanzurkh District also lays claim to the largest market in Mongolia, covering an area of over 127,000 square meters. The Narantuul Market, or 'Black Market' as it is also known, is the most successful retail operation in Mongolia and its success has attracted a number of C and even B grade developments to it's vicinity, including the well frequented Sunday Plaza. The Narantuul Market itself is a Mongolian institution and one can purchase almost anything there, from cookware to rifles and beyond. It is one of Asia's largest markets and, true to its name, has a long and illustrious history even before the end of the socialist era and the decriminalising of private trade. There are already plans in place to move the Narantuul market to new indoor facilities opposite the existing site, leaving the city's largest single plot of real estate tantalisingly open for redevelopment by its now very wealthy private owner. Next to the Narantuul market is Ulaanbaatar auto-market, another expansive retail facility which is constituted of orderly rows of shipping containers, out of which traders distribute all manner of spares and automotive consumables, as well as a good number of black market car spares. Bayanzurkh District also contains 31% of Ulaanbaatar's upper end hotel supply, only 12% of which was built post 2005.

During 2013 the Dnjingarav market facility opened just to the south-west of Narantuul Market. Operated by the holding company of the same name, this warehouse style facility offers an expansive indoor supply of market booths. After entering the market with one of the highest per square meter rental rates in the city, calculated at around US$ 70 per square meter per month based upon per-booth rental rates, Dunjingarav was forced to lower rates during Q3 2013 in order to attract new tenants from competing market style facilities following slow uptake. During Q4 2012 this facility remained around one-third empty. It is now gradually filing, offering shoppers and retailers a more pleasant year-round retail experience.

In terms of current real estate trends in the Bayanzurkh area, retail definitely stands out as a key growth sub-sector. The area is already renowned for its low-end retail profile, incorporating both the Narantuul Market and the new Dunjingarav

Market facilities, the two largest in the city. Alongside this the lower mid-end Sunday Plaza facility and upper-end domestic SKY shopping centre to the north of central Bayanzurkh District (incorporated into the Chinggis Khaan Hotel site). Whilst the demographic profile for this area is decidedly lower- to mid- end retail, this offers opportunities of its own. A number of low-end market style retail facilities have transacted in this area in recent years, being purchased by local and international investors hoping to cash in on the overall growth in Ulaanbaatar markets. These represent an attractive value proposition as they often cover expansive tracts of land, transact at between US$2,800 - US$3,500 per square meter (depending upon location, condition and yield potential) and are yielding commercial properties. This provides an excellent opportunity for land-banking in an area of the city with a relatively low cost profile at present.

Overview of households living in Bayanzurkh District in 2010 - 1Q 2012

Khoroo Number	Administrational units								
	Total households			Total population			Pax per Household		
	2010	1Q 2012	% Change	2010	1Q 2012	% Change	2010	1Q 2012	% Change
1	1,605	1,815	113.1%	5,842	6,331	108.4%	3.6	3.5	96%
2	3,826	2,570	67.2%	14,423	10,983	76.1%	3.8	4.3	113%
3	1,541	1,636	106.2%	5,080	5,260	103.5%	3.3	3.2	98%
4	3,883	3,895	100.3%	13,971	14,296	102.3%	3.6	3.7	102%
5	4,265	4,506	105.7%	16,370	17,072	104.3%	3.8	3.8	99%
6	3,006	1,833	61.0%	13,607	9,175	67.4%	4.5	5.0	111%
7	1,720	1,766	102.7%	6,886	7,163	104.0%	4.0	4.1	101%
8	3,695	3,745	101.4%	13,627	14,390	105.6%	3.7	3.8	104%
9	2,922	3,025	103.5%	11,433	11,976	104.7%	3.9	4.0	101%
10	2,670	1,656	62.0%	10,940	7,484	68.4%	4.1	4.5	110%
11	1,760	1,808	102.7%	5,476	5,826	106.4%	3.1	3.2	104%
12	4,215	3,878	92.0%	16,197	14,815	91.5%	3.8	3.8	99%
13	2,148	2,175	101.3%	8,603	8,130	94.5%	4.0	3.7	93%
14	2,883	2,966	102.9%	10,653	10,878	102.1%	3.7	3.7	99%
15	1,593	1,670	104.8%	6,162	6,626	107.5%	3.9	4.0	103%
16	3,110	3,440	110.6%	13,277	15,340	115.5%	4.3	4.5	104%
17	2,869	2,942	102.5%	11,114	11,179	100.6%	3.9	3.8	98%
18	2,792	2,700	96.7%	9,755	10,255	105.1%	3.5	3.8	109%
19	2,592	2,610	100.7%	10,193	10,308	101.1%	3.9	3.9	100%
20	1,966	2,027	103.1%	6,113	6,356	104.0%	3.1	3.1	101%
21	5,342	2,825	52.9%	19,779	10,504	53.1%	3.7	3.7	100%
22	3,324	3,737	112.4%	13,103	14,126	107.8%	3.9	3.8	96%
23	3,998	3,759	94.0%	14,587	14,694	100.7%	3.6	3.9	107%
24	2,338	2,496	106.8%	8,806	9,786	111.1%	3.8	3.9	104%
25	-	1,421	-	-	7,113	-	-	5.0	-
26	-	948	-	-	3,022	-	-	3.2	-
27	-	3,599	-	-	14,586	-	-	4.1	-
Total for Bayanzurkh District	70,063	71,448		265,997	277,674		3.8	3.9	

Source: Ulaanbaatar City, NSOM

The most notable hotel development in Bayanzurkh is, as noted above, the Kempinski Khan Palace hotel. Situated by the eastern crossroads of the city, this development is a training facility for Kempinski. Whilst retaining good occupancy, its location already renders it less desirable in relation to more centrally located hotels. With a future supply of 1,173 hotel rooms in the 4*+ market, 903 of which will be in or around the CBD and all of which are being managed by international companies. The Kepmpinski looks set to face still competition from newer, better appointed facilities, with significant location advantages. The large Song Do Hotel development is also located on the outskirts of the city centre, within Bayanzurkh District. This hotel was designed to be one of the best served hotels in the city in terms of amenities and space, although is a long way outside of the city centre and its rooms and restaurants receive only scant businesses these days, mostly from Korean package tourists. The Chinggis Khan hotel, also based in Bayanzurkh District, remains one of the largest hotel facilities in Ulaanbaatar, covering 13,393 square meters of hotel space alone and connected to the SKY Shopping centre and function facilities what cover a further 14,000 square meters. This hotel begin seeking investment during 2012 for a full-scale redevelopment. At present a large-scale renovation and extension of facilities is planned in order to help this domestically managed facility compete in a rapidly developing hospitality marketplace.

With respect to office markets, Bayanzurkh contains majority grade C office, with scattered lower B grades along Peace Avenue. The supply of office within this district is expected to grow in the coming years as the CBD extends out radially, encompassing areas just east of Nairmdal park, on the tip of Bayanzurkh District. This area is tipped for high growth in the B to B+ grade office sectors, as well as in terms of mid- to upper-end residential facilities. The area surrounding the west crossroads has recently seen significant redevelopment, with several thousand square meters of new office supply bing completed during 2013 and early 2014. However, these facilities, whilst B grade in their design and layout, will have difficulty competing in terms of location with an expected oversupply and significant new developments in the pipeline for the more desirable CBD and Stadium areas of the city.

Bayanzurkh is also home to of the capital's most well established ger districts, nestled in between Peace avenue and the Millennium Road, which itself borders the strictly restricted area to the south that contains the city's water table. The plots in this ger area are characteristically small in comparison with those further out, where space is more plentiful. Nevertheless, community relations herein are well developed and a majority of plots contain built structures, either formal or informal. Peripheral areas of the ger district, to which infrastructural trunks can reach, contain large two and three level detached housing units that appear every bit as well designed as the exclusive housing in some areas of Nukht valley and Gatsuurt (a favoured out-of-town retreat for many wealthier Mongolians).

Household living in Ger district (low-end of the market of Bayangol District)																								
Khoroo Number	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh		Household (Hh)		Population		Pax per Hh	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	53	53	251	258	5	5	1,894	258	7,031	4,852	4	19	1,458	1,097	5,994	4,714	4	4	1	-	1	-	1	-
3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	12	12	42	44	4	4	272	44	1,194	879	4	20	770	618	2,698	2,571	4	4	5	-	16	-	3	-
5	32	32	128	131	4.0	4	1,176	131	4,246	4,848	4	37	1,567	-	6,364	6,479	4	-	3	-	7	-	2	-
6	45	-	351	-	7.8	-	26	-	114	-	4	-	139	-	394	0	3	-	2	-	2	-	1	-
7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	37	39	168	169	5	4	491	169	2,180	2,195	4	13	2,035	1,979	7,887	8,340	4	4	7	9	17	22	2	2
9	-	-	-	-	-	-	1,717	-	6,266	6,912	4	-	1,194	1,257	5,131	5,064	4	4	11	0	36	-	3	-
10	-	-	-	-	-	-	1,235	-	4,617	2,284	4	-	1,198	805	5,134	4,116	4	5	1	1	1	1	1	1
11	95	94	186	181	2	2	862	181	2,697	2,676	3	15	597	620	2,284	2,629	4	4	2	-	2	-	1	-
12	-	-	-	-	-	-	2,110	-	8,449	9,415	4	-	1,246	1,643	4,427	5,390	3.6	3	6.0	5.0	11.0	10.0	1.8	2
13	136	127	677	517	5.0	4	1,184	517	4,886	4,284	4.1	8	438	540	1,720	2,057	4	4	-	-	-	-	-	-
14	23	23	85	80	3.7	3	770	80	2,887	2,697	4	34	1,370	1,333	5,021	4,665	3.7	3	4.0	12.0	12.0	29.0	3.0	2
15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	48	54	288	274	6.0	5	162	274	731	893	5	3	165	276	710	959	4	3	-	-	-	-	-	-
17	-	-	-	-	-	-	1,982	-	7,662	8,387	4	-	854	819	3,323	2,665	4	3	1	2	1	2	1	1
18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	1,143	-	4,667	4,889	4.1	-	1,085	1,083	4,213	4,109	3.9	4	2.0	-	11.0	-	5.5	-
20	65	65	248	246	3.8	4	832	246	1,980	1,984	2.4	8	1,069	1,117	3,885	4,126	3.6	4	-	-	-	-	-	-
21	-	-	-	-	-	-	2,837	-	11,251	5,499	4.0	-	2,505	1,347	8,528	5,005	3.4	4	-	-	-	-	-	-
22	-	-	-	-	-	-	1,428	0	5,639	5,920	3.9	0	1,345	1,534	5,412	5,763	4.0	4	-	-	-	-	-	-
23	-	-	-	-	-	-	1,737	0	6,276	6,565	3.6	0	2,261	1,954	8,311	8,129	3.7	4	-	-	-	-	-	-
24	50	53	182	193	3.6	4	1,117	193	4,396	5,011	3.9	26	1,171	1,249	4,228	4,582	3.6	4	-	-	-	-	-	-
25	-	30	-	86	-	3	-	86	-	30	-	-	-	62	-	313	-	5	-	2	-	10	-	5
26	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	-	-	-	-	-	-	-	-	-	6,944	-	-	-	1,853	-	7,634	-	4	-	3	-	8	-	3
Total for Bayanzurkh District	596	582	2,606	2,179	4.4	3.8	22,975	2,179	87,169	87,164	3.9	15.2	22,467	21,186	85,664	89,310	3.8	4.0	45	34	117	82	2.2	2.4

Source: Ulaanbaatar City, NSOM

Most detached housing in the ger districts is, however, not connected to any infrastructure, leaving residents to occupy their brick homes in the summer (when no heating is required) and their gers in the winter (which are far easier and cheaper to heat than large, inefficient brick and concrete structures). Moving east, beyond the military monument at the eastern roundabout, the road network begins immediately to deteriorate. After this point a number of new low-cost, high-rise housing units have been developed in the past two years. Passing these, one enters into anther ger district, which extends out into the surrounding mountain-sides. These peripheral ger districts share the same structure of those across the city, comprising of small, unserviced plots, the majority of which are under private household ownership and many of which now boast permanent detached housing structures.

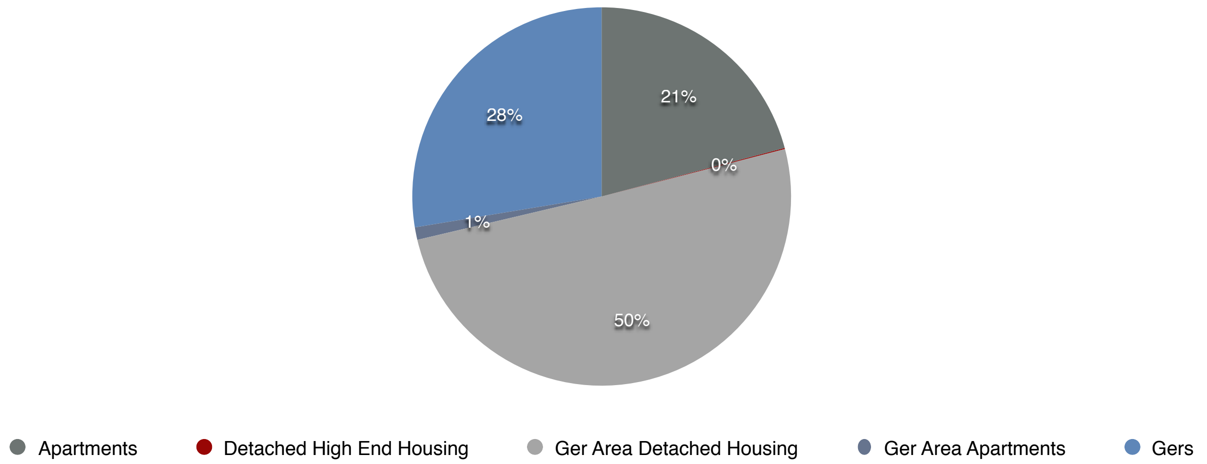
In terms of significant future pipeline, Chaung Group, a Hong Kong based real estate developer, entered Mongolia in 2010 with the intention of developing a high-end residential tower on land presently occupied by Edelweiss Hotel, located on the border of Bayanzurkh District and Sukhbaatar District. Plans indicate that this is an ambitious residential development, featuring a swimming pool and leisure complex. Nevertheless, the group have not yet broken ground on this new development and rumours indicate that it may well be in question or that there are plans to move it to a different location that is more established in terms of high-end residential. Whilst the development has been put on temporary hold whilst the developer completes their IFC Tower in the heart of Ulaanbaatar's CBD, it represents the gradual extension of high-end, inner-city markets eastward from the current CDB. Together with the Regency Residence, completed in 2011 and situated less than 200m from the Bayanzurkh border, Star Apartments (around 300 m from the border) and nearby forthcoming Olympic Residence, the trend for the area south of the CBD which incorporates both Sukhbaatar and Bayanzurkh district seems to be towards high end residential and upper-end commercial.

Transit links are also expected to improve the profile of Bayanzurkh District significantly. With the east-west Rail-bus system being inaugurated, the Selbe River road being constructed (linking Bayanzurkh to the north and east with the CBD and the rapidly developing Stadium area), and the east-west arm of the Ulaanbaatar metro linking the stretch of Peace Avenue that runs through Bayanzurkh with the CBD, the area is expected to improve gradually in terms of accessibility, and therefore in terms of pricing across all sectors.

C. CHINGELTEI DISTRICT

Chingeltei district has a population of over 153,117 persons (36,856 households), covering 89.3 sq.km of the capital city. Originally formed as part of the 'Central Sukhbaatar' administrative District, created in 1965, the area that now comprises Chingeltei district was split off in 1922. The area now covers a space extending from the city's central residential and entertainment/retail area to the borders of Gandan and the Bayangol District. Chingeltei incorporates the "First 50,000" apartment complexes as well as many of the "First 40,000" apartments. First 50,000 apartments averaged per square meter transaction prices equivalent to US$ 1,600 in 2013, whilst 40,000 apartments remained among the most desirable apartments in Ulaanbaatar, with average prices reaching US$ 2,400 per square meter by Q1 2014.

GRAPH 97: Chingeltei District Housing Breakdown



Source: Chingeltei District Office

The profile of Chingeltei's residential infrastructure is much the same as Sukhbaatar District's. 1960s low-rise apartments encircling now somewhat depreciated looking courtyards - many of which are now undergoing renovations in order to update children's play facilities and sporting/exercise facilities- are the main form of housing in the inner city part of the district. Several new developments are beginning to transform the area, including Peace Plaza, a large commercial mixed-use development, the office component of which came online during 2012, followed in 2013 by a retail component. This features lower floors of retail space that sold in 2011 for over US$4,000 per square meter, making it among most expensive freely transacting retail real-estate for sale in the city at the time. This facially, developed by Sunday Group, has experienced poor occupancy in both office and retail components, as well as slow primary market sales and extremely poor secondary market sales. This is partially attributed to significant delays to construction, that saw the project come online over a year late. The real estate markets move swiftly in such a rapidly developing economy as that of Ulaanbaatar and between 2011-2014 there has been a concerted centripetal trajectory in the development of Ulaanbaatar's commercial real estate markets, closing in on a densifying CBD and immediately surrounding areas. Situated to the west of the State Department Store, Peace Plaza found itself being too far west to remain desirable in such a rapidly changing market. Over the past 18 months prices have caught up and both office and retail space routinely transact at over US$ 4,500 per square meter in key developments.

Perhaps the best known landmark in all of Chingeltei District is the State Department Store. Originally opened in 1924 at a different location and known as the 'Central Store'. The State Department Store, as it is known today, has been situated in three separate locations around Ulaanbaatar (including the current site of the Zanabaazar Museum), stocking domestic as well as foreign goods. Since the coming of democracy and the transition to a market economy the State Department Store management taken over by Nomin Group (the majority shareholder in the now publicly listed company), who now base their offices in this imposing building as well as running Mongolia's best known department store therein. Everything from glassware and fitness equipment to musical instruments and imported foods can be purchased across five floors of retail space. Very popular among tourists seeking souvenirs and Mongolian middle and upper income groups who are able to find an array of imported goods in the Nomin supermarket that takes up the majority of the available ground-floor space in the facility. Since 2013 the State Department Store has contained a Cinnabon outlet, one of the first international food chains in Mongolia.

Chingeltei Landmarks

Name	Type
Tengis Movie Theatre	Entertainment
Urgoo Movie Theatre	Entertainment
State Department Store	Grade A Retail
Flower Center	Grade B Retail
Turkish Embassy	Diplomatic
French Embassy	Diplomatic
Ulaanbaatar Bank Building	Grade B Office
Zoos Bank Building	Grade B Office
Zanabazar Museum	Cultural
Natural History Museum	Cultural
TDB Bank	Financial
Ministry of Construction and Urban Development	Government
Peace Plaza	Grade A Retail & Office
Tourist Street	Tourism locale
Bank of Mongolia	Financial Organisation
Ulaanbaatar Bank Building	Grade B Office
Zoos Bank Building	Grade B Office
Max Tower	Grade B Office
Metro Mall	Grade B Retail
Central Post Office	Infrastructure / Services
Urgoo Hotel	Hotel - Boutique
Chingeltei Soccer Stadium	Leisure
Ard Kino Theatre	Grade B/C Office - Landmark Location
TEDY Centre	Grade B/C Retail
LG Office	Grade B+ Office
Arizona Centre	Grade C Office
Narantuul Hotel	Hotel
Lux House	Residential
First 40,000 Apartments	Residential Area

Source: MAD Research

The area surrounding the State Department Store is packed with shops and entertainment facilities. Peace Avenue, the east-west artery of the city, bustles with mostly domestic retailers, large souvenir centres, cashmere outlets of all varieties, restaurants, bars, domestic fast food chains of a distinctly local variety, as well as small cafes modelled on international chains. As one of the busiest streets in the city enter Tserendorj street (also known colloquially as 'Beatles Street'), which connects between the State Department Store and the State Circus to the south, was typically an excellent location for restaurants, cafes and bars. However, since 2012 this street has seen a dramatic increase in vacant premises. This has occurred despite the fact that on a daily basis this area of the city is now busier than ever. Community events, from concerts to book fairs and flash-mobs to charity drives, the area surrounding the Beatles statue has become a focal point for all manner of social activities. Despite the increasingly innovative uses of this public space, the CBD and, increasingly, Seoul Street, have become hubs of nightlife, drawing wealthier customers and expats away from the restaurants and bars that had been the mainstay of Tserendorj Street's appeal. Moreover, following rapid rises in street-front retail pricing around the 40k apartment areas of the city, rental rates rose accordingly, resulting in landlords asking up to US$ 3,000 per month for street-front retail facilities of less than 100 square meters within this area. This has driven many smaller businesses away and resulted in at least five vacant premises along Tserendorj Street at the end of Q2 2014. Nevertheless, it is expected that this area will undergo a recrudescence when new retailers, more switched onto the social foment around this area, move in to take advantage of the daily bustle of late-teen musicians, skaters, families and young children who frequent this increasingly social space. With the CBD's supply of restaurants and cafes set to rapidly develop - filling F&B and entertainment spaces in new A grade offices - the area around the State Department Store is becoming more associated with mid-upper entertainment and F&B markets than the upper end of the retail market.

Household living in Residential districts (built-up sections of the Chingeltei)

Khoroo number	Apartments						Individual Houses						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	201	2013	2010	2013	201	2013	201	2013	201	2013	201	2013	201	2013	201	2013	201	2013
1	945	904	3,625	3,445	3.8	3.8	19	12	51	56	2.7	4.7	2	2	2	2	1	1.0
2	881	1,037	2,957	3,311	3	3.2	-	-	-	-	-	-	4	3	11	8	3	2.7
3	1,47	1,285	5,124	5,214	3	4.1	-	-	-	-	-	-	6	5	14	13	2	2.6
4	1,30	1,431	4,741	5,184	4	3.6	3	3	13	13	4	4.3	11	11	23	23	2	2.1
5	1,42	1,151	5,918	5,768	4.2	5.0	-	-	-	-	-	-	13	-	29	-	2	-
6	1,82	1,857	6,047	6,485	3.3	3.5	16	16	82	83	5	5.2	6	6	10	11	2	1.8
7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Chingeltei District	7,848	7,665	28,412	29,407	3.6	3.9	38	31	146	152	4.0	4.7	42	27	89	57	2.0	2.0

Source: Ulaanbaatar City, NSOM

You will not find a Starbucks here, neither a Cafe Nero or Burger King. In fact, only three significant international cafe and fast food chains have yet made incursions into the Mongolian market. During 2013 KFC, represented by Tavan Bogd Group into the market and rumours abound about who will be the first company in Mongolia to secure a Starbucks franchise. During 2014 Pizza Hut opened their first store in the city, with a franchise of California based Round Table Pizza having been established a year earlier. In the cafe market, Coffee Bean & Tea Leaf now have three four franchise locations throughout the city, the first of which was in the newly re-developed Naran Plaza along Seoul Street. Indications are that Burger King may enter the market next. Small target market size and logistical problems make entry in the short term an uncertain prospect for many larger food and beverage sector companies and so local entrepreneurs have been busy filling the gap with a glut of new bakeries and cafes that mimic their multinational counterparts in most respects.

Directly north of the State Department Store is Ulaanbaatar's electronics and telecommunications super-centre, the TEDY centre. This exceptionally large, four floor warehouse of electronics and mobile phones features a ground floor section where three major mobile phone providers are present. The centre contains over 450 private tenants, most of whom operate small stalls on the upper floors selling mobile telephone and computer equipment. There is also a section on the top floor dedicated to repairs and service. Further north still is the Tengis cinema, overlooking what is now known as Freedom Square, where the Mongolian democratic transition took its first steps. Opposite the bustling cinema is the old residence of the Mongolian Chamber of Commerce and Industry, now relocated to dedicated new premises in Khan-Uul District. The National Human Rights Commission of Mongolian remains in residence in the next-door building.

Many of the City's administrative functions are also located in Chingeltei District. The Capital City Court, Ministry of Roads, the Labour Ministry office and Supreme Court of Mongolia are all located in a single courtyard within the third Khoroo of Chingeltei District. This area of Chingeltei is also home to some of Ulaanbaatar's cultural institutions. The Zanabazar Museum of Fine Arts is located herein, just west of the financial district and next-door to Max Tower. This museum houses paintings and sculptures by the revered artist Zanabazar, alongside exhibits exemplifying Mongolia's Buddhist tradition. This building was once home to the international diplomatic store from which the State Department Store takes its institutional heritage. The banking district is located one street across from Sukhbaatar Square and contains the neoclassical style Central Bank of Mongolia, along with headquarters of the Trade and Development Bank, Toriin Bank, Savings Bank, Golomt Bank and Ulaanbaatar City Bank, among others. This area is also well populated with embassies, including the French embassy and Turkish embassy, which sit next to one another on Peace Avenue. Further north are the Cuban and German embossers among others. This northerly area, close to the seat of Government, was originally reserved for the embassies of socialist nations and those friendly to the cause.

Household living in Ger district (low-end of the market of Chingeltei District)

Khoroo number	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013	2010	2013
1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-	-	-	2	1	4	2	2	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	-	-	-	-	-	-	1,785	1,822	8,145	7,653	5	4	1,189	1,222	4,224	5,187	4	4	19	15	68	53	4	4
8	-	2	-	10	-	5	842	846	3,463	3,562	4	4	323	459	1,408	1,558	4	3	5	5	5	8	1	2
9	82	82	341	350	4	4	1,300	1,301	6,034	6,052	5	5	386	432	1,623	1,743	4	4	-	-	-	-	-	-
10	32	32	135	133	4.2	4	983	985	5,113	5,155	5	5	522	689	2,760	2,828	5	4	2	-	2	-	1	-
11	50	50	246	242	5	5	1,096	1,097	4,842	4,957	4	5	276	301	1,256	1,381	5	5	1	2	1	3	1	2
12	-	-	-	-	-	-	1,672	1,678	8,234	8,345	5	5	1,163	1,344	5,014	5,323	4.3	4	-	-	-	-	-	-
13	72	72	312	283	4.3	4	1,252	1,427	5,866	5,896	4.7	4	456	488	2,134	2,351	5	5	5	6	5	6	1	1
14	69	69	278	280	4.0	4	1,105	1,329	5,812	5,801	5	4	404	314	2,128	2,154	5.3	7	2.0	2.0	6.0	3.0	3.0	2
15	6	6	25	24	4.2	4	1,322	1,580	5,762	7,210	4	5	529	351	2,396	1,317	5	4	8	9	28	32	4	4
16	-	-	-	-	-	-	1,575	1,582	7,276	7,312	5	5	729	1,091	2,932	3,828	4	4	24	21	63	58	3	3
17	30	30	134	136	4.5	5	2,109	2,113	9,129	9,175	4	4	772	1,176	3,084	3,986	4	3	10	9	37	23	4	3
18	14	14	45	45	3.2	3	1,459	1,482	6,312	6,392	4.3	4	876	1,012	3,127	3,191	3.6	3	21.0	20.0	78.0	71.0	3.7	4
19	-	36	-	125	-	-	1,501	1,255	5,175	4,562	3.4	4	1,014	1,262	3,677	4,654	3.6	4	11.0	12.0	52.0	41.0	4.7	3
Total For CHD	**355**	**393**	**1,516**	**1,628**	**34**	**38**	**18,001**	**18,497**	**81,163**	**82,072**	**5**	**4**	**8,641**	**10,142**	**35,767**	**39,503**	**4**	**4**	**108**	**101**	**345**	**298**	**3**	**2**

Source: Ulaanbaatar City, NSOM

A full 30% of the total grade B office supply of entire capital is located in Chingeltei District, making it an excellent place to set up and do business, particularly as it is adjacent to the CBD. To the north of here is a square often referred to as “freedom square”. This was the site from which the democratic movement march that later descended upon Sukhbaatar Square calling for an end to the socialist regime originated. Today, people gather in this space to allow their children to ride the electronic cars that are regularly lined up on the square during the summer months by enterprising small businesspeople, or to watch the latest international blockbuster film in 3D at the Urgoo Cinema.

The heart of Chingeltei is served by the Chingeltei District Health Centre. Several of the city’s best schools are also located within Chingeltei, including the 23rd language school, which produces some of the most talented multi-lingual students of the Mongolian education system. To the rear of this school a new ice-skating rink has been under construction now for two years, although it is expected to be completed for the winter of 2014-2015. In front of the 23rd school is a newly constructed public park area, containing a small amphitheatre type seating area and a fountains. In the summertime this park, competed during 2011, bustles with visitors. The site itself was completed as part of a contract between LG Mongolia (not related to the Korean-based international conglomerate LG) and the local Government. LG are presently completing a B grade office tower next to this park, which will be completed during 2014 after significant delays.

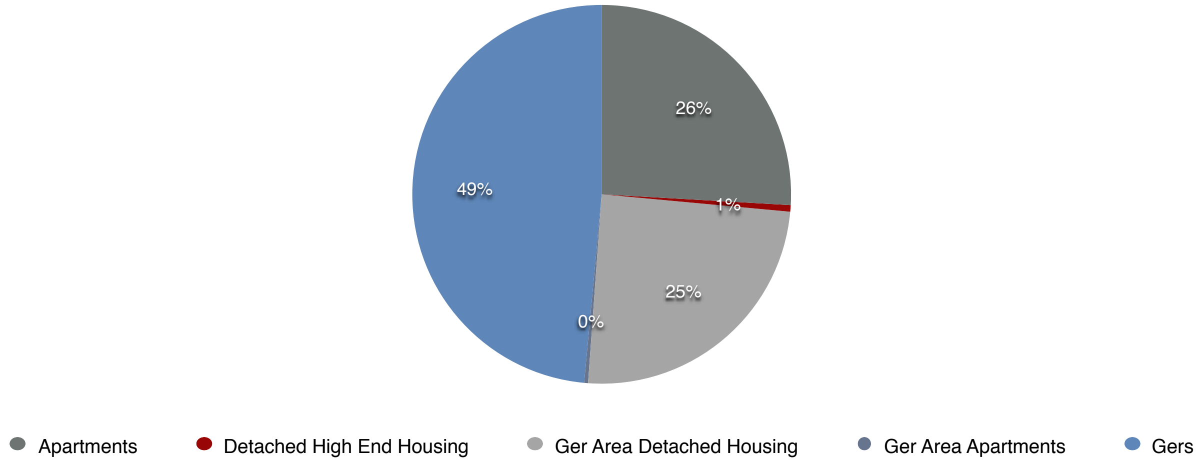
As with all of Ulaanbaatar’s Central Districts, Chingeltei contains a section of low-end housing and small land plots known as the ger district. Past the northernmost parallel road the terrain of the city transforms from paved and well serviced residential apartments, built during the 1970s and 1980s, to small, largely unserviced plots of land of between 500 and 700 square meters. These are owned by individual households, many of whom have erected permanent housing thereupon. Chingeltei contains over 18,000 households who live in permanent housing in the ger district and 8,600 ger dwelling households.

As already noted, the vast majority of housing supply in central Chingeltei is constituted by the First 40,000 and 50,000 apartments, the oldest in the city and dating back to the early 1950s. Nevertheless, there does exist a small supply of new housing development, including Lux House, LG Mongolia and the A1 Residence, situated centrally, almost next to the State Department Store, Jigjiid Town, Sikhan Urgoo Town and the Art 12 apartments. Rapidly rising sales prices mean that the stock of city centre apartments in Chingeltei District, both old and new, are increasingly appealing only to high-end markets of professionals and high-earning households, as well as expats. However, with much of the district presently covered by the construction moratorium put in place by the City Government of Ulaanbaatar at the end of 2012, it seems unlikely that much new supply will be started, with current future supply in the residential markets of Chingeltei being the lowest of any district of Ulaanbaatar City.

D. KHAN UUL DISTRICT

The administrative region covered by Khan-Uul District was originally created as the “Worker’s District” in 1965. During the transition period this District was divided into Khan-Uul District and Tuul District (named for the river that flows through Ulaanbaatar). In 1995 these two areas were re-combined into what is today Khan-Uul District. In 2012 Khan-Uul district was home to 119,843 persons, constituting 31,517 households. Khan-Uul district contains around 13,026 apartment units and stand alone housing units connected to infrastructure as of the end of the beginning of 2014. Informal housing in ger areas accounts for over 12,100 units.

GRAPH 98: Khan Uul District Housing Breakdown



Source: Khan Uul District Office

The built environment of Khan-Uul district is spread over an area of 484.7 sq.km. Khan-Uul District incorporates the Stadium Area (situated close to the National Stadium), which has become a popular residential location for middle class, young Mongolians and long-term expatriate residents seeking mid-size new apartment accommodation and reasonably good proximity to the city centre. The Zaisan area of Khan-Uul is situated further south, across the Tuul River. This area has greatest popularity among Mongolia’s executive demographic and is characterized by large-scale, gated and well-serviced developments, which sell at some of the highest square meter prices in Ulaanbaatar, typically between US$ 1,363 and US$ 4,000 per square meter on the primary market. Average primary prices for residential properties in Khan-Uul district average at around US$1,567 per square meter at the close of 2013, positive growth of around 10%.

The Zaisan area itself was not, until recently, well developed in terms of general infrastructure and entertainment and as such developed as a zone of enclave communities, with little in the way of shared facilities, nightlife and shopping. Nevertheless, developers are increasingly keen to develop commercial space into their new constructions in the area.

Less than a decade ago Zaisan was almost devoid of new developments, or developments of almost any kind. It was then, as it is today, a Strictly Protected Area, within which only buildings designed for the public good could legally be built. As a result of potentially underhanded dealings, some construction licenses were issued for the area during the 2000s and a number of small residential developments sprung up. This opened the floodgates for more and more licenses and the area has since seen the most frenetic and large-scale high-end development of any area of the city. Spurred by the availability of large tracts of land, construction continues to this day, although many mid-upper and upper-end developments in Zaisan are facing the reality of falling absorption rates as slowing economic growth means less investment in luxury properties.

Potential buyers of Zaisan based residential properties also face significant legal worries. Immovable property certificates were initially not issued to any property in Zaisan, due to their technical illegality, rendering them ineligible to receive full legal protection accorded to other immovable property in Mongolia. Without the red immovable property certificate in place these units would be open to confiscation, with ownership conferred and transferred by nothing more than a party-to-party contract. This situation was only resolved in 2011 when a resolution was passed enabling some of these properties to be registered with the property office and receive certificates only upon payment of fines (which were somewhat arbitrarily imposed). With most developers having already left their projects well behind, residents were forced to pay these fines in order to legally secure their properties. This initiative is now being worked through, with no sign of new developments halting in Zaisan in the mid-term. These issues aside, by 2011-2012 both primary and secondary market prices in Zaisan had reached some of the highest levels for individual transactions in the city.

Khan-Uul Landmarks

Name	Type
Peace Bridge	Infrastructure
National Stadium	Cultural / Sporting
Mongolian National Chamber of Commerce and Industry	Government
New Stadium	Cultural
Misheel Expo	Grade B Retail
Gobi Cashmere Factory Outlet Store	Grade B Retail
Goyo Cashmere Factory Outlet Store	Grade B Retail
Bella Vista	Residential
Blue Sky Town	Residential
Zaisan Memorial	Monument
Buddha Vista	Residential
Chinggis Khan International Airport	Transport
MCS Viva City	Residential
MAK Tower and Hyatt Hotel	Grade A Mixed Use
River Garden	Residential
Zaisan Luxury Villa	Residential
Zaisan Place	Retail / Office
NOMIN Hypermarket	Retail
Olympic Village	Residential
Ziasan Luxury Village	Residential
Zaisan Square Development	Commercial
Marshall Luxury Village	Residential
President’s Residence	Government
Four Season’s Residence	Residential
Dreamland	Residential
Jargalan Town	Residential
Blue Sky Town	Residential
Bayanmongol Town	Residential
Olympic Committee Building	Government
Corporate Hotel III	Hotel
Buddha Statue	Religious / Cultural
Buddha Garden	Cultural
Royal County	Residential
National Agricultural University	Education / Culture
Jardine Town	Residential

Source: MAD Research

Rates of price growth during 2012 in Khan-Uul District, and Zaisan specifically, did not to keep up with the velocity of price growth in desirable inner city housing stocks, although in 2010, buoyant sales in new mid-end developments such as Encanto Town and Four Seasons Gardens led to price growth that outstripped all other districts. This growth was less attributable to luxury markets, which were hard hit by an overall economic slowdown in Mongolia, than to mid-end markets. This was focussed upon two key areas of Khan Uul district: the Stadium Area and Yarmag.

The former has seen a pace of residential development only matched by Zaisan in recent years. This burgeoning locality and surrounding areas are presently home to an apartment dwelling population of 9,332 households, a majority well within the mid-end real residential housing bracket of Ulaanbaatar. Population growth CAGR remains above 4%. The area has a reputation, gained from the relatively as a solid mid-end development based upon the incursion of Khurd Rapid Town and future supply - including the Hunnu 2222 Residences. Units in this area are typically smaller than they are within the higher-reputation Zaisan area of the city and the CBD, although with a growing entertainment and retail profile (the Gegenteen Complex will feature a 4-screen cinema facility, The GEM brewing company are planning a large-scale sporting and entertainment complex, whilst a new development by M-Oil will feature mid-upper end retail and F&B facilities). Rapid town contains 3,600 units, whilst nearby Encanto Town contains 300 units in its current phase. The Romana Residence (under 100 units) and the M-Oil project, (480-400 units) will be key direct competitors. At present sales rates remain high for properties in the vicinity and almost all have had excellent, close to 100% pre-sales success. Proximity to the city centre and good access act as significant draw factors, although limited facilities at present could be seen as a detractor.

INFORMATION BOX - NUKHT

To the south-west of Ulaanbaatar city the small conurbation of Nukht remains a highly sought after residential locale among the wealthiest Mongolians. This area was the summer retreat of the Socialist politburo members resident in Mongolia, causing the area to be heavily fenced off during the socialist era. Today it maintains an air of exclusivity which is reflected in apartment and land prices. A 500 sq.m plot of land in Nukht will cost in advance of 120,000,000 MNT (approximately US$ 100,000). For a villa with a footprint of 180 sq.m the current purchase price will be close to US$400,000. The population of Nukht is low, no more than a few hundred individuals, usually comprising families from the upper echelons of Mongolia's political and business spheres. The original wooden politburo holiday residence still exists, although two new hotels now exist in the valley; the luxury Corporate Nukht Hotel and the older Nukht Hotel. These offer high-luxury accommodation and leisure facilities to Mongolia's upper classes, no longer known as the socialist elite, but rather the business elite.

With significant new projects creating a new and densely populated 'suburban' hub in the Stadium Area, potential exists for new developments to tap into this large in-situ population. Our projections indicate a potential shift in power away from traditional power centres of mid-upper end retail (e.g. the third district of Bayangol) towards the Stadium Area. Relative proximity to the CBD, a middle-class demographic, improving public transport and road connections, as well as a rapidly grouting population all lead to this area being tipped to become a commercial power-centre.

Household living in Residential districts (built-up sections of the Khan-Uul District)

Khoroo Number	Apartments						Individual Houses						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	4,095	2,302	14,121	8,691	3.4	3.8	136	2	427	15	3.1	7.5	-	-	-	-	-	-
2	2,208	2,325	8,008	8,557	4	3.7	10	10	45	48	5	4.8	5	-	28	-	6	6
3	2,547	2,717	9,696	10,500	4	3.9	3	5	15	23	5	4.6	-	-	-	-	-	-
4	48	-	266	-	6	-	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	658	715	2,713	3,125	4.1	4.4	-	-	-	-	-	-	-	-	-	-	-	-
11	1,967	1,661	4,966	6,359	3	3.8	113	124	452	536	4	4.3	1	1	1	1	1	1
12	266	241	1,127	1,052	4.2	4.4	-	-	-	-	-	-	-	-	-	-	-	-
13	120	120	495	545	4.1	4.5	-	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	-	2670	-	8841	-	3.3	-	134	-	421	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Khan-Uul District	**11,909**	**12,751**	**41,392**	**47,670**	**3.9**	**4.0**	**262**	**275**	**939**	**1,043**	**4.2**	**5.3**	**6**	**1**	**29**	**1**	**3.3**	**3.3**

Source: Ulaanbaatar City, NSOM

The area around the Zaisan memorial has received considerable attention from developers in recent years, resulting in a new office/retail facility, 'Zaisan Plaza', directly to the north of the memorial. MCS Construction's new 'Buddha Vista' complex, completed during 2013 and consisting of 109 units over four towers has maintained MCS Construction's reputation as one of the foremost developers in the city and introduced another high-end development into the market, with units selling for over US$ 3,500 per square meter. The Zaisan Hill development, being carried out by Oyuny Undra Group, is another landmark development. Twinned with the Zaisan Square development, at the base of the hill, these two facilities provide an entertainment park, museum facilities, F&B, commercial, office and supermarket facilities that will enhance the heretofore extremely limited entertainment and retail supply of the Zaisan area. Indications are that the Zaisan Hill complex will incorporate cinema facilities, capitalising upon the significant reputation the Zaisan Hill site already has as a leisure destination for young people.

The Yarmag area is also set to see significant growth in the mid-term. Government estimates under citywide Master Plans indicate that the population in vicinity of the proposed facility is expected to grow to over 57,000 households within the next decade. With expected growth in this area of a significant economic middle-class and situated less than 5 minutes drive from one of the wealthiest communities in Ulaanbaatar (Nukht Valley), the demand factors for this area seem to be set for positive growth in the mid-term.

Plans for the area incorporate a golf course, tourism facilities, an industrial centre closer to the airport and diplomatic enclave areas. These ambitious plans will require large scale supporting retail facilities, although presently just the 7,500 square meters of Viva city retail space exits in operation in this location. This will be swelled by over 20,000 square meters of retail space coming online in the Hunnu Mall during 2014. This large-scale out-of-town mall will incorporate a year-round ice-rink in its interior, as well as a four screen cinema facility, supermarket, hardware store and a host of branded stores.

Household living in Ger district (low-end of the market of Khan-Uul District)

Kh. No.	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	0	0	0	0	0	0	0	0	0	0	0	0	36	0	117		3	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0	0	0	0	46	26	229	72	5	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	0	0	0	0	86	98	359	393	4	0	0	0	0	0	0	0
4	0	0	0	0	0	0	1,383	1,429	5,626	5,787	4	4	408	416	1,436	1,532	4	4	0	0	0	0	0	0
5	0	0	0	0	0	0	987	991	3,979	4,051	4	4	505	509	2,059	2,130	4	4	0	0	0	0	0	0
6	62	62	301	321	4.9	5.2	1,170	1,211	5,305	5,636	5	5	463	398	2,328	1,869	5	5	0	0	0	0	0	0
7	16	16	89	63	6	3.9	904	912	3,600	3,632	4	4	536	452	1,906	1,798	4	4	0	0	0	0	0	0
8	0	0	0	0	0	0	1,669	1,671	6,082	6,207	4	4	972	993	4,050	4,138	4	4	5	0	5	0	1	0
9	0	0	0	0	0	0	2,701	1,322	9,495	4,290	4	3	1,133	706	4,800	3,063	4	4	62	10	28	16	3	2
10	0	0	0	0	0	0	693	701	2,800	2,915	4	4	662	646	2,242	2,229	3	3	7	3	19	4	3	1
11	32	32	96	106	3	3.3	213	213	905	1,173	4	6	178	22	726	113	4	5	0	0	0	0	0	0
12	0	0	0	0	0	0	1,276	1,291	4,241	4,281	3	3	118	145	421	516	3.6	4	0	0	0	0	0	0
13	53	53	248	257	4.7	4.8	554	558	1,551	1,626	2.8	3	480	504	1,400	1,475	3	3	3	0	4	0	1	0
14	0	0	0	0	0	0	402	429	1,225	1,303	3	3	683	705	1,840	1,920	2.7	3	3.0	1	3	1	1	1
15	0	0	0	0	0	0	0	0	0	0	0	0	0	12	0	38	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	1,417	0	5,560	0	0	0	523	0	2,595	0	0	0	10	0	15	0	0
Total for KUD	163	163	734	747	4.5	1.1	11,952	12,145	44,809	46,461	3.7	2.7	6,306	6,155	23,913	23,881	3.8	2.7	80	24	59	36	3.0	0.2
	0.53%		0.66%				38.96%		39.99%				20.56%		21.34%				0.26%		0.21%			

Source: Ulaanbaatar City, NSOM

Upscaling of residential facilities in this area has already begun with the completion of the 1,640 units of Viva City, aimed up young professionals - with unit sizes starting at just 25 square meters. However, after highly positive reception at initial launch, the construction quality of this facially has been called into question, will facades already showing significant wear-and-tear and interior layouts not being suitable. Pipeline supply for land around Yarmag indicate 3,185 residential units, aimed at the mid-upper end of the market (with the completion of a new Puma Construction residential development and the New Yarmag project phase 1). Facilities in the area already include a private school (The British School of Ulaanbaatar) and a 20,000 square meter retail facility set to open in 2014. Beyond this a number of developers are looking at producing town-like developments in the Yarmag area, each incorporating well over 5,000 residential units each.

Whilst the Yarmag area has typically been viewed as too far out of the city centre of Ulaanbaatar, the recent spate of interest of developers is turning this image around. With a new highway linking this area to the CBD and the new international airport, alongside a forthcoming mountain-road and rail link that will see this area connected directly with the CBD by rail and Zaisan by car, Yarmag now has all of the characteristics of an area ripe for suburban development. Moreover, excellent transport links planned for this area render it a perfect location for establishment of large-scale ‘out-of-town’ entertainment and shopping facilities during the mid-term.

Khan-Uul District extends out all the way to encompass the Chinggis Khan International airport, and the surrounding 9th Khoroo (Nisekh) conurbation. This area is characterised by small ger-district type plots, serviced by schools and Government administration facilities that line the one major road running between the city centre and the airport. On the way between the two, around 8km out of town, the national horse racing track is situated, just a short distance from a huge new international standard sporting stadium which has been built with aid from China. The area surrounding the airport is seeing rapid development as the Government begins to carry through on its plan to relocate both Government functions and staff to the area surrounding the current international airport, thereby freeing up space in the city centre for development of housing and new functions. To date the Immigration Office and Civil Aviation Authority are the only relocated offices in the area, although other ministries are attempting to avoid the move so far out of the convenient city centre.

To the south-west of Ulaanbaatar city the small conurbation of Nukht remains a highly sought after residential locale among the wealthiest Mongolians. This area was the summer retreat of the Socialist politburo members resident in Mongolia, causing the area to be heavily fenced off during the socialist era. Today it maintains an air of exclusivity which is reflected in apartment and land prices. A 500 sq.m plot of land in Nukht will cost in advance of (approximately US$ 120,000). For a villa with a footprint of 180 sq.m the current purchase price will be close to US$ 450,000. The population of Nukht is low, no more than a few hundred individuals, usually comprising families from the upper echelons of Mongolia's political and business spheres. The original wooden politburo holiday residence still exists, although two new hotels now exist in the valley; the luxury Corporate Nukht Hotel and the older Nukht Hotel. These offer high-luxury accommodation and leisure facilities to Mongolia's upper classes, no longer known as the socialist elite, but rather the business elite.

The north-westerly stretch of Khan-Uul district extends along the railway line and Tuul river, encompassing much of the old industrial district of the city and joining with Bayangol district to the north. Some existing warehousing space has been converted to new functions, such as the Misheel Expo centre - previously a warehousing facility for the Mongolian railway authority which was purchased by Chono Group and now acts as the city's premiere exhibition centre as well as a furniture and fittings retail super-centre. It is rumoured that Chono Group are seeking to redevelop this site; initially redeveloping and expanding the furniture mall and exhibition space before developing a large-scale mega-mall facility, incorporating serviced apartments, retail, as well as signifiant food and beverage facilities. Directly in front of this site a new Ibis hotel was announced (during Q2 2014), with scheduled completion during 2016-2017.

Overall, numbers of gers in Khan-Uul are among the lowest in the city, reflecting the fact that the area was only recently developed as residential centre, and only then as a high-end residential centre. Data on household residence patterns in Khan-Uul district indicates that the vast majority of Khan-Uul households reside in apartment buildings, with nearly 290 individual apartment-dwelling households across the entire district and counting. Many of these are concentrated in the 1st Khoroo, where new development of high-density housing has, during the past decade, swelled the city's housing stock dramatically. The majority of housing stock in Khan-Uul falls within the high-end and mid-high end sectors and is aimed at the the emerging middle-class and young-professional markets of Ulaanbaatar.

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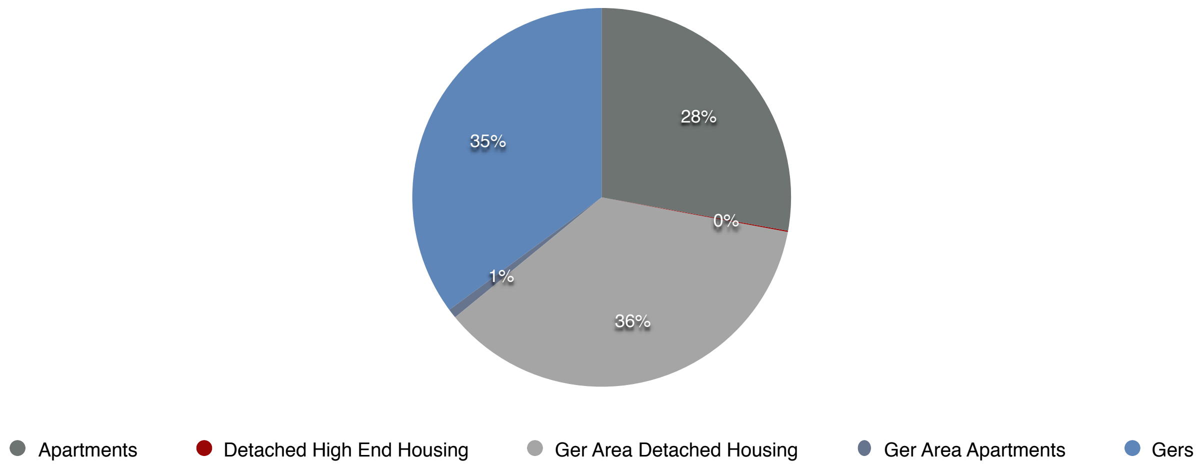
E. SONGINOKHAIRKHAN DISTRICT

Songinokhairkhan District was created as a separate administrative district in 1992. It covers a territory of 1,206 sq.km and is home to 257,140 people (62,820 households), making it the second largest of Ulaanbaatar's central districts. Songinokhairkhan extends to the north and west of the city, tracing along the foothills of Songinokhairkhan mountain. This is one of the key industrial centres of the city, home to major processing plants and construction yards. It is the second largest of the nine districts of Ulaanbaatar, both in population and size. The residential infrastructure of the district is primarily comprised of low- to mid-end apartment blocks, which extend in a small slither along the westerly reaches of Peace Avenue. These are bordered to the north by expansive tracts of ger district. The portion of Songinokhairkhan that extends across the railway lines to the south is home to much of Ulaanbaatar's light industry, warehousing and manufacturing plants. Housing supply in these areas is limited and mostly comprises of workers housing which grew up around industrial and manufacturing plants during the 1960s - 1980s. The district itself begins on the western side of the western roundabout leading into the city. It contains 16,391 apartment units and less than 100 individual houses outside of the ger areas. Over 41,000 households live in either informal housing (unconnected to infrastructure) or gers within the ger districts of Songinokhairkhan.

From the air, as from the land, Songinokhairkhan's most impressive real estate feature is the expansive 'Moscow Complex'. The first phase of this expansive residential complex was completed in 2006 by Russian developer 'Zarudemstroi' and covers a total footprint of over 810,000 square meters, including courtyards and open spaces. The interstitial spaces between these developments have remained open for development and developers have taken the opportunity to place their own buildings in between the iconic towers, filling up the open space initially left for communal use. The Moscow Complex apartments remain among the most sought after in the Songinokhairkhan market. With market average per square meter prices for residential units reaching US$ 960 in 2012 (a change of 20.5% since 2011) before actually dropping back to US$ 952 during 2013 as a result of new lower cost constructions coming onto the market.. Moscow Complex apartments selling on the secondary market reached recorded per square meter transaction prices of US$ 1,078 - 1,100, indicating their desirability.

GRAPH 99: Songinokhairkhan Housing Breakdown



Source: Songinokhairkhan District Office

Songinokhairkhan District Landmarks

Name	Location
Nomin Hypermarket	Grade B Supermarket Retail
Sapporo Center	Grade C Mixed Use
Sentii	Hotel
Mongol Keremic Brick Factory	Industrial
Power Plant # 4	Infrastructure
Khar-khorin market	Market Retail
Wood Market	Market Retail
Makh Market	Office / Production
Gangar	Residential
Moscow Complex	Low end Residential
Nairmdal	Residential Area - High End
Nomin Motors	Retail / Workshop
Western National Bus Station (Dragon Center)	Transport
National TV Station (MNB Broadcasting)	TV Station

Source: MAD Research

Whilst Songinokhairkhan District is not widely known for its high-end real estate - the far western district of Ulaanbaatar is more widely associated with low-cost housing, warehousing and industrial production facilities - to the north of the district, in the foothills of the surrounding mountain, is the wealthy area of Nairmdal. Home of the Nairmdal International Children's Centre, a well known recreational centre for children of Ulaanbaatar, the Nairmdal area has also attracted some of the city's wealthiest - helped by the fact that the first golf course in Mongolia was developed here. The area boasts some of the most expensive real estate in the city and has a housing profile mostly comprised of large, detached houses which are developed by their owners, almost exclusively for personal use. Many of the wealthiest families of Mongolia have maintained property here. Residential property purchase prices in Nairmdal are well above the average for the District, averaging between US$1,500 to $3,500 per square meter.

Household living in Residential districts (built-up sections of the Songinokhairkhan)

Khoroo number	Apartments						Individual Houses						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	75	75	303	290	4.0	3.9	4	0	10		2.5		0	0	0	0	0	0
2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	1,220	-	4,348	-	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-
6	602	602	2,012	2,012	3.3	3.3	-	-	-	-	-	-	-	-	-	-	-	-
7	-	893	-	2,500	-	2.8	-	-	-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	315	315	1,417	1,417	4.5	4.5	-	-	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	1,311	1,208	5,002	4,743	3.8	3.9	-	-	-	-	-	-	2	6	2	10	1.0	1.7
13	1,388	1,316	5,531	5,927	4.0	4.5	5	5	19	19	3.8	3.8	-	-	-	-	-	-
14	1,475	1,392	4,859	5,703	3.3	4.1	-	-	-	-	-	-	14	17	46	40	3.3	2.4
15	1,273	1,344	5,464	5,622	4.3	4.2	-	-	-	-	-	-	-	-	-	-	-	-
16	1,255	1,220	5,233	5,176	4.2	4.2	-	-	-	-	-	-	-	-	-	-	-	-
17	1,283	1,227	4,679	5,129	3.6	4.2	-	-	-	-	-	-	-	-	-	-	-	-
18	2,736	1,899	11,901	6,795	4.3	3.6	18	-	54	-	3.0	-	24	17	83	59	3.5	3.5
19	1,998	1,998	8,977	9,005	4.5	4.5	35	35	179	180	5.1	5.1	89	51	227	153	2.6	3.0
20	1,191	1,191	4,568	4,568	3.8	3.8	4	5	16	19	4.0	3.8	2	5	6	19	3.0	3.8
21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	72	72	388	388	5.4	5.4	-	-	-	-	-	-	-	-	-	-	-	-
23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	-	1,024	-	3,722	-	3.6	-	-	-	-	-	-	-	-	-	-	-	-
28	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	-	1,650	-	4,765	-	2.9	-	18	-	54	-	3.0	-	4	-	9	-	2.3
30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Songinokhairkhan District	16,194	17,426	64,682	67,762	4.1	4.0	66	63	278	272	3.7	3.9	131	100	364	290	2.2	2.4

Source: Ulaanbaatar City, NSOM

Household living in Ger district (low-end of the market of Songinokhairkhan District)

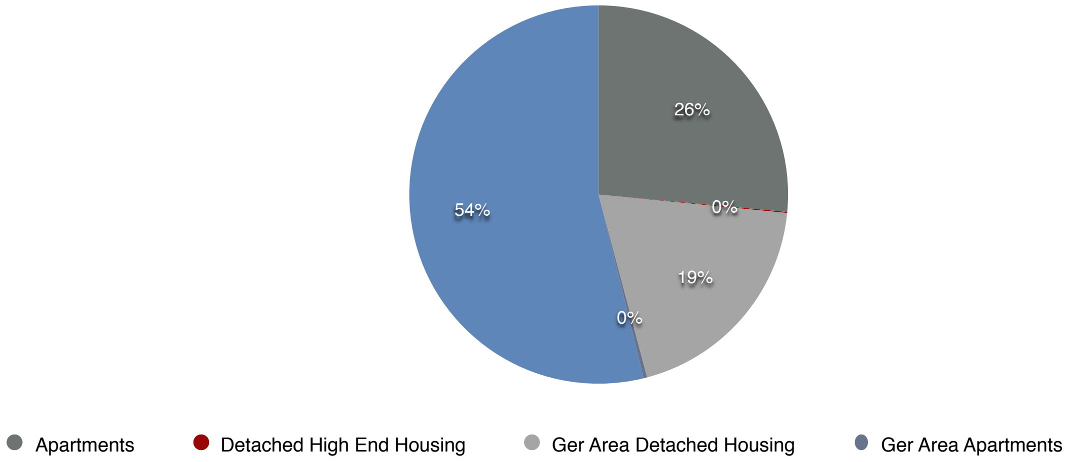
Kh No	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012	2010	1Q 2012
1	-	-	-	-	-	-	1,985	1,426	7,594	5,978	3.8	4	1,940	1,369	8,677	5,596	4	4	10	12	32	48	3	4
2	11	26	31	131	3	5	719	1,566	3,054	6,683	4	4	482	1,067	2,506	3,836	5	4	-	15	-	47	-	3
3	-	-	-	-	-	-	1,753	1,381	7,840	6,457	4	5	1,175	769	5,921	3,749	5	5	-	-	-	-	-	-
4	12	12	48	48	4	4	1,486	751	7,442	4,149	5	6	1,656	641	6,712	3,312	4	5	-	-	-	-	-	-
5	-	-	-	-	-	-	1,270	1,127	6,660	4,921	5	4	642	628	2,569	2,467	4	4	-	-	-	-	-	-
6	2	2	10	10	5.0	5	543	586	2,038	2,842	4	5	604	577	3,269	2,529	5	4	-	-	-	-	-	-
7	80	80	316	316	4	4	1,289	1,478	5,756	5,546	4	4	1,406	1,499	5,827	4,780	4	3	25	9	48	18	2	2
8	3	3	13	13	4	4	1,249	1,326	5,676	5,699	5	4	500	708	2,888	3,055	6	4	-	-	-	-	-	-
9	20	20	120	120	6	6	1,065	1,110	3,744	4,978	4	4	745	753	4,513	3,482	6	5	-	-	-	-	-	-
10	-	-	-	-	-	-	1,521	1,139	8,054	4,821	5	4	637	552	2,887	2,988	5	5	-	-	-	-	-	-
11	-	5	-	23	-	5	1,660	1,107	7,347	5,407	4	5	850	697	5,117	4,008	6	6	-	3	-	8	-	3
12	20	-	92	-	4.6	-	319	-	1,186	-	4	-	359	-	1,227	-	3.4	-	3.0	-	6.0	-	2.0	-
13	2	-	7	-	3.5	-	287	-	1,073	-	3.7	-	269	-	1,190	-	4	-	4	-	11	-	3	-
14	5	-	18	-	3.6	-	450	-	1,931	-	4	-	564	-	2,483	-	4.4	-	15.0	-	54.0	-	3.6	-
15	0	-	0	-	0	-	230	-	985	-	4	-	192	-	964	-	5	-	-	-	-	-	-	-
16	22	-	116	-	5.3	-	139	-	643	-	5	-	257	-	1,157	-	5	-	-	-	-	-	-	-
17	-	-	-	-	-	-	256	-	871	-	3	-	198	-	1,322	-	7	-	-	-	-	-	-	-
18	5	5	30	30	6.0	6	11	5	36	15	3.3	3	38	24	134	72	3.5	3	-	-	-	-	-	-
19	-	-	-	-	-	-	47	84	250	420	5.3	5	52	56	293	180	5.6	3	3.0	-	8.0	-	2.7	-
20	93	93	251	251	2.7	3	271	156	1,025	513	3.8	3	838	511	3,395	1,193	4.1	2	13.0	-	35.0	-	2.7	-
21	84	84	388	388	4.6	5	789	795	3,126	2,833	4.0	4	929	952	2,299	2,822	2.5	3	-	-	-	-	-	-
22	358	53	1,487	169	4.2	3	1,228	1,279	5,898	4,811	4.8	4	1,052	1,999	5,107	7,429	4.9	4	4.0	6.0	4.0	25.0	1.0	4
23	-	-	-	-	-	-	835	847	3,881	3,429	4.6	4	1,910	1,923	8,026	8,941	4.2	5	5.0	5.0	17.0	14.0	3.4	3
24	97	97	430	430	4.4	4	901	915	3,095	3,145	3.4	3	1,028	1,240	4,871	5,592	4.7	5	15.0	10.0	85.0	35.0	5.7	4
25	-	2	-	8	-	-	1,326	1,418	6,245	5,681	4.7	4	960	853	4,479	5,569	4.7	7	-	13	-	27	-	2
26	-	-	-	-	-	-	-	1,205	-	4,718	-	4	-	1,832	-	6,791	-	4	-	8	-	24	-	3
27	-	-	-	-	-	-	-	90	-	652	-	7	-	70	-	298	-	4	-	-	-	-	-	-
28	-	-	-	-	-	-	-	935	-	2,991	-	3	-	589	-	2,911	-	5	-	2	-	7	-	4
29	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	13	-	4	-	-	-	-	-	-
30	-	15	-	41	-	3	-	625	-	2,555	-	4	-	721	-	3,184	-	4	-	2	-	2	-	1
31	-	-	-	-	-	-	-	1,104	-	3,911	-	4	-	1,495	-	6,105	-	4	-	3	-	11	-	4
32	-	-	-	-	-	-	-	192	-	815	-	4	-	468	-	1,694	-	4	-	3	-	6	-	2
Total for SKD	**814**	**497**	**3,357**	**1,978**	**4.1**	**4.4**	**21,629**	**22,647**	**95,450**	**93,970**	**4.3**	**4.2**	**19,283**	**21,996**	**87,833**	**92,596**	**4.7**	**4.2**	**97**	**91**	**300**	**272**	**2.9**	**2.9**

Source: Ulaanbaatar City, NSOM

F. SUKHBAATAR DISTRICT

Sukhbaatar District is the heart of Ulaanbaatar city. It encompasses the Parliament of Mongolia, the central business district and the earliest residential real-estate in the city. The urban fabric of Sukhbaatar is among the earliest the and most varied of all districts in the capital. The faux-imperial architecture of the Choijin Llama Temple nestles alongside the imposing glass and steel form of the new Blue Sky Tower development and the Soviet-worker-town style structures of the “First 40,000” apartment buildings. Large columned buildings, which combine both neoclassical and traditional Mongolian designs seamlessly, look out across Sukhbaatar Square at new structures housing high-end retail such as Louis Vuitton and Hugo Boss. The whole twentieth century history of Mongolia is visible in the city centre, recounted through its spaces and architecture. A relatively small district, Sukhbaatar covers 208.4 sq.km and is home to a population of over 137,834, constituting 36,343 households. Sukhbaatar district contains around 16,235 apartment units and stand alone housing units connected to infrastructure as of the end of the end of 2013. Informal housing in ger areas account for almost 12,000 units, primarily situated in the northerly ger areas of Sukhbaatar district, which extend into the foothills of the northerly mountains. Beyond these, many lower-middle class Mongolian families maintain their ‘*haashaa’* (fenced off area of land) in the north of Sukhbaatar District. These are used as summer-homes and an escape from the bustle and pollution of the inner-city. A number of smaller developers have begun to develop stocks of summer-housing in these areas, recently enhanced by the addition of new roads, excellent street-lighting and even new cycle-paths. These improvements in public amenities are spearheading the gradual redevelopment of areas across the north of the city that now contain as many low-end stand-alone housing units as gers and will increasingly see development of summer-house style accommodations.

GRAPH 100: Sukhbaatar Housing Breakdown



Source: Sukhbaatar District Office

INFORMATION BOX - STAR APARTMENTS AND THE DEVELOPMENT OF THE OLYMPIC STREET

Undoubtedly, the most desirable residential accommodation in central Ulaanbaatar is the Star Apartments. This development, completed in 2001 by a Mongolian developer, also named Star, remains a firm favourite with Executives, Heads of Mission and Diplomats. The development is a haven in the midst of Ulaanbaatar, replete with well manicured lawns, 24 hour security and facilities including a well serviced gym. Terraced and detached housing in this ultra-luxury development rent for between US$6,000 and US $17,000 per month and there is a long waiting list for rentals. This ultra-high end apartment and housing complex is situated to the south-east of the CBD, in Sukhbaatar District. The developer continues to retain ownership of all of units in the development and only ever rent - for which there is a waiting list of between one and two years. This was the first development in the city to be built using 100% foreign labour and expertise. Star Estates actually flew in whole teams of Czech workers in order to complete this project, at huge premiums above average rates for labour in Mongolia. However, the result was one a development which has stood the test of time and weathered the harsh winters of Mongolia. Today the development is as desirable as ever and the units retain their high-end finish both inside and outside.

Putting this success aside for one moment, when it was built in 2001 the Star Apartments appeared to be situated in a rather strange location. At this time most expats lived in the city centre. New high end developments had started to spring up in Khan-Uul District and the Zaisan area, as well as the city centre. This seemed to render the choice of location for Star Apartments unconventional. Located to the south-east of the CBD, just 0.2 km from the border with Bayanzurkh District, the Star Apartments bordered not much more than low-cost housing at the time. The Children's park was enclosed soon after Star Apartments were built, and whilst there was the promise of of large developments in the area, there was nothing visible to suggest that this site may well become the next high-end housing area of Ulaanbaatar. Today the area has been transformed. In 2011 the Regency Residence opened its doors just a few hundred meters from Star Apartments and in 2012 Coyote Construction completed its high end development The One Residence almost next-door. A short walk north, the imposing Shangri-La hotel is nearing structural completion and plans exist to build even more high-end housing in the area. The family company which owns Star Apartments (Star Holdings) was actually able to attract Hilton to their site and signed a management agreement with them for a landmark new building which adjoins the Star Apartments site. Alas, this new hotel development lost funding during the economic downturn and subsequently the construction license was reviewed and Hilton pulled out. They have since come back to the table and Mott MacDonald have been put in place as consultants as the construction on the new Ulaanbaatar Hilton resumes during 2014-2015.

So what led to the development of a high-end housing area from a low-end housing area in just a few years? The answer, simply put, is Star Apartments. This development and the dynamics around it, are indicative of the functioning of the Mongolian market at present. There are few designated high-end areas (during the socialist period the limited housing supply meant a good deal of admixture of social groups and segregation was primarily by occupation) in Ulaanbaatar. Successful projects such as the Star Apartments and the early luxury developments in Zaisan actually defined the areas surrounding them and led to rapid uptake of surrounding areas by developers keen to copy the model and capitalise on the successes of existing high end projects.

The very heart of the city is the Government building and Sukhbaatar Square, named for the revolutionary hero whose name literally translates as 'Hero of the Axe'. This was recently renamed Chinggis Square, although heretofore the existing name, is still in common use. To the east of Sukhbaatar Square a squat grey and white building (previously painted bright orange, until it was renovated in 2011) sits unassumingly. It's neoclassical frontage redolent of Stalinist architecture. Inside one of the most impressive financial institutions in the world continues to develop. This is the home of the Mongolian Stock Exchange, which in 2010 experienced a run up of 121% astonishing observers and drawing considerable attention to the Mongolian financial markets. The exchange, which still opens for s short trading day, had not seen a new IPO in five years until 2011 and daily volume of trading remains extremely low, at around US$50,000 per day on a good day, with some days in 2012 seeing no more than 12 trades made. Nevertheless, the Mongolian Exchange, which has signed a management agreement with the London Stock Exchange in 2010, has undertaken an ambitious reform program designed to bring the world's smallest exchange in line with international standards, including a move from T+0 to T+3 trading, as well as removal of companies which do not meet stringent new listing criteria to a separate 'B' board, which can only be traded domestically. These dramatic improvements have been severely hampered as a result of unresolved legal framework issues concerning operations of the clearing house and other technical issues.

Sukhbaatar Landmarks

Name	Type
Russian Embassy	Diplomatic
Korean Embassy	Diplomatic
Japanese Embassy	Diplomatic
The UN Mission	Diplomatic
City Government Building	Government
Parliament Building	Government
The Mongolian Stock Exchange	Government
Marshall House	Government Building
Blue Sky Tower	Grade A Mixed Use
MCS Central Tower	Grade A Office Tower
Monnis Tower	Grade A Office Tower
Grand Office	Grade B Office Tower
Ulaanbaatar Hotel	Hotel
Bayangol Hotel	Hotel
Shangri- La hotel	Hotel
Choijin Lama Palace	Museum
Central Library	Public Building
Central Post Office	Public Building
Drama Theatre	Public Building
National University of Mongolia	Public Building
The Children's Palace	Public Building
The Circus	Public Building
Sukhbaatar Square	Public Space
Ulaanbaatar Children's Park	Public Space
Star Apartments	Residential
The Brauhaus	Residential
The Regency Residence	Residential
40k's (first 40,000 Apartments)	Residential
The Temple Residence	Residential
International Commerce Centre	Office / Retail
Golomt Towers	Residential
The Children's Park	Recreational Park
Wedding Palace	Cultural Centre
International Finance Centre	Mixed Use, Office, Retail, Residential
Orchlon	Residential
Bagshiin Deed (Teacher's college)	Higher Education Institution
Grand Khan Irish Pub	Restaurant
The Dublin	Restaurant
Merkury Market	Shopping Centre
Ulaanbaatar Department Store	Shopping Centre

Source: MAD Research

In mid-January 2014 the Mongolian Stock Exchange's chief executive officer and his deputy both resigned from their positions simultaneously. CEO Altai Khangai, who was appointed during 2011, stepped down indicating that he believed he had fulfilled his role of preparing the exchange's legal and institutional frameworks. After hitting global headlines with its precocious growth until 2011, the MSE tailed off in line with a general fall in the Mongolian economy.

Facing onto the square from the south, a far more imposing evidence of Mongolia's fortunes looks out onto the Government Palace. This is the Blue Sky Tower, a 25 level, sail-shaped glass and steel structure, built by Chono Group, is presently a shining example of the development of Ulaanbaatar's real-estate landscape. The tower itself opened in 2011 and its 9,900 square meters of office space is already filling. It boasts facilities for an international four star (domestic 5 star) hotel that, after Chono Group parted ways with Intercontinental Hotels, is now managed by Chono Group itself. The stock of 12 apartments near to the top of the building are among the most unique and highest priced real estate in the city. Selling on the primary market at around US$ 12,000 per square meter in late 2012, these large, well equipped units have not yet found more than a handful of confirmed buyers owners, but there is no shortage of wealthy individuals shopping and working in Sukhbaatar district. The Hotel facility has become well frequented, by fiat of its central location, although has faced competition from the newly built Best Western Premiere Tuushin Hotel, situated across the square. Both will likely soon face stiff competition from Marriott and Ritz Carlton Hotel developments, both projected to be built within 200m of Sukhbaatar Square within the next four years.

A further notable development in glass and steel sits on the eastern edge of Sukhbaatar Square, the MCS Central Tower. This was the first grade A retail and office space in the city of Ulaanbaatar, and among the best grade A office currently available. The lowest three floors of this 17 floor structure house a shopping mall boasting Hugo Boss, Mont Blanc and a Louis Vuitton store that reportedly has over 2,000 customers among an ostentatious class of 'new Mongolians'. Nevertheless, this facility has seen a dramatic drop off in foot-traffic over the past two years. Whilst MCS Shangri-La management team has done an excellent job of compiling an 'all-star' range of luxury brands - from Bang and Olufsen to Louis Vuitton, these high-value, low-volume stores do not attract high levels of foot-traffic. With the economy in a slump the luxury mix of stores has done little to improve overall foot-traffic flow into MCS Central Tower's shopping facilities, resulting in many brands not being able to keep up rent payments.

Aside from its role as the political and financial core of Ulaanbaatar, and indeed of Mongolia, Sukhbaatar District is known for being a centre for entertainment, shopping and nightlife. Whilst the retail heart of the Mongolian capital is the State Department Store, which is technically in Chingeltei District, the entire area directly south of Peace Avenue is classified as Sukhbaatar district and contains much of the prime storefront retail space of the city. In amongst the store-fronts is the imposing Ulaanbaatar Department Store, a new 25,000 square meter (GFA) retail location that certainly among the best dedicated retail space in the city.

This well equipped and expansive structure has been slow to fill, although it is now reaching capacity with domestic retailers selling high-end imports and exclusive cashmere outlets. Heading directly south of the State Department Store, one comes to the newly repainted Circus. This iconic circular structure is owned by Mongolian sumo wrestling champion Asashoryu, now a renowned businessman in Mongolia and well known as the owner of an investment Bank. Rumours are that he is, in fact, planning to develop a plot of land to the south of the circus with a new parking-lot construction that will provide much needed parking spaces for the residents and visitors to the district. However, reports during 2014 indicate Government concerns over the development of this site and may consider confiscating the facility based upon breach of contract if redevelopment is not in keeping with use characteristics of the site cited in the contract which gave possession to Asashoryu. The circus itself was constructed during the 1960s and still houses the state circus, as well as hosting arts and music events, cultural displays and even fashion shows, featuring the latest home-grown Mongolian design talents.

The far south of the district is home to the Children's Park. This newly refurbished entertainment park opened its doors in 2011 for the first time in over six long years, after being redesigned and built by Bodi Corporation. The park is still being extended and during 2013 a modern construction roller-coaster was added, the first of its kind in Mongolia. The Children's Park once stood as the largest open, green space in the city centre. However, the Children's Park is not without it's own scandal. Plans to redevelop the Nairmdal Park began roughly six years ago, after Bodi Corporation was selected by the City Government to handle re-development. The area was fenced off and work began, slowly, on the attractions at the Children's Park. When the eagerly awaited park re-opened in summer of 2011 it occupied no more than a tiny portion of the south-east corner of the park, with the rest remaining surrounded by hoardings. In the north-eastern corner of the park development continues on a plot of parkland given over to the huge new Shangri-La hotel construction. It is likely that parts of the park will be systematically portioned off to developers eager to find land next to the developing CBD and, despite developments of the park already precipitating a large scandal, the sanctity of one of Ulaanbaatar's best known green spaces is far from secure.

The new Shangri-La development will, in itself, dramatically change the landscape of the city centre of Ulaanbaatar, providing new high-end retail, office, hotel and serviced apartment facilities, stretching across a development with a footprint of over 6,490 square meters. This project, in partnership with MCS, will undoubtedly provide among the most prestigious retail and entertainment facilities in the city centre of Ulaanbaatar for some years to come. Less than 50 meters from this location is the site of the new Olympic Residences by Mongolian Properties. This 16 floor luxury residential development will contain condominiums, penthouses and duplex suites, incorporating 97 residential units and 7 retail locations (over 1,000 square meters of retail space) on the second floor and up-scale food courts on the third floor. Completion is expected during 2014, although residential units have been on sale for a number of years, with prices per square meter starting at US$ 2,300 - US$ 2,500 in 2011 and peaking at among the highest levels in the city (outside of the outlier market for apartments in Bella Vista and Blue Sky Tower) at US$3,500 per square meter in 2013. To the south of this the carcass of the Hilton Hotel project, stalled for three years, has seen renewed work in preparation for resumption of construction. At the height of development in a rapidly developing hotel market, Hilton pulled out of this project all construction work stopped since 2011. Indications are that, with Mott MacDonald having signed as building services and cost consultants, work is set to resume on this unique luxury hotel facility.

With continuing development of the CBD during 2012, the de-facto entertainment centre of the city has shifted east. A slew of new high-end entertainment facilities have opened around Sukhbaatar square and the CBD during late 2011 and mid 2012, including six upper-end restaurants in Blue Sky Tower and a nightclub below this facility, which was, aside from a period of closure during 2013, remains one of the most expensive venues in the city. Up and down the central section of Peace Avenue shop-front retail space is being bought up and turned into domestic high-end cafes and coffee shops, mirroring established international brands in their decor and range of products - with prices to match. Overall, Sukhbaatar district contained 69% of all B grade office during Q3 of 2013, it also contains 100% of the total supply of A grade office supply.

INFORMATION BOX - THE SECRET SALE OF SUKHBAATAR SQUARE

In October 2011 it came to light in the national press of Mongolia that a quarter of Sukhbaatar Square had been sold. Ulaanbaatar's central square, named for revolutionary hero Damdin Sukhbaatar, is the heart of political life in Mongolia. The site of this expansive 32,000 square meter square was the site of political rallies that ushered in Mongolia's socialist era and the protests that ended it. During the socialist period it became the focal point for spectacles, including military parades, ceremonies, cultural events and exhibitions. During the Democratic Revolution of 1990 huge demonstrations took place in the square, leading to hunger strikes that eventually persuaded the socialist Government to step down. Today it is a site for regular social events, music concerts and celebrations.

In the pre-socialist era this are was a large empty plot of land, ringed on all sides by temples and the residences of the nobility and clergy. The square itself was a site for nothing more than disposal of rubbish. It is said that, during a rally against the existing Mongolian ruling classes on July 8th 1921, General Sukhbaatar's horse urinated on the ground, within what is now the square. This was interpreted as a positive omen and the spot was marked. Today Sukhbaatar's bronze statue sits at the very centre of the square, atop the point on which his horse famously delivered its omen.

However, it appears that even this revered public site has not escaped the drive towards privatisation. Investigative journalists revealed in late 2011 that the south-eastern part of Sukhbaatar Square had actually been sold. The transaction had actually occurred a few years ago, giving as much as a quarter of the square over to Bodi group, who had purchased 'possession' rights over the land, giving them a form of leasehold ownership of it. It is very highly unlikely that Bodi will ever be granted permission to build on such a significant site, although the question of how they were able to purchase possession of this land remains unanswered.

Household living in Residential districts (built-up sections of the Sukhbaatar District)

Khoroo Number	Apartments						Individual Houses						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012
1	1,252	1,261	4,125	4,234	3.3	3.4	6	6	31	31	5.2	5.2	-	2	-	5	-	2.5
2	1,177	1,174	4,995	4,814	4	4.1	-	-	-	-	-	-	61	54	128	102	2	1.9
3	1,990	2,032	6,987	7,180	4	3.5	-	-	-	-	-	-	-	-	-	-	-	-
4	1,144	1,126	3,632	3,508	3	3.1	-	-	-	-	-	-	4	5	13	12	3	2.4
5	1,407	1,373	5,165	5,177	3.7	3.8	3	-	12	-	4	-	-	-	-	-	-	-
6	1,582	1,580	6,407	6,400	4.0	4.1	8	8	24	24	3	3.0	-	2	-	9	-	-
7	2,401	2,453	7,917	8,159	3	3.3	36	34	144	150	4	4.4	-	-	-	-	-	-
8	2,790	2,778	11,17	11,112	4	4.0	-	5	-	34	-	6.8	-	-	-	-	-	-
9	189	198	402	594	2	3.0	-	-	-	-	-	-	-	-	-	-	-	-
10	2,041	2,057	8,388	8,416	4.1	4.1	-	-	-	-	-	-	1	-	4	-	4	-
11	60	150	216	258	4	1.7	-	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total for Sukhbaatar District	16,033	16,182	59,407	59,852	3.6	3.5	53	53	211	239	4.0	4.8	66	63	145	128	3.1	2.3

Source: Ulaanbaatar City, NSOM

A short distance due north of Parliament, the University area of the city unfolds. The National University of Mongolia is the nation's oldest higher-education institution, founded in 1942. Graduates from this University routinely play key roles in the life of the Mongolian nation, alongside their counterparts who continue their education abroad. This academic community includes over 13,000 undergraduate and graduate students, 800 faculty members and over 400 support staff. During term time the buildings of the University bustle with activity and in the evenings the numerous small pubs and bars that line the streets of the student area are well frequented. Included in the University district is the ACMS or American Centre for Mongolian Studies, which serves a community of international academics resident in Mongolia and provides resources to extend higher learning about the nation. Situated in the central library building of the Mongolian University of Science and Technology, this is a great resource for those wishing to know more about Mongolian culture and history.

The area around the University contains a significant supply of mid-end housing, the majority of which was built during the 1960s and 1970s, although a number of new high-rise apartment buildings have been constructed since the transition which now offer mid-end modern accommodation near to the city centre. These typically sell and rent at lower prices than the First 40,000 and 50,000 apartments which line Peace Avenue. Among the largest of these new developments has taken place directly behind the Children's Palace, consisting of 10 high-rise apartment blocks, containing over 1,000 new residential units. In terms of retail, the area is served by the nearby Metro Mall shopping centre and supermarket, a good example of B grade retail facilities in Ulaanbaatar.

Household living in Ger district (low-end of the market of Sukhbaatar District)

Kh. No.	Apartments (small informal units)						Small informal houses						Mongolian gers						People Without Permanent Residence					
	Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household		Household		Population		Pax per Household	
	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012	2,010	1Q 2012
1	2	2	15	10	7.5	5.0	0	0	0	0	0	0	10	10	42	42	4	4.2	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	1,104	1,047	4,519	4,307	4	4.1	757	722	4,416	4,114	6	5.7	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0	0	0	0	0	10	2	16	17	2	8.5	0	2	0	9	0	4.5
11	5	5	27	26	5	5.2	1,192	1,087	4,159	4,248	3	3.9	1,367	1,343	5,130	4,743	4	3.5	0	0	0	0	0	0
12	0	0	0	0	0	0	1,368	1,373	4,796	5,102	4	3.7	927	912	3,489	3,139	3.8	3.4	0	4	0	6	0	1.5
13	0	0	0	0	0	0	1,118	1,164	3,565	3,937	3.2	3.4	1,116	1,149	4,769	4,698	4	4.1	0	0	0	0	0	0
14	0	11	0	55	0	0	1,036	1,057	3,330	4,028	3	3.8	553	422	3,082	2,252	5.6	5.3	0	0	0	0	0	0
15	47	14	118	72	2.5	5.1	1,657	1,206	6,154	4,307	4	3.6	852	408	3,348	2,220	4	5.4	4	0	10	0	3	0
16	78	78	377	378	4.8	4.8	1,317	1,377	4,423	4,273	3	3.1	1,095	1,105	4,458	4,933	4	4.5	0	0	0	0	0	0
17	25	25	98	105	3.9	4.2	1,340	1,308	5,500	5,379	4	4.1	385	420	1,973	2,100	5	5.0	0	0	0	0	0	0
18	98	3	334	10	3.4	3.3	1,508	1,204	5,341	4,829	3.5	4.0	1,042	797	3,665	2,601	3.5	3.3	0	0	0	0	0	0
19	0	37	0	101	0	2.7	0	456	0	1,922	0	4.2	0	407	0	973	0	2.4	0	0	0	0	0	0
20	0	12	0	38	0	3.2	0	531	0	1,568	0	3.0	0	345	0	1,073	0	3.1	0	0	0	0	0	0
Total for SBD	**255**	**187**	**969**	**795**	**3.8**	**1.7**	**11,640**	**11,810**	**41,787**	**43,900**	**3.6**	**2.0**	**8,114**	**8,042**	**34,388**	**32,905**	**4.2**	**2.9**	**4**	**6**	**10**	**15**	**2.5**	**0.3**

Source: Ulaanbaatar City, NSOM

Plans to move the University out of the city centre onto a new purpose built campus are already underway, with initial contracts being awarded to developers in order to enact this move. However, the large capex required to complete this project means it us unlikely that this will be completed soon. One developer is banking on the not-so-near-term removal of the city's oldest educational institution by constructing student dorms opposite the existing central administration building of the National University, to be completed during 2015.

Returning back towards the centre of town, to the east of the University District, is the Dashchoilin Monastery, which opened 56 years ago and remains an important religious site in the city. Near to this one of the city's most sought after housing developments, the Orchlon development. Comprised of townhouses and apartment units, the Orchlon development contains its own school and excellent leisure facilities. This location was once very popular with executives and heads of mission, although is gradually being superseded by newer developments. The movement of the offices of Oyu Tolgoi from the nearby Seoul Business Centre complex to Monnis Tower was one reason for a drop in interest in Orchlon and in the Royal Castle apartment complex nearby, although Royal Castle is still considered high-end accommodation due to its attachment to excellent leisure facilities, including one of Ulaanbaatar's only full length swimming pools. A short distance from the Orchlon development is the Chinggis Khan Hotel. This excellent example of a 3*+/4*- hotel facility in Ulaanbaatar has fallen out of favor with business travelers of late due to the increase in supply of hotel rooms in the heart of the CDB catering to an ever more discerning international clientele. However, it is rumored that the owners of this development, with the attached SKY Shopping Centre, have sought financing from Korean partners in order to fully renovate the hotel facility and develop the impressive 6,427 square meter balance of land surrounding the present development.

Overall, Sukhbaatar District stands as the vibrant core of the city of Ulaanbaatar. Economically, intellectually, politically and commercially, this district remains a true hub of Mongolian life. In terms of housing, it contains some of the oldest and yet most sought after residential in the city, evidenced by 30%+ increases in property prices within the ‘first 40,000’ apartment stock. As the city continues to develop urban infrastructure, it will continue to converge on Sukhbaatar district, with several major hotel projects due for completion by 2013 (including the Shangri-La and Best Western) and new high-end office supply in the pipeline from international developers (e.g. the International Finance Centre being developed by Chaung’s Group). Plans for a new metro system, which forms a key part of the Ulaanbaatar 2020 Master Plan, indicate that the two proposed metro lines will converge underground close to Sukhbaatar Square, funnelling passengers from across the city into the burgeoning CBD. As Ulaanbaatar develops towards international city status it’s pulse and progress will be felt most keenly in Sukhbaatar District.

XV. RESIDENTIAL MARKET ANALYSIS

1. MARKET INTRODUCTION

Residential real estate markets in Ulaanbaatar remain characterised by a split between a buoyant lower end, in which supply and demand curves remain entirely divergent, and an upper end and luxury market that is potentially in oversupply already.

Around 46% of Mongolia's total population lives in Ulaanbaatar, with 45.1% of the entire working population resident in the capital city. Significant latent demand for housing is apparent in the fact that only 40% live in housing with access to permanent infrastructure, whilst 60% live in peri-urban areas in traditional Mongolian gers (traditional felt-tents) or housing not well connected to permanent infrastructure. This is creating a large latent demand that is gradually being unlocked as wages rise and access to mortgage financing is being extended.

The most significant development in terms of residential real estate in the past 24 months has been the introduction of a new low-cost mortgage lending scheme by the Government of Mongolia. Only 23.8% of the total population of Mongolia are presently living in apartments. Within the capital this impacts not only standard of living and access to amenities but also contributes to unchecked urban sprawl and a chronic pollution problem (as present infrastructure cannot reach into the ill-served 'ger districts' of the city, leaving people to burn everything from coal to plastic in crude stoves in order to cook and stay warm during the long winters). In 2012 the Government of Mongolia initiated a program to provide civilians with low interest loans as low as 8% APR to purchase apartments. Original plans had called for a 6% mortgage, although following the election, commercial banks stopped issuing mortgage loans under these terms and the new Government set about redrafting the program. The low-cost mortgage scheme was initially proposed as a means of helping poorer people purchase apartments to be constructed under the '100,000 homes project' (a national level residential capacity building project, currently underway, which will provide a further 75,000 homes within Ulaanbaatar alone). The was subsequently extended to all first time buyers in order to reduce pressures on the middle-classes created by rapid purchase price rises. Qualifying apartments would have to be 80 square meters in size of less, within new-build developments only. According to the rules laid out under this lending program, qualifying prospective homeowners should not own any existing apartments.

The success of this program, financed by proceeds raised from the Chinggis Bond, has enabled the new-build residential markets to expand exponentially over the past year, with an annual rise in the amount of residential space introduced into Mongolian real estate markets of 8% during 2013 alone. Construction companies have been buoyed up by the rush to purchase new homes, spurred by mortgage lending. Since commencing the annual 8% mortgage program in June 2013, commercial banks have received requests to re-finance already awarded housing loans of 847.2 billion togrog, which have been delivered under the Government program to stabilise the mortgage system. Financing requests for loans totalling 520.1 billion, from 18,212 borrowers, were approved by the commercial banks during 2013. During the same period, commercial banks also received low interest mortgage loan applications totalling around one-trillion MNT, of which banks granted mortgages totalling one trillion 49.8 billion MNT to 18,693 borrowers.

The upsurge in mortgage lending is a significant step towards provisioning adequate housing for the inhabitants of Ulaanbaatar in particular. Without such projects, the Government led 100,000 homes scheme, would be all but impossible to finance. Even at a lowest possible estimate in terms of build costs, the task of provisioning 100,000 homes of 80 square meters (average) would be equal to between 42% - 50% of national GDP. It is for this reason that the expansion of housing finance has become such a key tool. As is expected, the capital city makes up a full 79.6% of mortgage lending at this time, with 69% of all borrowers domiciled in Ulaanbaatar (26,232 borrowers). The average interest rate for loans in the capital is 9.3%, with the average borrowing term higher than the national average at 210.9 months. At the end of Q3 2013, the term and interest rate of mortgage loans issued ranged between between 1 to 20 years and has the weighted average term was 17.3 years or 207.4 months, up from 100.7 months in 2008. The weighted average rate for loans issued has been on a downward trajectory since 2008, standing at around 8.9% as a result of introduction of the Government backed mortgages, down from 19.8% six years ago. From Q1-Q3 2013 a total of 40,596 borrowers received a mortgage loan Y-T-D, with 21,832 of these (53%) taking loans under the "Housing Mortgage Program", at the 8% interest rate. This meant that total outstanding loans grew by 20.1% month on month and 44.9% year on year directly following the introduction of the 8% mortgage scheme. Of mortgage loans outstanding, 41.5% were issued with the banks' own capital, 53.5% were issued by the "Housing Mortgage Program" (refinanced mortgage loan with reduced rate of 8% per annum) and 5% were issued by other sources. As of August 2013, 95.3 percent of mortgage loans outstanding have been made in domestic currency and 4.7% have been made in foreign currency.

Despite the clear successes of new mortgage lending programs, concerns have been raised about the sustainability of this volume of lending, as well as fears that low-cost mortgages are contributing to a residential market price bubble. By early 2014 the 8% mortgage program had already run out of funds for continued lending and plans to recapitalise appear unlikely to come to pass. Plans to sell mortgage backed securities seem unlikely to come to pass thanks to limited standardisation and risk management in issuance practices and no viable market for Mongolian mortgage debt.

INFORMATION BOX - APARTMENTS FOR HERDERS PROGRAM: 2014-2020

There are approximately 146,000 households engaged in pastoralism or herding in Mongolia today. Of these 61% of households maintain herds between 200-1,000 head of livestock. Households with around 200 head of livestock expect to earn around 2.8 million MNT annually, whilst those with 1,000 head of livestock or more may make around 51.6 million MNT annually. The Ministry of industry and Agriculture has launched campaigns to persuade herding households to pool their income in bank accounts and in doing so they become eligible for mortgage loans. The Central Bank will receive payments twice yearly from herding families who wish to take out mortgage loans for apartments. This represents a markedly different system to the current low-cost mortgage program, which works on standard monthly repayments. However, herding families will benefit from the same low APR and conditions applicable to the 8% mortgage scheme.

Despite the rapid growth of mortgage markets for new homes, only around 20% of the secondary residential markets are mortgaged at present. With average prices across the Ulaanbaatar markets reaching around 2.4 million MNT per square meter during Q2 2014, (US$ 1,346 equivalent at current rates), there appears to be headroom for price growth in the lower and mid-end residential markets. Current prices in the broad market are nowhere near the mark reached by apartments transacting in key urban centres of Kazakhstan prior to the collapse of residential real estate prices there (approximatly US$ 3,600 per square meter). With the average mortgage as a percentage of income calculated at around 247.90%, Ulaanbaatar appears more affordable than Bishkek, Vladivostok, Rome, Taipei, and Almaty - on par with affordability ranking in Jakarta and Lahore.

Moreover, price rises year-on-year have begun to stagnate or drop into negative territory as a result of a slowdown in the Mongolian growth story. Indications are that prices contracted by as much as 1.01% 2012-2013, from a rise of 12% from the previous year. Whist this has been cause for concern, the previous slow-down from 2008 potentially prevented overheating in a rapidly expanding construction sector.

The luxury end of the real estate market tells a different story. Whilst real estate investments remain an alternative to bank savings for many, investment in luxury property looks set to drop off as a significant supply of pipeline projects in the upper end of the market struggle to compete for a highly limited number of buyers and scarce financing. With the rapid development of the Zaisan and Stadium Areas of Ulaanbaatar over recent years, numbers of luxury properties have swelled, with a pipeline supply of 1,496 units in the upper end and luxury residential markets as of Q2 2014. This includes an additional 1,088 units of low-density, upper-end housing and indicates an overall drop-off in rates of new supply entering the market per year as a result of several large-scale projects failing to find financing.

Nevertheless in this market are receiving receiving interest. These include the Jardin Town development in Zaisan. This luxury development contains high-specification fit-out throughout, representing a new standard in luxury for the Ulaanbaatar markets. These units are presently on the market for around $3,500 per square meter. The first of the units within this development will be completed during the summer of 2014. Whilst new levels of luxury are peaking the interest of buyers, the developer (APU Group) has been slow to sell more than a few of its units.

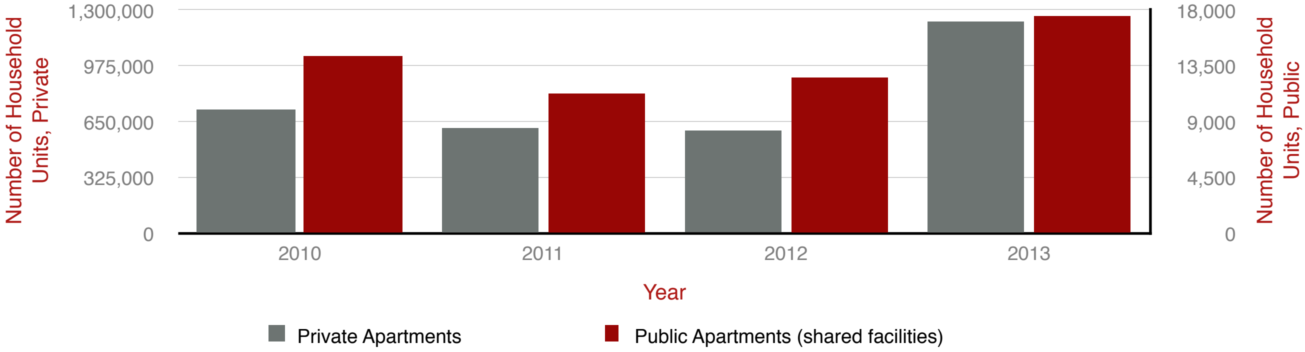
2. MARKET HISTORY

MONGOLIA RESIDENTIAL PROPERTY STATISTICS

Data Point	Figure
Sq.M of residential space put into operation during 2013 (national)	1,237,300
Total sq.M of residential space nationally as of end of 2013	11,483,400
Growth in national housing supply 2012-2013	8.4%

Source: NSOM

GRAPH 101: Sq.M of household Units Brought into Operation Nationally



Source: NSOM

Ulaanbaatar's population has grown at an incredible pace since the transition from socialism to democracy began in 1990. As of January 2014 there were a total of 1.3181 million people residing in Ulaanbaatar - a total of 317,131 households (average household size was 3.9 persons in Ulaanbaatar). This represents a population CAGR of 5.9% over the past decade.

INFORMATION BOX - THE LANDMARK BREZHNEV VISIT

Mongolia took a sharply pro-Soviet stand in the Sino-Soviet dispute, being one of the first socialist countries to endorse the Soviet position. This led to a period of heavy military up-scaling along the Sino-Mongolian border during the 1960s, with Soviet troops lining the crossroads between these two nations by 1965 at the request of the Mongolian Politburo. At around this time, in January of 1966, Leonid Brezhnev visited Mongolia in his role of the First Secretary of the CPSU.

This official visit was for purposes of signing a mutual assistance treaty, paving way for a Soviet military presence in the Mongolian People's Republic. In return for Mongolian assistance in this matter, Moscow extended assistance to Mongolia in the form of financing, materials and expertise necessary to expand housing and infrastructure. The resulting large-scale housing developments can still be seen today, primarily in Bayangol District. These high rise buildings, of 10+ levels, used concrete pre-fabrication techniques developed and widely deployed across the Soviet Union. The new constructions helped swell the capital city's housing supply, but the impact of the Brezhnev deal did little to ultimately improve infrastructure supply for a growing population. Impressively, the entire 13th micro-district of Ulaanbaatar (Bayangol district) was constructed in the space of one year. Presently home to more than 4,620 persons, this represents one of the densest stocks of pre-fabricated socialist-era housing in the capital.

Today these buildings are referred to as the Brezhnev era apartments and mostly stand in a state of moderate disrepair, although with

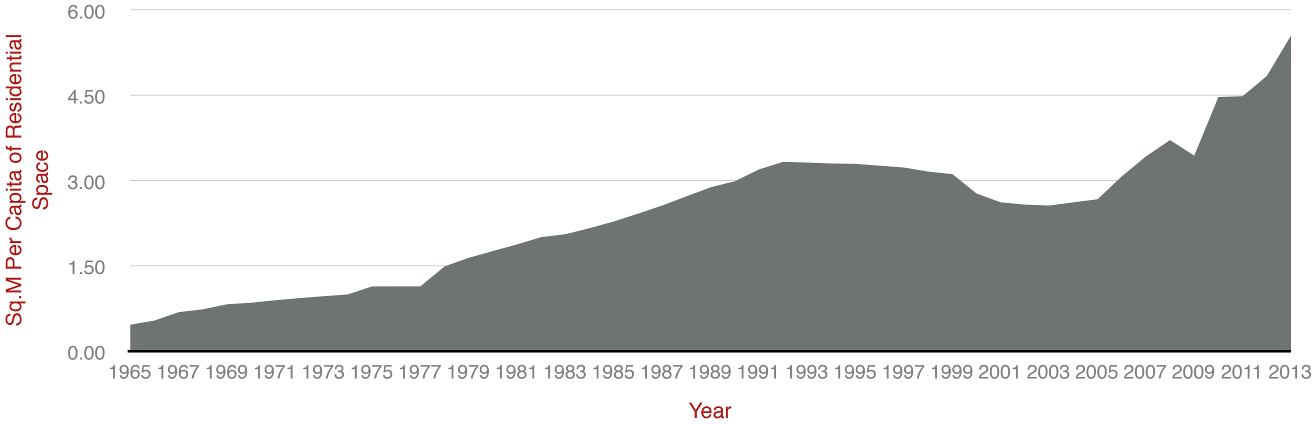
Average population density of Ulaanbaatar is presently 286 persons per square kilometre, around a quarter of that in Astana. Economic growth and new construction remain strongly skewed towards Ulaanbaatar. During 2012, 59% of new businesses established were located in the national capital and 51.98% of Mongolia's 2012 GDP was contributed by Ulaanbaatar. In nominal terms the GDP of the capital was 8,967.8 billion MNT (approximately US$ 6.18 billion) for 2012, growing to 11,143.3 billion MNT (approximately US$ 6.4 billion) during FY 2013. This represents a 24% year-on-year increase. A large portion of the internal economic growth within the capital has been due to growth in the construction sector, which has been heavily financed via Government supported lending through commercial banks, as well as the Development Bank of Mongolia.

GRAPH 102: Numbers of Households Resident in Ulaanbaatar by Year

Source: UB Stat

At the end of 2013 approximately 53,700 households lived in traditional Mongolian gers within the '*ger districts*' of Ulaanbaatar, the peri-urban areas of the city which expand across the outskirts of the city and over the foothills of surrounding mountains. Within these areas of the city *Khoroo* (subdistrict) censuses also identified 116,405 informal apartments and small, detached houses within these areas, many of which are inhabited by ger district dwelling households during the summer months (as most of these are not reliably attached to central heating networks and are therefore difficult to heat in the winter, causing residents to return to their gers seasonally). Numbers of apartment dwelling households across Ulaanbaatar reached an estimated 116,400 households (based on Khoroo office figures) in the second half of 2012, with total stock by the end of 2012 estimated at 123,000 residential units. This had risen to around 138,000 by Q1 of 2014 - representing an estimated 5.54 square meters of living space per capita. This figure was broadly on par with China during the 1980s.

GRAPH 103: Square Meters of Residential Supply in Ulaanbaatar Per Capita of City Population

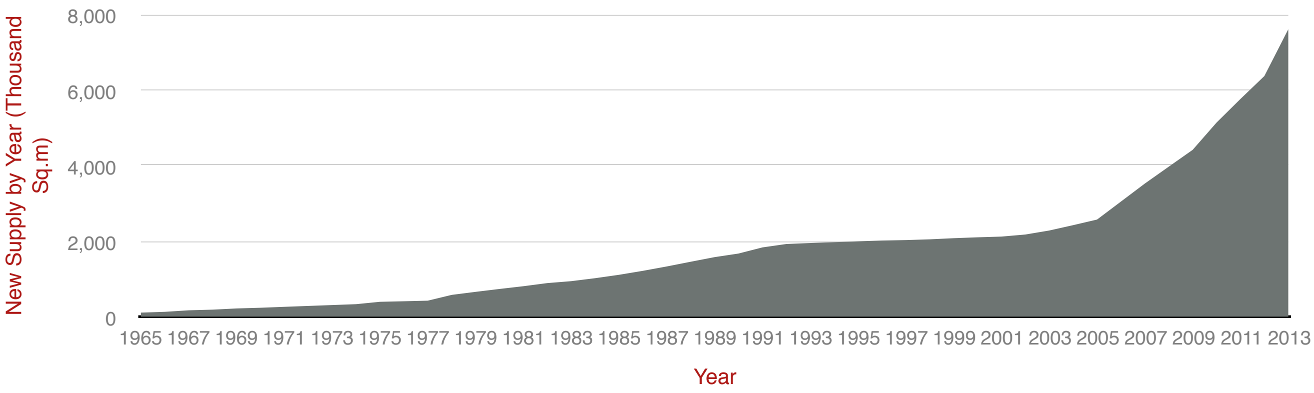


Source: UB Stat / NSOM

3. HOUSING SUPPLY IN ULAANBAATAR

A total of around 53,000 residential apartment units were put into operation in Ulaanbaatar between the year 2000 and 2011, with the total housing stock of Ulaanbaatar equating to roughly 7.6 million square meters. The national total square meterage of housing stock stands at approximately 11.4 million square meters. Average annual supply (units) rose above the 18,000 mark for the first time in 2013, causing the amount of residential space to rise above the 7 million square meter in Ulaanbaatar by the start of 2014. Whilst concerns of oversupply have hit commercial real estate markets and a drop off in availability of both debt and equity investment into these sectors has seen key commercial projects in the capital stall or slow, residential development has seen renewed growth, buoyed by capital injections from Government backed lending programs.

GRAPH 104: Ulaanbaatar Housing Supply - (Thousand sq.m)



Source: NSOM / UB Stat / MAD Research analysis

Bayangol district has by far the largest extant stock of housing, containing approximately 36,600 residential units. Bayanzurkh district's stock of residential units is the second highest at 25,391. The inner city districts of Sukhbaatar and Chingeltei contain around 16,235 and 7,696 fully serviced residential units respectively. Khan Uul district contains around 13,026 residential units, indicating growth as a result of rapid development at the upper end of the market, as well as mid-upper market growth along Chinggis Avenue and on the road out towards the existing airport. Songinokhairkhan district, the sprawling, westerly district, contains 16,235 residential units with reasonable infrastructural connection.

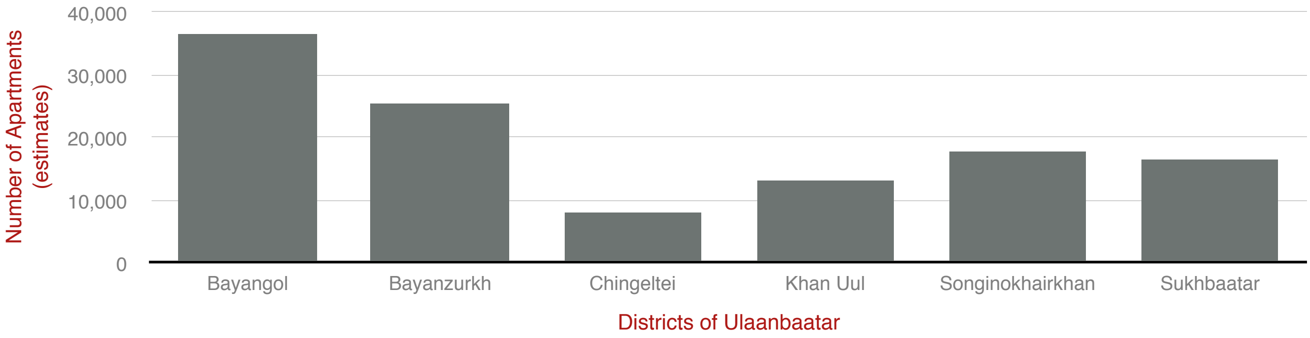
Population of Ulaanbaatar by District

District	Number of Sub-districts	Population (2013)	Territory (Sq.Km)	Population Density (ppl/sq.km)
Baganuur	5	27,440	620.2	41.9
Bagakhangai	2	3,691	140.0	27.6
Bayangol	23	192,615	29.5	5,598.6
Bayanzurkh	28	294,908	1,244.1	178.1
Nalaikh	7	32,893	687.6	40.9
Songinokhairkhan	32	261,917	1,200.6	183.5
Sukhbaatar	20	132,117	208.4	621.3
Khan Uul	16	127,477	484.7	195.3
Chingeltei	19	153,933	89.3	1,523.1
TOTAL	152	1,226,991	4,704.4	934.5

Source: UBStat / Ulaanbaatar City

Apartment areas in Ulaanbaatar are typically occupied by wealthier households, who either have the funds to afford to purchase an apartment or, as in most cases, were part of the 22% of Mongolia's population who were gifted an apartment during privatisation. Apartment dwelling households not only fair better in the city's socioeconomic stakes - because they can afford accommodation - they also develop better standards of living and greater opportunities because they reside in central urban areas. Access to good infrastructure, availability of basic amenities and less exposure health risks that go along with living in the ger districts (lack of sanitation and higher levels of pollution) foster greater wealth and better standards of living.

GRAPH 105: Distribution of 'Apartment Area' Housing Stock (estimated units) in Ulaanbaatar at the end of H1 2013



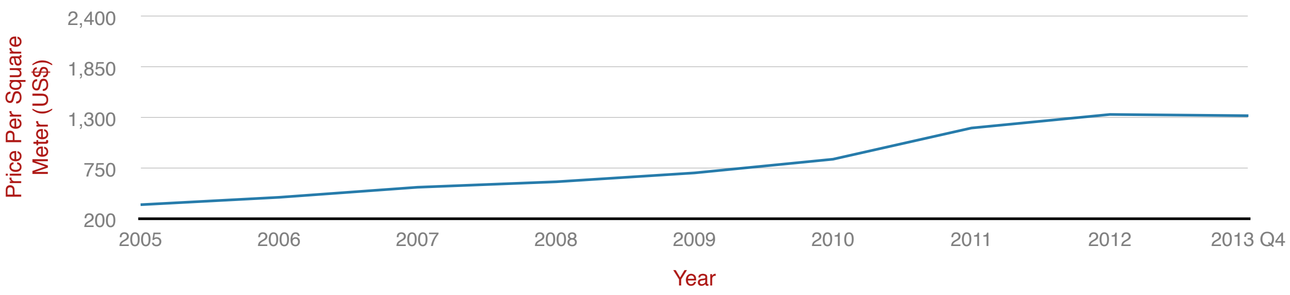
Source: District Offices of Ulaanbaatar

A highly constrained supply of apartments in Ulaanbaatar means occupation of existing apartments is almost 100% across the city and uptake of new apartments very high, with pre-sales still accounting for a majority of primary market sales (up to 70% across most developments, with significant competition among buyers in key projects). Despite growth in the construction sector, it is clear that demand and supply cures are far from convergent in Ulaanbaatar's residential markets.

4. PRICE HISTORY

Average per square meter transaction prices across the Ulaanbaatar market stood at just US$ 346.59 in 2005. Between 2005 and Q4 2013 CAGR of prices across the broad residential market was 15.98%.

GRAPH 106: Residential Purchase Prices for Ulaanbaatar - Average Market Price 2005 - 2013

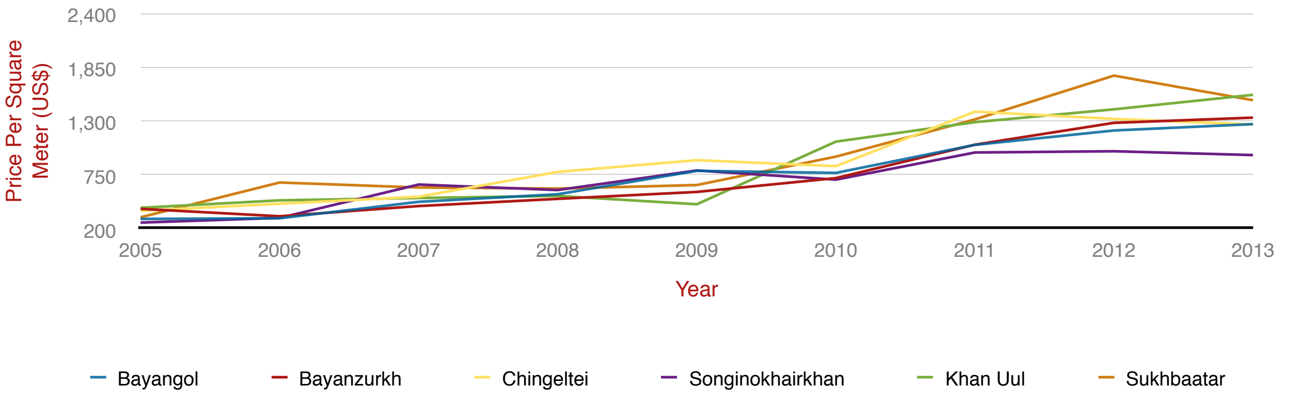


Source: MAD Research

Year-on-year growth has remained in double digits across the entire market between 2005-2012, although from Q4 2012 - Q4 2013 indications are that prices contracted by 1.01%, down from 12% year-on-year growth 2011-2012. Significant flight of FDI and poor commodities exports and pricing have led to an overall slowdown in the Mongolian economy, with residential real estate projects being hit by lack of financing. Many projects in the highly competitive mid-level residential market not see robust growth in pre-sales levels and despite the introduction of Government backed mortgages the year before, spurring sales, pricing edged very slightly into overall negative growth.

Taking a district-by-district view of residential real estate pricing trends (within the six central districts of Ulaanbaatar), uneven growth is apparent. Sukhbaatar district, which encompasses the CBD and extends to the north of the city, displayed by far the best average price growth, with spectacular year-on-year growth of above 40% between 2009-2010 and 2010-2011 (starting from a reasonably low base).

GRAPH 107: Residential Purchase Prices for Ulaanbaatar by District - Average Market Price 2005 - 2013



Source: MAD Research

Immediately following the last economic downturn in 2008, the entire market saw robust recovery. By the end of 2010 residential prices had increased 31% over 2009 figures. The following year prices continued to maintain a strong growth dynamic, rising by 41.5% in desirable city centre locations. Between 2011-2012 growth slowed again, remaining nevertheless highly respectable at 28.5%. By the end of Q4 of 2013 average per square meter prices across Ulaanbaatar's residential markets stood at US$ 1,316. In the upper end of the market prices stood at an average US$ 2,050 per square meter (primary market sales). High end projects featuring low-density housing maintained a higher average price point of US$ 3,228 per square meter on average.

Among the best performing residential sub-markets over the last decade have been the 40,000 and 50,000 apartments - the oldest residential developments in Ulaanbaatar. Despite the age of these buildings, which constitute the first large scale residential construction projects in the capital (the earliest of which date back to the mid-1940s), their central location makes them attractive as investments. The majority of apartments from this era were constructed around large courtyards which line Peace Avenue on both sides. Proximity to this power centre of retail means that the 40,000 and 50,000 apartments have been popular with expat residents, with renovated apartments in First 40,000 buildings renting at up to 6 million MNT per month (US$ 3,529) during Q1 2014.

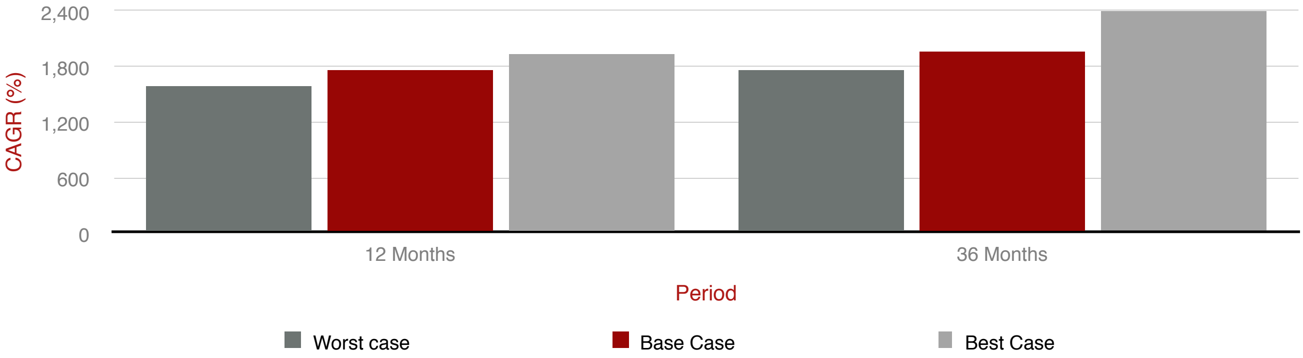
Chingeltei district shows the weakest overall residential price growth in recent years. Despite showing dramatic growth between 2010-2011, with some properties in central areas of the city (also part of the 40,000 and 50,000 apartment developments) showing year-on-year price rises in excess of 50%, overall residential price growth did not peak above 20% on more than two occasions since 2005 in this district. Despite being one of the two most central districts of the Mongolian capital and boasting the second greatest population density of any district, the retail profile of Chingeltei District remains less attractive than that of Sukhbaatar District and with limited land available for new developments in this crowded inner-city area, the impact of the composition effect, where new supply contributes to the overall growth in pricing. A limited pipeline for this area until 2015 and potentially beyond mean that slow overall movements in pricing are likely to pertain.

By Q4 2013 figures indicate that average residential prices in Khan Uul district are the highest, reaching US$ 1,328 per square meter. A growing supply of new-build properties in the Zaisan and Yarmag areas of the city, catering to mid and upper end markets, are pushing pre-sales purchase prices in the area. Songinokhairkhan district lags behind in terms of overall pricing levels, with average residential purchase prices across the district reaching just US$ 971.97 per square meter by Q4 2013. This expansive area has the lowest population density of any of the more central districts of the capital and has a residential real estate profile consisting mostly of lower-income housing and a commercial profile made up of industrial and production functions. It is, therefore, not tipped as a location suitable for residential real estate investment beyond key lower-end projects.

5. PRICE PROJECTIONS

Projections for price growth across the entire residential market indicate CAGR at 11.7% between 2014 and 2019, meaning prices will move from current levels at an average of US$ 1,316 per square meter to a potential high of US$ 3,618 per square meter over the coming five years, providing overall economic growth remains strong and key projects begin to contribute heavily to the growth of the macro-economy. This includes the successful financing of Phase 2 of the Oyu Tolgoi project and return to form of coal export markets.

GRAPH 108: Residential Price Growth Projections 12-36 months



Source: MAD Research

6. RENTAL MARKETS

The exact scope and scale of rental markets in Ulaanbaatar are difficult to judge with total accuracy due to the fact that there are no reporting and registration requirements for landlords. Many landlords prefer to not even register official contracts as a means of avoiding traceability of additional income. Where a property is used to generate rental yield it also becomes subject to an annual property tax of between 0.6% - 1% of the value of the property as is considered to be a commercial, yielding asset.

Historically, rental was not considered an option for many newly established households and there is not a trend of young professionals renting accommodation together within Ulaanbaatar at present. Students may share small apartments near to the University distract, often many sharing a single room. However, renting was no commonplace in Ulaanbaatar until fairly recently. Faced with rising house prices, young households and couples are now increasingly choosing to rent rather than buy, swelling a nascent rental market each year. Moreover, a growing number of repatriated Mongolian citizens, having studied and worked overseas, are happier to rent and are seeking premium and luxury rental accommodation commensurate with their tastes. Based upon broad assumptions, the rental markets within Ulaanbaatar are expected to constitute around 3,000 - 4,100 units at present. With housing often used as a store of wealth or purchased as an investment by wealthy Mongolian nationals, there is potential for the rental market to grow rapidly as demand catches up. Typically, landlords have tailored pricing towards the expatriate market, the first real rental market in Ulaanbaatar. However, local residents are potentially unwilling or unable to pay the higher prices charged to foreigners and so many apartments go empty (held for capital gains only) as landlords seek higher paying foreign lessees. With a flight of FDI in full swing some landlords may be looking again to expanding domestic rental markets in order to pick up the slack, therefore reducing prices.

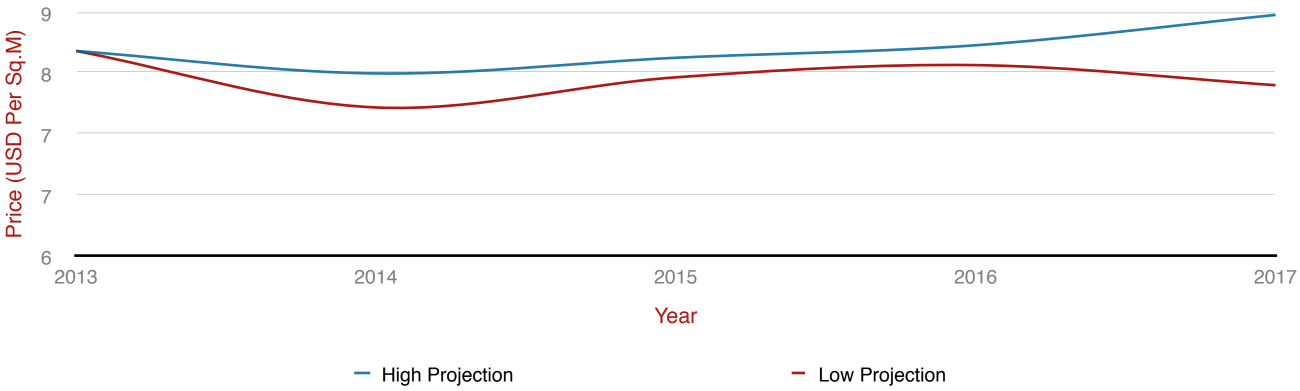
In determining scope of affordability in the Ulaanbaatar rental markets more accurately official wage and salary figures produced by the National Statistics Office of Mongolia are instructive. However, these do not necessarily capture the demographic associated with high end rentals in the capital city, due to that fact that NSOM figures are based upon average earnings across the entire employed population. Despite wage increases across all sectors and levels, these still mask income trends at upper socioeconomic segments end of the employed population of Ulaanbaatar, constitutive of high-end rental markets.

GRAPH 109: Residential Rental Prixe Index

Source: NSOM

Heretofore, pricing appears to be experiencing steady growth, picking up towards the end of 2013 - rising 16% year-on-year September 2012 - 2013. This growth in rental rates has stemmed a steady drop in rental yields. With yields at around 12% p.a. during 2010-2011, rapid house price rises have dented yields severely and greater drops in yield are expected.

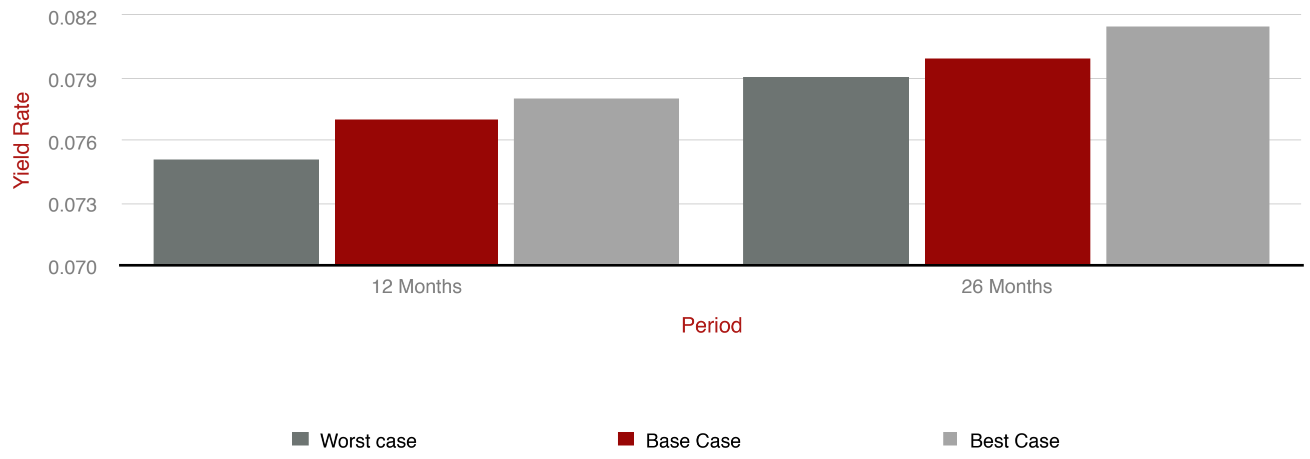
GRAPH 110: Residential Rental Yields Projected Within Ulaanbatar Residential Market 2013-2019



Source: MAD Research

The amount per month that landlords are effectively able to charge has not kept up and has, due to an overall limited market, resulted in yields dropping back considerably during the course of 2012-2013. Despite overall steady rises in rental prices, some areas of the city have seen adjustments already as a result of a diminished expatriate market. City centre residential rental rates of between 2.5 - 3 million MNT per month, displayed during 2012 and early 2013, have been trimmed back to more manageable levels of between 2-2.5 million MNT in response to falling demand from foreign executives and overall concerns about economic growth. With price growth likely to continue and slow growth of domestic rental markets, projections indicate that rental yields for residential units will be sustained in the mid 7%-8% range during the mid-term.

GRAPH 111: Residential Yield Rate Growth Projections 12-36 months



Source: MAD Research

INFORMATION BOX - RENTAL STOCK SET TO GROW

Research has concluded that there are presently around 40,000 citizens of the capital city, Ulaanbaatar, presently residing in rental apartments. The average rental rate of a one-bedroom apartment for local persons is between 300,000-500,000 MNT per month, whilst two bedroom apartments rent for between 500,000-750,000 MNT per month, based upon apartment location and fir-out.

Whilst numbers of renters in the Mongolian markets were traditionally low, this figure is increasing with each passing year. Upkeep on these apartments is often low quality and demand is beginning to significantly outstrip supply. This led to a decision by the Capital City Governors to construct 1,000 rental only apartments each year until 2016 and then 2,000 rental only apartments each year from 2017-2020. This places over 6,000 residential rental units in operation by 2018. This project stems from a project to provide housing for the elderly, although increasingly the Capital City Governors are looking to expand access to affordable housing by growing domestic rental markets.

Rental markets for expats continues to remain robust, despite the slow-down in international investment over the past two years. Prices in the upper end of the residential rental markets (including those geared towards expats) have remained reasonably stable at around US$ 600-800 per month for a one-bedroom apartment near to the CBD, although rises re projected with the recovery of the macro-economy.

Reported estimates on the numbers of foreign workers involved in the Ulaanbaatar rental markets vary greatly. Even official figures on total numbers of foreign workers registered in the country seem highly malleable. These range from a high estimate of over 40,000 to a low of around 20,000 foreign nationals presently residing in or working in Mongolia. Immigration Authority figures released during 2012 indicate that the total number of foreign workers resident in Mongolia was 36,924 and so this is taken to be a benchmark, although over the past 18 months numbers of foreign residents in the capital in particular have fallen noticeably. This is not only due to the fact that major mining projects, including the Oyu Tolgoi project, are now gradually switching out their labour force to incorporate a majority local skilled labour base, but also due to the fact that many foreign invested mining projects have been suspended or closed down over the past year. This has also sent waves through the finance and service sectors, with expats leaving Mongolia as a result of poor economic performance. Our estimates indicate that the 2012 Immigration Authority figure may have fallen by as much as 20% over the last 18 months.

Chinese workers make up 85% of the total legal foreign workforce in Mongolia, as well as a significant majority of the illegal migrant workforce in Mongolia. The remainder hail from 108 countries as diverse as North Korea, America and Germany. Although immigration authorities are implementing a more active approach to deportation of illegal labourers from China, the upscaling of construction in the capital and beyond over the past year will have swelled numbers of illegal migrant workers, favoured by some construction companies, who would rather pay relatively small fines for breaching immigration laws than appropriately pay workers or the costs of work permits. Nevertheless, these workers (both legal and illegal) usually live on-site during the construction process, this being a condition of their temporary residency.

Returning to key markets, our research has identified four distinct market segments in the expatriate residential sector. The first of these are Senior Executives and heads of mission. These individuals often have generous housing allowances stipulated in their contracts, which they lose if not exhausted on accommodation costs. Therefore, they are encouraged to rent high-end apartments and houses such as those in the Star Apartments Complex or Bella and Buddha Vista. This group regularly travels with family members and often bring their own furniture to the country (therefore preferring part-furnished or unfurnished apartments). Expatriates in the Senior Executive category are usually on longer-term contracts and will remain in Mongolia for two or more years. For this reason they often travel with family members, therefore requiring larger, family friendly accommodation. The Zaisan area to the south of the city is popular with both of these groups as living there puts them in close proximity to the American School of Ulaanbaatar and at a remove from the worsening winter smog of the inner-city.

Profile of Expatriate Rental Market Segments

Professional Bracket	Young Professionals / Voluntary Service Personnel	Professionals	Mid-Management / Consultants	Senior Executives / Heads of Mission / Diplomats
Age Range	19 - 26	22 - 30	30 - 45	30 - 60
Duration of Stay	3 - 18 months	12 - 24 months	12 - 24 months	24 - 60 months
Type of Accommodation	Studio / 1 bed / shared	Studio / 1 bed	Studio / 1 bed / 2 bed	2 bed minimum, with separate kitchen
Floor Size Required	40 - 60 sq.m	40 - 80 sq.m	60 - 100 sq.m	120 - 300 sq.m
Rental Ceiling	US$500 - US$900	US$600 - US$1,500	US$1,200 - US$3,000	US$2,500 - US$8,000

Source: MAD Research

INFORMATION BOX - 40K AND 50K REDEVELOPMENT PLANS

A new law, put before Parliament during June 2014, lays out a framework for redevelopment of the 40,000 and 50,000 apartment areas of Ulaanbaatar on the grounds that these apartments may no longer be safe in the event of a natural disaster. Whilst any Government should be commended for taking an active stance on protecting the health and safety of its citizens, it appears in this case it is doing the exact opposite. The new law contains provisions that are tantamount to expropriation. If a building is deemed unfit apartment and commercial space in that building can be taken away and redeveloped without any compensation being offered. Moreover, if just 20% of a building's households agree to vacate one of the 40,000 or 50,000 buildings then the law allows for all infrastructure to be cut so as to force the remaining residents to leave. In the short history of private property ownership in Mongolia, we never thought we would see this level of bullying of people who have every right to their homes and businesses under the Constitution of Mongolia.

The legislation contains no clear legal framework to ensure appropriate relocation of displaced residents and there is, in most cases, no legal necessity to compensate current residents or business owners appropriately for their losses should they be forced out of their homes and commercial spaces.

What is more, the entire process seems entirely undemocratic. The ger district redevelopments have involved an array of experts from across the globe, including multilateral agencies such as the ADB, World Bank, numerous leading experts and researchers. It also involved residents of the her districts themselves. Residents were asked to vote upon whether they wished to redevelop and which company the would prefer to undertake redevelopment in their area. In order to be selected a company had to win an outright majority. So why is this not the case in the city centre, the beating economic and social heart of the city? Why have residents and business owners not already been involved in consolations? Why have there not been appropriate studies and independently verified assessments that unquestionably show that this drastic and potentially damaging legislation is actually necessary?

This part of the city plays a critical role in the economic life of Ulaanbaatar, but also to social and cultural life of the capital city. Each summer more and more residents of this area take part in a more and more vibrant array of cultural and social events along Peace Avenue and Beatles Street. Far from the feel of newly built neighbourhoods, where people live in high-rise buildings and barely know their neighbours, this area is actually home to an increasingly vibrant social and economic community. It is perhaps one of the few places in Ulaanbaatar today where this is true.

The repercussions of enacting this legislation could potentially be devastating, not only on a social level but also to the city economy. An initial estimate shows that over 2,000 retail jobs would be lost and local businesspeople who have invested heavily in their businesses and their premises will lose everything they have worked so hard to create. What is worse, the legislation states that because the initial function of the 40k and 50k buildings was a residential one, then owners of ground-floor retail space need only be compensated with residential space. In place of a thriving store or business they may be, at best, given a small apartment, and would have no choice in the matter.

Even the 40,000 and 50,000 apartments have seen significant investment in recent years. Whilst there is a view that residents of these areas would rather live in the affluent south of the city, the fact that apartments are transacting at over 4.5 million MNT per square meter says something of how sought-after they remain. Individuals and businesses have invested significant sums of money into renovating these spaces and within the real estate markets these remain one of the most attractive areas for foreign direct investment. It is estimated that FDI into the 40,000 and 50,000 apartments over the past five years has totalled more than $2.4 million. Much of this money has gone into renewal and renovation of new 40,000 apartment units, bringing them up to international standards.

The underlying fact is that developers can see the value of these properties and the land on which they sit and are more interested in grabbing this through political manoeuvres than in making a real attempt to solve the outstanding issues of safety, social growth, efficiency and economic development of Ulaanbaatar's city centre. If the objective here were really to secure the health and safety of the residents of these apartments then why not apply the same criteria to new residential and commercial units built in the last 20 years. Many of these have been built using poor quality materials, with little or no thought for earthquake safety. The fact is that an earthquake would likely pose a greater overall threat to many new constructions than to the 3 or 4 level 40,000 and 50,000 buildings whose thick walls and short height go a long way to mitigating earthquake related risks.

Before such unilateral actions are taken to remove property from Ulaanbaatar's citizens without their consent a full structural assessment, conducted and verified by independent international experts, should be commissioned. Wherever it is determined that it is necessary, or possible, to renovate or redevelop individual buildings, then care should be taken to ensure that the approach taken does not leave the area and the people who live there even worse off. The history of urban planning internationally has shown us that simply demolishing huge swathes of a city like this would do little more than turn the area into a building site for years on end, scaring away tourists who use the many small hotels and guest-houses in this area. It would push local entrepreneurs out of business and likely destroy the social fabric of one of the oldest communities in the history of Ulaanbaatar. Moreover, how could anybody rely on the developers selected during the tender process to actually complete the projects they start. These would require massive investment that Government budgets can no longer help prop-up. It is likely that property speculators from China would take the lead in financing such redevelopment projects.

Continued on next page.

Mid-management are usually employed on short-term contracts of between 12 and 24 months, whilst consultants are typically in residence for shorter periods of between three and eight months. These groups tend to travel without families and tend to ask for spacious one-room apartments or studios over larger accommodations with more bedrooms. For mid-managers, housing allowances are lower and are sometimes part-paid from their own wages. Mid-management personnel and consultants surveyed tend to prefer to live in the city centre, where they have easy access to their offices, amenities and entertainments. As the stock of well renovated and new high-end city centre apartments continues to grow, these expat renters tend to be less inclined to rent further out of the city centre in suburban areas such as Zaisan.

In the broader international investment community, Mongolia is having trouble with its reputation. Poorly considered policy decisions have scared away key investors and we are now feeling the strain of an economy built up by FDI that lost its good reputation as an investment location. One of the only key sectors not to have been adversely impacted by poor policy making has been real estate. Immovable property ownership remains robust for both local citizens and international investors. If this law is passed it will be tantamount to a case of expropriation and do irreparable damage to Mongolia's reputation yet again. With Mongolia being a signatory to international trade agreements those foreign investors who have invested in buying property in the 40,000 and 50,000 apartment areas would be entitled to file for arbitration. Then Khaan Resources arbitration case alone has cost the Mongolian Government around US$ 300 million, we can ill-afford another such case.

This new plan potentially impacts infrastructure in the city in a big way. With issues concerning the construction of the fifth power plant still not resolved it seems counterproductive to discuss knocking down and rebuilding large areas of the city centre of Ulaanbaatar, placing extra strain on system that may not be able to supply us all with heat next winter. Interestingly, a number of international experts have noted how the thick walls of the 40,000 apartments in particular provide among the best insulation in the city. Should we not be thinking of ways to maximise this efficiency?

Behind all of this is the concern that the future of core part of the city is far too important to the overall economic and social health of Ulaanbaatar and Mongolia as a whole to be left to an opaque process. Urban regeneration on this scale requires careful attention to the economic and social consequences of such sweeping changes. It is agreed that the central areas of Ulaanbaatar should be protected from ad-hoc developments that have diminished the quality of communal spaces. In the 40,000 and 50,000 apartment areas a sense of place prevails through uniqueness of design and history that no new development can parallel. We should therefore look to surgical interventions, carefully planned economic incentives and redevelopment only where absolutely and unequivocally necessary.

The 'Professionals' category includes teachers and aid workers employed on short-term or permanent contacts. These groups usually integrate more with Mongolian local life, but rarely remain in Mongolia for more than 2-3 years. The institutions in which they work have lower housing budgets. Professionals have lower thresholds for housing expenses than the groups already addressed, with typical housing budgets of between US$600 and US$1,500 per month. Professionals frequently elect to live as near to the city centre as their budget allows, so as be within reasonable walking distance from their place of employment and expat social life. In this case, they will be likely to take up un-renovated apartments or apartments with older furnishings, potentially renting apartment units otherwise destined for the domestic market.

Young professionals and voluntary service personnel are often part or fully responsible for financing their own rental costs. Their average duration of stay is 3-18 months. Short stays and limited budgets make young professionals/volunteers less discerning about the types of properties they rent and their location within the city. Many will elect to rent un-refurbished properties in older buildings and will be willing to live further from the city centre in more affordable areas to the east and west. As city centre rental prices have risen over the past 24 months, young professionals and volunteer workers have, in many cases, been forced to move slightly further out, towards lower cost areas such as Sansar, and the 13th Khoroo of Bayangol District, both of which are seeing an increase in expat populations.

The exact market shares of each segment outlined above are difficult to define with a great deal of accuracy, due to the fact that rental records are not maintained or divulged by individual landlords. However, our own records, coupled with interview data and observations, indicate that consultants and professionals make up the largest market in terms of overall volume. In terms of supply, the Ulaanbaatar market is still developing, but is doing so at a considerable pace. A growing stock of of well renovated apartments are becoming available in the city centre, catering to professional and consultant groups. Aware of the potential for high rental yields, an increasing number of Mongolian landlords are deciding to make renovations to their properties in order to attract expatriate residents. Within the First 40,000 and 50,000 apartment blocks, at the heart of the city, an increasing number of apartments are appearing on the market fully renovated in Euro-American style by M.A.D Investment Solutions. As specialists in the 40,000 and 50,000 apartment rental markets, M.A.D. Investment Solutions offer comprehensive renovation solutions that are tailored to the demands of international clients and add significant proven value to these properties. From design through to finishing, our renovation services offer quality and peace of mind unique in Ulaanbaatar. Once the renovation is complete M.A.D. Investment Solutions can also further optimise potential returns from any 40,000 and 50,000 apartment property through their management services. With established expertise in the market, we can ensure high occupancy levels throughout the year.

7. RESIDENTIAL FUTURE SUPPLY

Typical construction completion timelines in the Mongolian market can be between 24-48 months for a mid-scale residential project, with a market average three year build period. Without a robust legal framework governing pre-sales, these can begin from the very inception of a project. However, with limited legislation around pre-sales comes legal protections for buyers of residential units prior to completion and issuance of an Immovable Property Certificate. Several high-profile project failures have left the buying public wary of the claims made by developers.

Few projects are financed outright by pre-sales and the standard model is for a developer to deploy their own capital, or raise small seed financing, in order to acquire and/or begin construction on a plot of land. Once foundations and the first levels are in place the property can be collateralised. From this point on bank financing can be sought and pre-sales are usually initiated as soon as possible. There have been cases in which developers have moved pre-sales funds from one project to start another, confident of market growth and robust pre-sales. This has resulted in several cases of developers being unable to complete either project, or with one project going bankrupt. In such cases buyers retain little protection beyond suing for the value of their contract with the now bankrupt construction company.

In establishing future supply within the residential market M.A.D. analysts surveyed 110 residential projects underway across Ulaanbaatar and established a current supply pipeline up until the third quarter of 2015 of 32,130 units across all districts. Khan Uul District accounts for a full 14,269 (44%) of future supply. These figures incorporate the first stages of ger district redevelopments around the city. Beyond 2015 it is these developments (estimated to be bringing 75,000 new apartments online up until 2020) that account for a significant portion of known future supply.

District-by-District Statistics for Residential Pipeline

	Total Developments	Total Units	As % of existing residential stock	Price Per Sq.M Lowest	Price Per Sq.M Highest
Bayangol	9	2,455	6.7%	$1,309	$1,384
Bayanzrkh	40	7,675	30.2%	$1,020	$1,189
Songinokhairkhan	19	4,036	23.1%	$984	$1,002
Sukhbaatar	8	3,269	20.1%	$1,715	$1,715
Khan Uul	30	14,215	109.1%	$1,602	$1,665
Chingeltei	2	184	2.4%	$1,144	$1,144
Nalaikh	2	296	3.2%	$1,252	$1,301
TOTALS	110	32,130	25.6%	$1,289	$1,343

Source: MAD Reserch

A majority of developments in this survey are expected to conclude in advance of Q1 2015. Between 65%-75% of the total residential supply already under construction is scheduled to be completed and ready for handover by the end of 2014, although financing constructions and standard construction delays may push some projects into Q2 and Q3 2015, with high potential for project debt distress under current macroeconomic conditions.

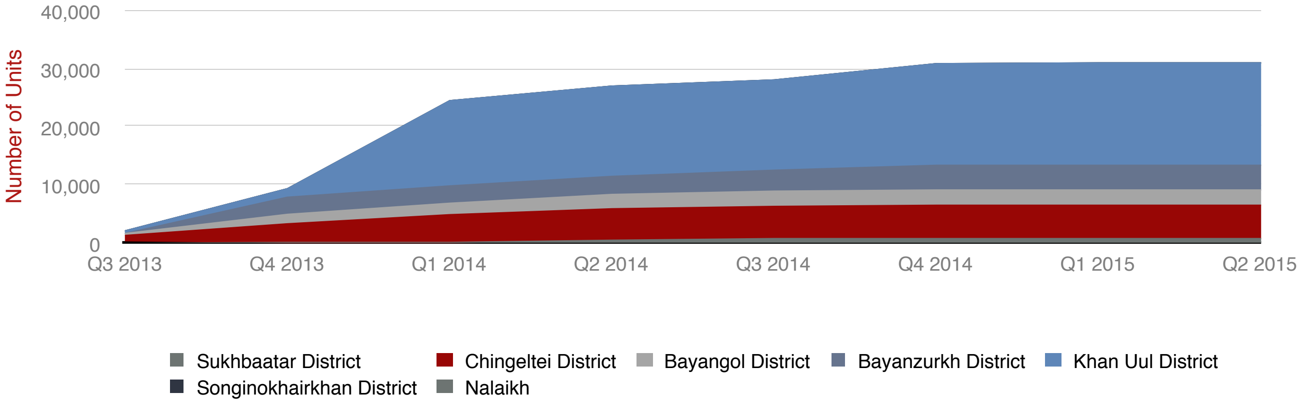
TABLE 70: District-by-District Statistics for Under Construction Residential Pipeline

Scheduling	2014 Quarters				2015 Quarters				Totals	% of Total Supply
	1	2	3	4	1	2	3	4		
Bayangol	0	160	0	379	0	0	0	0	539	1.82
Bayanzrkh	1,357	1,845	1,570	640	128	200	0	0	5,740	19.39
Songinokhairkhan	342	1,288	342	496	0	0	0	0	2,468	8.34
Sukhbaatar	0	2,944	35	129	0	0	0	0	3,108	10.50
Khan Uul	450	1,014	3,204	869	0	1,954	132	0	7,623	25.75
Chingeltei	0	0	0	0	0	0	0	184	184	0.62
Nalaikh	0	0	0	0	0	0	0	296	296	1.00
	2,149	7,251	5,151	2,513	128	2,154	132	480	19,958	67.43

Source: MAD Research

Bayanzurkh district can expect to see a dramatic rise in available supply during 2014, with nine separate projects estimating completion - among them the 1,000 unit Narnii Khoroolol and the 1,800 unit Altai Hothon - bringing an overall 3,552 units to completion.

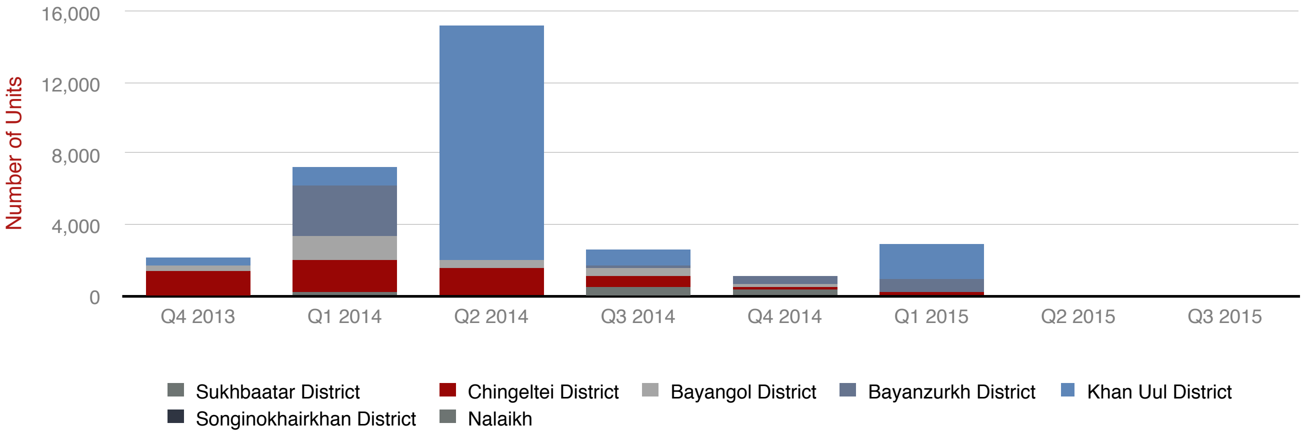
GRAPH 112: Completions of new residential units by quarter - Cumulative



Source: MAD Research

Bayanzurkh already saw a rise in numbers of completions bordering upon the Stadium area during 2013. These included 300 units of Encanto Town (Phase I), 352 units of Amar Tuashin Hothon and 265 units of Olympic Village. These mid-size developments are predominantly situated in the south-west of Bayanzurkh district, on the borders with Khan-Uul and Sukhbaatar Districts. The developments in question, which made up more than 71% of the total completions in Bayanzurkh district for Q4 2013, boasted price points between 2.3-3.3 million MNT per square meter in the pre-sales market. Ger district redevelopment projects mean the traditionally small new stock in Songinokhairkhan district is expected to swell by 4,036 units, making up 10% of overall pipeline supply.

GRAPH 113: Completions of new residential units by quarter



Source: MAD Research

Based upon the projections above, it is estimated that within 72 months of the end of Q1 2014, around 123,739 new residential units will have entered the markets in Ulaanbaatar. This figure is predicated upon successful initiation of early phases of the ger district redevelopments, as well as continuing financial viability of large scale residential projects in the mid-end of the market such as Four Seasons Gardens and Hunnu 2222. Continued economic downturn or repeated external shocks to the economy may reduce this number and a worst case scenario places newly completed units at a little over 50,000 for the same period.

TABLE OF RESIDENTIAL MARKET FUTURE SUPPLY IN ULAANBAATAR

Construction Company Name	Construction Name	Number of Apartments	Completion Date		Current Sales Pricing (MNT)		Pricing Differential Low to High	Current Sales Pricing (USD @ 1770)		Pricing Differential Low to High
			Year	Quarter	Low	High		Low	High	
BAYANGOL DISTRICT										
Tselmeg Asia Construction LLC Kholj jinjin LLC	20 families residential	20	2014	2	1,700,000.0	1,900,000.0	200,000.0	960.5	1,073.4	113.0
Telmuunlkhan Construction LC	Telmuun	256	TBC	TBC	2,200,000.0	2,200,000.0	0.0	1,242.9	1,242.9	0.0
Khurd Group	Narnii Khoroolol	1300	TBC	TBC	2,300,000.0	2,300,000.0	0.0	1,299.4	1,299.4	0.0
Altan Trend LLC	Urguu 69	140	2014	2	2,100,000.0	2,400,000.0	300,000.0	1,186.4	1,355.9	169.5
German Standard LLC	GS Four Seasons	160	2014	4	2,500,000.0	2,800,000.0	300,000.0	1,412.4	1,581.9	169.5
Ondorbuyant Holding LLC	Selbe River Residence	219	2014	4	3,100,000.0	3,100,000.0	0.0	1,751.4	1,751.4	0.0
Buyanpel LLC	Tsolgor 2V	180	TBC	TBC	-	-	-	-	-	-
Buyanpel LLC	Tsolgor 2B	180	TBC	TBC	-	-	-	-	-	-
	TOTAL	2455	**AVERAGES**		2,316,666.7	2,450,000.0	133,333.3	1,308.9	1,384.2	75.3
BAYANZURKH DISTRICT										
Triline LLC	40 families residential	40	2014	2	1,450,000.0	1,450,000.0	0.0	819.2	819.2	0.0
Erchim Art LLC	New 72nd Town	132	2014	3	1,600,000.0	1,600,000.0	0.0	904.0	904.0	0.0
Tulga Construction LLC	Tulga Town	252	2014	2	1,650,000.0	1,650,000.0	0.0	932.2	932.2	0.0
I N P LLC	104 families residential	104	2014	3	1,750,000.0	1,750,000.0	0.0	988.7	988.7	0.0
Mavangui LLC	Ogomoor	72	TBC	TBC	1,760,000.0	1,760,000.0	0.0	994.4	994.4	0.0
Irgen B Ganbat	59 families residential	59	2014	1	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Undurbuyant Holding LLC	Happy Town	600	2014	1	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Zurgaan Talt LLC	168 families residential	168	2014	2	1,900,000.0	1,900,000.0	0.0	1,073.4	1,073.4	0.0
Zurgaan Talt LLC	Devshikh Urguu	45	2014	1	1,900,000.0	1,900,000.0	0.0	1,073.4	1,073.4	0.0
Myatrashgui Ondur LLC	Family Residential	180	TBC	TBC	1,950,000.0	1,950,000.0	0.0	1,101.7	1,101.7	0.0
Go Ord LLC	98 families residential	98	2014	2	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Gan Gyantbold LLC	90 families residential	90	2014	2	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Espani Kharsh LLC	96 families residential	96	TBC	TBC	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Burd Construction LLC	96 families residential	96	2014	3	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Narmon LLC	Shoniin plaza	150	TBC	TBC	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Enkh Construction LLC	Khorgo Town	96	TBC	TBC	200,000.0	200,000.0	0.0	113.0	113.0	0.0
Aktive Construction LLC	96 families residential	96	TBC	TBC	2,100,000.0	2,100,000.0	0.0	1,186.4	1,186.4	0.0
Finays Line LLC	Sky Town	211	TBC	TBC	200,000.0	2,100,000.0	1,900,000.0	113.0	1,186.4	1,073.4
Altan Construction LLC	Saruul District	1238	2014	3	200,000.0	2,300,000.0	2,100,000.0	113.0	1,299.4	1,186.4
Blue Dragon LLC	Art 13 Residence	63	2014	2	200,000.0	2,300,000.0	2,100,000.0	113.0	1,299.4	1,186.4
Dako LLC	Dako 276	276	2014	1	2,100,000.0	2,300,000.0	200,000.0	1,186.4	1,299.4	113.0
Shiren Construction LLC	Arig Byrd	80	2014	4	2,100,000.0	2,500,000.0	400,000.0	1,186.4	1,412.4	226.0
Enkh Construction LLC	Khorgo Town	200	2015	2	2,200,000.0	2,500,000.0	300,000.0	1,242.9	1,412.4	169.5
T&VIP LLC	Minii Bair	88	2014	2	2,350,000.0	2,450,000.0	100,000.0	1,327.7	1,384.2	56.5
Niislel Urguu LLC	Urguu Town	192	2014	2	2,500,000.0	2,500,000.0	0.0	1,412.4	1,412.4	0.0
Delta Pi LLC	Nomnoo 3 Town	88	TBC	TBC	2,450,000.0	2,600,000.0	150,000.0	1,384.2	1,468.9	84.7
Sureg Agt LLC	Sumber Ord Town	107	TBC	TBC	2,600,000.0	2,600,000.0	0.0	1,468.9	1,468.9	0.0
Chinbulag Construction LLC	Enerel Town	134	2014	2	2,600,000.0	2,600,000.0	0.0	1,468.9	1,468.9	0.0
Chinbulag Construction LLC	Green Selbe Luxury	32	2014	2	2,500,000.0	2,700,000.0	200,000.0	1,412.4	1,525.4	113.0
Erchim Suljee LLC	Parkside Residence	180	2014	4	2,500,000.0	2,700,000.0	200,000.0	1,412.4	1,525.4	113.0
Destination Mongolia LLC	JR Kingdom	104	2014	1	2,600,000.0	2,750,000.0	150,000.0	1,468.9	1,553.7	84.7
Zuun Khuree Shiltgeen LLC	Zyyn Khuree Shiltgeen	416	2014	2	2,750,000.0	2,750,000.0	0.0	1,553.7	1,553.7	0.0
Rich Fortune LLC	Amartuvshin Apartment	384	2014	2	2,800,000.0	2,800,000.0	0.0	1,581.9	1,581.9	0.0
Tsast Construction LLC	Spring Town	125	2015	2	2,500,000.0	2,900,000.0	400,000.0	1,412.4	1,638.4	226.0
Taigam Altai LLC	Olimp Town	165	2014	4	2,100,000.0	3,000,000.0	900,000.0	1,186.4	1,694.9	508.5
Tovshin Tsamkhag LLC	Juliet	272	2014	2	2,800,000.0	3,200,000.0	400,000.0	1,581.9	1,807.9	226.0
Orchlon Thsamkhag LLC	Shinechilen 2	128	2015	1	3,200,000.0	3,200,000.0	0.0	1,807.9	1,807.9	0.0
Kamder LLC	Encanto Town	330	TBC	TBC	2,970,000.0	3,465,000.0	495,000.0	1,678.0	1,957.6	279.7
Shemon LLC	Sunshine Village	215	2014	4	3,300,000.0	5,000,000.0	1,700,000.0	1,864.4	2,824.9	960.5

TABLE OF RESIDENTIAL MARKET FUTURE SUPPLY IN ULAANBAATAR

Construction Company Name	Construction Name	Number of Apartments	Completion Date		Current Sales Pricing (MNT)		Pricing Differential Low to High	Current Sales Pricing (USD @ 1770)		Pricing Differential Low to High
			Year	Quarter	Low	High		Low	High	
Ench Es Bi LLC	Narlag Urgoo Town	273	2014	1	-	-	-	-	-	-
	TOTAL	7675	**AVERAGES**		1,804,615.4	2,104,487.2	299,871.8	1,019.6	1,189.0	169.4
SONGINOKHAIRKHAN DISTRICT										
T C D LLC	Byman Ulzii Town	579	2014	2	1,410,000.0	1,480,000.0	70,000.0	796.6	836.2	39.5
Titem Olzii LLC	Titem	300	2014	1	1,450,000.0	1,450,000.0	0.0	819.2	819.2	0.0
Batmuund Lite LLC	New Center	168	2014	3	1,470,000.0	1,500,000.0	30,000.0	830.5	847.5	16.9
CPO Engineering LLC	Uguumur	88	2014	4	1,500,000.0	1,700,000.0	200,000.0	847.5	960.5	113.0
3D Construction LLC	42 family residence	42	2014	1	1,650,000.0	1,650,000.0	0.0	932.2	932.2	0.0
Khamag Mongol Group	Misheel Town 108	63	2014	4	1,695,000.0	1,695,000.0	0.0	957.6	957.6	0.0
Orchlon Construction LLC	prchlon	60	2014	3	1,700,000.0	1,700,000.0	0.0	960.5	960.5	0.0
Teso LLC	Sodon Town	416	2014	2	1,750,000.0	1,750,000.0	0.0	988.7	988.7	0.0
Zillion LLC	32 family residence	32	TBC	TBC	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
BJA Trans	50 family residence	50	2014	2	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Irgen D Rentsen	Green Plaza	54	TBC	TBC	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Od LLC	54 family residence	54	TBC	TBC	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Bayanbat Khan LLC	15 family residence	15	2014	3	1,900,000.0	1,900,000.0	0.0	1,073.4	1,073.4	0.0
Ojuut Construction LLC	Khar Khorin	180	2014	4	1,950,000.0	1,950,000.0	0.0	1,101.7	1,101.7	0.0
Wizard Constrction LLC	99 family residence	99	2014	3	2,000,000.0	2,200,000.0	200,000.0	1,129.9	1,242.9	113.0
Gangar Invest LLC	Royal Town House	27	2014	2	2,200,000.0	2,200,000.0	0.0	1,242.9	1,242.9	0.0
Khan Khur Holdings LLC	Zaluus District	1365	TBC	TBC	-	-	-	-	-	-
Minii Sainshand LLC	Zaluus District 2	228	2014	4	-	-	-	-	-	-
UBT LLC	Chukhag Town	216	2014	2	-	-	-	-	-	-
	TOTAL	4036	**AVERAGES**		1,742,187.5	1,773,437.5	31,250.0	984.3	1,001.9	17.7
SUKHBAATAR DISTRICT										
Edshil Construction LLC	Sanim	35	2014	3	2,200,000.0	2,200,000.0	0.0	1,242.9	1,242.9	0.0
Gurvan Bileg	Building 1	66	2014	4	2,200,000.0	2,200,000.0	0.0	1,242.9	1,242.9	0.0
Gurvan Bileg	Building 2	60	TBC	TBC	2,200,000.0	2,200,000.0	0.0	1,242.9	1,242.9	0.0
Legacy Group	Legacy Apartment	77	TBC	TBC	2,500,000.0	2,500,000.0	0.0	1,412.4	1,412.4	0.0
Uguuj Khishig LLC	United Apartment	63	2014	4	3,450,000.0	3,450,000.0	0.0	1,949.2	1,949.2	0.0
	Togoldor Residence	64	2014	2	4,200,000.0	4,200,000.0	0.0	2,372.9	2,372.9	0.0
Coyote LLC	The One Residence	24	TBC	TBC	4,500,000.0	4,500,000.0	0.0	2,542.4	2,542.4	0.0
Beren Group LLC	Khangai Town	2880	2014	2	-	-				
	TOTAL	3269	**AVERAGES**		3,035,714.3	3,035,714.3	0.0	1,715.1	1,715.1	0.0
KHAN UUL DISTRICT										
Vitafit LLC	Anar Town	378	2014	1	1,650,000.0	1,800,000.0	150,000.0	932.2	1,016.9	84.7
Mongolin Khot Baigyylaltin Khureelen	Ireedui District 1	10000	2014	3	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Gurvan Bileg LLC	123 Family residence	132	2015	3	1,800,000.0	1,800,000.0	0.0	1,016.9	1,016.9	0.0
Asian Erin LLC	Tselmeg Tenger	219	2014	4	1,950,000.0	2,100,000.0	150,000.0	1,101.7	1,186.4	84.7
Tseren International LLC	Delger Town	140	2014	4	2,100,000.0	2,100,000.0	0.0	1,186.4	1,186.4	0.0
Taigam Altan LLC	Atai	932	TBC	TBC	1,850,000.0	2,300,000.0	450,000.0	1,045.2	1,299.4	254.2
	72 Family residence	72	2014	3	2,300,000.0	2,300,000.0	0.0	1,299.4	1,299.4	0.0
Puma Construction LLC	510 Family residence	510	2014	4	2,300,000.0	2,300,000.0	0.0	1,299.4	1,299.4	0.0
	My Residence	46	2014	2	2,350,000.0	2,350,000.0	0.0	1,327.7	1,327.7	0.0
Green Resource Construction LLC	Green Resort Town	108	2014	2	2,390,000.0	2,390,000.0	0.0	1,350.3	1,350.3	0.0
Terratyr LLC	Terra Apartment	64	2014	2	2,190,000.0	2,490,000.0	300,000.0	1,237.3	1,406.8	169.5
Imperial Castle LLC	River House Apartment	66	2014	2	2,450,000.0	2,450,000.0	0.0	1,384.2	1,384.2	0.0
Mogul Sky LLC	Mogul Town 1a	315	TBC	TBC	2,500,000.0	2,500,000.0	0.0	1,412.4	1,412.4	0.0
Fyuyushin LLC	Tonkhlog Zaisan	72	TBC	TBC	2,600,000.0	2,600,000.0	0.0	1,468.9	1,468.9	0.0
Modun LLC	Zaisan Tsagaan Suvagra Garden	194	TBC	TBC	2,600,000.0	2,600,000.0	0.0	1,468.9	1,468.9	0.0
Royal House Construction LLC	UB Town	102	TBC	TBC	2,680,000.0	2,680,000.0	0.0	1,514.1	1,514.1	0.0

TABLE OF RESIDENTIAL MARKET FUTURE SUPPLY IN ULAANBAATAR

Construction Company Name	Construction Name	Number of Apartments	Completion Date		Current Sales Pricing (MNT)		Pricing Differential Low to High	Current Sales Pricing (USD @ 1770)		Pricing Differential Low to High
			Year	Quarter	Low	High		Low	High	
Terratur LLC	Green Terra	16	2014	2	2,800,000.0	2,800,000.0	0.0	1,581.9	1,581.9	0.0
Arsh LLC	Porta Bianca	178	2015	2	2,800,000.0	3,100,000.0	300,000.0	1,581.9	1,751.4	169.5
Khongran Sfyeko LLC	Eko 3000	3000	2014	3	2,800,000.0	3,200,000.0	400,000.0	1,581.9	1,807.9	226.0
Khurd Group LLC	Hunnuu 2222	1416	2015	2	3,200,000.0	3,200,000.0	0.0	1,807.9	1,807.9	0.0
FFIC LLC	Marshal Deluxe Village	4000	TBC	TBC	3,200,000.0	3,400,000.0	200,000.0	1,807.9	1,920.9	113.0
Roma Invest LLC	Roma Town	216	2014	2	3,500,000.0	3,500,000.0	0.0	1,977.4	1,977.4	0.0
Imperial Castle LLC	Empire House	-	2014	2	3,500,000.0	3,500,000.0	0.0	1,977.4	1,977.4	0.0
Nomin Constriction LLC	Time Square	192	2014	2	2,800,000.0	4,000,000.0	1,200,000.0	1,581.9	2,259.9	678.0
Nomin Constriction LLC	River Garden	360	2015	2	4,000,000.0	4,000,000.0	0.0	2,259.9	2,259.9	0.0
Mongolin Khot Baigyylaltin Khureelen	Modi Residence	18	2014	2	4,600,000.0	4,600,000.0	0.0	2,598.9	2,598.9	0.0
ESG LLC	Green House	24	2014	1	4,375,000.0	4,375,000.0	0.0	2,471.8	2,471.8	0.0
MCS Properties Holding LLC	Buddha Vista	109	TBC	TBC	6,300,000.0	6,300,000.0	0.0	3,559.3	3,559.3	0.0
MSPD LLC	Nomin Mountown	288	2014	2	-	-	-	-	-	-
A. Lkhamjav	Residence	48	2014	1	-	-	-	-	-	-
	TOTAL	23215	**AVERAGES**		2,835,178.6	2,947,678.6	112,500.0	1,601.8	1,665.4	63.6
CHINGELTEI DISTRICT										
Tuvshin Undraa LLC	40 Family residence	40	TBC	TBC	1,650,000.0	1,650,000.0	0.0	932.2	932.2	0.0
D T M Construction LLC	Saihan Urguu	144	TBC	TBC	2,400,000.0	2,400,000.0	0.0	1,355.9	1,355.9	0.0
	Saihan Urguu	184			2,025,000.0	2,025,000.0	0.0	1,144.1	1,144.1	0.0
NALAIKH DISTRICT										
Trans Properties LLC	Tsenger Town	200	TBC	TBC	2,100,000.0	2,150,000.0	50,000.0	1,186.4	1,214.7	28.2
Blue Sky Partners LLC	Urgakh Naran	96	TBC	TBC	1,400,000.0	1,420,000.0	20,000.0	791.0	802.3	11.3
	TOTAL	296	**AVERAGES**		1,750,000.0	1,785,000.0	35,000.0	988.7	1,008.5	19.8

Source: MAD Reserch

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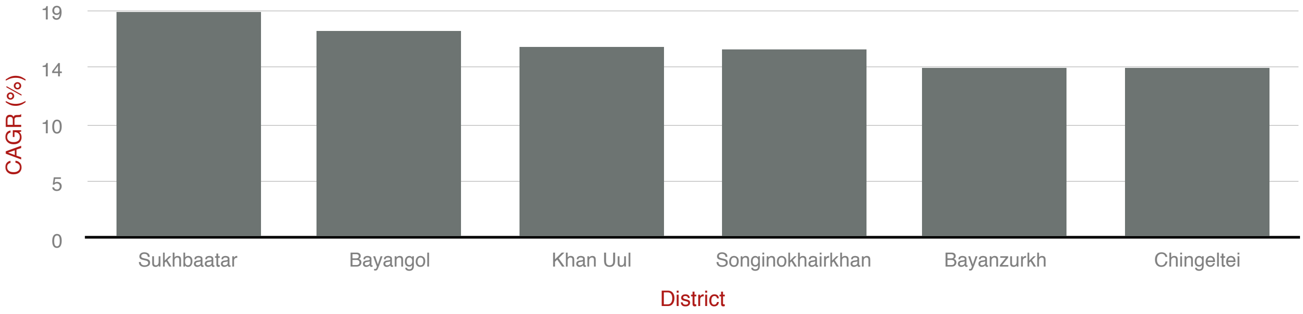
8. SUB-MARKET ANALYSIS

The following section identifies key sub-markets within the residential sector of Ulaanbaatar and discusses critical development trajectories and growth factors within both geographical and socio-economic sub-markets.

Breakdown by sector indicates that Sukhbaatar District has displayed by far the greatest growth in prices over the period from 2005 to 2013. The CAGR in residential pricing across all districts of the capital city was 16%, with Sukhbaatar district (containing the CBD, a burgeoning tranche of new luxury apartments and an existing stock of 40k and 50k apartments) being the best performing district, showing 18.95% CAGR. The least well performing district in terms of price CAGR was Chingeltei district, which displayed 14.4% growth during the same period. This is likely due to the the fact that this area, despite also encompassing a large part of the city centre of Ulaanbaatar, has seen relatively little new residential development in high-value central areas due to lack of land available land and a more recent moratorium on greenfield construction. The stock of new apartment supply in this district has thus not benefitted from an upswing in prices as a result of the 'composition' effect of a mix of newer and high quality residential facilities.

GRAPH 114: CAGR 2005 Q3 - 2013 Q3 For Residential Markets in the Central Districts of Ulaanbaatar



Source: MAD Research

A. 40K AND 50K APARTMENTS

Despite a fall-off in price growth in Sukhbaatar district from 2012-2013, the area remains home to highly desirable 40,000 and 50,000 housing units. As the oldest apartment buildings in the city, the 'First 40,000' apartments define the urban spaces of central Ulaanbaatar. Initially designed by Muscovite design institute Giprogor, their layout and design mirror those of workers cities across the former Soviet Union, with a few uniquely Mongolian touches added. Initially designed to provide 40,000 square meters of residential living space for city dwelling officials and workers, they have stood the test of time and remain iconic in the image of urban Mongolia. Many of these early units gradually fell into severe disrepair between the mid-1950s and today, although the build quality of the blocks themselves remains excellent. Staircases and facades were worst affected, falling into particular disrepair in the period between 1991 and 2010, when residents associations struggled to keep up communal spaces in apartments with limited funds. This situation was somewhat rectified when in 2011 the Ulaanbaatar City Government undertook a large-scale renovation program that would see street-facing apartments lining Peace Avenue and adjacent streets receiving exterior repairs, facelifts and new, well-insulated balconies. Residents of many 40k apartments have also had energy inefficient single-glazing replaced with vacuum double-glazing.

As the most established and centrally located housing stock within a growing capital that is experiencing severe residential supply limitations, the first and second 40,000 apartments, as well as the newer 50,000 apartments, have become some of the city's best performing housing stock in the last half-decade in terms of price appreciation and rental yields. As the M.A.D. 2012 Real Estate Report indicated, average purchase prices across the districts in which 40,000 and 50,000 apartments constitute a significant supply showed growth of over 35% in some cases. With such rapid increases in transacted prices it is no wonder that liquidity began to fall off during 2012, reaching next to nothing during the summer months. During 2011, apartments being sold in the 'old' heart of the city centre of Ulaanbaatar would spend no more than a morning on the open market before offers were made. Owners would often be reluctant to accept less than the asking price and on a number of occasions potential buyers would enter into bidding wars. These apartments have already been pushed well outside of the price range of most Mongolian citizens, although a number of domestic investors have accrued significant holdings of both commercial and residential property in this part of the city. During 2013 and the first half of 2014 liquidity in this sub-market remained extremely low, with very few transactions. One reason for this was fears of peaking prices, with a second being that the low-cost mortgage scheme implemented by the Government of Mongolia did not extend to older housing units (pre-1990). This meant that for both first time buyers and this seeking to invest in property, the cost of borrowing would be significantly higher when purchasing an apartment in the 40k or 50k buildings. Domestic owners are willing to wait to sell in a more buoyant market, rather than attempting to transact at a time when fears for the market may mean lower prices. Conversely, the lack of leveraging in the 40,000 and 50,000 market means that owners will be less impacted by overall downturns in the market and continue to earn significant yields of 8%+ per annum for renovated rental properties in a sub-market catering frequently to expats and re-pat Mongolian citizens.

During Q2 2014 the 40,000 and 50,000 apartments were threatened when a bill was put before the Parliament of Mongolia laying our a framework for redevelopment of the 40,000 and 50,000 apartment areas of Ulaanbaatar on the grounds that these apartments may no longer be safe in the event of an earthquake. Whilst any Government should be commended for taking an active stance on protecting the health and safety of its citizens, it appears in this case it is doing the exact opposite. The new draft law, under careful scrutiny, contained provisions that are tantamount to expropriation. According to this draft law, a building may be deemed to be an unfit apartment and commercial space in that building can be taken away and redeveloped without any compensation being offered. Moreover, if just 20% of a building's households agree to vacate one of the 40,000 or 50,000 buildings then the law allows for all infrastructure to be cut so as to force the remaining residents to leave. The publication of the details of this law raised alarm bells immediately. Whilst developers have tried several different methods to gain easy access to the 40,000 and 50,000 apartments in order to enact their own developments, they have never successfully been able to make a case for expropriation, despite on several occasions raising the spectre of earthquake safety. In effect, these buildings may not be anywhere near as unsafe as has been made out and the validity of surveys conducted which indicate a lack of safety are questionable in terms of their independence and expertise to say the least.

Indications are that these squat, two-to-four level buildings are actually over-engineered, with thick brick walls. Whist brick is not known for being able to transmit shear force without losing integrity, the thickness of walls in these units goes some way to mitigate this, as does the their low height, reducing the overall impact of sheer forces. Aside from the poor efficiency of existing heating systems serving these units, they could be among the most energy efficient units in the city with relatively minor modifications. Within Ulaanbaatar only 5.7% of the days annually are considered as a comfortable climate (i.e when no heating or cooling is required). The rest of the year requires heating or cooling. The result is that UB presents a challenge to engineers. The window ratios in Ulaanbaatar constructions has a high impact on efficiency and remains favourable to preservation of heat in older buildings. With proper insulation in roofing cavities and renovation of heating systems, as well as double glazing installation, these incredibly well insulated buildings could well beat out new builds in terms of efficiency ratings.

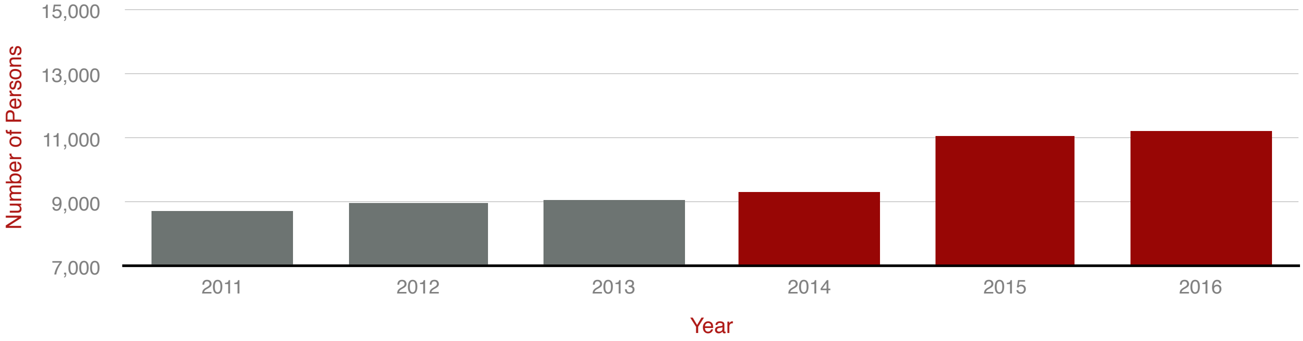
As is clearly visible from the foment of social and cultural activity around Tserendorj Street in recent years, this part of the city plays a critical role in the economic life of Ulaanbaatar, but also to social and cultural life of the capital city. Each summer more and more residents of the area take part in an increasingly vibrant array of cultural and social events. Far from the feel of newly built neighbourhoods, where people live in high-rise buildings and barely know their neighbours, this area is actually home to an increasingly lively and engaged social and economic community. It is perhaps one of the few places in Ulaanbaatar today where this is true. The 40,000 and 50,000 apartments themselves have also seen significant investment in recent years as a result of owners and occupiers renovating them or adding value to ground-floor commercial properties. This has made commercial units in this area among the most valuable in terms of per square meter rental yields.

Beyond the question of the legality of the bill placed before the Ulaanbaatar City Government, the planning practices that this implies are highly questionable given the current state of the economy and prior experience in the Ulaanbaatar markets. The kind of proposed *tabula rasa* development strategy is highly questionable considering current financing constrictions and risks turfing out people who have invested time, money and entrepreneurial skill in developing the profile of this area only to build high-end apartments and retail spaces that there is questionable market for for the foreseeable future. Instead of this approach, which risks stopping a beating commercial heart of the city, perhaps irreparably, a more surgical, expertise based and carefully researched approach to redevelopment and capacity building in these areas would be recommended.

B. STADIUM AREA

The Stadium area has been so named because it surrounds the National Stadium; the home of sporting and concert events within Ulaanbaatar and the host-venue for the national Naadam festivities each summer. The Stadium area is located within Khan Uul District, 1st & 15th Khoroo. The area is presently home to an in-situ population of 5,923 apartment dwelling families. The area is almost entirely constituted by apartments, with only two registered individual townhouses and no registered ger-dwelling families within the Khoroo. Population in this area experienced a CAGR of 4.75% between 1993 and 2010, on par with the Zaisan area of Khan Uul District (the fastest growing apartment-dwelling residential population of any area of Ulaanbaatar in recent years). Taking into account near 100% occupancy of residential units and the scale of new constructions taking place within the Stadium area, the CAGR in population until 2019 is estimated at 9.79%, indicating a rising growth rate.

GRAPH 115: Number of Residents in The Stadium Area 2011-2013



Source: MAD Research

This stands in contrast to a population CAGR for the core of the city (Sukhbaatar District Khoroo 1) of just 0.9% (resulting from lack of space for construction of new residential facilities on a large scale). This broad comparative indicates that the Stadium area and its surrounds are among the fastest growing mid-upper end residential areas of Ulaanbaatar.

The area began to be developed with the establishment of the Suruga Mongol 'Japan Town' project during 2002. This Japanese invested, Mongolian domiciled entity received permissions to acquire 880,000 square meters of land was acquired in Khan Uul District twelve years ago - one of the largest projects in the history of the city at the time. Construction permissions were issued in 2005 for a multi-stage project. The total GFA of their initial planned residential projects was 584,685 square meters. This was the first project to be undertaken in the Stadium area and remains a lynchpin project in the development of thew south of Ulaanbaatar. Suruga Mongol LLC, the project owners, were responsible for implementing two major road projects and extending water supplies, power and heating out to the Stadium area. This paved the way for a host of new developments into the area, including the Hunnu 2222 and Rapid Complex developments by Khurd Group, as well as Marshall Luxury Village.

Infrastructure work for the so called 'Four Seasons Gardens' development (colloquially termed 'Japan Town'), was completed between 2005-2011. This included initial clearance of land, installation of electrical substations, water supply, sewage, roads and heating infrastructure. Four units have so far been completed or are under construction, bringing a total of 393 residential units onto the market in recent years. The developer also completed construction on the International School of Ulaanbaatar in 2009. An expansion is currently being added to this facility, whilst a new Orchlon primary school is also under construction (replete with swimming pool and full sporting facilities).

The Stadium area is tipped for very strong market growth within the mid-term. Within a 1.3 km radius of the this area nine new projects are proposed, bringing significant supply of new commercial, residential, sporting and cultural facilities into the market. The GEM company, a successful beverage manufacturer and distributer, is planning international standard sporting and entertainment facilities within close proximity. Pipeline supply of office space planned for the Stadium area also stands at 109,931 square meters. If it were not for significant supply of new mega-projects (by Ulaanbaatar standards) recently entering the CBD pipeline (including the proposed Mon Uran Tower, which will incorporate over 30,000 square meters of commercial space alone if the project is successfully implemented) the Stadium area would have the largest pipeline supply of office space in the city. Coupled with more premium end residential facilities, as part of the M-Oil and Jiggur Grand Romana Residence projects, the overall reputation of the area is set to rise on a wave of new residential market growth. Among the residential projects surveyed in the geographically relevant markets around the Stadium area a full 53% were presently selling at between US$ 1,501 - 2,000 per square meter during Q2 2014. The weighted average market price within this submarket during Q2 2014 was US$ 1,614 per square meter. CAGR within this market between 2005 - 2013 was 15.93%, 4th highest across all districts of Ulaanbaatar for the period.

Entertainment markets are key for growth in the Stadium area. Entertainment facilities are presently limited in Ulaanbaatar. Outside of a vibrant bar and restaurant scene, family entertainments are extremely lacking. The city contains four cinemas, able to cater to just 2,822 persons at any given time across a total of 14 screens. Future supply in the cinema market is expected to develop at quite a pace as domestic operators actively seek expansion options based upon population growth, enhanced consumer demand and disposable income trends. The Stadium area has four cinema screens planned, with an expected capacity of around 750-800 persons. These will be within the new Gegenteen Complex by Jiguur Grand Group. The Gegenteen entertainment facility will be completed during 2015 according to current projections. Beyond this, the GEM International company will be initiating construction during 2014/2015. This complex, covering a minimum of 1.4 hectares of space next to the existing National Stadium, will contain a swimming pool, leisure and sporting facilities, multi-use sports halls and a venue/entertainment hall. Further into the pipeline, the Moriin Khuur Tower is expected to incorporate cultural facilities, including several museums, performance facilities and supporting F&B. Each of these will serve to raise the overall cultural and entertainment profile of the Stadium area. With such dramatic residential growth projected entertainment remains a key draw factor. Combined entertainment and retail facilities will be a significant value proposition for early adopters within the Stadium area in the mid-term.

C. YARMAG AREA

The Yarmag area is also tipped for significant growth in the mid-term. Government issued Master Plans proposing that this area of the city, currently sparsely developed, be allocated to large-scale residential and commercial facilities. These plans indicate that the Yarmag area, situated to the south-west of Khan Uul district and extending out towards the existing Chinggis Khaan Airport, is expected to grow to incorporate housing for 57,000 households within the next decade. With a small extant population, this growth will be based around greenfield development, allowing developers to exercise significant discretion in master-planning communities.

These ambitious plans will require large scale supporting retail and other commercial facilities, although presently just the 7,500 square meters of Viva city retail space exits in operation in this location. This will be swelled by over 20,000 square meters of retail space coming online in the Hunnu Mall during 2014. This 20,000 square meter mall facility will incorporate a year-round ice-rink in its interior, as well as a four screen cinema facility, supermarket, hardware store and a host of branded stores.

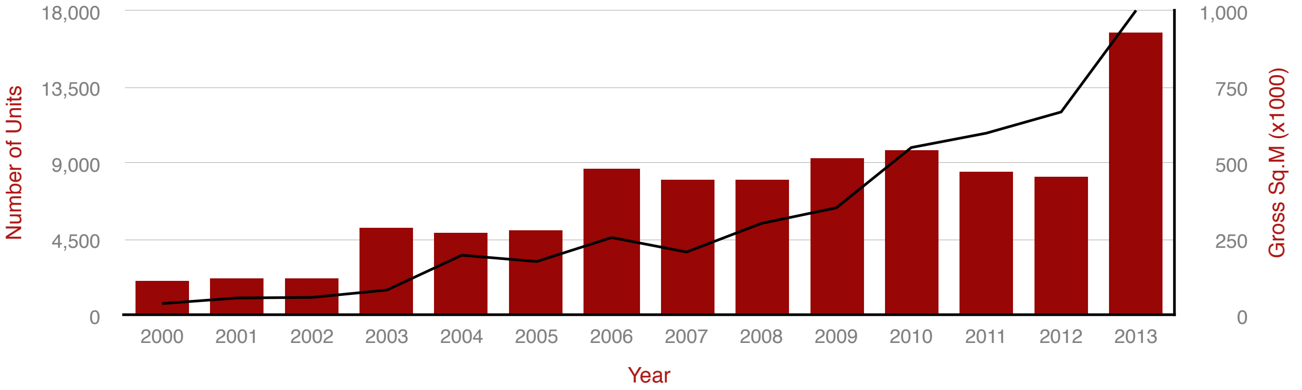
Upscaling of residential facilities in this area has already begun with the completion of the 1,640 units of Viva City's residential supply, developed by MCS Properties and aimed at young professional market. Unit sizes in this development start at just 25 square meters and are provided fully furnished at affordable prices. However, after highly positive reception at initial launch, the construction quality of this facially has been called into question. With facades already showing significant wear-and-tear, interior layouts not being suitable and distance from the city centre being an issue for most professionals who work in the CBD. Pipeline supply for land around Yarmag is 3,185 residential units, aimed squarely at the mid-upper end of the market (with the completion of a new Puma Construction residential development and the New Yarmag project phase 1). Facilities in the area already include a private school (The British School of Ulaanbaatar). Beyond this a number of developers are looking at producing town-like developments in the Yarmag area, each incorporating over 5,000 residential units each. This includes a master plan for 140 hectares of this area to contain a full program of residential, commercial and social facilities. The project, among the largest in the city, would incorporate up to 32,053 apartments, including a 300 bed hospital, 3 secondary schools and kindergartens, a sports complex, six new hotels, museums, exhibition spaces, 5 retail hubs, office facilities and administrative buildings. This complex is scheduled for construction initiation during 2015, with a total investment required of 1.6 billion US$. Nevertheless, the Yarmag area does suffer the same issues as other parts of the city earmarked for rapid development. The present infrastructure network in the city may not allow for such large-scale new construction as heating and electricity supplies from Ulaanbaatar's power stations is already reaching capacity.

Whilst the Yarmag area has typically been viewed as too far out of the city centre of Ulaanbaatar, the recent spate of interest of developers is turning this image around. With a new highway linking this area to the CBD and the new international airport, alongside a forthcoming mountain-road and rail link that will see this area connected directly with the CBD by rail and Zaisan by car, Yarmag now has all of the characteristics of an area ripe for suburban development. Moreover, excellent transport and logistical links planned for this area render it a perfect location for establishment of large-scale 'out-of-town' entertainment and shopping facilities during the mid-term.

9. DEVELOPMENT TRENDS

Trends in unit sizes provide interesting insight into development trends across the market in Mongolia. M.A.D. analysed MRTCUD construction figures for number of units constructed per annum against the total square meterage of residential property brought into the market per annum. Our results indicate that development trends are continuing to favour smaller apartments, driven by the desire of developers to be incorporated within the requirements of the 8% mortgage loan scheme (which stipulates that apartments to be covered under this low-cost lending scheme be of 80 square meters of below). This has led developers at every end of the market to begin to design their developments to incorporate at least a significant tranche of units below this threshold. This has, in turn, brought the overall average apartment size down. In 2013 the market average apartment size across all sectors was 84.36 square meters. The highest annual average for size of residential units constructed occurred in 2003, when annual sq.m GFA of new apartments almost reached 200. It must be noted that during this period the numbers of new units stood at 1,478, around one-tenth of those constructed in 2013. Therefore, a smaller number of high-end apartments would have significant impact upon average GFA figures across all developments.

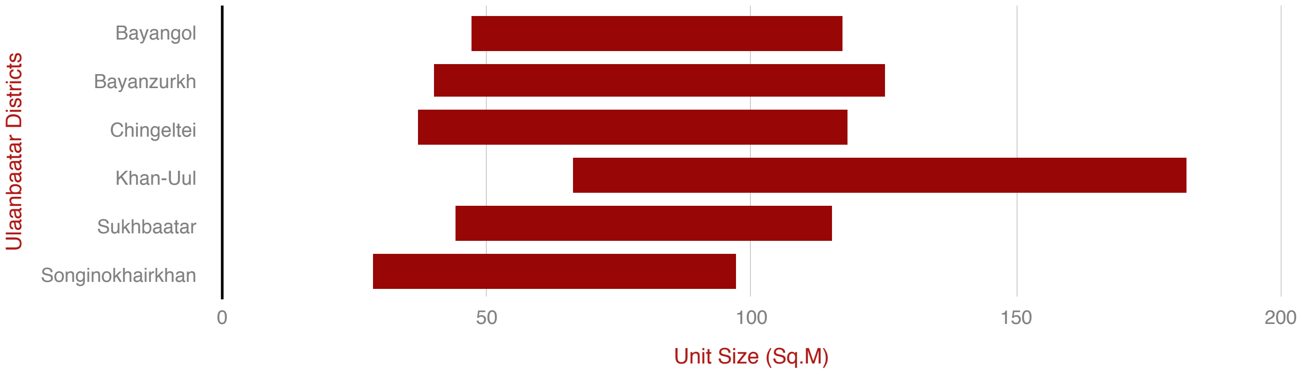
GRAPH 116: National Market Growth in Ulaanbaatar - Units and Gross Sq.m



Source: MAD analysis / NSOM / UB Stat

Sector-by-sector breakdowns for unit size range continue to indicate that the rapidly developing middle-class areas of Khan-Uul district display the greatest range in terms of unit size. Average size of smallest units by development stand at 66.5 square meters in this area, rising to 119.7 square meters for average size of largest units. Developments in Songinokhairkhan display the lowest average unit sizes across the board, with average size of units across all developments under pre-sales starting at 28.5 square meters, rising to 68.6 square meters as the average largest unit size. The overall average size of smallest units within the mid-upper residential developments was 41.2 square meters in 2013, with the average size of largest units being 98.1 square meters.

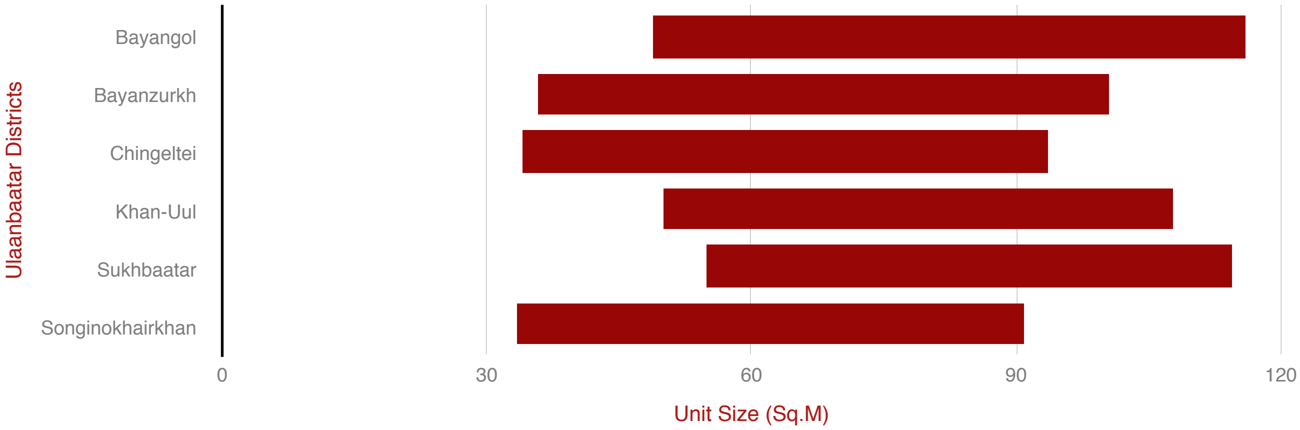
GRAPH 117: Unit Size Range in Property Baskets in the Upper Residential Segment



Source: MAD Research

In the lower end of the market, Bayangol district new build developments display the greatest range in terms of unit size, with average size of smallest units across the pre-sales market at 48.8 square meters, rising to a 67 square meter average for largest units. Developments in Songinokhairkhan yet again display the lowest average unit sizes across the board, with average size of smallest units by standing at around 33 square meters and average size of largest units being just 51.89 square meters.

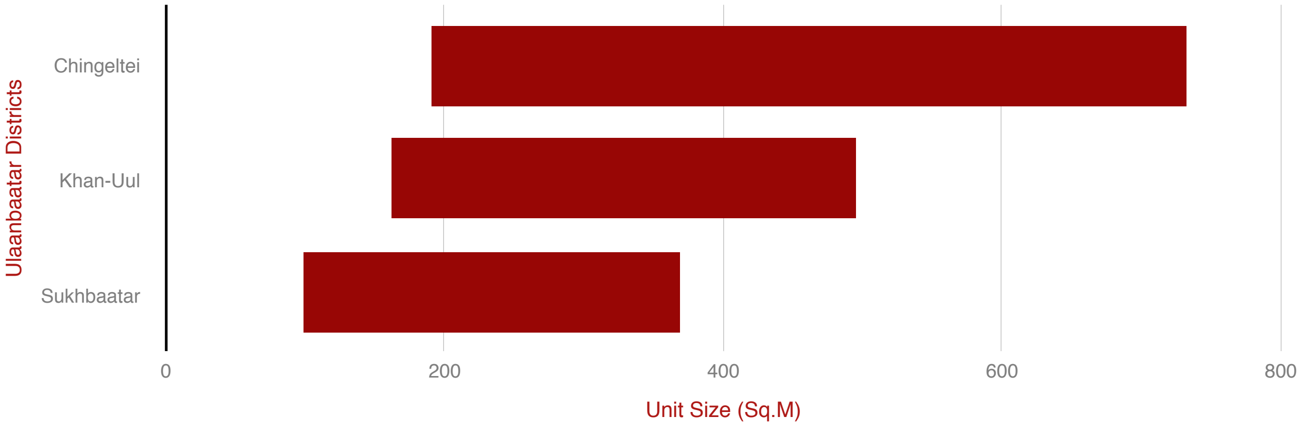
GRAPH 118: Unit Size Range in Property Baskets in the Mid-Upper Residential Segment



Source: MAD Research

Just three of the six central Districts of Ulaanbaatar, Khan-Uul, Chingeltei and Sukhbaatar Districts, are represented in the high end and low density markets. With a stock of highly sought-after and high value pre-1990s apartments (primarily represented in the 40,000 apartments near to the city centre), Sukhbaatar district displays by far the most condensed unit size range. Chingeltei townhouse developments, including Orchlon, put it ahead of Khan-Uul in terms of average square meter size of both smallest and largest units across developments in pre-sales. The largest unit sizes in new developments within Khan Uul and Chingeltei districts are 542 and 332 square meters respectively.

GRAPH 119: Unit Size Range in Property Baskets in the Lower End Residential Segment

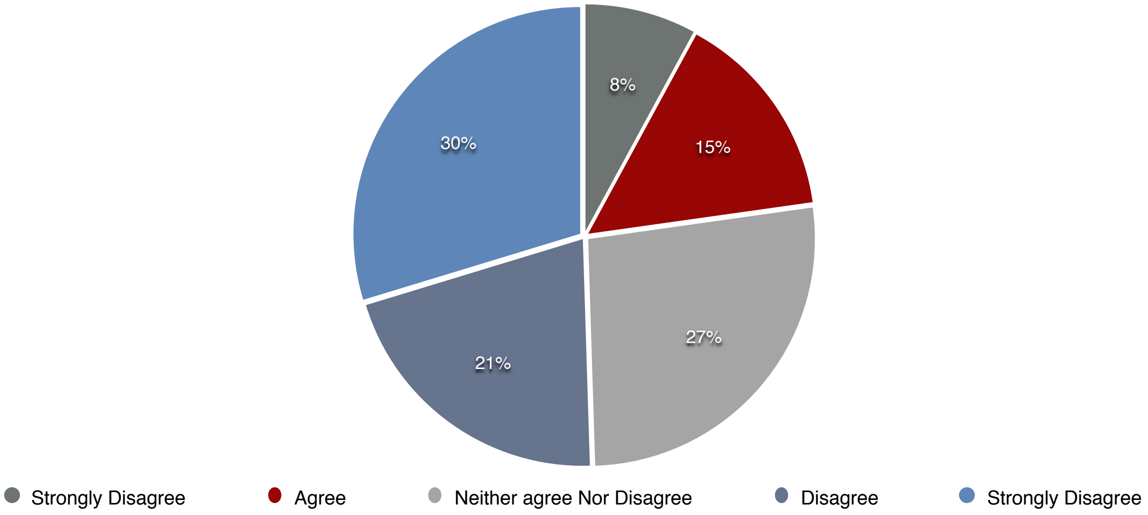


Source: MAD Research

10. PERCEPTION SURVEY

With so much discussion around potential bubble-dynamics in the residential markets and limited user-focussed market research available heretofore, M.A.D. researchers conducted a detailed residential market survey, designed to directly address market perceptions and consumer preferences in the housing market during 2014.

GRAPH 120: How much do you agree with the following statement: I would be looking to purchase an apartment within the next year if it met my needs



Source: MAD Research

M.A.D. asked a survey sample of 243 household respondents, between the ages of 25-60, to indicate whether of not they agreed with the statement: “Ulaanbaatar apartments are presently overpriced at this time”. In total 39% of respondents indicated that they agreed with the statement, with only 3% of respondents strongly disagreeing. This provides a clear indication that buyer sentiment in the market is leaning towards fears that apartments are overpriced and this may be putting some potential buyers off of upscaling in the near future.

M.A.D. also asked a survey sample of 243 respondents to indicate their overall sentiment towards the Ulaanbaatar housing market, as well as the broad likelihood of respondents being willing to move or upscale from their present apartments.

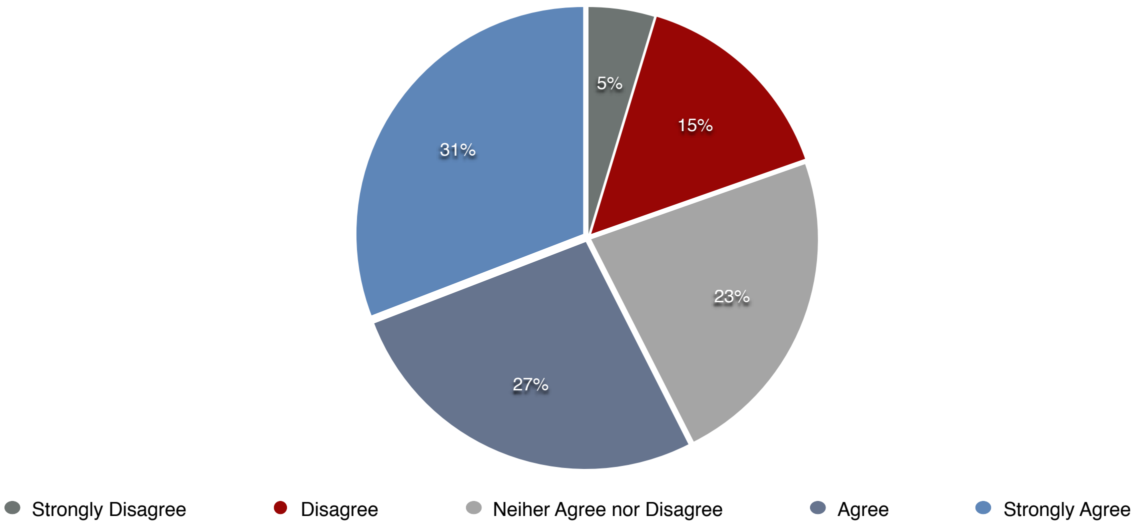
Almost a third of all respondents indicated that they strongly agreed with the statement “I would purchase an apartment within the next year were a suitable development to be available that met my needs” (31% of respondents). A further 27% indicated that they agreed with the statement that they would purchase an apartment within this period. A significant number, 20% of respondents, disagreed with this statement or mostly disagreed with it, indicating that around one-fifth of the potential market surveyed would not consider entering the residential property markets in the near future.

In a further effort to understand public perceptions of residential markets by geographical sub-segment, M.A.D. researchers also asked the same respondents to rate the overall reputation of six key mid-upper end residential areas of Ulaanbaatar. This question was designed to assess the relationship of reputation of an area to overall perception of pricing trends in the Mongolian capital. Respondents were asked to assess the reputation of the following six areas of Ulaanbaatar:

- 40k and 50k apartments
- City Centre area
- Stadium area
- Garden area (West of River Town)
- Marshall Town Area
- Zaisan Area

These areas were presented demarcated on a map so that respondents not familiar with these areas could see where their boundaries lay.

GRAPH 121: How much do you agree with the following statement: I would be looking to purchase an apartment within the next year if the price was right



Source: MAD Research

A total of 51% of respondents indicated an above average or high reputation for the city centre area. Zaisan scored highest at 71%. The 40,000 and 50,000 apartments scored lowest, with only 42% of respondents indicating that these areas of the city had an above average or high reputation. The Garden area, Stadium area and Marshall Town area scored in the mid 50s, indicating a moderately good reputation in these areas.

Two questions within the M.A.D. preference and perception questionnaire were also used to determine which factors are most important to potential buyers when considering the purchase of a new apartment. The 12 factors (given in the table below), were rated using a five-point lickert-scale (from unimportant to very important).

Response table to question 8: If you were deciding to purchase an apartment in a new development please indicate which of the following are important to you:

1 being not important, 5 being very important

	1	2	3	4	5	Total
Price per square meter	13%	9%	16%	4%	57%	**223**
Access to entertainment facilities	21%	13%	25%	5%	37%	**200**
Access to gym/spa facilities	17%	12%	27%	8%	37%	**199**
Reputation of the construction company	10%	11%	18%	10%	51%	**194**
Environmentally friendly design and construction	4%	6%	16%	15%	59%	**192**
Good off-street parking	5%	7%	10%	12%	66%	**201**
Quick access to city center	10%	8%	20%	20%	43%	**200**
Neighbors of the same social group	18%	12%	18%	14%	39%	**182**
Access to private green spaces	5%	6%	9%	16%	64%	**191**
Safe play areas for children	3%	4%	6%	11%	76%	**189**
Good schools nearby	10%	6%	9%	11%	64%	**209**
Good shopping facilities nearby	8%	5%	10%	14%	64%	**209**

Source: MAD Research

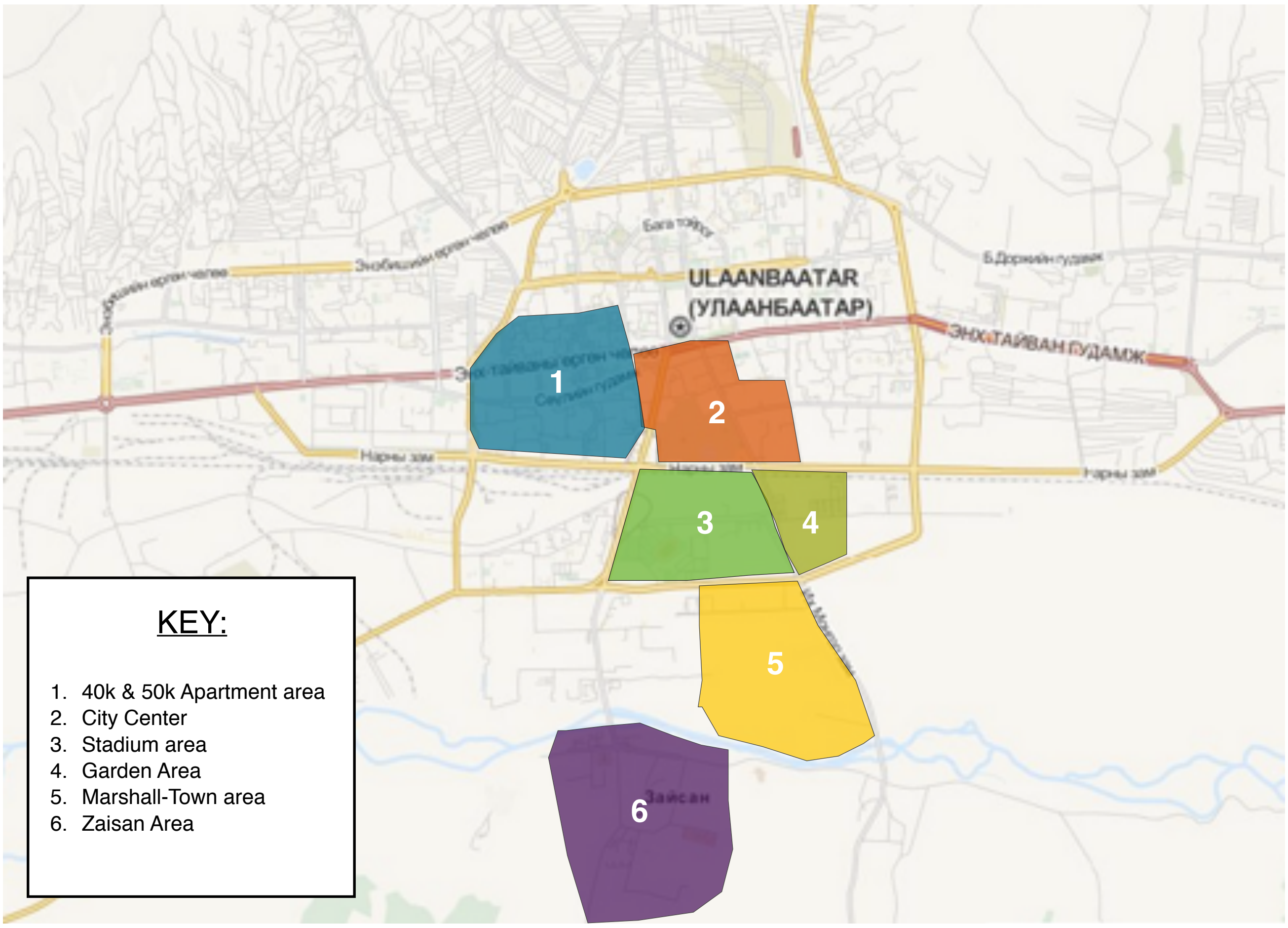
The answers received to this question were interpreted and used to produce the above table. The most important single factors in deciding whether to purchase an apartment in a new development were given as follows (in order of importance):

- Safe areas for children to play;
- Good off-street parking;
- Good shopping facilities nearby;
- Access to private green spaces;
- Good schools nearby.

The least important factors (in order of least important to more important) were identified as:

- Access to entertainment facilities;
- Access to gym and spa facilities;
- Neighbours of the same social group;
- Quick access to the city centre;
- Reputation of the construction company.

This is indicative of overall trends in the market. The first of these is that entertainment facilities and living space are notionally separated for middle-income residents at present. Whilst play areas and green space are important for households with children, entertainment facilities are something householders are willing and able to travel for within middle-class markets.



When asked to state two key factors in a development or individual unit that would persuade a respondent to purchase a new apartment a total of 36 sub-categories of answer were provided by respondents. Price was clearly a signifiant factor, making up 22% of all responses, with location factors making up 13% of all responses. Quality of construction, parking and garages, comfort, access to clean outdoor space and fresh air were all significant factors, with reasonable response rates. In aggregate, 'lower pricing' and overall affordability were the key motivations cited by respondents.

The conclusions of this element of our analysis was that fears of inflated prices have reached buyers, but that middle-income segments of the residential market are not necessarily deterred from purchasing in new developments providing they meet their requirements in certain key areas, including location, parking and facilities for families. Most households have significant amounts of equity in their current properties and would be happy to release this and deploy potentially significant savings into a higher quality residence for their families. Overall, repetitional analysis indicates that the Zaisan area of the city remains most desirable within domestic markets. With a history of luxury developments and heavy associations with the political and economic elite, the area continues to elicit strong draw factors for buyers. Interestingly, the 40,000 and 50,000 apartments scored lowest in terms of reputation in the M.A.D. 2014 perception study. Despite a clear value proposition attached to the residential real estate stock in these areas, associations with a previous period in Ulaanbaatar's history and the fact that many potential middle-class buyers would have grown up in these areas of the city reduces desirability among the domestic population. However, with prime proximity to the CBD and excellent renovation potential in some older housing stocks, these areas are expected to see renewed interest as rental markets grow.

11. MORTGAGE MARKETS

A. INTRODUCTION

The mortgage markets are a key component in real estate growth and the Mongolian markets have shown dramatic upscaling in recent years. Annual growth rate of mortgage loan accelerated since June 2013, when the government launched the “Housing Mortgage Program”, allowing commercial banks to issue mortgages with an interest rate of 8% per annum as a result of Government financing to purchase of these loans. Targeted at first time buyers, this scheme allows buyers to purchase a home of less than 80 square meters with just a 10% deposit, over a period of up to 20 years, at an APR of just 8%. The success of this scheme, has led to dramatic increases in outstanding mortgages and numbers of mortgage borrowers during 2013, although fears remain as to how the Government of Mongolia will continue to extend this scheme now that the first tranche of financing is all but exhausted.

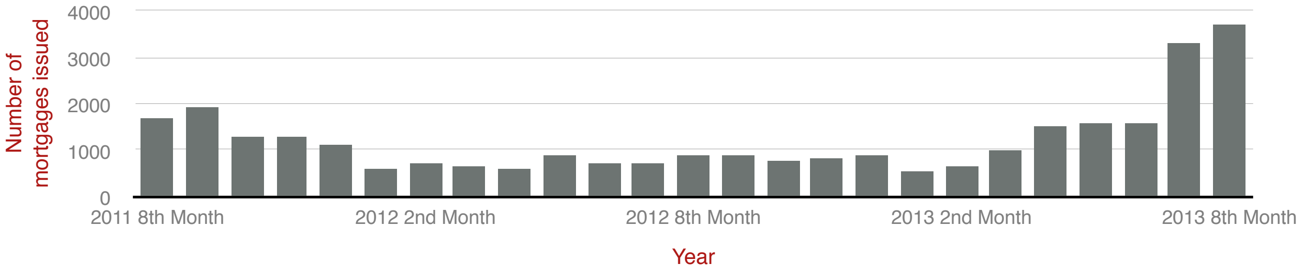
INFORMATION BOX - 7% MORTGAGES POTENTIALLY ON THE HORIZON FOR PROVINCES OF MONGOLIA

Following a review of the low-cost mortgage lending scheme by the Mongolian Parliament accepted a new definition of apartments eligible to be incorporated in the 8% mortgage lending program in the Provinces of Ulaanbaatar. According to this definition any residential apartments constructed in provinces and fully connected to engineering infrastructure may be included in the 8% interest rate loan program. This is in contrast to the capital city, where only apartments of 80 square meters or less are eligible at present. The Parliamentary session also resulted in changing of the 8% mortgage interest rate to 7% in provincial areas of the country. This will increase the number of citizens of Mongolia able to take advantage of this program and improve both potential living conditions and the national housing markets.

B. MORTGAGE MARKET OVERVIEW

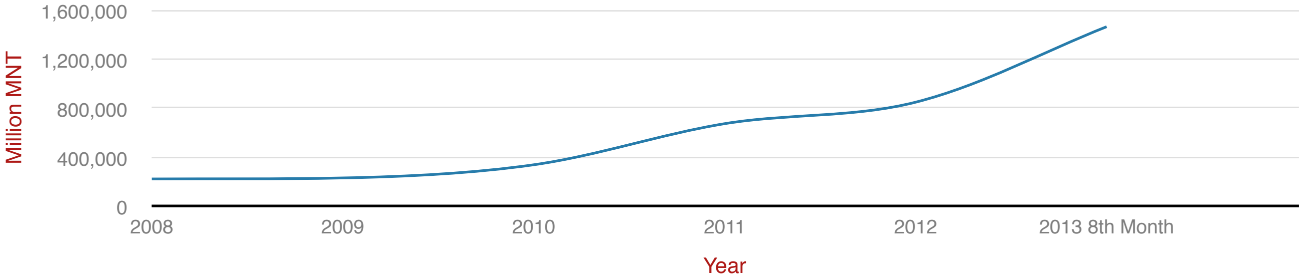
Total loans outstanding grew by 20.1% month-on-month and 44.9% year-on-year directly following the introduction of the 8% mortgage scheme. Of mortgage loans outstanding, 41.5% were issued with the banks’ own capital, 53.5% were issued by the “Housing Mortgage Program“ (refinanced mortgage loan with reduced rate of 8% per annum) and 5% were issued by other sources. As of August 2013, 95.3% of mortgage loans outstanding had been made in domestic currency and 4.7% had been made in foreign currency.

GRAPH 122: Number of Borrowers Issued Mortgage Loan by Month 2011-2013 Q3



Source: Mongolian Mortgage Corporation

GRAPH 123: Mortgage Loan Amount Outstanding



Source: Mongolian Mortgage Corporation

Reporting from the beginning of Q4 2013 indicates that around 40,596 borrowers received a mortgage loan year-to-date, with 21,832 of these (53%) taking loans under the “Housing Mortgage Program”. At the end of Q3 2013, the term and interest rate of mortgage loans issued across the commercial banking sector ranged between between 1 to 20 years, with a weighted average term of 17.3 years (207.4 months), up from just 100.7 months in 2008. The weighted average rate for loans issued has been on a downward trajectory since 2008, presently standing at around 8.9% as a result of introduction of Government backed mortgages, down from 19.8% six years ago.

As expected, the capital city makes up a full 79.6% of mortgage lending, with 69% of all borrowers domiciled in Ulaanbaatar (26,232 borrowers). The average interest rate for loans in the capital is 9.3%, with the average borrowing term higher than the national average at 210.9 months.

The close synergy between the 100,000 Homes Project and 8% Housing Finance program mean that numbers of borrowers are expected to grow as buyers take advantage of relatively low-cost financing to upscale as well as to purchase apartments as first-time buyers. The requirements for obtaining a mortgage under the current 8% mortgage scheme implemented by the Government of Mongolia are simple and are based around eight key points:

1. A unit must be under 80 square meters in size. That size is measured in accordance with the MNS 6058:2009 "Housing services for building. General requirements." national standards.

2. The longest term is 20 years.

3. LTV ratio is defined as 70%-90% (although in practice the LTV is almost invariably 70%)

4. Monthly repayments should not exceed 45% of monthly household income.

5. The loan recipient must be a citizen of Mongolia and must unencumbered by legal claims and debt claims.

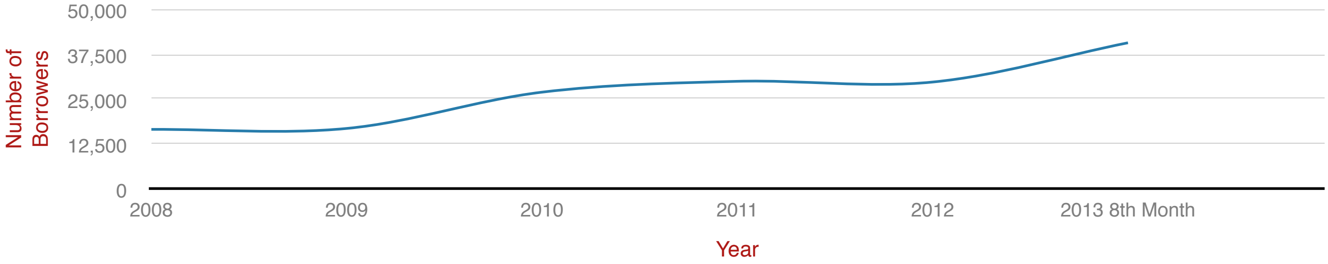
6. Apartments must public and not built to be transferred privately (these must be purchasable on the open market).

7. The citizen applying for the mortgage must be of age 18 or above.

8. The citizen should not hold an existing residential property under their name (this provision was designed to target first time buyers although, in practice, a significant number of mortgages were issued to persons and households who had been able to find ways to transfer existing property out of their name so as to purchase new property at favourable rates or refinance their existing home at lower cost).

The exact conditions are set by individual issuing banks, who have control over the exact lending conditions under which mortgages are originated. These tend to concur with general mortgage lending conditions applicable within the bank in question. The 8% mortgages are subsidised by the Government of Mongolia and are actually purchased back by the Mongolian Mortgage Corporation at favourable rates, so the exact issuance criteria bears upon profitability of these mortgages to the originating bank. Typically originations for 8% mortgages are for the uppermost possible period of 20 years, with down-payments required of between 10% and 30% depending upon lending bank and perceived affordability of the specific asset.

GRAPH 124: Number of Mortgage Borrowers (total)



Source: Mongolian Mortgage Corporation

It is no secret that the restrictions placed on the 8% mortgage program, designed to ensure that those most in need of assistance receive assistance purchasing a home and getting onto the property ladder, are relatively easy to circumvent. Interview evidence suggests that residents have signed their existing homes over to relatives in order to appear to have no existing property under their name. They are then able to purchase it back and generate liquidity, or purchase a second property at favourable interest rates.

INFORMATION BOX - THE FUTURE OF THE LOW-COST MORTGAGE PROGRAM

Since the commencement of the Government backed, low-cost 8% APR mortgage program, during June 2013, a total of around 40,000 new apartments have already transacted.

With funds running low for continued financing of low-cost (8% ARR) mortgages - provided based upon the Government initiative to spur growth of residential housing markets and enable lower to mid-income first-time buyers to purchase apartments - thee options are up for consideration by the Ministry of Construction and Urban Development, the Government Ministry responsible for administering this program. The first option is to remove the current 80 square meter limit on the size of apartment able to be purchased. The second option is to lend at 8% on apartments of 80 square meters or less and at 11% for apartments larger than this. The third is to set the rate at 8% for the first 80 square meters of any apartment purchases and 11% for the balance of space, although this could result in a complex scenario. The municipality discussed this issue in-depth although has decided to postpone decisions on the future of the project until more secure financing is obtained. Aside from this, a decision has been made to issue 7% mortgage loans for new apartments in provinces outside of Ulaanbaatar.

C. HISTORY AND GROWTH OF THE MORTGAGE MARKETS

- **2006 - Establishment of the MMC:** In order to develop secondary markets for asset backed securities, the Bank of Mongolia and 9 other banks established MIK in 2006. The main objective of MIK was to develop both primary and secondary mortgage markets by issuing and selling mortgage backed securities on foreign and domestic markets, providing safe and long term funds to the housing finance sector as a whole.
- **2007 - Co-operation with the National Statistics Committee to develop a methodology of computing house price indices:** in 2007 the Bank of Mongolia participated in the working group to develop a methodology for computing house price indices. Since 2008 this housing price index has been regularly disseminated.
- **2011 - MIK bond included in the Central Bank collateral list:** In an effort to stimulate secondary mortgage markets and enhance MIK's financial capacity, MIK issued a bond which was subsequently included in the list of eligible collaterals for Central Bank repo operations. This makes MIK bonds equal to Government bonds in terms of quality.
- **2008 - Adoption of the "Regulation on Mortgage Loan Operations":** in 2008 the Bank of Mongolia approved the "Regulation on mortgage loan operations". This provided standardisation for the primary mortgage market, simplifying the origination process and moving towards lowering origination associated risk and costs.
- **Ongoing - Improvement of the Legal Environment:** The Bank of Mongolia actively collaborated with MIK and other institutions to improve the legal environment for the development of primary and secondary mortgage markets. This included creation of the Law on Real Estate Collateral and Law on Asset Backed Securities.
- **2011 - Agreement to Implement KfW project on promoting housing finance:** According to an agreement between KfW and the Government of Mongolia, a credit line of 4.8 million EUR and grant of 0.5 million EUR was channeled through the Bank of Mongolia for the purpose of deepening the market based housing finance system.
- **2009 - 2010 - Financing loans to civil servants:** As part of the financing segment of the 40,000 Households project the Bank of Mongolia purchased Government bonds to the amount of 30 billion MNT. This enabled the Government to extend low cost mortgage financing (at 6% APR) to civil servants for the purchase of family homes.
- **2008 - Refinancing loans to the construction sector:** The Bank of Mongolia was responsible for injecting liquidity into the construction sector through banks when it experienced liquidity issues in 2008, enabling the sector to recuperate and preventing worsening of supply problems in the residential housing markets.

The present institutional structure of the Mongolian housing finance market began its nascent development in 1997 with an initiative which saw the Asian Development Bank and Government of Mongolia begin to create legal and policy frameworks for loans in Mongolia, alongside sets of standardised issuance documentation and best practices. Nevertheless, it would be a further half-decade until the first actual loans were offered. In 2003 the ADB's Housing Finance Sector Program finally began issuing loans to low-income households. The Government of Mongolia also played a pivotal role in the development of the markets, enacting legislation such as the Mortgage Collateral Law and the Asset-Backed Securities Law as a means of both expanding and regulating the mortgage markets, most importantly, rendering it possible for banks to foreclose on assets.

Despite changes to the origination process aimed at simplifying mortgage originations, the Mongolian residential housing market suffered from a particular lack of available information. Originations would be based upon values which might not reflect any intrinsic value of the property. it was not until 2007 that the National Statistics Committee and Bank of Mongolia joined to develop a methodology for computing a Housing Price Index in Mongolia, reported on a quarterly basis. In order to draw down interest rates and begin to make mortgages more affordable to a greater portion of the Mongolian population, it is necessary to adopt professional surveying and valuation practices that will eventually constitute a marketplace undergirded by fundamental property values, as well as supply and demand dynamics. Moving towards this system, rather than a system based upon most recent comparable transactions, will go some way to minimising risk for lending institutions.

The absolute sanctity of property rights under Mongolian law must also be reassessed. It was not until 2010 that legislation was enacted to enable and expedite the process of repossession within Mongolia. Nevertheless, the legal process of applying to take possession of a residential property remains protracted and expensive, adding considerable risk to the profiles of loans across the board at present. Without the assurance of being able to foreclose on immovable property most commercial banks will continue to be unwilling to lower interest rates as in the event of default they presently have limited certainty of obtaining an asset listed as collateral.

Finally, credit information is another area in which great leaps are necessary in order to improve efficiency in the mortgage markets. Credit history information stored by the Bank of Mongolia is, at present, extremely limited in scope. It is also frequently out of date. Only loan status, rather than loan performance history, is stored. Data from non-banking financial institutions is not stored at all. With the NBFI lending sector growing rapidly this issue must be swiftly addressed if banks are not to be caught out lending to client ill equipped o afford it. Standard practices for monitoring credit ratings in other jurisdictions - including observing utilities payment histories - are not an option in Mongolia at this time.

When originating mortgages, the standard debt to income ratio is used to analyse each borrower’s capacity to make repayments on a mortgage. At present there is no standard practice across banks indicating how this ought to be calculated or which evidence should be used to ascertain incomes and debt loads. Monthly salaries and wages are often supplemented by other household incomes in Mongolia and so notebooks containing records of household finances may well be accepted as proof of income and outgoings. On top of this, mortgages for foreign citizens are almost impossible to come by unless arranged through an employer. The majority of commercial banks have policies which explicitly forbid or restrict lending to foreign citizens.

D. THE MONGOLIAN MORTGAGE CORPORATION

One area of the mortgage markets that has made leaps forward in recent years is the secondary market. The Mongolian Mortgage Corporation, established in 2006 became a Government backed vehicle for increasing access to housing finance. This was achieved by issuing bonds on foreign and domestic markets. MIK’s stated intent is to provide long-term funds to the Housing Finance Sector. Nine commercial banks and the Bank of Mongolia are the current shareholders of MIK, which in 2009 was approved to issue 25 billion MNT in securitised mortgage bonds. Between 2009-2010 just 6.3 billion of these were sold. The market for these bonds remains small since the main investors are banks. Institutional investors have not been attracted to take up these bonds at present as a result of limited support fro legal and regulatory frameworks, a lack of a well developed mortgage market and no highly developed bond markets. The absence of rating agencies and market based yield curve also serve to turn investors off of these bonds and has resulted in stagnation in the bond market during 2011 and 2012. Ultimately the credit quality of the underlying assets will determine willingness of investors to purchase mortgage-backed securities and this is a hard sell in the current global climate.

Nevertheless, the remit of MIK to raise funds for subsidised housing finance could have potential large-scale benefits in Mongolia. By providing subsidised financing, such as the 8% mortgage program, as part of initiatives such as the 100,000 Homes Project MIK can hope to make headway in assailing housing shortages around Mongolia. A thriving secondary mortgage market may even potentially lower interest rates by encouraging the development of a new industry of loan originators.

Broad growth in the Mongolian economy will certainly encourage the growth of the housing finance system in Mongolia through the lowering of inflation and of interest rates. Systemic risk will gradually be mitigated and demand for housing will organically emerge as levels of per capita income increase past a certain threshold. The task of the Government and private agencies such as MIK will be to maintain stable and conducive legal and housing-market regulation environments, Regulatory frameworks governing mortgage originators must improve dramatically if a secondary market is to flourish.

Such issues are already before the Government of Mongolia, who are cooperating with multilateral organisations in order to transform the nation’s mortgage markets. When Mongolia is compared with developed countries its mortgage market loan amount as percentage of total GDP is extremely low. In all developed economies with well developed mortgage lending sectors mortgage market loan amount as percentage of GDP is usually between 30% - 100%. in 2009 Mongolia’s mortgage market loan amount equated to 3.73% of total GDP. Despite continued growth in GDP this figure almost doubled to 6.06% in 2011 and by 2013 this had reached 6.9% despite continued nominal GDP growth. From small beginnings such dramatic increases in the Mongolian mortgage markets indicate strong potential growth.

E. FUTURE FOCUS

Going forward certain key areas of investor demand, market creation, infrastructure must be addressed in order to ensure that the secondary mortgage market in Mongolia develops effectively. In terms of prerequisites for issuing future mortgage securities, capital and liquidity constraints must be addressed and greater risk management is required. The industry as a whole must look to develop demand among institutional investors for mortgage-related securities and move away from banks as the buyers of these securities. This can be achieved through engineering attractive risk-adjusted returns. Legal, tax and accounting frameworks that undergird securitisation must all be overhauled. This includes lien registration and the ability to efficiently enforce lien. Protection of investors against such eventualities as bankruptcy of originators will also go some way to coaxing confidence into the mortgage-backed securities market in Mongolia.

More immediate issues to be tackled include continued financing for the the 8% mortgage program. This program was initially financed from the Chinggis Bond, funds from which were used to buy back mortgages issued by commercial banks. The success of this scheme is undoubted, with total mortgage loans outstanding growing by 20.1% month on month and 44.9% year on year directly following the introduction of the 8% mortgage scheme. The impact on the construction sector was also marked, with residential development being spurred by dramatic expansion of affordability in this sector. However, with funds from the Chinggis Bond running low, the Government of Mongolia and the Central Bank are now tasked with finding new sources of income. Packaging and securitising existing loans would seem problematic at this time, given the global distrust of mortgage backed securities and very limited confidence in the origination protocols of Mongolian commercial banks. Whilst mortgage backed securities eventually represent the organic answer for grouting the mortgage markets in Mongolia, extension of the 8% mortgage program in the near-term is tenuous proposition.

The primary markets at present offer a lot of space for improvement of risk handling and confidence building. Greater standardisation of documents and underwriting practices, as well as high quality servicing and collection will go a long way to ensuring the quality of the assets upon which secondary market vehicles are based. The market desperately needs high quality processional standards of property appraisal that will base valuations upon property fundamentals as well as market rates. Finally, the Government must play a crucial role in developing mortgage securities by creating and developing a strong legal system, providing Government guarantees and supporting market liquidity. The Government, through programs such as the 40,000 Households project and the subsequent 100,000 Homes Project, is presently playing a dominant role in real estate development. They must be equally active in providing appropriate financing support through strategies such as interest rate subsidies and support of higher LTV ratios.

F. COMMERCIAL BANKS OFFERING MORTGAGES

Presently in Mongolia there are 12 large commercial banks in operation in Mongolia, each offering mortgage financing. These are below along with the commercially offered interest rates (monthly) for standard loans for apartments or houses during 2013/2014. These do not include 8% mortgage issuances and only represent non-government backed loans. Again, almost across the board interest rates have risen over the last year in response to a more conservative lending strategy outside of key Government backed programs. State Bank (Toriin Bank) continues to offer the lowest interest rates on mortgage loans.

Mortgage Lending Rates (Monthly) From 8 Major Mongolian Commercial Banks

	2013	2012	2011
Khan Bank	0.25	0.25	0.25
Savings Bank	1.5	1.5	0.55
State Bank (Toriin Bank)	0.2	0.2	0.09
TDB	0.25	0.25	0.15
Golomt	0.9	0.9	0.3
Erel Bank	1.1	1.1	0.9
Ulaanbaatar City Bank	0.9	0.9	0.3
Capitron Bank	0.9	0.9	0.4

Source: Commercial Bank Websites and Information Materials 2013

XVI. COMMERCIAL SECTORS INTRODUCTION

Private companies are now responsible for over 80% of the national GDP of Mongolia. Numbers of registered business entities dealing in financial services and other business activities have shown almost uninterrupted year-on-year growth since the transition to a free-market began. Ulaanbaatar's GDP has displayed continued growth even when, in 2009, the overall economy of Mongolia showed negative growth of -1.3%. As the capital city of a nation undergoing dramatic economic growth on the back of its mining industry, Ulaanbaatar saw 20%+ year-on-year growth during 2012, with a GDP per capita higher than China for the same period. Precocious growth of the mining industry is also spurring growth in other sectors, particularly in Finance, Insurance and Real Estate (FIRE) sectors - which typically take up a significant proportion of good grade office space within any central business district.

During the course of our investigations into the commercial markets in Ulaanbaatar, M.A.D. analysts have indicated four information inefficiencies that should be taken into account when considering the future trajectories of commercial markets in Ulaanbaatar. These four factors are:

- Lag in information and inefficient planning on the part of many developers. Although this is expected to change as increased supply brings with it significant new competition at the upper end of the office and retail markets, it presently leads to uncompetitive market pricing and unsuitable developments, which particularly blights office markets. The retail sector has felt less significant shocks and is less saturated at present, with more room for diversification of concepts.

- The second is relatively long construction schedules - as a result of Mongolia's short build seasons, bounded by harsh winters and during which time exterior construction is extremely difficult. Construction of good grade retail and office typically takes three build seasons (three years) and so, in a fast moving market, developers who do not implement significantly adaptable concepts may not enter the market at the appropriate time. A case study in this dynamic comes from Peace Tower, a good grade office and retail project situated on the Peace Avenue submarket. With development delays pushing the project back by over two years, the developers found that the project sold sluggishly as a result of the movement of the commercial power centre further towards the CBD during this period.

- Thirdly, pricing of new supply evidences significant elasticity and developers and investors typically initially price projects at the upper end of the prevailing market rate across the board, regardless of quality and demand considerations. This practice has been responsible for amplifying shifts in pricing brought about by the temporary downturns and external shocks in the Mongolian economy.

- Finally, liquidity of domestic banks is propped up in part by commodities markets, government backed lending and foreign debt. Availability and pricing of domestically originated loans to the construction sector has therefore been volatile over the past five years. Dramatic growth in the Mongolian debt markets is both a cause for concern over liquidity and default. Commercial real estate development financing may need to be diversified (with banks and bank debt making up a vast majority of the finance markets at present).

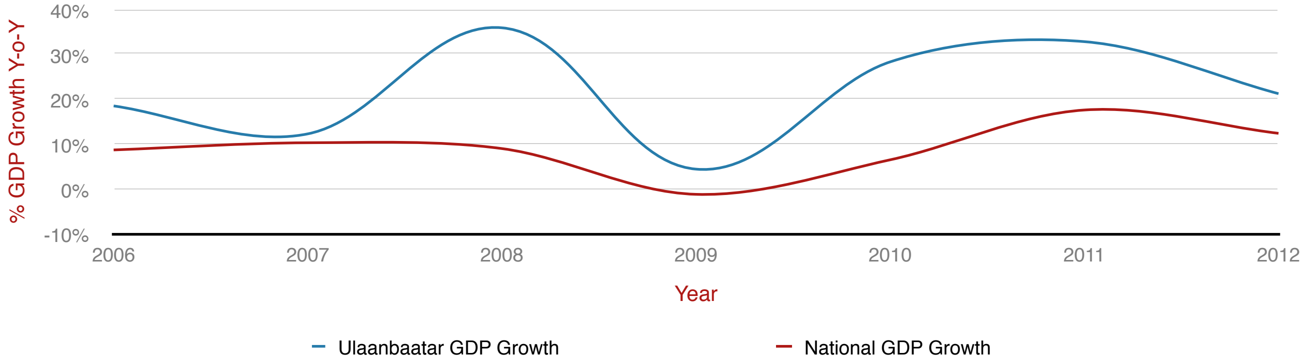
These factors are all taken into account when considering price changes in the good grade retail and office markets in the sections that follow. When considering pricing trends the impacts of information lag and elasticity in pricing are taken into account, as well as a reluctance of many management companies and developers to price to the real market. These are some of the reasons we see for dramatic swings in forecasted rental growth. This dynamic is already apparent within MCS Central Tower and Blue Sky Tower. These competitor projects in the A grade office markets, raised previously fairly static rental rates by over 22% during 2012 and 2013, resulting an an exodus from these buildings and dramatic rises in vacancy rates towards the close of 2013 on the back of broad economic slowdown and diminishing of FDI inflows. Both facilities were then forced to lower per square metre rental rates by a similar percentage during 2014 in order to retain occupants up for contract renewal.

XVII. OFFICE MARKET ANALYSIS

1. INTRODUCTION

The impact of the the office sector upon the urban structure of Ulaanbaatar is perhaps the most stark. Over the past five years the skyline to the south of Sukhbaatar Square (now Chinggis Square) has filled rapidly with towering glass and steel clad structures, announcing Mongolia's arrival onto the international economic stage. Where once there was only a view of mountains, several lynchpin projects, such as "Blue Sky Tower" and the "International Commercial Center", stand over Ulaanbaatar. Were the statue of Lenin that once looked out from its pedestal in the park in front of the Ulaanbaatar Hotel still there (the statue was removed and sold to a businessman just over a year ago), it would now be staring at a 24 hour feed of Bloomberg news delivered to a multi-storey television screen built into the side of the new TDB Bank building.

GRAPH 125: National GDP Growth of Mogola shown against the GDP growth of Ulaanbaatar

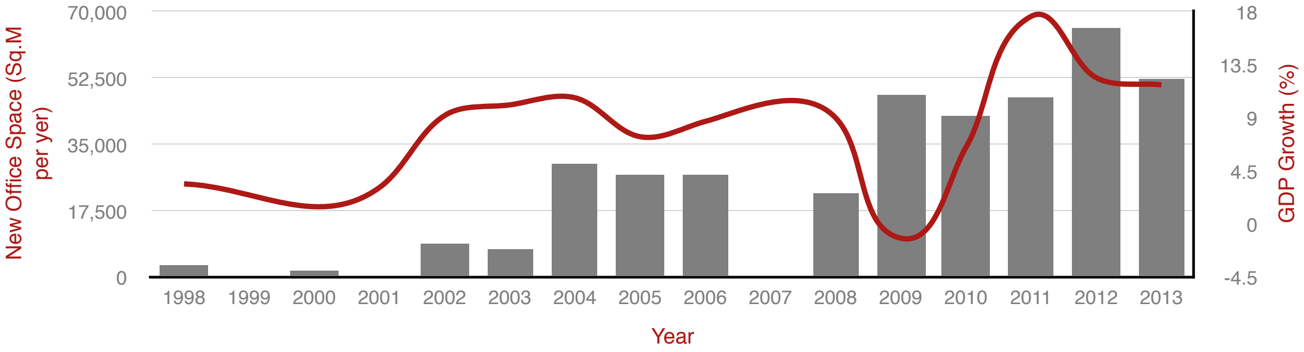


Source: NSOM / UB Stat

Rapid expansion of the private sector after 1991, coupled with the influx of foreign capital, has transformed the commercial fabric of the city and has been a major driver in construction sector innovation. The marks of a rapidly developing tertiary sector are visible in burgeoning office supply and office-space design increasingly driven by what might be termed the aesthetics of international capital. As the transition to democracy and a liberal economy got underway, new offices began to spring up quickly around the capital. Over the past 20 years new constructions have been coming online at considerable pace to house the activities of a burgeoning private sector. Nevertheless, the office sector in Mongolia is just emerging from its infancy, the tallest building in the city centre presently peaking at 26 floors, although plans for 30-68 level commercial constructions are in the pipeline (Mon Uran Tower, set to be 68 levels tall, is currently scheduled for completion by 2019, although this project remains in the early planning phases). Overall, the CBD of Ulaanbaatar is of relatively low density by global standards, although the business register of Mongolia indicates significant growth in numbers of business entities requiring office space. This, along with an upscaling of the domestic SME sector, is necessary to drive development of new office and commercial premises.

As the graph above indicates, Ulaanbaatar's GDP growth has averaged at 1.7 times the national rate go GDP growth since 2006. This indicates a clear focus upon the capital city in terms of financial investment and opportunities for growth. With over 40% of the total population of the nation presently resident in Ulaanbaatar, the case for growth of commercial and service sector facilities remains undiminished. The graph below shows the relationship between new good grade office construction in the Mongolian capital and GDP growth. With significant information inefficiencies in the market and long lead times on construction, there is typically a lag between dramatic economic shifts and responses in the commerce construction sector. Nevertheless, it can be clearly seen how the 2008 crisis impacted the commercial construction sector heavily. Completion figures show that office construction in particular peaked at just below 74,000 square meters, falling a year later as Mongolia felt the full force of a downturn in commodities prices. The response to the slowdown in the economy was a familiar one that involved a central bank rate rise and diminishing liquidity. Funding for projects dried up and during 2010-2011 and the rate of new completions fell. Many of these stalled projects only found renewed funding in 2011, resulting in around 65,500 square meters of A-C grade office being completed during FY 2012. Projects such as Tsast Construction's ICC and German Standard's G.S. Tower, all situated around the CBD, brought over 52,000 square meters of space onto the office markets during 2013.

GRAPH 126: New Office Space in C+ - A Grade Markets by Year in Ulaanbaatar Mapped Against GDP Growth



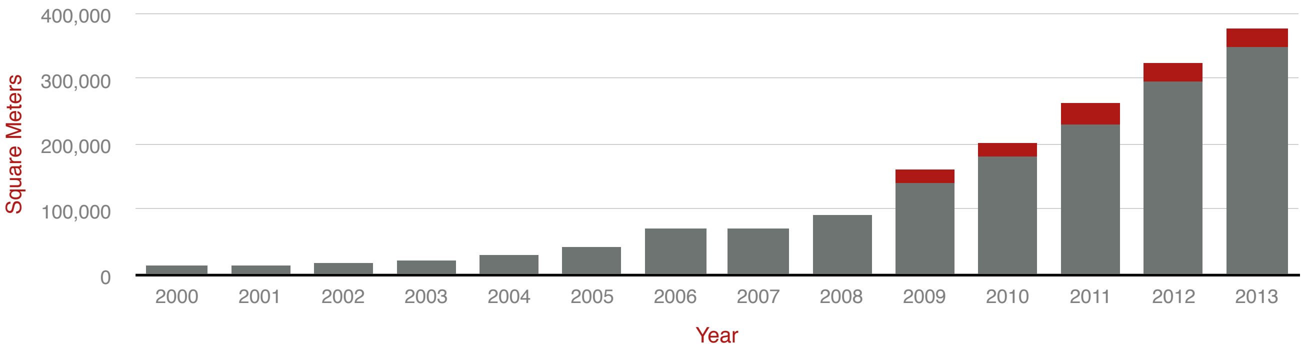
Source: MAD Research / NSOM

The core of Sukhbaatar district performs the function of the CBD, having traditionally been the home of the functions of the centralised Government. It now hosts not only Government ministries, the Parliament building and established cultural institutions, alongside the offices of top 10 Mongolian companies and key international firms in the mining and financial industries. Many local companies and MNCs prefer to have office addresses in Sukhbaatar District and this area has been the focus for commercial development in recent years. However, due to rapid development, a lack of vacant land for expansion and a moratorium on new construction upon green-field land in certain parts of the city centre (this moratorium was passed by the City Government in 2012), new commercial development in the city centre has slowed significantly around the city centre. Pipeline projects remain under construction, although developers are increasingly looking to new areas of the city for future good grade office market growth.

2. MARKET HISTORY

During the early years of the liberal economy in Mongolia new good grade office supply was slow to come online as the commercial sector struggled to grow under high inflation and low revenues. An average of just 1,237 square meters per year of new office space entered the market from 1990-1999. From 2000-2009 this figure leapt to a mean of 23,139 square meters per year, as the economy recovered from the tectonic shocks of rapid reform and the removal of the safety net provided by trade and aid from the former Soviet Union. By the turn of the millennium Mongolia had begun to exploit its vast reserves of mineral wealth, attracting FDI into world-class projects such as the Oyu Tolgoi gold and copper mine. This resulted in rapid growth of mining sector and related operations, with domestic firms upscaling and diversifying operations that required office space. Increased bank lending for commercial real estate development during the late 2000s, coupled with a bullish outlook on the future of the Mongolian economy, led to an annual mean of 55,009 square meters of good-grade commercial space coming online in Ulaanbaatar between 2010-2012. During this period the office sector became dominated by large, upper-end, mixed use projects.

GRAPH 127: Historical Supply of Good Grade Office in Ulaanbaatar (Cumulative)



Source: MAD Research

However, it was only with the completion of Monnis Tower in 2009 that development trends shifted firmly toward the current CBD and a concentration of upper-end B grade and A grade commercial higher-rise projects were initiated in the heart of the city. It was not until 2010 that a small stock of what is domestically rated Grade A office space began to come online. Nevertheless, it must be noted that Ulaanbaatar office markets remain nascent and highly vulnerable to external shocks.

A.T. Kearney Global Retail index 2013 Excerpt

Rank	Country	Market Attractiveness	Country Risk	Market Saturation	Time Pressure	GRDI Score
1	Brazil	100	86.2	43.3	48.3	69.5
2	Chile	95.6	100	18.7	54.3	67.1
3	Uruguay	92	73.9	63.5	36.5	66.5
4	China	92.1	67.9	34.3	100	66.1
5	United Arab Emirates	95.8	94.6	3	60.8	63.5
6	Turkey	86.8	83.7	28.9	50.9	62.6
7	Mongolia	17.7	37	99	96.5	62.5
8	Georgia	36.6	63.8	83.4	61.9	61.4
9	Kuwait	87.8	87.1	36.4	22.2	58.4

Source: A.T. Kearney

The only office space in Ulaanbaatar presently approaching international Grade A standards is the 20,400 square meter supply of office in Central Tower. This mixed use facility, developed and managed by MCS, has a baseplate of 1,700 square meters, a large lobby area, raised floors and suspended ceilings. Six passenger lifts are capable of moving 126 persons at a time, whilst a small supply of underground, managed parking serves the building. No other office building in the city presently offers this level of facilities. In categorising Ulaanbaatar good grade office markets, it was therefore necessary to adapt grading definitions to match the present state of the market. The following benchmarks for good grade office space have been applied.

Office Grade Benchmarking

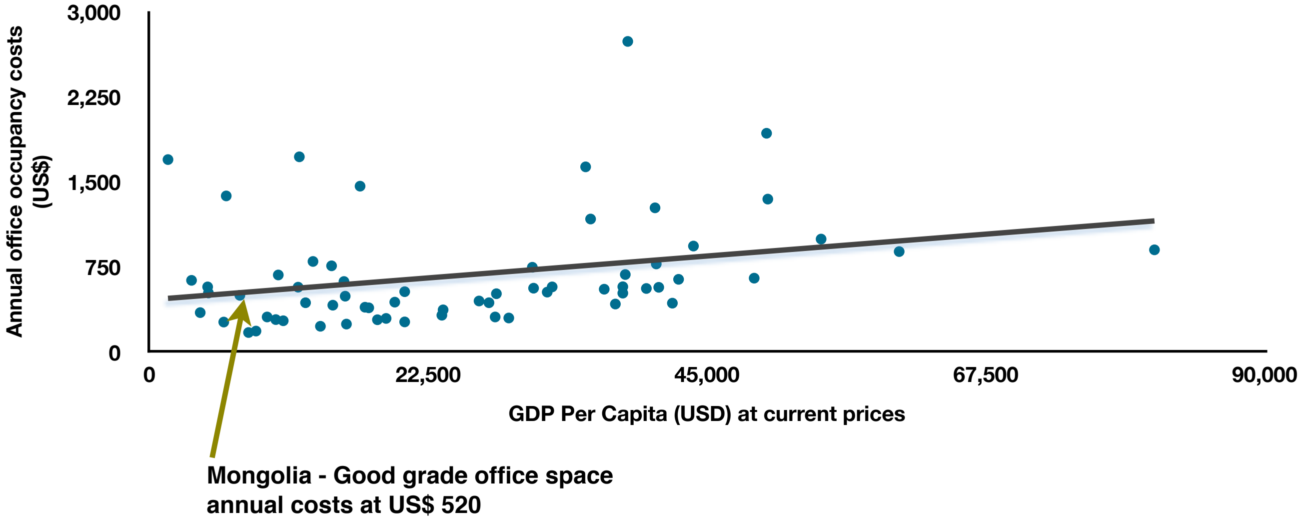
		Grading	
Factor	Benchmark	A Grade	B Grade
Location	In proximity to Sukhbaatar Square and the CBD of Ulaanbaatar	Close to the CBD, within walking distance of the city core	Outside of 0.5km from the city center
Ownership and management	Managed by a single management company (single ownership for lease)	Single management company or owner-manager	Managed by different owners
Baseplate and layout	Baseplate typically greater than 500 square meters, with open layout	750-1,000 sq.m baseplate, typically with open lobby on ground floor.	500-750 sq.m baseplate.
Tenant profile	High profile domestic companies and international firms	Multinational firms and high profile domestic firms	Mid to high profile domestic firms
Developer profile	Experienced commercial developer, evidencing successful projects	High reputation commercial developer, having completed previous projects	Mid to high-reputation commercial developer
Facilities	Good quality elevators, capable of moving between 5-10% of the building’s expected office occupants at a time; raised floors and lowered ceilings; prestigious, large lobby space; suitable scale of parking facilities.	Elevators capable of moving 10% of the building's expected office occupants at a time; raised floors and lowered ceilings; prestigious, large lobby space; suitable scale of parking facilities.	Elevators capable of moving 5-9% of the building's expected office occupants at a time; lowered ceilings; lobby space; parking facilities.

Source: MAD Research

3. INTERNATIONAL COMPARISON

In order to determine potential growth trajectories in the Ulaanbaatar office markets we compared occupancy costs with GDP per capita for city centre, good grade office on a per annum basis. This provided an illustration of potential headroom in office pricing. There is a broad trend which shows that as GDP per capita rises, so does cost of office space. This positive correlation is given by analysing office costs and GDP per capita in 64 nations (from global out-performers and developing nations). Ulaanbaatar office occupancy costs (annualised) were mapped against these and the results are provided in the graph below.

Occupancy Cost of City Centre, Good Grade Office Per Annum (2012) Against GDP Per Capita



Source: MAD Research / DTZ / Property Week

Mongolia presently remains within the lowest 20% in terms of occupancy costs for office space, with headroom to grow as GDP per capita rises from its present level at just over USD 5,000 (average annual occupancy costs stand at just under US$ 520 per square meter per annum for good grade office space near to the city centre of Ulaanbaatar). Rapid price-rises in office rental rates over the past half-decade have left many analysts fearing that office prices in Ulaanbaatar have reached an early peak. At the uppermost end of the market, office rental rates per square meter per month peaked at US$ 63.7 (US$ 764 per annum occupancy costs). These have seen a drop during 2013 due to lowered demand for A grade office and cost saving measures being implemented by both national and international office tenants. Broad market average per square meter per month costs stand at US$ 26.1 (US$ 313.2 per square meter per annum costs) for B grade office space. This indicated headroom for growth of US$ 366.22 until Mongolian office rental rates reach a broad international average. Markets experiencing rampant speculation, such as Myanmar, saw prices surge ahead of Ulaanbaatar's during 2012, heading on a clear bubble trajectory, focussed around highly limited supply. Nevertheless, caution is to be advised in the mid-term. Within Ulaanbaatar office construction operated on a highly cyclical trend of frenetic construction that can bring large tranches of new office supply onto the markets and force down prices at times of slow growth. This may result in projects falling into debt distress.

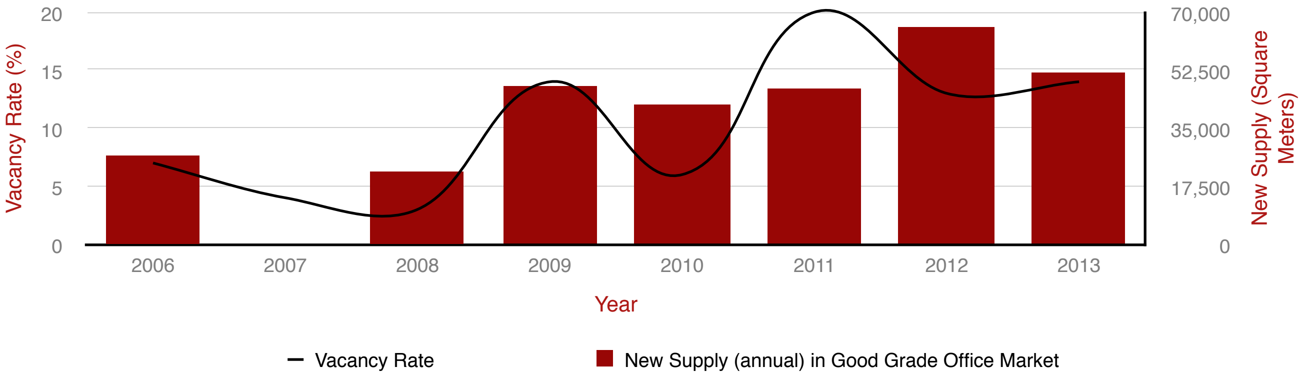
4. OFFICE SUPPLY AND OCCUPANCY RATES

As noted above, significant new office supply in Ulaanbaatar started to be developed during the early 1990s, although the upper end of the market did not emerge until the entry of key projects such as Monnis Tower and Central Tower, between 2009-2010. With a good grade future supply pipeline fluctuating between 71,976 and 21,354 square meters per annum, planning inefficiencies and protracted build times (as a result of the short build season in Mongolia), uptake rates are expected to swing dramatically.

Uptake and vacancy rates in the good grade office markets have typically followed a relatively rapid cycle, triggered by repeated demand shocks from changes in a rapidly growing national economy, heavily reliant upon regional commodities markets. These dynamics will continue to impact pricing in Ulaanbaatar good grade office markets and hence result in swinging forecasted rental rate growth between 2% - 11% year-on-year from 2013-2017.

By the close of 2013 observed vacancy rates were holding steady at around 8%. With a gradual recovery expected and a GDP growth rate for 2014 projected at 11.6% (IMF projections), uptake rates are expected to return to strength on the back of new job creation (projected uptake rates of 85% - 90%) over the coming 24-36 months. Nevertheless, with over 103,000 square meters of good grade office space expected to come online during 2014 and 2015 - as part of projects such as Galaxy Tower, Mega Tower and the New Horizon Buildin - uptake rates are expected to fall back to 62% - 75% by 2015. An example of precarious demand is provided by the case of Tsast Construction's ICC building. This A grade office facility (with supporting retail) came online for leasing and sales during Q1 of 2014, providing an additional 31,000 square meters of office space at the uppermost end of the market. Space was selling and leasing at US$ 5,000 per square meter and renting at US$ 65 at launch, both tipping the uppermost pricing brackets. This has been slow to fill throughout 2014 and uptake is not expected to be close to 100% until the overall FDI climate turns around.

GRAPH 129: Historical Supply of Good Grade Office in Ulaanbaatar (Per Annum)



Source: MAD Research

Delays to construction notwithstanding, 2016 is likely to see a relatively small new supply of good grade office coming online. Nevertheless, 2017 onwards will see projects such as the IFC and proposed large-scale projects such as the 68 level Mon Uran Tower entering the pre-sales market, potentially introducing a further 45,000 square meters of space into markets within the CBD alone. The extended pipeline of office supply would give time for vacancy rates to adjust down before another significant supply comes online. However, stalled projects such as the MAK Tower may also introduce new supply on the back of re-financing. Indications are that MAK Tower project developers (MAK Group) are expected to replace the now absent Hyatt Hotel with office space, with the resulting glut of new supply resulting in expected uptake rates falling off to around 75% by 2017.

A. SUPPLY BY SUB-SECTOR

The Ulaanbaatar good grade office market is presently clustered around the Central Business District, a power centre of commercial development which extends west along Peace Avenue & Seoul Street, as well as south into the Embassy Area and Stadium area. As of the close of Q4 2013, the total A grade office stock of Ulaanbaatar stood at 65,750 sq.m., entirely developed since 2009.

Overall, three buildings are incorporated into this current supply as domestic standard A grade. The primary determining factor is location. The first of these is the Central Tower development by MCS Group. The second is Blue Sky Tower, developed by Chono Group. Whilst facilities in this building do not approach the A grade international standard, location, baseplate size and tenant profile all indicate this as an A grade facility in domestic terms. The third is Blue Mon Tower, developed and managed by Blue Mon Group. This property is located to the north of Sukhbaatar Square and is not considered to be within the prime A grade geographical catchment area. Nevertheless, its wide open floor-plans, excellent foot-traffic planning and facilities, as well as forthcoming large-scale accompanying parking facilities, recommend this project as A grade.

Significant Office Buildings in Ulaanbaatar

	MCS Plaza	Zovkhis Building	Monnis Tower	Central Tower	Grand Plaza	Blue Sky Tower
Office NFA	3,000	3,850	15,251	20,400	15,000	9,947
District	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar
Office NFA	3,000	3,850	15,251	20,400	15,000	9,947
Opening Year	2002	2006	2009	2009	2009	2011
Number of Floors	5	10	15	13	15	5
Floor Area (sq m)	600	385	1017	1,569	$ 1,000.00	1,454 - 2,363
Tenants	Asian Development Bank, Danish Consulate General, EBRD	Newcom Group, KFW Development, Ernst & Young, Australian Consulate, ING, Eznis Airlines	Oyu Tolgoi, Monnis International, Rio Tinto	MCS Group, Mitsubishi, Canadian Embassy, PWC	Anderson & Anderson Legal, Petro-China subsidiary	Bloomberg TC, KPMG, Chono Group, Anglo-American, Deloitte
Parking	20 outdoor	50, underground and outdoor	25 underground	82 underground	80 underground	45 underground 48 outdoor
Developer	MCS Group	Newcom Group	Monnis Group	MCS Group, Shangri-La Asia and Kerry Group	Jiguur Grand Group	Chono Group

	Monnis Four Seasons Gardens Building	Bluemon Centre	Sunroad Building	Zaisan Square
District	Khan Uul	Sukhbaatar	Sukhbaatar	Khan Uul
Office NFA	4,800	3,366	5,200	12,240
Opening Year	2012	2012	2012	2013
Number of Floors	10	6	14	
Floor Area (sq m)	500	561	420	
Tenants	Mines Up, Monnis subsidiaries	Bluemon Group, Univision, Just Oil, Bloomsbury Media	Valiant Art	Hunnu Coal
Parking	33 underground, 75 outdoor	No dedicated parking but in planning stages of a large underground parking lot	10 underground, 20 outdoor	50+ outdoor
Developer	Monnis Group	Bluemon Group	Newcom Group	Oyuny Undra

Source: MAD Research

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ASSISTING IN THE SALE AND PURCHASE OF REAL ESTATE ASSETS

Our turn-key real estate brokerage service is entirely focused on the Ulaanbaatar city centre we believe that this is where the best value lies, we have proven this time and again by investing ourselves alongside our clients.

We specialise in guiding our investors through the many challenges of investing in Mongolian Real Estate assets. From the first stages of finding the right investment to the final stages of helping to find you a tenant and managing your investment so you don't have to. We are proud of our track record, continually providing quality services to landlords that are based around the world from Canada to India. With over a 1,000 transactions carried out over nearly 10 years in the Mongolian Real Estate sector and a strong process of internal checks and due diligence, our clients can invest with confidence in what is still a frontier market.

Investing in Mongolian property, like with any investment, comes with risks. However, we strongly believe in the long term potential of the country and see this is an opportune time to capitalise on a market with residential assets continuing to provide gross yields of between 9%-11% and a strong potential capital growth upside.

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INTERIOR DESIGN & RENOVATION WORKS

PROPERTY MANAGEMENT

Makedifference LLC - Sukhbaatar District, 4th Khoroo, 67/1, Ulaanbaatar, Mongolia
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5. CASE STUDY FACILITIES

A. CENTRAL TOWER

Situated at the south-eastern corner of Sukhbaatar Square, the MCS Central Tower mixed use development was completed in 2010 as a joint venture by MCS and Shangri-La. The 17 level construction was originally intended to house the new Shangri-La hotel, although the internal layout was not necessarily suitable for certain hotel operations and so a more ambitious project was initiated a short distance south. This project is scheduled for completion by 2016/2017 and will be part of the largest single commercial complex in Ulaanbaatar. The Central Tower development remains the only true A grade office facility within Ulaanbaatar. It contains 30,000 square meters of office, situated between the fourth and 16th floors of the building. The typical floor plate plan for each office covers 1,700 square meters (NFA), equating to around 85% space efficiency. Foot-traffic for office and retail space is broadly separated and six KONE lifts have been installed to service demand primarily from the office areas of the building. In terms of parking, there are 81 parking spaces available in MCS Tower's managed underground parking garage, almost exclusively for use by office tenants. Monthly parking charges vary from 250,000 MNT per month for weekday only parking to 350,000 MNT for 24/hour parking. The entire building is served by a central air-conditioning system, incorporating innovative features within the Ulaanbaatar office market, such as 0.15m raised floors and 2.9m ceilings.

B. BLUE MON TOWER

The Blue Mon building is situated to the north of the Mongolian Parliament and was completed in 2011. The developers, already responsible for a host of restaurant chains in Ulaanbaatar, developed this 12 floor building to incorporate high-end features lacking in most domestic grade A office supply within Ulaanbaatar. The building contains ceilings of 3.6m in height and a baseplate size of 572 square meters, giving the entire building a GFA of 6,864 square meters. The building is serviced by two LG lifts, capable of carrying 17 persons each at a time. These facilities render this facility among the most efficient and highest quality int he market at present. Nevertheless, Blue Mon Tower barely makes the cut for true Grade A as it is just outside of the tiny catchment of the heart of the central business district. Nevertheless, it remains a highly successful and well planned office building.

Blue-Mon Group offered office space within their building for purchase from prior to completion. Initial costs per square meter were around US$ 3,500, although at present one floor of the building is on offer for US$ 4,500 per square meter - broadly in keeping with market rates for office space purchases. The building is around 90% occupied, with just one floor presently open for rental or purchase. Existing tenants include World Korea Group and Blue-Mon Group itself.

C. GEGENTEEN OFFICE

This office facility is featured because it represents the first of a new tranche of office supply outside of the immediate CBD. Firmly rooted in the B grade market, the office component of this project consists of a 16 level building as part of an expansive development by Jiguur Grand Group. Overall, the development contains 180 apartments, 11,800 square meters of office space and 5,870 square meters of retail and service facilities. Situated at the crossroads between the new Millennium Road and Chinggis Avenue, this site is 3.5km from the city centre, within the so-called Stadium area. The total development is spread across 7 blocks, with underground parking for 131 cars. Alongside the office, retail and residential components, this project will also host the Gegenteen Entertainment Centre. This facility will contain 4 cinema screens, each with seating capacity for between 75-100 persons. The office, retail and residential components were completed during 2013, although the entertainment facility is presently under construction and should be completed during 2015. This large-scale facility represents the beginning of the upscaling of facilities in the Stadium Area, a part of the city tipped for rapid commercial growth on the tail of dramatic levels of residential construction over the past five years.

6. RENTAL MARKETS

Between 2006-2012 rental rates for good grade office in Ulaanbaatar increased at a CAGR of 8.8%. At the uppermost end of the market rental prices per sq.m per month averaged US$ 49.1 throughout 2013. The average asking rental rate across broader grade B markets stood at US$ 26.1 per square, a full 53% lower than those registered within CBD based B + and A grade supply.

The two office facilities which currently make a majority of A grade office supply, Central Tower and Blue Sky Tower, command the highest asking rents of US$ 63.7 per square meter per moth and US$ 60.7 per square meter per month respectively. The newly introduced ICC building is also advertising rental rates per square meter firmly within this region and offering a similar facilities profile. All three of these overlook Chinggis Square, commanding among the best locations available in the city at present.

During 2013, expectations of significant new supply, a slowdown in overall economic growth and negative responses to Government policy on foreign investment dampened the enthusiasm of office owners and saw some companies choosing to hold off on upscaling their facilities. This led to Blue Sky Tower and Central Tower reigning back their rental rates by a high of around 20% in order to attract and retain tenants leaving their space. This comes on the back of rental rate rises of over 20% per annum just two years earlier.

In terms of office supply pipeline established economies such as London and new York, are seeing supply pipelines of around 7.9% and 1.7% of total extant supply respectively. Rapidly developing economic zones such as Mumbai and Sao Paulo are seeing higher rates of pipeline growth, with 23.9% and 23.8% of extant market volume in the pipeline respectively. As a world-beater Shanghai's pipeline for office space is presently a staggering 39% of extant supply, although smaller economies experiencing rapid growth - among them Myanmar - will certainly outstrip this figure as their tiny supplies of commercial real estate continue to expand at an impressive pace. Mongolia, with its pipeline supply of 48% of existing office stock, will certainly be a contender among the world's fastest growing office markets, although this would necessitate a downward adjustment in pricing in a heavily competitive market with insufficient demand.

Three trends are expected to undergird office market growth between 2014 and 2017. The following factors are considered of foremost significance in the future trajectories of Ulaanbaatar office markets:

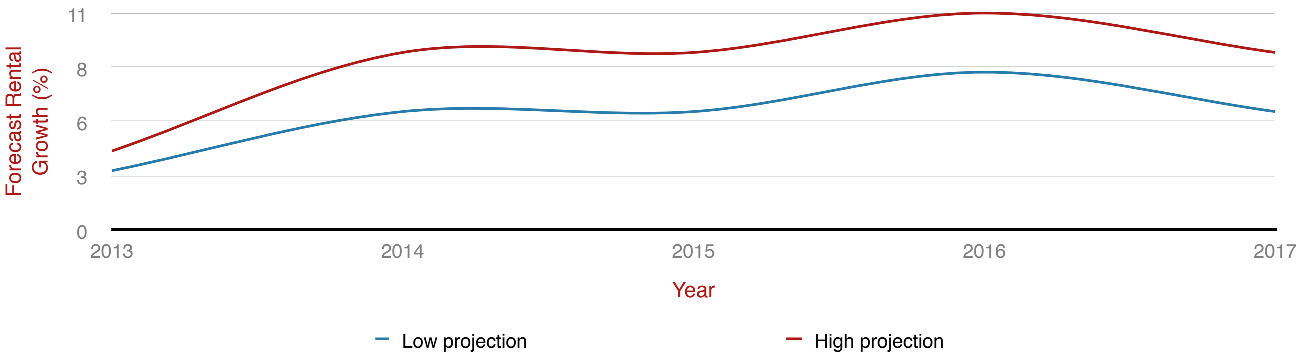
- Higher rental rate potential in Khan Uul district expected as a result of improving supply from projects such as Zaisan Square, Gegenteen and KH Tower. Despite a large new supply coming online in this district's (40,755 square meters expected overall) good grade market between Q4 2013 and 2017, improving facilities and access mean that good grade offices here should continue to see rental rate growth from a low baseline thanks to improved desirability and an improving tenancy profile.

- With slightly higher GDP growth expected during 2016 and an extremely limited new supply scheduled for this year - resulting in stabilisation of uptake and vacancy rates - rental growth is expected to peak at 10%-11%. A significant tranche of new projects is not expected to emerge into the Ulaanbaatar office pipeline until 2016 - 2017 as a result of expected financing constriction throughout 2015.

- Price growth will drop slightly, as will uptake rates, during 2017. This comes as a projected 102,000 square meters of good grade office emerges onto the Ulaanbaatar market in landmark projects including the Shangri-La (33,000 sq.m of office) and the first office building in Ulaanbaatar to be fully developed by an international developer, the International Finance Center (29,900 sq.m of office space). Projections indicate rental rate growth of just 6%-9% year-on-year for this period as the market adapts to extremely large new supply and overall GDP growth drops back into mid-single digit territory (according to IMF estimates from Q2 2013).

As noted above, overall uptake and vacancy rates in the good grade office markets have followed a relatively rapid cycle, triggered by repeated demand shocks resulting from macroeconomic downturns. These dynamics will also significantly impact pricing in the Ulaanbaatar good grade markets with forecasted rental rate growth projected at between 2% - 11% year-on-year from 2013-2017.

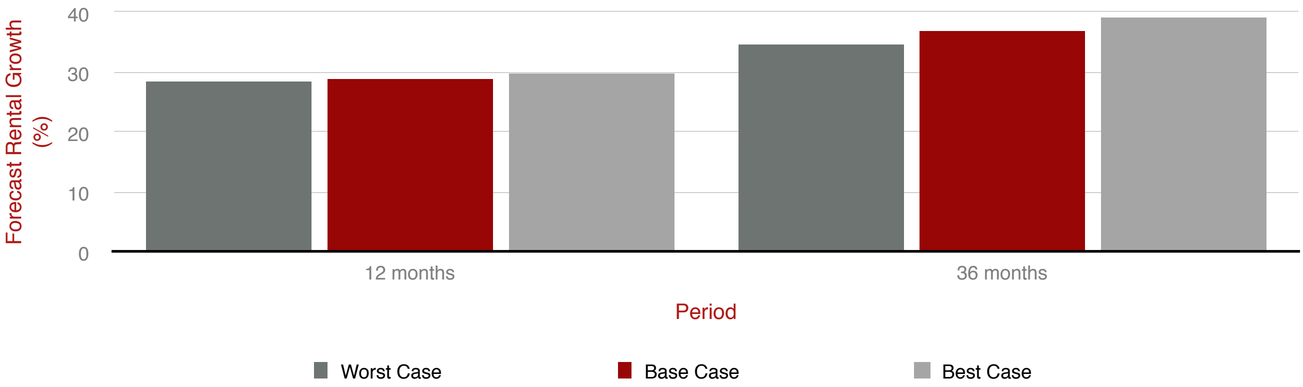
GRAPH 130: Good Grade Ulaanbaatar Office Forecasted Rental Growth (%)



Source: MAD Research

The upshot of this rental growth trajectory - tied to the steady and more robust recovery of the Mongolian economy - will result in projected rental rates projected for B grade (not A grade city centre) office space of around US$ 28.49 per square meter per month after 12 months as a worst case scenario and US$ 20.58 per square meter per month as a best case scenario. After 36 months a best case scenario indicates rental rate growth of US$ 39 per square meter per month across the broad good grade office markets, with a worst case scenario of just US$ 34.57. These projections indicate a CAGR of 14% and -8.3% respectively.

GRAPH 131: Good Grade Ulaanbaatar Office Forecasted Rental Growth (%)

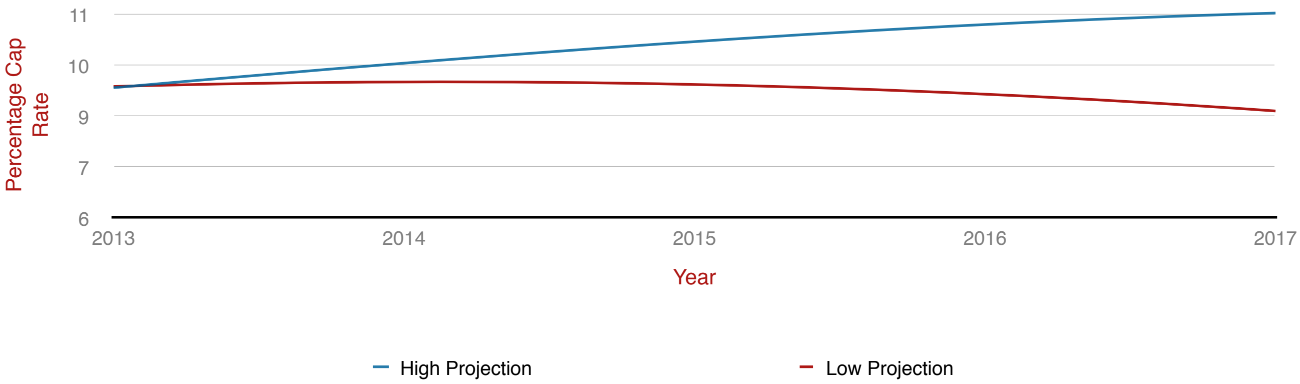


Source: MAD Research

7. SALES PRICE AND YIELD

Yields for office property have remained broadly on a downward curve over the past five years, stabilising at around 9%. The soaring rental growth witnessed from 2011-2012 has come to a grinding halt and entered contraction as domestic and foreign invested companies seek to lower overhead costs to weather a period of macro-economic uncertainty. Significant new supply onto the office market have led to greater competitive pressure on pricing, with B grade properties near to the CBD such as Sun Road building lowering their rental rates to around US$ 20-21 per square meter per month in 2013 in order to attract new tenants into vacant space (a drop of over 30%). Rental prices are falling ahead of purchase prices on the primary market and are thus pushing yields down in the short term.

GRAPH 132: Capitalization Rates in Good Grade Ulaanbaatar Office Markets 2013-2017



Source: MAD Research

Low projections for capitalisation rates in the Ulaanbaatar good grade office markets result in an expected drop in capitalisation rates by 2% by 2017, with rates dropping back to an expected 8.1% for office properties. If the mining-based economic engine of Mongolia restarts on the back of stage-two financing for Oyu Tolgoi and significant new investment (now unlikely before 2016), then slight positive movement is expected in capitalisation rates - potentially boosting them back up to around 10% on the back of upscaling of domestic companies, renewed job creation and entry of international FIRE sector firms. The table below illustrates typical capitalisation rates within the Ulaanbaatar market, based upon analysis of current projects. With current projects in this basket (at the upper end of the market) yielding around 9.0% (the upper end of currently achievable yields in the office market), future projections by developers as to leasing rates may be ambitious, some citing an average 13% yield.

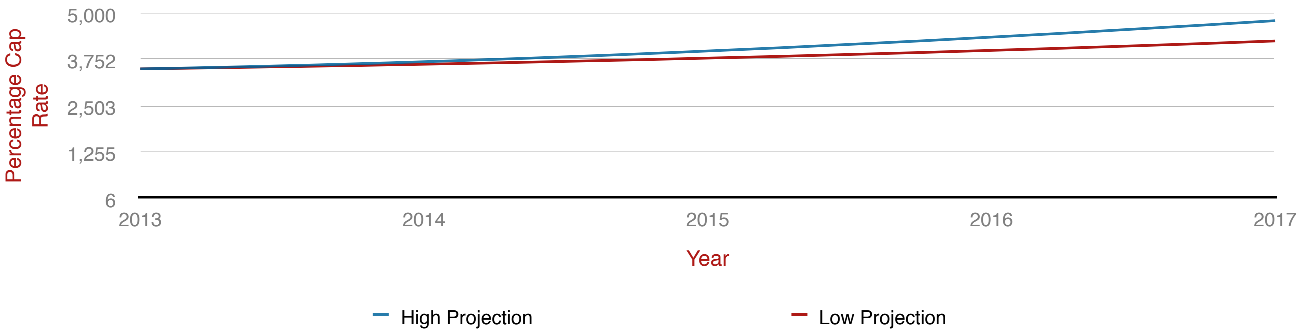
Estimated Office Yields Based Upon Strata Sals

Building	Transaction Date	Sales Price (USD per sq.m)	Asking Rent for Entire Building (USD per sq.m)	Implied Yield	Buyers
Blue Sky Tower	Q3 2011	9,000	52.50	7.0%	Bloomberg Mongolia TV
GS Tower	Q2 2013	4500	36.00	9.6%	Mongolian domestic firms
Galaxy Tower	Q3 2013	4,200	36 projected	10.3%	Mongolian domestic firms
IFC	Prospective	4,700	52.00 projected	13.3%	Not Available
Mega Tower	Prospective	4,500	45.00	12.0%	Mongolian domestic firms
Soyombo Tower	Prospective	4,500	48.00 projected	12.8%	Mongolian domestic firms
Victory Centre	Existing	3,300	25.00	9.1%	Mongolian domestic firms
Averages		**4,957**	**44.92**	**10.6%**	
Average current		**5,250**	**37**	**9.0%**	
Average projected		**4,567**	**48**	**13%**	

Source: MAD Research

In terms of office supply pricing, the swings witnessed in secondary market pricing are not expected in primary markets. This is due to the fact that increases in construction costs, introduction of new technologies and new standards of fit-out will continue to push construction costs up in the good grade markets. Price growth projections for primary office markets put CAGR at 7% per annum as a base case. with overall growth expected to swing from around 6% to 11% per annum depending upon market conditions. This is, broadly speaking, a lower rate of growth than witnessed between 2009-2012 and is based upon a cautious approach to office development.

GRAPH 133: Price Projections in Good Grade Ulaanbaatar Office Markets 2013-2017



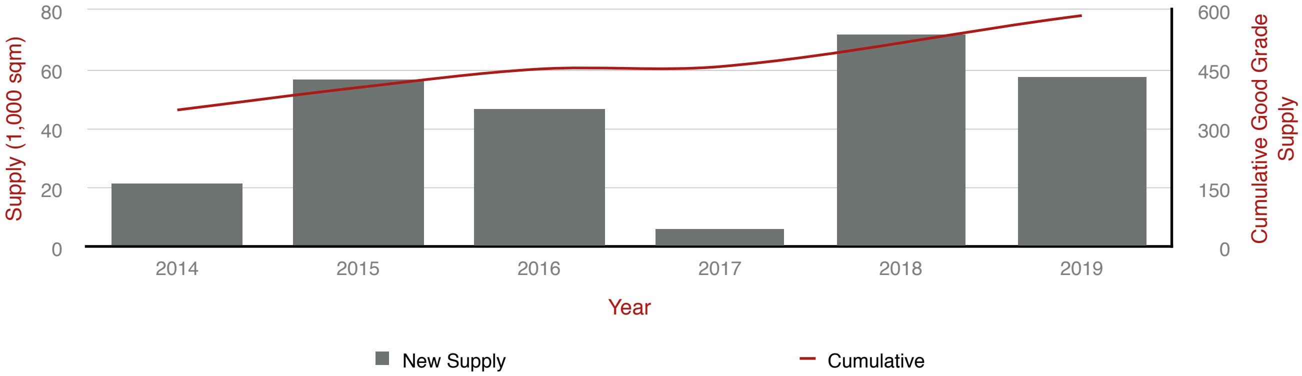
Source: MAD Research

Pricing projections indicate that after 12 months good grade office space in Ulaanbaatar would transact at an average of US$ 3,065 per square meters as a worst case scenario (impacted by falling sales and pressure from growing bad debt), with US$ 3,640 as a best case scenario. After 36 months averages would be around US$ 4,800 per square meter as a best case scenario and US$ 4,324 as a worst case scenario.

8. OFFICE FUTURE SUPPLY

In terms of office future supply, CAGR is projected at around 4.2% of total existing supply per annum. This equates to an average new supply of space within the good grade (B and A) office markets of around 43,300 square meters per year. New pipeline supply is spread unevenly across the markets, with several key projects having stalled in the early stages of construction. Providing financing can be found, these stalled developments, alongside new key projects such as the Moriin Khuur Tower and the Mon Uran Tower, are expected to bring significant new supplies of office onto the markets, some looking like adding up to 30,000 square meters per project.

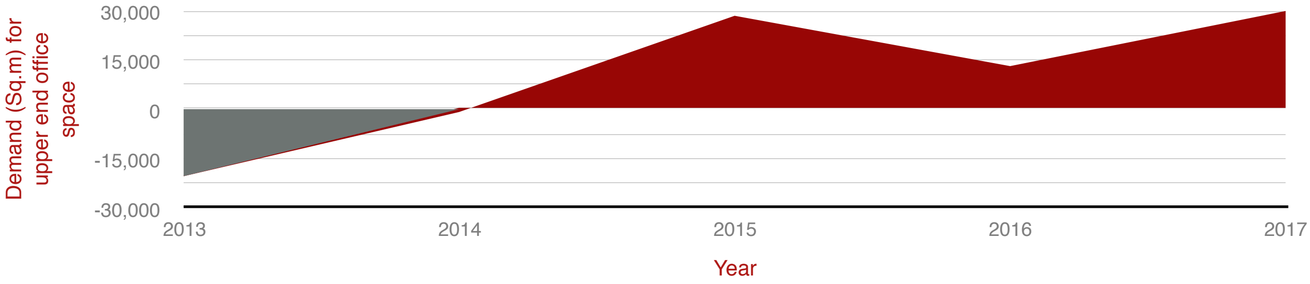
GRAPH 134: Good Grade Ulaanbaatar Office Forecasted Supply Growth



Source: MAD Research

Based upon average numbers of new employees in sectors which make heavy use of office space (including the financial inter-mediation, mining supply, administration and business service sectors), projected as a function of economic growth, we have assessed potential new demand in office markets. This analysis indicates that the new supply of upper end office space will create a short term demand deficit as the economy continues to recover from the downturn in exports and mineral pricing.

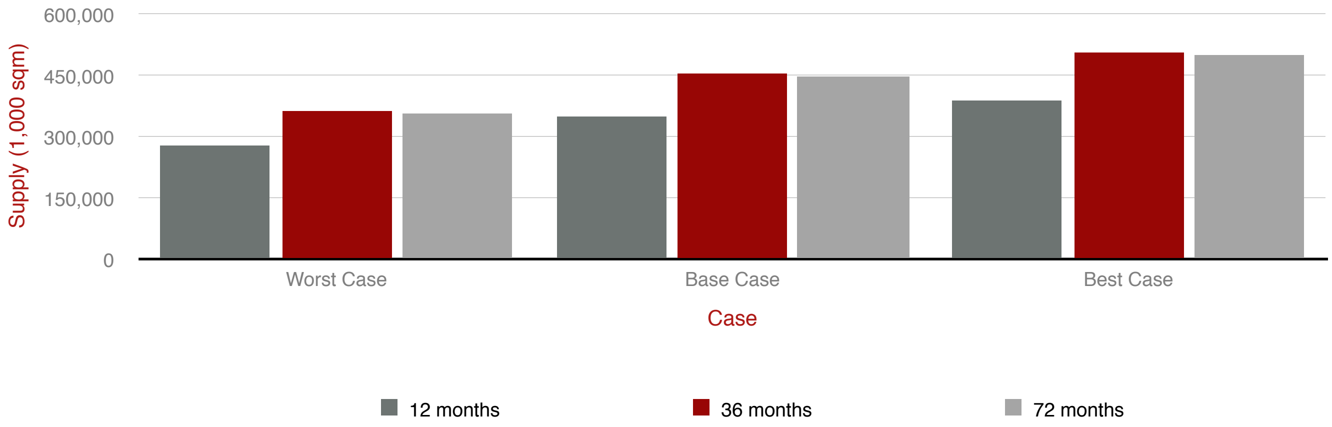
GRAPH 135: Estimated Future Cumulative New Office Demand and Supply



Source: NSOM / UB Stat

By the end of 2015 demand is expected to begin to take off again with the up-scaling of new mining projects and development of the financial sector by both domestic and international firms (although this is heavily dependent upon key mining projects restarting and the Government of Mongolia reaching an agreement over Phase 2 funding for the Oyu Tolgoi project). By 2017-2018 it is expected that upper-end commercial office supply will meet only around 80% of total new demand, with the city centre remaining the most desirable area for commercial space in the capital. Nevertheless, with the market remaining reasonably nascent, extreme caution is advised when considering entry into this sector. The excess demand balance is expected to be, in reality, less than 30,000 square meters of office space for some periods until 2017-2018. With lots of foment in the market around large projects, one significant new project could swallow the entire potential demand.

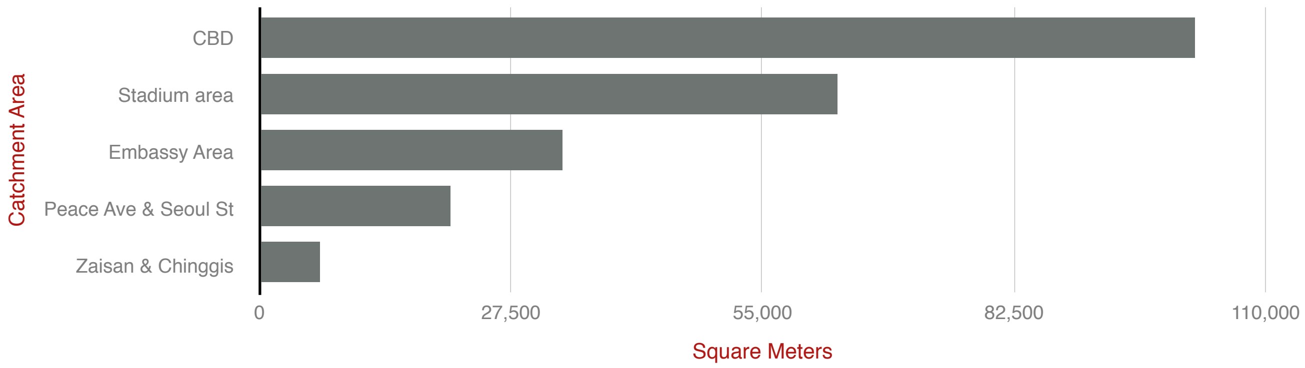
GRAPH 136: Good Grade Ulaanbaatar Office Forecasted Supply Growth



Source: MAD Research

Expected new supply will also change the definition of what good grade office space is in Ulaanbaatar. Over the past three years, interest in the FIRE sectors, with emphasis on the financial services sector, has led to a host of new international blue chip companies establishing operations and representative offices within Mongolia. These include PwC, Ernst & Young and Deloitte. Coupled with an interest in the Ulaanbaatar market from companies such as GDF and Cushman & Wakefield, developers are having to carefully plan the facilities and finishings of their new developments. They are also having to alter contracting considerations around leasing in order to bring these in line with the exciting requirements of international firms. Many significant projects in the pipeline supply will incorporate features such as improved parking facilities, intelligent building monitoring and security systems, raised floors, suspended ceilings, superior lift and intelligent air-conditioning systems.

GRAPH 138: Good Grade Office Future Supply by Catchment Area



Source: MAD Research

Significant Office Buildings in Ulaanbaatar Future Supply

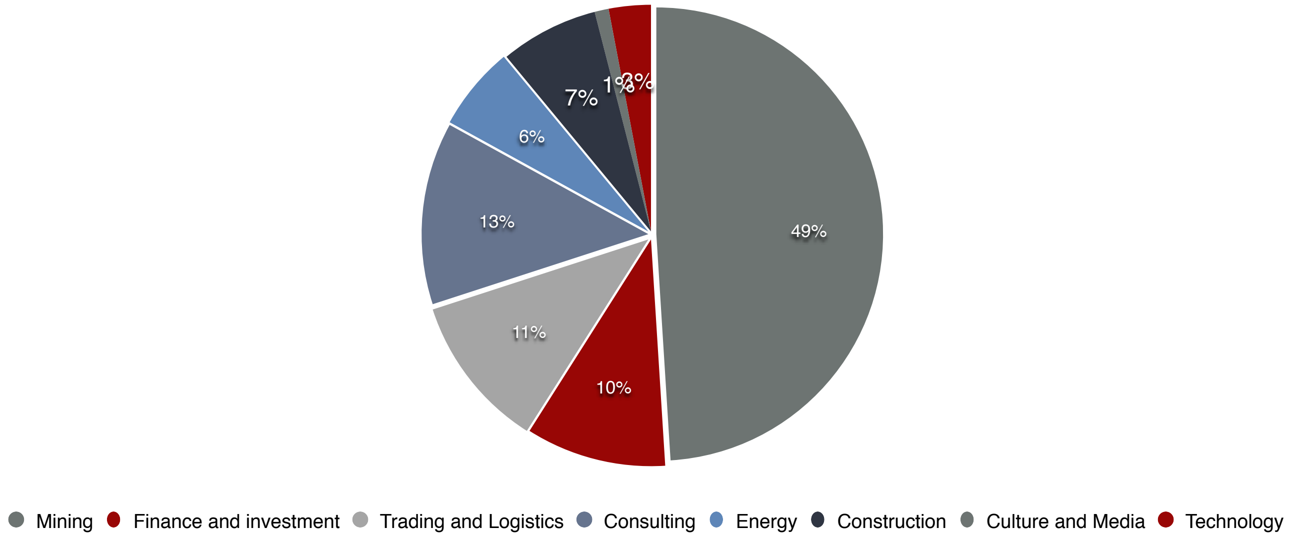
	New Horizon Building	Former Radisson Tower Building	Khurd Office Tower	Mega Tower	International Finance Centre	Shangri-La Office Building	MAK Tower
District	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar
Office NFA	5,076	10,125	21,000	5,500	29,900	33,000	9,076
Opening Year	2015	2014	2015	2014	2017	2017	2017
Number of Floors	15	16	25	12	26	24	42
Pre-Sales / Pre-leasing	Sales	Sales	-	Sales	Sales	-	-
Description of Project	Office	Office	Mixed use with office, residential and retail. Adjoining residential component already completed	Office	Office and Retail	Mixed use with office, serviced apartments, hotel and retail podium	Mixed use with office, hotel, residential, retail and entertainment facilities
Developer	Khan Travel LLC	Nomadic Journeys	Khurd Group	Song Do	Chuang's Consortium International	Shangri-La Ulaanbaatar / MCS Group	MAK Group

Source: MAD Research

9. TENANCY PROFILE INSIGHT

Official figures indicate that 1,564 financial services establishments were registered as operating in Mongolia by the last quarter of 2013, an increase of 302 in one year. The numbers of active businesses in Ulaanbaatar outside of the financial sector that require office space reached an 5,092 during 2013. Growth of the ICT sector, administrative roles and mining service sector have also spurred growth in Ulaanbaatar good grade office markets. A survey of tenants in good grade facilities undertaken during 2014 indicated that 49% of occupied good grade office space in Ulaanbaatar was taken up by mining related companies. Finance and investment made up 10% of the market (growing year-on-year), whilst trading and logistics took up 11% of total occupied good grade space. Employment indicators evidence the fact that at the end of 2013 approximately 31,006 persons in Ulaanbaatar (around 2% of the total city population) were employed in the FIRE sectors. Projections indicate that between 2,520 and 3,900 jobs will be created per annum in these sectors between 2014-2017. It is estimated that these key sectors alone currently require around 470,000 square meters of good grade office space and that by 2017 these sectors have the potential to demand a further 205,000 square meters. This alone would account for the 196,975 square meters of good grade pipeline supply between the end of 2014 and 2017.

GRAPH 139: Tenant Mix of Quality A and B Office Buldings in Ulaanbaatar - 2014



Source: MAD Research

On top of this, mining sector and mining related industries are assumed to have good grade office space requirements several orders of magnitude higher. This is borne out in reference to the tenant mix survey presented above. However, a number of large mining operations have left Ulaanbaatar as a result of unfavourable Government policies directly impacting the sector. The impact of this sector upon new job creations within the city and concomitantly upon demand for office space, is likely to be lessened in years to come, with the finance sector expected to take up the slack. At present, international banks and financial organisations have only very minor footholds in Mongolia. With continued economic growth expected, new international entrants in the finance sector will swell demand for upper end office space in the capital, with upscaling domestic companies are expected to bolster B grade demand in the mid-term. The gradual opening of the Mongolian economy to international banks and financial institutions is now underway. The passing of a new ‘Fund Law’ in January of 2014 set the stage for expansion of the financial sector, heretofore stifled by the protectionist policies of the Mongolian government.

10. OFFICE MARKET FUTURE TRENDS

Expansion: As Ulaanbaatar's economy continues to grow and key sectors expand, both domestic and international businesses will require more office space in which to develop their operations. This trend is already visible in increasing preferred unit sizes in good grade offices developments within the city centre. Companies in Central Tower have gradually expanded their unit size requirements as operations have upscaled. The most popular unit size in Central Tower has increased from 50 square meters in 2009 to over 200 square meters in 2013, with international companies such as PwC expanding their space requirements as they have grown their businesses in Mongolia.

Owner Occupiers: Large domestic companies have typically developed their own office buildings and will occupy a portion of the developed space, also situating their subsidiaries within these offices. Companies including MCS Group, Newcom Group, Bodi Group, Monnis Group, Jiguur Grand Group and Chono Group all maintain offices of varying sizes within office facilities developed by their subsidiaries. It is presently estimated that around 13% of the total good grade office space in Ulaanbaatar is owner occupied. As large domestic companies diversify and expand their operations, particularly in the field of mining, it is expected that owner occupation of office space will grow. However, most of the top 10 companies in Mongolia already have established office projects under their name in the city centre of Ulaanbaatar, meaning fewer owner occupied developments in the mid-term.

Consolidation and upgrading: Trends of upscaling and consolidation of office space will drive owner occupiers in the mid-term. Many major companies operating in Ulaanbaatar have experienced rapid expansion over the last decade and many maintain multiple offices. Several companies have expressed a desire to consolidate operations into a single building in order to enhance efficiency. As an example, the Gegeenten project developed by Jiguur Grand Group, contains one entire tower dedicated to Jiguur Grand Group offices. Among international companies consolidation or expansion ability largely depends on their alliances with local partners. Upscaling is occurring among large organisations such as the Trade and Development Bank of Mongolia, which developed a new temporary headquarters on Peace Avenue until the old TDB headquarters, located in the traditional banking district, west of Sukhbaatar Square, can be redeveloped.

Multi-National Corporations: A key driver in upper end office markets, MNCs typically drive expansion in both quality and quantity of office spaces in emerging markets. Within Ulaanbaatar MNCs have typically leased office space rather than purchase outright. Since large-scale mining projects such as Oyu Tolgoi were initiated in Mongolia, MNCs have become a key driver for demand in good grade office markets.

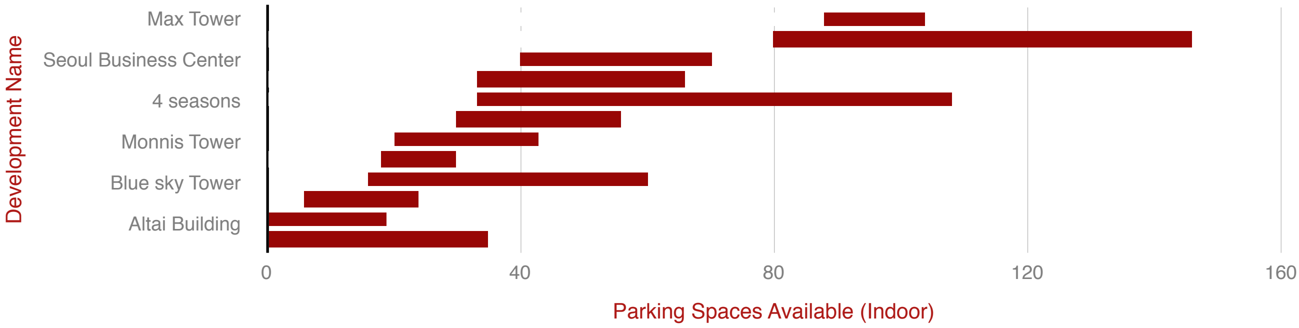
11. FACILITIES CONSIDERATIONS

In terms of facilities and amenities the majority of Ulaanbaatar's stock of office space falls well below Grade A status. Facilities such as well differentiated foot-traffic between uses in mixed use buildings, raised floors for cabling, suspended ceilings, intelligent climate control, carbon neutral status and one-way transparency windows are not standard features in the upper end of the market. However, projects in the new supply pipeline are increasingly bringing these features into this market. As an example, the International Commercial Center (scheduled for completion in 2014) will bring new intelligent building monitoring systems and parking controls, whilst the International Finance Center (scheduled for completion in 2017) will bring with it the highest ceilings in the Ulaanbaatar office markets heretofore, as well as international standard fit-out.

A. PARKING

Average building GFA to indoor and outdoor parking available is around 173.5 square meters per parking space. The average number of indoor parking spaces per development is just 33.1. These figures are well below international Grade A standards. Developers are, however, increasingly designing commercial facilities with greater numbers of parking spaces available.

GRAPH 140: Parking Spaces (outdoor available and indoor) per Development



Source: MAD Research

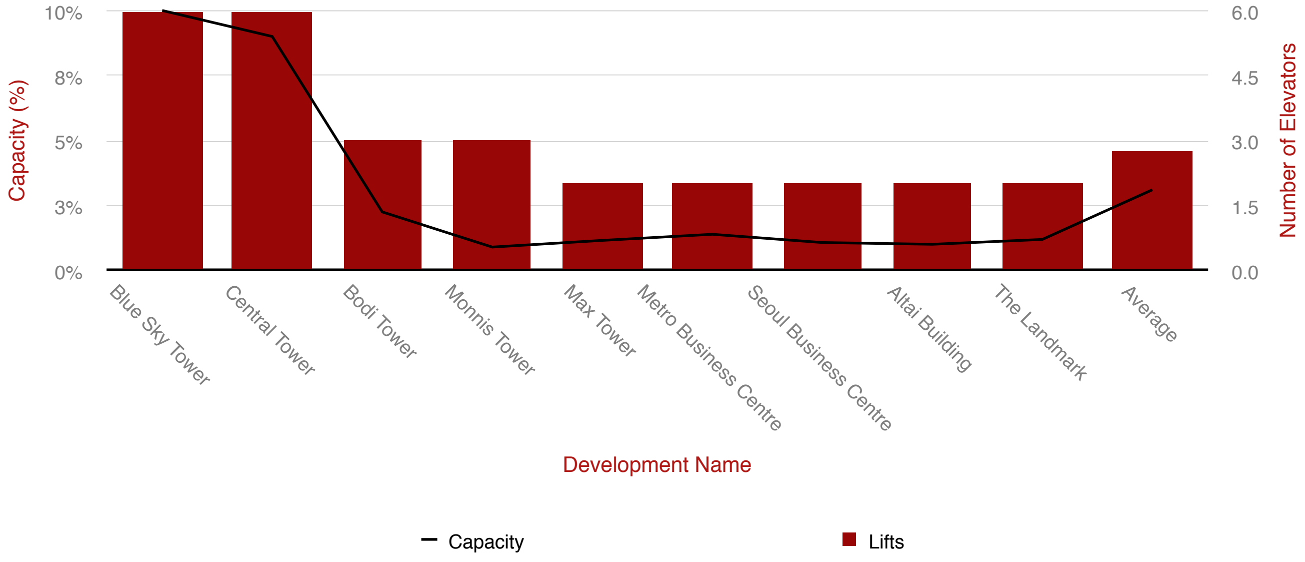
As projects are becoming better financed the expensive prospect of digging down several levels in order to provide underground parking is becoming more viable. New projects such as the IFC will contain higher numbers of parking spaces, smart monitoring of parking and innovations such as stacked parking. Of all current developments, an older Grade B property, MAX Tower, (situated outside of the CBD), presently contains among the largest ratio of indoor parking to GFA available to any office structure in the city, with a well provisioned 88 underground parking spaces.

Across the whole of Ulaanbaatar parking is increasingly at a premium as numbers of cars continue to increase beyond what the inner city's ailing transport infrastructure can handle. With ineffective planning regulations and historically planning by developers office and retail projects across Ulaanbaatar have extremely limited underground and off-street parking available. the prohibitive cost and lack of local expertise required for multi-level underground parking makes more than one level of underground parking a rarity in Mongolia at present. Removal of parking spaces on roads around the city as part of traffic calming measures have only served to exacerbate the situation further, leading to a significant demand. Parking remains one of the highest yielding uses of land per square meter in Ulaanbaatar, with facilities such as MCS Central Tower charging 250,000 MNT per month for weekday only parking.

B. ELEVATOR CAPACITY

Elevator capacity is a key determinant of office ratings. International classificatory schemes dictate that in Grade A office space the available lifts must be capable of servicing 15% of the average human capacity of the building at any time, with Grade B offices having elevators capable of moving 14% of the human capacity of the building at any time. Calculations indicate that Central Tower, with its six lifts, is capable of moving around 9% of its occupants art any one time (if fully occupied) and that Blue Sky, with six lifts, could move approximately 10% of its occupants at any time. These statistics add support to the classification of these buildings as domestic Grade A standard, although they fall somewhat short of international Grade A.

GRAPH 141: Number of Elevators by development and % of estimated occupants capable of being moved at any time in lifts

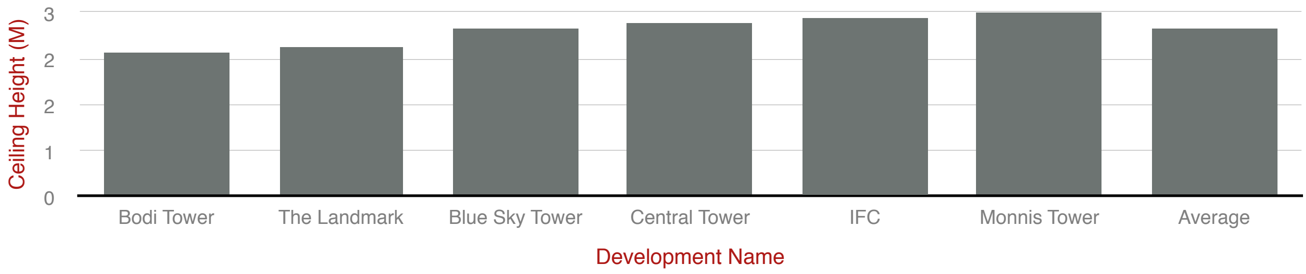


Source: MAD Research

C. CEILING HEIGHTS

Ceiling heights in Ulaanbaatar's good grade office supply typically range from 2.1m to 3.5m. Monnis Tower presently tops the list at 3.1m, although new developments will boast higher ceilings. Lower grade and presently less desirable office spaces fall further down the list of ceiling heights. The International Finance Center, expected to be completed in 2017, is scheduled to have impressive ceiling heights of 4.35m.

GRAPH 142: Ceiling Heights of Selected Office Buildings in Ulaanbaatar

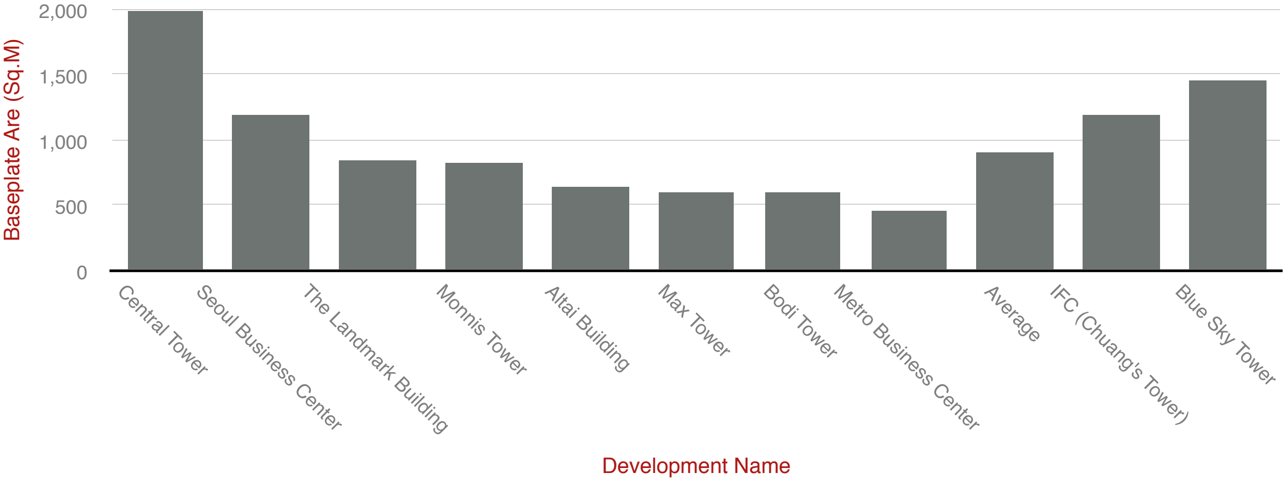


Source: MAD Research

D. FOOTPRINT AREA

Floor area is another determinant of A grade status. Internationally, office buildings which fall below a certain floor-plate size are not considered grade A facilities. For a building to be classed as A grade it should have a floor plate of over 1,000 square meters, with B grade requiring a 600 sq.m + floor-plate size. By this metric only Central Tower, Blue Sky Tower, the IFC (Future Supply) and Seoul Business Centre meet the A grade standard (Seoul Business Centre does not offer much else in terms of A grade features). Central Tower, with an impressive 2,000 square meter baseplate stands clear above the rest, solidifying its place as a true A grade development.

GRAPH 143: Gross Baseplate Area of Builings Containing Significant Office Supplies in Ulaanbaatar



Source: MAD Research

XVIII.RETAIL MARKET ANALYSIS

1. MARKET INTRODUCTION

A.T. Kearney's 2013 Global Retail Development Index™ indicates that Mongolia is yet again on the rise in terms of retail potential. The 2013 GRDI ranks Mongolia 7th internationally, rising two places from 2012 and putting it firmly on the radar of retailers seeking entry into strategic new markets. Mongolia's overall GRDI score places it ahead Kuwait, Malaysia, Kazakhstan, Russia and India in terms of real estate potential and broadly on par with Turkey and UAE. Whilst the Mongolian retail market remains small in overall scale when compared with others in the top 10, it scores high due to extremely low market saturation and the very small window of opportunity which large international retailers now have to engage this increasingly affluent population. The trade-off for large retailers is

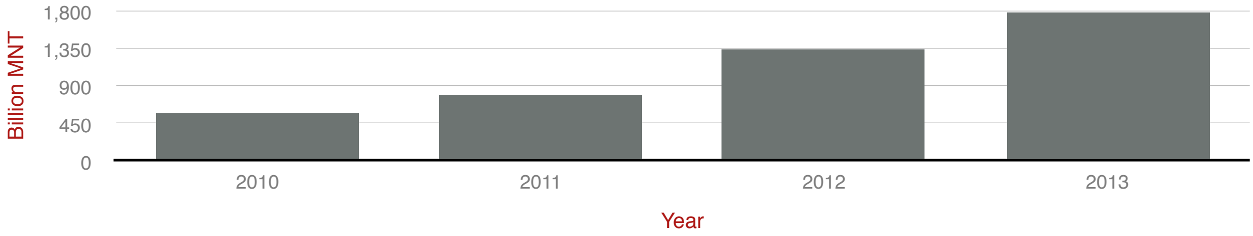
Retail markets in Ulaanbaatar are tipped for continued growth as a result of growing consumer demand and high potential that comes from limited market penetration by international brands. Whilst primary market sales pricing for retail space has risen ahead of rental rates, leading to falling capitalisation rates (standing at around 9.1% on average within the Ulaanbaatar markets), it is expected that strong demand from domestic consumers and the potential of new market entrants from among the global top 100 brands will continue to push pricing. A number of key investment commentators have gone on record in the past year to state that they expect retail rentals to reach close to US$ 100 per square meter per month on average within the next five years. Whilst this seems optimistic, a number of key developments around Ulaanbaatar already charge over US$ 100 per square meter, with department store and high street spaces topping the list in terms of highest per square meter per month prices at present. True mall concepts are not present within the market at this time and therefore are not represented in the table below. Max Mall, Jiguur Grand Plaza and similar concepts are represented under the shopping centre concept.

The extract above from the A.T. Kearney Global Retail Development Index™ shows Mongolia ranked 7th internationally in terms of retail potential. Overall market attractiveness ranks the lowest of any of the jurisdictions featured in the top 10. This is because an overall small market (just 1.3 million people in Ulaanbaatar) means little scope for overall market growth in terms of scale. However, with just a limited number of international brands presently represented (less than 30 at this time), market saturation is low, resulting in a high potential rating of 99 out of 100. Time pressure also places Mongolia among the highest of the top 10 jurisdictions as a result of the small market giving early movers a clear advantage in terms of potential sales volumes.

This ranking raises Mongolia two places over the 2012 report and puts it firmly 'on the radar' of retailers seeking strategic markets. Mongolia's overall GRDI score places it ahead Kuwait, Malaysia, Kazakhstan, Russia and India and broadly on par with Turkey and UAE. Retailers will thus be looking to capitalise upon a small buy buoyant and resilient luxury market, whilst carefully weighing their options and timing on entering a growing consumer marketplace if and when retail facilities of suitable scale, offering suitable facilities, become available.

Whilst Mongolia has a small population, at just 2.8 million people (just under 1.3 million of which reside in the capital city), wealth in the nation is highly concentrated. A youthful population also tends to mean more discretionary retail spending and Mongolia's demographics show a bottom heavy age pyramid, commensurate with potential for good market growth. Moreover, World Bank calculations indicate that between 2007 and 2011 domestic consumption in Mongolia almost doubled. In 2003 household final consumption as a percentage of GDP stood at 69.09%. By 2011 it had dropped to just over 50% of GDP. As national GDP has expanded consumer spending has not kept up. This provides the conditions for a potential consumption boom as consumer culture grows and the retail markets in Ulaanbaatar expand in terms of products and services offered, as well as in overall scope and scale. If the markets move towards greater stability, savings rates are expected to fall and, with more income leveraged into the retail markets as disposable income.

GRAPH 144: Total Retail Sales in Mongolia (billion MNT)

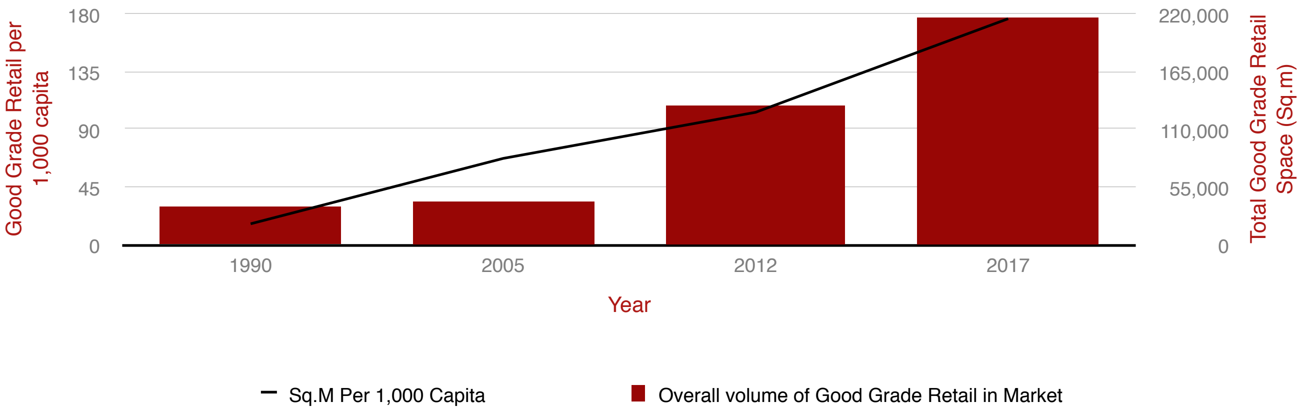


Source: NSOM

2. MARKET HISTORY

During Mongolia's socialist period all private trade was forbidden, although consumer goods were available and by 1985 retail trade turnover was 4,138.4 million MNT. Large scale trade with China and Russia since the 1950s enabled Mongolia to purchase imported goods. During this period the vast majority of retail sales took place in state outlets. By the mid 1980s there were 1,382 retail shops, 2,498 stalls and 543 restaurants and canteens in Mongolia. The majority of stores at this time used a triple-line system in which consumers would line up to select their goods, before lining up again to pay and yet again to receive their purchases. Self-service stores were only introduced in the 1980s. Prices were strictly controlled by Government and only freely negotiated pricing would only be seen in a few locations tolerated by authorities, such as the Sunday market on the northern suburbs of Ulaanbaatar. British Journalist J. K. Sanders calculated that between 1975 and 1982 only one family in 345 purchased a car, although from 1975-1983 one in every three acquired a television set and a refrigerator or washing machine. Far from suppressing consumerism, the Government of Mongolia implemented successive plans during the 1970s and 1980s to increase sales of garments, carpets and al manner of industrial commodities within Mongolia.

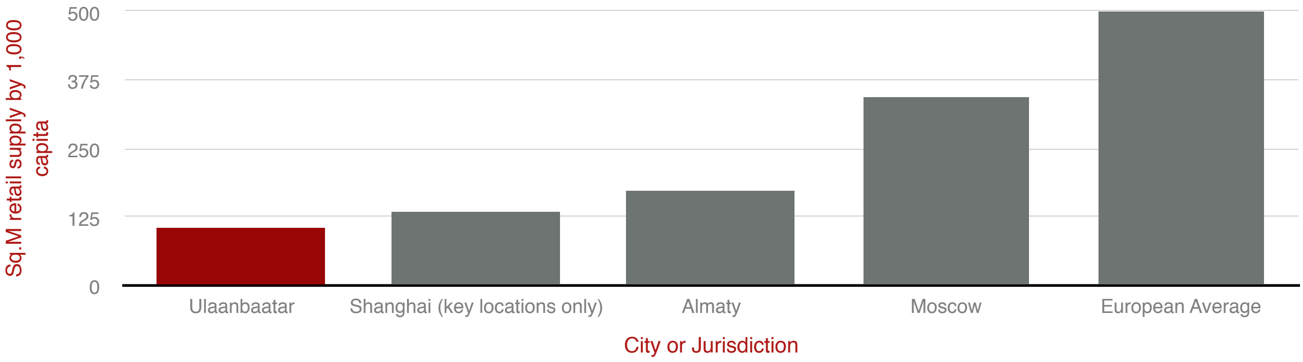
GRAPH 145: Good Grade Retail Space Per 1,000 Capita in Ulaanbaatar and Total Good Grade Retail Space



Source: MAD Research / UB Stat

Since 1990 the retail market has undergone significant changes. The number of square meters of retail space per 1,000 capita in Ulaanbaatar has expanded dramatically, from just 67 in 1990 to 103 at the end of 2012. This figure places the Mongolian capital broadly on par with Shanghai (key locations only). Although this figure represents just 58% of the supply per 1000 capita of Almaty, or 20% of the European average.

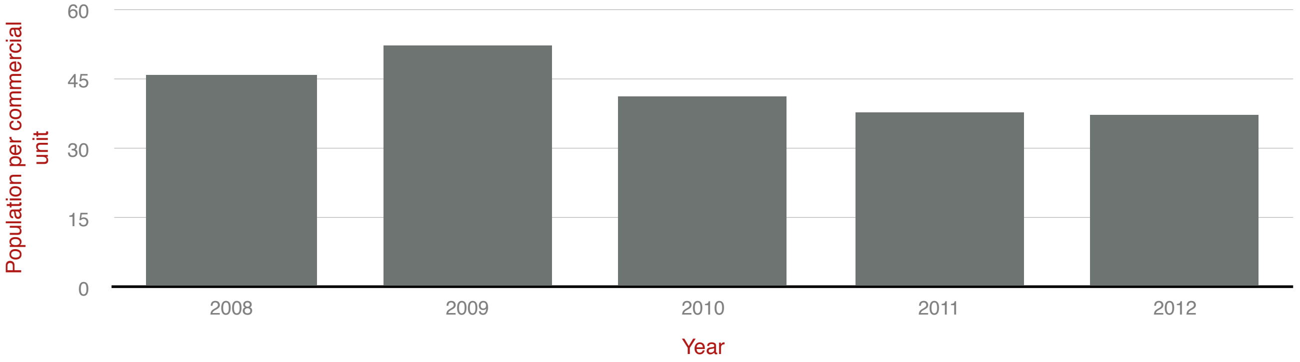
GRAPH 146: Ulaanbaatar Sq.M of Retail Space per 1,000 Capita, Benchmarked (2012)



Source: numbeo.com / MAD Research / CBRE / Cushman & Wakefield

Within Ulaanbaatar there are presently 37 persons per commercial unit. This rose to a high of 52 during 2009 on the back of growth in numbers of small businesses, particularly food stores, around this period. Following the legalisation of private trade in the 1990s many of the peri-urban markets, previously the site of illegal private trades, became legitimate hubs of market-style trade and were taken under private ownership. Among the most famous of these is the Naran-Tuul market (still known as the Black Market), situated to the south-east of Ulaanbaatar. This huge market, covering 40,000 square meters, is one of the largest regionally and continues to sell everything from food to electrical goods and pets.

GRAPH 147: Population Per Commercial Unit (by year)



Source: MAD Research / UB Stat

During the early days of the liberal economy (1990-1995) high-street retail also grew at a dramatic pace as owners of ground-level apartments along major thoroughfares transformed their dwellings into prime retail space. These high-street stores, particularly those lining Peace Avenue, continue to be thought of as good quality retail, despite ageing internal infrastructure. During 2013 these spaces transacted at prices reaching above US$ 4,000 per square metre and key high-street retail locations across the city are broadly tipped for rapid growth. However, they lack suitability or sizing profile appropriate for international brands and will reach their price ceiling rapidly.

History of the Ulaanbaatar Retail Markets

Phase	Centrally Planned Economy	Market System Introduction	Retail Sector Expansion	Differentiation and Upgrading
Period	1940 - 1990	1990 - 2005	2005 - 2013	2014 -
Example Retail Formats and Trends	Retail facilities were state owned Private trade was restricted, although was carried out illegally	Supermarkets and large domestic food stores Emergence of specialist stores and liberalized import markets Dramatic growth of high-street	New department stores and mall-type facilities constructed First truly modern shopping centers hosting high end brands come online International brands begin to enter the market	International standard shopping centers Integrated shopping facilities, including entertainment and F&B Rapid increase of international brands entering the market First out of town shopping centers and new retail concepts
Representative Projects	State department store	Nomin hypermarket Narantuul Market Naran Shop	Central Tower Ulaanbaatar Mall Max Mall	Hunnu Mall Viva City MAK Tower
Good Grade Retail Space Per 1000 Capita in Ulaanbaatar	16	67	103	176 by 2017

Source: MAD Research

Early adopters of retail, under the newly liberalised private trade regime, included Naran Group and Nomin Group. In 1999 Nomin Group took over a majority share of what was then called the “Department Store”. In the tradition of the socialist period “Friendship” or “Diplomatic” store, the earliest incarnation of this retail facility was established in 1924 in an early Russian style building. This store exclusively sold specialist Russian goods to those lucky enough to gain access. It was later moved the the location presently inhabited by a museum dedicated to the great Mongolian artist Zanabazar. Here an elite could purchase American chewing cum, cameras and other ‘deficit’ goods. It was renamed the “State Department Store” and transferred to its present 29,000 square meter site on Peace Avenue following privatisation. Under the management of Nomin Group this facility has developed a reputation as a key retail power centre. The tenancy framework for State Department Store has been transformed in recent years, reflecting Nomin Group’s desire to move from a model based upon leaseholder agreements with small retailers to one where the store will be increasingly filled with brands for which Nomin Group is the official distributor or franchiser.

The nation’s wealthiest socio-demographic segments were also early adopters of conspicuous consumption of luxury and foreign products. During the late 1990s and 2000s Mongolia‘s retail markets underwent a dramatic transformation as new products poured onto shelves and brands such as Adidas, Dior and United Colors of Benetton entered the market. In

2009-2010 the completion and opening of large scale mall-style facilities in Jiguur Grand Plaza and MCS Central Tower, heralded a new generation of upper-end retail facilities. The completion of Central Tower, located in the heart of the central business district, confirmed a shift in the power centre of Ulaanbaatar retail from high-street areas surrounding the State Department Store and the 13th District (a second hub of mid-lower end high-street retail) towards the CBD. Central Tower remains the hub of luxury retail, featuring brands such as Louis Vuitton, Bang & Olufsen, Mont Blanc, Burberry, Emporio Armani, Hugo Boss, Hublot, Vertu and Omega, a majority of which maintain distribution agreements with the developer, MCS, itself.

INFORMATION BOX - THE STATE DEPARTMENT STORE, A BRIEF HISTORY

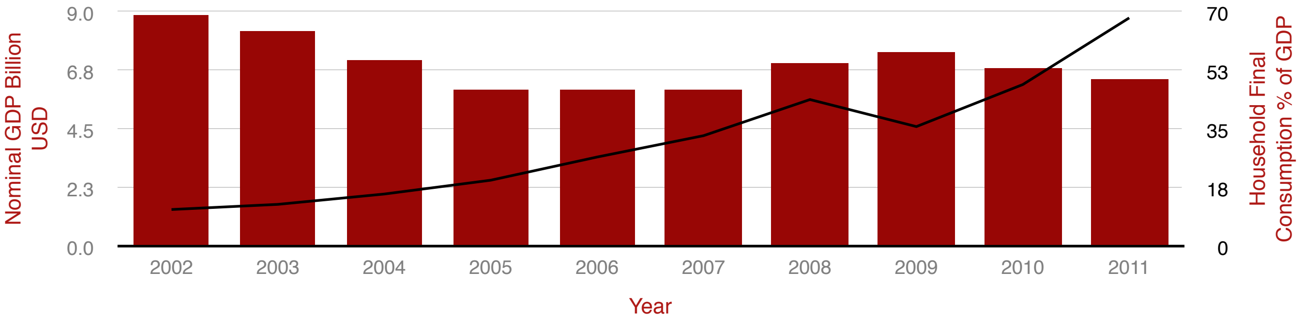
The State Department Store (*Ikh Delguur*: lit. Big/Grand Shop) on Peace Avenue is a landmark building in Mongolia. It sits at the heart of Peace Avenue and is a landmark around which Ulaanbaatar's entertainment and high end retail has coalesced. The State Department Store was built in 1961 as a state construction, although most people associate the current building with the history of exclusive stores selling so-called defect goods in Ulaanbaatar. The first such store was itself was established in 1924 as a Russian specialist store and known as the "Central Store". It then moved to the location presently inhabited by the Zanabazar Museum, a squat, traditional style building a short distance north-east of the present State Department Store. In this location it was renamed the "Department Store". When a large, landmark facility was built in the current location the store was moved there and renamed the "State Department Store". The store and its operations were not privatised until 1999, after which Nomin Group took over majority share ownership and continue to operate the store to this day. Nomin is one of Mongolia's top 100 companies and, under the management of this firm, the State Department Store was fully refurbished and brought to its current standard as a well-serviced retail facility.

The State Department Store was the location to which anyone could go to purchase goods imported from abroad, including goods from beyond the Soviet Union, provided they could afford them. Diplomats and dignitaries would also frequent a number of 'closed' stores around the city, including the now closed "Centre Point" store on Peace Avenue. These restricted, or deficit goods as they were sometimes known across the Soviet Union, included cameras, American chewing gum and rarely seen food items that could not be purchased by regular Mongolian citizens.

Today the State Department Store retains an appeal for Mongolia's wealthier classes as well as for foreign tourists and expats. The Nomin supermarket on the ground floor still sells largely imported food products, including American and European brands, except that they are now available to anybody who can afford them.

With a glut of new grade A retail coming onto the Ulaanbaatar market over the past three years, Nomin have had to work hard to retain the appeal of this 1960s style construction. Yet, they have done so admirably. Throughout 2011 they have been attracting new international cosmetics brands and by raising prices for retail space have replaced smaller domestic retailers with well known brands. The store has also become a hub for events ranging from Christmas celebrations to music concerts, helping Nomin retain an enviable market position.

GRAPH 148: Household Final Consumption Expenditure as % of GDP in Mongolia and Nominal GDP of Mongolia



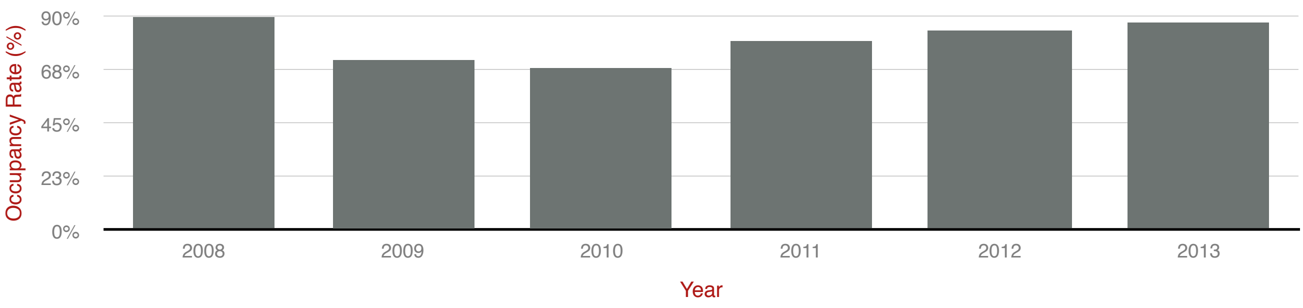
Source: NSOM

During 2011 retail sales rose by an impressive 38% as the overall economy recovered from the shocks of the economic downturn and a fall in commodities pricing, rising by a further 26.2% year on year from 2011 to 2012. Total value of retail sales climbed again in the first 10 month of 2013, this time by 13.8% year-on-year over the first 10 months of 2012. For the city of Ulaanbaatar the total retail and wholesale trade (at current prices) rose by 30.7% year-on-year between the first 10 months of 2012 and the same period for 2013.

3. RETAIL SUPPLY

Increased demand for retail goods has been reflected in tenancy levels and rental rates in retail real estate. During the first quarter of 2012 year-on-year and rents for some upper end retail properties rose by close to 50% during 2012 alone.

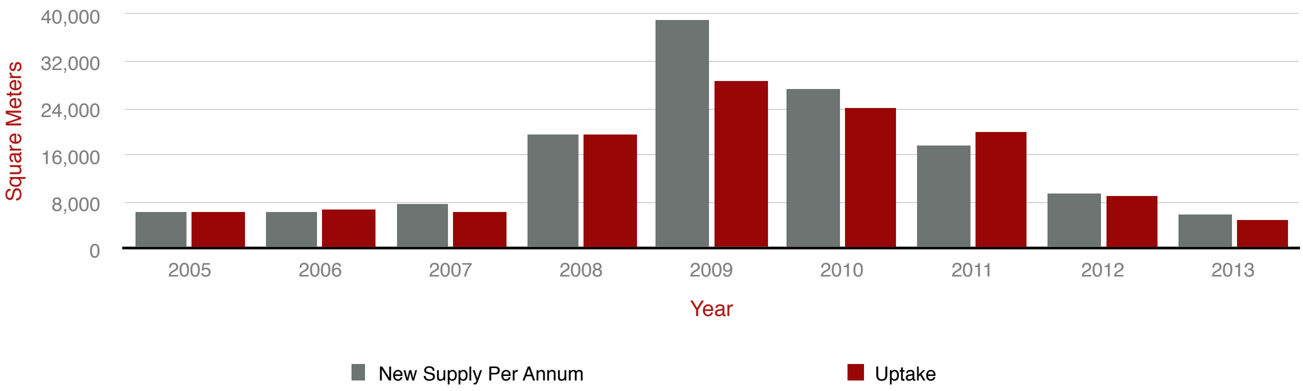
GRAPH 149: Upper End Retail Facility Occupancy Rates (observed) 2008 - 2013



Source: MAD Research

The pace of construction of good grade retail space in Ulaanbaatar has grown dramatically in order to accommodate new demand. Since 2005 133,598 square meters of good grade retail has come online in Ulaanbaatar, bringing the total good grade supply to 216,350 square meters. Prior to 2005 the existing stock of retail space was primarily made up of poorer quality market-style constructions and high street retail converted from existing ground-level apartments, although some of this retail space retains good quality status as a result of its location.

GRAPH 150: Supply, and Take-Up Performance of Good Grade Retail Real Estate

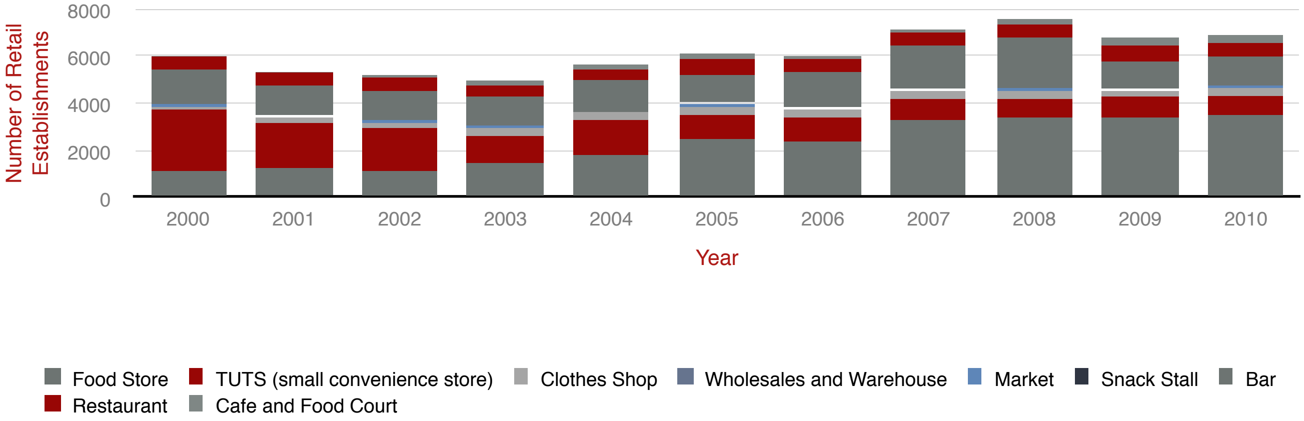


Source: MAD Research

Historically construction of good grade retail in Ulaanbaatar has been highly variable and dependent upon key projects. During 2009 a total of 39,268 square meters of good grade retail entered the leasing and sales markets in the retail sector, the majority of which was provided by facilities such as Jiguur Grand Plaza. A further 27,400 square meters of space entered the market in 2010 as a result of completion of upper end retail facilities such as MCS Central Tower. This dropped back in 2011 to just 17,600 in keeping with the cyclicality of the construction sector of Ulaanbaatar at present. Despite a number of large-scale new projects being underway, new retail space completion dropped off dramatically in 2012 and 2013 due to external economic shocks caused by falling commodities pricing and concomitant actions by the Government of Mongolia, which temporarily reduced the attractiveness of key sectors of the economy (particularly mining) for FDI. From 2010-2011 the amount of new retail space completed fell by 35.8%, and from 2011-2012 dropped off by a further 45.4%. Projects such as Viva City (by MCS Development) added a small supply of upper-end boulevard style high-street retail during 2012. Vacancy rates for good grade retail property were around 4-8% during Q1 of 2014, with key new shopping malls and developments having gradually filled during 2011-2012.

Among the fastest growing retail sub-sectors in Ulaanbaatar, the fashion sector and F&B sectors stand out. The cafe business is also expected to have huge potential growth because of recent success of coffee shop businesses in the Asian markets. In terms of numbers of establishments, F&B based retail make up 81.9% of all registered retail establishments in Ulaanbaatar as markets expand. Supermarkets are expected to replace smaller convenience and food stores and markets eventually, although in the short term the low running costs and high foot-traffic of markets mean that they continue to perform well as investment assets. Nevertheless, numbers of small convenience stores and snack stalls have both fallen dramatically during the past 13 years. Within Ulaanbaatar the current number of small convenience stores (locally known as ‘Tuts’) is just 30% of that in 2000. This provides clear evidence of development of consumer sentiment that demands better availability of produce, greater variety and a supermarket style shopping experience.

GRAPH 151: Numbers of Retail Establishments in Ulaanbaatar by Market Segment, by Year.



Source: NSOM

Out-of-town malls and facilities that encompass ‘life-style’ components are likely to be significant features of the retail environment over the coming half-decade. Facilities such as Hunnu Mall and Viva City (the former being the first large-scale indoor out-of-town mall to be developed in Mongolia, with expected completion during 2014, with the latter being a life-style centre modelled as part of a large-scale residential development, already in operation) are spearheading this trend. A number of proposed projects, including Mongolian Properties’ Village at Nukht development, are expected to carry new retail trends forward and make the south-east of the city, along the new road to the airport, the core of a flurry of new retail and lifestyle developments.

4. RETAIL SUB-MARKETS

The most active retail sub-markets within the city centre are Peace Avenue, Beatles Street, Baruun Selbe Street, Seoul Street, Russian Embassy Street and the interior ring road, providing a total of around 5km of primarily street-front retail. Around this area there are around 570 retail properties alone, the majority being street-front stores. Seoul Street, already becoming a key retail location, has also seen the development of multiple larger format retail facilities, including the redeveloped Naran Plaza, five floor retail facility - featuring international brand stores, a Coffee Bean cafe and several restaurants. In terms of tenancy, these central areas of street-front property are dominated by F&B and clothing and home-wares.

Ulaanbaatar Retail Segmentation By Location

	Extant Power Centers					Emerging Power Centers			
	CBD	Black Market	Peace Avenue	Seoul Street	13th District	Zaisan	Yarmag	Embassy Area	Stadium area
Location	Sukhbaatar Square	East of the city centre in Bayanzurkh District	Western portion of Peace Avenue	Seoul Street, parallel to Peace Avenue	Bayangol District, north-west of the city center	Residential area to the south of the city	Out of the city, on the road to the existing and new Ulaanbaatar airports	Directly South-east of CBD	Directly South of the CBD
Characteristics	Political centre of UB and luxury retail power center	Existing power center for low-end and market retail. Extremely high foot-traffic	Highly developed high street market	Excellent F&B location and growing retail profile	Well developed high street market, power center	Growth upper end residential area which recently has become a hub for new retail development	Developing area earmarked for residential development, with significant plans to develop out-of town mall style retail	Upper end residential area, traditionally home to embassies	Currently low retail profile but scheduled for rapid growth on the back of a large mid- and upper-mid residential demographic.
Consumer Bracket	High purchasing power	Mass market	Mass market	Mid to upper level purchasing power	Mid- to lower-level purchasing power	Mid- to upper-level purchasing power	Mid- to upper-level purchasing power	Mid- to upper level purchasing power	Mid- to upper level purchasing power
Brands	Luis Vuitton, Emporio Armani, Burberry	No international brands	Adidas, North Face	Esprit, Swatch	Bennetton, Adidas, KFC	Bennetton	Reebok Agabang	Currently none	Bennetton, situated in Orgil Center
Access	Near to CBD, but limited parking and bad traffic during peak times	On main road but with limited parking and bad traffic during peak times	On main road but with limited parking and bad traffic during peak times	On main road but with limited parking	On main road but with limited parking	Accessible via main roads although transport infrastructure in the south is less well maintained	On major road but not close to the city centre - considered an out-of-town location	Near to CBD, but limited parking and bad traffic during peak times	Near to CBD but bottlenecks in north-south traffic impede access
Trends	Power center for luxury retail	Traditionally a place for low-end retail but gradually improving facilities	Continued strong high street growth. Expected continuing upgrades with new brands	Continued strong high street growth. Expected continuing upgrades with new brands	Continuing upgrades for local brands and mass market high-street brands	Growth area in terms of retail, F&B and entertainment, with in-situ population of upper-level purchasing power	Expected high growth of lifestyle mall-style facilities and big-box style retail	Extension of power center for luxury retail in mid-term	Creation of new power center based upon upscaling and densification of residential in the area.

Source: MAD Research

In terms of larger-scale retail, a majority of the major shopping centres in Ulaanbaatar are located in the downtown core. By far, the most prestigious of these, at present, being Central Tower, containing 7,000 square meters of retail. This facility almost exclusively sells international luxury and premium brands, one of the few locations in Ulaanbaatar to do so at present. However, with a facility full of high value per-square meter products, Central Tower has had difficulty attracting foot traffic, particularly during a period of economic downturn. This has led to stores being unable to meet sales quotas and pay premises rental. The more mid-range focussed Naran Plaza (5,500 sqm), Naran Mall (4,500 sqm), Bishrelt Center (1,500 sqm) and Khanburgedei Department Store (8,500 sqm) continue to experience higher foot-traffic levels and remain highly successful, expanding the numbers of new international brands entering the Ulaanbaatar market with each season. The State Department Store, containing 22,500 square meters of retail space, Ulaanbaatar Department Store, containing 19,00 square meters of retail space and Max Mall, containing 24,000 square meters of space, represent the department store and shopping centre concepts of greatest significance to the current Ulaanbaatar market. These are to be joined in 2014 by Hunnu Mall, the first out-of-town style Mall facility featuring combined entertainment and retail facilities, situated in Yarmag. All of these facilities are highly selective in terms of their tenant base, with State Department

Store gradually moving away from leasing space to independent retailers (often small retailers selling goods imported from China) to placing international brands the management company NOMIN themselves represent within this expansive facility.

Ulaanbaatar Retail Segmentation by Market Concept

	Street Shops	Market	Department Store	Shopping Center	Mall
Representative Projects	Seoul Street and Peace Avenue and 13th District high-street stores	Naran Tuul Market, Dunjingarav Market, Hermes Center, Misheel Furnitre Center	State Department Store, Ulaanbaatar Department Store, Sky Supermarket	Max Mall, Naran Mall, Jiguur Grand Plaza, Viva City	Hunnu Mall
Location	Peace Avenue Seoul Street 13th District	Bayanzurkh district trading area	City centre	City centre	Out-of-town
Management	Diversified	Centralized	Centralized	Centralized	Centralized
Market Position	Mass market	Mass market	Mid-upper	Mid-upper to Luxury	Mid-upper to Luxury
Tenant Mix	Lifestyle, F&B, Fashion, household goods, electronics	Clothing and Fashion, Household goods, Food, Electronics, Furniture, Hardware	Fashion , Homewares, Lifestyle, F&B	Fashion, F&B, Lifestyle	Fashion, F&B, Lifestyle
Size	20 to 500 sq.m	up to 1,000 sq.m	up to 5,000 sq.m	up to 5,000 sq.m	up to 6,000 sq.m
Growth Factors	Increased household disposable incomes; greater availability of new goods in market; fashion consciousness and consumer culture growth	Increased household disposable incomes; greater availability of new goods in market	Growing middle class; greater availability of new goods in market; fashion consciousness and consumer culture growth	Growing middle class; greater availability of new goods in market; fashion consciousness and consumer culture growth	Consumer sentiment for life-style shopping facilities, fashion consciousness
Market Outlook	Introduction of new international brand names and increased consumer spending will fuel growth. Small domestic stores will gradually be replaced by franchises, international brands and local chains	Markets currently see high volume of foot-traffic and make up a significant proportion of existing retail space supply. New facilities such as Dunjingarav market attempt to provide more lifestyle and entertainment facilities and will remain viable in the mid-term	Department Store space is becoming increasingly operated on a profit share basis and occupied by brands/ franchises owned by facility management	Growth area both horizontally and vertically as shopping facilities continue to be incorporated into large mixed use facilities. Introduction of new international brand names and increased consumer spending will fuel growth	Growth area over mid to long term - projects will advance in terms of scale and facilities
Percentage of Current Good Grade Market Supply	5.1%	27.9%	27.7%	39.2%	0%
Estimated Percentage of Good Grade Market Supply 2017	5.3%	22.3%	16.3%	50.3%	5.8%
Estimated Nominal Growth in Supply 2013 - 2017	8,000	20,000	0	93,464	20,000

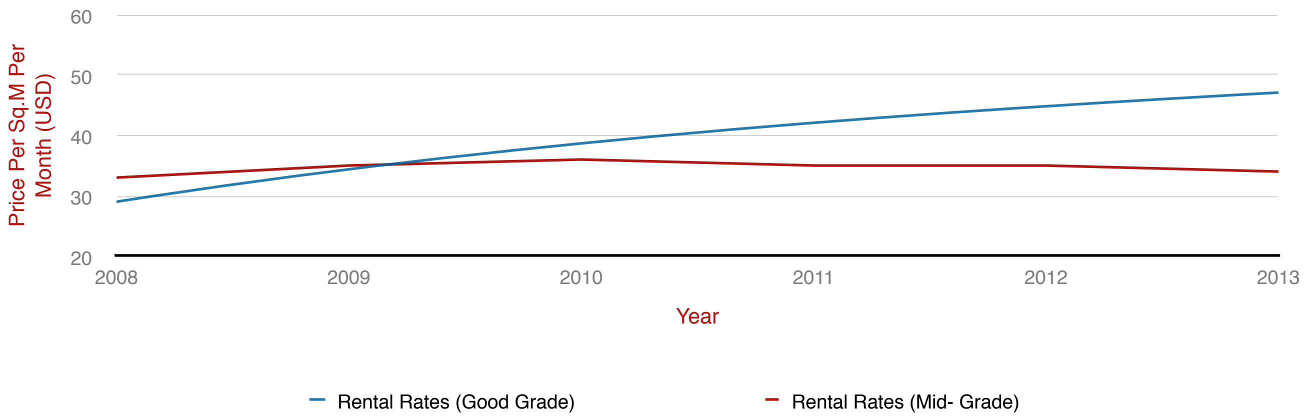
Source: MAD Research

5. RENTAL MARKETS

Upper end and luxury market facilities like Central Tower and State Department Store tend to operate on a revenue-sharing basis with their tenants, which allow them to command the highest rental rates per square meter. Upper-mid-end and middle-income shopping centre rates are similar to those of the more desirable high streets. The lowest rates within the city are those for stores away from existing and emerging power centres of retail.

For good grade ground floor retail rental CAGR between 2008-2013 was 10.3%, pushed by significant demand drivers in the retail markets. Financial year 2009 saw growth of close to 21% y-o-y, although these have dropped back as a result of economic slowdown. New entrants across the market have had to adjust prices in order to secure lower vacancy rates (such as Dunjingarav, which lowered rates during Q3 2013 in order to attract new tenants from competing market style facilities).

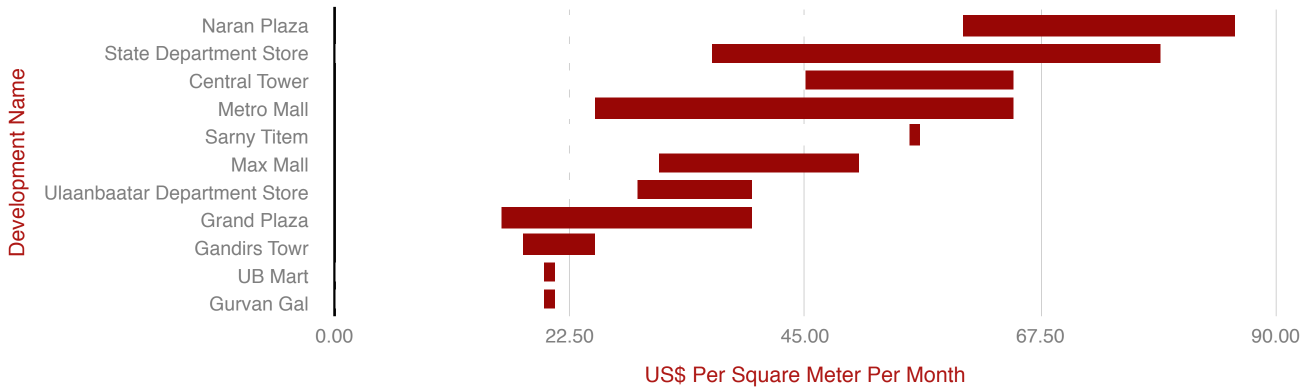
GRAPH 152: Average Rental Performance for Good Grade and Mid Grade Ulaanbaatar Retail



Source: MAD Research

During Q1 2013 the average ground floor rental of good grade retail property in Ulaanbaatar stood at USD 47.1 per square meter per month, with average street-front rental rates at around US$ 21 per square meter for good grade locations. From 2008-2013 CAGR of average ground floor rental across the overall good grade market was 10%, displaying more steady growth than office markets. Whilst luxury international brands are still entering the market at a reasonable pace, a relative drop-off in numbers of international brands coming into the market during 2012-2013 has also slowed rental rate appreciation.

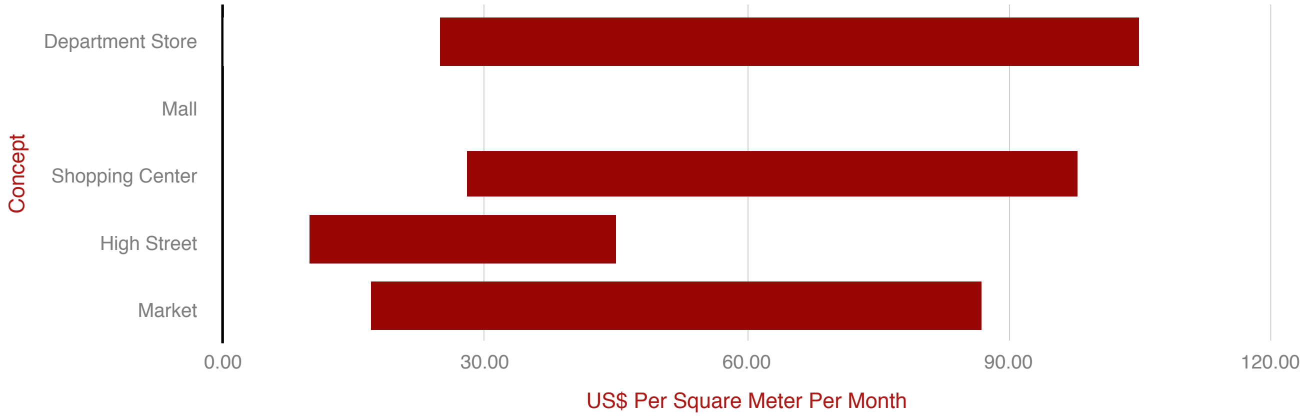
GRAPH 153: Rental Ranges of Stores with Rental Space or Quoting for Rental Space in Q4 2013



Source: MAD Research

Department Stores and Shopping Centres are able to charge the highest average rents per square meter per month, with State Department Store and Ulaanbaatar Department Store charging USD 80 and USD 70 per month respectively for prime ground floor rental. Peace Avenue contains the most successful department stores in terms of rental yield per square meter per month. Shopping centres close to the city centre of Ulaanbaatar yield between USD 28 and USD 70 per square meter per month, depending upon location. High street locations tend to provide lower per square metre returns, usually in the range of 45 - 60 USD per square metre, depending upon proximity to retail power centres and facilities. Outside of key power centres of retail, or large-scale retail projects, rental rates achieved remain at 20-34 USD per square meter. Street-front retail locations display great variance depending upon facilities and location, with rates ranging from US $ 10 - 35 per square meter.

GRAPH 154: Rental Ranges of Stores with Rental Space or Quoting for Rental Space in Q4 2013 by Concept



Source: MAD Research

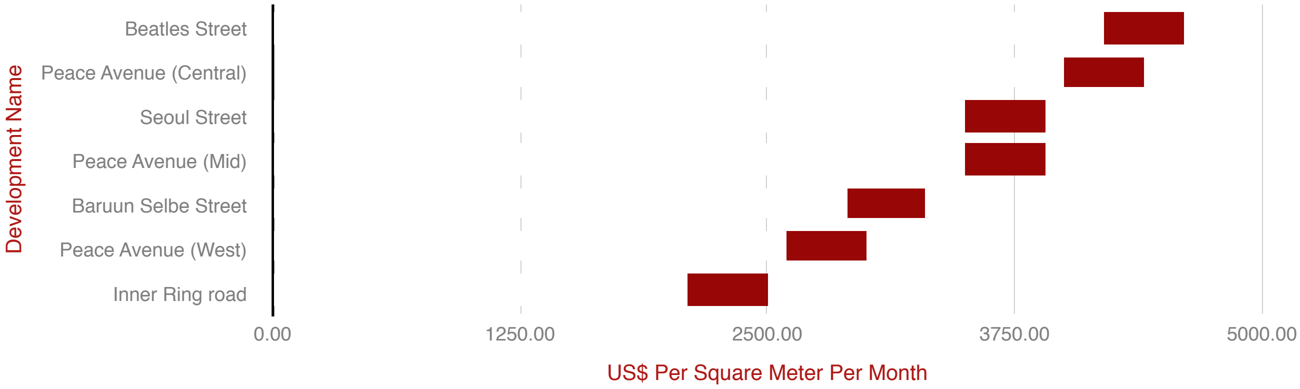
	Rental Rates for Street-Front Retail By Location
Location	**Rental Rates (USD Per Sq.M per Month)**
Beatles Street (Tserendorj Street)	30-35
Peace Avenue - Central	25-30
Seoul Street	25-30
Westerly Peace Avenue	15-20
Easterly Peace Avenue	20-25
Central Ring Road	10-15

Source: Mongolia Growth Group Research

6. SALE PRICE HISTORY

2012-2013 saw prices continue to grow for retail, pushing above office prices in the primary market as developers continue to see improved value in the retail markets. Prices peaked at an average of US$ 4,200 per square meter on the primary market within good grade retail, primarily developed as part of mixed use facilities. The highest market pricing was around US$ 4,600, indicating a tight spread across new facilities as developers peg their pricing to comparable projects. Within the secondary markets, primarily based around street-front property, market prices per square meter vary heavily depending upon proximity to power centres of retail. Prices in this market vary from around US$ 2,100 - US$ 4,600 per square meter as shown in the graph below.

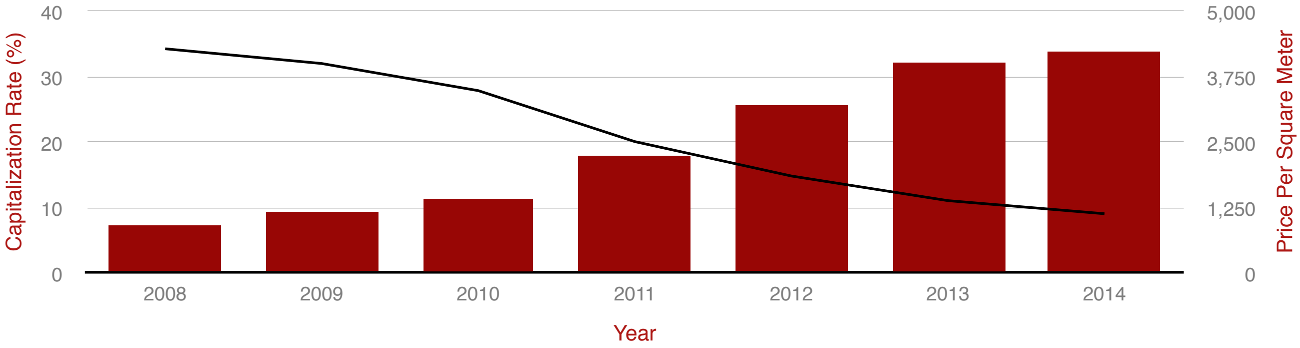
GRAPH 155: Rental Ranges of Stores with Rental Space or Quoting for Rental Space in Q4 2013



Source: Mongolia Growth Group

The primary market for retail space has seen significant price growth, with a CAGR of 31% over the past 6 years. Such remarkable growth is mirrored across commercial markets, starting from a low point of just US$ 881 per square meter in 2008. Rapid expansion of consumer markets has driven retail prices higher. Until around 2009 retail facilities rarely transacted on the open markets in Ulaanbaatar, with Jiguur Grand Plaza being the first large-scale retail development to sell strata title. Since then developers have increasingly operated on a build-to-sell basis, fuelling development of the retail market. Prices for retail, typically closely tied to those for all commercial, are also differentiating away from office purchase prices, rising above by around 5-15% as a result of increased understanding that retail space is more valuable in terms of potential overall yields than office space. Developers are therefore differentiating in terms of commercial sales, build-out and pricing.

GRAPH 156: Historical Price Trends and Projections in Retail Purchase Prices (USD Per Sq,m) and Cap Rates



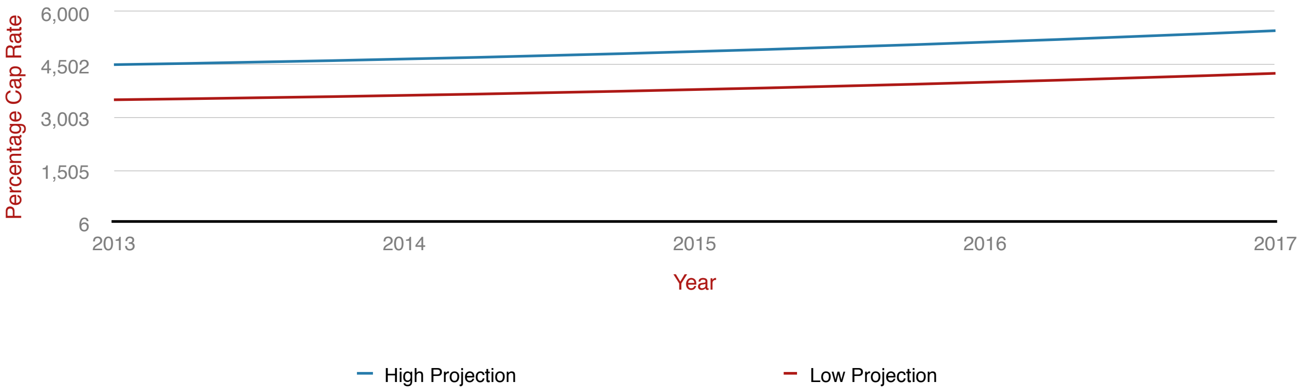
Source: MAD Research

Breakdown of residential facilities by grade indicates considerable changes in the B grade market over the past 24 moths, with B and C grade pricing becoming increasingly divergent. B grade facilities are also catching up with A grade in terms of pricing for sale on primary markets, with A grade facilities being forced to drop rental rates.

7. PRICE AND YIELD PROJECTIONS

Within the retail sector strata sale yields tend to be higher than en-block yields as a result of longer divestment periods and increased marketing expenses. Based upon market average rental yields and per square meter sales prices (primary market), average implied rental yields are around 11% in the Ulaanbaatar retail market. Future price growth in the retail rental markets are forecasted at 1-6% annually over the next five years, with capitalisation rates set to fall off into high single digits.

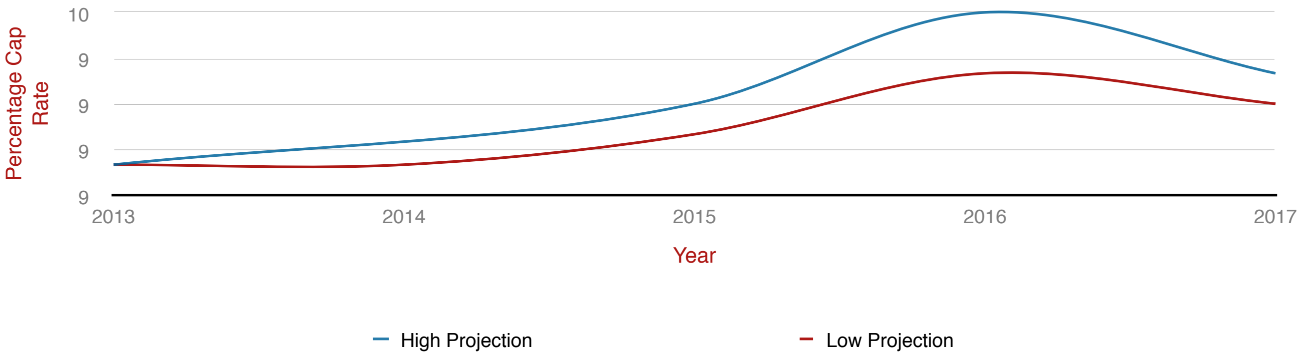
GRAPH 157: Price Projections in Good Grade Ulaanbaatar Retail Markets 2013-2019



Source: MAD Research

For good grade ground floor retail rental CAGR between 2008-2013 was 10.3%, pushed by significant demand drivers in the retail markets.

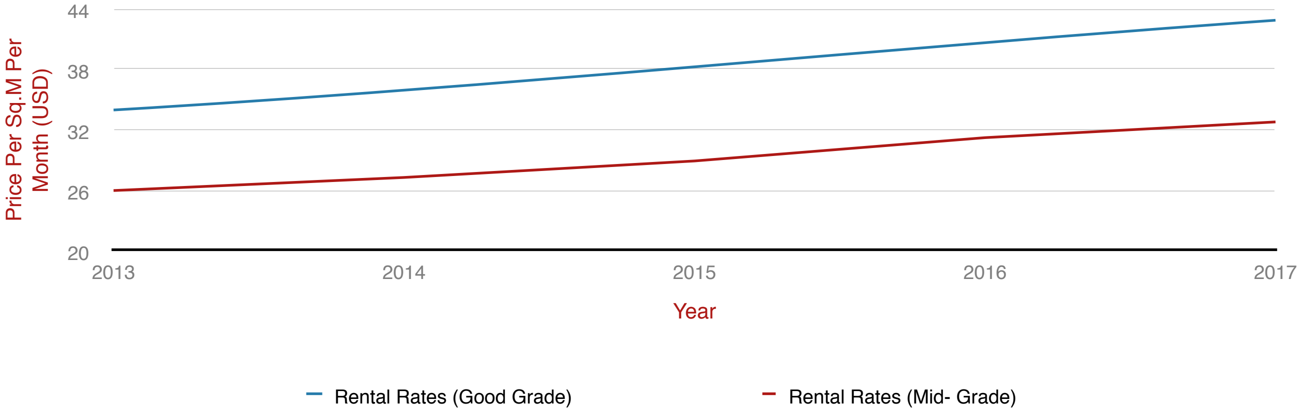
GRAPH 158: Capitalization Rates in Good Grade Ulaanbaatar Retail Markets 2013-2019



Source: MAD Research

As new retail supply enters the market between 2013-2017 the mid- to long-term outlook of good grade retail markets is reasonably bright, with new entries of international brands and economic growth expected to undergird sustained expansion. With 22,500 square meters of good grade retail space coming online during 2013, market growth remains strong, although the market is awaiting new significant projects and the overall economic slowdown during 2012 and 2013 has meant that across the market rental rates have only averaged small increases of between 1-4% on average year-on-year 2012-2013.

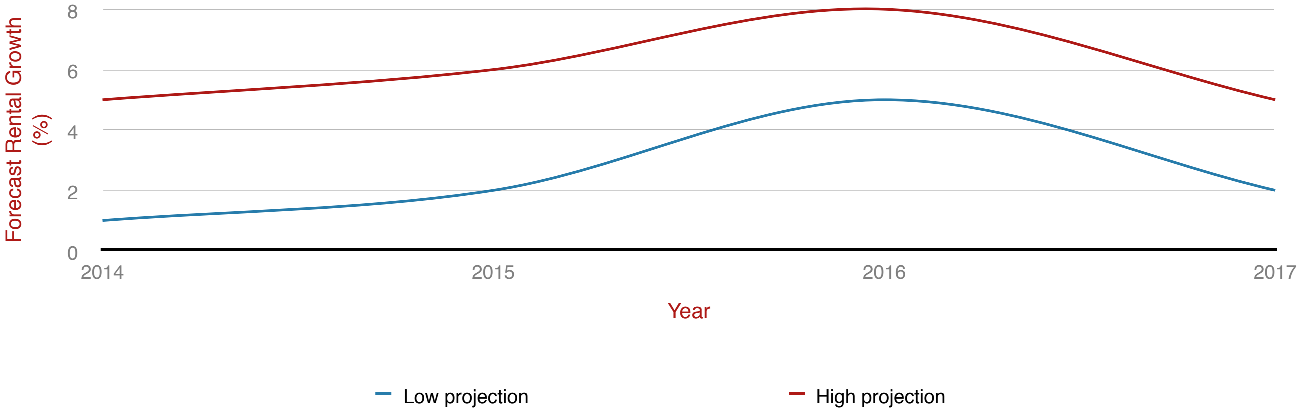
GRAPH 159: Average Rental Performance for Good Grade and Mid Grade Ulaanbaatar Retail



Source: MAD Research

Rental price growth in the retail sector over the coming 36 months is set to show recovery, with 2015 forecast rental growth at 5-7%, dropping back in 2016 to between 2 and 5%. The rally and drop-off comes with an expected influx of new brands into the market with the completion of key retail facilities, such as the Shangri-La and Olympic Residence retail facilities. In the meantime key retail players, including Nomin Holdings LLC and Naran Group, will continue to populate their own facilities with international high-street brands, filling current B+ grade space and driving competition for space in adjacent high-street and mall-style facilities.

GRAPH 160: Good Grade Ulaanbaatar Retail Forecasted Rental Growth (%)



Source: MAD Research

With current average store-front retail pricing ranging from US$ 2,100 - US$ 4,600 per square meter and mall / shopping centre retail space on the primary markets transacting at up to US$ 4,600 per square meter at present, the future seems bright for retail space price growth. After 12 months our projections for good grade retail price growth at a best case scenario would place per square pricing at US$4,625. After 36 months the same retail space is expected to transact at around US$ 5,110 providing stable low double-digit growth returns to the overall economy.

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8. RETAIL FUTURE SUPPLY

Of the top 50 global retail brands in 2013 none are represented in the Mongolian market at present. Just over 40 major international retail brands presently represented in Ulaanbaatar, leaving a potential 80+ new market entrants in the coming years. Nevertheless, competition is heating up to bring new brands into this marketplace. 2013 saw the opening of Naran Mall, which houses 18 international brands, including clothing and cosmetics, alongside the first Coffee Bean and Tea Leaf venue in the city. Across the entire market 15 new international brands entered facilities within Ulaanbaatar in locations such as Central Tower and State Department Store. Recent entrants, including KFC, Cinnabon and Coffee Bean, are spurring renewed interest in retail real estate, with market commentators and investors going on record with Bloomberg to project average USD 100 per square meter rental prices within the next 5-7 years.Thus far, most international brand stores are located inside shopping centres and only a handful of brands have taken to high street locations. Currently there are 5 international brand stores on the central high street.

Sub-Markets in the Ulaanbaatar Retail Sector

Submarket	Representative Brands already in the Ulaanbaatar market	Growth Trends	Potential upcoming Brands
Luxury Market	Louis Vuitton Emporio Armani Burberry Mont Blanc Vertu	Shangri-La (Kerry Group) have secured the majority of international luxury brands currently in the Ulaanbaatar markets. With most luxury brands preferring to work with MNC investors the MCS/Shangri-La represents a significant advantage.	Prada Hermes Salvatore Ferragamo
Fashion and Clothing	Nike Esprit United Colors of Benneton Addidas	Mid-level fashion brads have been brought into the market through franchising by large trading companies, with two companies presently representing a majority of brands in this market. Shopping Mall and Department Store owners have led the way in developing new brands into the Ulaanbaatar markets. This area is set for dramatic growth in the mid-term and is expected to be a key driving force in the retail markets.	GAP Mango
Food and Beverage	Round Table Pizza Coffee Bean & Tea Leaf KFC	F&B is a high growth potential area for international brands. With limited market scale in Ulaanbaatar and beyond. Nevertheless, several trading companies have agreed to bring fast-food and cafe brands into the Ulaanbaatar markets. Coffee markets appear to have significant potential as uptake has been with similar fervor as in other Asian markets. Traditionally, the domestic Mongolian retail market has been majority populated by F&B industry establishments and this remains a key area of growth in terms of consumer trends.	Starbucks Burger King
Supermarket	None	Whilst domestic supermarket owners have developed a broad market, with over 60 supermarket style facilities in the Ulaanbaatar market, there is no international supermarket brand currently operating in Ulaanbaatar. Successful domestic brands such as Good Price express the demand for quality consumer goods, international supermarket formats and service. This is another area tipped for exceptional growth as international logistics improve. At present, very weak logistics mean considerable difficulties in reliably sourcing of products.	Carrefour (potential entrant)
Electronics & Computing	No official stores	Key electronics brands are represented in the market primarily by local retailers. Local developers would need to work closely with significant computing brands such as Apple to meet strict requirements and bring in official stores.	Apple

Source: MAD Research

Expected growth in retail demand and emergence of new entrants into the market will spur market growth not only in terms of square meter volume entering the market but also in terms of a expansion of retail concepts available within the Ulaanbaatar market. Retail concepts are limited at present, although a number of developers have put forth plans for U.S. style mega-mall projects, with big-box style retail and Korean-inspired 'shopper-tainment' facilities also on the development radar. Mixed in with more typically Asian-style markets and malls, as well as Russian inspired department stores, the mix of retail options available in Mongolia belies the small population and shows great potential for continued concept differentiation. Second-tier brands, including Lacoste, Diesel, Dior, Benetton and Tommy Hilfiger, also have a presence in stores across the city, evidencing accelerated growth of retail markets into the mid-upper market - a trend likely to continue in the mid-term.

Overall pipeline supply in the Ulaanbaatar market contains 101,464 of new supply, to come online in the good grade retail markets over the next five years. This is a dramatic rise in new supply, meaning expected absorption levels, typically high, will drop off by 10-15%, particularly in overcrowded sub-markets (such as the department store and shopping centre sub-market, or in geographical submarkets experiencing rapid supply growth).

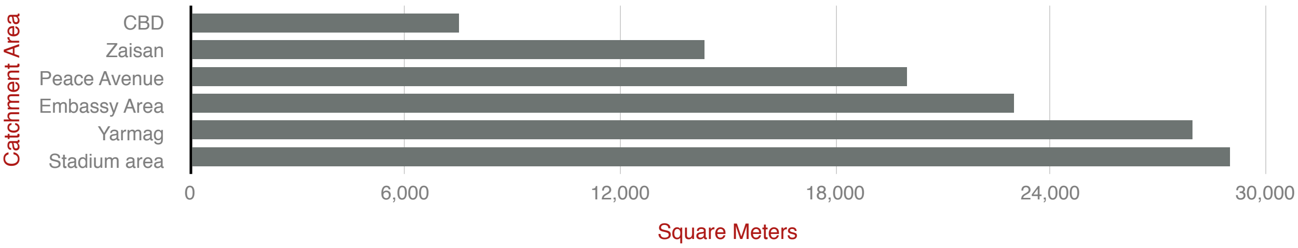
Across all areas of Ulaanbaatar the Yarmag area will see the largest single square meter volume of new retail supply. This will be spread across several key 'out-of-town' shopping mall style facilities, including the Hunnu Mall and forthcoming Center Point Park project (both of which will bring to the market over 20,000 square meters of retail space each).

Significant Retail Buildings in Ulaanbaatar Future Supply

	Int. Commercial Center	Gegeenten	MonEx Expo Center	Olympic Residence	Shangri-La Office Building	MAK Tower	International Finance Centre	Hunnu Mall	Village at Nukht	Zaisan Hill	Buddha Vista Complex
District	Sukhbaatar	Khan Uul	Khan Uul	Sukhbaatar	Sukhbaatar	Sukhbaatar	Sukhbaatar	Khan Uul	Khan Uul	Khan Uul	Khan Uul
Retail GFA	2,500	5,870	14,400	8,000	15,000	14,194	5,000	20,000	8,000	4,000	4,500
Opening Year	2013	2014	2016	2014	2016	2017	2017	2014	2016	2015	2014
Number of Retail Floors	5	16 (total)	18 (total)	4	22 (total)	4	3	3	2	2-3	2
Property Type	Office, Retail	Residential, Office, Retail	Hotel, Office, Serviced Apartments, Retail	Residential, Retail	Hotel, Serviced Apartments, Hotel, Retail	Hotel, Office, Serviced Apartments, Retail	Office, Retail	Retail	Retail, Office	Retail, Cultural, Ent.	Residential, Retail
Current Status	Pre-Sales	Pre-Sold	Not yet started	Under Construction	Under Construction	Foundations	Foundations	Interior works	Not yet started	Carcass construction	Interior works
Developer	Tsast Construction	Jiguur Grand Group	Chono Group	Mongolian Properties	MCS Group / Shangri-La	MAK Group	Chaung's Consortium	Puma Construction	Mongolian Properties	Oyunl Undra Group	MCS Group
Comments	5 levels of retail. Landlord is considering en-bloc sale	Retail area is already sold at USD 3,000 per square meter	Entertainment center under planning	First four levels will be retail. The landlord is en-bloc selling this project at USD 8,000 per square meter	Phase I is a 22 level 5 star hotel, Phase II shall be office and retail	42 level building with construction managed by Lotte Group	Project is pre-leasing	The first large-scale mall-style facility being developed in Mongolia	Project is in pre-sales	Project is presently under construction	Project is in leasing stage

Source: MAD Research

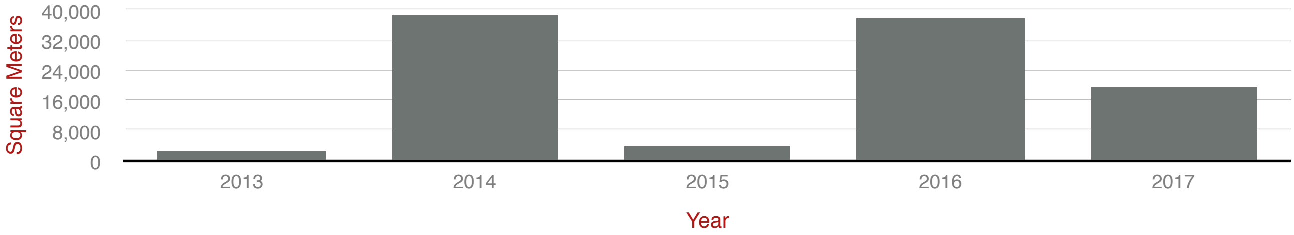
GRAPH 161: Future Supply in Ulaanbaatar Good Grade Retail Real Estate Market by Catchment Area



Source: MAD Research

By contrast, the Stadium area will see an estimated 30,193 square meters of new retail space, all mid-upper end, enter the markets within the coming six years. This is broadly double the expected retail space growth in the Zaisan area. With an in-situ residential population much larger than that of the Embassy Area, Yarmag or Peace Avenue in the mid-term, the Stadium area maintains a far higher ratio of in-situ population to future supply than any of these areas. This is important as many key mid-end markets are proximity sensitive at present within this market. The Stadium area retail markets thus represent significant untapped market potential.

GRAPH 162: Future Supply in Ulaanbaatar Good Grade Retail Real Estate Market



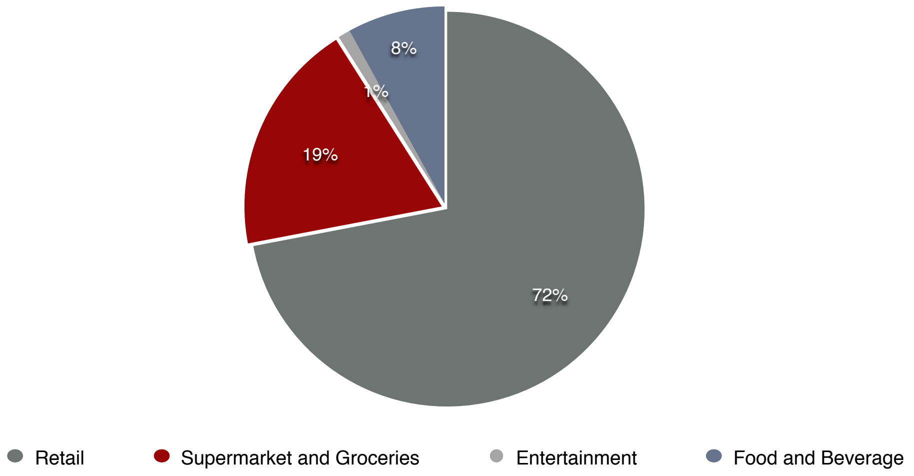
Source: MAD Research

Growth in the retail market follows a similar sine-wave form similar to that seen across the commercial markets under the heavily the expansionary Mongolian economy. Periods of strong growth in credit availability and curtailed by market shocks, downturns and attendant reduction in domestic lending as a result of banks requiring recapitalisation. This has, over the past decade, resulted in periods of frenetic construction activity by developers, followed by periods of slowed completion and stalled projects. 2009-2010 was a period of frenetic activity in the market, precipitated by the build up of the Mongolian economy on the back of key mining projects and rapid expansion of coal export markets. Large scale shopping centre facilities such as Jiguur Grand (completed 2009) and Central Tower (completed 2010) introduced large tranches of new supply into the market. Slowing growth from 2012 onwards has meant that new supply into the overall retail market fell consecutively by as much as 30-35% year-on-year 2009-2012. With high profile new facilities such as Hunnu Mall and MCS Shangri-La coming online in the mid-term new supply will continue to grow. at redoubled pace until 2015. However, new mega-projects in this sector are likely not to reach market until 2017-2018 based upon project timelines at present.

9. TENANT MIX AND BRAND PROFILE

Good grade retail in the Ulaanbaatar market has been fashioned around the department store or standard shopping centre concept. Under this concept specific trades are grouped together and allotted different spaces within retail facilities, which is managed by a single company. In some developments different trades are separated by floors (i.e. the arrangement seen in Sunday Plaza). In others floor space is separated into smaller segments (i.e. the arrangement seen in State Department Store) according to product category. Studies of trade mix for existing high-end retail projects in Ulaanbaatar indicate that in shared concept facilities around 19% allocation of total retail space is given over to grocery and supermarket facilities, 8% to food and beverage, 1% to entertainment facilities and 72% to retail (around 60%-70% of which is typically dedicated to apparel and shoes).

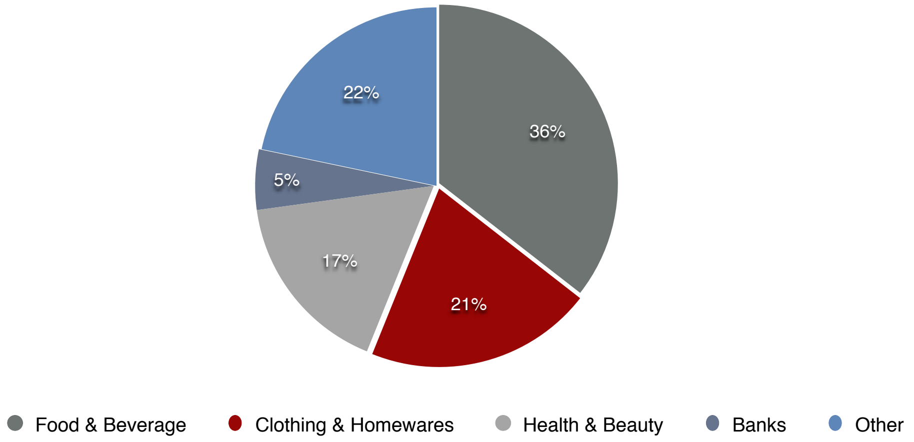
GRAPH 163: Future Supply in Ulaanbaatar Good Grade Retail Real Estate Market by Development Type



Source: MAD Research

Larger department stores in Ulaanbaatar are owned by large trading companies which act as distributors of various international brands. Some operators may represent as many as 30 international brands as official distributors. Department stores all operate as single location stores in Ulaanbaatar at present. Apparel and shoes make up well over 60% of floor-space in department stores, whilst cosmetics and jewellery tend to be positioned in prominent, ground floor locations, representing around 20-30% of total ground floor space.

GRAPH 164: Tenancy by Industry in City Centre High Street Retail



Source: Mongolia Growth Group

Shopping centres emerged more recently, beginning in 2009 with Jiguur Grand Plaza. These integrated developments tend to be designed, built and managed by the developers (although Jiguur Grand Plaza was sold off unit by unit). Shopping Centres are not the most popular good grade retail format in Ulaanbaatar, although are expected to make up a significant portion of future supply. Whilst tenant mix continues to be dominated by domestic traders, international brands are gradually being brought into the Shopping Centre market.

Official international brand stores are limited in good grade projects. In some projects, purported anchor brands are in fact unofficial stores operated by small local traders. Key projects such as Central Tower Mall (housing 20 international luxury brands) are careful to vet potential tenants and increasingly management companies for new developments are asking for proof of distribution or franchising rights before allowing new tenants into their facilities.

Street-front retail displays a markedly different tenancy mix. Within the city centre of Ulaanbaatar, Peace Avenue and Seoul Street street-front retail (the power centres for this market segment) are primarily comprised of clothing and F&B retailers. These alone make up 57% of total tenants within street-front retail facilities within the catchment area described.

INFORMATION BOX - MEGA MALLS

'Shopper-tainment' is a neologism not often spoken among developers in Mongolia, until recently. In the past 18 months plans have come to light detailing at least three planned mega-mall developments in Ulaanbaatar city. MAK Group, Chono Group and the owners of the Chinggis Khan Hotel are potentially among the developers seeking to implement a new retail concept in the Mongolian markets. Typically, A and upper B grade retail in the Ulaanbaatar market has been fashioned around the department store or standard mall concept. Under this concept specific trades are grouped together and apportioned different spaces within an overall retail facility. In some developments different trades are separated by floors (Sunday Plaza), in others by sectors of floors (State Department Store). Studies of trade mix for existing high-end retail projects in Ulaanbaatar evidence around 19% allocation of total retail space to supermarket facilities, 8% to food and beverage, 1% to entertainment facilities and 72% to retail. Entertainment facilities remain scarce and F&B facilities are only occasionally well organised into dedicated food courts.

New concepts emerging into the market are more akin to the mega-malls developed on the urban outskirts of U.S. towns, or the large shopper-tainment facilities developed by groups such as Lotte in Korea. The first of the three potential sites for such a new project is the Misheel Mega Mall, being developed by the present owners of the Misheel Furniture Mall facility in Khan-Uul District. This mixed use facility is scheduled for phased completion between 2013 and 2018 and initial indications are that the project will involve complete refurbishment and extension of the existing furniture mall, creating a multi-level retail facility in excess of 20,000 square meters, including underground parking. The proposed mega-mall, which will likely be built during the second phase of the project, will take up much of the expansive site atop which the current furniture warehouse and event facility sits. Indications are that it will provide around 80,000 square meters of retail space (GFA), with parking for almost 1,000 cars outside and a 500+ car multi-level facility. This would truly be the first mega-mall of its kind in Mongolia and represents the first large-scale out-of-town "mall" style shopping concept.

The second project is by MAK Group, in partnership with Lotte Group of Korea. Not to be confused with MAX Group's MAX Mall, MAK Tower is a joint venture between developer MAK and Korean Lotte Group. With such high-end backing from Korea's largest retail developer, this venture appeared promising from the very outset. Designed by Finenco Architecture group and covering an area of 64,000 square meters, the imposing tower was developed in concert with Hyatt International. The Tower's "Babel-like" design was significantly altered to reflect an image more in-keeping with the glass and steel structures appearing across Ulaanbaatar and ground has already been broken for construction The scheduled opening data is in the third quarter of 2014, whereupon around 5,000 square meters of retail space will come online to complement the city's burgeoning A grade supply. Lotte group's engagement will add significant value to the project. The international firm is active in the amusement, cinema and shopping industries and is expected to bring this heritage with it to the MAK Tower project.

Details about the third potential project are not yet firm, although it is expected that a mall-like facility will feature strongly in the decision making processes of the developers for this project. The expansive Chinggis Khan hotel site already hosts the SKY Supermarket, a high-end supermarket and domestic-level retail facility, covering over 10,000 square meters of space. The development, situated to the north-east of the city centre, in Bayanzurkh District, has been left out on a limb by the increased density of city centre development. In a bid to make best use of the 27,000 square mater mixed use facility and the accompanying 2,435 square meters of space presently allocated to decrepit staff housing, corporate offices and car parking, the owners have sought investment from a Korean firm in order to remodel the hotel and redevelop the balance of land. It is expected that this development will incorporate a sizeable and modern retail facility capable of competing in the new 'shopper-tainment' stakes, although this is not yet certain.

Furthermore, there have been rumours of another mega-mall style facility planned for the presently vacant land on the south-westerly corner of the Children's Park. This prime city-centre space has been a point of much contention, with many residents of Ulaanbaatar seeking to ensure that this land is retained for communal and recreational purposes. The Shangri-La facility is itself built on land that was once part of the Ulaanbaatar Children's Park. When it comes online between 2015 and 2017-2018 the Shangri-La will also contain significant supply of high-end retail space, rumoured to incorporate Hermes as its anchor store. When taking into account the construction pedigree of MCS Construction LLC, it is expected that we will see new innovations in terms of smart building management, high-level retail facilities, foot-traffic separation and integration of food and beverage facilities in this landmark project.

10. CONTRACT CONSIDERATIONS

Contract Considerations - Retail	
Basis	Most retail facilities charge a flat monthly rental, although a number of high end retail locations are beginning to implement more diverse and profitable revenue generation options, including profit sharing and minimum rental methods. Graduated leases however do remain uncommon as do leases based on turnover. As the market develops these will likely become more popular.
Abatement	fit-out' periods are even less common for office locations than they are for retail in Mongolia.
Condition	Leases are on an 'as-seen' basis and landlords/management companies obey a basic requirement to meet maintenance standards in their buildings
Assignment and Subleasing	In A grade and B grade properties subleasing and assignment does not occur. In C grade and market settings leasing is still tightly controlled and run on a relationship basis.
Attorn	Recognition of a new owner and the owner's recognition of existing tenants are not routinely provisioned for in lease agreements - this does not routinely pose problems in A and B grade managed locations as they rarely change hands through sale. Mongolian laws are strongly pro landlord and so it is conceivable that unless attorn is addressed in a lease, a change of ownership may result in a tenant being asked to vacate. This practice is more common in lower grade properties. A and B grade properties tend to be run with greater professionalism.
Preference on Renewal	Preference over renewal tends not to be negotiated ahead of time except as a result of negotiation.
Default	In case of default owners have direct recourse to the Mongolian court system to bring a case to ensure payment of all funds owed. This in an inexpensive process.
Deposit and Up-front Payments	Deposits are not usually taken although up-front payment is routine in Mongolia, particularly for C grade and shop-front premises, where payment in advance is expected for new tenants of as much as half a year.

Source: MAD Research

11. FUTURE DEVELOPMENT TRENDS

The following section contains insight and analysis into emerging trends in terms of key emerging power centres for retail and key movements in the retail markets, as observed by M.A.D. analysts during 2013 and 2014.

A. LOCATION - YARMAG

The Yarmag area of the city, situated approximately 6.5km south-west of the city centre, has been earmarked in city master planning for large scale residential development. Existing and under construction projects such as the MCS Viva City Project and New Yarmag town are providing an in-situ population of 5,614 households (1614 households in Viva City and around 4,000 initially planned for New Yarmag). According to Government plans, the Yarmag and Nisekh areas of the city could be home to 57,000 households in developments covering over 4,400 hectares in the south-west of Ulaanbaatar. These plans indicate that the population of this area could eventually reach over 223,000. Viva City's 50 commercial shops, restaurants and boutiques, arranged in high-street format, serve the small community and already act as a retail draw factor for thew area. With the completion of Hunnu Mall (20,000 square meters) in 2014, Ulaanbaatar will see the first integrated entertainment and retail facility enter the good grade retail markets. A number of prospective projects, including the Mongolian Properties Village at Nukht project will continue to develop the mid to upper purchasing power retail markets of the area. Mall type facilities in this area will be prime locations for international retailers.

B. LOCATION - THE STADIUM AREA

The Stadium area of Ulaanbaatar has typically been associated with mid-end residential markets and has, until 2012, had an extremely limited retail profile. Nevertheless, new developments, including a the Home Plaza retail facility and a tranche of new retail supply, as part of the forthcoming Gegenteen Complex, will raise the retail profile of this area considerably. This will cater to an in-situ population of over over 9,000 households, the majority of which are estimated to maintain mid- to upper-level purchasing power. The need for services from entertainment to supermarkets in this area makes it a key area for retail growth in the mid-term, although it has a somewhat limited catchment area in terms of overall scope of growth (due to its position south of the city centre). It nevertheless represents significant potential as a key power centre for the future of Ulaanbaatar retail.

C. TREND - DECENTRALISATION

This will be a key trend for the growth of Ulaanbaatar retail real estate. The Master Plan for Ulaanbaatar development explicitly calls for increased development of new housing stock and facilities outside of the city centre. The current luxury power centre of Ulaanbaatar is likely to become increasingly entrenched with the addition of the MCS/Shangri-La mixed use project between 2015-2018, although developments such as Viva City and Hunnu Mall evidence the fact that large-scale, out-of-city developments, catering not only to local residents but to the entire population of the city, will be a key concept for expansion of retail in Ulaanbaatar and a draw factor for investment and into the Mongolian retail sector.

D. TREND - UPSCALING AND MOVEMENT OF KEY RETAIL HUBS

As households upscale from around the city centre and seek to move to new residential facilities, such as the supply of new mid- to upper-mid end retail in the Stadium area, traditional retail power centres, based as they are upon proximity to a population with suitable spending power, will move with them. A key target for this is the 3rd Sub-District of Bayangol District. Traditionally an area catering to mid-end retail facilities and a key power centre for high-street retail, the area is expected to begin to undergo fission in the coming give years. The extant tranche of retail facilities along the main shopping street of the 3rd District are often ageing and potentially inadequate to the requirements of new market entrants. As the in-situ population gradually moves away from this area to new housing in the Stadium area, Zaisan and new developments within Bayangol district, the purchasing power that has sustained these areas will move with them. New market entrants and existing domestic and international brands will also seek out more up-to-date retail facilities such as those being built in high-growth areas of the city. It is therefore quite plausible that the retail hub that has been the 3rd District may indeed move and transform and that the focus of this movement may be the Stadium area.

E. TREND - DIFFERENTIATION

As with every sub-sector of Ulaanbaatar real estate, differentiation is a key factor for success. Careful branding, market penetration strategies and attention to curating shopper experiences are deployed by very few developers at present. As the retail markets gain momentum and appetites for international brands grow, so customer expectations are heightened. This leaves room for vertical and horizontal expansion. New concepts such as out-of-city malls, shopper-tainment facilities and increased integration of shopping centers are core trends for the mid-term.

F. TREND - SHOPPING CENTRES TOP THE LIST

Shopping Centres make up a full 64% of future supply, beating out even large mall developments to the top spot. Whilst large scale outlets and big-box style retail are likely to be areas of growth, the advantages of shopping centres are seen in their ability to quickly respond to the market (flexibility being key to developers with limited experience in a fast growing market) and ease of overall management by developer-owners.

G. TREND - FIT OUT, MANAGEMENT AND CONTRACTING

Retail management skill levels remain nascent in Mongolia, although a handful of projects have joined with international management to begin to offer international standards, most notably the joint venture between Shangri-La and MCS. Fit-out tends to be negotiable at present, with limited market standardisation.

H. TREND - PARKING DRIVING GROWTH

Traffic congestion and lack of parking remains a key problem. The costs of building underground parking have led many developers to neglect this critical function during the early stages of development of good grade retail markets. With road widening and resurfacing projects continuing and bus lanes being implemented across the city, supplies of on-street parking are diminishing rapidly. During the cold winter months the 210,000 private cars registered in Ulaanbaatar (an increase of 194% since 2008) carry many of the city’s residents to and from the city centre and retail areas of Ulaanbaatar. However, parking when they get there is increasingly a headache, becoming a significant detractor for developments with highly limited parking such as Peace Tower. Traffic calming measures have not solved parking issues and availability of good parking remains a critical success factor for out-of-city and inner city projects alike.

12. CONSUMER TRENDS

As part of our commitment to understanding not only market movements but the underlying drivers behind these, M.A.D. carried out several studies throughout early 2014 into consumer preference and demand profiles. These questionnaire based studies yielded significant results in terms of understanding middle-income retail demand profiles within Ulaanbaatar. The following analysis is based around up to 250 responses to this questionnaire, conducted by M.A.D. researchers.

A. DOMESTIC SUPERMARKET GROWTH

The first component of analysis concerned upscaling of domestic brands. One key trend in the retail sector is the diminishing of numbers of local stores and small food outlets, which are gradually and inexorably being replaced by supermarket chains. There are presently no international supermarket chains operating in Mongolia, although recent years have seen the rise of domestic brands including NOMIN Supermarkets and Hypermarkets, SKY Supermarkets, Minii Delguur and Good Price supermarkets.

In order to gain insight into the relative successes of these a question concerning the reputation of five established domestic supermarket brands was incorporated into our questionnaires. The five brands selected were Nomin, Minii Delguur, SKY Department Store, Good Price and Sarnaikh. All of these maintain multiple facilities and are associated with the upper end of the supermarket sub-markets in Ulaanbaatar. The questionnaire asked respondents to rate these five facilities based upon pricing, selection of foods and products, service, cleanliness and selection of international goods. Respondents were asked to select only one supermarket per category as the best in its class. A total of 212 responses were received to this question. The table below show the results of this question.

Supermarket Facility Ratings Based Upon Survey Responses

	Most often Cited Best	Second Highest Rated	Least often Cited Best
Best pricing	Nomin	Minii Delguur	Sarnaikh
Best selection of foods and products	Nomin	Minii Delguur	Sarnaikh
Best service	Nomin	SKY Department Store	Sarnaikh
Cleanest	SKY Department Store	Nomin	Sarnaikh
Best selection of international goods	SKY Department Store	SKY Department Store	Sarnaikh

Source: MAD Research

The table below presents overall consumer preference rankings of supermarket brands in Mongolia based upon weighted average scored across 5 areas of comparison listed above:

Supermarket Preference Ranking

Ranking	Supermarket Name
1	Nomin
2	Minii Delguur
3	SKY Department Store
4	Good Price
5	Sarnaikh

Source: MAD Research

B. BRAND IDENTIFICATION

Whether considering domestic or international brands, market penetration and market share is, in large part, a function of awareness and resonance with the target consumer markets. Our questionnaires thus included an exploratory component, to enable us to understand which brands in Mongolia were resonating well with the middle-income consumer bracket that our surveys have heretofore focussed upon. One question in our questionnaire, delivered across five catchment areas around the city centre, from Zaisan to the 40,000 and 50,000 apartments, asked respondents to name up to three brand name stores in Ulaanbaatar at the present time. The market presently does not allow for significant brand individuation and identification within larger retail facilities, many operating on a department store framework.

Major retail managers and franchise holders, including Nomin and Naran Group, tend to place the brands they represent within their own shopping centre or department store facilities. This is atypical of international markets, where brand owners and the brands themselves tend to be more concerned with brand individuation in a more crowded marketplace. Whilst new retail facilities are likely to offer more autonomous retail units, with greater potential for building brand identity independent of domestic operators, at present identification largely rests with domestic stores carrying international brands. Max Mall tops the list of facilities being cited 33 times, with state department store being cited 34 times. Nomin Group has the highest overall number of references, although there is ample ambiguity here as to whether some respondents are indicating the brand, the State department store facility, or other Nomin facilities.

Brands and Stores Identified by Respondents

Domestic Locations and Brands	Number of Times Identified	International Brands (Official Franchise)	Number of Times Identified	International Brands (Unofficial Store)	Number of Times Identified
Max Mall	33	Zara	8	Apple	4
State dept	34	Adidas	21	Gap	11
Good Price	10	Nike	19	Gucci	4
Nomin	52	Lespecs	5	Juicy Couture	1
Bileg	7	Louis Vuitton	13	United	1
Central Tower	9	Bang Olufsen	2	Samsung	1
Bodi	2	Northface	3	H&M	7
Naran	20	Fitch	2	**TOTAL**	29
Sky	16	Benetton	26		
Grand Plaza	15	Espirit	1		
Khanburgedei	4	Calvin Klein	6		
S.Outlets	1	Tomato	2		
Ulaanbaatar Department Store	18	Reebok	11		
Moscow	2	Mango	3		
Orgil	2	French Connection	2		
Tushig	1	Kappa			
Metro Mall	1	Prada	1		
Talst	1	Levi’s	1		
TOTAL	228	Dolce & Gabanna	1		
		Channel	1		
		Armani	3		
		Betty Barkley	1		
		TOTAL	132		

Source: MAD Research

Of the international brands referenced, Benetton and Adidas top the list. Both have multiple locations, have been established in Ulaanbaatar for over half-a-decade and have street-front retail locations. This response rate is therefore indicative of the established place in the market and high visibility of these brands. Nike, Louis Vuitton and Reebok also received significant numbers of references. It is notable that of the international brands represented in the market at present, fashion brands and sporting goods brands are foremost in the minds of respondents. Only Samsung, Bang and Olufsen and Apple were cited outside of sporting, leisure and fashion brands.

Respondents were also asked which brands respondents would like to see introduced into Mongolia that were not here at present. The response rate was lower for this question, with just 70 responses out of a possible 250 and a number of respondents indicated that they did not prefer branded goods, with 9 responses that no new brands are desirable or preferable. Of the brands identified, H&M was most wanted, with 12.9% of respondents indicating that they would like to see an H&M store in Ulaanbaatar. Air Walk received 5.7% of total responses, whilst Nine West was identified in 7.1% of responses as desired. Again, the responses given in terms of brands respondents would like to see are weighted heavily towards clothing and fashion.

C. FACILITIES CONSIDERATIONS

A significant retail development pipeline is already established for Ulaanbaatar, displaying emerging trends in ‘shopper-tainment’ and out-of-town retail facilities. In order to gauge which of these trends will be tipped for success, M.A.D. analysts also incorporated questions concerning motivating factors that would result in respondents wishing to visit a large scale retail facility within Ulaanbaatar. Over 250 respondents from middle-income households were asked to rate a total of seven factors in terms of what would or would not make them want to visit such a facility. The factors were as follows:

- Good choice of international brands
- Good quality environment
- Lower prices
- Leisure facilities (including restaurants, bars, etc.)
- Food and beverage facilities
- Available off-street parking
- Close to my home

Respondents were asked to rank these statements from 1 to 5 on a Likert scale, 1 meaning they not be very inclined to visit as a result of this factor, 5 being they would be disinclined to visit as a result of this factor.

Overall, “good quality environment” was the most important factor in determining likelihood to visit a retail facility. Weighted scoring showed that this factor, overall, was of higher concern than any other to respondents. The second most significant factor was proximity, whilst the third was available off-street parking. Respondents thus showed a distinctly pragmatic approach to fulfilling their retail needs in the sub-segment of the market surveyed. lowest scoring factors were “good choice of international brands” and “leisure facilities”. It must be noted that with no mall or shopping centre facilities presently offering integrated leisure facilities at this time, the overall potential of this market has yet to be fully realised by either developers of consumers. We remain confident of a requirement for integrated ‘shopper-tainment’ facilities.

XIX. HOTEL MARKET ANALYSIS

1. MARKET INTRODUCTION

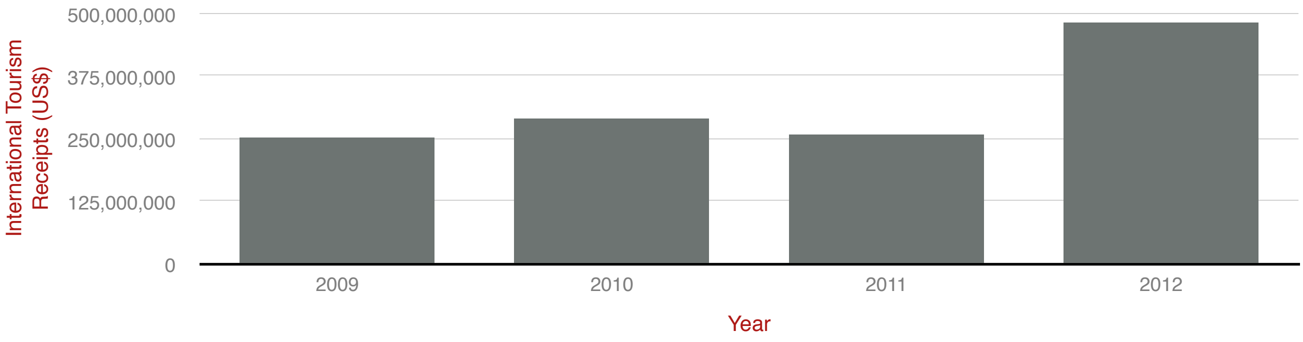
Hotel Market Vital Statistics

Statistic	Data
First international entrant into Ulaanbaatar hotel market	Kempinski Khaan Palace (2005)
Most recent international entrant into Ulaanbaatar hotel market	Best Western Premiere Tuushin (2013)
Average price per night in the current 4* market in Ulaanbaatar (low season SO to high season DO)	$82 - 339
Average price per night in the current 5* market in Ulaanbaatar (low season SO to high season DO)	$118 - 364
Per night price growth per annum 2009 - 2014 CAGR	9.54%
Highest rack-rate per night in the Ulaanbaatar market (low-season single occupancy)	Best Western Premiere ($264 per night)
Lowest rack-rate per night in the Ulaanbaatar market (low-season single occupancy)	Evergreen Hotel ($27.40 per night)
Highest number of rooms in a single project	Bayangol Hotel (215 rooms) In future supply the Shangri-La Hotel will contain 273 guest rooms
Current room supply across the 4*+ market	1,230
Future room supply across te 4*+ market	1,173
Average growth in number of rooms 1994-2014 CAGR	10%
Average number of new rooms entering the market 2014-2021	391

Source: MAD Research / NSOM

The tourism industry in Mongolia was worth an estimated 292.2 million USD at the end of 2012, employing around 36,500 people. This represents 3.4% of the total economy of Mongolia. The total combined value of both travel and tourism economy was estimated for the same period at 757 million USD. Overall, mid-term projections indicate that growth in this area is expected to be slower than other areas of significant growth in the Mongolian economy, with 2013-2020 estimated GDP growth in the travel and tourism industry projected at just 6.2% - below overall projected GDP growth for the same period, which remains in double or high single-digits.

GRAPH 165: Intervational Tourism Receipts 2012



Source: NSOM

Within the World Economic Forum's Travel and Tourism Competitiveness Report 2013 Mongolia stood in 99th place out of 140 countries surveyed. This report was based around three categories of variables that drive travel and tourism competitiveness. These include: (1) the travel and tourism regulatory framework; (2) the travel and tourism business environment; (3) the travel and tourism human, cultural, and natural resources subindex. These take into account both soft and hard infrastructure, the resource endowments of each individual nation and the elements of policy and governance that form the environment around travel and tourism.

INFORMATION BOX - SHANGRI-LA HOTEL SET TO OPEN

In January 2005 Shangri-La Hotels and Resorts, Asia Pacific's leading luxury hotel group, announced that they would open a new hotel in the Mongolian capital, Ulaanbaatar, in 2013. This would be a joint venture between MCS Holdings and Shangri-La to create a high-end luxury 261 room hotel as part of an office, retail and hotel complex. The site initially chosen was the south- eastern corner of Sukhbaatar Square, between the Ulaanbaatar Cultural Palace and Peace Avenue. Building works were initiated on this site in 2006-2007 and by 2009 a luxury 17 level structure was completed on the site. However, Shangri-La were unable to envisage a hotel in this location. It is rumored that a particular issue was the basement location of kitchens, which was not suitable for Shangri-La. Nevertheless, the working relationship between MCS and Shangri-La endured and the two embarked on a new project a little further south, on the north-eastern tip of Nairmdal Park (the Children's Park). This will be the site of the new Shangri- La hotel, originally scheduled to open in 2013, but now pushed back until 2014 - 2015. So intent is MCS on creating a landmark project that initial plans for this development were appended in 2011 to increase it in height to 26 level, officially making it the tallest building in Ulaanbaatar. When it opens, this luxury 300 room hotel will feature all day dining restaurants, a speciality restaurant bar, a Chinese restaurant and spacious lobby lounge as well as a large grand ballroom and a 25m swimming pool. With the Shangri-la sign now prominently visible atop the tower, the project is gearing up for its opening next year.

The nation's travel and tourism sector scored most highly in the areas of safety, hygiene and health, price competitiveness and availability of qualified labour. Nevertheless, the sector scored low in terms of tourism and travel infrastructure. This remains a recognised and highly significant issue. The unified travel and tourism facilities and infrastructure required to effectively grow the market are not presently in place. Overall transport and infrastructure networks outside of the capital city are very limited, hampering suitable growth in volume of tourism to areas of natural beauty spread across the vast nation. Moreover, tourism companies tend to operate in a highly competitive and unintegrated manner, with limited co-operation hampering the overall development of tourism markets. Nevertheless, the Government of Mongolia has pledged to make expansion of the tourism industry a priority in policy terms.

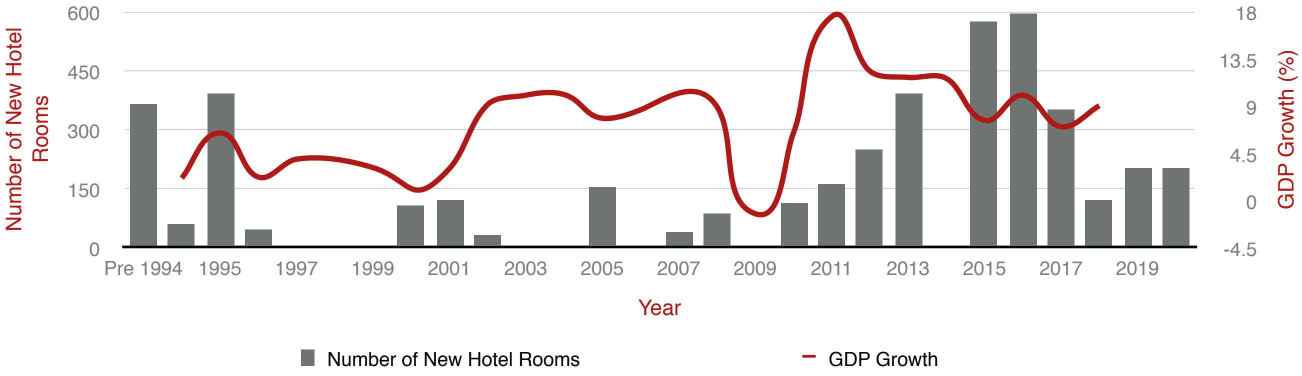
The upper end of the hotel market has seen significant growth over the past half-decade as a direct result of the overall growth in the Mongolian economy and dramatic increases in business tourism. A pipeline supply of 1,173 hotel rooms is expected to come online within the international standard (4*+) market over the coming four-to-five years. This represents a 140% rise in the total number of hotel rooms in this segment of the market at present. A full 62% of the total projected supply of hotel rooms in the Ulaanbaatar will be implemented with foreign management or ownership, in contrast to the current 17% of the current market. This future supply represents a full 47.9% of the total current room supply in Ulaanbaatar and 140% of the 4*+ supply in the current market. Such a drive towards the upper end of the market and concomitant entry of international hotel brands into Ulaanbaatar has been spurred by double-digit growth in the national economy and an upsurge in the numbers of business travellers arriving in Ulaanbaatar.

An influx of foreign workers was the reason for a jump in nominal tourism figures from 2010-2012. Numbers of inbound passengers into Mongolia rose 11.9% during this period, before falling off again during 2013. Numbers of officially registered 'tourists' increased by 4% during this period, from 456,000 to almost 476,000. Due to the fact that most short-term business travellers questioned tend to travel on tourism visas (backed by the strong correlation between business growth and tourism growth) it is a fair assertion that business travel has made up and will continue to make up the majority of growth in the tourism/travel market within Ulaanbaatar for the mid-term.

2. MARKET HISTORY

In global terms, Mongolia offers a relatively unique and unexplored travel destination. The nation's natural endowment incorporates scenic natural features and a wide variety of landscapes - from mountains and lush forests to frozen deserts, often relatively unspoilt. Whilst the travel sector in Mongolia dates back over a century, the private-sector is barely two-decades old. Completion of new hotel rooms and their introduction into the Ulaanbaatar markets have typically followed periods of significant GDP growth within the national economy. Information lag in the market at present means that developers have tended to be reactive rather than projective in their responses to such new opportunities. Tourism initially became a sector of great importance to the Mongolian economy the early part of the twenty-first century, before mining dramatically rose to the fore. Now tourism is back on the agenda as a means of stimulating more broad-based growth.

GRAPH 166: Numbers of New Hotel Rooms by Year in Ulaanbaatar Mapped Against GDP Growth



Source: MAD Research / NSOM

The oldest hotel in Ulaanbaatar is the appropriately named Ulaanbaatar Hotel. Originally housed in a three-level building on the west side of Sukhbaatar Square (this building still exists and today houses City Government functions and ground-level retail), the facility was moved to its current location prior to the transition from socialism to democracy. The hotel was primarily used by internal travellers and as a hotel for visiting dignitaries. The first tourism-focussed hotel was the Bayangol Hotel, also established during the socialist period. This expansive facility, a little to the south of the CBD, features more modern facilities, catering specifically to a tourism market.

The rapid expansion of the mining industry in the late 2000s precipitated a rise in GDP growth rate, in turn spurring rapid development of hotel facilities across Ulaanbaatar from 2007 onwards. Strong growth in numbers of international entrants and new domestic projects continued based upon the perception that FDI into mining and related sectors would continue and mineral / energy prices would remain buoyant. This led to collapsing confidence in the hotel markets when the economy showed signs of faltering during 2012. Projects that were already underway slowed and stopped, with over 1,000 rooms in internationally managed hotel facilities cancelled. Nevertheless, pipeline supply in the Ulaanbaatar hotel markets looks to remain roust and growing up until 2016 - buoyed by large-scale upper-end facilities managed by international brands. Whilst it is not expected that the tourism and business travel will keep up with new supply in the next 2-3 years, a renewed package of measures implemented by the Mongolian Government to attract FDI should have begun to address the fears of investors and international businesses whose interest has heretofore driven the business travel markets. Expected delays in reaching an agreement on the high-profile second phase of the Oyu Tolgoi will hamper efforts to attract new investors, although this is expected to be resolved by 2016. Combined with improved spending in the area of tourism infrastructure and growth in air-travel capacities, the present oversupply in the hotel sector is expected to be more rapidly taken up from 2017 / 2018 onwards.

It is of note that, unlike many rapidly emerging Asian markets, Mongolia exhibits relatively limited socio-political risk factors. The democratic governance framework established in 1991 has held in place and even incidences of protest have been limited to one occasion in 2008. With socio-political risks being a key point of concern to international hotel operators and tourism markets as a whole, Mongolia represents a safe investment in this sense. One significant issue impacting the sector, and indeed the entire real estate sector - is currency stability. From January 2013-January 2014 the MNT depreciated against the USD by 25%. Despite small declines against the USD of currencies of other mining and minerals reliant nations, the overall trend of the MNT is responding to a skewed import/export balance and rising foreign denominated debt obligations. Where hotel operators are receiving revenues in MNT (according to Mongolian law all transactions must be settled in MNT), currency risk remains a threat to be aware of.

Overall, the tourism industry has expanded dramatically over the past 20 years, with numbers of visitors reaching 450,000 during 2010 (this was three-times the 2000 estimate of national tourism growth). Nevertheless, maintaining growth is a potentially difficult prospect, as we must see sustained investment and concerted efforts to expand tourism infrastructure both horizontally and vertically before the market can expand out from the two segments that have defined it in recent years. These are the ‘backpacking’ segment, (making up the majority of actual tourism within Mongolia) and the business travel sector. The backpacking sector tends to be made up of travellers who are younger and stay in inexpensive domestic hotels and guest-houses. The business sector, based around the upscaling of the mining and financial sectors, tends to prefer up-scale hotels, with international management and reliable standards. These travellers are far less price sensitive on the whole.

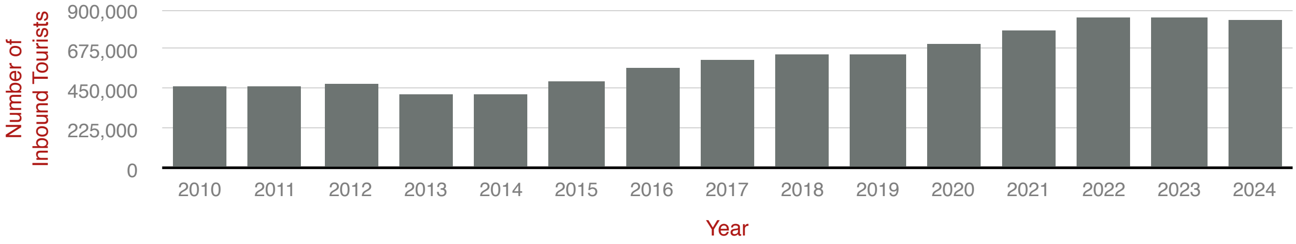
The Government of Mongolia officially indicated that the tourism sector would be one of three sectors (mining, agriculture and tourism) to be the focal points of growth during the next few years. Prime Minister Altankhuyag has released optimistic projections for the tourism industry, stating that the Government is expecting a gradual increase in numbers of inbound travellers - 600,000 projected for 2015, 800,000 for 2016 and one-million for 2017. These figures seem entirely too optimistic, even with the completion of a new airport. A more cautious approach is to be recommended, backed by observations of empty flights into and out of Mongolia during much of 2014. During the heyday of mining market growth (2010-2011), it was all but impossible to book flights into or out of Mongolia during the summer months. By contrast, many flights arrive at or leave Ulaanbaatar at least one-third empty.

As part of efforts to improve media penetration of the tourism sector the Ministry of Culture, Sport and Tourism of Mongolia approved a new slogan for Mongolia’s tourism sector during 2013: “Go Nomadic, Experience Mongolia”, only to alter it one year later to “Mongolia - Nomadic by Nature”. In a further bid to boost the tourism industry Mongolia also became an official partner country for the ITB in Berlin 2015. The Ministry of Culture, Sport and Tourism of Mongolia has also introduced a new official tourism portal (www.mongolia.travel), indicating that its sector enhancement policy will be focussed around online the platform. Government projections as to revenue from travellers to Mongolia are projected at 600 million USD in 2015 and 1 billion USD during 2017. Again, these are likely well beyond the bounds of realism. Nevertheless, an encouraging note was struck by the Government when it announced that it would spend around 18.8 billion MNT on promotional, marketing and capacity building activities in the sector until 2017. Plans also exist to increase the number of countries whose citizens can travel to Mongolia visa free from just 17 at present to around 50. This will create a real boost for tourism as obtaining visas for travel to Mongolia is as a tourist or business visitor is presently a cumbersome process.

3. MARKET DRIVERS

Numbers of tourists visiting Mongolia during the first 10 months of 2013 decreased by 12.8% compared to the same period the previous year. During this period 366,095 people entered Mongolia for purposes of tourism. These figures must be viewed with caution as a significant number of international business visitors also use tourist visas for entry as a result of the comparative ease of obtaining sun visas as opposed to 'business' visas (the Mongolian statistical analysis defines anybody who enters the country on a tourist visa and stays more than three days as a tourist). This drop off in tourism numbers by over 1/10th is likely attributable to the falling reputation of Mongolia in terms of FDI and a concomitant drop-off in number of business travellers.

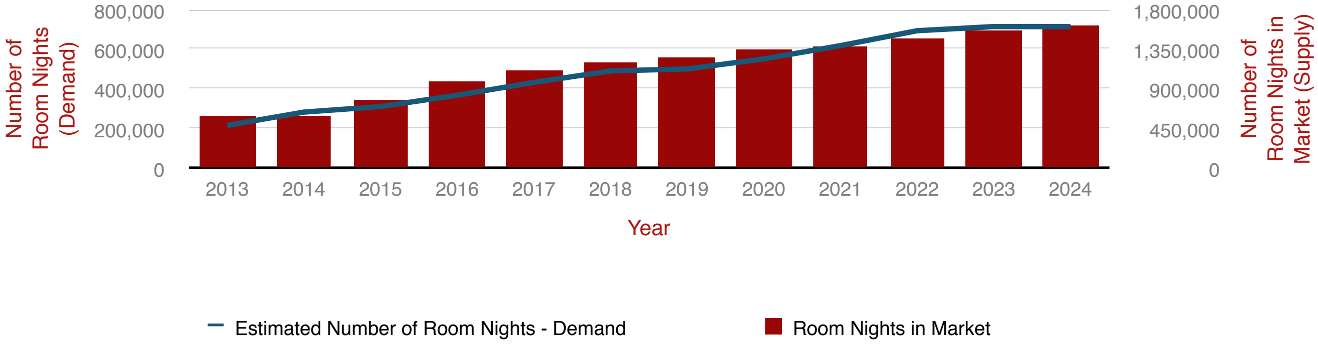
GRAPH 167: Inbound Tourism Projections Until 2024



Source: NSOM / MAD Research

Based upon historical trends in tourism, M.A.D. analysts estimated market growth - factoring in development of travel infrastructure, expected exposure in international media and macroeconomic growth estimations. These lead to a projection of 841,346 tourists inbound into Mongolia by 2024. The CAGR in inbound tourists will be 6.5% from 2013 until 2024. Based upon average length of stay figures published for Ulaanbaatar hotels during 2013, raised based upon expected growth in formal tourism markets, the expected demand for room nights is given in the table below (alongside numbers of room nights available in the Ulaanbaatar markets).

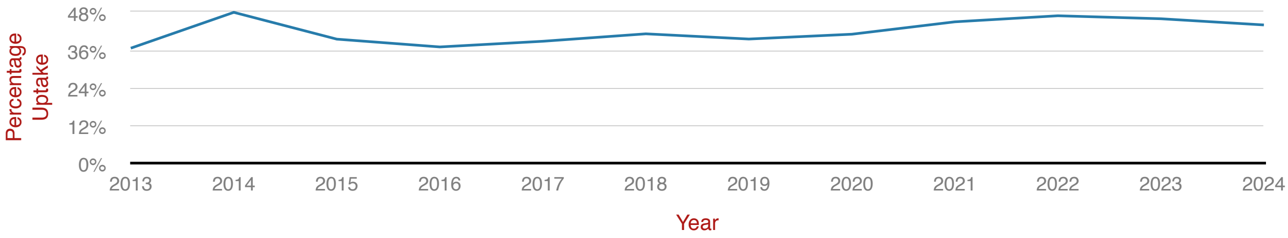
GRAPH 168: Supply / Demand Uptake Projections



Source: MAD Research

Across the period represented, numbers of room nights show a CAGR of 11.56% (calculated based on pipeline supply), whilst growth in tourist numbers has an expected CAGR of around 9-10%. This equates to an average occupancy rate of 41% across the market over the 11 year period projected.

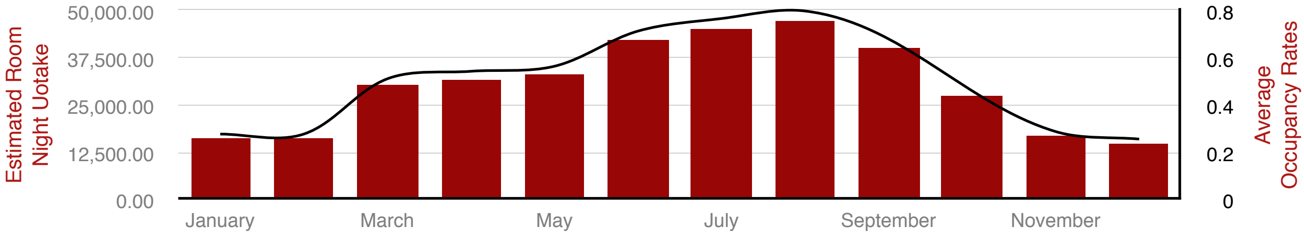
GRAPH 169: Supply / Demand Uptake Projections - Occupancy Rates Projected unti 2024



Source: MAD Research

The tourism market in Mongolia remains highly seasonal. With the exception of business travellers, and a small adventure tourism segment, the mainstay of tourist travel in Mongolia occurs within the short summer months (June to September). Peak months for occupancy in Ulaanbaatar hotels occur within these months, whilst December to February display lowest rates. In high-end hotels, occupancy may fall as low as 24 - 27% during the winter months, rising as high as 75% during the mid-summer season. The graph below indicates average overall occupancy within the hotel markets for 2013. The clear curve indicates the seasonality of the market, with the secondary line showing the estimated uptake of room nights within the Ulaanbaatar hotel market for each monthly period. At the peak of the season, the estimated total room-night uptake in Ulaanbaatar's good grade hotel stock was estimated at around 50,000 room nights over the course of a month. This would mean that an estimated 1,720 rooms were occupied at any one time during August.

GRAPH 170: Seasonal Occupancy Reported 2013



Source: MAD Research

The fact that 25% of available rooms remained unoccupied during peak season is potential cause for concern about slowing business travel into Mongolia. However, our analysts are confident that the future outlook for this mining resource rich nation is bright and in the mid-term growth will return to the overall economy on a more stable footing.

The top performing hotels in terms in Ulaanbaatar of occupancy remain the Kempinski Khaan Palace and the Corporate Hotel, with Blue Sky also now competing for this title. Average occupancy recorded for the Kempinski Khaan Palace and the Corporate Hotel approach 70%. Blue Sky Hotel has also seen observed occupancy rates jump during the summer of 2013 and is rapidly becoming the go-to business hotel in Ulaanbaatar due to its location.

At present 5 our of the top 10 international hotel management chains are present in Ulaanbaatar (Hilton Hotels, Marriott International, Wyndham Hotel Group, Accor and Best Western). Overall, there are seven international hotel brands represented in the Ulaanbaatar market, with the inclusion of Shangri-La and Kempinski. Opportunities exist at the uppermost end of the luxury market and the mid-end range. Heretofore, the luxury markets have been scantly catered to within Ulaanbaatar, as local operators lack the knowledge, training and infrastructure to deliver the highest standards of service expected by discerning business travellers.

At the mid-upper end of the market, groups such as Best Western Premiere and Ramada have established a presence in Ulaanbaatar, with Accor set to introduce a 120 room Ibis hotel by 2016-2017. These brands are firmly targeting the mid-upper end of the international tourism and business travel sectors, although the number of room nights implemented in Ulaanbaatar within the international 3* sector bracket will be dwarfed in future supply by numbers of 4* and 5* rooms.

Top 10 Worldwide Hotel Groups - Hospitality Industry Ranking

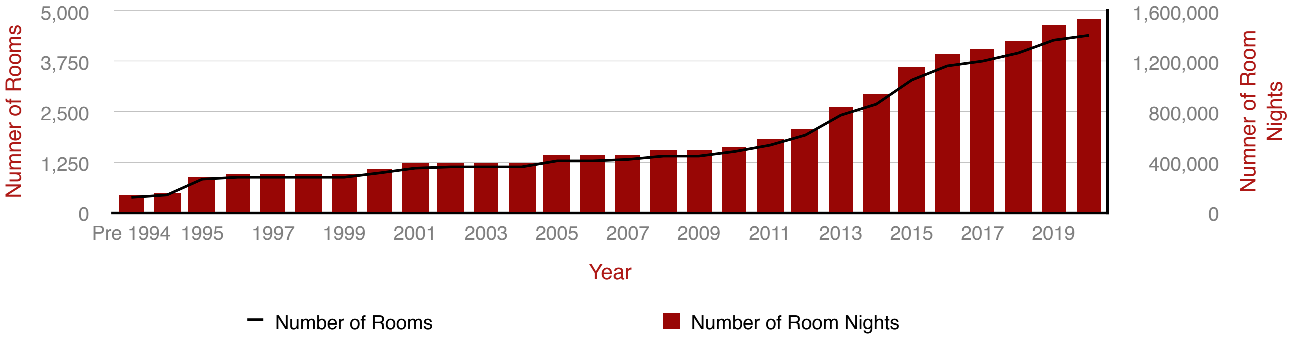
2013 Rank	2012 Rank	Group	Hotels 2013	Hotels 2012	Rooms 2013	Rooms 2012	Growth (Nominal)	Growth (%)
1	1	IHG	4,602	4,480	675,982	658,348	17,634	2.7%
2	2	Hilton Hotels	3,992	3,861	652,378	631,131	21,247	3.4%
3	3	Marriott International	3,672	3,595	638,793	622,279	16,514	2.7%
4	4	Wyndham Hotel Group	7,342	7,205	627,437	613,126	14,311	2.3%
5	6	Choice	6,198	6,203	497,023	502,460	-5,437	-1.1%
6	5	Accor	3,515	4,426	450,199	531,714	-81,515	-15.3%
7	7	Starwood Hotels & Resorts	1,121	1,076	328,055	315,346	12,709	4.0%
8	8	Best Western	4,024	4,018	311,611	295,254	16,357	5.5%
9	9	Home Inns	1,772	1,426	214,070	176,562	37,508	21.2%
10	10	Carlsen Rezidor Hotel Group	1,077	1,077	166,245	165,802	443	0.3%

Source: MKG Hospitality

4. HOTEL CURRENT SUPPLY

Since 1994 the number of hotel rooms in the market has expanded with a CAGR of 10%, with fastest growth registered between 2009-2013. Over the supply pipeline (2014-2020) CAGR in number of rooms is projected at 8.9%. The numbers of new rooms introduced at the upper end of the market represents around 82% of current 3*+ room supply.

GRAPH 171: Cumulative Number of Rooms and Room Nights in the Ulaanbaatar Hotel Markets



Source: MAD Research

A. CASE STUDY A - FIRST INTERNATIONAL BRAND IN ULAANBAATAR: KEMPINSKI KHAAN PALACE

Developer	Tavan Bodg Group
Management	Kempinski Hotels
Current Status	Operational
Year of Completion	2005
Property Type	Hotel
Number of Rooms	102
Total No. Floors	9
Total GFA (sq. m)	5,000
Hotel Facilities	102 room international 4* hotel, containing four restaurants (seating a total of up to 110 people), banqueting facilities for up to 260 persons and, unusually for Ulaabaatar ample parking for 45 cars. This hotel employs up to 160 staff throughout the year and caters primarily to high end tourism and business travelers.

The earliest international entrant into the Ulaanbaatar hotel markets was the Kempinksi Khaan Palace. Built by Tavan Bogd Group, Kempinski entered into a management agreement with this domestic group during 2005 in order manage this 102 room facility. The Kempinski retains good occupancy rates, although has had difficulty maintaining service levels due to rapid staff turnover in the the hospitality sector (largely as a result of competition from the mining sector in terms of employing internationally trained, multi-lingual staff). Having cycled through managers of this facility, the hotel now operates a robust quality control system and its reputation is improving again. However, occupancy rates are falling off as new hotels come online closer to the CBD. Overall success of this facility has been somewhat hampered by its easterly location. Whilst it is less than 2km from the CBD, distances in Ulaanbaatar are magnified as a result of extremely poor traffic flow and harsh winters, giving the CBD itself a catchment area of less than 500m at present. The Kempinski was developed at a time when it was expected that growth of commercial facilities would extend evenly out from the centre of the city. This was realised for a time when Oyu Tolgoi established their offices in Bayanzurkh district, a short distance from the Kempinski. However, with the completion of Monnis Tower and Central Tower, a core business district was solidified and a centralising, densifying trajectory for commercial facilities took hold. Nevertheless, as land in the CBD becomes ever more sought after and therefore more expensive to develop, it is expected that there will renewed movement of commercial facilities to the east and south of Ulaanbaatar.

B. CASE STUDY B - MOST RECENT INTERNATIONAL BRAND IN ULAANBAATAR: BEST WESTERN PREMIERE

Developer	Wyndham Group / Tuushin
Operator	Best Western
Current Status	Operationa
Forecasted Year of Completion	2013
Property Type	Hotel
Number of Rooms	200
Total No. Floors	25
Hotel Facilities	200 room, upper end hotel, international 4* standard, with meeting rooms catering to between 5 and 500 people. Ballroom and banqueting facilities can accommodate up to 400 persons. Four on-site restaurants and a spa are also available.

The Tuushin Best Western Premiere hotel represents the newest entrant into the Ulaanbaatar hotel market. Completed during 2013, this 200 room facility represents Wyndham Group's first project in Mongolia. Partnered with Tuushin Hotels, this 25 level, landmark facility was built behind the structure that was once the domestically owned Tuushin Hotel. Offering premium service and facilities, the Best Western Premiere represents the most up-to-date luxury in the Ulaanbaatar markets at present. Since its opening it has received significant attention, although reported occupancy rates remain reasonably low, at below 50%. The end of the summer season of 2014 will show whether this international brand has the power to attract customers away from established local brands.

C. CASE STUDY C - LOCATION CASE STUDY: RAMADA HOTEL

Developer	MAX Group, managed by Ramada
Operator	Ramada
Current Status	Operational
Year of Completion	2011
Property Type	Podium retail with southern tower dedicated to hotel and leisure facilities and north tower incorporating residential apartments.
Total No. Floors	11
Number of Rooms	108
GFA (sq. m)	6,600
Hotel	108 room hotel, including dining and cafe facilities
Hotel Facilities	Room sizes range from 27 - 38.9 square meters (the latter being a suite). The hotel contains 108 units 38 deluxe king rooms, 34 deluxe twin rooms, 21 standard king rooms and 15 standard twin rooms. There are 50-60 exterior and underground parking spaces. The hotel has a total of 5 restaurants on site, some of which are shared with the retail space in the podium.

The Ramada Hotel opened its doors in 2011. Situated within the Max Mall complex, this hotel represented the first new international entrant into the markets since Kempinski in 2005. The hotel itself is positioned in the southerly tower of a two tower and podium complex that also houses residential units and a large-scale mall facility. With the completion, two years earlier, of the Jiguur Grand Plaza complex opposite, it appeared as if the upper end of the retail markets may be moving westwards along Peace Avenue, expanding in a new direction into Bayangol District. Nevertheless, since its opening in 2011, the Ramada complex has suffered from disappointing occupancy rates - below 40% on average across its 108 rooms. This is likely due to its westerly location, close to 2km from the CBD. The problems this hotel faces illustrate a key fundamental within the Ulaanbaatar hotel markets - proximity is everything. City centre based hotels can charge a premium in terms of per night room rates and invariably have higher occupancy rates, with the exception of the Bayangol Hotel (with ageing facilities and the largest supply of rooms across the market, it routinely reports the lowest occupancy percentages in Ulaanbaatar at present).

D. CASE STUDY D - MOST SUCCESSFUL DOMESTIC BRAND IN ULAANBAATAR: BLUE SKY HOTEL & TOWER

Developer	Chono Group
Operator	Chono Group
Current Status	Operational
Year of Completion	2012
Property Type	Hotel, F&B, nightclub, residential, office, leisure facilities, small supporting retail.
Number of Rooms	200
Total No. Floors	25
Component	10 levels of hotel 1 level reception 3 levels dedicated F&B 3 levels of residential 7 levels of office
Hotel Facilities	200 guest-rooms, including 33 suites. 10 room types. Restaurant space for over 450 covers. Full leisure facilities (also open to the public) including swimming pool and gym/spa.

The Blue Sky Hotel and Tower was completed during 2012, after long construction delays. This iconic structure sits atop an enviable location in the heart of the CBD. The lynchpin facility of this 25 level building is a hotel facility that incorporates 200 guest-rooms, conference facilities, a floor of restaurants and full gym/spa facilities. The facility was initial developed in co-operation with an international operator, although prior to opening Chono Group's management indicated that they wished to operate the facility themselves. The hotel has since become increasingly popular with business travellers as a result of its location, although service in the facility is not as polished as that offered by international entrants to the market. Occupancy rates are typically on the high side of the citywide average as a result of a favourable city centre location.

5. HOTEL FUTURE SUPPLY

Hotel Pipeline Supply in Ulaanbaatar

Hotel Name	Number of Rooms	Estimated year of market entry	% Complete	Local Developer	Managed / Operated by:	Location
Shangri-La	273	2015	60% complete	MCS Shangri-La	Shangri-La	Children's Park
Marriott	200 (est.)	2016	0% complete	-	Marriott	CBD
Ibis	120	2016	40% complete	Mongol Micron Cashmere	Ibis (Accor)	Khan Uul
Hilton	280	2016	30% complete	Star Estates (with Mott MacDonald)	Hilton Hotels	Children's Park
Ritz Carlton	150	2017	0% complete	Baz International	Ritz Carlton	CBD
Gran Melia	150	2017	0% complete	Baz International	Gran Melia	Bayanzurkh
TOTAL	**1,173**					

Source: MAD Research

Total room nights in the pipeline hotel supply for Ulaanbaatar stand at just over 419,582 (nights per annum) based upon new hotel project announcements during 2013 and 2014. Despite several projects being cancelled as a result of delays (with 1,165 rooms being removed from the future supply pipeline as a result of this) this number of new room nights, all concentrated within the domestic 4*+ markets and international 3*+ markets, will significantly realign Ulaanbaatar's hotel sector, forcing domestic brands to realign at a lower price point. Fears of oversupply of hotel rooms is very real at present.

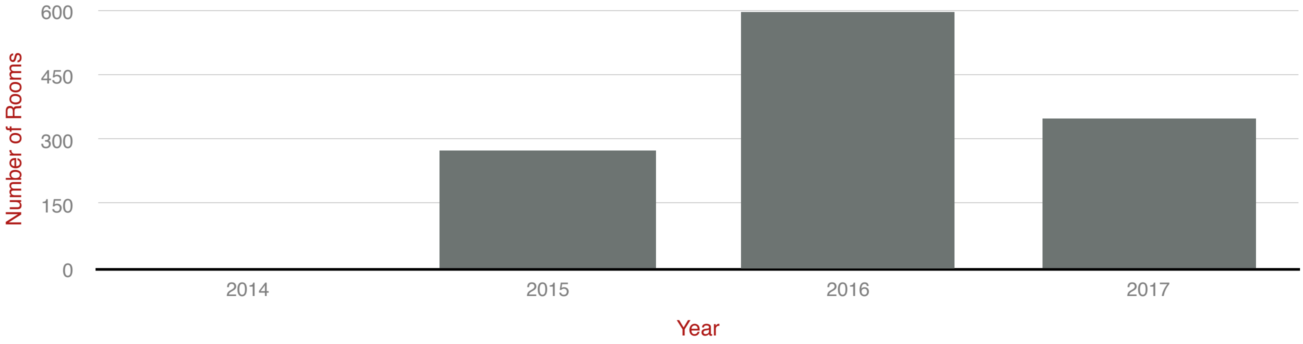
Cancelled Hotel Projects in the Ulaanbaatar Markets

Hotel Name	Number of Rooms	Estimated year of market entry	Status
Radisson Blu	175	2015	Cancelled
Hyatt	131	2015	Cancelled
Hyatt Regency	259	2014	Cancelled
Sheraton	300	2013	Cancelled
Movenpick (formerly Sheraton)	300	2015	Building complete, operating company pulled-out
TOTAL	**1,165**		

Source: MAD Research

The graph below indicates the known project pipeline in terms of room supply within the upper end of the Ulaanbaatar hotel market. We also projected forthcoming supply based upon smaller entrants coming into the market.

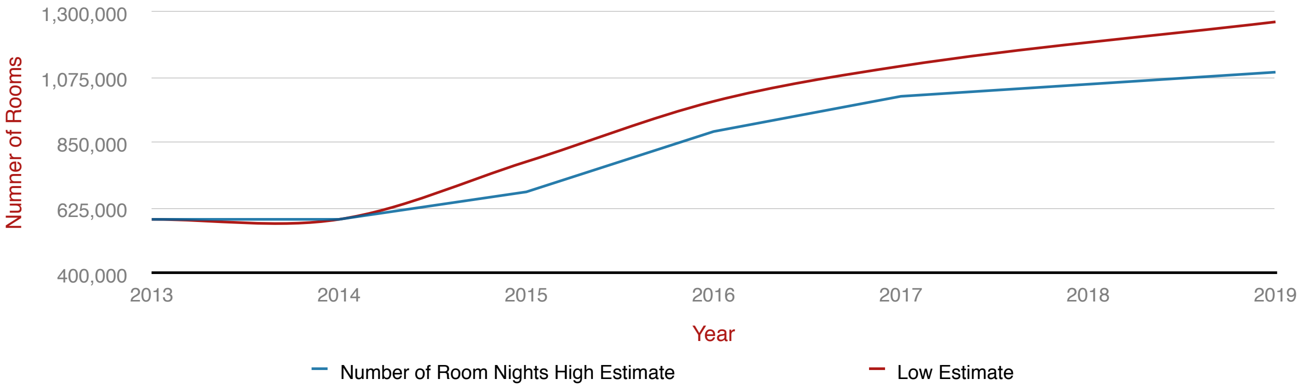
GRAPH 172: Numbers of New Rooms in Upper End Hotel Markets - Projected pipeline 2014-2017



Source: MAD Research

The high estimate takes into account at least one new entrant into the upper end markets each year, with numbers of rooms between 120 and 200. This incorporates projections as to the redevelopment of the Bayangol Hotel, the refinancing of projects such as the MAK Tower project and the successful completion of the Mon Uran project, early rumours indicating that this development may incorporate a Mandarin Oriental hotel. The high estimate would see 4,680 hotel rooms in the upper end of the Ulaanbaatar hotel market by 2024. This squares to around 1.62 million room nights (2.7 times the current supply and indicative of a CAGR of 9% per annum). The low projection would see 3,834 rooms in the market by 2024, as a result of a continuing distrust of the mining economy in Mongolia and slow FDI re-entry. Such a scenario would lead to less interest from international hotel management companies and a slower influx of international brands. This would still leave 1.32 million room nights in the Ulaanbaatar hotel markets and a CAGR of 7.7% per annum.

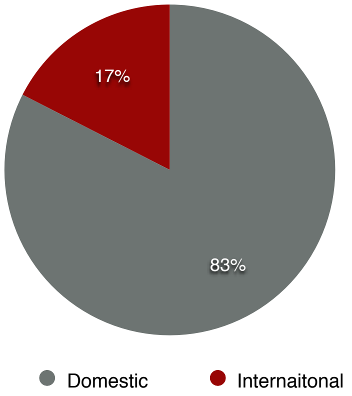
GRAPH 173: Cumulative Number of Room Nights in the Ulaanbaatar 4*+ Hotel Markets - High and Low projections



Source: MAD Research

6. HOTEL PRICE HISTORY AND PROJECTIONS

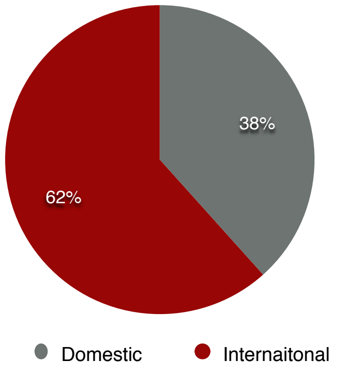
GRAPH 174: Operation of Hotel Rooms in the Ulaanbaatar Markets 2014



Source: MAD Research

In terms of pricing, the Ulaanbaatar hotel markets are going to come more into line with international pricing trends at the upper end of the market. As the graph below illustrates, current supply in the Ulaanbaatar hotel markets is 83% operated by domestic companies, with only 17% of total room supply operated by international companies at the present time.

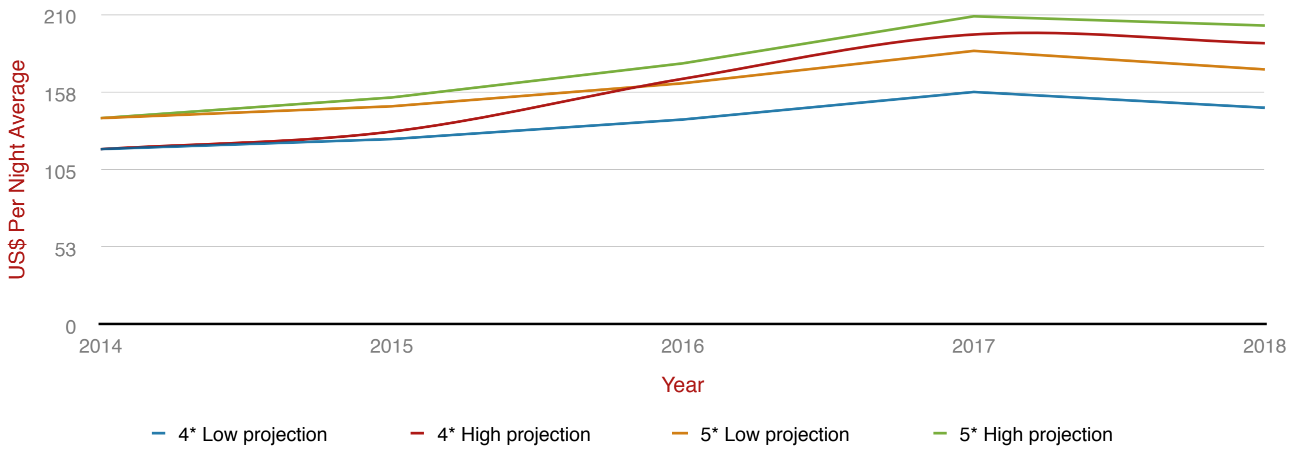
GRAPH 175: Operation of Hotel Rooms in the Ulaanbaatar Market Future Supply



Source: MAD Research

By contrast, future supply in the Ulaanbaatar markets will show the opposite tendency. With international brands financing and managing significant new hotel supply, domestic hotels in the upper end of the market will account for just 38% of projected room supply once expected pipeline supply comes online. This indicates the extent to which the influence of international hotel pricing will likely impact the local markets, defining the upper end of the market.

GRAPH 176: Price Growth Projections Within the Ulaanbaatar Good Grade and Luxury Hotel Markets



Source: MAD Research

Globally, hotel markets have shown significant swings in price growth over the past decade, rising from around 0% per annum in 2004 to 20% per annum in 2007, before the financial crisis curtailed growth. Prices dipped further, into negative growth territory by H2 2009, on the back of a critical drop-off in levels of international tourism and business travel. By H2 2013 figures were back up at above 110%. However Asia's hotel pricing index stood at just 106% during 2013 (a 2% fall y-o-y 2013), to a level not seen since 2009. This was attributed to slipping currencies across the region. However, there is a longer term trend emerging of more travellers within Asia and a focus on tourism development across the region. For this reason many international hotel chains are looking to expand their operations in Asia and are seeking new markets in which to improve capacity. With its importance in the global mining sector, natural beauty and cultural uniqueness, Mongolia offers a significant value proposition to hotel chains looking to grow in the Asian markets, particularly on the back of intra-asian tourism growth.

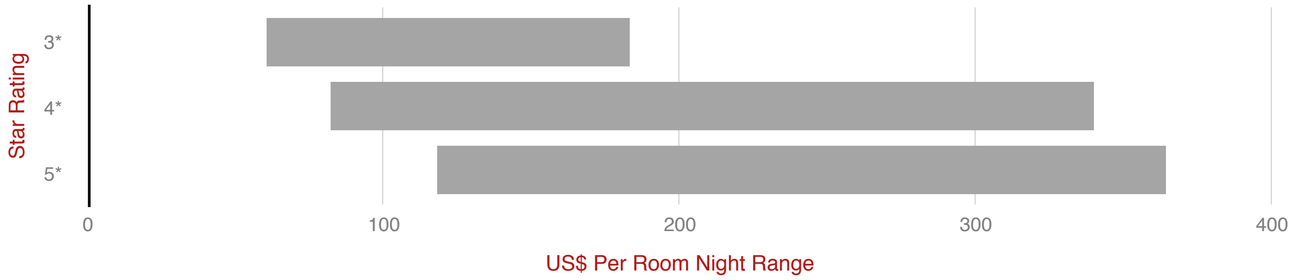
Based upon projections for regional hotel market growth, the price projections in the following section been developed by M.A.D. analysts using current upper-end market pricing and taking into account the increasing convergence of regional price trends with the Mongolian hotel markets. Analysis of average variance between highest achievable rates (luxury rooms, double occupancy, high-season) and lowest achievable rates (basic rooms, single occupancy, low-season), indicates significant variance, brought on by extremely low occupancy in low-season and a necessity to offer incentives to stimulate higher occupancy rates. Interestingly the 5* and 4* markets show distinct similarity between rates, with the lower end of the 5* range being around 30% higher than 4* rates.

GRAPH 177: Average Market Rack Rates (Per Room Per Night), Lowest Achievable in Ulaanbaatar Hotel Markets 2013-2014

Source: MAD Research

Hotels in the CBD of Ulaanbaatar can typically charge a premium based upon location factors. City centre hotels tend to be able to achieve higher yields in the order of 40% above the broader Ulaanbaatar city hotel markets (based upon analysis of lowest achieved rates).

GRAPH 178: Price Ranges - from Single Occupancy Low Season to Double Occupancy High Season by Sub-Market



Source: MAD Research

7. YIELD CALCULATIONS AND PROJECTIONS

Hotel facilities that are in operation tend to be valued using capitalisation rates. M.A.D. analysts have used available data on existing hotel projects to establish average capitalisation rates across the hotel markets in Ulaanbaatar. As hotel facilities do not regularly transact, two robust valuations were utilised as the basis of our baselines. These were for the Chinggis Khaan Hotel and the Ulaanbaatar Hotel. Both are established hotels in the upper end of the market, for which revenue data is presently available. The resulting capitalisation rate pertaining across the Ulaanbaatar hotel market was calculated at 8.1%. Projections indicate that yields will remain broadly in line with this figure, potentially dipping down 7% or lower only in the event of slower than expected economic recovery. The higher capex associated with luxury, international standard developments will be offset by rising per night prices at the uppermost end of the market. It is for this reason that Ulaanbaatar will see a jump in nightly pricing from 2015 onwards, as new upper end international projects come online.

8. MARKET GAP IDENTIFICATION

There remains a gap in the Ulaanbaatar hotel markets for upper-end, luxury hotel facilities, as well as for smaller scale, boutique hotel facilities (either domestically or internationally managed). With a significant new supply of international standard hotel rooms entering the market, the upper end of the domestic market will face increasing competition for guests from management companies with exceptional global market penetration. Hotels such as the Ulaanbaatar Hotel, the Corporate Hotel and Bayangol Hotel will have to realign their market focus in order to cater to a budget market of business and leisure tourists in Mongolia, whilst boutique style hotels with favourable locations and up-scale facilities are perceived to be more nimble in their approach and therefore able to retain a hold over interesting niches within the luxury markets.

Overall, the Ulaanbaatar hospitality markets are driven by location factors. A small but burgeoning CBD has become the nexus of business travel and hence of the upper end hotel market. With limited infrastructure to support a large luxury tourism market the tourism markets are largely limited to backpackers and low-end travellers. The tourism sector in Mongolia still demands greater professionalisation and dramatic improvements in levels of service.

9. HOTEL MARKET TABLE

Hotel Market Table

Hotel Name	Star Rating	Operational Year	Number of Rooms	Lowest Price	Highest Price	Facilities Notes
Bayangol Hotel	4	1964	215	230,000 MNT	420,000MNT; presidential-770,0MNT	beauty salon, luggage room, currency exchange, sauna, fitness, restaurants,
Best Western Premier Tuushin Hotel	5	2013	198	484,000 MNT	single- 968,0MNT; double-1,133,0MNT; presidential-8'745'0MNT	spa, massage, facial, body, hair and nail treatments, stationary bike,
Bishrelt Plaza hotel	3	1996	28	200,000 MNT	200,000 MNT	breakfast, VAT included in room price, karaoke, billiard, vip billiard, sauna massage, laundry
Blue Sky Hotel	5	2012	200	295,590 MNT	7.080.000MNT	restaurant, billiard, bar and spa, salon, shopping mall, fitness club, pool
Chinggis Hotel	4	1995	182	300,000 MNT	400.000MNT	doctor, baby sitter (on request), car rental
Continental Hotel	3	2000	40	255,000 MNT	single-360,000MNT; double-420,000MNT	apartments and fully equipped kitchen for long time visit, restaurant, conference room and golf field, fitness hall
Corporate	4	2008	55	330,000 MNT	1,080,000MNT	Located in Nukht green area, 13km from Ulaanbaatar city
Corporate Convention	4	2013	92	255,000 MNT	330,000 MNT	Located in the Stadium Area of the city
Corporate Nukht	5			526,500 MNT	semi-lux-1,755,0MNT; lux-2,025,0MNT	Sauna& Jaccuzzi, massage, steam room, fitness center, indoor swimming pool, outdoor sport court, children's area, garden
Décor Hotel	3	2011	30	72,000MNT	145,000MNT	karaoke, billiard, business center and beauty salon
Edelweiss Hotel	3	1996	20	85,000 MNT	224,000MNT	Chinese, Japanese restaurant, Lobby lounge, Blue Sky lounge, Bar/night Club, multi purpose function room, 3 meeting rooms, brand shops, business center, housekeeping
EverGreen Hotel	3	2005	17	60,0M00NT	70,000MNT	Karaoke bar at basement, sauna, cuisine, ball room can be used for conference, banquets and social functions, breakfast price included.
Flower Hotel	3	1995	180	130,000MNT	320,000MNT	Fuji, Hanna, Altai-Japanese, Chinese, Indian, Mongolian restaurants with VIP rooms, sauna, kitchen room for long stay, business center, sauna, bus service
Hotel Mongolia	4		50	150,000 MNT	450,000MNT	business center, cashmere and souvenir shop, baby sitting, billiard
Hotel Terelj	4	2008		440,000MNT	5,735,000MNT	restaurant, lounge bar, Health club(swimming pool, fitness center, sauna & Jacuzzi), fitness center; plus 10% VAT+service 5%
Kempinski Khan Palace	4	2005	102	284,970 MNT	3.07 million MNT	Japanese restaurant
Lion Hotel	3		25	80,000MNT	90,000MNT	Basic 3* facilities
Michelle	3	2005	31	106,000 MNT	230,100MNT	korean restaurant, business center, billiard, currency exchange, laundry, shopping, taxi service
Mika Hotel	3		22	foreigner- 87USD; mgl- 60,000MNT	foreigner- 107USD; mgl- 90,000MNT	Conference hall, business center, restaurants with club, VIP rooms, Sauna, shop, secure basement garage
Narantuul Hotel	3	2000	40	159USD, 209,000 USD	239USD; will increase by $10 in July-Aug	restaurant, conference room and golf field
New West Hotel	3		24	80,000 MNT	120,000 MNT	VIP rooms- 20-25prsn, karaoke, screen golf, billiard, business room
Palace Hotel	4	2001	88	177,000 MNT	274,000 MNT	Basic 3* facilities
Park Hotel	4	2013	52	129,000 MNT	350,000 MNT	lounge, spa, fitness club, billiard
Peace Bridge Hotel	3	2001	30	130,000 MNT	210,000 MNT	Sauna, Fitness Facility,Handicap Accessible, Meeting Roomsr
Platinum Hotel	4	2013	48	148,000 MNT	298,000 MNT	business center, billiard, currency exchange, laundry, shopping, taxi service
Puma Imperial Hotel	3	2002	31	190,000 MNT	350,000 MNT	Indian restaurant, billiard club, beauty salon, business center
Ramada Hotel	4	2011	128	252,00 MNT	496,000 MNT	Shopping mall, restaurant, gym
Royal House Hotel	3	2008	34	120,000MNT	205,000 MNT	Restaurant, pub, business center, conference room, exchange, billiard, karaoke, sauna massage, fitness
Sentii Hotel	3	2007	36	40,000MNT	60,000MNT	supermarket, bank, karaoke
Springs	3		61	236,000MNT	457,000 MNT	korean restaurant, european restaurant
Sunjin Grand	4	2010	113	135,000 MNT	460,000 MNT	Korean styled sauna, swimming pool
The Corporate Hotel and Convention Center	4	2013	95	330,000 MNT	1,400,000 MNT	health club, restaurant, business center, concert hall

Hotel Market Table

Hotel Name	Star Rating	Operational Year	Number of Rooms	Lowest Price	Highest Price	Facilities Notes
Ub City Hotel	4	2012	50	120,000 MNT	290,000 MNT	baby cribe & sitting, dry cleaning, Gobi cashmere factory with free guide, Barber, karaoke,beauty salon
UB2 Hotel	3	2008	37+27 gers	110,000 MNT	180,000 MNT	free parking, sauna, housemaid, laundry service, meeting banqueting facilities, international breakfast, golf course
Ulaanbaatar Hotel	5	1959	106	240,000 MNT	450,000 MNT	sauna, fitness
Urgoo Hotel	4	1995	30	225,000 MNT	320,000 MNT	Renaissance Restaurant, Meeting and Conference room, free Breakfast, free taxi call service
Voyage Hotel	3	2000	27	130,000MNT	160,000MNT	Korean and European restaurant, bar, VIP room, karaoke, sauna and massage
White House Hotel	3	1994	60	220,000 MNT	300,000 MNT	Restaurants, conference room, billiard, karaoke, sauna massage, golf, night club
Zaluuchuud Hotel	3	1970	42	150,000 MNT	180,000MNT	beauty salon, billiards, luggage room, currency exchange, hairdresser, sauna

Source: MAD Research

THE MONGOLIAN REAL ESTATE ENVIRONMENT

WHILE INVESTING IN EMERGING MARKETS SUCH AS MONGOLIA CAN BE REWARDING, IT MUST BE DONE WITH GREAT CARE.

The Mongolian Real Estate market has, since its early days of privatisation, consistently showed great potential and promise. With an average capital growth of 15% and an average net yield of 9% along with strong fundamentals, a rule of law and no restrictions on ownership the market is amongst the most attractive in world. Today the property market of Ulaanbaatar is one of the very few sectors that has remained relatively immune from the regular boom and bust cycles of what is still an emerging commodity driven economy.

The market must never the less be approached with great caution. Not only is it still a very immature and unsophisticated market, it is also a very small market where small changes can have considerable impacts. It is essential that investors and market actors do fall into the common believe that in frontier markets such as Mongolia, research and due diligence plays a less important role, it is the contrary that is true. A profound and comprehensive understanding of all laws, market drivers and key actors must be obtained prior to any investments. M.A.D. Investment Solutions professionals has been active in the Mongolian Real Estate sector for the past decade and can bring their invaluable knowledge to help our clients better understand the market and its implications.

THE IMPORTANCE OF RESEARCH

UNDERSTANDING THE IMPORTANCE OF RESEARCH IN CREATING A SUSTAINABLE REAL ESTATE MARKET.

Underestimating the key role that research plays leads to a “supply-push” driven market where developers build projects based on aspiration and a desire for prestige above the requirements of actual demand. While this can result in some success in overheating economies, as was the case in Mongolia from 2011 to 2013, it also means that when there is a downturn or when the market reaches a saturation point, “ghost developments” become the norm. While this may be just retribution to reckless and amateur developers, such mistakes often have far reaching impacts on the banking sector as well as on the innocent consumers that assume that developers have carried out adequate research and have done thorough financial planning.

A key area where M.A.D. Investment Solutions has invested its resources is in assisting local property developers in understanding the process of the market research that is required for a real estate development. It is generally accepted that market research for developers should constitute approximately 5% of the total cost of development and should be carried out prior to purchasing land or making significant investments in the development.

RICS – THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

M.A.D. IS THE ONLY RICS REGULATED FIRM IN MONGOLIA AS CHARTERED VALUATION SURVEYORS.

The RICS (Royal Institution of Chartered Surveyors) was founded in 1792 in London by Royal Charter to promote and improve standards in the property profession in the UK. Today it is the institute that accredits and manages real estate professionals globally. It currently counts nearly 120,000 members in nearly all countries in the world. The RICS is also the primary institute that promotes property, construction, measurement and valuation standards to teaching institutions, countries and stakeholders. The RICS works closely with other global property institutions such as the IVSC to apply their methodologies and techniques to its members.

All members and member firms of the RICS have undersigned to its strict ethical and service quality charter in order to protect all clients and stakeholders in the real estate sector. M.A.D. is the first firm in Mongolia to be regulated by the RICS and is the first valuation accredited firm in the country. M.A.D.’s Managing Partner: Christopher de Gruben is also Mongolia’s first Member of RICS as a Chartered Valuation Surveyor. Chartered Members and Regulated Firms are viewed globally as the “gold standard” in the property profession. The RICS today stands for the mark of property professionalism worldwide.

XX. SERVICED APARTMENT MARKET ANALYSIS

1. MARKET INTRODUCTION

The serviced apartment concept involves creating a living space rather than business space for its customers. These may incorporate family spaces, fully equipped kitchens, high quality furnishings and personal care facilities, as well as shared on-site facilities. Typically serviced apartments will offer hotel-style facilities such as fitness centres and business centre, which are significant advantages in expatriate and executive markets over privately leased apartments.

INFORMATION BOX - M.A.D. INVESTMENT SOLUTIONS SERVICED APARTMENTS

M.A.D. Investment Solutions is the only company in Ulaanbaatar offering serviced apartments in the heart of Ulaanbaatar at present. The supply of M.A.D. Investment Solutions serviced apartments are available on a daily basis, although longer-term rentals are also available at reduced rental rates. Apartments available range from 42 sq.m studios up to 2 bed apartments of around 140 sq.m. All of M.A.D. Investment Solutions's supply of serviced apartments come truly fully furnished, including all furniture, kitchen equipment, towels, WiFi and Cable TV (where possible), and multi-media facilities (including hard-drives with archives of thousands of hours of movies and television series attached to state of the art television systems). The majority of apartments also come with a small library of books and are decorated with Mongolian antiques, artworks and artefacts. All apartments are fitted with Espresso coffee machines.

Clients enjoy spacious, comfortable and well-managed accommodation in some of Ulaanbaatar's most desirable locations, at a great discount on equivalent hotel rates. One of the great advantages of staying in a serviced apartment managed by M.A.D. Investment Solutions is that all apartments are within a few hundred meters of each other. All units are close to the State Department Store - the heart of the commercial district of the city - and are carefully selected so as to provide maximum security and access to amenities to all tenants.

Serviced apartments can be booked by e-mailing requirements, dates and preferences directly to M.A.D. Investment Solutions. Services offered as standard include luggage deposit, all bills included in rental costs, internet and cable television. For an additional fee airport transfers, early/late check-ins, weekly cleaning, welcome baskets and orientation tours can be arranged. The services offered provide the services of a hotel with the comforts of home.

Prices range from around US$ 70 per might (nightly rate) in a studio apartment to US$ 130 per night (nightly rate) for 2 bedroom apartments up to 140 square meters in size in low season. High season rates range from US$ 90 per might (nightly rate) in a studio apartment to US$ 150 per night (nightly rate) for 2 bedroom apartments up to 140 square meters. Monthly and quarterly rentals are charged at discounted rates.

There are presently no international serviced apartment operators in Mongolia, despite several major firms having spent considerable time investigating the markets during 2011-2012. Only the Bella Vista project, developed and managed by MCS, operates under a standard serviced apartment model. The local market also contains variants on the serviced apartment model operated by local investors, including a centrally managed stocks of apartments owned by private investors. This model is followed by MAD Investment Solutions, which maintains a significant supply of inner-city apartments, renovated to executive standard. These may be rented on anything from a weekly to yearly basis. Mongolian Properties also manages a stock of investor owned apartments within its Regency Residence - based upon a longer term managed rental model. The Corporate Hotel, with its supply of 10 serviced apartment style rooms, alongside the Continental Hotel, do offer nightly rental rates, making these among the most expensive serviced apartments in the market at the present time. Ulaanbaatar serviced apartment markets continue to develop as domestic management companies, hotel managers and investment firms look to develop variations on the serviced apartment concept.

2. MARKET HISTORY

The serviced apartment markets in Ulaanbaatar have developed significantly over the past six years, with the earliest market entrants being domestic hotels that incorporated small supplies of units with kitchen facilities. The Corporate Hotel and Continental Hotel remain the only two hotels in Ulaanbaatar sporting basic serviced apartment facilities. The first centrally managed serviced apartment facilities were established in the Gandirs mixed use facility (situated adjacent to the State Department Store on Peace Avenue), an area which was once extremely popular with expatriates in Ulaanbaatar. However, the management of this facility has since closed both the Gandirs hotel and its supply of serviced apartments as a result of financial difficulties.

When Bella Vista came online, with its 78 luxury serviced apartment units, The market was given its first real centrally managed serviced apartment supply. The facilities incorporated within MCS Properties' Bella Vista complex include a restaurant, sauna, spa and fitness facilities, underground parking and on-site stores. Since 2010 M.A.D. Investment Solutions have also operated an expanding stock of centrally managed apartments, moving increasingly towards short-term lets and a serviced apartment model. Based within the 40k and 50k apartments in the city centre of Ulaanbaatar, these apartments enjoy high levels of occupancy throughout the year due to their prime location and quality finishing. Whilst this distributed supply of apartments does not offer centralised facilities, their locations near to the city centre and in the heart of the entertainment area of the city make for an attractive rental proposition.

Benchmarking Serviced Apartment Facilities

		International SA Standard	Existing Serviced Apartment Markets in Ulaanbaatar		
			Local SA	SA as part of Hotel	Centrally Managed Apartments
Lease Details	**Lease Period**	Daily to annual	Daily to annual	Daily to annual	Daily to annual
	Deposit	Flexible	One month	Flexible	Flexible
Facility Details	**Kitchen**	Full size with all amenities	Full size with all amenities	Basic kitchen equipment	Full size with all amenities
	Family Facilities	Facilities for Children	Facilities for Children	No family facilities	No family facilities
	Leisure Facilities	Fitness club	Fitness club	Fitness club	No fitness facilities
	Business Facilities	Full business center	Not Available	Available	No separate facilities
Service Details	**Full Concierge**	Available	Not Available	Available	Available
	Room Service	Available	Not Available	Available	Not Available
	Housekeeping	Available	Available	Available	Available
	Restaurant	Available	Not Available	Available	Available
	Extra Services	Airport transfer, doctor on call, grocery services, laundry services, in-room dining and meal delivery.	Laundry and meal delivery available by request.	Laundry, doctor on call and in-room dining available by request.	Not available
Project Details	**Location**	Prime location of CBD	Located outside of CBD	Located in CBD and surrounding area	Located in surrounding area of CBD
	Fit-out and Furnishing	Stylish decor, including toiletries and fully equipped with media and household electronics.	Equipped with luxury decor in two styles (contemporary and classic), with media facilities.	IPTV, washing machine, WiFi, mini bar, basic kitchen and air conditioning.	Well furnished, with individual touches including artworks. Media centers in Research Squared Investment Services apartments.
	Project	Usually part of a mixed use development.	Part of luxury residential development.	Incorporated within hotel facilities.	Stand-alone apartments in existing buildings or part of luxury residential project.

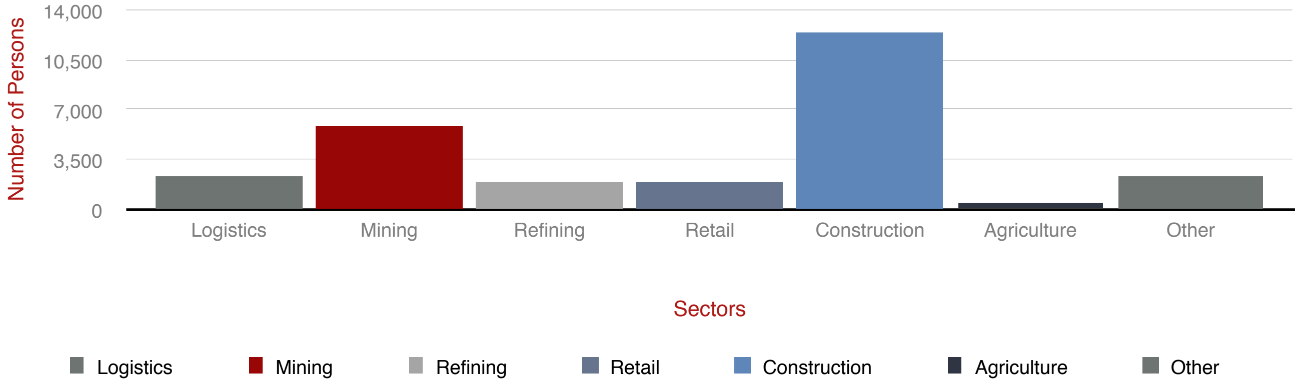
Source: MAD Research

3. SERVICED APARTMENT DEMAND FACTORS

Between 2005 and 2013 a total of 42,860 foreign nationals received permission to work in Mongolia. Immigration Authority figures indicate that the total number of foreign workers resident in Mongolia is in 2013 was close to 37,000. This figure actually represents a breach of the quota limit of foreign nationals officially allowed residence in Mongolia (capped at 1% of the total population of Mongolia - around 27,000). In part, this is due to relaxing of immigration quotas for large infrastructure, mining and construction projects.

The vast majority of these workers are Chinese, making up 85% of the total legal foreign workforce in Mongolia. The Chinese labour force in Mongolia has provided the manpower and expertise to sustain the construction boom in mining and real estate, although a slight slowdown in initiation of new construction projects and stricter immigration controls during 2012 meant that of Chinese nationals entering the country dipped below 2011 figures and has not risen above since. The remaining 20% of foreign nationals issued with work permits come from 108 countries.

GRAPH 179: Number of Resident workers in Mognolia in 2013



Source: NSOM / Immigration

In the mid-term, expatriate demographics in Ulaanbaatar are set to shift as the the build-up of foreign technical and executive staff required by projects such as the lynchpin Oyu Tolgoi project tapers. Many of these staff will be replaced by local staff, newly trained to fulfil technical and management roles, in accordance with training and human resources plans. Eventually the ratios of foreign to Mongolian workers will diminish to levels set out in investment agreements, which ensure that a majority of the mining workforce will be Mongolian nationals.

Nevertheless, as numbers of management and executive level expatriates involved in mining fluctuate, the growth of the financial sector and renewed foreign investment will bring with it more executive level international personnel. Moreover, Mongolian citizens who have repatriated after studying and working abroad often bring with them international tastes in terms of lifestyle. Members of this demographic segment frequently rise quickly to executive level positions and command salaries of suitable level to enter the serviced apartment markets. Nevertheless, most Mongolian nationals will still prefer to purchase an apartment rather than rent one.

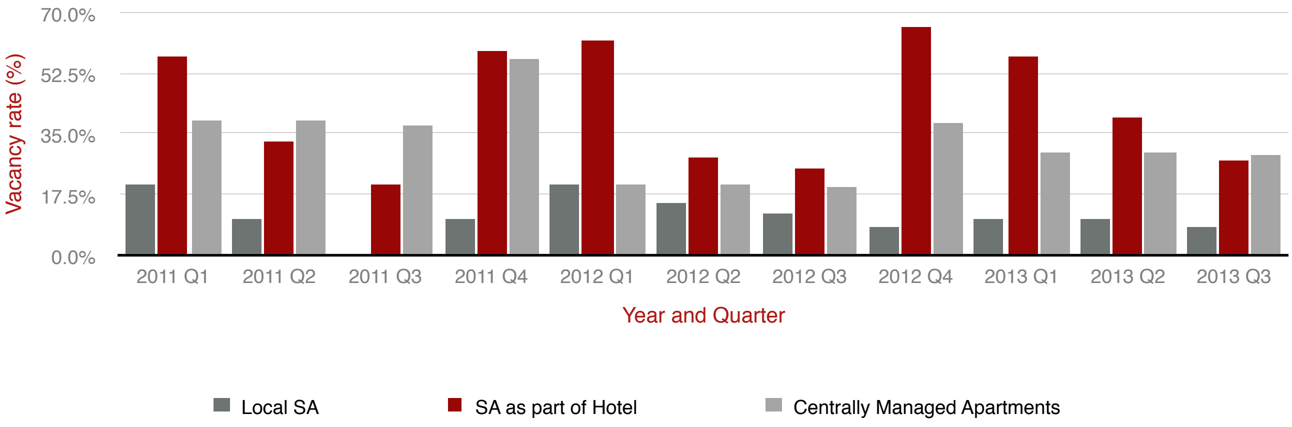
4. SERVICED APARTMENT CURRENT SUPPLY AND OCCUPANCY RATES

The distributed and nascent nature of current domestic serviced apartment supply in Ulaanbaatar means that the general characteristics of the international standard serviced apartment market are not well met. The table below details current market characteristics in relation to international standards of serviced apartment operation:

Serviced Apartment Submarkets					
	Number of Units	Representative Projects	Description	Operation	Trends
Local Serviced Apartments	78	Bella Vista	78 Luxury residential units in two 20 level towers for long term lease by local operators.	These apartments are operated by the management of the Bella Vista facility (MCS) and maintain of-site facilities including spa/gym and restaurants.	Luxury market developers are increasingly proposing serviced apartment products as part of mixed use or residential developments in order to attract the upper end of the market.
Hotels with Serviced Apartments	6	Continental Hotel Corporate Hotel	Serviced apartments are offered within hotel developments by local hotel operators	A small proportion of rooms available will be fitted with small kitchens in order to cater to long-term guests.	As the local hotel market expands serviced apartment supply will increase as a small percentage of total rooms available on the domestic market.
Centrally Managed Apartments	28	Regency Residence M.A.D. Serviced Apartments	Serviced apartments in residential buildings held en-bloc or distributed apartments across the city center owned and managed by in serviced apartment style professional real estate companies.	Developers and investment managers serve as management companies for these units.	Presently the third largest sub-market in terms of number of units, this sector will increasingly merge with long term rental markets as international operators take up larger market share.
International Serviced Apartment Operators	0	None in current market	Projects under management of international operators	International standard facilities, including centralized management and facilities, aimed at international executive markets.	International operators have already explored the Ulaanbaatar markets and it is expected that international operators will offer serviced apartments in facilities such as the Shangri-La (completion in 2017)
TOTAL UNITS	**112**				
Source: MAD Research					

As of Q4 2013 occupancy rates remained high across the local serviced apartment market. As of the second quarter of 2013 Bella Vista estimated a vacancy rate of just 10% (a small rise over the previous year as a result of the slowdown in growth of the Mongolian economy). M.A.D. Investment Solutions have reliably reported near 100% occupancy annually during 2012-2013. Hotel based serviced apartment facilities express higher vacancy rates, particularly during the winter season, with averaged annual vacancies of between 25-44%. Vacancy rates follow a broadly seasonal pattern in Ulaanbaatar as many expatriate workers and investors return home wherever possible during the cold winters.

GRAPH 180: Vacancy Rates from 2011 to Q3 2013 Across the Ulaanbaatar Serviced Apartment Markets



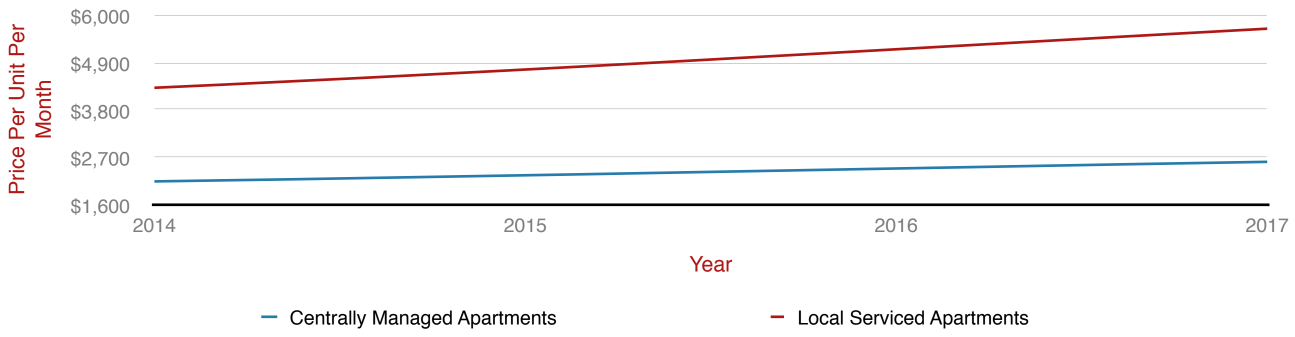
Source: MAD Research

5. PRICE & YIELD PROJECTIONS

Rental growth in the domestic serviced apartment market is closely tied at present to pricing dynamics within the residential market - with achieved yields heavily tied to the overall economic fortunes of the nation. This will be set to alter with the entry of international serviced apartment operators. These will draw clients from international markets and will increasingly evidence a cash-flow profile closer to hotel markets.

The existing serviced apartment supply is likely to see rapid price growth as facilities improve and the overall fortunes of the Mongolian economy. An expected jump in prices will accompany the introduction of high-level facilities in partnership with foreign serviced apartment operators, although the pricing profile at the upper end of the domestic market is already approaching international operator levels. It is expected that international entrants into this market may, nevertheless, impel repositioning among current domestic operations.

GRAPH 181: Pricing Changes from 2011 to Q4 2013 Across the Ulaanbaatar Serviced Apartment Markets



Source: MAD Research

With a single domestically operated, centrally managed, serviced apartment facility in Ulaanbaatar, pricing does not benefit from competitive adjustments. Bella Vista, developed and managed by MCS Properties, is the only operator currently providing such facilities, charging a luxury market premium of between US$ 3,900 - 4,300 per month per apartment.

Serviced Apartment International Comparisons

	Bella Vista	Fraser Suites Beijing
Completion Date	**2009**	**2006**
Number of Units	79 (78 units for rent, only 1 penthouse for sale)	357
Unit Mix	3 bedroom (170 square m) - 98% PH (300 square m) - 1%	Studios (33-43 sqm) - 23% 1 Bedroom (55-92 square m) - 65% 2 Bedroom (105 square m) - 12%
Target Market	70% foreign, 30% local	95% foreign, 5% local
Monthly Rental Rates (USD)	2nd - 8th floor: 3,900 USD 9th - 20th floor: 4,300 USD	Studio: 1,810 - 2,019 USD 1 Bedroom: 2,297 - 3,199 USD 2 Bedroom: 3,898 USD
Amenities	Pool, gym, children's play area, restaurant, cafe, spa facilities, on-site stores and parking.	Pool (at neighboring project), gym, tennis courts, basketball courts, in-room facilities.

Source: MAD Research

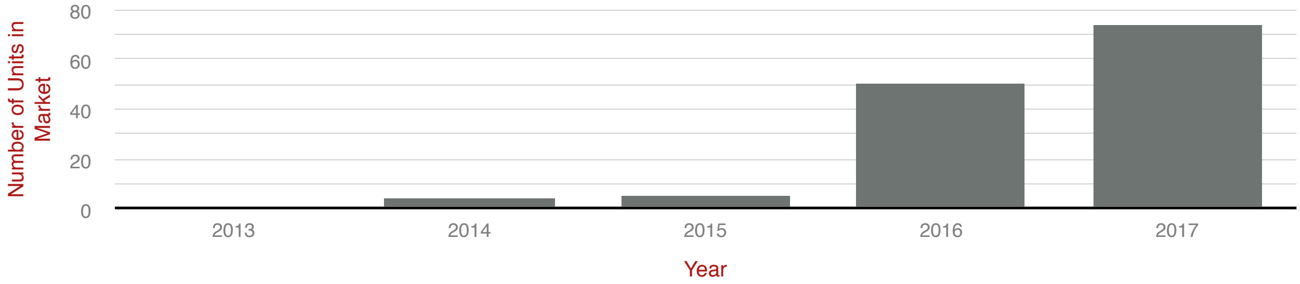
When this is contrasted with the US$ 2,019 - US$ 3,898 per apartment per month for Fraser Suites in Beijing, prices appear to be closing in or overshooting the international markets already. Nevertheless, per square meter analysis changes the picture somewhat. Fraser suites charge an average of around US$ 46 per square meter per month within their key Beijing property at present, whilst Bella Vista, with its stock of far larger apartments, charges an average of just US$ 22.9 per square meter. New serviced apartment supply will be closer to the CBD, more efficiently designed and more compact, with potential for doubling of per square meter pricing over the mid-term, in direct response to entry of new international operators and international standard facilities.

Overall, serviced apartment markets in Ulaanbaatar display greater market potential than the hotel markets. The current profile of expatriate visitors to the country indicates high serviced apartment demand for mid- to long-term stays, for which hotel facilities are not necessarily suitable or desirable. Current supply is woefully inadequate to meet projected demands and this sub-sector is expected to be a key area for growth.

6. SERVICED APARTMENT FUTURE DEVELOPMENT TRENDS

There are presently no international serviced apartment operators in the Ulaanbaatar market, making co-operation with an international provider a key strategy for new projects. Nevertheless, the small overall market size and limited market scope makes attracting an international operator potentially difficult. International operators have exacting facilities requirements and would need to locate a suitable local partner with operations experience and able to complete construction to exacting standards. Future competition in the serviced apartment markets will come from serviced apartment projects in the Shangri-La and MAK Tower developments, both of which are expected to incorporate new levels of service and international standard facilities. A new 5* hotel planned in cooperation with the Gran Melia hotel chain is also planned for either Bayanzurkh District of an area between Seoul Street and Peace Avenue. This facility is expected to encompass between 90-100 hotel rooms and 20-30 serviced apartments, although is still in the planning stage.

GRAPH 182: Serviced Apartment Future Supply Pipeline



Source: MAD Research

Supply in this sector is set to grow rapidly from 2017 onwards as developers, already aware of the potential in this market, bring online a new tranche of upper end serviced apartments, including facilities associated with integrated serviced apartment developments. Some future supply is already reliably indicated, including 52 serviced apartments as part of the MCS/Shangri-La project (coming online in 2016-2017) and the Gran Melia, expected around the same time (potentially 2018). In October 2011 MAK Group also announced that their MAK Tower project would include a stock of 22 serviced apartments as part of the Hyatt Regency hotel that was expected be incorporated in the development. With the withdrawal of Hyatt from this project, the entire future of the MAK Tower project is presently in the balance. Estimated total future supply in the current pipeline is 132 serviced apartments, to be completed up until 2017.

Chuang's Consortium International have indicated that they also plan to incorporate a supply of serviced apartments in their Edelweiss Residence. Scheduled to be built on a 5,600 square meter plot in the Embassy Area (directly east of the CBD), this luxury residential project was originally scheduled for completion by 2014. Although ground preparation work began in the summer of 2013, this project is now scheduled for completion closer to 2018/2019. The first phase of this large-scale residential facility, which incorporates a gym, olympic swimming pool restaurants and a full concierge service, will have a GFA of 40,000 square meters and will potentially contain a significant supply of serviced apartments.

INFORMATION BOX - TAXI!!

Mass public transport in Ulaanbaatar today is limited to buses and trolleybuses. These are inexpensive (200 MNT per journey) but almost inevitably extremely crowded. Taxis are a viable option for those with a little more to spend on transport and are a reasonably easy way of getting around the city. The standard taxi fare was raised in 2012 to 800 MNT per kilometre, roughly US$0.58 from its previous 500 MNT per kilometre in response to rising fuel prices.

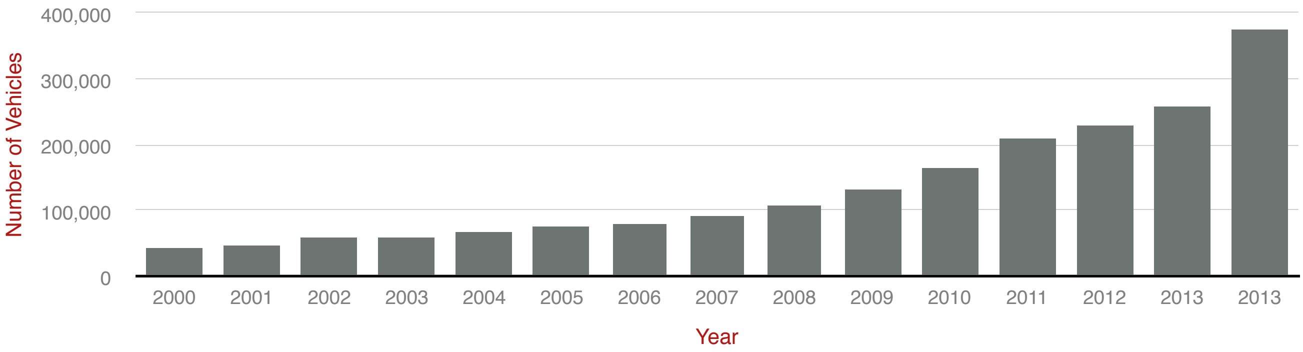
The rule in Ulaanbaatar is that almost any car can be a taxi. Just stand by the side of the road and put out your arm; sooner or later someone will stop to pick you up and make a little petrol money on the side. Navigating can be difficult as not many taxi drivers speak English, although most will speak Russian. Navigation occurs in relation to well known landmarks so when relaying directions it is worth memorising some of these. However, it is becoming increasingly difficult to find taxis in Ulaanbaatar. With levels of wealth on the increase many people are not finding it necessary to make extra income by picking up strangers. Whilst two years ago it would have been possible to get a cab almost anywhere, now one can expect to wait a few minutes before a potential taxi comes along. During 2011 and 2012 a number of new taxi companies have been started in order to fill this gap, providing safe, reliable transport in metered taxis for a slightly higher price. Per kilometre prices are a little higher but many of these taxis use meters rather than estimating prices. Nevertheless, even though they have meters the prices they end up charging may not be particularly accurate. Many foreign visitors find it useful to use companies such as Help Taxi, who charge a flat 5,000 MNT fee for any journey within Ulaanbaatar. This is expensive by local standards but avoids haggling over price as foreigners are often the targets of unscrupulous taxi drivers attempting to charge far too much for a short journey. Taxis can be booked in advance only, using the now ubiquitous four digit phone number such as 1991, 1616 and 1921.

XXI. PARKING & GARAGE MARKET ANALYSIS

1. MARKET INTRODUCTION

Demand for parking spaces far and away exceeds supply in Ulaanbaatar at the present time. With numbers of vehicles on Ulaanbaatar's roads increasing year on year the situation is only getting worse. In 2008 108,000 cars were registered in Ulaanbaatar city. By the end of 2013 this had grown by to 375,000, with 180,000 vehicles, on average, using the roads of central Ulaanbaatar on a daily basis. This equates to around 9,000 per hour during rush-hour periods. Government projections indicate that by 2020 numbers of vehicles using the capital city's roads will swell to around 920,000 unless there is significant intervention.

GRAPH 183: Number of Vehicles Registered in Ulaanbaatar



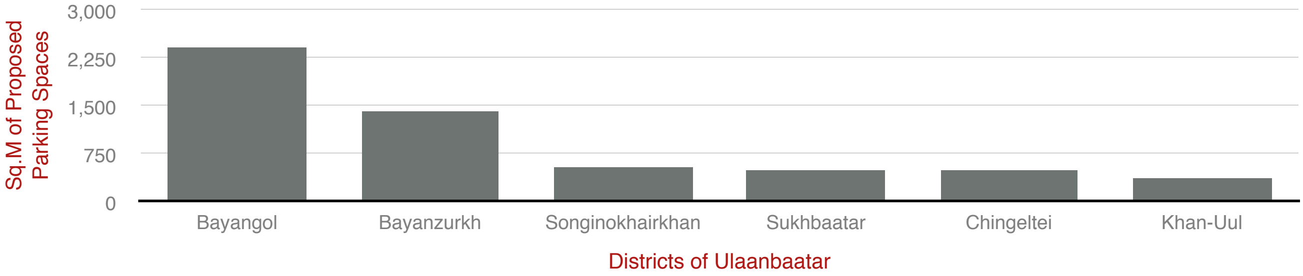
There are presently few off-street parking facilities in the city centre of Ulaanbaatar. In the early years of rapid commercial real estate development following the 1991 transition, few developers paid significant attention to parking and the prohibitive cost of digging down to build significant stocks of underground heated parking meant that most developers continued to build only limited supplies. The expansive Blue Sky Tower, completed by developer Chono Group in 2011, has been roundly criticised for only having only 16 parking spaces in it's underground garage facility, all of which are being sold to apartment owners and allocated to office tenants. Underground space originally earmarked for parking spaces actually became repurposed for a nightclub. Although Chono Group have developed a small parking lot beside the building, this may not be nearly enough to cater to visitors to this 25 level office, residential and retail building. A majority of large developments of this kind face similar parking problems. The situation has been exacerbated by lax planning controls on use of sidewalk space and ineffective street planning in recent years. With many street-front properties along Peace Avenue illegally extending their frontages out onto existing sidewalks, limited space remains for road widening, with none for parking purposes. Traffic calming measures such as implementation of bus-lanes and removal of on-street parking have only served to exacerbate the issue.

With parking continuing to be a major problem in the urban heart of Ulaanbaatar, developers have begun to take seriously the need to provision adequate parking for commercial and residential properties. Prohibitive costs and lack of construction expertise meant that few developers seriously considered multi-level underground parking as an option until recently, with most developments limited to a single level of basement parking. Pent-up demand is, however, clear from pricing and sales in residential developments across Ulaanbaatar.

2. GOVERNMENT PARKING SCHEMES

Adequate parking provision would actually be a significant step towards achieving improvements in levels of congestion around the city, boosting accessibility of commercial property and improving overall journey times. The City Government of Ulaanbaatar has enacted a number of measures in order to calm traffic and improve overall parking provision. These include a crackdown on constructions of illegal garage s nestled within courtyards and in the interstitial spaces between developments around the city centre of Ulaanbaatar. Such garages are usually built of brick, maintain no connection to heating and often serve to restrict access to or narrow roadways. The Government has also drawn up plans and earmarked locations for the development of 5,625 square meters of new parking spaces. This will significantly increase current supplies in the populous Bayangol District with the implementation of 9 multi-story parking facilities. Bayanzurkh District will also benefit from an estimated 189 new parking spaces, with a combined total of over 300 new spaces being created in Songinokhairkhan, Sukhbaatar, Chingeltei and Khan-Uul districts. Few of these plans, drawn up during 2011, have heretofore been implemented, although developers themselves are likely to pick up the slack in this program as many are beginning to realise the profitability of parking in a city such as Ulaanbaatar.

GRAPH 184: Total Sq.m of Parking Spaces Proposed under 2011 Government Scheme



Source: Ulaanbaatar City Planning Office

Around the older apartments in the city centre, parking in courtyards is available, although not allocated. This is primarily earmarked for use by residents of apartments, but there are no parking restrictions presently in place and the few spaces that are available are frequently used by workers and shoppers driving into the city.

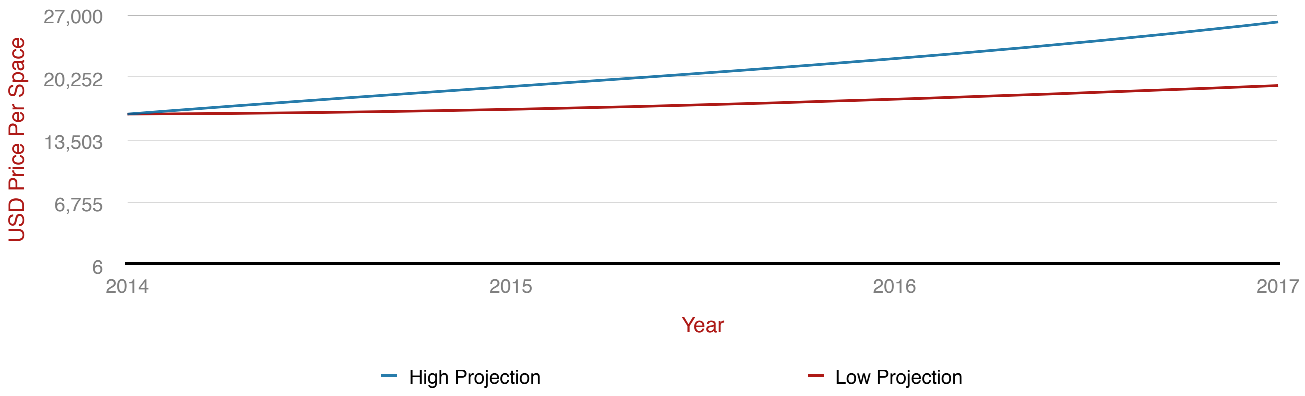
The small supply of garages that are available for older buildings are usually in a state of disrepair and are most often put to use as storage and for small business activities, rather than being used for their intended purpose.

Parking supply in private residential complexes is highly dependent upon developer willingness to supply underground or (less frequently) podium parking facilities. Some developers have taken this more seriously than others. The 16 level C4 building of Four Seasons Gardens, coming online during June 2014, contains 90 apartments, with a total supply of 122 parking spaces, a ratio of 1.35 spaces per unit. In contrast the Khurd Rapid development contains 3,600 units and whilst it has a significant supply of basement level parking, the internal roads within this development are lined with cars parked outside due to an overall lack of supply. The Encanto Town developers, Kamder LLC, have gone to great lengths to innovate within the parking markets in the Stadium area, erecting a dedicated multi-level indoor parking facility 8 levels high to cater for the 250 apartments built as part of phase I of this development. The 300 car facility provides year round secure, heated parking to residents, as well as to parking space owners not resident within Encanto Town. This facility sold out of parking spaces at pre-sale and is now 100% full, with spaces transacting at 40 million MNT.

3. PARKING PRICING

Despite parking being one of the highest yielding uses of space within Ulaanbaatar at present, there exists considerable room for price growth in parking markets remains considerable as a result of demand outstripping supply. Rising household incomes means more cars per household and more households owning cars. The densifying urban areas of Sukhbaatar, Bayangol, Khan-Uul and Bayanzurkh districts display average pre-sales prices per parking space of between 20.25 million MNT and 24.12 million MNT. The fact that many surveyed projects had sold out of parking before they had sold all of their units is indicative of the fact that parking continues to see demand far outstrip supply. With numbers of new cars of Ulaanbaatar's roads growing dramatically each year, demand for higher-end cars increasing and extremely harsh winters, parking spaces have become both a necessity and an investment option.

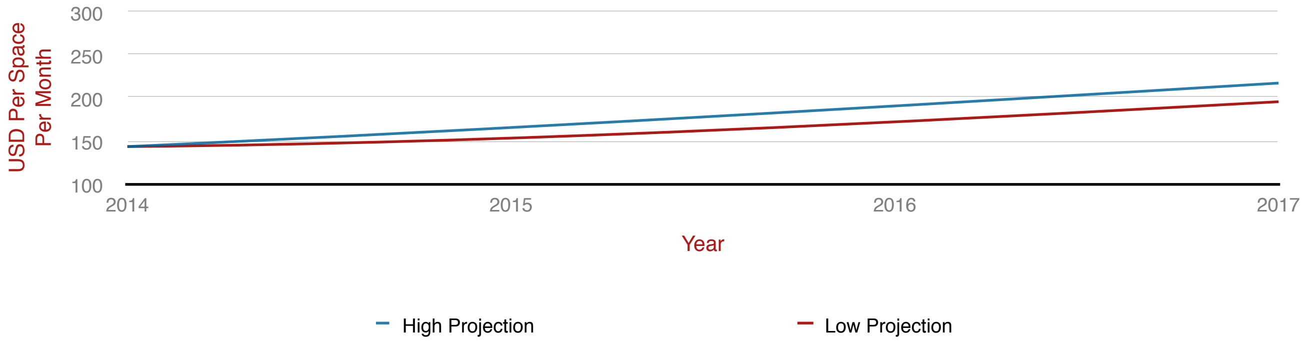
GRAPH 185: Parking Space Purchase Price Projections



Source: MAD Research

The average pre-sales price of a parking space in an under-construction residential development during Q4 2013 was 19.853 million MNT, with spaces in upper end developments in Khan-Uul district topping the list at a average 25 million MNT per space. The overall highest pricing in the broad parking markets was registered in Encanto Town, where a dedicated multi-level, indoor parking facility - the first of its kind in Ulaanbaatar - has been constructed. A space in this facility, which has now sold out, would set the buyer back 40 million MNT. Chingeltei and Songinokhairkhan district developments displayed by far the lowest average prices for garage space, at an average 15 million MNT and 14 million MNT respectively.

GRAPH 186: Parking Space Rental Per Month Price Projections



Source: MAD Research

Garage rental rates are also significant. MCS Central Tower is renting spaces for a monthly fee of 250,000 MNT. This does not include weekend parking, which is accorded at extra cost or rented out on an hourly basis to shoppers. Based upon current upper end prices for parking spaces in central Ulaanbaatar (where available), this would equate to a yield of 7.5-10% per parking space. Private garage rental markets indicate that per month pricing of garages may reach over 300,000 MNT per month.

XXII. LAND MARKET ANALYSIS

1. MARKET INTRODUCTION

The city of Ulaanbaatar extends over 4,704 square km of the Mongolian steppe with a residential core of around 224 square kilometres. Over 123 square kilometres of this space is given over to apartment buildings, whilst *ger* districts have grown to surround the city to the north, east and, to a lesser extent, the west, extending out into the foothills of mountains surrounding the city. Presently urban areas account for just 7.7% of the total space encompassed within Ulaanbaatar's administrative boundaries. Within the six inner-districts of the city, urban space accounts for 7.2% of total allocated territory. The category of land use which takes up by far the largest volume is agricultural, accounting for 57.6% of total land area registered within the districts of Ulaanbaatar.

Selection of Land Transactions for 2012 (Ulaanbaatar City Centre and Surrounding Districts)

District	Forest	Reservoir	Infrastructure	Agricultural	Urban	State Special Usage	Total
Bayangol	0	582	160	565	1,639	3	2,949
Bayanzurkh	34,624	2,316	1,021	53,235	5,111	28,106	124,413
Songinokhairkhan	20,721	71	1,444	91,225	5,530	1,071	120,062
Sukhbaatar	13,419	35	123	4,983	2,256	25	20,841
Khan-Uul	1,951	975	1,075	23,299	6,388	14,779	48,467
Chingeltei	4,056	6	115	2,108	2,639	6	8,930
Baganuur	442	94	429	53,780	7,261	14	62,020
Bagakhangai	0	0	398	12,882	720	1	14,001
Nalaikh	1,680	5	906	28,935	4,588	32,650	68,764
TOTAL	76,893	4,084	5,671	271,012	36,132	76,655	470,447

Source: MAD Research

2. MARKET HISTORY

Urban development and land use within Ulaanbaatar was, during the socialist era, dominated by the twenty-year master plan. The first of these was implemented by the socialist government and was formulated by the Giprogor urban planning institute of Moscow, between 1954 and 1974. This involved creating comprehensive land maps and surveys. This period saw the development of what is now the heart of Ulaanbaatar city, including the “first 40,000” and “First 50,000” apartment projects in Chingeltei and Sukhbaatar districts. These residences were serviced by all basic infrastructure. The centre of the city, known as “Baga Toirog” hosted all functions of government, banks, universities and diplomatic functions. This first plan worked from the assumption that the population of Ulaanbaatar would reach 120,000 by 1974. In reality population growth outran all projections and by 1960, just six years into the plan, the population had already reached 180,000 persons. It was not until the late 1940s and 1950s that industry began to grow rapidly in Ulaanbaatar, Soviet and Chinese assistance helped develop industrial infrastructure in the city according to Soviet-style central planning. An industrial zone emerged to the west of what was then the limit of the city centre. These were surrounded by ger settlements.

Ulaanbaatar Master plan History of Land Use

Period	Master Plan No.	Projects
1954-1974	1	Administrative centre of the city; 1st and 2nd 40,000 projects. Initial expansion of industrial facilities to the west of the city centre
1964 - 1984	2	12th, 15th, 19th, 120,000 residential districts Industrial warehousing zones including the Tolgoit area.
1976 - 1990	3	Industrial development, the incorporation of satellite towns in to the plan
1990 - 2004	4	Short term planning followed by loose planning restrictions on new private developments
2004 - 2030	5	The current 2020 Master Plan outlining the compact city model, extended to 2030

Source: Ulaanbaatar City / Chinbat 2010

The Giprogor institute designed the second city master plan between 1964 and 1984. Again, the population growth projections that underpinned this plan were rapidly outrun as a result of in-migration from rural areas. Initial projections estimated that the population would grow to 250,000 by 1984. In reality almost 350,000 people were resident in Ulaanbaatar by 1975. The second master plan did accomplish construction of 800 square kilometres of built-up area along the Tuul river. This included creation of new satellite towns and new housing was built in the inner city area to begin to cope with the influx of migrants. This included the 12th, 15th and 19th Khoroolol housing projects and the 120,000 residential neighbourhood. As the periphery of the urban environment extended outwards it encompassed former ger districts and drew them wholly within the city, although infrastructure was not extended to these areas. New industrial and warehousing zones were also created. These included housing for industrial workers in the Amgalan area to the east.

The third master plan was implemented by Giprogor and the PI 2 institute, also based in Moscow. This plan extended from 1976 until 1990 and worked on the assumption that the population of Ulaanbaatar would reach 440,000 by 1990. Yet again, this estimate proved to be wildly inaccurate. By 1986 the total population of the capital was already nearing half-a-million residents. This impelled revision of the third plan that would function between 1987 until 2010. This new, fourth plan began to look at broader development patterns and coordinated growth with satellite areas such as Nalaikh, Bio Songino, Shuvii and Gatchuurt, now officially co-opted into the administrative functions of Ulaanbaatar. Military activities were relocated away from the city towards the east and industrial and warehousing activities were also moved out towards satellite towns. Between 1976 and 1989 a large number of new residential constructions were erected in residential areas and the inner city. This new tranche of residential construction occurred on the back of a visit by Brezhnev, where he pledged Soviet assistance with housing and infrastructural development in exchange for Mongolian hosting Soviet troops.

After 1990, the government of the city switched tack and began to implement shorter-term development plans more in keeping with rapidly shifting structures and functions of a city changing in tune with the demands of market conditions. However, on the back of a turbulent early transition, government funds proved insufficient to construct a new plan for the ten years following 1990 and as a result, city planning became haphazard and reliant to short-term goals as well as personal incentives. During the 2000s construction began to move southwards. Developers unable to find expansive plots of land in the city centre for new, well capitalised and high-end developments looked south to the green belt that had been established around the industrial areas of the city and the city centre. The first area to experience rapid development was the so called “stadium” area directly to the south of the CBD, across the railway lines. This became host to a new tranche of largely high-rise residential developments, turning the area into a ‘dormitory city’. This type of high density development accounts for the more acute angle on the Immovable Property registration graph during the 2000s.

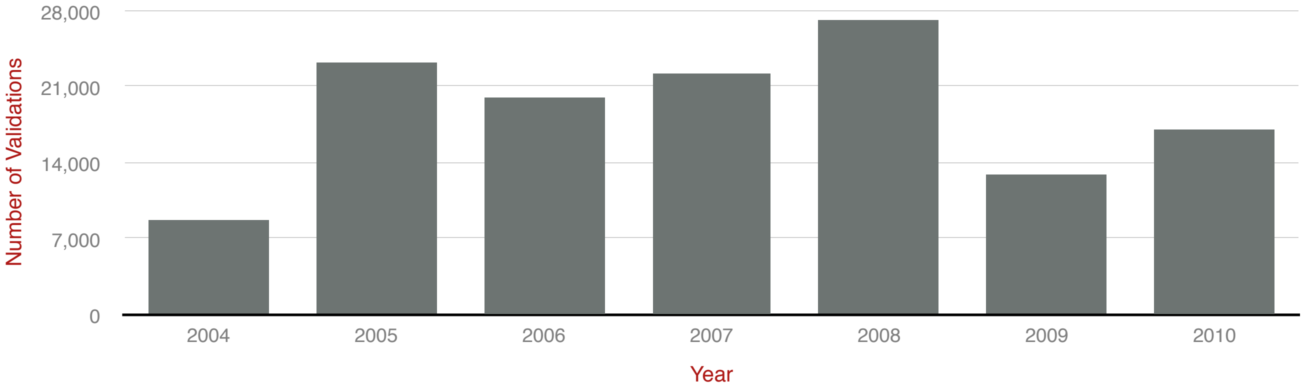
3. METHODS OF OBTAINING AND HOLDING LAND

With the coming of privatisation, the first Land Law of Mongolia was passed in 1992 (amended in 2002). This provisioned a tripartite system of land tenure; ownership, possession and use. One year after the second land law, the “Law on Allocation of Land to Mongolian Citizens for Ownership” was passed. This law paved the way for distribution of private land to citizens of Mongolia for family requirements and small scale agricultural purposes (most grazing land remains firmly in state hands). A household could, for a small administrative fee, register ownership of between 700 and 5,000 square metres of land depending upon the location of the plot.

The law has since been changed to give individuals as well, as households, access to land plots for residential use (commercial use is strictly forbidden). Not all land in Mongolia is available for privatisation. Sales prices for a single unit are determined by the central Government in accordance with fixed parameters concerning location, land use, geological and environmental conditions and socioeconomic factors.

Land in Ulaanbaatar was allocated initially by Government on an annual basis, although this system does suffer from certain anachronistic features that make it problematic for uptake into a market system. B. Chinbat, a Mongolian academic who has written extensively on city planning in Ulaanbaatar, wrote in 2010 that out of 19 Government auctions of land in the first three quarters of 2007, over one third received either no interest or a single bid, which was therefore not counted. Nevertheless, in more recent years, the Master Planning concept has largely been ignored and land parcels have routinely been purchased or accorded to developers who have built structures upon them not intended under master planning restrictions. Increasingly seeking to stem the tide of new developments ignoring overarching city planning codes, the central planning office, along with multilateral organisations, have initiated studies into planning processes in an effort to integrate more robust procedures, which will ensure that parcels of land are utilised in accordance both with master planning and with the intended uses identified during architectural submissions.

GRAPH 186: Volume of rights over Immovable Property in Ulaanbaatar by year



Source: Ulaanbaatar Immovable Property Office

The vast majority of privately owned land is still limited to urban centres. In rural areas land privatisation remains low, at not much over 1%. It has been posited that residents of rural areas have not been well enough informed about land reforms, or that they simply consider privatisation to not be useful within the framework of economic demands that define their everyday household activities. Nationally, over 200,000 citizens had privatised land plots for family use since the initiative began in 2003, with nearly 7,000 families electing to register land in 2005 alone. In Ulaanbaatar specifically, 131,301 land plots were registered with the Land Office for privatisation between 2004 and 2011. In 2010 alone, the number of land plots registered for initial privatisation nationally was 34,568. This represents the bulk of privatisation, with the numbers of privatised plots per annum slowing dramatically after this point.

The majority of privatised plots within Ulaanbaatar are within the ger districts of the city, where families have already set up *hashaas* (small fenced areas of land) of between 490 - 700 square meters. It is easy and relatively inexpensive to register land (officially less than US$ 12, although systemic inefficiencies and corruption can end up making this process many times more expensive) and many plots of so-called ger district land have come under private ownership of existing residents. The World Bank supported HIES study reported that in 2008 99% of families in established inner city and mid ger areas owned both their dwellings and the land beneath them. In peripheral areas this figure drops to 80%. Ger district apartments are often situated on state land, although 92% of single family dwellings in the ger areas are atop privately owned land.

Most land in the city centre of Ulaanbaatar remains state-owned and has not been privatised. When purchasing what little land intermittently becomes available in the city centre developers will usually purchase distressed property assets that may be redeveloped. The Immovable Property certificates attached to these effectively tie the extant property to a larger plot of land than the property's footprint alone. Once such plots are obtained, if a developer wishes to redevelop a plot they must still have the use rights transferred to them. As discussed in the section on legal rights, possession rights make improvement of land by private entities possible if it is nationally owned, but this is done exclusively under terms of lease rather than actual ownership. Possession rights are given by way of a license for a period of between 15 to 60 years, renewable for a further 40 years. This mode of tenure is designed to facilitate use of land for commercial purposes (excluding agriculture) and for improvement.

Whilst land is meant to be allocated to private entities based upon established, centrally planned use values, the reality of the situation is that powerful developers use a number of means to get around such restrictions and, in practice, often build facilities totally at odds with their master-planning allocation. Land earmarked for tourism use may be used to develop retail and residential facilities, whilst land for residential use can easily be used for significant commercial projects. Bribes and poorly designated planning submissions are among the means for achieving such ends.

The upshot of poor adherence to master plans and planning regulations is not only a city developing without attention to provisioning appropriate facilities, but also individual developments which do not offer suitable parking, safety concerns and whole tranches of commercial and residential property failing to attract residents or tenants as a result of being poorly situated. With such a small amount of and available attached to infrastructure, the overall impact of such ill-planned developments on Ulaanbaatar’s economy is significant.

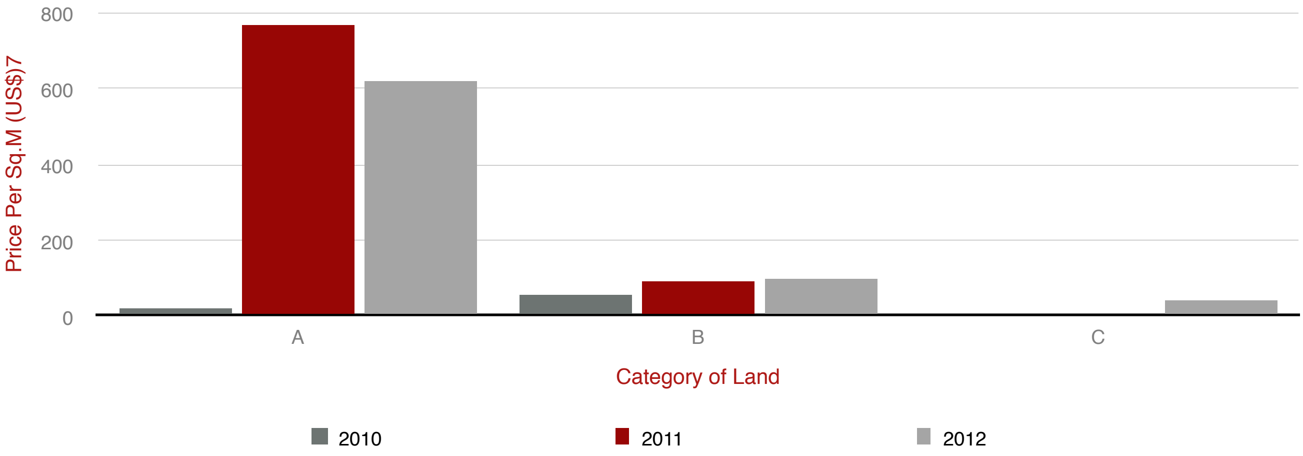
To this end the City Government of Ulaanbaatar has begin a campaign to tighten planning regulations and implement planning systems that more accurately determine highest and best use values, demarcating parcels of land as appropriate. Planning submissions and regulations are undergoing a thoroughgoing review with the assistance of the Asian Development Bank. The objective of this exercise is to develop more robust planning regulations and plug planning loopholes such that new citywide master plans can be mrs effectively implemented and use values for particular plots more effectively enforced.

4. LAND VALUATIONS

Determining market values on the secondary markets for land remains a complicated affair as large corporations often obtain favourable rates on use and possession rights for tracts of land for development. In inner-city areas, where land is less plentiful, land transacts at considerably higher prices. The use value of land in these sought-after areas remains far higher due to the levels of revenue and high per square meter prices commanded by CBD based property. Valuations in the past have tended to be based upon similar recent transactions, with variables of location, connection to amenities, current ownership structure, development potential and current structures all playing a role. Nevertheless, this represents a highly inefficient and ineffective means of valuing land and increasingly Mongolian companies are turning to more accurate residual land valuations. As the only RICS certified company in Mongolia, MAD Investment Solutions supports this movement.

Land Prices vary considerably by district, with city centre districts of Sukhbaatar and Chingeltei attracting highest per square meter prices. Average observed transaction prices in Sukhbaatar district (including the CBD of Ulaanbaatar) were above US$3,000 in 2011 due to large transactions taking place for land attached to significant existing office and embassy structures. In 2012 and 2013 this average dropped back to US$ 1,460 according to transactions based around land observed. Nevertheless. this remains significantly higher than for Khan-Uul district, also a hub of current development, where land is in more plentiful supply and in which per square meter prices are around US$ 165 per square meter in 2013. In Songinokhairkhan, in 2012, a plot of over 2,000 square meters attached to an existing Immovable Property transacted at just US$ 48 per square meter. This is illustrative of the price disparities across the city and show how, with such wide variance, valuation of land based upon comparable transactions, would be highly open to error.

GRAPH 187: Land Prices for Ulaanbaatar (Based on Observed Transactions 2010 -2013) by Rating (US$)



Source: MAD Research

Whilst district-by-district per square meter transaction prices show huge divergences, the value of land remains determined by potential use value. 'A' rated land in the heart of the city centre - prime for development of large-scale commercial projects - transacts many orders of magnitude higher than B or C rated land (in less central locations, without necessarily having existing infrastructural connections) as a result of its potential use value above any other considerations. When viewed in relation to potential yield on developments in the city centre, land prices well above US $3,000 per square meter are not viewed as excessive. Between the two operative land markets - let us call them the primary and secondary land markets - there exist plentiful opportunities for developers and land bankers. As already noted, one strategy used by foreign investors to obtain land for development in city centres involves buying up depreciated assets or small buildings on large plots of land.

5. PRICE PROJECTIONS

Land valuations are based upon derived values, themselves based on use. It is necessary to note that land prices should be set to rise within the Stadium area in the mid-term as a result of renewed interest in the area by developers seeking to build higher grade residential facilities, along with entertainment and commercial facilities. These factors add significantly to the overall real estate profile of the area and therefore raise the price potential of any new developments. This in turn raises the residual price of land for any new developments in the area.

6. LAND USE RESTRICTIONS

Within the city centre, demands of a growing commercial sector have undoubtedly become the driving force behind new patterns of land and property use. The deployment of ground floor apartments as shop-front property across the capital city is an example of this. Even today, a very limited percentage of these properties actually maintain commercial licenses, with most still registered as residential properties. Another example is the new development that took place in the interstitial spaces between existing buildings in the city centre. This included building in courtyards and over entryways into courtyards.

In 2010 the City Government sought to halt this process and rationalise city planning according to their own designs taken from the 2020 Master Plan. They started by restricting the use of existing open spaces in the city centre for construction purposes, a set of restrictions which remain in place to this day. Each year the City Government releases a list of protected areas that are strictly off-limits to new development. Included below is the list released for 2009-2010 that incorporates over 25,000 square meters of land within the city centre and peripheral open areas.

In 2012 new legislation passed by the City Government of Ulaanbaatar has, temporarily at least, scuppered the plans of many developers to invest their land-based assets into new high-worth commercial and residential projects around Ulaanbaatar. The Capital City Representatives Khural (City Council), concerned about illegal and semi-legal granting of construction permissions within the territory controlled under Capital City jurisdiction, forbade the granting of permissions for land use except where granted by Government land auction. Over 1,300 hectares of Ulaanbaatar’s city centre were included under the moratorium, which was proposed by the Democratic Party of Mongolia. Permissions for construction on sidewalks, pavement areas, on school or kindergarten grounds and around hospital land were also summarily revoked. The decision was hailed in Parliament as “historic” and has put many developers plans on hold indefinitely. Whilst this is likely to impact land transaction volume, and therefore prices, in the short term, most developers do see an eventual end to the moratorium on issuances of licenses and so land prices are expected to remain buoyant in inner city, A grade areas.

Ulaanbaatar City Plan - Building Restriction in the city centre for 2010

	District	Khroo	Restricted area, name	Size of area /hectare/
1	Bayangol	15	Baigal Ekh complex	0.2
2		1,2,3	Garden behind railway station	5.1
3		2	Front of Railway Collage	0.54
4		13	Front of Urguu cinema	0.31
5		11	Enebish statue area	0.47
6		2,3	Public area behind building 71 and west of Sod Mongol gasoline stand	0.91
7		19	West side garden of building 57	0.47
8		20	Front of Thermal Plant 4, Dream garden	58
9			Water origins area	184.2
10	Chingeltei	5	Freedom square	0.69
11		4	Constructors’ square	0.27
12		3	Front space of Urt Tsagaan	0.75
13		3	Front of State department store	0.23
14		1	Yvuukhukan garden, front of School #23	0.57
15		6	Front of University of Entertainment and Culture	0.12
16		4	Front of School #5	0.37
17		4	Asashoryuu garden area	0.26
18		4	Bolzoo garden area	0.3
19		4	Victims square	0.11
20		1	Front area of Ard cinema	0.17
21	Sukhbaatar	6	Sukhbaatar square	4.1
22		4	Green area through Tserendorj street	0.72
23		8	Front area of Economic faculty of MNU	0.23
24		6	Front area of Children’s Craft Modeling Centre	0.28
25		1	Tsedenbal statue area	0.53
26		9	Nogoon nuur garden area	3.7
27		8	Front of garden of MPP building	1.2
28		8	Front of garden of Sukhbaatar square	2.5
29		6	Choibalsan statue area	0.09
30		8	Students square	0.18
31		1	Zorig statue area	0.07
32		5	West of Court Implementing Organization	0.27
33	Songinokhairkhan	12	Front of Sapporo shopping centre	0.67
34		13	Front of Tsambagarav shopping centre	0.28
35		14	Front of Pyramid shopping centre	0.33
36		18	Suljmel factory area	0.76
37		18	Front of Dragon centre	0.8
38			Water origins area	1694.5
39	Bayanzurkh	12	Botanik garden	34.9

40		3	Front garden of Hospital #2	0.43
41		12	Tuul river area, national park area	930
42		14	14th mic-district garden	4.5
43		6	North of National Wrestling centre	0.14
44		1,3	North and West of Sansar tunnel	0.72
45		4	Green area- West of Jukov musiem	0.67
46		4	15th mic-district Soccer field	1.6
47			Water origins area	10596
48	Khan-Uul	1	Front of Bogd Khaan musiem	1
49		2	Labours' Honor square	0.13
50		10	Green area through Airport road	7
51		2	Jargalant shopping centre	0.2
52			Water origins area	2259.7
53	Nalaikh		Water origins area	9302
		Total		25104.24

Source: City of Ulaanbaatar

7. LAND BANKING

The moratorium on issuance of new construction permissions in the city centre of Ulaanbaatar has made land banking a complex issue under certain circumstances. As noted above, under Mongolian land law, undeveloped land may never be “owned” by foreign owned entities or by persons registered in Mongolia, or by corporate entities. Furthermore, land cannot be possessed by individuals and where privatised, is held on a household basis. Instead, for corporate entities wishing to develop land the Government provides for a temporary transfer of land rights known as “possession” rights.

Possession rights are only granted for construction or improvement projects and plans must be submitted and approved before land permissions are fully ratified. With such permissions not set to be forthcoming in the near future development projects planned for virgin land not explicitly allocated via Government auction may be problematic in the short term. Conversely, this new legislation in no way prohibits the transaction of land in some way attached to an immovable property. Whilst plans for development may have to be temporarily shelved, a potential short-term stasis in land prices as a result of the moratorium on construction permission issuance may provide a good opportunity to purchase land attached to immovable property Ulaanbaatar in order to hold and develop at a later stage.

Nationally land banking remains highly viable and there are no restrictions placed upon developers such as those currently pertaining within Ulaanbaatar. Nevertheless, caution must be exercised when dealing with land transactions in Mongolia. The Democratic Party has, since the beginning of its short term in Parliament, enacted legislation that will likely secure the development of the capital city in sustainable ways, increasing the overall viability of new projects in the long term and the economic and infrastructural potential of the urban space as a whole. Nevertheless, resource nationalism has been a significant theme in politics throughout 2012 and there is no reason to suggest that this could not plausibly be extended to land were foreign developers to begin to co-opt too much land, either in the capital or elsewhere, for new development projects not in keeping with Government plans.

This having been said, land banking is an excellent means of generating dramatic returns, whilst ensuring legal security over assets. One key area of investment is C+ grade market-style retail space around Ulaanbaatar. These markets are often based within large constructions of C grade quality, although sit atop significant footprints. A number of these are available just outside of the CBD in areas set for mid-term growth. Purchasing such assets requires significant capital investment, although they represent excellent land banks and offer significant yield in the interim of up to 7-10% per annum on the initial investment.

XXIII.ENTERTAINMENT MARKET ANALYSIS

1. MARKET INTRODUCTION

Entertainment markets in Ulaanbaatar remain somewhat nascent and rarely in recent years have established dedicated entertainment facilities or companies transacted openly. Nevertheless, the market remains a key growth sector and a lynchpin draw factor component for mixed-use projects.

There is increased impetus since 2013 to develop alternative retail formats that fully take into account demand for entertainment facilities. Whilst the overall retail markets show little sign of fatigue in anything but the formerly ubiquitous convenience store model, new lifestyle and 'shopper-tainment' concepts are emerging, with more sophisticated centres of retail power likely to be moving south into the Stadium area and east along the new airport road into the Yarmag area. Plans also exist to consolidate retail centres to the west of the city, near to the Kempinski Hotel, again using combined entertainment and retail facilities to breathe new life into an area of the city neglected for the past three years - since the Oyu Tolgoi head offices moved to their current city centre facilities.

INFORMATION BOX - WHERE TO EAT IN ULAANBAATAR

The year 2013 saw the introduction of the first international F&B chains into Ulaanbaatar. California based Round Table pizza opened its first franchised store, as did Cinnabon. The Coffee Bean and Tea Leaf now has three stores in Ulaanbaatar and is expanding its market rapidly. On top of this, Tavan Bogd Group of Mongolia opened their first three KFC stores during 2013, one in the CBD)opposite Monnis Tower), one along Seoul Street and a third in the third micro-district of Bayanzurkh. This represents a new stage in the development of the F&B markets in Ulaanbaatar, which hosted no international brand names until last year. During 2013 Pizza Hut opened their first franchise in the city, with rumours that Burger Kind and Starbucks are not far behind.

With each new international entrant emerging into the market, a host of new domestic copies are also springing up, with coffee shops and patisseries becoming very much part of social life among a young and increasingly affluent population in Ulaanbaatar. With the restaurant culture of the city expanding, each year sees the entrance of new and improved offerings to those in search of good food. This includes the ever-popular Rosewood Coffee house, of which there are now two branches - the first opposite the Czech embassy in the east of the city and the second situated downtown, opposite the Russian embassy, on Seoul Street. These restaurants are a favourite among the expat community, offering among the highest quality of dishes available in Ulaanbaatar, regularly hosting well attended special events and tastings.

The 'destination mall' type facility is expected to become a key component of the future retail markets in Ulaanbaatar, although successful facilities will require keen attention to shopper experience and expert management in order to succeed. Whilst a combination of present limitations on transport infrastructure and a small overall urban population (Ulaanbaatar is home to a little under 1.3 million people) remains a considerable barrier to larger scale retailers and international high-street brands entering the market, Ulaanbaatar's consumer culture is developing at a rapid pace and the demand for new brands and new retail concepts does not appear to be abating anytime soon.

2. MARKET HISTORY

The entertainment industry in Mongolia has evolved apace as developers and entrepreneurs seek to take advantage of a young and growing consumer market with increasing disposable income and increasing access to foreign media, goods and international cultural influences. Nevertheless, the sector remains somewhat underdeveloped, in need of significant investment and expertise, as well as being highly seasonal. 63.3% of Mongolia's total population now live in urban centres, with the capital alone being home to over 1.3 million people. With average household incomes rising year on year, surpassing 1.1 million MNT per month at the close of 2013, expected growth of entertainment markets is being fuelled by rising real wages and growing desire among the population of Ulaanbaatar for novel entertainment and new leisure activities.

Presently, the arts and performance are well catered for in the heart of Ulaanbaatar, with a drama theatre regularly hosting traditional and international shows. 2012 saw Oyu Tolgoi sponsor a series of performances by an Aboriginal Australian dance company, whilst a performance of Hamlet, the first in over 20 years, has also hit the stage during 2013. The national orchestra also performs a remarkable season in the Opera House, combining Mongolian and international music. A number of smaller venues have also sprung up to cater for the arts in Ulaanbaatar, including the new Black Box theatre, which is rapidly becoming the hub for new modes of artistic expression among Mongolia’s youth. One development that has received a long-awaited welcome into the entertainment landscape of Ulaanbaatar is the new Children’s Park. This theme-park, re-developed by Bodi Group, has a long and checkered development history and has been at the heart of accusations concerning land-grabs by large corporations. This large-scale development, which opened in 2011, following over half a decade of slow renovation work, is now well frequented by the children of the middle-classes, who are able to afford the slightly prohibitive 4,000 MNT per ride cost. At the close of summer 2012 work began on installing a new roller-coaster in the children’s park. This was completed and opened during 2013.

Of all the existing entertainment facilities in the city, the Sky Resort ski slope, which opened its doors for the first time in 2010, is an excellent case study in demand within the Mongolian entertainment markets. This ski resort, built by MCS, is located 30 minutes by car outside of the city centre. It has five well maintained, artificially created slopes and offers everything from ski instruction to dining facilities and a pro-shop. The resort itself provides ski hire at very reasonable rates and a day of skiing with all equipment and lift passes cost just over 25,000 MNT during the first year of operation (equivalent to just under US$ 17.95). Prices have risen since the resort opened but nevertheless remain very affordable to the middle-classes of Mongolia. During the early winter and spring (the times of the year when it is not too cold to ski) the slopes are bustling with people keen to partake of a new sport and adopt its global associations with wealth.

Keen to expand upon the success of this resort, MCS group have used the balance of their land holdings on the flatter riverbanks near to the ski-slope to construct a truly international standard golf-course. As part of the Sky Resort, the golf course (named Mt. Bogd Golf Centre) was completed in mid 2012 and opened in July of 2013 for testing. MCS intend to extend this project further with a high-end housing development that will adjoin the golf-course and ski-resort, offering high-luxury, low-density accommodation to Mongolia’s wealthiest, starting at US$ 5,000 per square meter. Plans for the new housing development include running infrastructure for a Mt. Bogd clubhouse. With economic conditions unfavourable for such a development, plans to move forward with this development have been shelved for the time being, although it is expected that MCS Construction will return to this facility in the mid-term.

Another key area of growth, and a burgeoning business within Ulaanbaatar, is the cinema industry. Presently there are four multiplex cinema facilities in the city, with a total of 14 screens showing international blockbusters and local productions to inevitably packed auditoria on evenings and weekends. The two major operators, Tengis and Urgoo, have developed exceptionally successful business models and both are presently seeking to expand operations and bring new technology (including IMAX screens) into the Ulaanbaatar cinema markets.

Development of a discerning, fashion conscious consumer society is continuing apace in the capital, with young people eager to adopt trends and lifestyle elements borrowed from European, American and Korean cultures. The thirst for new entertainment mediums is thus growing very fast. Growth in consumer markets is indicative of the fact that disposable incomes are rising in the capital in particular, yet the nascent entertainment industry has not yet developed sufficiently to take full advantage of the growing market among young people.

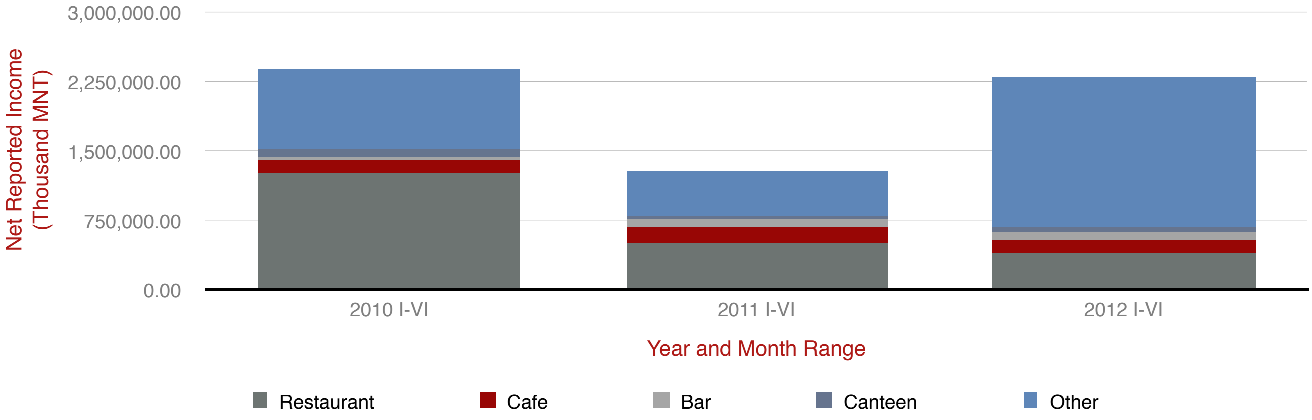
3. DEMAND FACTORS

Demand factors within the entertainment industry in Ulaanbaatar are threefold. Firstly, a burgeoning economy that is having an impact upon personal wealth and disposable incomes of much of the population of Mongolia. Whilst poverty still exists as a real problem, redistributive policies are assisting in raising standards of living. The target markets for high-end entertainment facilities, the middle-classes, are also burgeoning in wealth and in scope. With access to higher levels of education and significant new employment opportunities as a result of the development of new industries alongside the mining sector. Secondly, the nation has a young demographic profile. The modal age bracket in Mongolia is 20-24 years, with 352,000 people falling within this range. Among the broad age-range designated as the most active retail consumers (25-49), there are just over 1 million people; roughly 39% of the total population of Mongolia.

During 2013 there were 1,716 performances by professional art organisations. This number has fallen back since 2010 by around 18%, evidencing a movement away from traditional performance arts in the Mongolian cultural landscape to a concern with contemporary entertainment facilities. Visitors to museums grew sharply during 2013 to 595,300, up 75% year on year as a result of the construction of a temporary museum facility in Sukhbaatar Square in which temporary exhibitions have been held, including the display of the bones of the Tarbosaurus Baatar returned to Mongolia during 2013.

A total of 105 different foreign films were screened in cinemas in Ulaanbaatar during 2013, with 12 domestically produced films also screening. This represents a 54% increase in the numbers of foreign films available within the Mongolian market over a four year period, evidencing the significant demand among the Ulaanbaatar population for filmic entertainment and for international culture.

GRAPH 188: Net Reported Income of Food and Beverage Industry



Source: NSOM

As the table above indicates, the contribution to net reported incomes of the F&B industry of restaurants is falling whilst fast-food continues to grow in significance within this market segment. Bars are receiving gradually less business, whilst the supply of nightclubs continues to grow as one of the most profitable segments of the entertainment industry in the capital city at present.

4. ENTERTAINMENT SUPPLY

On any given Friday or Saturday night, the cinema facilities around Ulaanbaatar are a hub of activity. the fact that booking last-minute seats for any film showing is all but impossible is testament to how popular Ulaanbaatar's cinemas are. Within a market that was once limited to bars, pubs and clubs, globally aware young consumers are now eager to embrace healthier, exciting and immersive entertainment pursuits. All current cinema facilities in Ulaanbaatar show films both in 2D and 3D and prices in the current market range from 3,000 MNT to 15,000 MNT per screening for adults. Existing facilities cater for just 2,922 moviegoers, across four currently operating cinemas, leaving ample space within the market for expansion.

Cinema Current Supply

Name	Number of Auditoria	Number of Seats	Adult Pricing	Child Pricing	VIP Pricing	Notes
Urgoo 1	4	825	2D 3,000 - 14,000 3D 4,000 - 15,000	2D 3,000 - 14,000 3D 4,000 - 15,000	14,000-15,000	VIP seating available. Game center
Urgoo 2	3	337	2D 3,000 - 14,000 3D 4,000 - 15,000	2D 3,000 - 14,000 3D 4,000 - 15,000	14,000-15,000	VIP seating available. Game center
Tengis	4	1,160	2D 4,000 - 12,000 3D 5,000 - 12,000	2D 4,000 - 8,000 3D 4,000 - 8,000		VIP seating available. Game center
Soyombo	3	500	2D 3,000 - 6,000 3D 3,000 - 6,000	2D 3,000 - 4,000 3D 3,000 - 4,000		
TOTALS	**14**	**2,822**				

Source: MAD Research

In terms of cinema future supply, an estimated 9 screens are planned (outside of the current development) up until the end of 2015. A majority are not in dedicated cinema facilities but in mixed use facilities, often with significant retail attached. This effectively represents a 64% increase in the numbers of cinema seats available, although this is still not likely to meet expected demand, particularly in denser residential areas of the city.

Cinema Future Supply

Project Name	Degree of Confidence and Notes	Timescale	Number of Screens
Hunnu Mall	Will be implemented.	2014	3
Jiguur Grand Entertainment Center	Will be implemented.	2015	4
Zaisan Hill	Will be implemented.	2015	Unknown
Theatre City	Potential for incorporation of cinema facilities (not confirmed)	2018-2019	Not yet in planning
RC Site (Adjacent to Kempinski)	Cinema proposed as part of initial plans.	2018-2019	Not yet in planning
IMAX	Confirmed that two new screens will be implemented in an as yet undisclosed location.	2015	To be incorporated into existing facilities

Source: MAD Research

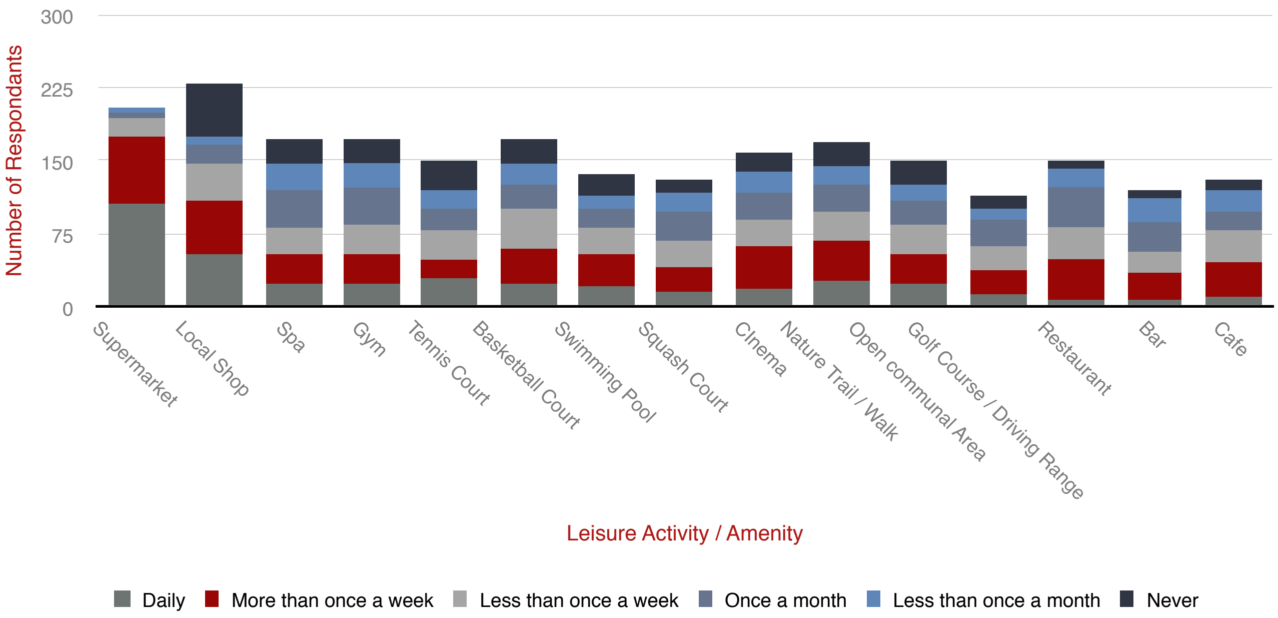
New entertainment supply in the Stadium area also incorporates the supply of concert halls and facilities being developed within the Moriin Khuur Tower. Whilst these are as yet open to alteration, the initial plan for this facility is to make it a hub of arts and culture. This is expected to raise the overall entertainment profile of the area, although mass market entertainment is not the focal point of this development.

5. USER PREFERENCES

During Q1 2014 MAD researchers undertook a preference survey among a sample of 250 middle-class households in Ulaanbaatar to determine preferences in terms of entertainment facilities. Part of this survey asked respondents to identify which facilities they frequented from a list of 15 entertainment, leisure and services facilities presently available in Ulaanbaatar.

The modal answer to frequency of gym use was once per month, accounting for 17.5% of responses, although a total of 23.2% of respondents used a gym either daily or more than once per week. Almost 20% of respondents never used tennis courts, although 20% also cited that they use such facilities less than once per month. 25.5% (modal figure) used a swimming pool more than once per week, whilst 20% of respondents to the basketball court sub-question indicated that they used such facilities on average less than once per month.

GRAPH 189: Frequency of Facilities Use Q1 2014



Source: MAD Research

A total of 23.5% of respondents made use of nature trails of went on nature walks more than once per week. 28.7% of respondents who answered the cinema usage sub-question indicated that they visited a cinema more than once a week, making it the most frequently used leisure and entertainment facility in this survey. A further 17.8% of respondents visited a cinema less than once a week but more than once a month.

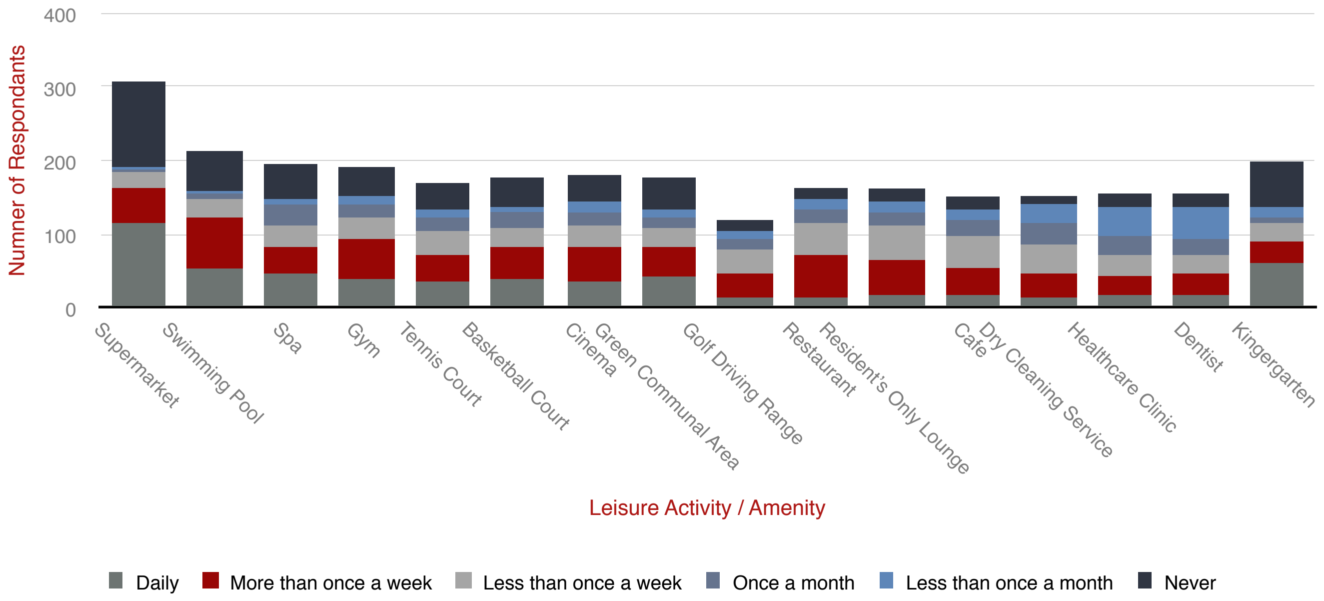
Longitudinal analysis clearly shows that restaurants and bars have lost ground, whilst cinema's have gained popularity and are frequented much more often. This is likely the case, in part, due to the establishment of new cinema facilities, adding three new screens to the market during 2012.

As noted above, there is a considerable drive towards incorporation of entertainment facilities within mixed-use projects in order to create more vibrant communities and diversify the economy of the city. In order to determine the suitability of different entertainment and leisure concepts for integration into residential concepts, MAD researchers asked which leisure and entertainment facilities residents would consider using if they were available in a new apartment complex.

A full 25% of all respondents indicated that they would use a swimming pool daily , with a further 33.5% noting that they would use it more than once a week. This makes a swimming facility a significant perceived draw factor in terms of leisure facilities, scoring higher overall (in terms of weighted scoring) than any other leisure activity in terms of expected frequency of use. Gym facilities scored second highest and a full 23.1% would use such facilities on a daily basis, with a further 27.4% using them more than once a week.

The cinema facility again scored highly, with around 20% of our respondents indicating that they would use a cinema daily, although 25.6% indicated that they would use such a facility more than once per week. A spas would attract 42.4% of all respondents to use it either daily or more than once a week.

GRAPH 190: Frequency of Facilities Use - Potential



Source: MAD Research

6. GYM FACILITIES

Surveys indicate, there is little penetration into the upper end of the market in terms of court sports and team based sporting activities. Family related activities were far more frequently accessed, according to responses to questionnaires conducted over two years. These include playgrounds and nature walks, spas and gyms. It is these facilities that should be the focus of developments both within the CBD and out of town. Nevertheless, gym facilities in Ulaanbaatar are now increasingly being incorporated into residential developments and office complexes. Dramatic growth in health seeking activities and development of new sporting cultures is driving almost exponentially expanding demand for spa, fitness and sporting facilities in Ulaanbaatar among the urban population.

List of Significant Gym Facilities in Ulaanbaatar

Facility	Location	Date Opened	Price Per Day	Membership Price Per Month	Facilities Description
TAIKHAR CLUB	Sukhbaatar district, Children& Young Palca, 2nd floor	2001	10.000	90.000	Fitness, aerobic, yoga, bath
GOLDEN GYM	Sukhbaatar district, Independence Building, 4th floor	2009	20.000	150.000	Fitness, yoga, belly dance, body burn, zumba, aerobic, gym
ORCHLON HEALTH CLUB	Sukhbaatar district, Orchlon School	2004	15.000	160.000	Fitness,sauna, yoga
FLEX GYM	Khan- Uul district, Rapid castle, 4th Building	2010	40.000	300.000	Fitness, tennis, yoga, aerobic
GRAND GYM	Zaisan Luxury Vila Vista town	2012	none	160.000	Fitness, swimming pool, sauna
NIISLEL GYM	Khan- Uul district, APU building	2009	20.000	200.000	Fitness, sauna, bath
INTERTAIMENT GYM	Sukhbaatar district, Department Store, 5 floor	2009	9.000	60.000-100.000	Fitness, yoga, bath
IRVES GYM	14th school, Erdenet Hotel	2012	4500	45.000	Fitness
VISTA HEALTH CLUB	Zaisan district, Vila Vista town	2010	50.000	350.000	Fitness, sauna, bath

Source: MAD Research

The earliest international standard gyms began opening in Ulaanbaatar as part of high-end housing developments such as the Orchlon development in Bayanzurkh district (opened in 2004). This facility, originally popular with expat executives of Oyu Tolgoi and wealthy Mongolian executives, is based around a townhouse concept and incorporates a sports centre and gym with a swimming pool. As one of the oldest facilities, yet still one of the best equipped, in Ulaanbaatar, the Orchlon Health Club now charges 20,000 MNT per day of use and monthly membership of 150,000 MNT. The citywide average cost for good quality gym facilities in Ulaanbaatar is 23,429 MNT per day or 161,678 MNT per month (membership basis). This is around 17% of the average household income per month for Ulaanbaatar residents at the end of 2012. This alone indicates how the gym and spa facilities of Ulaanbaatar are presently catering to a rarefied, yet burgeoning market. Exclusive health clubs such as the Vista Health Club, based in MCS's Bella Vista Complex, charges 350,000 MNT per month membership or 50,000 MNT per person per day entry for one-off use.

Spa facilities are typically located in hotel facilities such as the Blue Sky Hotel and out of town facilities including the Corporate Hotel Nukht, located in Nukht valley, and the Terelj Hotel and resort. These also cater to an upper-end market and offer basic facilities such as sauna, steam-rooms, swimming pools and various massages and beauty treatments, all of which are popular an emergent urban population.

Gyms located in commercial facilities within the CBD have higher price points. Use of the Blue Sky Hotel gym facilities costs 25,000 MNT per day, whilst Golden Gym, located in the MPP headquarters building, has among the highest monthly membership rates (300,000 MNT per month). These both boast excellent, if small scale facilities. Both also offer diverse fitness programs and well trained staff. They are heavily subscribed. This indicates that a well managed health, fitness and spa facility close to the city centre, in a predominantly retail and residential area, would perform extremely well. Outside of the CBD spa and gym facilities tend to be incorporated into housing developments and rely on in-situ markets. However, a destination facility with well managed and integrated lifestyle facilities, would certainly have a wider draw-radius than current facilities in the market.

Presently there are ten upper-end gym facilities in Ulaanbaatar, the majority located in Sukhbaatar or Khan Uul districts. Future supply and full market scale is difficult to estimate due to the fact that many smaller gyms are springing up each month around the city. Nevertheless, the addition of large-scale facilities, such as the 4D gym in the Khurd Complex (south of Peace Bridge) will bring new scope and scale to the market. At this stage demand for international standard sporting and spa facilities seems not to be met, although the market is developing rapidly. Companies already involved in health and wellness, including MCS and Jiguur Grand Group, are also planning large scale spa and leisure facilities. The latter offers the Grand Spa centre and Grand Gym facilities, both of which offer sauna and spa facilities for upper-end markets.

Future demand factors within the entertainment industry in Ulaanbaatar are threefold. Firstly, a burgeoning economy that is having an impact upon personal wealth and disposable incomes of much of the population of Mongolia. Whilst poverty still exists as a real problem, redistributive policies are assisting in raising standards of living. The target markets for high-end entertainment facilities, the middle-classes, are also growing in wealth and in scope. Secondly, the nation has a young demographic profile. The modal age bracket in Mongolia is 20-24 years (with 352,000 people falling within this range). Among the broad age-range designated as the most active retail consumers (25-49), there are just over 1 million people; roughly 39% of the total population of Mongolia. It is well known that young people contribute more overall to the consumption economy and save less, funnelling more of their disposable income into entertainment and consumables. This will be a key growth driver across the entire entertainment market in the mid-term within Mongolia.

M.A.D.
INVESTMENT SOLUTIONS

DESIGN & RENOVATION SERVICES

VISUALISING AND REALISING YOUR PROJECT

M.A.D. prides itself on its unique and talented interior design team that has created the now well known interiors of our apartment portfolio and offices. The team has grown over the years and is now able to offer its professional services to third party clients. Our team is creative, uses the latest software and equipment and is able to work with the most demanding of projects. Our design team will work alongside our clients to create the essential elements of the project they desire, carry out detailed costing, procure all materials and equipment, manage the renovation and deliver a completed project on time and on budget.

In order to ensure consistent quality and output, M.A.D. has hired an in-house team of carpenters, plumbers, electricians and renovation workers as well as built an extensive carpentry workshop to be able to carry out all but the most complex of projects.

Our team has over the past few years specialised in carrying out both residential renovations (in particular in the older 40k or 50k buildings of the city) and office fit-outs in the grade A spaces of Ulaanbaatar.

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TECHNICAL DRAWINGS

2D / 3D HD RENDERINGS

DETAILED COSTING CHARTS

PROJECT MANAGEMENT PLANS

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RENOVATION PROJECT MANAGEMENT

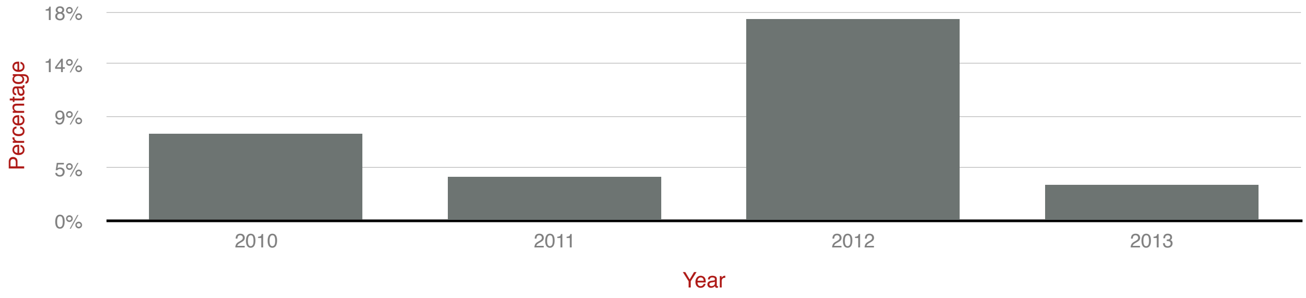
FINAL DELIVERY REPORT

XXIV.WAREHOUSE MARKETS

1. INTRODUCTION

Whilst Ulaanbaatar boast a copious supply of old and run-down warehouse facilities, heated, well insulated facilities with connections to infrastructure are not widely available. The majority of existing supply within Ulaanbaatar was built to house light industry, manufacturing and logistics during the socialist era. The precocious development of the mining and mining supply sectors in Mongolia has been the driving force behind development of the warehousing sector, although the transport and logistics sector is bolstering current demand both within the capital city and nationally. With a thriving import sector warehousing demand is expected to grow significantly as the nation continues to import more and more of everything from basic food-products to automobiles and electronic goods.

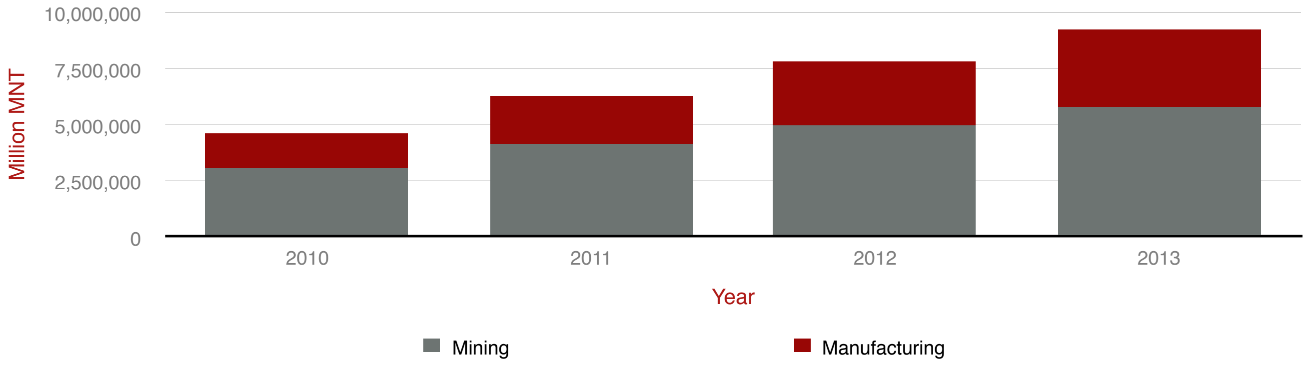
GRAPH 191: Percentage Contribution of Industrial and Warehousing Construction to the Total National Construction & Capital Repairs Output



Source: NSOM

Analysis of the Gross Industrial Output of Mongolia indicates that industries that would require warehousing continue to grow in terms of contribution to GIO. Of these sectors mining remains by far the greatest contributor, providing between 58% and 62% of GIO since 2010, although this number is dropping off since 2012 as Manufacturing upscales, particularly in terms of food produce manufacturing, textile production and manufacture of construction materials for domestic markets.

GRAPH 192: Contribution of Mining and Manufacturing Sectors to Gross Industrial Output of Mongolia



Source: NSOM

2. HISTORY & CURRENT MARKET

When state and Soviet-Union supported industry in Ulaanbaatar rolled back in the 1990s, it left behind a sizeable warehouse stock that still remains in Ulaanbaatar. With owners and operators unable to afford proper upkeep much of the earlier warehouse stock, built in the 1960s through to the 1980s, has already fallen into considerable disrepair. Nevertheless, the market for warehouse space is expanding in the city for two reasons: Mining, and expansion of retail, wholesale and entertainment activities.

INFORMATION BOX - CROWN MONGOLIA OPENS HIGH END WAREHOUSE FACILITY

Crown Mongolia, the Mongolian arm of the world-wide relocation specialist, opened their new facility in Ulaanbaatar with a grand ceremony on June 18th 2012. The new facility, situated in the industrial area of Khan-Uul District, is built atop a plot of 10,000 square meters. The facility is not only impressive for its scale, but also for being the first truly international standard warehouse facility of its kind in the country. The warehouse uses rainfall collection and recycling systems, efficient temperature control and solar panel electricity generation. The interior is temperature controlled and appropriately climate controlled for document storage. A further 6,500 square meters of land has been reserved for a second phase of Crown's warehousing operations. This project represents a landmark development in Ulaanbaatar's warehousing sector and it is hoped that facilities such as this will continue to be developed by both international and domestic developers, swelling the current supply of often dilapidated warehousing space available in the capital city and beyond.

Warehouse space in Ulaanbaatar is spread across the west and south-west of the city, covering Khan-Uul, Bayangol, and Songinokhairkhan Districts, the traditional industrial areas of the city. The oldest units date from the mid 1960s, although a majority of existing stock came about during industrial expansion in the 1970s and 1980s. Information on warehousing supply in Ulaanbaatar is limited. No official figures on industrial and logistical warehousing are produced by the Government of Mongolia and all data is obtained through observing market transactions. The second area of demand associated with warehousing comes from the wholesale/retail and entertainment sectors. Khan-Uul District, as well as being home to industrial and production facilities, also contains the largest fully enclosed ground floor retail space presently available within Ulaanbaatar; Misheel Expo. This exhibition centre and home-ware/furnishing megastore is situated in a converted warehouse which used to be used by a state entity for railway freight storage. Chono corporation purchased this distressed property following privatisation and converted it into a highly successful retail and wholesale centre that now hosts large exhibitions on an almost weekly basis during the summer months. International companies who operate on warehouse wholesale models are also seeing the potential of this market, although only one has entered. In 2012 Crown Mongolia, the Mongolian arm of the world-wide relocation specialist, opened their new facility in Ulaanbaatar with a grand ceremony. The new facility, situated in the industrial area of Khan-Uul District, is built atop a plot of 10,000 square meters. The facility is not only impressive for its scale, but also for being the first truly international standard warehouse facility of its kind in the country. The warehouse uses rainfall collection and recycling systems, efficient temperature control and solar panel electricity generation. The interior is temperature controlled and appropriately climate controlled for document storage. A further 6,500 square meters of land has been reserved for a second phase of Crown's warehousing operations. This project represents a landmark development in Ulaanbaatar's warehousing sector and it is hoped that facilities such as this will continue to be developed by both international and domestic developers, swelling the current supply of often dilapidated warehousing space available in the capital city and beyond.

INFORMATION BOX - PROVINCIAL DEVELOPMENT TO BE FINANCED BY CHINGGIS BOND FUNDS

Between 2012-2016 the municipality is implementing the "1,000 unit apartments" project in the provinces of Mongolia. The first tranche will be implemented in Orkhon, Arkhangai, Khovd and Uvs province. Buildings will be financed by proceeds from the sale of the Chinggis Bond. The construction process is scheduled to be completed during 2015. This will see up to 1,000 units constructed in 10 provinces of Mongolia.

3. MARKET DEMAND

Data on vacancy rates and occupancy lengths of warehouse space in Ulaanbaatar and nationally is limited due to extremely limited - in most cases non-existent - supply of commercial facilities. Most warehouse facilities presently in operation are owner operated and many of the best A grade facilities across Ulaanbaatar's Khan-Uul district were purpose built or renovated in order to house operations as diverse as cashmere outlets or imported goods storage.

Set-up costs for warehousing in the city of Ulaanbaatar is dependent upon land prices. With land costs rising around Ulaanbaatar and formerly industrial areas of the city earmarked in Government plans for redevelopment and repurposing, finding an appropriate warehousing space, close to amenities and access routes, can prove difficult. However, for reasonable B+ or A- grade warehousing space, construction costs will still reach no more than US$400 per square meter. Cost of development of a 1,000 square meter warehouse, connected to amenities and infrastructure, should still be possible within Ulaanbaatar for less than US$ 650,000. In secondary cities, such as Sainshand, where land prices have yet to rise far above US$130 per square meter in some areas, it remains possible to build a comparable warehousing facility for $ around US$ 550,000. With a large scale capital works project (the Sainshand Industrial Plant) shortly about to begin construction, savvy investors and developers have been purchasing land around the rail hubs of Sainshand in order to do just this, provision high quality warehouse space for machinery and materials needed to complete the multi billion dollar industrial project. Hubs of mining infrastructure, in particular Dalanzadgad, are also prime targets for warehouse development, as are cities earmarked for improvements to their aviation infrastructure.

Within Ulaanbaatar the majority of demand is for warehousing space with good rail or road access. At present there are nine existing rail terminals within Ulaanbaatar within the central areas of the city, these freight terminals require additional investment and are reaching the limits of adequacy in terms of capacity. This led to the Ulaanbaatar City Authority making the decision to relocate existing terminals and partner with the private sector. To this end the City Authority allocated 130 hectares of land and initiated a joint-venture with Tuushin LLC to initiate a unified freight forwarding terminal for Ulaanbaatar. Supported by the ADB, the project is ready to initiate, based upon a unified freight and transport infrastructure for the city that links the airport and rail lines, whilst removing industrial and warehousing functions from around the core of the city towards the periphery where land is more readily available and not in such high demand for residential and commercial facilities. The site is located 12km south-west of Nalaikh, 34km south-east of central Ulaanbaatar.

The centre will include a container area, domestic bulk warehousing, customs warehousing, a bulk cargo area, wholesales area and all associated utilities. It will be have sufficient capacity to handle 45,000 - 480,000 containers per annum and offer transhipment facilities for 530,000 - 2,100,000 tons per annum. Bulk cargo transshipment capacities are projected at 1.5 - 11.5 million tones per year. According to feasibility plans, this covers volume growth at least until 2020, with staged completions of new sections of the project leading to the facility being able to meet the freight handling requirements of Ulaanbaatar until up to 2040.

4. MARKET SUPPLY

Outside of the mining sector a number of industries rely on warehousing in Ulaanbaatar. Several firms operate bonded warehouses and container terminals in Ulaanbaatar, in close proximity to the Central Railway Station. These include privately owned warehouses of over 3.5 hectares in size. There are presently 19 locations that have licenses to operate bonded warehouses in Ulaanbaatar and the city Customs authority uses these to store goods entering from Russia and China. Nationally 24 companies are certified to run bonded warehouses. NEMA runs several warehouse facilities around Mongolia. These are high quality storage facilities, although most are earmarked for grain storage. Eight of these are food warehouses, 4 are designed for heavy machinery and 7 for cars. Presently the Ulaanbaatar transshipment railway centre handles trains and trucks coming from China and entering Mongolia. They operate 24 hours a day and have 6 cranes and several forklifts on hand, with a capacity to unload 260 wagons a day. However, there are presently no warehousing facilities as part of this operation.

Warehouse Space Availability Nationally in Mongolia

Bayan Olgii	There is little warehousing available at the airport. NEMA operates warehouse space available in Bayan-Olgii.
Khovd	There is no warehouse space in Khovd airport but NEMA has warehouse space available 5km away from the airpot, in the city
Ulaangom	No warehouse space presently available for airport facilities but plans exist to build one.
Ulan-Ude	The airport presently has around 1,000 square meters of warehouse space available
Darkhan	3,400 square meters of warehouse are available, a further 4,800 square meters of covered area with dirt floor and 700 square meters covered area bonded warehousing next to railway lines.
Ulaanbaatar	Ulaanbaatar shipping ports presently have 7,500 square meters of available warehouse space, with 25,360 square meters of covered area also available.
Zamyn Uud	The border crossing with China has just 300 square meters of warehouse space at present, with 23,652 meters of open area for cargo storage.
Dalanzadgad	M.A.D. Investment Solutions operates a 650 sq.m warehouse in Dalanzadgad, available to a single tenant.

Source: DLCA Logcluster

Several public sector organisations operate extensive warehousing facilities near to logistics hubs around the city. These are not typically available for storage, although use may be negotiated for a fee.

Public Sector Storage facilities in Mongolia

Location	Owner	Possibility of Use	Capacity (sq.m)	Construction Type	Access	Condition
Baganuur	Ulaanbaatar Railway	Yes	387	Concrete	flat	Good
Bayan-Ulgii	Customs Department	Yes	216	Concrete	flat	Good
Bulgan	NEMA	Yes	1,700	Concrete	flat	Poor
Bulgan	Customs	Yes	2,000	Concrete	flat	Poor
Darkhan	Ulaanbaatar Railway	Yes	3,430	Concrete	flat	Good
Erdenet	Erdenet Khivs Ltd	Yes	360	Concrete	flat	Good
Erdenet	Ulaanbaatar Railway	Yes	300	Concrete		Good
Khovd	NEMA	Yes	3,000	Concrete		Good
Khovd	NEMA	Yes	3,800	Wooden		Fair
Ulaanbaatar	Ulaanbaatar Railway	Yes	7,520	Concrete		Good
Ulgii	NEMA	Yes	4,800	Concrete		Good
Zamyn-Uud	Ulaanbaatar Railway	Yes	3,002	Concrete		Good

Source: DLCA Logcluster

As noted, following privatisation the majority of the extant stock of warehousing in Ulaanbaatar and nationally was transferred, along with company holdings, into private hands. Many of these were later redeveloped to house industrial operations, storage and manufacture operations, although some have been left in a poor state of repair. Below is a list of major warehouse facilities under private ownership within Ulaanbaatar. This is indicative of the total volume throughout the city.

The table above evidences a number of aviation-industry supply companies (particularly fuel supply) operating warehouse space in Khan-Uul District. Songinokhairkhan District contains a high concentration of warehousing occupied by petrochemical companies. The warehousing stock of Bayangol District is occupied by both large import/export, trade and retail/wholesale companies and petrochemical companies. Bayanzurkh shares a broadly similar occupancy profile to Bayangol but is also home to a notable manufacturers, including MCS's beverage manufacturing and storage facility. Entertainment facilities are not yet featuring within Ulaanbaatar's stock of warehousing space, although this may be set to change in the near future.

Increasing demand has led to increasing supply and many land-holders are seeing the potential returns of erecting warehouse space within Ulaanbaatar and beyond. This is indicated by the fact that a majority of transacted or leasable space in Ulaanbaatar during 013 was in fact built within the past decade.

Warehouse use in Ulaanbaatar - Basket

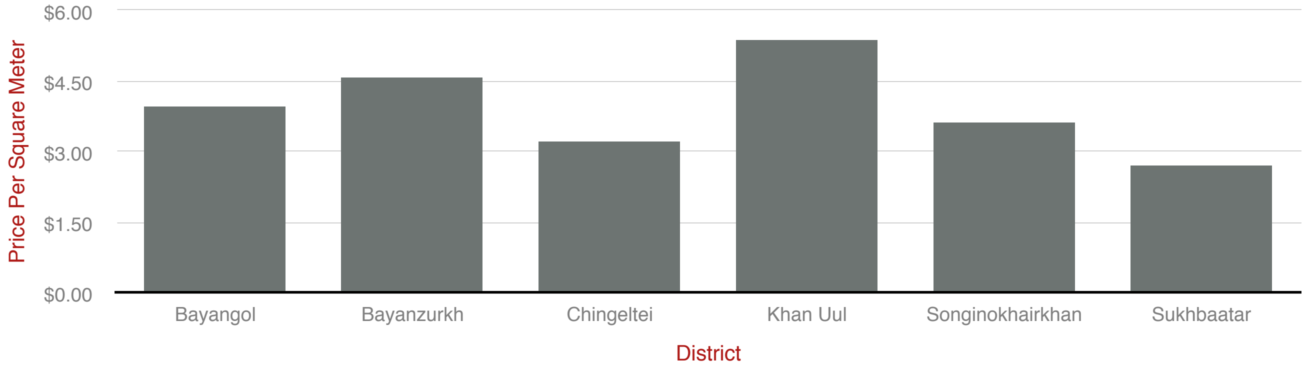
District	Company Name	Industry	Warehouse Size
Songinokhairkhan	Shunkhlai Group LLC	Petrochemical	7450
	Magnai Trade LLC	Petrochemical	26900
	Just Oil LLC	Petrochemical	6200 / 7800
	Petrovis LLC	Petrochemical	38925
	Mon-Gas-Oil LLC	Petrochemical	1200
	Oil Burj LLC	Petrochemical	6940
	Ulaanbaatar City Petroleum Resource Bureau	Petrochemical	550
	Jump LLC	Petrochemical	600
	Khuns Trade LLC	Petrochemical	4700
	Rokmon LLC	Building Materials	1500
	Remikon LLC	Petrochemical	-
	Nomin LLC	`	1800
	Murun Trans LLC	Mining Supply	-
	Khar Khorin Market LLC	Petrochemical	-
Bayangol	Khovsgol Trade LLC	Petrochemical	2955
	Mon Pet LLC	Petrochemical	1500
	Erin International LLC	Energy and Petrochemical	4896 + 196 heated
	Bosa Impex LLC	Retail / Wholesale of Stationary	1054
	Green City Co., Ltd	Food and Beverage	2000
	Bars Market	Food and Beverage Retail / Wholesale	-
Khan-Uul	A Jet-Ltd. LLC	Petrochemicals for Airline Industry	4610
	Civil Airline General Department	Petrochemical	2650
	Esen Trading LLC	Petrochemical	3050
	Erel LLC	Petrochemical	1200
	Vostokneftgas LLC	Petrochemical	-
	Altan Us LLC	Construction Materials	-
	Mongol Trans LLC	Automotive	70000
	Tavan Bogd	Construction and Trade	-
	Sod Mongol Group	Petrochemical	-
	Apu LLC	Food & Beverage Manufacture	-
Bayanzurkh	Next Electronics	Retail / Wholesale	-
	MCS Coca-Cola, Tiger	Food & Beverage Manufacture	-

Source: MAD Research

5. RENTAL AND PURCHASE PRICING

Warehousing prices have displayed considerable appreciation with the expansion of the Manufacturing, Import/Export and Mining Supply sectors in Ulaanbaatar in particular. With the upscaling of consumer markets, distribution and freight-handling facilities are increasingly sought after in the capital city, although the extant supply is, as noted above, often decrepit, ill-suited for purpose and heavily distributed across the east-west corridor following the railway line. Nationally, mining and the mining supply chain undergirds a significant demand, which will be bolstered by new construction and manufacturing projects in the mid-term.

GRAPH 193: Warehouse Average Rental Pricing by District - Per Square Meter Per Month



Average rental prices across the broad warehouse market in Ulaanbaatar were just US$ 3.44 per square meter per month during 2013 and Q1 2014. Warehouse facilities in Songinokhairkhan district displayed the highest price points per month. This is due to the fact that this area, with more plentiful land for industrial redevelopment, has seen more new warehouse and distribution facility developments in recent years. This is also the industrial development hub of the Mongolian capital at present, with significant links to existing rail and road freight networks. Whilst this is set to change in the mid-term, with the development of new out-of-town, integrated freight handling and distribution facilities, at present Songinokhairkhan warehousing can command higher rates due to its connectivity. Warehousing in downtown locations does rent at a premium of around 30% higher than market average, with chilled warehouse facilities renting at close to 100% above market average at over US$ 6 per square meter per month. Facilities within easy reach of the railway typically incur a premium of around 20-25% over the market average.

Well serviced warehouse facilities tend to lease at the higher end of the current bracket, at around US$ 6 per meter per month, with some secure, partially climate controlled facilities leasing at around US$ 12 per square meter during 2012.

The highest renal price per square meter in Ulaanbaatar is presently being achieved out of Crown Relocation's new 10,000 square meter warehousing facility in Khan-Uul District. Storage in this secure, climate controlled and ecologically friendly facility starts at US$ 45 per square meter, with most clients storing sensitive materials or documents, as well as furnishing and personal possessions for expat workers. Whilst rising purchase prices are pushing down rental yields (despite pushing up rents) warehousing in Ulaanbaatar, and beyond, warehousing continues to represent significant rental yield potential of up to 7.7% per annum after taxes on income and property are paid (excluding purchase and disposal costs and utilities) for A grade facilities and an impressive 47% on C grade warehouses, providing it is possible to find tenants in an increasingly discerning market.

In contrast to the warehouse market as it stood a year ago, capital gains seem more likely, with rapidly rising prices at the upper end of the market. The noticeable paucity of available A-grade warehouse space in Ulaanbaatar makes redevelopment and refurbishment of distressed warehousing and industrial assets an excellent potential investment strategy, with a well defined market among mining supply companies eager to take up such space. The Ulaanbaatar Master Plan 2020 contains recommendations to move the industrial, warehouse and manufacturing heart of the city out to new satellite towns, replacing current industrial and warehouse space with new housing and commercial facilities. In this eventuality, and in the eventuality that entertainment and retail facilities begin to demand more and more warehousing space, land in the traditional city centre industrial zones will increase in value rapidly.

Some commercial companies, such as Tuushin Company (a bonded warehouse operator out of Ulaanbaatar) and Tavan Bogd Group, do offer their warehouse space for temporary rental. Standard fees tend to be around 5,000-10,000 MNT per month per square meter for standard, quality warehousing. Refrigerated warehousing rental rates are approximately 1,750 MNT per day per ton.

Warehouse Space Availability in Ulaanbaatar - Leasing Companies

Location	Owner	Availability for Rental	Capacity (sq.m)	Construction Type	Access	Condition
Ulanbaatar	Ulaanbaatar Impex (Nomin Holding)	Yes	3,672	Concrete	flat	Good
Ulanbaatar	Tavan Bogd Group	Yes	10,000	Concrete	flat	Good
Ulanbaatar	Tavan Bogd Group	Yes	3,600	Concrete	flat	Temperate Controlled
Chingis Khaan International Airport	Customs	Yes	401	Concrete	flat	Good
Ulanbaatar	Tuushin Co LLC	Yes	216	Concrete	flat	Temperate Controlled
Ulanbaatar	Bi El Si Co LLC	Yes	1,300	Concrete	flat	Temperate Controlled
Ulanbaatar	Crown Mongolia	Yes	10,000+	Steel-frame	flat	Climate Controlled, secure

Source: DLCA Logcluster

Warehouse Rental and Sales Basket, Ulaanbaatar 2013

District	Grade	Sq.M Warehouse Space	Rental Price per square metre per month US$	Purchase Price Per Sq.m US$	Notes on Facilities
Khan-Uul	B	1,440	$5.40	-	Alarm system, camera system, office rooms
Chingeltei	A	380	$1.20	-	
Sukhbaatar	A	1,932	$2.70	-	24 hour security
Baynazurkh	C	360	$0.84	-	Car parts warehouse
Bayangol	C	270	$2.20	-	
Songinokhairhan	C	1,300	$2.70	-	
Songinokhairhan	C	3,000	$6.50	-	
Bayangol	B	12,000	4.30-2.40	-	Near railway freight depot
Songinokhairhan	C	960 (warehouse) 7,000 (fenced area)	-	$55.78	380v, workers housing
Songinokhairhan	C	400	$0.80	-	24 hour security
Songinokhairhan	C	800	$0.60	-	Warehouse with air conditioning
Bayangol	C	1,000	$4.30	-	
Songinokhairhan	C	2,000	$6.80	-	Warehouse with deep freeze
Baynazurkh	A	70	$4.60	-	Downtown location
Songinokhairhan	C	930	$2.70	-	24 hour security
Bayangol	B	200	$4.90	-	Near 4th power plant
Songinokhairhan	C	900	$5.40	-	Not connected infrastructure
Songinokhairhan	C	400	-	$1,299.00	have office and security
Khan-Uul	D	958	-	$314.00	1 nectar fances
Sukhbaatar	C	1400	-	$74.00	200t vegetable warehouse
Songinokhairhan	C	560	-	$273.00	300-400t vegetable warehouse

Source: MAD Research

In terms of transaction prices recorded in the warehouse market of Ulaanbaatar during 2013 the market average stood at around US$ 220 per square meter, up from US$ 197 per square meter during the previous year (a rise of 11%). This would purchase a small, poorly maintained warehouse, not connected to infrastructure, located in Songinokhairkhan District of Khan Uul District, with reasonable access to transport networks. New grade B and A facilities transact at an average of around US$ 571 per square meter, edging towards retail prices as a result of high demand. At the upper end of the market construction costs for new warehousing ran to US$ 1,299 per square meter (for a warehouse facility in Songinokhairkhan District with office facilities attached full security and excellent links to logistical hubs), although warehouse facilities tend not to transact and are owner occupied. Where they do change hands they are often repurposed as is happening frequently across Khan Uul district's southern corridor at present, with warehousing and industrial facilities often being demolished for residential and retail spaces.

XXV. SECONDARY CITY MARKET ANALYSIS

Whilst the capital city of Ulaanbaatar has been the clear focus of economic growth and migration in recent years, a number of strategic secondary cities within Mongolia illustrate exceptional promise in their real estate growth, showing price appreciation that beats even the capital city.

The reason for such growth is clearly rooted in the mining sector. The influx of mining operations into the South Gobi region of Mongolia has driven up wages and, in turn, pushed pricing for residential and commercial property in the region. As the administrative heart of mining operations in Umnugobi Aimag, and the focal point for new developments, including an international standard school of mining, the population of this city is set to continue to grow year on year for some time to come. Indeed, whilst rural to urban migration continues, leading to an estimated rural population of only 30% at the present time, employment opportunities created by mining and mining supply operations are attracting migrants away from the capital (or even out from the capital) in order to take up well paying positions on mining operations. Dorngobi, Govisumber, Orkhon Darkhan Uul Aimags saw positive net in-migration between 2005 and 2010 as a result of this trend.

The exception to this rule is Darkhan Uul. This city, situated less than 120 miles from the capital along a well paved road, is experiencing in-migration by people in search of employment in small industry and trade sectors which benefit from close proximity to the capital. Darkhan Aimag does have the potential to become a mining centre, but this is not presently the driving force behind the city's economy. However, during the socialist period Darkhan city was an a centre of industry in Mongolia, therefore benefitting from established infrastructure capable of supporting rapid growth and making the city an attractive location for new industries seeking an appropriate location outside of the capital in which to base operations. Between 2012-2013 mining operations slowed, as did the net in-migration into secondary cities, although these locations are still tipped for high growth in the mid-term.

In terms of real estate growth the figures are impressive, during 2013 Dalanzadgad residential real estate was transacting at around US$ 657 per square meter, nipping at the heals of the low end of Ulaanbaatar residential purchase prices in the primary market. Moreover, the tiny conurbation of Khan Bogd, with only a few owner-built properties presently existing within the city, has shown a limited number of transactions at between US$ 595 - 670 per square meter, although with renewed interest in this small town and low volume of transactions, it is expected that prices will rise sharply when new supply comes online. With most of the town's residents working for Oyu Tolgoi and earning well above average wages, this has been dubbed the wealthiest town in Mongolia.

The Government of Mongolia is also aiming towards the invigoration and expansion of key regional economies, not only as a means of reducing in-migration pressures on the capital, but also as a means of unlocking regional growth potential. A full 25% of the resources allocated to the 100,000 homes project are being allocated to strategic secondary cities across Mongolia. The western region, Khangai region, the Eastern region and Central region will all receive 5,000 new housing units under the national 100,000 homes project. The Government of Mongolia is also planning renewed and upgraded Government administration facilities, kindergartens and schools in Aimag centres across the country.

In supporting both the growth and sustainability of the Mongolian construction sector, as well as developing industry within secondary cities, new 21 construction material industries are proposed to be newly built and reconstructed across regional centres. In an effort to stimulate regional international trade and develop the outermost urban centres of Mongolia, seven border points, around the nation, are earmarked for Master Plan style redevelopment, including the Gashuun Sukhait and Shiveekhuren border crossings, already significant strategic sites for minerals and energy trading with China.

Among the key plans for the future growth of regional industry is the Sainshand Industrial Complex. The city of Sainshand is the first major conurbation after the border-crossing to China and is already a key trading location. Government plans to establish value added production and processing facilities here are part of a border scheme for Mongolia to move up the value chain, refining and processing raw materials to add value prior to export.

In terms of space to watch, the M.A.D. research team are seeing Umnugobi province tipped for extremely strong growth, home to Dalanzadgad and key mining operations, including the Oyu Tolgoi gold and copper mine. Dorngobi province will also see strong growth as major infrastructure projects such as the Sainshand Industrial Complex begin construction in the mid-term. Smaller conurbations directly involved in mining and mining logistics/transport such as Tsogttsetsii and Khan bogd will see dramatic growth across the board, although represent higher risk investments due to the relatively underdeveloped infrastructure in these nascent but flourishing towns. Border towns earmarked for Master Plan development also show a similar dynamic. Whilst many lack significant infrastructure, plans to increase cross-border trade, particularly in the mining and raw materials sectors, during the mid-term make for interesting early investment opportunities.

1. DALANZADGAD

Dalanzadgad At a Glance	
Current Population	35,000
Number of Households	11,200
Number of Residents by Gender	17,360 male, 17,640 female
Current Population in Permanent Housing	3,456
Population Residing in Gers	31,544
GDP of the City (2010)	6 billion MNT (estimated)
Primary Industries within the City	Mining and mining supply chain
	Source: NSOM / Dalanzadgad Soum Government / M.A.D. Research

A. INTRODUCTION

Umnuvobi Aimag is bordered by Dundgobi, Dornogobi, Bayankhongor and Uvurkhangai Aimags to the north and the Inner Mongolian Autonomous State to the south. The Aimag was established in 1931, becoming the largest single Aimag in Mongolia, at over 165,000 square kilometres. Across all but one Aimag in Mongolia, outside of the capital, net migration over the las decade has been negative. Umnuvobi Aimag is no exception to this rule, but has experienced the lowest levels of outmigration outside of the capital and Darkhan Uul Province (close to the capital). In terms of contribution to the total economy of Mongolia Umnuvobi Aimag took a 6.1% share during 2013, down for two consecutive years on 9.1% during 2011, where mining investments and production made it the second highest contributing province outside of the capital city.

B. GROWTH FACTORS

As a nexus of mining operations, most major mining projects retain offices and staff within the town, whether for recruitment, procurement or PR purposes. Many supply-chain companies also operate through the city. The combined result of these FDI flows is a small city of just over 35,000 persons and limited infrastructure, now set to have the highest regional GDP per capita in Mongolia and already boasting higher average wage increases than the capital city. By the end of 2011, over US$ 150 million of private domestic and foreign funds was invested within the city. This does not include Government investments that will be used to develop infrastructure and services. Whilst FDI into mining has slowed off dramatically during 2012 and 2013 expectations are of a return to prosperity during the mid-term, particularly with a sea-change in thought by the Government of Mongolia and a more positive approach to coaxing FDI back into an ailing mining sector.

During 2013 construction and capital repairs in Umnugobi Aimag reached a reasonable US$ 13.6 million, the majority of which went to key centres such as Dalanzadgad. This represents 14 times the investment into construction and repair during 2012, indicating the impact of new Government backed projects and the impetus of programs such as the low cost mortgage lending program.

C. TRANSPORT

Dalanzadgad is served by an airport just outside of the city centre. Whilst it is classified as an international airport, there are no scheduled flights to this facility from outside of Mongolia. The airport is presently served by Aeromongolia and Hunnu Air flights from Ulaanbaatar and regional centres. The airport was served, up until early 2014, by Eznis, who flew regular flights from Ulaanbaatar to the city and were even planning an Eznis branded hotel at this location. However, despite maintaining a significant market share, particularly in the freight sector, Eznis ceased trading during 2014 as a result of the difficult economic situation in Mongolia at present.

There is a also an efficient daily bus from Ulaanbaatar at 08:00 and 16:00 (about 12 hours, for a cost of 27,500 MNT). It leaves from the easterly bus station in Ulaanbaatar. The journey by car can be completed in as little as 9 hours along reasonable roads for the most part.

D. RESIDENTIAL

The influx of mining industry and mining supply companies into Dalanzadgad has pushed up wages, spurred in migration and transformed the residential real estate market of Dalanzadgad within the space of a 18 months. Where city centre apartments could be purchased for as little as US$ 250 per square meter in 2009, prices for apartments in 2011 started at around US$500 per square meter. By 2013 price per square meter at current rates had risen to between US$ 520 - US$ 657 per square meter for new-build property transacting within the central areas of Dalanzadgad.

New units built within Dalanzadgad in recent years average between 48 - 74 square meters, placing them within the range of the national 8% mortgage financing scheme.

By the end of 2012 prices per square meter in the Dalanzadgad market started at around US$ 743 and rose to US$ 964 per square meter for a 3 room, new build apartment. The Dalanzadgad market is now nipping at the heels of the Ulaanbaatar market in terms of per square meter purchase prices for residential real estate.

Residential Real Estate

Number of rooms	Type	Connection To Infrastructure	Price Per Unit	Average Unit Size (sq.m)	Price Per Square Meter MNT (Market average)	Price Per Square Meter US$ at current rates (Market average)
2 room apartment	**New build**	Full	45.704.500₮	48.11	950.000-1.200.000₮	$520.49-$657.46
3 room apartment	**New build**	Full	69.8882.000₮	73.56	950.000-1.200.000₮	$520.49-$657.46

Source: MAD Research

E. COMMERCIAL

Commercial real estate in Dalanzadgad has developed apace in recent years. There were over 20 developments taking place in the city during late 2011 and by the end of 2012 a number of new commercial facilities had emerged onto the Dalanzadgad market, offering B grade facilities usually only seen in the capital, Ulaanbaatar. By 2013 most of these new developments had been concluded, bringing dramatic new tranches of retail and office space into a market that is and will continue to be the administrative and recruitment hub of major mining operations across the Gobi region.

Commercial Real Estate

	Type of Facility	Situation	Infrastructure Connections	Per Square Meter MNT	Total Cost of Unit Rental / Purchase (Market average)	Size of rentable space surveyed	Per Square Meter USD at current rates (Market average)	Total Cost of Unit Rental / Purchase (Market average) USD at current rates
Purchase	**Retail**	C Grade	Limited	25,738	90,084,488	3,500	$ 14.1	$ 49226.5
	Retail	A Grade	Full	2,500,000	6,835,000,000	2,734	$ 1366.1	$ 3734972.7

Source: MAD Research

Dalanzadgad's retail real estate profile is unusual for a secondary city in Mongolia in that it does already incorporate planned mixed use and mall-style real estate developments with large footprints and some upper-end features. The Gandirs shopping Centre and Maral Shopping Center both have large floor plates, covering GFAs of 2,100 and 1,800 square meters respectively. However, the Gandirs shopping centre is already beginning to look aged and incorporates some curious design features, such as a single escalator to the second floor (with no return escalator, meaning that the single escalator is invariably turned off to enable it to be used as a staircase) Rental prices for setting up a stall or booth in these facilities are typically high, at between just over 200,000 MNT and 640,000 MNT per unit per month. For smaller retail locations around the city's market prices start at around US$ 5.71 per square meter.

Dalanzadgad received a new cinema in 2010, containing over 100 seats, modern projection equipment and all of the trappings of an up-to-date cinema. However, by mid 2011 the facility was already closed most days and only showed films when new ones could be procured. This bottleneck in supply of new films means this facility is going to waste in a city of 35,000 people, many with large disposable incomes, above those in the capital. The city's music hall is presently being renovated and when completed, will continue to host live music and concerts from Mongolia's most famous popular music and traditional acts.

Regional grade A office space and new-built, dedicated office facilities may charge considerably more than the baseline of around 29,000 MNT per square meter per month, keeping up with the low end of the Ulaanbaatar office market and finding ample business from mining and mining supply operations who are less cost sensitive. With such a dramatic new supply both recently completed and under construction there are concerns that a downturn in the mining markets as witnessed over the past 18 months will force prices down in this area. With key tenants including mining companies, office rental costs are high, in advance of US$ 1,500 per month for some key locations.

Dalanzadgad Commercial Real Estate

	Type of Facility	Situation	Per Square Meter (Monthly market average)	Total Cost of Unit Rental (Monthly market average)	Average Unit Size (sq.m)	Per Square Meter USD at current rates (Monthly market average)	Total Cost of Unit Rental / Purchase (Monthly market average) USD at current rates
Rental	**Retail**	Local Market Stand	10,000 MNT per month	208,000 MNT per month	20 square meters	5.71	114.0
	Retail	Stand-alone street-front	8,000 MNT - 14,000 MNT per month	283,000 - 503,000 MNT per month	30 square meters	$4.46 - $7.80	$155-275
	Retail	Purpose built shopping centre / mall	25,600 MNT - 36,000 MNT per month	301,000 - 640,000 MNT per month	36 square meters	$14.28 - $20	$165-350
	Office	C grade or pre 1990s	29,000 MNT per month	-	-	$16.00	-
	Office	Local A and B grade or recent construction	43,000 MNT per month	-	40	$24.00	-
	Warehouse	Connected to amenities	13,000 - 23,000 MNT per month	525,000 - 3,200,000 MNT per month	100 - 250 square meters	$7.1 - $12.9	US$ 285.7 - US$ 1785.71
	Warehouse	Not connected to amenities	11,000 MNT per month	195,000 - 391,000 MNT per month	100 - 200 square meters	$6.07	US$ 107 - US$ 214

Source: MAD Research

F. HOTEL AND HOSPITALITY

As the host city for a number of mining expos and industry seminars, Dalanzadgad is already on the map as a key travel location for domestic and international business travellers seeking to engage in Mongolia's mining industry. Seeing this potential a number of developers have initiated projects to cater to business travellers, giving Dalanzadgad the most luxurious hotel profile outside of the city of Ulaanbaatar. Forefront among the hotel stock of the city is the Khan Uul Hotel. This luxury facility contains 28 rooms and ranges in price from just US$ 35.71 to US$ 571 per night for a suite, although most rooms top out at about US$ 64 per night. This hotel competes with the older but still robustly comfortable Dalanzadgad Hotel, a stalwart favourite of many business travellers in the past and with excellent service for a regional hotel, so much so that booking a room during the summer months became quite difficult.

With a drop-off in visitor numbers as a result in the downturn in the mining sector, a number of hotels have reduced their nightly rates between 2011-2013 by an average of 8%.

Dalanzadgad Hotel Supply

Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates		Total Number of Rooms	Restaurant on Site?	Number of Covers in Restaurant	Number of Parking Spaces
			Lowest	Highest	Lowest	Highest				
Khan-Uul	4*	Per Room Per night	50000	90000	$35.71	$64.29	28	Yes	110	20
Dalanzadgad	2*	Per Room Per night	60,000	120000	$42.86	$85.71	16	Yes	90	10
Oyut	2*	Per Room Per night	25,000	60,000	$17.86	$42.86	15	Yes	20	35
Ongi	1*	Per Room Per night	25,000	-	$17.86	-	10	Yes	20	50
Altai	2*	Per Room Per night	20,000	-	$14.29	-	12	Bar	10	25
Erkhes	1*	Per Room Per night	20,000	45,000	$14.29	$32.14	10	Bar	10	25
Gurvan Orgikh	-	Per Room Per night	35000	-	$25.00	-	15	Yes	-	-
Mazaalai	-	Per Room Per night	20000	-	$14.29	-	8	Yes	-	-
Gandirs	3*	Per Room Per night	-	-	-	-	-	Yes	-	-
AVERAGE RATES			**31,875.0**	**78,750.0**	**22.8**	**56.3**	**114**			

Source: Lonely Planet Guide: Mongolia / M.A.D. Research

G. LAND

Land in Dalanzadgad is being apportioned off to new developments extremely rapidly and beyond the city centre is reasonably freely available, curtailed only by the reach of existing infrastructure. The upscaling of the city's infrastructure as well as construction of new apartments, means that city centre land, connected to amenities, is extremely limited in supply of late. Costs of land have risen to reflect this. Outside of the city land prices are considerably higher than average prices in secondary cities, although the prices quotes are for bare land, which cannot be possessed under normal circumstances by foreign individuals. Prices for property attached to significant land plots can run orders of magnitude higher in terms of price per square meter, reaching the lower end of Ulaanbaatar land prices.

Dalanzadgad Land

Location	Situation	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Not connected to amenities	1,100 square meters	280 million MNT	254,545	$200,000	$181
City Centre	Connected to amenities	700 square meters	448 million MNT	640,000	$320,000	$452
City Outskirts (residential area)	Not connected to amenities	700 square meters	9.8 - 19.6 million MNT	14,000 - 28,000	$7,000 - 14,000	$10-20
City Outskirts (residential area)	Connected to amenities	700 square meters	29.4 - 49 million MN	42,000 - 70,000	$21,000 - 35,000	$30-50

Source: M.A.D. Research

H. INFRASTRUCTURE

Dalanzadgad is supplied by a single power station that provides the city and surrounding area with electricity and heat. Power supplies are generally quite reliable but outages are an increasingly frequent occurrence. Within the city centre the is functional plumbing, heating supplies and sewerage systems, although these systems only serve permanent structures. The power station itself is in a generally poor state of repair and requires significant investment. The plant is scheduled for privatisation in the coming years, a move that will provide extra funding for badly needed repairs and capacity extension. The Asian Development Bank has announced a US$ 475,000 grant for infrastructural improvements in the city centre, including setting up a water treatment plant and improving waste management within the city. Around 3,455 homes in the city centre presently have access to potable piped water and proper sewerage in their place of residence. 3,250 have access to centrally provisioned heating.

Residents of Dalanzadgad report almost daily power-cuts in the city, sometimes lasting for days on end. It is of note that the Governor of the Aimag also owns the business that supplies Dalanzadgad power station with spare part. The aging power station frequently breaks down, yet, even though the city has received offers from international mining companies to construct a new power plant, the Governor has so far turned such offers down.

A notable advancement in terms of Dalanzadgad's manufacturing infrastructure is the recent opening of a new cement works outside of the city centre. This facility will supply the burgeoning domestic construction materials market.

2. DARKHAN

Darkhan At a Glance	
Current Population	74,738
Number of Households	Approx. 21,000
Number of Residents by Gender	37,449 male / 38,054 female
Current Population in Permanent Housing	35,154 persons
Population Residing in Gers	40,350 persons
GDP of the City	108 billion MNT (estimated 2011)
Primary Industries within the City	Mining and Agriculture

Source: NSOM / Darkhan City Government / M.A.D. Research

Darkhan Real Estate Statistics

Sector	Type of Property	Total number of units recorded in Q3 2012
Residential	Residential Apartments	8,718 (approximate)
	Ger district detached housing	3,289 (approximate)
	Gers	7,261 (approximate)
	TOTAL	**19,268**
Commercial	Office space	3 significant office developments
	Shop-front or market based retail space	348 shop-front properties in the city centre
	Mall or supermarket retail space	485 plots available in mall-style facilities
	Warehouse	5 warehouses with space available for rental

Source: M.A.D. Research

A. INTRODUCTION

The city of Darkhan was founded in October 1961, as a second industrial centre to reduce the migration pressure on the capital Ulaanbaatar. To do so, the existing sum (district) of the same name was dissolved, and its territory managed by the city authorities. Darkhan remains the second largest industrial centre of Mongolia. The city remains a mostly industrial region and is the home of some 82% of Darkhan Uul Province's population.

Darkhan Uul Aimag is situated in the agricultural heartland of Mongolia and it is the major agricultural producer in Mongolia with rich resources for agricultural development. This area, located at a low level of altitude, has a warmer climate than the rest of the country. In the Kharaa River basin there are favourable natural climatic conditions for the cultivation of cereals, vegetables, and especially potatoes. There are 35 agricultural companies and co-operatives in Darkhan Uul Aimag, which contains 30,000 hectares of soil suitable for arable farming and 1,287.8 thousand hectares for vegetable farming.

The city's urban centre is well served by a robust amenities infrastructure. 9,000 inner city households are connected to fresh water, with 9,500 units connected to the city's hot-water heating ring, supplied by a dedicated thermal power station. The city's power grid is reasonably robust, with infrequent power cuts. The ger districts do, however, sometimes experience blackouts due to malfunctions at substation level.

B. GROWTH FACTORS

Darkhan City and the surrounding province were created to be the hub of the raw materials processing and industrial industry of northern-Mongolia. The city still houses metallurgical plans, brick, concrete and cement production facilities, food and meat processing plants, oil refineries and other major industries. Situated just 220km from the capital city, with excellent road and rail transport links, the city of Darkhan is popular with as a location for a second home among residents of Ulaanbaatar.

Nevertheless, with the collapse of subsidised exports from the Mongolian manufacturing industry at the end of the socialist period, the GDP of Darkhan-Uul Aimag is becoming increasingly dominated by the service sector. The city is in close proximity to the capital and its population is growing year on year as households relocate away from the smoggy Ulaanbaatar. This is providing a greater market for services that will ensure reasonable growth of the Darkhan economy in the medium term. This is driving up housing prices, meaning that in 2013 transactions of residential units in Darkhan indicated per square meter prices of between US$ 700 and US$ 1,000 per square meter, with newer apartments closer to the top end of this figure, whilst pre-1990s apartments hit a maximum average per square meter of around US$ 750 - 800.

The total population of Darkhan province is 91,093, of which 74,526 people live in Darkhan. 64.5% of the city's population are of the age 35 or below, making for a young and economically active populace.

C. TRANSPORT

Transport to Darkhan from the capital city is a relatively simple affair. By road from Ulaanbaatar the journey time is at most 3-4 hours and two busses depart from the capital each day from the low to the west of the Urtuuchin Hotel. Darkhan is the only train junction in Mongolia, all northern trains from Ulaanbaatar and all trays from Erdenet stop at Darkhan. Darkhan does not have a passenger charter air-route at present as a result of its existing rail and road links.

At present there are 51km of paved roads within Darkhan city itself. The city is well connected via an asphalt road to nearby Ulaanbaatar. It also has direct road connections with Erdenet, Selenge, Zuun-Kharaa, Baruun-Kharaa and Russian border to the north.

D. RESIDENTIAL

The residential profile of Darkhan City is changing rapidly. As part of the city's development plan a new project consisting of 40,000 new residential apartments has been planned. This project, dubbed the 13th Khoroolol (13th neighbourhood), was initiated in 2006 and was scheduled for completion by 2010. In reality the project, set to include 189 townhouses, alongside large 6 level apartment buildings with retail space, has barely progressed since the land was allocated and the launch ceremony took place nearly 5 years ago. Nevertheless, not all new developments in Darkhan share the same fate. Between 2007 and 2008 alone 48 new construction were initiated and 24 new construction licenses were issued. As a key urban centre Darkhan is also scheduled to receive significant investment in the coming years as part of the Government of Mongolia's "Up Building" initiative. This mid-term plan of national development encompasses previous projects, including the 100,000 Homes project, as well as planned construction of over 900km of highways linking Aimag centres and 5,572km of roads across the nation.

Residential Real Estate

Number of rooms	Type	Connection To Infrastructure	Price Per Unit	Average Unit Size (sq.m)	Price Per Square Meter MNT (Market average)	Price Per Square Meter US$ at current rates (Market average)
1 room apartment	**New build**	Full	39.734.860₮	33.14	1,199,000₮	$ 657.00
2 room apartment	**New build**	Full	55.606.500₮	41.19	1,350,000₮	$ 740.00
3 room apartment	**New build**	Full	77.875.000₮	62.3	1,250,000₮	$ 685.00
3 room apartment	**New build**	Full	93.462.050₮	77.95	1,199,000₮	$ 788.18
4 room apartment	**Pre-1990s**	Full	115.000.000₮	80	1,437,500₮	$ 788.18
2 room apartment	**Pre-1990s**	Full	48000000	28	1,714,285.7	$ 935.75
3 room apartment	**Pre-1990s**	Full	72000000	39	1,846,153.8	$ 1,007.73
4 room apartment	**Pre-1990s**	Full	90000000	64	1,406,250.0	$ 767.60

Source: M.A.D. Research

At the start of 2013 just over 8,700 residential apartments were counted in the city of Darkhan (this represents 42% of total residential stock), with 3,289 detached/informal housing units on privately owned land (18% of total residential stock) and 7,261 gers (31% of total residential stock).

E. COMMERCIAL

The commercial real estate supply in Darkhan is large compared with other secondary cities. The proximity of this urban centre to Ulaanbaatar and the comparatively large and well established population has led to rapid development of retail facilities. Office facilities have lagged behind but are steadily increasing in both volume and standard. Most available office is in small, stand-alone developments which are dotted around the city centre. Per square meter rental rates start at around 11,000 MNT per square meter per month (US$6), with purchase prices for C grade (pre-1990s) office space transacting at US$ 1,138 during 2014.

Commercial Real Estate

	Type of Facility	Situation	Infrastructure Connections	Per Square Meter MNT (Market average)	Total Cost of Unit Rental / Purchase (Market average)	Average Size of rentable space surveyed	Per Square Meter USD at current rates (Market average)	Total Cost of Unit Rental / Purchase (Market average) USD at current rates
Rental	**Retail**	B Grade	Full	11,000-13,000₮	-	120m2	$6.03-7.13	-
	Retail	A Grade	Full	22,000-24,000₮	-	50-100m2	12.06-13.16	-
	Office	C Grade	Full	-	115,000,000₮	88m2		-
Purchase	**Office**	C Grade	Full	-	110.000.000₮	53m2		$60,319.58

Source: MAD Research

Retail facilities vary, as in all urban centres of Mongolia, from uncovered market space through to store-front and mall-style retail facilities. A stand in a local market starts at around US$ 5.68 per square meter per month. These markets typically offer stall holders considerable foot-traffic. Stand-alone street-front space, which starts at US$12 - 14 per sq.m per month. Rental of retail space in one of the city's four major malls starts at a US$ 10.5 per square meter, rising to US $14.28 per square meter. Purchase prices for retail space in a mall or supermarket site facility ranges from US$ 2,000 to 2,800 per square meter, on par with the lowest end of Ulaanbaatar retail space, although this is expected to rise rapidly.

Darkhan Top 5 Most Significant Retail Real Estate Projects (Recorded Q1 201)

Retail Facility / Store Name	Total Sq.m floor area	Number of Floors	Price (MNT) Per Sq.M Per Month		Price USD Conversion at Current Rates		Elevator?	Types of Tenant	Vacancy Rates
			Lowest	Highest	Lowest	Highest			
Darkhan Nomin	800	2	10400	16000	$5.68	$8.74	No	Mixed Trades	100%
Darkhan Department store	1,800	5	23500	26000	$12.84	$14.21	Yes	Mixed Trades	100%
Darkhan Market	4,000	1	10400	19500	$5.68	$10.66	No	Mixed Trades	100%
Buyan Market	2,000	1	8000	10500	$4.37	$5.74	No	Mixed Trades	30%
International Emporium	2,000	2	5000	16000	$2.73	$8.74	Yes	Mixed Trades	100%
AVERAGE			**11,500**	**17,500**	**$6.28**	**$9.56**			86%

Source: MAD Research

F. HOTEL AND HOSPITALITY

Darkhan contains a number of reasonable mid-end hotels, as well as a supply of 2* and 1* guest houses. Among the most well known of which are the Urtuuchin and Nairmdal hotels. Rooms are comfortable but not special and rates start in the low end market at 6,000 MNT per room per night (US$ 3.20), rising to 179,000 MNT per night (US$ 97) Total room supply in Darkhan during 2013 of 2012 (not including surrounding rural ger camps) is 333 rooms, although around 39% of these contain multiple beds and are offered on a per bed per night basis. The supply is expected to grow with several remodelling and expansion plans underway, including potential development of a golfing and spa facility in Darkhan.

Darkhan Hotel Supply										
Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates		Total Number of Rooms	Restaurant on Site?	Number of Covers in Restaurant	Number of Parking Spaces
			Lowest	Highest	Lowest	Highest				
MBM	3*	Per Room Per night	55000	179,000	$30.05	$97.81	30	Yes	20	50
Comfort	3*	Per Room Per night	30000	80000	$16.39	$43.72	51	Yes	150	20
Kharaa	2*	Per Room Per night	20,000	60,000	$10.93	$32.79	15	Yes	18	30
Darkhan (formerly Nairmdal)	3*	Per Room Per night	30000	150000	$16.39	$81.97	56	Yes	200	15
Rich	2*	Per Room Per night	35000	100000	$19.13	$54.64	18	Bar	80	15
Naran	1*	Per Room Per night	30000	50000	$16.39	$27.32	7	Yes	30	40
Bayanmongol		Per Room Per night	19,000	42,000	$10.38	$22.95	6	No	20	5
Crystal		Per Room Per night	12,600	35000	$6.89	$19.13	9	No	20	7
Khangai	2*	Per Room Per night	18,000	31,000	$9.84	$16.94	7	No	30	4
Dulgoon	1*	Per Room Per night	6,000	16800	$3.28	$9.18	12	Cafe	15	8
Sky	1*	Per Bed Per night	9800	14000	$5.36	$7.65	7	No	15	6
Russia		Per Bed Per night	14000	49000	$7.65	$26.78	13	Yes	20	10
Usukh		Per Bed Per night	11200	25200	$6.12	$13.77	6	No	10	7
DarKhan-Uul Centre		Per Bed Per night	7000	77000	$3.83	$42.08	65	Yes	120	40
Jasper	2*	Per Bed Per night	14000	42000	$7.65	$22.95	13	Yes	20	9
New Kiwi	2*	Per Room Per night	45000	115000	$24.59	$62.84	18	Yes	80	50

Source: Lonely Planet Guide / M.A.D. Research

G. LAND

City centre land in Darkhan, where connected to amenities such as heating and water supply, continues to transact at between 133 million - 280 million MNT (US$95,000 - US$200,000). A plot of around 700 square meters (1 hectare) of land could be purchased from a private owner for around US$50,000 at the beginning of 2013. Transactions during 2013-2014 indicate that land prices average at around US$ 30-31 per square meter for bare land with partial access to infrastructural improvements.

Darkhan Land							
Location	Location Factors	Infrastructure Connection	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Bare Land	None	2800m2	4.000.000₮	1,429	$2,193	$1
City Centre	Bare Land	None	919m2	8.000.000₮	8,705	$4,386	$5
City Centre	Bare Land	Partial	370m2	20.000.000₮	57,143	$10,966	$31
City Centre	Residential Area	Partial	400m2	22.000.000₮	55,000	$12,063	$30

Source: MAD Research

3. ERDENET

Erdenet At a Glance	
Current Population	87,118
Number of Households	Approx. 21,882
Number of Residents by Gender	41,602 male / 45,515 female
Current Population in Permanent Housing	31,362 persons
Population Residing in Gers	43,599 persons
GDP of the City	est. US$ 6,500
Primary Industries within the City	Mining and Production

Source: NSOM / Erdenet City Government / M.A.D. Research

Erdenet Real Estate Statistics

Sector	Type of Property	Total number of units recorded in Q3 2012
Residential	Residential Apartments	8,069
	Townhouses	64
	Gers	15,249
	TOTAL	**23,382**
Commercial	Office space	56 office spaces recorded
	Shop-front or market based retail space	348 store-front locations recorded
	Mall or supermarket retail space	485 spaces in mall style facilities recorded
	Warehouse	5 within the city recorded
Land	Sq.m of land privatised in the city in 2012	44,900 to citizens, 590 to legal entities

Source: MAD Research

A. INTRODUCTION

Situated in Orkhon Aimag, approximately 150 miles from Ulaanbaatar, Erdenet is Mongolia's third largest city. The city was established in 1975 in order to exploit the large copper ore deposit in the vicinity of the current conurbation. Erdenet currently lays claim to the largest per capita GRDP in Mongolia, at US$ 6,400, as a result of the operations of the Erdenet Mining Corporation's activities. Once established, Erdenet became the capital of Orkhon Aimag. The Aimag itself is home to around 87,000 inhabitants and is one of only three provinces (not including the capital city) to have experienced positive net migration over the past decade. Between 2000 and 2010 Orkhon Aimag saw 46,480 people migrate into the Aimag, a majority of which now reside in the city of Erdenet itself. This represents the highest level of immigration outside of Ulaanbaatar.

Erdenet is one of the youngest settlements in Mongolia, founded in 1974 in an area where large deposits of copper had been discovered in the 1950s. A single-track railway line with a length of 75 mi (121 km) links Erdenet to the Trans-Mongolian Railway and was inaugurated in 1977.In the mid 1980s more than 50% of the inhabitants of this city were Russians working as engineers or miners. However, after the fall of communism in 1990 most Russian workers left Erdenet. Today about 10% of the city are Russian.

B. GROWTH FACTORS

Erdenet currently lays claim to the largest per capita GRDP in Mongolia, at close to US$ 6,500, as a result of the operations of the Erdenet Mining Corporation's activities. This secondary city is a lynchpin component of the Government of Mongolia's plans to upscale construction materials production, with new plants and manufacturing centres planned as part of the Erdenet Master Plan.

During 2013 construction and capital repairs conducted in Orkhon Aimag reached US$ 13.4 million, 1% higher than 2012, indicating a trend or sustained reasonable levels of investment into Orkhon Aimag and directly into Erdenet city itself. The copper mine in Erdenet city continues to contribute heavily to the overall GDP of Mongolia, making up 13.5% of GDP contributions in 2008 before the new influx of FDI into larger mining projects. It remains the fourth largest active copper mine in the world. the region of Orkhon, within which Erdenet is the single largest industrial and raw materials production centre, contributed 19.5% of total national sales of total industrial production during 2013, rendering this a key centre and very strategically located for the upscaling of construction materials and industrial production.

C. TRANSPORT

A road runs between Ulaanbaatar and Erdenet, covering 370km. Buses connect the two cities, although Erdenet does not maintain a passenger airport at present. There is one train per day connecting Erdenet via Darkhan to the capital city.

D. RESIDENTIAL

Erdenet is divided into 6 individual districts, with a 7th in planning. Around 43,000 of the city's inhabitants live in gers, whilst the rest live in mostly socialist era apartments or stand alone housing. The 2000 census indicated that 58% of Erdenet residents live in apartments, with 18% living in the ger districts in non-permanent accommodation. 23% lived in individual houses, whether in the city centre and peri-urban areas. Observations in the third quarter of 2012 indicate that these percentages have shifted considerably, with around 30 - 40% of the current population residing in the city's pressured supply of apartments.

There are approximately 8,100 residential units in Erdenet City. The vast majority of mine workers live in older housing stock. The only new-build housing in the residential centre of the city are detached houses to the north, owned by the city's wealthiest residents. Residents in the city centre apartments are served by central and non-central water and heating services, although in the less well constructed apartments residents only receive cold water services.

Erdenet city has planned to build 3,500 new apartment units by 2020, supported as part of the national 100,000 homes project. The government is allocating 3 billion tugriks for infrastructure for this project, enabling them to be sold at around 20-25% of the average price. If this plan is completed it will mean the removal of the existing ger districts of Erdenet almost completely.

RESIDENTIAL REAL ESTATE

Number of rooms	Type	Connection To Infrastructure	Price Per Unit (Market Average)	Average Unit Size (sq.m)	Price Per Square Meter MNT (Market average)	Price Per Square Meter US$ at current rates (Market average)
1 room apartment	**New build**	Full	50,026,667	32	1,563,333	$ 853
2 room apartment	**New build**	Full	76,626,132	49	1,563,333	$ 853
3 room apartment	**New build**	Full	137,573,333	92,75	1,563,333	$ 853
4 room apartment	**New build**	Full	171,966,667	110	1,563,333	$ 853
1 room apartment	**Pre-1990s**	Full	55,055,556	30	1,835,185	$ 1,002
2 room apartment	**Pre-1990s**	Full	77,153,846	40	1,928,846	$ 1,053
3 room apartment	**Pre-1990s**	Full	97,142,857	70	1,387,755	$ 758
4 room apartment	**Pre-1990s**	Full	120,000,000	80	1,500,000	$ 819

Source: MAD Research

Average per square meter transaction prices for residential real estate during 2013 ranged between a low of US$ 758 per square meter for larger pre-1990s build apartments to around US$ 853 per square meter for new builds, again nipping at the heels of the Ulaanbaatar market. The highest recorded transaction prices for this period was US$ 1,002 for a prime location pre-1990s 1 room apartment.

E. COMMERCIAL

The commercial real estate supply in Erdenet is again large when compared with other secondary cities, a testament to its status as a key industrial town with an extant international population. The higher than average wages within the city and its well planned development have proffered opportunities for this hub of manufacturing and mining activity to become a hub of commercial and retail activity also. During Q3 of 2012 56 office facilities were counted across the city, as were 348 small or shop-front retail spaces and 345 mall-style retail spaces.

A small supply of significant, B grade stand-alone office developments does exist within Erdenet, including the Saruul centre and Liberty LLC office space. Per square meter rental rates start at around 18,000 MNT per square meter per month (approximately US$ 9.84), rising to around 65,000 MNT per month (US$ 35) with average rental rates at between 25,000 and 50,000 MNT per square meter per month in the city centre areas of Erdenet (US$ 13-27). The city as also seen the recent addition of a Tedy centre, modelled after the mobile phone and electronics retail mega-market in Ulaanbaatar.

On top of this Erdenet boasts a host of retail facilities, with the top 10 most significant projects totalling over 120,000 square meters of retail space alone. A stand in a local market starts at around US$ 6 per square meter per month. whilst stand-alone, street-front space starts at US$ close to 9 per sq.m per month. Rental of retail space in one of the city's four major malls rises up to US$ 33 per square meter per month. As one of the newest entrants, dealing with higher vale goods, The Tedy centre electronics retail facility charges up to US$ 35 per month per square metre.

Warehousing space is available in the city at up to US$32-33 per square meter per month for warehousing fully connected to amenities and winter-proofed. The demand for warehousing in this city as a result of industrial applications has led to a small and high quality supply being created, which rarely rents.

Most Significant Commercial Real Estate Projects

Retail Office Facility / Store Name	Sector	Total Sq.m floor area	Number of Floors	Price (MNT) Per Sq.M Per Month		Price USD Conversion at Current Rates		Elevator	Types of Tenant
				Lowest	Highest	Lowest	Highest		
Danista commercial center	Retail	1,764	2	50,000	50,000	$27.32	$27.32	No	All types
Bayan shopping center	Retail	21,600	6	26,000	32,000	$14.19	$17.49	No	All types
Tugul LLC	Retail	-	5	18,000	21,000	$9.84	$11.48	No	All types
Tanil	Retail	-	1	8,000	15,000	$4.37	$8.20	No	Technical market
Sonor Khairkhan	Office	-	4	15,500	25,000	$8.47	$13.66	No	All types
Tedy	Retail	-	-	55,000	65,000	$30.05	$35.52	No	Mobile facilities

Source: MAD Research

Erdenet boasts a host of retail facilities, with the top 10 most significant projects totalling 127,600 square meters of retail space alone. The 6 level Bayan mall was offering space at US$17.49 per square meter per month during 2013, although premium locations within this facility rise for around US$ 32 per square meter per month.

Erdenet Most Significant Office Real Estate Projects

Retail Facility / Store Name	Total Sq.m floor area	Number of Floors	Price (MNT) Per Sq.M Per Month		Price USD Conversion at Current Rates		Types of Tenant	Vacancy Rates
			Lowest	Highest	Lowest	Highest		
Saruul Center	7,200	2	11,000	13,000	$7.86	$9.29	Khan Bank	0%
Liberty LLC	7,200	2	11,000	12,000	$7.86	$8.57	Mobicom	0%

Source: MAD Research

Erdenet Mining Corporation recently furnished a park in celebration of their 30th Anniversary. The city amusement park was also recently repaired out of the Government budget. A new 6,000 seat stadium was entered into Aimag Government budget planning in celebration of the 35th Anniversary of the creation of the Orkhon Aimag.

F. HOTEL AND HOSPITALITY

Erdenet contains a number of reasonable mid-end hotels, as well as a supply of 3* and 2* hotels and guest houses. Among the most well known of which are the Molor-Erdene and Erdenet hotels Inn. Room rates start in the low end market at 15,000 MNT per bed per night (US$ 8.19), rising to a modest 75,000 - 95,000 MNT per night (US$ 40.93 - 54.60) Total room supply in Erdenet at the end of 2013 (not including surrounding rural ger camps) was counted at 219 rooms, although a vast majority of these are let on a per bed per night basis.

Hotel Supply

Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates		Total Number of Rooms	Restaurant on Site?	Number of Covers in Restaurant	Number of Parking Spaces
			Lowest	Highest	Lowest	Highest				
Erdenet Inn	3	Per Room Per Night	60,000	240,000	$32.8	$131.0	20	Yes	300	10
Gold Hotel	2	Per Room Per Night	35,000	65,000	$19.1	$35.5	14	Yes	300	none officially
Sonor Khairkhan	2	Per Room Per Night	40,000	70,000	$21.8	$38.2	13	Yes	100	5
Tsetseg hotel	3	Per Room Per Night	35,000	60,000	$19.1	$32.8	16	Yes	30	indoor- 22
Gemstone	2	Per Room Per Night	25,000	70,000	$13.6	$38.2	9	Yes	60-70	10
Molor-Erdene	3	Per Room Per Night	50,000	95,000	$27.3	$51.9	18	Yes	250	36
Denj center	2	Per Room Per Night	25,000	70,000	$13.6	$38.2	12	Yes	40	outdoor-20; indoor-21
Tamir	2	Per Room Per Night		40,000	$0.0	$21.8	15	Yes	25-30	25
Tsatsal	2	Per Room Per Night	30,000	35,000	$16.4	$19.1	8	Yes	30-40	none officially
Tengis motel		Per Room Per Night	30,000	35,000	$16.4	$19.1	4	No	-	5
Selenge	3	Per Room Per Night	40,000	50,000	$21.8	$27.3	25	Yes	100	50
Sansar	2*	Per Bed Per night	30,000	45,000	$21.4	$32.1	8	Yes	28	14
Achit	2*	Per Bed Per night	25,000	30,000	$17.9	$21.4	6	Yes	36	10
Orgiluun	2*	Per Bed Per night	20,000	25,000	$14.3	$17.9	8	No	30	14
CHKA	2*	Per Bed Per night	15,000	20,000	$10.7	$14.3	5	No	18	10
Panda	2*	Per Bed Per night	20,000	30,000	$14.3	$21.4	6	Yes	20	10
Tumet	2*	Per Bed Per night	18,000	25,000	$12.9	$17.9	4	No	12	6
Bolor	2*	Per Bed Per night	25,000	40,000	$17.9	$28.6	10	No	-	14
Pyramid	2*	Per Bed Per night	25,000	30,000	$17.9	$21.4	6	No	-	12
Gems town	2*	Per Bed Per night	40,000	60,000	$28.6	$42.9	12	Yes	36	36

Source: Lonely Planet Guide / MAD Research

G. LAND

City centre land in Erdenet, where connected to amenities such as heating and water supply, transacted in 2013 at around US$ 51 per square meter. A plot of around 1 hectare in prime, developable location, could be purchased from a private owner for around US$ 142,857 in Q4 of 2012, making transaction values for the previous year higher, although with limited volume this is not enough to establish a trend. Land outside of the city centre, in residential areas but connected to amenities, transacted at around US$ 2 per square meter as this is freely available.

Land

Location	Location Factors	Infrastructure Connection	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Residential Area	Full	530	50,000,000	94,340	$27,293	$51
City Centre	Residential Area	None	700	1,500,000	2,143	$819	$1
City Centre	Residential Area	Full	620	55,000,000	88,710	$30,022	$48
City Centre	Uninhabited	None	700	2,500,000	3,571	$1,365	$2
City Centre	Uninhabited	None	850	3,000,000	3,529	$1,638	$2

Source: MAD Research

4. KHAN BOGD

Khan-Bogd At a Glance	
Current Population	Officially 4,000
Number of Households	approx. 1,112
Number of Residents by Gender	2053 male / 1,969 female
Current Population in Permanent Housing	less than 40 households
GDP of the City	over 1 billion MNT based upon revenues from Oyu Tolgoi, although the town itself has only basic facilities and no industry
Primary Industries within the City	Mining (home of the Oyu Tolgoi Mine)

Source: NSOM / Khan-Bogd Soum Government / MAD Research

A. INTRODUCTION

Khanbogd is a small Soum centre (second level administrative division) situated in Umnugovi Aimag the closest extant town to the new Oyu Tolgoi mine and, as such, sits at one of the epicentres of the Mongolian growth story. For such a pivotal locale the built environment of khanbogd remains modest and not well served by amenities and infrastructure. It has no paved roads and electricity supplies typically lasted no more than 5.5 hours per day, until 2011 year when investment in new infrastructure led to a more stable power grid being established.

There is one restaurant, a nightclub and a lone supermarket and 3 banks. Average real wages within Umnugobi Province are the second highest in Mongolia at 481,200 MNT per month (compared with the capital at 430,300 MNT per month). Moreover, wages in the Aimag rose by 179% from Q1-3 2009 to Q1-3 2011 - the highest rate of wage increase in the country. With its proximity to the Oyu Tolgoi, Khanbogd is has already begun to receive a a large number of mine employees whose monthly earnings will be several times the province average. With overarching plans in place to develop infrastructure, office space and housing the built environment of this small town will be transformed within the next three to five years, making it a perfect location for land banking and real-estate investments.

B. GROWTH FACTORS

On the margins of the Oyu Tolgoi mining site, the Khanbogd Soum centre belies its importance through its small size. This is a lynchpin growth location. The town has already begun to swell in size. A population of 1,200 in 2009 has swelled to nearly 3,000 by 2012 as a result of in-migration of mine workers and those hoping to work at the Oyu Tolgoi site. Many of the town's employees already work at the mine, the majority of which are employed in support services such as cleaning laundry, food service provision and security. Workers involved in the construction of the Oyu Tolgoi mine, which began operations in late 2012 and production at a limited scale in early 2013, live on work camps near to the mine site itself. Nevertheless, the permanent staff of the mine when operational will be around 3,000 persons, drawn primarily from localities surrounding the mine, including a majority from Khan-Bogd.

Despite the setback caused by political wrangling over Phase II financing, Oyu Tolgoi draws ever nearer to full production. The rate of in-migration is also accelerating. Consultants from the Asian Development Bank indicate that the small village's population will swell to over 15,000 by 2020. For many analysts even these figures appear low and some project that Khan-Bogd will become a large conurbation, by Mongolian standards, of over 35,000 people. High unemployment levels and traditionally high levels of worker mobility in Mongolia comprise push and pull factors that more than support the higher estimate. The ADB is working in close concert with Oyu Tolgoi to extend and develop services and infrastructure to cater for this new population influx.

The built environment of Khan-Bogd remains limited. The town extends over an area of approximately 567,000 square meters, the majority of which is undeveloped semi-desert. The centre of town comprises less than 40 buildings To the direct north-west of this conurbation is the 'ger district', comprising of no more than 63 wooden fenced *hashaas* in early 2011. Nevertheless, evidence of construction is already visible in the form of a new cultural centre on the outskirts of the city. Completed in 2010, this centre was built using a US$300,000 donation from a Qatari Government Official who likes to spend Ramadan in Khan Bogd. The construction is not of high quality but does provide contain a wrestling arena and an amphitheater. With such a small extant stock of real-estate the market in Khanbogd remains barely developed.

Moreover, residents of the area can be certain of continued delivery of funds into new projects providing the Turquise Hill management and the Government of Mongolia reach a resolution this year. When Oyu Tolgoi established its world-class gold and copper mining facility within 45 minutes of the once small town of Khanbogd one of their obligations, based upon their contract with the Government of Mongolia, was to provision infrastructure and facilities to local conurbations. Initially the company planned to upscale facilities within Khanbogd itself, creating new housing, infrastructure and communal facilities. However, they have since decided that it would be politically more viable built an entirely new city beyond the current jurisdiction of Khanbogd, essentially establishing a new "City of The Gobi". This planned development will contain residential units, commercial facilities and a fully developed infrastructural network. Plans for this new city are already well underway and completion of the earliest phases can be expected within the coming three to five years. Oyu Tolgoi have insisted that the new city will be open to all new residents and that accommodation will not only be reserved for Oyu Tolgoi employees.

C. TRANSPORT

Transport to Khan Bogd is not easy by road, necessitating use of smaller and not well paved roads and long journey times. The Oyu Tologi mine continues to receive charter passenger flights on a daily basis, making this the most efficient means of traveling between the capital and Khanbogd itself. There is no train-line suitable for passengers either existing or planned for this location.

D. RESIDENTIAL

At present the apartments supply of Khan Bogd is extremely limited with only a few owner-built properties presently existing within the city. A small stock of apartments built pre-1990 have transacted at between US$ 595 - 670 per square meter during 2012, although with renewed interest in this small town and low volume of transactions, it is expected that prices will rise sharply when new supply comes online. Investors who have purchased tiny plots of land or small one-room buildings here have seen high double or even triple digit price appreciation over the past three-to-four years. Whilst a lack of infrastructure and equivocation over the future of Oyu Tolgoi investment makes investment here a risk, the rewards are clear.

Khan Bogd Residential Real Estate

Number of rooms	Situation	Price Per Unit (Market Average)	Average Unit Size (sq.m)	Price Per Square Meter MNT (Market average)	Price Per Square Meter US$ at current rates (Market average)
1 room apartment	Pre 1990s	35 million MNT	42	833,333	595
2 room apartment	Pre 1990s	45 million MNT	48	937,500	670
AVERAGE MARKET SQ.M PRICES				885,000 MNT	632

Source: MAD Research

E. COMMERCIAL

There is virtually no commercial real estate presently available in Khan Bogd. Three banks (Xas bank, Khaan bank and Savings bank) maintain owner-occupied branch offices in the town, alongside Oyu Tolgoi's custom built office facilities.

Oyu Tolgoi has also commissioned an office complex for 20 workstations on the outskirts of Khanbogd, with 12 adjacent apartment buildings. Construction of these is being implemented by Mongolian contractors and was scheduled to be completed in late 2011, being completed during 2013. Nevertheless, the office, retail and warehouse sectors are virtually non-existent at present in Khanbogd. Where such facilities are required they are usually built to order, as with the Oyu Tolgoi office described above and Wagner Asia's proposed new warehousing facility. Expatriate mine staff tend to make use of the chartered flights between the OT site and Ulaanbaatar when possible and are not resident in Khanbogd itself. Retail real estate projects are limited to 2-3 small retail stores that are owner occupied. Many residents of the city continue to purchase their goods at the small Oyu Tolgoi store thanks to the availability of a greater range of higher quality products.

F. HOTEL AND HOSPITALITY

There are presently only two hotels operating in Khan Bogd, with ger residents frequently renting out space in their homes to visitors. The total room stock of this rapidly growing mining town is just 9 rooms at present, although these rent at above average rates for secondary cities hotels, starting at 40,000 MNT per night and going up to 60,000 MNT per night (US $28.6 - US$42.9).

Khan Bogd Hotel Supply										
Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates		Total Number of Rooms	Restaurant on Site?	Number of Covers in Restaurant	Number of Parking Spaces
			Lowest	Highest	Lowest	Highest				
Hotel	-	Per Bed Per Night	40,000	60,000	28.6	42.9	5	Yes	10	-
Hotel	-	Per Bed Per Night	40,000	60,000	28.6	42.9	4	Yes	12	-
AVERAGE RATES			**40,000.0**	**60,000.0**	**$28.60**	**$42.90**	**9**			
										Source: MAD Research

G. LAND

The market for land in Khan Bogd is reasonably small, with extremely low transaction volumes at times. However, some land does transact, and at remarkably high rates for a secondary city (US$26 - 61 recorded during 2012). Whilst no land plots in the city offer infrastructural connections, transacting land near to the hear of the city has already attracted the attention of developers and speculators.

Khan Bogd Land						
Location	Situation	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Not connected to amenities	0.7 hectares	60 million MNT	85,714	$42,857	$61
City Outskirts (residential area)	Not connected to amenities	0.7 hectares	35 million MNT	50000	$25,000	$36
						Source: MAD Research

5. SAINSHAND

Sainshand At a Glance	
Current Population	60,450
Number of Households	Approx. 18,000
Number of Residents by Gender	29,439 male / 31,010 female
Current Population in Permanent Housing	Approximately 12,600
Population Residing in Gers	5,400 households
Primary Industries within the City	Livestock rearing, mining and freight services

Source: NSOM / Sainshand Soum Government / MAD Research

Sainshand Real Estate Statistics

Sector	Type of Property	Total number of units recorded in Q3 2012
Residential	Residential Apartments	11340
	Townhouses	1260
	Gers	5400
	TOTAL	18000
Commercial	Office space	7 units totalling around 500 square meters of space
Land	Sq.m of land transacted in the city in 2012	54 privatisation agreements filed, totalling 1,097.93 hectares of land

Source: MAD Research

A. INTRODUCTION

As the Aimag capital of Dorngovi Province, Sainshand is a well-established city in the heart of the east-Gobi, 470km from Ulaanbaatar by rail. Situated on the rail link between Russia and China, and close to the Tavan Tolgoi coking coal mine, Sainshand is tipped for huge economic growth. The population of the city is about 60,450 people. This area is seeing dramatic growth, with the third highest output of construction and capital repair during 2013, although a limited current contribution to the overall manufacturing and industrial sales of Mongolia of just 0.2% for the same period. The increased investment into construction of around US$ 33 million last year comes on the back of upscaling of residential facilities as part of the 100,000 homes project and prospective developments making way for the eagerly awaited Sainshand Industrial Complex.

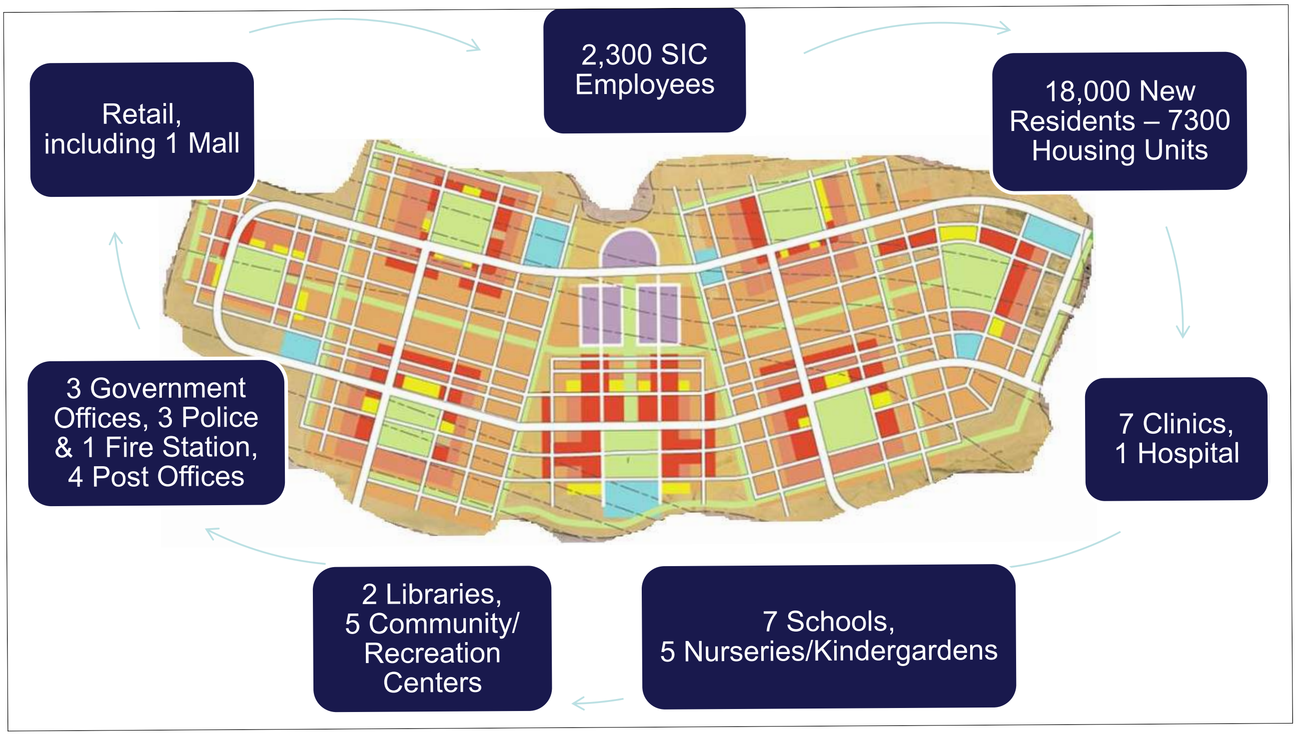
The city itself is split into two parts, roughly two kilometers apart, separated by a large hill. North Sainshand, which is home to the railway station, is served by a thermal power station that provides heating and hot water to the apartments therein. South Sainshand is not attached to hot water or heating infrastructure. Over 92% of Sainshand’s residents live in the city itself and 70% of the city’s total population reside in apartments or houses rather than gers. Because of it’s connection to international rail links Sainshand is one focal point of the Mongolian Government’s plans to develop manufacturing and processing component of the Mongolian economy.

The Sainshand Industrial Hub project forms a key part of the Government of Mongolia’s National Development Strategy and will improve Mongolian competitiveness by implementing new technology capable of producing value-added products. In June 2011, the Bechtel Corporation was chosen to project manage implementation of the Sainshand Industrial Hub. Their estimates indicate that the project will require up to US$ 9 billion in investment. However, Government projections indicate that this project will create around 10,000 construction jobs and a further 3,400 permanent technical jobs, precipitating massive in-migration to the area and driving up demand for housing. When complete it is estimated that the Industrial Complex will produce a US$41 million contribution to the Mongolian GDP each year.

B. GROWTH FACTORS

Sainshand is one secondary city tipped for extremely rapid growth of industry in the coming years. Due to its proximity to Mongolia's main trading partner (China) and its connection with the existing backbone of logistics in Mongolia: the trans-mongolian railway, Sainshand was selected as the site for a proposed industrial and technological complex.

The Sainshand Industrial Complex is the key project placing this trading hub on the economic map of Mongolia, and indeed the region, in the mid- to long-term. Current plans include a coke plane, processing 2 million tonnes per year for the steel industry, a copper processing and smelting plant and an iron ore processing and pellet manufacture industry producing 4.5 million tonnes per year. These plans alone will result in creating 2,300 jobs and in-migration of up to 18,000 new residents, requiring 7,300 housing units and full supporting infrastructure.



Proposals for a steel plant within the Sainshand complex were rejected in favour of locating such a facility elsewhere, providing for the domestic market. Availability of materials at this location from large iron ore deposits, such as the Tomortei deposit, make the a location such as Darkhan location more feasible, although there will be urn processing facilities in the Sainshand plant. The facility will produce a projected 4.5 million tons of iron ore pellets per annum for export to the international steel industry. The required capital investment estimated for this facility will be 379 million US$, with a revenue generation capacity of 1.8 billion US$, with an EPC duration of 36 months. The capital costs for this project will be met with both public and private funds. 60% of the cost of the combined facilities in the Sainshand complex will be met with private capital, whilst public and PPP capital will make up the remaining 40%.

Bechtel, the company commissioned to conduct feasibility on this plant, have suggested that the Government of Mongolia offer incentives and tax exemptions for the operators of the strategically important iron ore pelletising plant, including exemption from VAT and import duties on EPC costs, income tax holidays and water cost subsidies. It has also been suggested that the proposed facility receive grid power and access to infrastructural facilities paid for by the Government of Mongolia.

At a total estimated cost of 9.2 billion US$ this represents the largest capital project currently in planning in Mongolia outside of the 100,000 homes project. Nevertheless, hopes are being pinned on this project as a means of getting more value from Mongolia's national assets, or "GDP diversification". The project is an integral part of the country's National Development Strategy, a programme initiated in 2007 and designed to raise GDP per capita to $12,000 by 2021. Priorities include both the exploitation of natural resources and the development of a processing industry. As noted above, regional centres play a pivotal role in this agenda, as they have throughout the short industrial history of Mongolia.

On top of this, Sainshand will continue to rise in importance as a hub of cross-border trading within the region.

C. TRANSPORT

Transport to Sainshand is possible via rail and air, although road connections to the capital exist too. There are two daily trains from Ulaanbaatar, serving the station in Sainshand, which is about 2 km from the city centre. Sainshand also has an airport facility.

D. RESIDENTIAL

The residential infrastructure of south Sainshand was largely constructed between the 1970s and 1980s. The southern part of the city is by now the larger of the two adjoining conurbations, housing a majority of the city's overall higher population. The city square is located in the southern Sainshand site, as are the Government offices and Aimag level law courts. The majority of new construction is also occurring in southern Sainshand. Despite this rapid growth, many existing residential units in southern Sainshand are still not connected to basic infrastructure, including hot water supplies.

A 1 bedroom apartment in a pre-1990 building in southern Sainshand would typically cost around US$ 19,000 in Q2 of 2011 (approximately US$520 per square meter). Since then prices have risen at a reasonable rate, with average per square meter prices for a Pre-1990s apartment in Sainshand being between US$ 535 - US$642 per square in 2012. Buildings in northern Sainshand are usually more expensive because they have reliable connections to hot water, heating and electricity New supply of apartments in the city centre transact at between US$ 714 and US$ 893 per square meter according to observed transactions in 2012 Q4. Recorded transactions for 2013 (shown in the table below), indicate prices for new-build properties still transacting at per square meter rates of between US$ 464 and 536 per square meter, although secondary market transactions are expected to be significantly higher.

North Sainshand is home to older constructions that have grown up around the railway station, the current economic hub of the city. As well as 1960s and 1970s style buildings, very much reminiscent of the style of the earliest infrastructure in Ulaanbaatar, a number of new houses have been built on individual plots by individual households.

Residential Real Estate

Number of rooms	Type	Connection To Infrastructure	Price Per Unit (Market Average)	Average Unit Size (sq.m)	Price Per Square Meter MNT (Market average)	Price Per Square Meter US$ at current rates (Market average)
2 room apartment	**New build**	Full	43,000,000	58.53	734,666	$401
3 room apartment	**New build**	Full	55,000,000	75.57	727,802	$398
4 room apartment	**New build**	Full	76,547,800	78.11	980,000	$536
1 room apartment	**New build**	Full	47,005,000	55.3	850,000	$464
2 room apartment	**New build**	Full	67,830,000	79.8	850,000	$464
3 room apartment	**New build**	Full	100,000,000₮ -150,000,000₮	-	-	-
4 room apartment	**Pre 1990**	Full	70,000,000₮ -80,000,000₮	-	-	-

Source: MAD Research

As planned, a significant tranche of nearly 1,600 new units, scheduled to come online during 2013, came online as planned. These units formed part of the 100,000 homes scheme. This indicates that developers appear already to be aware of the potential posed by the growth city as the population moves towards doubling within the next decade. Of all construction projects presently underway in Sainshand, the Choir-Sainshand road is the largest and most investment intensive, with 63% of the funding necessary for this project provided by the Asian Development Bank.

E. COMMERCIAL

Situated on the arterial rail link that joins Mongolia to China and Russia, Sainshand is the first major stop following Zamiin-Uud for goods crossing the Chinese-Mongolian border. This being the case, the city has developed a robust trading base. Retail facilities have developed rapidly, selling all manner of goods from home furnishings and kitchen equipment to foodstuffs and hi-fi equipment. Rental of retail space at the local market can range from US$ 43 - US$ 53 per month for a stall, higher than in most secondary cities due to the considerable size and diversity the retail market in Sainshand.

Sainshand Commercial Real Estate

	Type of Facility	Situation	Per Square Meter MNT (Monthly market average)	Total Cost of Unit Rental (Monthly Market average)	Per Square Meter USD at current rates (Monthly market average)	Total Cost of Unit Rental USD at current rates (Monthly market average)
Rental	**Retail**	Local Market Stand	60,000 MNT - 70,000 MNT	-	-	US$ 43 - US$ 50
	Retail	Stand-alone street-front	60,000 - 75,000 MNT	-	-	US$ 43 - US$53
	Office	Local A and B grade or recent construction	-	700,000 - 750,000 MNT per month	-	US$ 504 - US$ 540

Source: MAD Research

During Q3 2012 around 3,500 square meters of office space was counted in central Sainshand. Again, this is higher than in most secondary cities. A further 493 Square meters of retail space was also counted, mostly split among small, purpose built, retail facilities that were owner occupied. Two significant new office and retail buildings were completed and came online during 2013 in Sainshand.

Sainshand Top 10 Most Significant Office Real Estate Projects (Recorded Q3 2012)

Retail Facility / Store Name	Total Sq.m floor area	Number of Floors	Price (MNT) Per Sq.M Per Month		Price USD Conversion at Current Rates		Total Car Parking Spaces Available	Types of Tenant	Vacancy Rates / No. Tenants
			Lowest	Highest	Lowest	Highest			
Shine Ergelt	486	2	45000	60000	$32.6	$43.5	40	-	50 tenants
Bars Center	672	4	40000	-	$29.0	-	20	All types	48 tenants
Suvdan Urgoo	500	2	40000	-	$29.0	-	30	All types	26 tenants
Bogd Zendmene	900	1	40000	-	$29.0	-	30	All types	23 tenants
Munkh Duuren Center	600	1	30000	-	$21.7	-	50	-	8 tenants
Arbit	108	2	30000	-	$21.7	-	15	All types	8 tenants
Khu Shand	250	2	15000	-	$10.9	-	15	-	10 tenants
AVERAGE / TOTAL		**-**	**34,286**	**60,000.0**	**$24.84**	**$43.5**			

Source: MAD Research

F. HOTEL AND HOSPITALITY

With the city set for such rapid development, the hotel markets in Sainshand are responding. The central areas of the city have seen recent developments in its hotel sector. In 2009 a new hotel was completed by the Gandirs Construction Group in Sainshand. The five-story Dorngobi Hotel is housed in a circular building and is the city's most comfortable hotel, although by national standards does not rate more than a 3*. Nevertheless, in itself this is an indicator of expected increase in importance of Sainshand as a destination for travel and business. The mixed use building also contains retail space (currently occupied by a small supermarket) and office space, the majority of which is already let to local companies. The total market currently contains 120 rooms. Prices start at around US$ 15 per night, rising to an upper end of US$ 64 per night.

Sainshand Hotel Supply

Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates		Total Number of Rooms	Restaurant on Site?	Total Number of Covers in Restaurant
			Lowest	Highest	Lowest	Highest			
Dorngobi Hotel	3*	Per Room Per Night	60,000	90,000	$42.86	$64.29	65	Yes	80
Shand Plaza Hotel	3*	Per Room Per Night	30,000	65,000	$21.43	$46.43	20	Yes	70
Od Hotel	-	Per Room Per Night	22,000	30,000	$15.71	$21.43	7	-	-
Khantan Khaan	-	Per Room Per Night	20,000	45,000	$14.29	$32.14	15	Yes	50
Lux	2*	Per Room Per Night	40,000	55,000	$28.57	$39.29	13	Yes	40

Source: MAD Research / Lonely Planet Guide

G. LAND

Land prices in Sainshand have been gradually growing over the past three years. Speculation by private investors and developers on the back of the Government's plans to construct an international standard industrial processing facility on the city's outskirts have led to rising prices for land connected to or near to infrastructure, as well as plots not connected to infrastructure but close to the existing railway line or the planned Sainshand Industrial Plant site.

Sainshand Land

Location	Situation	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Connected to amenities	700 sq.m	225 million MNT	322,000	$160,000	$230
City Outskirts (residential area)	Not connected to amenities	600 sq.m	58.8 million MNT	98,000	$42,000	$70
City Outskirts (residential area)	Connected to amenities	500 sq.m	78.4 million MNT	156,800	$56,000	$112

Source: MAD Research

Last recorded transaction prices place land prices at between around US$ 112 - 230, with the upper end of this bracket relating to city centre plots, ripe for development and connected to amenities. City Outskirts land has transacted during 2012 at up to US$ 112per square meter. These prices were recorded at the end of 2012 and it is expected that these have undergone 10-15% rises in the meantime.

6. TSOGTTSETSII

Tsogttsetsii At a Glance	
Current Population	4,042
Number of Residents by Gender	2,089 male / 1,953 female
Current Population in Permanent Housing	limited
Population Residing in Gers	1,436 households
GDP of the City	-
Primary Industries within the City	Mining, with existing Agriculture

Source: NSOM / Tsogttsetsii Soum Government / M.A.D. Research

A. INTRODUCTION

The small town of Tsogttsetslii, situated in Umngobi Aimag, rose to fame during recent years as a result of its proximity to the Tavan Tolgoi coking coal deposit. The Tavan Tolgoi mine situated 15km to the south-west of Tsogttsetsii itself. The built environment in this small Soum centre is sparse, with a handful of permanent structures and no rentable commercial facilities. However, there are already plans to develop a 120,000 square meter GFA residential project by Energy Resources LLC. The new project will contain up to 5,000 residential units, in preparation for a projected influx of households and individuals in search of new economic opportunities as the world class Small Tavan Tolgoi deposit becomes developed.

B. GROWTH FACTORS

Demographically, the city remains very young, with people under the age of 36 accounting for 64.5% of the total population. 67.5% of the total population live in apartments, the remaining population live in gers or similar accommodations.

Wages are developing rapidly in the city of Darkhan due to expansion of the service sector therein. Proximity to the capital city is also a factor in Darkhan's rapid growth. This gives the town access to good logistical infrastructure, including a well paved roadway that connects directly to Ulaanbaatar, and the trans-Mongolian railway, which runs through the west of Darkhan, giving the city ready access to Ulaanbaatar and Siberian markets. Darkhan-Uul Aimag also contains rich mineral reserves, which are beginning to be accessed by domestic mining companies.

The proximity of this town to the Tavan Tolgoi and Energy Resources mine sites makes for a signifiant value proposition as these significant coking coal reserves develop. Whilst a drop-off in the Chinese demand for coal has placed significant pressure on the operations of these facilities, leading to rumours during 2014 that the Government owned portion of Tavan Tolgoi may be sold off to private operators/investors, the extant reserves of coal in these mines makes mid-term growth a distinct likelihood.

Tsogttsetsii is a strategically important centre of mining operations. The existing supply of infrastructure, housing and commercial facilities will see large volumes of investment and infrastructural upscaling in the coming mid term. At present, Energy Resources' 5,000 unit Tsogttsetsii Village is on the horizon, with the first 48 units initial expected during 2013, although now completion of this project is looking like being pushed some way back. Also planned are new retail, office and hotel facilities, most of which are locally invested.

C. TRANSPORT

At present there are no asphalt roads within Tsogttsetsii, the only paved road is that out of the city, towards Ulaanbaatar. Within the Soum, Ukhaa-Hudag mining developed a 245km roadway that connects with the Shuun Sukhhait railway. The road is used for transportation of mineral exports to the railroad. There is presently no airport in Tsogttsetsii. However, the Tavan Tolgoi airport can be reached by road, at a distance of 6km from the town itself.

D. RESIDENTIAL

Whilst Tsogttsetsii does encompass a small supply of detached, brick-construction housing, all of this is presently belonging to single private owners, who are usually also the developers/builders. The only existing larger scale construction in the town are communal facilities - including schools and local facilities. Energy Resources LLC have already perceived the potential for massive in-migration in search of economic opportunities by preparing plans for up to 5,000 new residential units, to be completed by 2017-2018. These will be available to their own employees as well as to the public. The proposed development incorporates a community style development, with communal areas, retail and commercial space integrated into the concept.

E. COMMERCIAL

Commercial real estate supply in Tsogttsetsii is extremely limited. Energy resources has erected their own office building in the town centre, which is used exclusively for its own operations. However, there is no other formal office supply in the small, rural soum centre. These is one small home furnishings store named “Achit Buyan” and small local food store attached to the Gantig Tuv Hotel which also acts as a pharmacy. Incentives to in-migration are growing as the Erdenes Tavan Tolgoi mine expands operations and prepares for a new and extensive block to enter operations. Energy Resources LLC have already perceived the potential for massive in-migration in search of economic opportunities by preparing plans for up to 5,000 new residential units. With such rapid population growth projected, as well as concomitant upscaling of infrastructure, there is significant potential for new commercial developments in Tsogttsetsii in the short to mid term. The small supply of current retail facilities are owner occupied and do not transact at present.

F. HOTEL AND HOSPITALITY

Tsogttsetsii does have a small supply of low-end hotels within its boundaries. The Gantig Tuv hotel being the best known. The international interest in the nearby Tavan Tolgoi mine has led to an influx of travellers to the small soum centre and eight guest-house style hotels presently serve guests. With the mainstay of visitors being associated with mining, rates are higher than average for a soum centre location, starting at around 6,000 MNT (US$3.30) to 120,000 MNT (US$65.80) per night. Most hotels provide per bed per night and per room per night accommodation on request.

Tsogttsetslii Hotel Supply

Hotel Name	Star Rating	Rate Basis	Price Per Night (MNT)		Price USD Conversion at Current Rates	
			Lowest	Highest	Lowest	Highest
Gantig Tuv	-	Per Bed Per Night	25,000	30,000	13.7	16.4
Uurkhaichin	-	Per Bed Per Night	25,000	30,000	-	16.4
Solongo	-	Per Bed Per Night	-	40,000	-	21.9
Ord	-	Per Bed Per Night	6,000	40,000	3.3	21.9
Altan od	-	Per Bed Per Night	6,000	40,000	3.3	21.9
Nomads	2*	Per Bed Per Night	-	100,000	-	54.6
Hotel-9	-	Per Bed Per Night	-	120,000	-	65.6
Khar-Alt	-	Per Bed Per Night	40,000	60,000	21.9	32.8

Source: MAD Research / Lonely Planet Guide

G. LAND

City centre land in Tsogttsetsii, where connected to amenities such as heating and water supply, transacted for US$ 102 per square meter on the secondary market during the last confirmed transactions as of the end of the last quarter of 2012, although prices are rising rapidly and this figure is were expected to reach above US$ 200 per square meter during 2013, if slightly depressed due to the slowdown in coal exports. With land plentiful around the small conurbation of Tsogttsetsii, most land transacts at between US$ 37-51 through privatisation and sale on secondary markets. Limited infrastructure makes land which has even limited infrastructure connection transact a a premium.

Tsogt Tsetslii Land

Location	Situation	Land Size	Total Cost of Land Purchase NNT	Per Square Meter MNT	Total Cost of Land Purchase USD at current rates	Per Square Meter USD at current rates
City Centre	Not connected to amenities	225 square meters	22 million MNT	98,000	$1,571	$70
City Centre	Connected to amenities	700 square meters	100 million MNT	142,800	$71,429	$102
City Outskirts (residential area)	Not connected to amenities	700 square meters	36.26 million MNT	51,800	$25,900	$37
City Outskirts (residential area)	Connected to amenities	700 square meters	49,900 million MNT	71,400	$35,700	$51

Source: MAD Research

1. LOCATING A PROPERTY TO RENT OR PURCHASE

When searching for a property to rent or buy in Ulaanbaatar, time remains of the essence. Far from slowing down, property markets in the city continue to speed up. In areas of high growth, such as within the city centre residential markets, liquidity has reduced to a trickle of properties each month as owners hold back on selling and await high future returns.

In such cases the property market moves rapidly, and an apartment advertised in the press will have several offers within hours of the daily newspapers going to print. Property transactions can still be completed within a day and rental contracts even faster. In this environment, information is vital. The first place many investors will look towards is to an established real-estate agent. Almost 40 real-estate agencies are active in Ulaanbaatar alone, although the majority of these are small operations focussed on local markets and do not cater readily for the needs of foreign investors. Five large real-estate and investment agencies regularly handle the needs of foreign investors seeking to invest in multiple properties, land or commercial property. These are highlighted in the List of Real Estate Agents in Ulaanbaatar given in the Appendices section. Commission rates vary from agency to agency depending on type and size of transaction. For purchase agency fees tend to range from 2-5% of the total value of the transaction. Leasing commissions range between one month of rent to 10% of gross rental income. These costs are usually negotiable.

For those more familiar with Mongolia, the Mongolian language newspapers are a primary source of purchase and rental opportunities. “Onodoor” (Today) publishes an extensive list of properties for rent and for sale. The newspaper Shuurkhan Zainventory and website unegui.mn also contain rental listings. The UB Post and Mongol Messenger, Ulaanbaatar’s two largest English language newspapers, also contain property adverts, although these are usually targeted specifically at expatriate markets and are often priced above market rates. Expats looking to rent residential property will also look to notices posted in cafes and restaurants frequented by foreign visitors. These are also invariably overpriced, unless offered on a shared rental basis. For investors intending to spend longer within Mongolia word of mouth is a crucial resource. The most sought after investments do not remain on the market for long and so knowing where to look is half the battle. Within a short time of residing in Ulaanbaatar, most foreign investors or employees will come to know the areas frequently inhabited by expats. Downtown (within the 40,000 and 50,000 apartment developments - particularly those close to the State Department Store), Zaisan (in high end developments such as Bella Vista and Blue Sky Town) and, more infrequently, around the Stadium Area, or directly to the south-east of the city centre in new developments including the Regency Residence. Knowing which of these areas would be best to live in, or to invest in, is a matter of taste and market knowledge respectively. For those not present ‘on-the-ground’ making contact with a reliable and independent information source is key for making good investment decisions.

Purchasing a property directly from the owner is a cost effective way to obtain property and remains by far the most common mode of transaction within the domestic market. Buying from the owners requires a more well-developed knowledge of the processes and practices of the Mongolian real-estate market, as well as exercising of caution, but is not overly complicated. Most people intending to purchase in this way will reach first for the classified advertisements in the local press. Upon locating an appropriate property arrange to view the property quickly and make a decision as soon as possible as the current state of demand within the Ulaanbaatar real-estate market means that if it is a good buy it will not remain on the market for more than a morning. Once an offer is made and accepted the transaction process can begin.

2. THE PROPERTY TRANSACTION PROCESS

The property transaction process in Mongolia is currently extremely easy and involves little regulation. Mortgages are still not common and professional surveyors are not required to participate in property transactions, including those where mortgages are being used. Private property transactions are subject to important administrative processes but these can be undertaken quickly and most transactions can still be concluded in a day. Mortgages are becoming more common in Mongolia and some banks are even offering mortgages to expat workers under special schemes organised through employers. Nevertheless, the checks that banks require on a property are limited to establishing ownership and the status of any outstanding or previous loans secured against the property in question. These checks can be undertaken within 48 hours.

Before reaching the transaction stage it is even wise for the buyer to undertake their own checks, which can be carried out in order to verify ownership and the owner's uninhibited right to sell. Whilst fraud is not very common in Mongolia's real estate market it certainly does occur and often disputes arise as a result of sellers not being aware of laws relating to immovable property. Common problems include persons attempting to sell a jointly registered property without the presence of - or even knowledge of - the joint owner, who by law must be present to enact the transaction. Another common issue stems from sellers trying to transact collateralised or pledged immovable property. Under Mongolian law immovable property cannot be transacted whilst it is pledged, although many people will try to do so. The first stage in conducting due diligence is to ask to see the original Immovable Property Certificate. Check that the address on the certificate matches that of the property and that the person negotiating with you is the rightful owner with his/her full name written on the certificate. If there are multiple names given on the certificate you should meet and identify all parties to ensure they are aware of the sale and are happy with the deal. As noted above, all parties must be signatories to the contract in order for the sale to be fully legal. Finally, ensure that the Immovable Property Certificate is an original, not a copy or a forgery. If the property has outstanding loans against it or has been pledged in other obligations the property certificate will likely have been given over to the owner of the debt and so someone trying to present you with a photocopy is a clear sign that there may be a problem with this transaction. The Immovable Property Office can also provide a report on a given property upon request. Where the freedom of the property from debt obligations is in doubt this information should be sought. It is always wise to consult Property Office records before purchase, although obtaining a certificate copy will require a very small payment and a a couple of days delay to the contract. A number of agencies, including M.A.D. Investment Services, will provide due diligence services for a fee.

It is wise to conduct all necessary due diligence and exercise caution in transacting any type of property in Mongolia. If a dispute does arise down the line you will have to engage with an inefficient and, at times, highly corrupt legal system that does not necessarily favour foreign interests (even though they are equally well protected under Mongolian property laws). This can be a costly and time consuming process and is best avoided.

Once you are happy that the offer is genuine, the first stage of the transaction process is signature of contract of sale. This must take place in a notary's office. All notaries will have a standard two page document (a sample copy of which is included in the appendices) wherein the names, passport numbers and other details of both parties will be written. The address, Immovable Property Certificate number and transaction price of the property in question will be added to the contract along with the signatures of both parties and the official stamp of the notary. The contract must be signed in triplicate so that each party, including the notary, can retain a copy. For more complex property transactions it may be necessary to draw up a non-standard contract. This is legally robust only when written in Mongolian. The notary's fee is typically small, ranging rom 20,000 MNT to 150,000 MNT depending on the value of the contract. Whilst at the notary it is worthwhile taking notarised copies of your passport as these will be required by the Property Office. The notary will then enter the transaction into their own ledger. The actual date of transaction may be different to the notarised date, although all particulars of the notarised contract are the only ones that remain legally binding, even if the contract is to be enacted at a later stage.

The second stage of the process is payment of property taxes. Once all contracts have been notarised the transacting parties should go to the Ulaanbaatar City Bank - next to the Bank of Mongolia, just behind the Stock Exchange, off of Sukhbaatar Square. The property sale contract and the current Immovable Property Certificate should be shown to the teller who will calculate a 2% tax from the sale amount. This tax must be paid in cash, in full at the bank. This tax is payable by the seller of the property, as it is a tax on income. Nevertheless, in many cases the 2% payment is equally split between the buyer and seller. A receipt will be issued stating that the tax has been paid once this is completed. These documents must then be taken to the Immovable Property Office of the district in which the property is registered. Formerly, Ulaanbaatar operated a single property office for the entire city, located near to the city centre. However, this facility was always crowded with people attempting to register and transfer property, making the process of registration unnecessarily time consuming. The role of property registration has been devolved to individual district offices since 2012.

Sellers might be keen to declare a lower sale value for the apartment or even call it a gift in the contract to avoid paying the 2% tax. Some buyers opt to go along with this although it is an illegal practice and as tax enforcement becomes stricter, it can be expected that investigations into this kind of transaction will continue to occur. There have already been reported cases of contracts being cancelled b the state over two to three years after they were concluded, after it came to light that there were no grounds to 'gift' a property to the recipient. This process of investigation is expected to continue and people 'gifting' property from this point forward can expect their transaction to attract far greater scrutiny. If there is no reason for a 'gift' transaction to take place - e.g. gifting of a property to a family member - then the transaction will not be processed.

The next stop is at the Immovable Property Office. In Ulaanbaatar this is located along the same street as the Ulaanbaatar City Bank. In the main lobby of district Immovable Property Offices applications to change the name on an Immovable Property Certificate are available. Clerks are on hand to assist in filling out this form for a small fee. Queues for the clerks may long, but this process is essential to rendering the transaction legal - rights to ownership of immovable property only accrue once new ownership is properly registered. Before this the state offers no legal protections. The clerk at the Immovable Property Office will ask for the existing property certificate, the tax receipt, a copy of the notarised contract, passport copies of both the buyer and the seller and the application form. The certificate issuance fee payable depends on the urgency with which the new certificate needed. New certificates can be issued the next day but usually take a few days to complete. The fee is between 200,000 MNT and 500,000 MNT. Once the new certificate has been issued and collected ownership has legally been transferred.

Payment is usually made on the same day, at any point after the contract is signed. Payment before this time as a "show of good faith" is generally inadvisable as no legal protection is afforded if the owner subsequently backs out on the agreement. Once payment has been made keep the contract very safe as it is the legal guarantee of sale. The exact point at which payment is made is negotiable but it is usually a good idea to pay 50% when the contract is completed and the remaining 50% once the certificate has successfully been applied for or issued in the new name. Many buyers also retain a small percentage of the total sum until they take over the apartment. This is to ensure that fixtures and fittings that form part of the sale are not removed from the apartment. Before paying the final amount also check that the final bills for the property - including phone, water, electricity, heating, internet, cable T.V. and building maintenance - have been settled in full. The landlord should have receipts for all payments made. Payment is usually made in cash and less commonly by bank transfer or via an escrow account. If intending to pay via bank transfer a number of banks in Mongolia offer an escrow account service. As property becomes more costly and banking serviced in Mongolia become more advanced, escrow account use is becoming far more common.

Once ownership has been transferred the last formality is to change ownership details at the District Offices. This may take longer to accomplish than most of the preceding steps as you will first need to locate the different District Offices in question. These are usually small and tucked away, so it is worthwhile enlisting the help of a Mongolian speaking Ulaanbaatar resident in this matter. A list of District offices is given in the appendices for guidance. You will need to take a copy of the Immovable Property Certificate to the District Office in order to register, along with a passport copy. Once ownership of the property in question is confirmed the first action upon moving in to the new property should be to change all external locks.

3. RENTAL CONTRACT CONSIDERATIONS

Written rental contracts have only recently become commonplace in Mongolia. A few years back verbal contracts were good enough in much of the nascent domestic rental market, although this is no longer the case. It is always advisable to be overly cautious in scrutinising and querying any contract before signing anything if looking to take tenancy of a property. Landlords are also advised to construct robust rental contracts in accordance with Mongolian laws.

Tenants should pay particular attention to the conditions of the security deposit. The contract should be absolutely explicit concerning how and when it will be returned. It is also always wise to insist a thorough inventory be made of the property, accurately describing the condition of everything in the apartment, including fixtures and fittings. This should be made on the date the tenancy is taken and not before. Contention over the condition of an apartment and its contents is one of the foremost causes for loss of security deposit. Pay close attention to the conditions of paints, floors, walls, ceiling and appliances. These should all be accurately described in the inventory. If no inventory service is offered, as is usually the case, take pictures of everything when moving in. If possible, have them printed and signed by the landlord, their representative, or a representative of the real-estate company handling the contract.

Any contract should describe, with clarity and detail, the responsibilities of the landlord and those of the tenant. This should identify; who is responsible for paying utility bills? Who is responsible for maintenance? Who is liable for security and building upkeep costs? Who will organise installation of telephone, internet and cable television connections, where required? Home insurance is also something to be discussed. A number of insurance companies in Mongolia are now offering home and home contents insurance, although landlords rarely take out such insurance. The contract should define what will happen in the event that payment of rent is late, including breach-of-contract conditions. Penalties must be clearly explained and break-clauses and notice-periods should be written into the contract. It is advisable to issue receipts for rental payments as a landlord and tenants should expect written receipts for all payments made.

Before signing a tenancy agreement check that the landlord is the real owner of the property in question. The Immovable Property Certificate for the property in question is suitable proof in this case. Always ask to see the certificate and check that the landlord’s name is clearly printed upon it. A landlord will never need to take possession of passports or other important documents so as a tenant never hand these over.

A rental contract is only valid when written in Mongolian. If both an English and Mongolian version are used the definitions within the Mongolian version will always prevail legally. It is therefore advisable to get a Mongolian speaker to read through the contract before signing. A translated contract should come with a certificate from a registered translation agency indicating that both versions are equivalent. Any contract intended to be legally binding should be signed in a notary’s office. This will incur a notary fee of up to 20,000 - 40,000 MNT, but in the event of any dispute serves to dismiss any concerns as to the validity of the contract in question. Mongolian property laws are enforceable, but tend towards protection of the owner/landlord, offering scant provision for the rights of tenants at the present time. In a number of cases provisions in rental contracts have been overlooked by judges in legal rulings so it is necessary for both landlords and tenants to ensure that any contract they sign is clear and accurate as to the expected roles and responsibilities of each party.

Communication problems between Mongolian landlords and foreign tenants is one of the foremost causes of property stress. Most Mongolian landlords speak little or no English, although they may speak Russian. If, as a foreign tenant, you are unable to communicate fluently and directly with your landlord, make sure that an agent or another Mongolian person is on hand to act as a go-between in all dealings. As ever, personal impressions are extremely instructive when selecting a landlord or tenant. Some landlords and tenants are more happy to deal with problems and have more reasonable expectations than others.

4. CONDUCTING DUE DILIGENCE CHECKS

Due diligence processes for immovable property and land purchases are different. Whilst institutional mechanisms are well established for determining non-encumbrance for immovable property, the process for land is more complicated, although foreign investors will not be directly purchasing land. In the case that a land “possession” agreement is sought by a foreign firm ownership checks can easily be completed with the Administration of Land Affairs, Geodesy and Cartography, as all land is registered through this authority and no actual ownership title is ever transferred. In this case the firm in question would simply be taking over the rights to possess and make use of the land for a specific end which must be agreed with the Administration of Land Affairs, Geodesy and Cartography.

Comprehensive due diligence on an immovable property consists of four stages:

Contact the local Immovable Property Office. The office maintains records of all immovable property within the city or province. If any claim is made upon a property or if it has been put up as collateral they will maintain a note of this on their records. For a small fee they are able to issue a certificate of non-encumbrance that provides a legal guarantee of the capacity of the property to be freely transacted. The certificate is as an official document and should any unlisted encumbrance subsequently cause loss to the buyer they will be entitled to sue for compensation from the Immovable Property Office.

Contact the District Office for confirmation that all utility payments pertaining to the property have been paid in full. On occasions sellers have ceased to pay utility bills prior to selling a property in the expectation that the new owner would be responsible for them. Utility bills are attached to the property and not to the individual occupant so this check is important.

For long-term peace of mind concerning the status of a building it may be necessary to contact the Land Office to ask for information concerning future developments in the area that may impact the immovable property in question. There are no formal mechanisms for distribution of this information, although the best possible insight may be gained by contacting the Land Office directly.

Where possible, ask around. Local knowledge is important in establishing the long-term value of a given building and ascertaining what kind of new developments will take place around it in the near future.

Comprehensive due diligence on land consists of two stages:

Land transactions are not registered with the Immovable Property Office. Rather, they are registered with the Land Office, situated within the Administration of Land Affairs, Geodesy and Cartography. Before purchasing a plot of land it will be necessary to contact the Land Office to confirm the owner has the right to transfer their possession, ensure no encumbrance and determine whether or not the land in question has been put up as collateral. There are no official mechanisms for this, neither are legal guarantees offered in the same way as for immovable property. Nevertheless, the information maintained by the Land Office should be accurate and up to date. Foreign entities cannot own rights to land in the same way as Mongolian citizens, although foreign entities can take legal “possession” land for the purposes of use and development. Such a process involves seeking direct approval from the Administration of Land Affairs, Geodesy and Cartography for the proposed use.

For further security it is worth checking with the District Land Office, the Governor's Office and Public Utilities Offices to determine whether any planning permissions have been sought on the land or whether utility works are planned for the plot in question. Again, there are no formal procedures for seeking information about a particular plot and it may be necessary to submit a written request for information.

5. PAYMENT OF BILLS ASSOCIATED WITH A PROPERTY

As addressed above, utilities payments in Mongolia have typically been very reasonable, although they are beginning to rise in line with costs of sustaining these utilities. State subsidies are still distributed to utilities companies in order to maintain low rates, but this system is potentially unsustainable and does not provide a stable platform for much needed new investment. Although this system must change in order to make the system more efficient, at present there are no plans to remove state subsidies for heating, water and electricity payments.

The actual process of paying utility bills is easy, although very little of this system of payments is automated. It will usually involve one trip per month to the District Office or Savings Bank, whilst internet payments are made at the offices of the service provider or, more frequently, by bank transfer. Monthly costs and charges associated with running a property may be as low as US$10 - US$40 for a studio in a first 40,000 building within the city centre of Ulaanbaatar. New-builds tend to incur more infrastructure and maintenance costs and frequently incur costs closer to US$ 60 - 100 per month (excluding internet and cable television).

Payments for water, heating and electricity supply for older apartments are all made together either at the Savings Bank or at the local district utility office. No additional charges are levied for payment at the Savings Bank rather than the District Office. The system of payment itself is simple. All utilities must be paid once a month. If payment is late then a notice will be stuck to the door of the property in question. From the date of late payment the owner will be liable for interest payments on the outstanding amount. All payment for utilities are retrospective. If utilities payments are not paid for an extended period the utilities will be disconnected. In new developments this may occur within a few weeks after issuance of each bill, although in city centre properties utilities are rarely disconnected as they run on series systems.

To pay utilities, simply go to the nearest Savings Bank or district office and give them the telephone number registered with the property along with the name of the landlord or the apartment address. The clerk will have a record of how much the outstanding amount is and will issue a detailed receipt upon full payment.

Actual charges are calculated in two different ways, usually depending on the age of the building. In older buildings utilities are calculated according to a fixed rate per square meter, per month, per registered inhabitant of the property. In newer apartments the water and electricity supplies are usually metered and owners in these buildings pay based on actual use. Inspectors come regularly to check the meters and take an average, which is corrected every few months. Heating costs will always be calculated as a price per square meter rather than on a usage basis as the heat itself comes from the hot water generated by the central heating system that runs throughout Ulaanbaatar. Utility bills will always be between 30 and 40% higher in the winter months (15th of October until the 15th of May) due to heating costs.

While the cost of utilities is steadily increasing they remain heavily subsidised by the State. Therefore utility bills in Ulaanbaatar remain quite affordable. Water, heating and electricity bills for an old style two-bedroom apartment would generally average at $10 to $40 USD per month, depending on the number of people registered as living in the property and its size. Modern (metered) apartments usually have higher utilities bills as the older ones. These can tip over US$100 per month for combined services, maintenance and management.

For many new build properties, wherein the management company pays all utilities centrally and then passes the costs on to each household based upon metered usage, bills may be paid via bank transfer or direct payment into a different bank. If living in a new-build it is a good idea to ask the landlord about such payments in advance as in some luxury developments basic bills for a two-bedroom apartment can run to several hundreds of thousands of MNT per month (equivalent to US$100-200 per month).

6. CABLE TELEVISION, INTERNET AND PHONE LINE PAYMENTS

Fewer and fewer apartments in Ulaanbaatar have landlines as mobile phone networks are reliable, affordable and well established across most urban spaces of Mongolia. By the end of 2012 there were around 2.5 million mobile telephone users registered in Mongolia, compared with 404,400 landlines. 85% of the nation's mobile phone subscribers are resident in Ulaanbaatar and the figures suggest that around every third person holds at least two mobile contracts with different service operators. In terms of market penetration, by mobile communications, this has reached above 90% in Mongolia - extremely high when compared with other developing nations. Nearly all apartments have a physical phone-line running into the property which must be paid for even if not used, unless the landlord cancels use of the line. Telephone payments can be made at the same time as water, heating and electricity payments. Costs are minimal, usually no more than a few dollars per month.

Cable television costs vary depending on the provider. The four main television service providers in Ulaanbaatar are Sansar, Supervision, Sky Media and Univision. A few private companies also offer cable television services around the city. Sansar remains the cheapest and most basic of the providers, with the greatest market penetration. Within the city centre Sky Media are prevalent as the newest provider, offering a range of domestic and international channels, as well as on-demand television via IPTV technology. Outside of the city centre, particularly towards the south of the city, Univision is more common.

Unitel and Sky Media have forged ahead with IPTV technology, installing cable into new high end apartments and now, increasingly, accessing city centre properties. These firms provide combined internet and television services, including on-demand films and live recording. Nevertheless, these services tend to come at a greater cost of between 45,000 MNT to nearly 100,000 MNT per month. Payments for cable TV are made directly to the company in the same way as internet service provider payments and these are now usually combined. Besides Mongolian television, most service providers offers stations in English, Russian, Chinese, French, German, Korean and Spanish. These include HBO, CNN and Cartoon Network. Sansar does offer a few English language channels, including National Geographic and BBC News 24.

There are 16 main internet providers operating in Ulaanbaatar, the largest of these are Citinet, Datacom, CSMS, Unitel, Sky Media, Minicom and Mobinet. Different buildings are served by different providers, with buildings in the city centre often having access to several, although whilst it was once the case that most people had separate internet service providers and television service providers, a majority of households now bundle the two together with Univision or Sky Media. New builds may only have access to certain providers who have run cable to the new developments. Checking with neighbours is the easiest way to find out which provider has cables running through the building. All providers accept payment in advance for any number of months. Incremental discounts are on offer for advance payments of 3, 6 or 12 months and IPTV providers usually offer combined packages of internet, television and telephone. Payment is usually made in cash at the offices of the provider themselves, but all companies now accept bank transfers. Direct debit systems are not yet widely used in Mongolia, although are likely to become increasingly common in the near future. Residential use internet may be as inexpensive as 15,000 MNT per month, but business internet services may be as high as 200,000 MNT.

7. GROUNDS MAINTENANCE PAYMENTS

All landlords of a building or staircase form what is known as an “Owner’s Association”. They are jointly responsible for appointing a company or State agency to maintain common areas of the building. The majority of older apartment buildings in the city are maintained by a default State owned association. The owners of modern buildings are increasingly contracting maintenance of communal areas to private organisations, although these services are charged at a premium. For the older buildings maintenance costs are calculated per unit while Owner’s Associations in recently build apartment blocks are more likely to charge a maintenance fee per square meter of the unit per month and are considerably more expensive.

Within older buildings one might expect to pay no more than US$1.50 - US$2 per unit per month. Modern (usually post-2000) building maintenance may run to hundreds of dollars per month. Therefore, before purchasing a residential unit in Ulaanbaatar, it is important to ask what the maintenance costs are likely to be. Failure to do so may result in unexpected high outgoings.

Changing the maintenance company within a specific building requires a majority vote from the owners association. There is no legal obligation to choose a maintenance firm created by or sponsored by the developer of the building. Some buildings may levy additional charges for maintaining lifts, security teams, gardening, concierge services or even one-off renovation charges.

8. OBTAINING VISAS

Obtaining a visa to visit Mongolia is a reasonably painless exercise. Mongolia has embassies in 29 countries and tourist visas are available for a moderate fee. These are valid for a period of 30 days (or 90 days for U.S. citizens, providing the entrant registers within 30 days after arrival at the Immigration Office next to the Ulaanbaatar airport) although an extension is available for a further 30 days if required (multiple extensions are not usually granted and tend to necessitate a trip over the border in order to obtain an entirely new visa). A letter from an inviting travel agency of the Ministry of Foreign Affairs is usually required in order to obtain this extension but the initial visa does not usually require a letter of invitation (although for some countries, including India, this is the case).

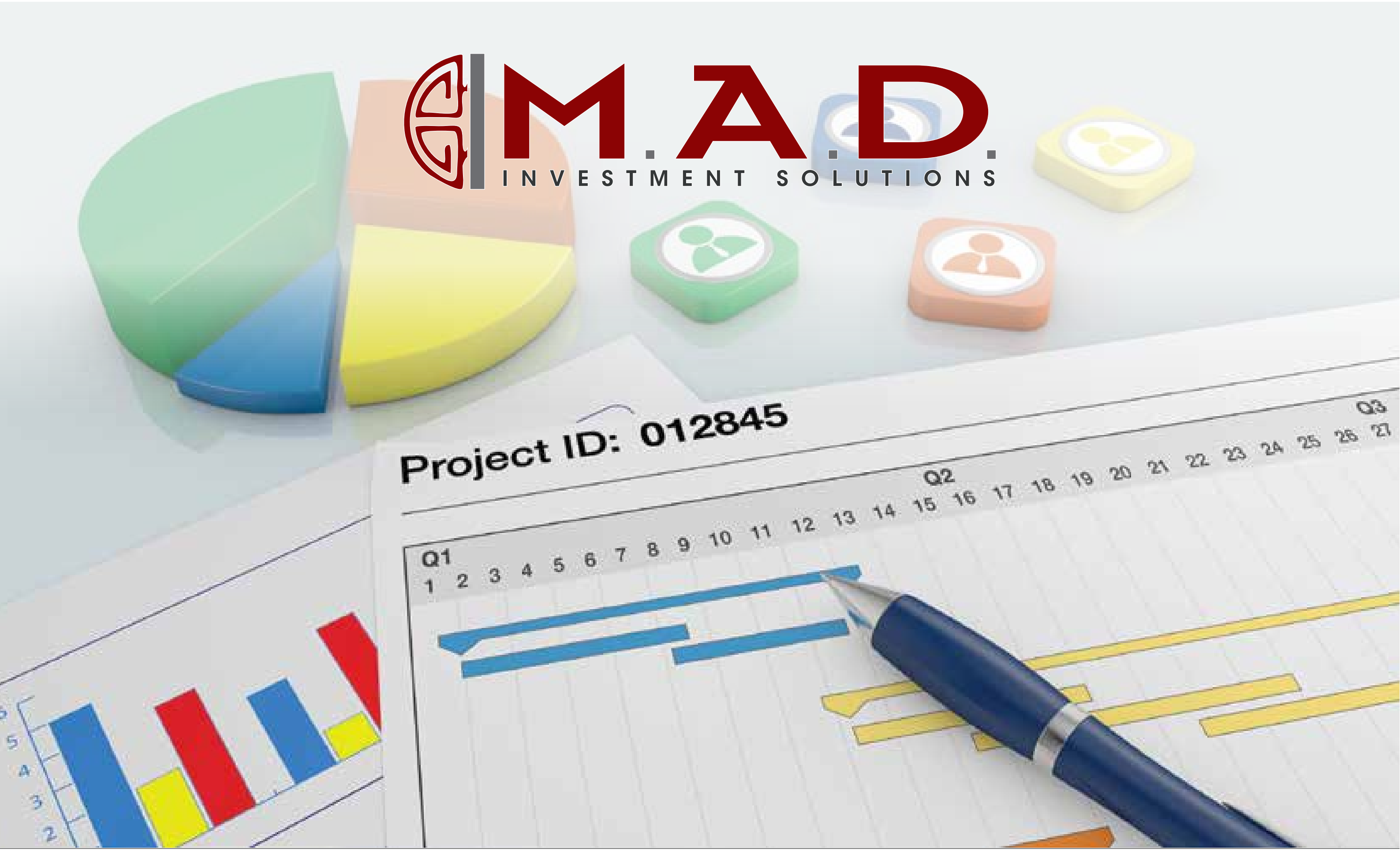
Work permits must be obtained for all foreign employees in Mongolia. As noted in the section on construction, Mongolia presently operates a revolving door policy in terms of foreign labour, with a cap on total number of foreign labourers allowed into the country of just below 30,000. However, the waiting list system tends to be applied to Chinese labourers and has not hampered larger companies from recruiting international experts in the past.

Obtaining work permits can, however, be quite complicated. Before arriving in Mongolia a single entry of year-long work visa must be applied for at any Mongolia embassy. This requires a letter of invitation and acceptance from the Ministry of Foreign Affairs, who will ask to be provided with a signed employment contract copy, a CV of the employee and copies of relevant educational certificates. After entry the foreign worker must register with the Immigration Office within 7 days. A work permit application must then be made at the Ministry of Labour and Social Welfare. A work placement fee of over 250,000 MNT per month of employment is payable to the ministry in advance. Copies of contracts, passport photographs and a letter from the employer detailing duration of stay and type of work must be submitted here. A long-term residency permit must also be obtained from the Office of Immigration. Once the work permit and residency permits have been obtained the initial single-entry visa can be extended for up to a year multiple-entry.

Shareholders or the registered Executive Director of a Foreign Invested company do not need to hold work permits in order to reside in Mongolia, providing they qualify for an Investor’s Card. This can be obtained from FIFTA and is issued as part of the process of establishing a foreign invested company. The investor will need to evidence at least 25% ownership over the investment in order to qualify as a foreign investor. Investor’s visas also require the investor to obtain a long-term residency permit if they are to live in Mongolia, to show evidence of their US$100,000 investment via a Mongolian bank account and to have established and provided tax declarations for the company in question prior to obtaining the long-term visa. Regulations have changed during 2013 concerning investor registration in Mongolia. In order to be considered as eligible for an investor’s visa each international investor into a new company must input US$ 100,000 or equivalent into a registered Mongolian entity. Previously, only the sum total of investment needed to equal US$ 100,000. In order to prevent fraudulent visa applications (in which a person claims to have established a company by borrowing US$100,000, depositing it in a bank account temporarily and then returning the funds once company certificates, visas and residency permits have been issued) investors must now show the funds in a foreign bank account and the legitimate transfer receipts showing their transfer to a Mongolian account.

On an annual basis the Government of Mongolia sets foreign worker quotas for each industry. These are based on the number of employees and the total equity in each company. A company outside of the mining sector would usually need to employ around 7 Mongolian workers for every foreign employee. There are no restrictions on numbers of foreign shareholders in a FIFTA registered company, although, as already noted, investors must hold at least 25% of the company shares to be eligible for an investors visa.

M.A.D.
INVESTMENT SOLUTIONS



PROJECT MANAGEMENT SERVICES

SUPPORT AND COORDINATION OF RENOVATION PROJECTS

While it is never easy to manage a real estate project, the main challenge remain its implementation. Indeed, it may turn out complicated to find a quality service provider able to understand your needs and requirements. Resorting to a professional project management service, you avoid the constant struggles and uncertainties of seeking adequate partners able to provide services meeting with your requirements. M.A.D. project management services aim to handle the whole project, so that, a complex project would become a simple matter for the client. We understand that our clients have their own expertise and do not wish to waste time by getting involved in the day to day project management issues of setting up an office, renovating an apartment or managing a construction project.

M.A.D. is experienced in project management in Mongolia and guarantees complete transparency and real communication. M.A.D. tailors its services on a case by case basis for each project but has already developed comprehensive expertise in renovating residential units (particularily those very small units where efficient space usage becomes a priority) and office units within Grade A buildings. Lastly we have developped great efficiencicies since the entire project is managed in-house with our own full time team of designers, architects, technicians, construction workers and their managers.

OUR SERVICES

- COORDINATION & LOGISTIC
- SPACE SOURCING AND RESEARCH
- CONTRACT / LEASE NEGOTIATION SUPPORT
- OVERSEEING DESIGN / SPACE PLANNING
- LIGHT CONSTRUCTION & RENOVATION
- PROCUREMENT MANAGEMENT
- FINANCIAL MANAGEMENT
- CONTRACTORS & LABOUR CO-ORDINATION

Makedifference LLC - Sukhbaatar District, 4th Khoroo, 67/1, Ulaanbaatar, Mongolia
Web: www.mad-mongolia.com - **Email:** info@mad-mongolia.com - **Tel:** +976 - 11 - 312 500

XXVII.INDUSTRY CONTACTS

1. MINISTRIES

DETAILS OF GOVERNMENT MINISTRIES				
MINISTRY NAME	**TEL.**	**WEBSITE**	**ADDRESS**	**E-MAIL**
Ministry of environment and green development	976-7010-7007	www.mandal.mn	Mandal office, Seoul street Sukhbaatar district, Po box-2292, Ulaanbaatar	info@mandal.mn
Ministry of foreign affairs	976-51-262788	http://mfat.gov.mn	Mongolia, Ulaanbaatar city, Peace avenue-7"A"	info@mfat.gov.mn
Ministry of finance	976-51-267468	http://mof.gov.mn	Mongolia, Ulaanbaatar city, Danzan street, 2nd building of government "D" corps	support@mof.gov.mn
Ministry of justice	976-51-267533	www.moj.gov.mn	Mongolia, Ulaanbaatar city, Chingeltei district, Hudaldaa street 6/1, 5th building of government	foreign@moj.gov.mn
Ministry of construction and urban development		http://land-constraction.gov.mn	Mongolia, Ulaanbaatar city,	
Ministry of Defense		http://mod.gov.mn	Mongolia, Ulaanbaatar city,	
Ministry of education, culture and science		http://mecs.gov.mn	Mongolia, Ulaanbaatar city, Sukhbaatar district, Baga toiruu street-44, 3rd building of government	info@mecs.gov.mn
Ministry of road and transport	976-11-322406 976-70112333	http://mrt.gov.mn	Mongolia, Ulaanbaatar city, Genghis avenue-11, 13th building of government	
Ministry of culture, sport and tourism		http://mongoliatourism.gov.mn	Mongolia, Ulaanbaatar city,	
Ministry of mining		http://mm.gov.mn	Mongolia, Ulaanbaatar city,	
Ministry of industry and agriculture	976-51-262271	http://mofa.gov.mn	Mongolia, Ulaanbaatar city, Bayanzurkh district, Peace avenue-16"A", 4th building of government	mofa@mofa.gov.mn
Ministry of labour	976-70121287	http://labornet.mn	Mongolia, Ulaanbaatar city,	lecom@labornet.mn
Ministry of human devlopment and social welfare		http://mswl.gov.mn	Mongolia, Ulaanbaatar city,	
Ministry of economic development	976-51-265912	http://med.gov.mn	Mongolia, Ulaanbaatar city, United Nation's street 5/1, 2nd building of government	info@med.gov.mn
Ministry of energy	70044917	http://www.energy.gov.mn	Mongolia, Ulaanbaatar city, Khan-Uul district, Genghis avenue, 7th building of government	info@energy.gov.mn
Ministry of health	11-320916	http://www.moh.mn	Mongolia, Ulaanbaatar city, Sukhbaatar district, Olymp street-2,8th building of government	admin@moh.mn

Source: Government of Mongolia

2. LEADING CONSTRUCTION AND DEVELOPMENT COMPANIES

A. MCS PROPERTY AND MCS CONSTRUCTION

MCS Property are part of the MCS Group. Ranked within the first 5 of the top 100 companies in Mongolia, MCS covers nine sectors, from fashion to mining. Established in 1993 s a relatively small scale energy sector consultancy, the company now employes over 4500 staff and is one of the three largest tax payers in Mongolia. The real estate arm of the organisation is MCS property. Founded in 1999 as MCS Construction and reorganised into MCS Property in 2006, the company is one of the leading construction management and property development companies in Mongolia. As well as conducting research and management MCS also carries out full-scale construction projects. MCS Properties is currently working on a major new residential development to the south of Ulaanbaatar city in partnership with Puma Group. This development, named 'Viva City' is advertised as a 'European Style' housing complex with 2000 apartments and space for over 100 retail and service outlets. The apartments, which range from just 20 square meters in size, are designed specifically for young households. Situated 6.5km from the city centre of Ulaanbaatar, the development of four storey blocks is situated at a remove from the city smog. Nevertheless, this project faces significant design issues. One of which is a lack of car parking for such a large residence and retail location. Moreover, the only available parking spaces are situated away from the housing units themselves, a situation that is less than ideal during the harsh winter.

Completed and ongoing projects by MCS include:

- Central Tower Commercial Building;
- Tiger brewery - 500 sqm factory;
- Spirt Bal Buram JSC spirit distillery plant;
- Goyo LLC 1,500 sqm cashmere factory renovation;
- Orchlon secondary school complec;
- Bellview luxury residential complex;
- Selbe residential complex; and
- Viva City Apartments
- MCS Coca-Cola bottling plant - 14,000 sqm.
- Umnugobi mining site workers camp;
- International-standard golf and ski resort (Sky Resort).

B. JUST GROUP

Founded in February 1999, Just Group began solely in the oil import industry but expanded to incorporate five sectors including mining, finance and real estate. The real estate arm "Erd Tana LLC", was incorporated in 2006 and has produced several large constructions, including a mid-range residential complex in Bayanzurkh district consisting of three 15 storey blocks and two 10 storey blocks.

C. JIGUUR GRAND GROUP

Jiguur Grand Group is one of the largest construction companies in Mongolia and is known for having produced the Jiguur Grand Plaza in Bayangol district, which it sold strata title to. It has also developed hospital and medical facilities, including the Grand Med facility. Jiguur Grand Group has also constructed high end property in Khan-Uul district, including the Zaisan Luxury Vilalge. During 2013 Jiguur Grand Group completed the ambitious Gegenteen project in Khan Uul District. This mixed use residential, commercial and entertainment facility represents the very first in a new wave of projects bringing commercial and retail facilities to the Stadium Area of Ulaanbaatar. The project will be complemented by a four-screen cinema and entertainment facility to be completed during 2014.

D. CHONO GROUP - CHONO PROPERTIES

Founded in 2001, Chono Properties is the property development arm of Chono Group. Its aim Is to become the leader in the Mongolian real estate industry. It has successfully completed several large, high-end residential projects in the past such as " Orgil Star town" and "Hugjil town". Currently, it is undertaking "Beehive" project-98 units apartment in the city centre after opening the landmark Blue Sky Tower in mid 2011. Chono Corporation have been in talks with Intercontinental about the potential of opening an Intercontinental managed hotel in Blue Sky Tower's designated hotel space. Nevertheless, it is rumored that Chono Corp may in fact manage the hotel themselves. Chono also own the Misheel Expo Centre to the south of the city centre. This large exhibition and home-ware retail centre was purchased as a rail storage warehouse by Chono corporation and turned into a successful retail space as well as a key location for business and leisure exhibitions.

Completed and pipeline projects include:

- Orgil Town: Town House Project - Site Area: 7,076m2
- Hugjil Town - 500 unit apartment complex covering area: 110,000m2
- The Beehive residence - 98 homes expected to be completed in September 2011, covering a footprint of: 8838 m2
- Blue Sky Tower - 25 storeys and 110m tall, making this the tallest building in Ulaanbaatar, featuring A grade retail, office, 12 residential units and space for a hotel of up to 200 rooms.

E. BRIDGE GROUP

Bridge Group LLC was established in 1996 with an initial investment of 370 million MNT, including Mongolian investors and Japanese engineers. The company has since grown to turn over in advance of 5 billion MNT per year and works in all areas of construction planning and implementation, as well as civil engineering and leasing of construction machinery and equipment. The company presently employs 400 employees, including skilled engineers. Bridge Group's development plans are among the most ambitious in the city, with plans to redevelop large swathes of the 40,000 and 50,000 apartments around the Tsetseg Tov (Flower Centre) and Ard Kino Cinema. The proposed 'Theatre District' would be centred around a 30+ level tower in atop the site of the existing Ard Kino facility, containing theatre spaces, recording studios, restaurants, commercial and retail space.

Completed and pipeline projects include:

- Maintenance work on the Japanese Embassy in Ulaanbaatar
- Construction of a new secondary school work under a Japanese Grant Aid project.
- Construction of a repair-workshop building for the "Mongolian State Autobus-1 Company"
- Construction of a new service centre for "Mobicom Corporation"
- Construction of the Bridge Group Building in Ulaanbaatar which serves as the company's headquarters
- Construction improvement of the Mongolian Water Service Bureau
- Road improvement work under the project of Road repair and improvement project in Ulaanbaatar
- Installation of 1400 km of optical fibre along the Mongolian Railway.

F. GANGAR HOLDING

Gangar Holding LLC have recently completed the Nogoon Tugul mid end housing project located in Bayanzurkh District. As one of Mongolia's top 100 companies for three years.

Completed and pipeline projects include:

- "Nogoon Tugul" - a 1000 units residential project located in Bayanzurkh district 6th khoroo.
- New apartment complex in Sukhbaatar District, 5th khoroo.

G. MONNIS PROPERTIES LLC

Monnis Group contains 15 subsidiaries, employing over 1000 people. It operates in sectors as diverse as aviation geological services, insurance and real-estate. Monnis Properties was established in 2006 as a real estate company managing property rentals in Mongolia but soon developed into a construction and project management company. The first Monnis property was the "Nissan Centre", located on the Sun Road, in Sukhbaatar District. In 2009 they completed the 15051 square meter Monnis Tower located at the heart of the central business district. Home to Oyu Tolgoi's administrative operations, this building has subsequently become a landmark.

H. NOMIN CONSTRUCTION

The company was established in 1997 as a team for construction consisting of 12 workers in order to do maintenance of subsidiaries and branches of Nomin Holding Co., Ltd. Since 2002 when it was recognized and expanded as a Nomin Construction Co., Ltd, the company has been working with over 150 staff involving in construction work, maintenance, and developing a construction drafts, elevator and escalator installation as well as making research and analysis on advanced material, production and marketing. In cooperation with the

Ministry of Roads, Transportation, Construction and Urban Development as well as the Ministry of Social Welfare and Labor of Mongolia the company prepares qualified employees through providing vocational training and practice work at its production base and over 1000 employees of 20 domestic enterprises have been employed and it also collaborates with over 10 foreign companies as partnership agreements. In development of its foreign relation, the company cooperates with Shanghai Mitsubishi Elevator Co., Ltd and Giant Kone Elevator Co., Ltd to supply and assembled elevators and escalators in the domestic market. Moreover, through its bilateral cooperation with professional organizations in USA, Japan, Germany and China, the company invites highly skilled experts from these organizations for short and long terms technology exchange progress among its engineers and technical staff.

The Nomin Construction Co., Ltd has accomplished construction works and refurbishments on over 20 projects particularly level by level refurbishments on State Department Store, bar – restaurant of “Od - Invest” Co., Ltd and roof maintenances in 2003 with cost 281.9 million tugrik and in first half of 2004 refurbishment of over 10projects including State Department Store, “Suun Dem” cafe, “Nomin Insurance” Co., Ltd branch, “Nomin Electronics” Co., Ltd have been completed successfully.

- “Nomin Department Store” in 2005 and “Nomin Supermarket” located in 12th sub-district.
- Unur khoroolol

I. MODUN

Modun also ranks among Mongolia’s top 100 companies and to date has been most active in the mid-upper residential market as well as low end residential and civil engineering sectors.

Completed and pipeline projects include:

- “Zaisan Tsagaan Suvraga”- 32 units apartment located in Khan-Uul district
- “Bogdiin Undur” complex – 52 units apartment located in Khan-Uul district

J. MAKS URGUU

Maks, or Max, Group has gone from strength to strength in 2011 with the completion of the new Ramada Hotel and Max Mall. Their construction arm has been operating in Ulaanbaatar and nationally, producing iconic buildings such as Max Tower.

Completed and pipeline projects include:

- Elegance Town
- Maks Tower 13 floor in chingeltei district for office use
- Hiimori 11 complex total of 108 units 12 floor 1 building in sukhbaatar district 7th khoroo completed in 2010
- Hiimori 12 complex total units of 60 in Bayanzzurkh district 3rd khoroo completed in 2010
- Hiimori 19 complex 228 units, 3 buildings in Khan-Uul district 3rd khoroo completed in 2009
- Max Mall and Ramada Hotel facility

K. BODI CONSTRUCTION

Bodi Group includes 13 subsidiary companies and 6 joint ventures, making it one of the largest companies in Mongolia. Established in 1993 as a general trading enterprise, Bodi International Co. Ltd. has expanded to employ over 1600 staff and is active in real estate, banking, electronics, trade and media sectors. In 2009 Bodi achieved 3rd place in the National Chamber of Commerce and Industry’s Mongolian Top 100 Companies ranking. Bodi’s property arm was established in 1997 as a full service provider for the real estate sector and has since completed large scale public and private projects. Bodi has come in for criticism over its handling of the National Amusement Park renovation. The Children’s Park of Ulaanbaatar was closed to the public in 2006 pending renovations. The Japanese firm, Itochu, along with Bodi, announced plans to renovate the park. When it reopened in early 2011, the National Amusement Park, as it is now known, was less than half of its original size. The remaining land will likely be parcelled off for commercial and residential real estate development.

Completed and ongoing projects include:

- Bodi Tower - commercial
- Sanzai Luxury Residential - residential and resort
- Renovation of the National Amusement Park
- New Grove - residential complex

The construction market is dominated by several large players. The biggest of these in terms of staff and operations are the Delta, Alpha and Omega construction companies. These three large construction entities are responsible for a majority of large constructions around Ulaanbaatar and have developed a familiarity with modern construction techniques that enables them to lead the industry

L. DELTA CONSTRUCTION

Delta Construction was started in 2003 and presently employs 28 engineers and 700 construction workers. It consists of 13 separate subsidiaries and has over 23 large projects to its name around the city of Ulaanbaatar and beyond.

It's projects include:

- The 55 ailin Oron Suutsni Building - 55 unit residential construction
- Crystal Town - 565 apartment luxury residence
- AABB XXK Building - A large two-tower residential development scheduled for completion in 2012.
- Park 9 Town - 5 towers of luxury residential accommodation in the Zaisan area with indoor leisure facilities and parking. Scheduled for 2012 completion.
- The Embassy Tower - Luxury residential building retail building in Sukhbaatar District (Embassy district) scheduled for full completion by the end of 2011
- Twin Park - Two tower, 15 storey mid-upper residential complex in the Khan-Uul District.
- Chilagu - 10 storey residential and office building, completed 2008.
- Hi-Fi Mega Store - Shopfront Retail in the Sukhbaatar District, completed in 2003.
- Karas XXK - 10 storey office and retail building, completed in 2006.

M. ALTAI CONSTRUCTION

Altai Construction LLC was established in 2003. They have successfully completed a number of high end apartment and residential complexes as well as prime office space. They remain one of Mongolia's largest companies and largest construction companies.

Completed and ongoing projects include:

- Zaisan 18 units penthouse
- Narkhan Town
- Altai Office
- Altai House
- Elite Apartment
- Express Tower

N. ECO CONSTRUCTION

Eco Construction LLC is a domestic company operating in Mongolia in the mid-upper and Luxury residential markets. Golden Park Complex and Deluxe Marshall Village are among its recent constructions.

- Golden Park Complex
- Deluxe Marshall Village
- Bayanzurkh khotkhon
- Narlag khotkhon
- Temuulel khotkhon
- Khaan Suudal

3. REAL ESTATE COMPANIES OPERATING IN MONGOLIA

Company Name	Company Details	
Aida	Website	www.aida.mn (not working)
	E-mail	tuya7878@yahoo.com
	Telephone	99037678
	Location	Prime Minister's street, 1st khoroo, Sukhbaatar district
	Active sectors	real estate and property
AktivZuuch	Established	2007
	Website	Active Zuuch Facebook profile
	E-mail	activezuuch@mcscom.mn
	Telephone	70113880
	Location	ARD cinema building, 2nd floor, Ulaanbaatar city
	Active sectors	real estate
Bairzuuch	Website	www.bairzuuch.mn
	E-mail	bairzuuch1@yahoo.com
	Telephone	77440404, 88000036
	Active sectors	real estate and properties
Bless Property	Website	www.blessproperty.mn
	E-mail	amgalan2011@gmail.com
	Telephone	+976-88117779
	Active sectors	Rental, sales, renovation, commercial, international service
CitiZuuch	Website	www.cityzuuch.mn
	Telephone	99133713
Damno	Telephone	321487
	Location	Osler centre khunsnii 1, 1st khoro, Sukhbaatar district
	Active sectors	real estate and property
Delta Zuuch	Established	2008
	Website	www.deltazuuch.mn
	E-mail	zuuch01@delta.mn
	Telephone	99069922, 254500, 99072200
	Location	Bayangol district, 3rd khoroo, street of transporters, Evergreen hotel
	Employees	
	Active sectors	real estate
	Director	
Demozu	Website	www.demozu.com
	E-mail	demozuproperties@yahoo.com
	Telephone	77110909, 777220909, 95128599
	Location	Sukhbaatar district, 6th khoroo, Mongolian National University street, 4th block 12
	Active sectors	real estate and property
	Established	2009
	E-mail	essential_st@yahoo.com

Duch	Telephone	976-95137218
	Location	Bayangol district, 2nd khoroo, 47/3, Ulaanbaatar
	Active sectors	real estate
ESTA	Website	www.esta.mn
	E-mail	info@esta.mn
	Telephone	77300099, 98882211
	Location	Bayangol district, seoul street, odod complex 45-4, number 407
	Active sectors	real estate and properties
Fuji Beak	Website	www.fujizuuch.mn
	E-mail	fujizuuch@yahoo.com
	Telephone	88103509
	Location	Chingeltei district, left side of tengis movie theatre yellow 2 floor building, Ulaanbaatar
	Active sectors	real estate and properties
House Mall	Established	2009
	Website	www.housemall.mn
	Telephone	70123638, 99119416, 99693628, 96643682
	Active sectors	real estate and property
	Director	U.Ganbaatar
M.A.D.Investment Solutions	Established	2009
	Website	www.mad-mongolia.com
	E-mail	info@mad-mongolia.com
	Telephone	(976)-11-312500
	Location	Sukhbaatar district, 4th khoroo, building no 40, apt33
	Employees	17
	Active sectors	Property investment, fund management, real estate brokerage, renovations, rental and sales, property management, serviced apartments, research and due diligence
	Director	Christopher de Gruben
Master Properties	Established	Nov 2007
	Website	www.master-properties.mn
	E-mail	info@master-properties.mn
	Telephone	333366
	Location	Ulaanbaatar-11 Chingeltei district ,Sukhbaatar square , Ulaanbaatar Khan-Uul district 11th khoroo, Orgil business centre 1st floor
	Employees	over 25 employees
	Active sectors	real estate and property
	Director	TS.DASHTSEREN
Mesco Arvis	Established	Aug 2010
	Website	www.mesco.mn
	Telephone	96062457, 88062457, 88052457, 70122457
	Location	Bayangol district, 2nd khoroolol, 1st khoroo, Grand Plaza, 5th floor number 76, Ulaanbaatar, Mongolia
	Employees	4 employees
	Active sectors	real estate and property

Modun	Established	1993
	Website	www.modun.mn
	E-mail	info@modun.mn
	Telephone	461146
	Location	1st Khoroo, Bayanzurh district, Ulaanbaatar
	Employees	over 100
	Active sectors	construction material
	Director	D.Batbayar
Mongolian Properties	Established	2002
	Website	www.mongolia-properties.com
	E-mail	info@mongolianproperties.com
	Telephone	99082350; 98101177; 11323632
	Location	Tserendorj Street, Ulaanbaatar
	Active sectors	Rental / Sale / Residential; Commercial / Development and Construction
Mongolian Real Estate	Website	www.mongolianrealestate.com
	E-mail	info@mongolianrealestate.com
	Telephone	310445, 99142710, 99117986
	Active sectors	real estate and properties
MYK	Website	www.myk.mn
	E-mail	info@myk.mn
	Telephone	976-11-317916, 976-11-319570
	Location	Olimpic street, 1st khoroo, Sukhbaatar district
	Active sectors	real estate, construction
Nomin Realtor	Established	2005
	Website	www.realtor.nomin.net
	E-mail	realtor@nomin.net
	Telephone	99083893
	Location	Department store 6th floor, Enkh Taivnii Urgun Chuluu, Ulaanbaatar, Mongolia, P.B 210644
	Active sectors	real estate
NPDC	Telephone	345410
	Location	Misheel centre lesft door, 3rd floor
Ochir House	Established	1990
	Website	www.ochirllc.com
	E-mail	cbud@magicnet.mn, info@ochirllc.com
	Telephone	325036
	Location	Sukhbaatar district, 1st khoroo, ambassador office number 202, Ulaanbaatar
	Employees	over 400 employees with 20 engineers
	Active sectors	real estate and property
	Established	2008

OSZA	Website	www.osza.mn
	Telephone	01352-21551, 9555-5595
	Location	3rd micro building 17 OSZA centre Erdenet city, Orkhon aimag Mongolia
Realtor	Established	2004
	Website	www.realtor.mn
	E-mail	info@realtor.mn
	Telephone	(976)-70120262, 88061133
	Location	Khan-Uul District, 11th khoroo, new millionaire building, number 503 Ulaanbaatar
	Active sectors	real estate
Sakura Property	Established	Nov, 2007
	Website	www.sakura.mn
	E-mail	info@sakura.mn
	Telephone	(976)-11-254001, 99152251, 88551600
	Location	Bayangol District, 2nd khoroo, Building 25 of guiders, Ulaanbaatar
	Active sectors	Real Estate Brokerage Business within Mongolia
	Director	Nyamaa Ganbat
Sfeco Properties	Established	2007
	Website	www.sfecoproperties.mn
	E-mail	sales@sfecoproporties.mn
	Telephone	976-7011-7015
	Location	Grand office building, Sukhbaatar district, 2nd Khoroo, Ulaanbaatar city, Mongolia
	Active sectors	real estate and property
Tenkhleg Zuuch	Established	2004
	Website	www.zuuch.mn
	E-mail	magazine@zuuch.mn
	Telephone	99113949, (976)-11-310529
	Location	Chingeltei district, 1st khoroo, street of the tourists, 39-19 property agency centre, Ulaanbaatar
	Active sectors	real estate and property
	Director	B.Munkhnaran, D.Gerelt-Od
Torgon Zuuch	Website	www.torgonzuuch.mn
	E-mail	torgonzuuch@yahoo.com
	Telephone	325221, 99062634
	Location	Bayanzurkh district 13th khoroolol
	Active sectors	real estate and property
Uils	Established	2007
	Website	www.uils.mn
	E-mail	info@uils.mn
	Telephone	99082350; 98101177; 11323632
	Location	Uils Agency, Chingeltei district 4th khoroo baga toiruu apt 13.
	Active sectors	Rental Sale / Residential; Commercial

	Director	Burmaa
UBP Real Estate Agency	Established	2011
	Website	www.ubpro.mn
	E-mail	ariunbileg@ubpro.mn
	Telephone	99094777; 11326749
	Location	Seoul Street
	Active sectors	Rental Sale / Residential; Commercial
	Director	Ariunbileg Khurelbaatar
Ulaanbaatar Zuuch	Website	www.ubzuuch.mn
	Telephone	70129898, 96969898
	Active sectors	real estate and property
Unkhaalag Setgelgee	Established	2002
	Website	buyrealestateinmongolia.com
	E-mail	info@buyrealestateinmongolia.com
	Telephone	99112075
	Location	P.O. Box 13, Ulaanbaatar 46, Mongolia
	Active sectors	real estate and properties
	Director	Bernand Van der Haegen
UB Downtown Rentals	Website	www.ubdowntown.com
	E-mail	ubdowntownrentals@gmail.com
	Telephone	+976 8807 4082
	Active sectors	Rentals
	Agents	Tsendee and Milli Martinez

4. INSURANCE COMPANIES OPERATING IN MONGOLIA

List of Mongolian Insurance Companies					
Company name	**Property Insurance**	**Typical rates**	**E-mail**	**Telephone**	**Website**
Mandal Insurance	Yes	Based upon quotation			
Mongol insurance	Yes	Based upon quotation	insurance@mongoldaatgal.mn	77170000 99106907 313615	www.mongoldaatgal.mn
MIG insurance	Yes	0.4-1.5% for 1 year	mig@magicnet.mn	330130 330132	www.mig.mn
Bodi insurance	Yes	0.3-1.5 for year	bodi@bodiinsurance.mn	323444 99054842	www.bodiinsurance.mn
Ard insurance	Yes	Based upon quotation	arddaatgal@magicnet.mn	77200088 88118926	www.arddaatgal.mn
Tenger insurance	Yes	0.8-1.0% for 1 year	insurance@tengerinsurance.mn	312234	www.tengerdaatgal.mn
Soyombo insurance	Yes	0.5-1.2%	insurance@soyombodaatgal.mn	77220707	www.soyombodaatgal.mn
Nomin insurance	Yes	Based upon quotation	Insurance@nomin.net	330023	www.insurance.nomin.net
Ulaanbaatar City insurance	Yes	Based upon quotation	info@ubci.mn	70119827	www.ubci.mn
Mongol Trust Holdings insurance	Yes	0.2-2.0 for 1 year	contact@mongoltrustholding.mn	330291	N/A
Munkh insurance	Yes	0.5-0.9%	info@munkhdaatgal.mn	99092167	www.munkhdaatgal.mn
Practical insurance	Yes	Based upon quotation	insurance@practical.mn	331525 312131	www.practical.mn
Gan Zam insurance	Yes	0.8-2.0%	Z_erkhenbayar@yahoo.com	242667	N/A
Jonon insurance	Yes	1%	jononinsurance@chingis.com	88112516 88833789	N/A
Mandal insurance	Yes	0.2-0.5%	info@mandal.mn	99109337 70107007	www.mandal.mn
Khaan insurance	Yes	0.2%	ulziimaa@khaandaatgal.mn	94994030 75757588	www.khaandaatgal.mn
Monre insurance	Yes	0.4-0.8%	munkhzaya@monre.mn	7000 9000 9910 4660	www.monre.mn

XXVIII.MORTGAGE LENDERS AND RATES

COMMERCIAL BANK MORTGAGE LENDING RATES AND CONDITIONS			
Khan Bank			
Established	2000		
Mortgages Since	2004		
Mortgage Loan Total	791.1 billion MNT		
Branches in Capital	87		
Branches Nationally	501		
Package	Mortgage Information		
APARTMENT PURCHASE LOAN	Advance Payment	Loan Period	
		Monthly (charged at this rate for up to 120 months)	Per Annum
	MNT 30-39% of gross	1.35%	16.2%
	MNT 40-49% of gross	1.3%	15.6%
	MNT Over 50% of gross	1.25%	15%
	Loan Amount		
	Ulaanbaatar City	Maximum loan amount for residential 100,000,000 MNT / 70% of value	
	Outside of Ulaanbaatar City	Maximum loan amount for residential 30,000,000 MNT / 70% of value	
	Fees		
	Application Fee	15,00 MNT or 15 USD	
	Acceptance Fee	1% of total	
	LTV		
	70%		
PRIVATE HOUSE AND FENCE PURCHASE LOAN	Advance Payment	Loan Period	
		Monthly (charged at this rate for up to 60 months)	Per Annum
	MNT 30-39% of gross	2.2%	26.4%
	MNT 40-49% of gross	2.1%	25.2%
	MNT Over 50% of gross	2%	24%
	Loan Amount		
	Private House	Maximum loan amount of 50,000,000 MNT / 70% of value	
	Private House and Fence	Maximum loan amount of 30,000,000 MNT / 70% of value	
	Fees		
	Application Fee	15,00 MNT or 15 USD	
	Acceptance Fee	1% of total	
	LTV		
	70%		
MORTGAGE TERM DEPOSIT			
	The purpose of the Mortgage Term Deposit vehicle is to support Mongolians who live and work in Korea to purchase housing or apartments. This service is available after a certain amount of funds have been deposited in the term deposit account by the customer. Deposit accounts can be used as collateral for bank loans and there is no minimum balance. The account is based upon a 180 day term.		
	Annual Interest Rates		

COMMERCIAL BANK MORTGAGE LENDING RATES AND CONDITIONS

Khan Bank

	Annual Interest Fee	5.4%
	Reduced Interest Rates	2.4%

Mortgage Loan Conditions

Loan recipients must be permanent residents in the area in which they are buying.
The immovable property must be selected before loan is approved.
This property must not be subject to any on-going or pending legal claim.
Minimum deposit is 30% of the total market value of the property.
Recipients must prove a steady income sufficient to repay the loan principal plus interest, expenses according to the payment schedule specified in the loan agreement.

2011 - 2012 Comparisons

- During 2012 Khan Bank Raised their loan acceptance fees by 0.5%
- Typical loan periods reduced to 120 from 180 months for apartment purchase loans
- Interest rates in 2011 started at 15% for Apartment Loans. In 2012 this rose to 22.8% in line with broadly increasing interest rates and a tightening on lending during 2012.

Contact Details

Website	www.khanbank.com
Telephone	976-11-332333
E-mail	callcentre@khanbank.com
Central Office Address	Seoul street-25, P.B- 192, Ulaanbaatar-44, Mongolia

Savings Bank	
Established	1996
Mortgage Loan Total	217,024 billion MNT
Branches in Capital	70
Branches Nationally	368

Mortgage Information

Advance Payment	Amount	Monthly Interest	Loan Term
MNT 30-50% of gross	Up to 100 million MNT in Ulaanbaatar, up to 30 million MNT in Province Centres and ip to 5 million MNT in soums.	2.5%	Up to 120 Months
MNT 51% or more of gross	Up 10 100 million MNT in Ulaanbaatar, up to 30 million MNT in Province Centres and ip to 5 million MNT in soums.	2.2%	

Housing Loan (for building and non-apartment purchases) Information

Advance Payment	Amount	Location	Monthly Interest	Loan Term
MNT 30-50% of gross	Up to 50 million MNT in Ulaanbaatar, up to 20 million MNT in Province Centres and ip to 10 million MNT in soums.		2.5%	Up to 60 Months
MNT 51% or more of gross	Up to 50 million MNT in Ulaanbaatar, up to 20 million MNT in Province Centres and ip to 10 million MNT in soums.		2.2%	
Loan Fee		None		

Mortgage Loan Conditions

The borrower must have no overdue loan payments and/or bad loan history with other banks and financial institutions
The borrower must have no outstanding debts and the property must have no debts attached to it.
The purchased property have to be in the use of borrower or his/her family as a residence
The borrower must have constant income (salary or business income)
The property to be purchased with a mortgage loan must be chosen before the mortgage can be agreed.

2011 - 2012 Comparisons

- Interest rates rose from a minimum of 1.5% per month to a present 2.2% per month in accordance with greater restriction on lending practices.

Contact Details

Website	www.savingsbank.mn
Telephone	976-70115566
E-mail	centralbranch@savingsbank.mn
Central Office Address	Savings bank central office, Baga Toiruu-10, I khoroo,Chingeltei district,Ulaanbaatar city, Mongolia.

State (Toriin) Bank	
Established	2009
Mortgage Loan Total	62.7 billion MNT
Branches in Capital	12
Branches Nationally	13

Mortgage Information

MORTGAGE LOAN	Advance Payment	Loan Amount	Monthly Interest Rates	
			MNT	US$
	30% - 50%	Up to 100 million MNT or 100,000 USD	1.7%	1.3%
	Above 50%	Up to 100 million MNT or 100,000 USD	1.6%	1.2%
	Interest only payments available for up to the first three years.			
HOME RENOVATION LOAN	Advance Payment	Loan Amount	Interest Rate (on 100 Million MNT or US$ 100,000	
			MNT	US$
	N/A	Up to 20 million MNT or 20,000 USD	1.8%	1.5%

Fees	
Loan Fee	0.5% for either US$ or MNT loans

Mortgage Loan Conditions

The mortgage loan recipient must have been employed for at least 18 months or run a business successfully for 18 consecutive months. An employment contract or proof of steady income will be sought.
Income source will also be verified with a bank statement.
The recipient will have a valid ID, a permanent address and full legal capacity.
Living expenses and loan repayments must not exceed the proven steady salary income or business revenue of the loan recipient.
Monthly repayments cannot exceed 50% of the monthly income after tax.
minimum down payment is 20%.
The property to be purchased with a mortgage loan must be chosen before the mortgage can be agreed.
The property must meet the requirements of a long-term collateral price and have a registration certificate.
The borrower must have no outstanding debts and the property must have no debts attached to it.
The mortgage recipient must have a joint loan-holder.

2011 - 2012 Comparisons

•The LTV ratio of State Bank loans actually increased from 70% to 80% under certain conditions.
•A home renovation loan was introduced
• Interest rates rose from a baseline of 0.9% (USD) and 1.2% (MNT) in 2011 to 1.2% (USD) and 1.6% (MNT) during 2012 in line with tightening lending restrictions and rising base rates.

Contact Details

Website		www.statebank.com
Telephone		976-11-312107, 976-11-3232244, 976-11-1899
E-mail		state@statebank.mn

Trade & Development Bank

Established	1990
Mortgage Loan Total	688 billion MNT
Branches in Capital	25
Branches Nationally	13

Mortgage Information

Loan Amount	Advance Payment	Interest Rates			
		Monthly		Annual	
		MNT	USD	MNT	USD
Maximum 100 million MNT, or equivalent USD.	MNT 30-40% of gross	1.6%	1.3%	19.2%	15.6%
	MNT Over 41%	1.5%	1.25%	18%	15%

Loan Period

1 - 15 years

Fees

Application Fee	None
Loan Fee	None

Loan Details

TDB Presently offers four mortgage products with broadly comparable characteristics, as well as offering life insurance and property insurance. Mortgage loans may be issued for purposes of building or renovating a house. If for building a house additional collateral is required in the form of another fixed asset. for an unfinished building, either the borrower's fixed asset of a third party guarantee is required as collateral until the building is completed. Additionally, land ownership licences in the name of the borrower and his/her family must be held at the bank until the full repayment of the loan.

A house under mortgage and collateralized fixed asset should be fully insured (property and life insurance) until the end of the repayment period. Savings with a bank may be used as collateral.

If a borrower is purchasing a house from a third party the mortgage should be placed in an escrow account until the house is registered in the name of the borrower at the time of transaction.

Mortgage Loan Conditions

Loan recipients must be citizens of Mongolia and residents of Ulaanbaatar city, Erdenet or Darkhan

Recipients must be 21 years of age or over and be financially capable of repaying the loan before retirement age.

Recipients must have worked at their current place of employment for at least one year. Private business entrepreneurs should have operated for at least one years in the same business.

Net household income must not be less than 500,000 MNT per month and 50% of net family income should be sufficient to make monthly instalments.

For a loan to build a house, or complete a house already under construction, the customer should be able to contribute at least 30% of the total construction cost.

An apartment purchased with a mortgage from TDB should have property insurance.

2011 - 2012 Comparisons

- Mortgages were extended to residents of Erdenet and Darkhan cities. These were previously only available to residents of Ulaanbaatar city.
- In line with stricter restrictions on borrowing, the percentage of household income deemed sufficient to make monthly instalments was raised from 45% to 50%.
- Annual interest rates rose from a baseline of 13.80% in 2011 to 15% in 2012 in line with increasing base rates and tighter lending restrictions.
- Maximum loan periods were raised from 10 - 15 years.

Contact Details

Website	www.tdb.mn
Telephone	976-11-332333
E-mail	hqbranch@tdm.mn
Central Office Address	TDB Central Office, Tourist Street, Baga Toiruu, Ulaanbaatar City, Mongolia

Golomt Bank	
Branches in Capital	51
Branches Nationally	36

SMALL HOUSE PURCHASE (GER OR PERI-URBAN AREA MORTGAGE)	Purpose	Loan Amount	Advance Payment	Loan Term	Interest Rates (Monthly)		
					Monthly	Annual	
	Purchase of small house	Up to 30 million MNT	At least 30%	120 months	2.1%	25.2%	
	Construction of small house	up to 20 million MNT	At least 60%	96 months	2.1%	25.2%	
	Both of these loans offer a grace period of three months. There is no prepayment penalty. Eligibility criteria are as follows: consistent income; At least 2 years of consistent work of business operations; If the house is under construction, at least 60% of construction must be completed; No outstanding loans with other banks of NBFIs.						
	Application Fee			10,000 MNT			
	Loan Fee			1% of loan amount			
PRIVATE HOUSE MORTGAGE LOAN	Purpose	Loan Amount	Advance Payment	Loan Term	Interest Rates (Monthly)		
					Downpayment of 30% - 49%	Downpayment of 50% or more	
	Purchase of Private Housing	Up to 200 million MNT	At least 30%	15 - 20 years	1.95%	1.9%	
	This loan offers a grace period of three months. Collateral insurance and life insurance is offered and required.There is no prepayment penalty. Eligibility criteria are as follows: Consistent income; Actual need to purchase a new house or apartment; Capacity to finance at least 30% of the total price of the house or apartment; At least 2 years of consistent work of business operations; For newly built apartments, at the time of purchase the apartment must have been inspected and approved by the State Committee; The purchased apartment will be the collateral for the loan; The age of married couples must be under 30.						
	Application Fee			10,000 MNT			
	Loan Fee			1% of loan amount			
YOUNG FAMILY MORTGAGE LOAN	Purpose	Loan Amount	Advance Payment	Loan Term	Interest Rates (Monthly)		
					Downpayment of 20% - 29%	Downpayment of 30% - 49%	Downpayment of 50%+
	Purchase of Private Housing	Up to 70 million MNT	At least 20%	Up to 20 years	2%	1.95%	1.9%
	Collateral insurance and life insurance is required. This loan offers a grace period of the first three months. Eligibility criteria are as follows: Consistent income; Actual need to purchase a new house or apartment; Capacity to finance at least 30% of the total price of the house or apartment; At least 2 years of consistent work of business operations; For newly built apartments, at the time of purchase the apartment must have been inspected and approved by the State Committee; The purchased apartment will be the collateral for the loan; The age of married couples must be under 35.						
	Application Fee			10,000 MNT			
	Loan Fee			1% of loan amount			
GOLOMNT BANK STANDARD MORTGAGE LOAN	Purpose	Loan Amount	Advance Payment	Loan Term	Interest Rates (Monthly)		
					Downpayment of 30% - 49%		Downpayment of 50%+
	Purchase of Apartments	Up to 120 million MNT	At least 20%	15 - 20 years	1.95%		1.9%
	Collateral insurance and life insurance is required. This loan offers a grace period of the first three months. Eligibility criteria are as follows: Consistent income; Actual need to purchase a new house or apartment; Capacity to finance at least 30% of the total price of the house or apartment; At least 2 years of consistent work of business operations; For newly built apartments, at the time of purchase the apartment must have been inspected and approved by the State Committee; The purchased apartment will be the collateral for the loan.						
	Application Fee			10,000 MNT			
	Loan Fee			1% of loan amount			

2011 - 2012 Comparisons

- Golomt bank dramatically expanded their mortgage lending in 2012, offering new mortgage products at some of the lowest monthly interest rates on the market at present.

Website	www.golomtbank.com

Golomt Bank

Telephone	976-11- 311530, 976-11-311971,976-11-310639
E-mail	mail@golomtbank.com
Central Office Address	Bodi International Company Office, Sukhbaatar street, I Khoroo, Chingeltei district, Ulaanbaatar 210620A

Erel Bank

Established	1997
Mortgage Loan Total	19.1 billion MNT
Branches in Capital	3
Branches Nationally	2

Mortgage Information

Loan Amount	LTV Ratio	Loan Term	Monthly Interest
Up to 100 million MNT	Up to 50% of collateral value	24-60 months	2.1%
USD Not Available		-	-

Mortgage Loan Conditions

Buyer must be over 21 years of age
Minimum deposit is 30% of the total market value of the property
The immovable property’s construction must be over 60 percent, while loan is approved.
Recipients must prove a steady income sufficient to repay the loan principal plus interest, expenses according to the payment schedule specified in the loan agreement.

2011 - 2012 Comparisons

- Erel Bank has raised interest rates for its mortgage loan in accordance with rising base-rates and tighter lending conditions. In 2011 their mortgage loans were offered at 1.9%, which has risen to 2.1% in 2012.

Contact Details

Website	www.erelbank.mn
Telephone	976-11-344550
E-mail	info@erelbank.mn
Central Office Address	Chingisiin Urgun Chuluu, Khan-Uul district, Ulaanbaatar city, Mongolia, P.B 210636

Ulaanbaatar City Bank

Established	1998
Mortgage Loan Total	221.9 billion MNT
Branches in Capital	3
Branches Nationally	5

Mortgage Information

APARTMENT PURCHASE LOAN	Loan Amount	Loan Term	Interest Rates (Monthly)	
			30% - 49% downpayment	Above 50% downpayment
	Up to 100 million MNT	Up to 240 months	2.1%	1.9%
CONSTRUCTION MORTGAGE	Loan Amount	Loan Term	Interest Rates (Monthly)	
			30% - 49% downpayment	Above 50% downpayment
	Up to 100 million MNT	Up to 240 months	2.1%	1.9%
40,000 HOUSEHOLDS PROJECT LOANS	Loan Amount	Loan Term	Interest Rates	
			Monthly	Annual
	Up to 25 million MNT	Up to 84 months	0.92%	11%

Mortgage Loan Conditions

Loan recipients must be citizen of Mongolia
The mortgage loan recipient must have been employed for at least 12 months or run a business successfully for 24 consecutive months
Recipients must prove a steady income sufficient to repay the loan principal plus interest, expenses according to the payment schedule specified in the loan agreement
Loan recipients must not have any loan in other banks or non-banking organisations
This property must not be subject to any on-going or pending legal claim.
Minimum deposit is 30% of the total market value of the property.
Borrowers taking out mortgage loans for purchase of houses in the 40,000 Homes Housing Project must be approved to receive a loan for the intended apartment.

2011 - 2012 Comparisons

- Ulaanbaatar City Bank has increased its interest rates for apartment purchase loans from a low of 1.3% in 2011 to 1.9% per month in 2012. This in in line with a rising base rate and restrictions on lending.
- Purchase loans for 40,000 Homes Project apartments remain unchanged in terms of their low interest rates

Contact Details

Website	www.ucbank.mn
Telephone	976-11-319041
E-mail	CEO@khanbank.com, callcentre@khanbank.com
Central Office Address	Sukhbaatar street -16, I khoroo, Chingeltei district - 5 floor, Sukhbaatar square, Ulaanbaatar, Mongolia.

Capitron Bank

Established	2001
Mortgage Loan Total	77 billion MNT
Branches in Capital	10
Branches Nationally	7

Mortgage Information

Loan Amount	Advance Payment	Interest Rates	
		Monthly	Annual
Maximum 150 million MNT	MNT 30-40% of gross	2.2%	26.4%
	MNT 40-50% of gross	2.1%	25.2%
	MNT more than 50% of gross	1.9%	22.8%

Loan Period

Up to 15 years

Fees

Application Fee	None
Loan Commission	0.25%

Mortgage Loan Conditions

Borrowers must be 21 years of age with the financial capacity to pay off the mortgage loan prior to retirement age.
Monthly repayments should not exceed 60% of the family income or the remaining income after loan repayment should be no less than 50,000 MNT per family member.

2011 - 2012 Comparisons

- During the course of 2012 Capitron Bank has simplified its mortgage lending processes.
- Rates have climbed in accordance with a rising base rate, from a low of 1.4% per month to 1.9%.
- Loan commissions have been reduced to a flat 0.25% of total from 0.5% in 2011.

Contact Details

Website	www.capitronbank.mn
Telephone	976-11-315503
E-mail	ganbold@capitronbank.mn
Central Office Address	Capitron Bank Central Building, Ulaanbaatar - 14253. Water Street, 4. Sukhbaatar District, Ulaanbaatar City, Mongolia.

Xac Bank	
Branches in Capital	28
Branches Nationally	8

Mortgage Information

<table>
<tr><td rowspan="6">GER DISTRICT MORTGAGE</td><td rowspan="2">Purpose</td><td rowspan="2">Loan Amount</td><td rowspan="2">Advance Payment</td><td rowspan="2">Loan Term</td><td colspan="2">Interest Rates (Monthly)</td></tr>
<tr><td>Monthly</td><td>Annual</td></tr>
<tr><td>Purchase of sub-urban housing</td><td>Up to 30 million MNT</td><td>40% minimum</td><td>up to 10 years</td><td>1.5% - 1.75%</td><td>18% - 21%</td></tr>
<tr><td>Construction Completion</td><td>up to 30 million MNT</td><td>At least 20% of construction works completed</td><td>up to 10 years</td><td>1.5% - 1.75%</td><td>18% - 21%</td></tr>
<tr><td colspan="6">Additional collateral is required during the construction of a housing unit. 100% mortgages are available from Xac bank, although the bank will require additional property to pledge. In addition, for a 100% mortgage, proof from the State Property Office that a person is a first time home buyer will be required.
Eligibility criteria are as follows: Capacity to pay the minimum percentage downpayment; At least 2 years of employment experience under a labour contract, with at least 1 year continuous under the same company; Consistent sufficient income to repay the interest payment and principal for the term of the loan.</td></tr>
<tr><td colspan="3">Loan Fee</td><td colspan="3">1% of loan amount</td></tr>
<tr><td rowspan="6">PRIVATE HOUSE MORTGAGE LOAN</td><td rowspan="2">Purpose</td><td rowspan="2">Loan Amount</td><td rowspan="2">Advance Payment</td><td rowspan="2">Loan Term</td><td colspan="2">Interest Rates (Monthly)</td></tr>
<tr><td>MNT</td><td>USD</td></tr>
<tr><td>Purchase of Private Housing</td><td>Up to 100 million MNT</td><td>At least 40%</td><td>Up to 10 years</td><td>1.5% - 1.75%</td><td>1.35% - 1.5%</td></tr>
<tr><td colspan="6">This loan offers a grace period of three months. Collateral insurance and life insurance is offered and required.There is no prepayment penalty.
Eligibility criteria are as follows: Consistent income; Actual need to purchase a new house or apartment; Capacity to finance at least 30% of the total price of the house or apartment; At least 2 years of consistent work of business operations; For newly built apartments, at the time of purchase the apartment must have been inspected and approved by the State Committee; The purchased apartment will be the collateral for the loan; The age of married couples must be under 30.</td></tr>
<tr><td colspan="3">Loan Fee</td><td colspan="3">1% of disbursement amount</td></tr>
<tr><td colspan="6">Additional collateral is required during the construction of a housing unit. 100% mortgages are available from Xac bank, although the bank will require additional property to pledge. In addition, for a 100% mortgage, proof from the State Property Office that a person is a first time home buyer will be required.
Eligibility criteria are as follows: Capacity to pay the minimum percentage downpayment; At least 2 years of employment experience under a labour contract, with at least 1 year continuous under the same company; Consistent sufficient income to repay the interest payment and principal for the term of the loan.</td></tr>
</table>

2011 - 2012 Comparisons

- Xac Bank offers variable interest rate mortgages indexed to the Bank’s cost of funds.
- Xac Bank has begun to offer a varied range of mortgages at low interest rates, below market average, in 2012.

Contact Details

Website	http://www.xacbank.mn/
Telephone	+976 (11) 318185
E-mail	info@xacbank.mn
Central Office Address	XacBank HQ Bldg, Ulaanbaatar-14200, Post Branch 20A, PO Box-721, MONGOLIA

Capital Bank

Branches in Capital	26
Branches Nationally	31

Mortgage Information

APARTMENT PURCHASE LOAN	Downpayment Amount	Monthly Interest Rates (MNT)		Monthly Interest Rates (Other Currency)		Interest Rates (Monthly)	
		Ulaanbaatar	Rural	Ulaanbaatar	Rural	Monthly	Annual
	Above 51%	1.5%	1.65%	1.25%	1.35%	1.5% - 1.75%	18% - 21%
	41% - 50%	1.6%	1.75%	1.35%	1.45%	1.5% - 1.75%	18% - 21%
	20% - 40%	1.7%	1.85%	1.45%	1.55%		
	To be eligible for an apartment loan the borrower must be resident in the area. The loan payment shall not exceed 60% of the net household income. Potential borrowers must not have any non-performing loans on their records.						
	Loan Fee				None		

CONSTRUCTION LOAN	Purpose	Loan Amount	Advance Payment	Loan Term	Interest Rates (Monthly)			
					MNT		USD	
					UB	Rural	UB	Rural
	Financing of construction, repair and expansion	Up to 20% of the owner's capital	-	Up to 24 Months	1.7% - 2.1%	1.7% - 2.1%	1.5% - 2.0%	1.5% - 2.0%
	Potential borrowers must not have any non-performing loans on their records. Borrowers must achieved no less than 2 years of active business. The borrower must have sufficient collateral assets to meet the bank's collateral requirements.							
	Loan Fee			None				

2011 - 2012 Comparisons

- Capital bank have begun to offer mortgages which at less than market average rates.

Contact Details

Website	http://www.capitalbank.mn/
Telephone	50115040, 1912
E-mail	info@capitalbank.mn
Central Office Address	Head office of Capital bank, Sambuu Street-43, Chingeltei District, Ulaanbaatar City

Chinggis Bank

Branches in Capital	1
Branches Nationally	1

Mortgage Information

APARTMENT PURCHASE LOAN	Downpayment Amount	Loan Term	Interest Rates
	30% of the purchase price of the house / apartment	10 - 20 years	To be determined on a case-by-case basis
	There is no penalty for early payment. Life insurance and borrower insurance are required for the length of the loan, as well as insurance for the collateral property. Eligibility criteria are as follows: The applicant for a mortgage loan must be a Mongolian citizens and over 21 years of age; The applicant must have a constant income adequate to repay the loan; The Borrower must have a permanent job position and must have constantly been employed for over one year; Where the borrower runs a private business, the business must have operated for not less than one year; Must have no outstanding loan obligations with other banks, NBFIs and credit and savings unions; 50% of the borrower's net income must be sufficient to provide the scheduled monthly payments.		
	Loan Fee		To be determined by the order of the Assets and Liability Committee of the Bank.

2011 - 2012 Comparisons

- Chinngis Bank have begun to offer mortgage financing

Central Office Address	

National Investment Bank

Mortgage Information

APARTMENT PURCHASE LOAN	Loan Amount	Loan Term	Downpayment Amount	Interest Rates	
				MNT	USD
	Maximum 150 million - 200 million MNT in Ulaanbaatar; 40 million - 80 million MNT in rural areas	up to 15 years	30%	1.75%	1.5%
			40%	1.65%	1.4%
			50% +	1.5%	1.2%
	Allowable LTV is 70% for all loans. A grace period of up to 3 months is available				
	Loan Fee			1.5%	
40,000 HOMES APARTMENT LOAN	Loan Amount	Loan Term	Downpayment Amount	Interest Rates	
				Monthly	Annual
	Maximum 25 million MNT	84 months	-	0.92%	11%
			-		

2011 - 2012 Comparisons

- National Investment Bank have continued to offer low-interest mortgages as part of the 40,000 Homes Project, as well as introducing apartment purchase loans.

Contact Details

Website	http://www.ckbank.mn/
Telephone	976-11-318367
E-mail	bank@ckbank.mn
Central Office Address	1, 3, 5th floor, New Century Plaza, Chinggis avenue - 15, Ulaanbaatar, Mongolia.

XXIX.CONSUMER PRICE INDEX 2010-2013

The Consumer Price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households and therefore provides a register of inflation within the Mongolian economy.

National CPI 2010-2012 for Mongolia - Selected Indicators

Goods and Services	2010	2011	2012	2013
Flour, 1kg, Grade 1	637	722	696	728
Bread	631	645	662	805
Rice, 1kg	1639	1676	1699	1862
Beef, 1kg	4291	4695	7291	8230
Milk, 1 litre	1087	1040	1095	1140
Sugar, 1 kg	1695	1685	1702	1684
Green Tea, 2kg	4603	4280	4252	4332
Apples, 1 kg	1900	2495	3571	3615
Potatoes, 1kg	971	1045	1033	938
Carrots, 1kg	961	1210	1184	1241
Onions, 1 kg	1037	965	1027	1323
Salt, 1 kg	354	371	370	450
Egg, piece	215	236	266	311
Alcohol (domestic), 0.5l	4409	4488	5280	6819
Trousers, piece	21833	25365	40050	43400
Leather gloves (pair)	8080	9235	9730	11078
Woollen Sweater (piece)	11370	14700	15489	18224
Heating Fees, m2	334	362	375	409
Monthly Water Use Fees per Person	2665	3202	3202	3202
Electricity, 1 kWh	77	85	86.9	95
Lightbulb, 60W	428	473	531	586
Washing Detergent, 200g	550	560	588	631
Soap, piece	576	600	605	628
Toothpaste, 100g	824	1045	1495	1628
Aspirin, 10 tablets	246	250	263	292
Intra-city adult bus fare (per ride)	300	355	400	400
Air ticket (655km)	171533	175120	164333	161850
Petrol, AI-80, litre	1176	1250	1472	1550
Petrol, AI-93, litre	1366	1470	1614	1640
Diesel, litre	1303	1576	1728	1770
TV Monthly Charge	1100	1100	1100	1100
Notebook, 1 piece	131	140	160	190
AVERAGE RISE ACROSS INDEX	-	**5.69%**	**4.16%**	**3.22%**

Source: NSOM

XXX. LAWS OF MONGOLIA

Below is an overview of the Laws of Mongolia as relevant to foreign investment status, immovable property, land use, registration and taxation thereof. These are presented as excerpts of the relevant laws and omissions have been made where direct relevance is not established. These should not be read as full text versions and where reference is to be made to the laws of Mongolia for legal purposes we advise consulting a legal advisor in Mongolia who is familiar with the legally applicable Mongolian language versions of the laws.

GENERAL LAW OF TAXATION OF MONGOLIA

Article 2. Tax Legislation

The tax legislation shall comprise of the Constitution of Mongolia, this Law and other legislative acts enacted in conformity therewith. Unless the international treaties of Mongolia stipulate otherwise than the present law, the provisions of international treaties shall prevail.

The relations pertaining to establishing, assessment, amendment of any taxes, tax credit and exemption, tax payment shall be regulated solely by the taxation law. (This part was added by the law of January 31, 1997).

A stability agreement on behalf of the Cabinet of Mongolia shall be concluded by the member of the Cabinet in charge of finance within the law framework.

Within the valid term of the stability agreement concluded by the Cabinet with the strategic investor the provisions of this agreement shall be applied consistently, regardless of provisions of tax legislation enacted after the conclusion of this agreement. (Clauses 4 and 5 were added by law of November 16 of 2001).

Article 4. Introduction, Amendment and Annulment of Taxes

1. The State Ih Khural (Parliament) of Mongolia is authorized to introduce, amend and annul taxes by law.

2. The rate of taxes shall be set forth by the State Ih Hural of Mongolia on its authorization by the Government and Representative Hural of each Aimag and capital city in conformity with the legislation.

Article 5. Taxpayer

The following individual, business entity and organization, which have taxable income, property in possession, and rights shall be taxpayers:

1) A citizen of Mongolia;

2) A foreign resident and a stateless person in the territory of Mongolia, a non-resident person who gains income in Mongolia; (Amended by law of January 31, 1997)

Foreign and domestic business entity, organization and fund in the territory of Mongolia, legal person which is not located in the territory of Mongolia, but gains income in this country; (Amended by law of January 31, 1997 and November 16, 2001);

4) A Representative Office of a foreign business entity or organization which gains income in Mongolia.

Article 7. Taxable Item

The taxable items shall be income, property, goods, work and service, concrete right, land, natural and mineral resources.

Article 9. Tax Payment Procedure

1. Tax is imposed by a tax return or withholding. Tax payment is done in cash or non-cash form. Other forms of tax imposition and payment of taxes shall be defined by the specific tax laws.

2. The terms of the tax payment are defined in conformity with the specific tax laws. The deadline of the tax payment and the tax return shall be the same. If a deadline falls on weekend or public holiday, then the preceding day shall be the deadline.

3. Overdue and reimposed taxes,interest, fine of business entity, organization shall be withheld in a non-disputable way. No person who conducted tax assessment, tax withholding, payment to the budget and settlement shall be paid fees and charged withholding for settlement work and services and. (The second sentence added by law of January 31, 1997)

4. Business entities and organizations shall pay indirect taxes without waiting for the final results of its operation.

5. A certified accountant shall carry out tax assessment and tax settlement of business entity and organization.

6. The taxable income shall be assessed by the date of issuing a claim, invoice, or payment, whichever comes first. The date of taxable income with investment financing source shall be assessed from the date of payment. (Added by law of November 16, 2001).

Article 10. Taxpayer's Obligations

A taxpayer shall have the following obligations:

1) To report one's taxable item and tax honestly and to pay taxes within the prescribed time limit;

2) To provide the Tax Administration with corresponding calculations, reports and returns on imposed taxes and payment of taxes within the prescribed time limit;

3) To keep book-keeping records in compliance with regulations, balance sheets and reports on financial and economic operations;

4) To meet the demands of the Tax Administration to eliminate any infringements are occurred in case of committing violation of the tax legislation;

5) To sign the act of the audit of the Tax Administration in case of agreement therewith. To submit written explanation in case of disagreement therewith;

6) A business entity and organization shall withhold and remit to the budget imposed taxes on salaries, wages and other similar remunerations of their employees and non-employees for the required fixed term;

7) To impose tax on income specified in taxation law as taxable and to make payment within the time limit set forth by law;

8) To notify the Tax Administration about obtaining a special permit for conducting production and services not prohibited by law within 3 days after receipt of such permit from the relevant state administrative body and to have a note made in the tax payer's certificate;

9) A business entity and organization shall submit quarterly to the relevant Tax Administration unit a report on tax withholding and payment with indication of name, address, registration number of a business entity, organization and individual;

10) To submit to the Tax Administration a document on transfer into possession of other person of taxable property and right;

11) To ensure not to provide opportunity for tax evasion by assigning for use by other person of its name, address, seal, state registration certificate, company and personal account;

12) To notify the relevant Tax Administration unit about lease or sale to an individual or legal person of a special permit obtained from a relevant organization;

13) To notify the relevant Tax Administration unit about opening or closing a bank account;

14) In connection with enabling conditions for consistent nationwide pursuance and ensuring implementation of taxation legislation to follow procedures, instructions, methodology and recommendations enacted by the General Department of National Taxation in compliance with the legislation. (Clauses 7-14 added by law of November 16, 2001).

15) Other obligations stipulated by the legislation. (Numbering of this clause amended by law of November 16, 2001).

Article 11. Termination of Tax Payment Obligation, Transfer Thereof to the Others

1. In the following cases, the obligation of the tax payment is considered to terminate:

The specific tax law is canceled;

The specific tax is paid;

The taxpayer is fully exempt from the specific taxes;

The taxpayer is died or considered to be died; and

5) The business entity and organization has been liquidated.

2. The obligation of the tax payment of a tax payer who was dead or considered to have died and the right connected with it shall transfer to the taxpayer's heir.

3. The obligation of deficient tax payment of re-organized business entity and organization and the right connected with it shall transfer to newly organized business entity and organization as a result of re-organization. If business entity and organization were separated as an independent unit, the obligation of the tax payment according to the tax base shall transfer to them.

4. If a business entity or organization is bankrupt or has been liquidated, the commission of liquidation or the committee of shareholders should pay owed payment of taxes from remaining property of that bankrupted or liquidated business entity or organization.

Article 15. Types of Taxes in Mongolia

The taxes in Mongolia comprise of state and local taxes:

1) The state taxes are referred to taxes, rates and bases for which are introduced and which are collected in the same way in the territory of Mongolia;

2) The local taxes are referred to taxes, rates and bases for which are introduced by the Representatives Hural of each aimag and the capital city and which are collected in each territory.

Article 16. State Taxes

The state taxes shall include the following taxes:

Income tax of business entities and organizations;

Customs duty;

Value-added tax;

4) Excise tax;

Tax on auto fuel and diesel fuel;

6) Payment for use of mineral resources (Amended editing by law of November 16, 2001).

Article 17. Local Taxes

The local taxes shall include the following taxes:

Personal income tax;

Gun tax;

City tax;

4) Dog tax;

Inheritance and gift taxes;

Real estate tax;

State stamp tax;

Payment for use of water and springs;

Tax on auto vehicles and self-moving vehicles;

10) License fee for use of natural resources, except minerals resources; 11) Payment for use of natural plants;

Payment for use of widely spread mineral resources;

Payment for use of hunting resources, animal hunting and catching license fee;

Land payment;

15) Payment for procurement and use of wood fuel and timber from forest (Amended editing by law of November 16, 2001).

Article 18. Tax Rates

The rates of taxes indicated in Article 16 of this Law shall be defined by the State Ih Hural. (Amended by law of June 2, 1995 and November 16, 2001)

The rates of taxes indicated in paragraphs 13-15 of Article 17 of this Law shall be defined by the Government within the limits approved by the State Ih Hural . (Amended by law of January 31, 1997 and November 16, 2001).

Hurals of aimags and the capital city citizens' representatives shall set forth the rates of taxes indicated in clauses 1-12 of Article 17 of this Law. (Amended by law of November 16, 2001).

November 23, 1993 Ulaanbaatar

IMMOVABLE PROPERTY TAX LAW OF MONGOLIA

17 November 2000 Ulaanbaatar

1.1The purpose of this law is to impose tax on immovable property (hereinafter referred to as "immovable property") and to regulate relations arising from the payment of this tax to the budget.

Article 2. Legislation on immovable property tax

2.1. Legislation on immovable property comprises the Civil Code, the General Taxation law, this Law and other legal acts enacted in conformity with them.

Article 3. Taxable immovable property

3.1. Tax will be imposed on all kind of immovable property described in Article 77 of Civil Code of Mongolia.

Article 4. Taxpayer of immovable property tax

4.1. The following persons, who own immovable property in the territory of Mongolia will constitute taxpayer.

4.1.1. company, co-operative partnership with all kind of property, economic entity with foreign investment and its permanent establishment;

4.1.2. non-government organization, fund, religious organization; 4.1.3. persons with State or local property;

4.1.4. a citizen of Mongolia, a foreign citizen and a stateless person; 4.1.5. non-resident of Mongolia

Article 5. Valuation of immovable property tax

5.1. The value of immovable property is determined, firstly, by the valuation registered with immovable property state registry. If there is no such registration, the value is determined by the valuation of insurance on the property. And if there is no registration or insurance valuation, the value will be established as the value that is written down in accounting books.

Article 6. Tax rate on immovable property

6.1. Tax rate on immovable property is 0.6 percent of the value defined in Article 5.

Article 7. Tax exemption

7.1. The following immovable property is exempt from tax:

7.1.1. immovable property of persons, who are financed by central and local budget;

7.1.2. dwelling houses;

7.1.3. building and construction for public use.

Article 8. Tax imposition and payment to budget

8.1. Taxpayer will calculate tax on immovable property based on the value of immovable property on the 15th of January each year.

8.2. Legal persons, who own immovable property, will pay equal tax on immovable property before the 15th of last month of each quarter for their annual tax liability.

8.3. A citizen of Mongolia, a foreign citizen and a stateless person, who own immovable property, will pay tax on immovable property before the 15th of February once for their tax liability.

Article 9. Submission of immovable property tax return

9.1. Taxpayer will submit immovable property tax return to the corresponding tax office before the 10th of February of next year.

9.2. Tax offices will submit consolidated tax return to the General Department of national taxation before the 20th of February.

9.3. General department of national taxation will approve the forms of immovable property tax return.

Article 10. Entry of law into force

10.1. This law will be in effect from January 1, 2001.

LAW OF MONGOLIA ON LAND

7 June 2002 Ulaanbaatar

a. CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

1.1. The purpose of this law is to regulate possession and use of state-owned land and other related issues.

Article 3. Legal Definitions

3.1. The following terms used in this law shall be interpreted as follows:

3.1.1. “land” means a piece of space including the land surface, its soil, forests, water and plants;

3.1.2. “to own land” means to be in legitimate control of land with the right to dispose of this land;

3.1.3. “to possess land” means to be in legitimate control of land in accordance with purpose of its use and terms and conditions specified in respective contracts;

3.1.4. “to use land” means to undertake a legitimate and concrete activity to make use of some of the land’s characteristics in accordance with contracts made with owners and possessors of land;

3.1.5. “to vacate land” means to remove obstacles from returning the land to the owner by such actions as transferring buildings and other properties on the land, and rehabilitating the land as stipulated in laws and contracts, upon expiration of the right to possess or use the land, or upon [removal of the land] when it is used without authorization;

3.1.6. “pastureland” means rural agricultural land covered with natural and cultivated vegetation for grazing of livestock and animals;

3.1.7. “a license for land possession” means a document certifying rights given to Mongolian citizens, companies, organizations and companies with foreign investment to possess land, given in accordance with this law;

3.1.8. “a license for land use “ means a document certifying rights given to foreign countries, international organizations, foreign legal entities, foreign citizens and stateless persons to use land, given in accordance with this law.

Article 4. Principles Pursued by the Government in Relation to Land

4.1. The government shall follow the following principles in relation to land:

4.1.1. the land shall be under government monitoring and protection;

4.1.2. the territory of land shall be unified;

4.1.3. fairness and equity shall be ensured with respect to ownership, possession and use of land;

4.1.4. following terms and procedures of the law, the land shall be used efficiently, rationally and for its main purpose, and shall be protected and rehabilitated;

4.1.5. any activities that may cause damage to human health, nature protection, or national security, or those that may cause ecological imbalance shall not be undertaken.

Article 5. Land Owners

5.1. Any land other than that given into ownership by citizens of Mongolia shall be the property of the government.

5.2. Land, excluding pastureland, land for common tenure land and land for special government use, may be given into ownership to citizens of Mongolia only.

5.3. Issues related to giving land into ownership by citizens of Mongolia shall be regulated by the relevant law.

Article 6. Land Possessors and Land Users

6.1. Mongolian citizens of 18 years and over (hereinafter referred to as “citizens”), companies, organizations and companies with foreign investment may possess or use land in compliance with this law.

6.2. The following [types of] land, regardless of whether they are given into possession or use, shall be used for common purpose under government regulation:

6.2.1. pasturelands, water points in pasturelands, wells and salt licks; 6.2.2. public tenure lands in cities, villages and other urban settlements; 6.2.3. land under roads and networks;
6.2.4. lands with forest resources;

6.2.5. lands with water resources.

6.3. Foreign countries, international organizations, foreign legal entities, foreign citizens and stateless persons may become users of land for a specific purpose and a specific time period subject to contract conditions and in compliance with the law.

Article 7. Land Fees

7.1. Citizens, companies and organizations possessing or using land shall pay land fees in accordance with relevant laws and contracts.

7.2. The amount of land fees and regulations on partial waiver from land fees, exemption from land fees, and expending the income from land fees shall be regulated by the law.

Article 8. Maps of Borders, Names of Geographic Units and Land Classification

8.1. Each administrative/ territorial unit shall have maps showing their borders, names of geographic units and land classification.

8.2. Borders of territories and names of geographic units shall be approved by the State Ikh Khural. Maps showing land classification shall be approved by the government authority in charge of land issues (hereinafter referred to as “the government authority”).

8.3. Territorial maps of each administrative/ territorial units showing their borders, names of geographic units and land classification shall be kept by the governors of corresponding levels; and the full copies covering the national territory shall be kept by the corresponding government authority.

8.4. The government authority shall approve regulations on keeping and using maps that show borders of territorial units, names of geographic units and land classification, as well as regulations on making changes on these maps.

8.5. Only the State Ikh Khural can change official geographical names.

8.6. It shall be prohibited to use different geographical names, translate geographic names from Mongolian into other languages, or transcribe these names as pronounced in other languages when using geographic names in official documents and events.

b. CHAPTER THREE - THE AUTHORITY OF GOVERNMENT AUTHORITIES AND LOCAL SELF-GOVERNING ORGANISATIONS REGARDING LAND ISSUES

Article 17. The Authority of the State Ikh Khural

17.1. The State Ikh Khural shall have the following authority with respect to land issues:

17.1.1. to formulate the general government policy on land;

17.1.2. to make decisions on giving land for use to foreign countries, international organizations and foreign legal entities under lease and concession agreements for a certain period of time;

17.1.3. to take the [types of] land referred to in provisions 16.1.2 and 16.1.4 of this law into special government needs or to release from special government needs and to determine the size and boundaries of these lands;

17.1.4. to determine the size and location of land for implementation of regional international projects and events as well as land for special economic zones.

Article 18. The Authority of the Cabinet

18.1. The Cabinet shall have the following authority with respect to land issues:

18.1.1. to organize and ensure implementation of the general government policy on land;

18.1.2. to take the [types of] land referred to in provisions 16.1.3, 16.1.5-16.1.7 into special government needs or to release from special government needs, to transfer it under control of relevant authorities and to approve regulations specifying its borders and use procedures;

18.1.3. to pay compensation in the event of taking land for special government needs with or without replacement;

18.1.4. to approve regulations for establishment and operation of land auction markets;

18.1.5. to approve regulations on land management, certification of land characteristics and quality and [preparing and presenting] reports on the unified land territory;

18.1.6. to determine boundaries for lands referred to in provision 17.1.2 of this law and approve their use procedures;

18.1.7. to approve the National Land Management Plan.

Article 19. The Authority of the State Central Administrative Authority in Charge of Land Issues

19.1. The state central administrative authority in charge of land issues shall have the following authority:

19.1.1. to organize implementation of the general government policy and legislation on land;

19.1.2. to submit reports on the unified land territory to the Cabinet;

19.1.3. to grant licenses to companies and organizations giving them the professional rights to engage in land management and cadastral activities; to remove these licenses; to approve and ensure implementation of regulations and operational rules; to monitor and to evaluate their activities;

19.1.4. to monitor disbursement of funds for land management, land protection and rehabilitation;

19.1.5. to approve a methodology for determining starting prices for land license auctions;

19.1.6. to take the [types of] land referred to in provisions 16.1.1 into special government needs or to release from special government needs, and to determine its size and borders;

Article 20. Common Authority of Citizens' Representatives Khurals and Governors of Aimags, the Capital City, Soums and Districts

20.1. Citizens' Representatives Khurals of aimags, the capital city, soums and districts shall exercise the following common authorities with respect to land issues:

20.1.1. to monitor enforcement of land legislation and enforcement of their decisions related to land issues, to discuss and assess reports of governors on land issues;

20.1.2. to ratify general land management plans for aimags and the capital city and annual land management plans for soums, submitted by corresponding level governors;

20.1.3. to take land for special needs of aimags, the capital city and soums upon [such proposals] by corresponding level governors; determine their size and boundaries and approve procedures for their use;

20.1.4. to make decisions on giving compensation for the land taken from private use for special needs of aimags, the capital city and soums prior to expiration of their contracts, upon [such proposals] by corresponding level governors;

20.2. Governors of aimags, the capital city, soums and districts shall have the following commons authorities with respect to land issues:

20.2.1. to organize and ensure implementation of the general government policy on land and enforcement of land legislation on their territory;

20.2.2. to monitor whether users and possessors of local lands make efficient and rational use of them and land resources, and whether they protect the land in compliance with the law and contracts; to make decisions to resolve conflicts between them and to organize enforcement of these decisions;

20.2.3. to submit drafts of general land management plans of aimags and the capital city, or annual land management plans of soums to Citizens' Representatives Khurals of corresponding levels and pursue approval of these plans;

20.2.4. to review and consolidate unified land territory reports for administrative and territorial units of their levels, to submit them to Citizens' Representatives Khurals for their discussion and evaluation, and to report to the higher level governors or the relevant government authority;

20.2.5. to submit proposals to Citizens' Representatives Khurals regarding taking land for special needs, upon prior agreement with the possessor of the land and the governor of the corresponding level;

20.2.6. to make decisions on eviction of persons who possess or use land without appropriate authorization, or who caused significant degradation of land; and to implement the decision;

20.2.7. to cancel inappropriate decisions of governors of soums and districts related to land possession and use issues, and to take measures to eliminate conflicts.

Article 21. The Special Authority of Citizens' Representatives Khurals of the Capital City and Governors of Aimags, the Capital City, Soums and Districts

21.1. The Citizens' Representatives Khural of the capital city shall have the following special authority with respect to land issues:

21.1.1. to approve annual land management plans and city construction plans for the capital city upon submission of these plans by the Governor;

21.2. The governor of the capital city shall have the following special authority with respect to land issues:

21.2.1. to develop drafts of annual land management plans and city construction plans for each district, and submit them to the Citizens' Representatives Khural of the capital city along with opinions of Citizens' Representatives Khurals of districts, district governors and the relevant government authority;

21.2.2. to determine, each year, the location, purpose and total size of land to be given for use or possession according to the approved plan;

21.2.3. to submit proposals to the relevant government authority on appointing and dismissing the head of the capital city Land Department;

21.3. Aimag governors shall have the following special authorities with respect to land issues:

21.3.1. to give directions for drafting the annual land management plans of soums;

21.3.2. to submit proposals to the relevant government authority on appointing and dismissing heads of aimag Land Departments;

21.4. Soum governors shall have the following special authorities with respect to land issues:

21.4.1. to give comments on the draft general land management plan of the aimag;

21.4.2. to submit draft annual land management plans for their territory in accordance with the approved general land management plan;

21.4.3. to organize auctions for land use and possession licenses in accordance with approved land management plans for the current year;

21.4.4. to receive requests for land use and possession from citizens, companies and organizations and to make decisions to grant land for use or possession in accordance with the annual land management plan.

21.4.5. to submit proposals to heads of soum Land Departments on appointing and dismissing land officials of soums.

21.5. District governors shall have the following special rights with respect to land issues:

21.5.1. to give comments on draft general and annual land management plans and city construction plans;

21.5.2. to submit draft annual land management plans for their territories in accordance with the approved general land management plan to Citizens' Representatives Khurals of districts;

21.5.3. to organize auctions for land use and possession licenses in accordance with the approved land management plan of the current year;

21.5.4. to submit proposals to the head of the Land Department on appointing and dismissing heads of the district Land Departments;

21.5.5. to develop comments and their justification for draft annual land management plans and city development plans of the capital city and to submit them to the Citizens‘ Representatives Khurals of districts for discussion;

21.5.6. to receive requests for land use and possession from citizens, companies and organizations and to make decisions to give land for use or possession in accordance with land management plans and city construction plans of the current year based on location, purpose and the general size determined by the governor of the capital city.

Article 22. The Authority of Public Khurals and Governors of Bags and Khoroos

22.1. Citizens' Public Khurals and governors of bags and khoroos shall have the following authority with respect to land issues:

22.1.1. to regulate use of common tenure land;

22.1.2. to ensure health and hygienic requirements on common tenure land on the territories of bags and khoroos;

22.1.3. to discuss reports of governors on land use and protection and to evaluate them;

22.2. Governors of bag and khoroo shall exercise the following authority with respect to land issues:

22.2.1. to ensure enforcement of land legislation and implementation of common requirements for efficient and rational land use and protection;

22.2.2. to ensure enforcement of decisions of higher level authorities and decisions of Citizens Public Khurals of bags and khoroos on land use and protection;

22.2.3. to take the responsibility for use, protection, health and hygiene of common tenure land on their territory.

Article 23. The Structure and the Authority of the Government Authority

23.1. The government authority shall have Land Departments in each aimag, the capital city and district and land officers in each soum.

23.2. The government authority shall have the following authorities:

23.2.1. to organize implementation of the general land policy of the government;

23.2.2. to classify the unified land territory according to the general classification, and to move land from one classification to another;

23.2.3. to develop the general land management plan on the national level; 23.2.4. to undertake land management of special government needs land;

23.2.5. each year, to consolidate and submit land reports to the State central administrative authority in charge of land relations for discussion;

23.2.6. to appoint and dismiss heads of Land Departments upon consultation with respective Governors;

23.2.7. to organize land auctions following the relevant procedures;

23.2.8. to undertake land management on the national level;

23.2.9. to give comments on general land management plans of aimags and the capital city and to monitor implementation of these plans;

23.2.10. to collect funds for land protection, rehabilitation and land management, to allocate these funds and to monitor them;

23.2.11. to give proposals to cancel illegitimate land-related decisions of authorities and officials to governors of corresponding levels for their decision;

23.2.12. to be in charge of policy on human resources proficient in land management matters and to provide technical guidance on land management issues;

23.2.13. to approve regulations for giving licenses for land use and land possession and to ensure their implementation;

23.2.14. to administer and organize cadastral activities on the national level, and to compile and maintain the land database;

23.2.15. to conduct research on land management and land cadastral surveys.

23.3. Officials of aimags and the capital city in charge of land related issues shall exercise the following authorities:

23.3.1. to design general land management plans for aimags and the capital city;

23.3.2. to propose changes or clarification of boundaries of local administrative and territorial units;

23.3.3. to conduct land cadastral surveys, to establish the land database for aimags and the capital city, and to serve the public with this information;

23.3.4. to prepare and submit land reports to governors in accordance with relevant procedures;

23.3.5. to organize land management activities within their territory;

23.3.6. to appoint or dismiss heads of district land departments in charge of land issues and land officials of soums upon consultation with the relevant level governor;

23.4. Land officials and district land departments shall have the following authority:

23.4.1. to prepare annual land management plans of soums and districts;

23.4.2. to make agreements on land possession and use with citizens, companies and organizations based on Governors' decisions, and to issue licenses;

23.4.3. to mark boundaries of land given for possession or use, to determine their longitude and latitude, to create their cadastral maps and to register them in the national land registry;

23.4.4. to keep the land database;
23.4.5. to request land fees according to relevant legislation, and to monitor them.

c. CHAPTER FIVE - GIVING LAND FOR POSSESSION OR USE

Article 27. Giving Land into Possession

27.1. State owned land shall be given for possession for the purpose, and according to term and conditions stipulated in this Law, on the basis of a contract. Land may be given for possession only by a license.

27.2. The land possession license (hereinafter referred to as "the license") will be given only to Mongolian citizens, companies and organizations as well as entities with foreign investment

27.3. Each land unit shall have a license.
27.4. Possessing land without a valid license is prohibited.

Article 28. Types of Land Possession Licenses

28.1. Land possession licenses shall be of the following types: 28.1.1. for household needs;

28.1.2. for government organizations;

28.1.3. for companies and organizations.

Article 29. Size and Location of Land Which May Be Possessed by a License

29.1. Land to be given for possession to citizens for fenced areas with their private gers and houses [residential lots] for their household needs shall not exceed 0,07 hectares.

29.2. In addition to land referred to in provision 1 of this article, land not exceeding 0,1 hectares may be given for possession to citizens for cultivating vegetables, fruits, berries and fodder plants.

29.3. Citizens Representatives' Khurals of respective soums and districts may establish the maximum size and location of land to be possessed by citizens for purposes referred to in provisions 1 and 2 of this article, taking into consideration density of the population, land resources and the number of family members.

29.4. Land for cultivating vegetables, fruits and berries may be located next to the residential lots or in a location specifically designated for this purpose.

29.5. The Cabinet shall establish the maximum size of land to be given for possession with a license to companies for production and service purposes.

Article 30. Duration of Land Possession

30.1. The state-owned land may be given possession with a license to Mongolian citizens, companies, and organizations as well as entities with foreign investment for duration of 15 to 60 years. The land possession license may be extended for not longer than 40 years at a time.

30.2. In the event of death or announcement of death of the possessor of land or if the land possessor is announced as missing, the legitimate heir, if he/she wishes, may transfer the land possession license to register himself/herself, and may possess that land until the original expiration date of the license.

Article 31. Requirements for Acquiring License

31.1. Applicants for a land possession license may be Mongolian citizens, companies and organizations, as well as entities with foreign investment.

31.2. The location of the land requested for possession shall have been marked in the annual land management plan of the capital city or soum as available for giving into possession to citizens, companies and organizations.

31.3. The land requested for possession shall not overlap in any way with land territory that is already in possession under a valid license.

Article 32. A Request for Land Possession License

32.1. Citizens, companies and organizations shall submit their requests for a land possession license to governors of respective soums and districts, made according to a format approved by the relevant government authority.

32.2. Citizens shall have the following [information] in their requests referred to in provision 1 above:

32.1.1. family name and first name, permanent resident address, the identification card (ID) number and registration number;

32.1.2. the code of the territorial unit(s) requested which shows the territorial and administrative jurisdiction to which the land belongs, its size and location;

32.1.3. purpose and duration of land possession.

32.3. Companies and organizations shall have the following [information] in their requests referred to in provision 1 above:

32.3.1. name of the company or organization, jurisdiction to which the company belongs, address and location and a copy of the state registration certificate.

32.3.1. the code of the territorial unit(s) requested which shows the territorial and administrative jurisdiction to which the land where the company intends to undertake production and services belongs, its size and location;

32.3.4. purpose and duration of land possession.

32.4. Citizens, companies and organizations shall attach a proof of creditworthiness to their request for land possession with a license.

32.5. On receiving an application along with attached documents referred to in provisions 2 and 3 of this article, the land officials of Land Departments of soums or districts shall register the application according to the procedures approved by the government authority. Upon receipt of the application, the year, month, date, hour and minute of the receipt shall be recorded in the registry, and a certificate of receipt shall be given to the applicant.

32.6. Land officials of soum or district Land Departments shall carefully review the request with the attached documents. If they do not meet the requirements, the official shall give the applicant a notification with appropriate justifications and delete the application from the records.

Article 33. Giving Land Possession Licenses

33.1. The issue of giving land possession licenses to Mongolian citizens, companies and organizations, as well as to entities with foreign investment shall be decided as follows:

33.1.1. Governors of soums and districts shall make decisions to give land into possession in accordance with provisions 29.1 and 29.2, as well as to give land in order to enable state budgetary organizations to fulfill their duties.

33.1.2. Governors of soums and districts shall solve the issue of giving licenses for land possession to citizens, companies and organizations for purposes other than those referred to in provision 1.1 of this article, or land exceeding the size stipulated in 29.1, 29.2 of this Law through a land auction process. The highest bidder in the auction shall be given a notification to make due payments.

33.2. If the person who received the notification for the license payment does not pay it within the time required, the right to possession of that land with a license shall be automatically passed to the next highest bidder, be it a citizen, a company or an organization. If the next highest bidder refused, or an auction did not take place, the license shall be auctioned again.

33.3. Any disputes related to decisions to give land for possession shall be settled as referred to in provision 63.1.1 of this Law.

33.4. It shall be prohibited to give land into possession other than that marked as available for possession in the annual land management plan.

Article 34. A Contract of Land Possession and Procedures for Making the Contract

34.1. Land officials of soum or district Land Departments shall, on the basis of the decision on land possession referred to in provision 33.1.1 of this Law, make a contract with the citizen, company or organization; issue the license; and register it in the national registry.

34.2. Citizens, companies and organizations who have acquired the right to possess land for undertaking production and services shall have a general environmental assessment test made within 90 working days after receiving that right. After the assessment test, a contract on land possession shall be made, the license issued, and a record made in the national registry.

34.3. If the general environmental assessment test made on the land to be possessed by a citizen, a company or an organization shows negative results, this person shall not be given a land possession license. Then a notification to have an assessment test done shall be sent to the next highest bidder in the auction, and the auction bid price shall be returned to the first person.

34.4. If activities of all citizens, companies and organizations who participated in the auction showed negative results in the assessment test, another auction shall be organized.

34.5. The records in the national registry shall include date of issue of the license, the name of the possessor, the code of the possessed land unit, its size and location. There shall be a separate appendix designated for marking any changes or amendments related to licenses.

34.6. A contract on land possession shall have the following [information]:

34.6.1. justification for giving land for possession ([reference to] the relevant decision); 34.6.2. the purpose of land possession;
34.6.3. a map showing the size, location, and boundaries of the land;
34.6.4. characteristics of the land and its quality;

34.6.5. duration of land possession;

34.6.6. the amount of land fee and terms of payments;

34.6.7. rights and responsibilities of the parties to the contract;

34.6.8. an agreement on handling constructions and other property on the land upon termination of the land possession right;

34.6.9. terms and procedures for compensation in case the land is taken back or is replaced;

34.6.10. actions to be taken for land protection and rehabilitation; 34.6.11. other issues considered necessary.

34.7. A state certificate on characteristics and quality of land given for possession with a license and [a document of] assessment of impact on nature and environment shall be attached to a contract on land possession.

34.8. The license of land possession shall be valid if together with the contract. Parties to the contract shall review its implementation each year.

34.9. In the event of joint possession of land, only one contract may be made.

34.10. A license on land possession of citizens, companies and organizations shall serve as a proof for registering their immovable property with the State registration.

Article 35. Rights and Duties of License Holders 35.1. License holders shall enjoy the following rights:

35.1.1. to use the land according to the purposes set forth in the contract;

35.1.2. to obtain the State Certificate on the land characteristics and quality from the owner;

35.1.3. to damages compensated by the guilty person in accordance with established procedures;

35.1.4. to transfer the license or put it as collateral upon approval of the person who made the decision on giving the land possession license;

35.1.5. to have the license extended upon expiration of the license, provided that the license holder will have been duly meeting his/her obligations per land legislation and the contract on land possession;

35.1.6. to participate in the land exchange.

35.2. The rights stated in provisions 1.4 and 1.6 of this article shall not apply to budget organizations.

35.3. License holders shall have the following duties:

35.3.1. to meet terms and conditions set forth in the land possession contract;

35.3.2. to use land efficiently and rationally and to protect the land, to comply with legislation on protection of nature and environment, and meet common requirements related to land use, made by relevant government authority;

35.3.3. to pay land fees in a timely manner;

35.3.4. to have the state certification on characteristics and quality of the land made according to established procedures;

35.3.5. not to infringe rights and legitimate interests of others that are related to land possession;

35.3.6. to have registered at the national registry if the license is to be transferred or put as a collateral.

Article 36. Auction Price of a Land Possession License

36.1. Soums and districts governors shall set the starting price at auctions of land possession licenses, according to a formulae approved by the Central administrative organization in charge of land issues.

36.2. The price set during the land auction shall be considered the real value of the license.

36.3. A service fee set by the State central administrative authority in charge of land issues shall be paid for extension of the term of a license term.

36.4. The Cabinet shall determine the amount of fees to be charged for transfer of licenses to others.

36.5. The fees for transfer of licenses and for extension of licenses shall be paid to the land protection and rehabilitation fund.

Article 37. Extension of a License

37.1. A license holder shall submit a request for extension of the term of the license to the governor of the relevant soum or district at least thirty days prior to its expiration, with the following documents attached:

37.1.1. the land possession license;

37.1.2. documents proving that land fees had been paid on a timely basis;

37.1.3. status of implementation of the recommendations made upon the environmental impact assessment test.

37.2. On receiving a request for extension of a license, governors of soums or districts shall review them and determine, within 15 days, whether or not that person will have been meeting conditions to preserve the right to hold the possession license. If conditions will have been met [consistently], the governor shall extend the license and register it.

Article 38. Transfer of a License to Others

38.1. License holders may transfer their licenses or put them as collateral in a legally allowed manner. Such transfers and pledges may be undertaken only between Mongolian citizens, companies and organizations.

38.2. Each transfer of a license shall be registered with governors of soums and districts; such registry shall make the transfer valid.

38.3. Parties to a license transfer transaction shall submit the request with the following documents attached:

38.3.1. a contract or a will certified by the notary;

38.3.2. a proof that a person receiving the license agrees completely with rights and obligations arising from receiving the license;

38.3.3. documents proving that license transfer fees have been paid.

38.4. On receiving a request to transfer a license, governors of soums and districts shall verify the following:

38.4.1. whether the request meets the requirements of provision 3 of this article;

38.4.2. whether the license requested to be transferred is valid;

38.4.3. whether the legal person to receive the license has the right to possess that license

38.5. Governors of soums and districts shall make a [corresponding] decision within 15 days from receiving the request to transfer the license.

38.6. License holders may pledge their licenses as collateral in compliance with the Civil Code; in this case they have to have the pledge registered with the land official of the soum or district Land Department.

Article 39. Expiration of a Land Possession License

39.1. Licenses may expire in the following circumstances:

39.1.1. if, upon expiration of the land license, no request has been made for its extension;

39.1.2. if a license holder - a natural person has died, announced dead or missing, and the license holder has no legitimate successors; or if a license holder - a legal person has been dissolved or liquidated;

39.1.3. if a license holder requested to terminate his license possession rights

39.1.4. if a compensation has been paid in full to the license possessor for the land taken for special government needs.

Article 40. Termination of License Possession Rights

40.1. Governors of soums and districts shall terminate licenses in the following circumstances:

40.1.1. if the license holder has consistently or seriously violated obligations set forth in the land legislation, and provisions and conditions of the land possession contract;

40.1.2. if it was established that the land has been used to detriment of human health, nature protection, and interests of national security interests;

40.1.3. if a license received from others is not registered, and a new contract is not made;

40.1.4. if recommendations made upon the general environmental assessment are not implemented;

40.1.5. if the license holder has not paid land fees payable according to the law, on time and in full.

40.2. In case circumstances set forth in provision 1 of this article are proven, governors of soums and districts shall issue an order terminating the license and notify of this the license holder or the person who has taken it as a collateral.

40.3. If the license holder or the person who has taken the license considers the governor’s decision illegitimate, he/she shall have the right to appeal to court within 10 working days after the date of the governor’s order.

40.4. Governors of soums or districts shall notify the government authority of their decision to terminate a license and shall have the changes made to the national registry.

40.5. If the license holder or the person who has taken the license as a collateral appeals to court, a new land possession license for this land shall not be issued until the valid [final] court decision is made.

Article 41. Vacating the Land upon Expiration of the Land Possession License

41.1. Citizens, companies and organizations possessing land shall vacate the land within 90 days of expiration of the license unless otherwise stipulated in the law or in the land possession contract, and transfer the land into the jurisdiction of the governor of soum or district.

41.2. In cases stated in provisions 39.1.1-39.1.3 and 40.1 of this Law the former land possessor shall pay for all expenses related to the land release.

41.3. If, based on a statement made by a professional organization that the land is no longer suitable for its initial purpose due to natural disasters or emergencies, the land possessor submits a request to terminate the land possession contract, land rehabilitation expenses may be financed by the central or local government budget. However, expenses of transferring constructions, buildings and other property shall be borne by the person who possessed the [damaged] land.

41.4. If the land has not been vacated within the period specified in provision 1 of this article, governors of soums or districts shall organize a forceful eviction process according to relevant procedures in accordance with legislation.

Article 42. Removing Land Possessed by Others with Compensation or with Replacement Before Expiration of the Contract

42.1. The relevant government authority may, after an agreement with the land possessor on removing his/her land with or without replacement, with compensation, fully or partially for special needs of government, submit such proposal to the Cabinet.

42.2. Upon consideration of the proposal of the government authority on removing land with or without replacement, in whole or in part, and with compensation from the land’s possessor, and consideration of the agreement with the land possessor the Cabinet shall make an appropriate decision.

42.3. Governors of soums or districts shall, on the basis of the Cabinet decision referred to in provision 2 of this article, make a contract with the land possessor citizen, company or organization and remove the land from their possession with or without replacement and with compensation.

42.4. If residential land is removed with or without replacement, vacation of this land may take place only between 15th of May and 15th of September.

42.5. Disputes arising in relation to removing land possessed by persons with or without replacement and with compensation shall be resolved according to provisions 62.1.1 and 63.1.4 of this Law.

Article 43. Giving a Compensation for Removing Land in Possession With or Without Replacement Prior to Expiration of the Contract

43.1. Unless otherwise stated in the law or a contract, citizens, companies and organizations possessing land shall vacate it and transfer the concerned land into the jurisdiction of governors of soums and districts within 90 days of entering into the contract referred to in provision 42.3 of this law.

43.2. The decision of removal of land in possession with or without replacement and with compensation shall take into account the prior agreement with the land possessor, the value of immovable constructions, other properties and the costs to vacate the land estimated at current prices.

43.3. Compensation to be paid to the land possessor shall be transferred from the State central budget to governors of soums or districts when the contract referred to in provision 42.3 of this law is signed.

43.4. Governors of a soum or a district shall pay the compensation to the citizen, the company or the organizations who possessed the land, within 60 days after the contract is signed, unless stated otherwise in the contract referred to in provision 42.3 of this Law.

43.5. The land possessor shall vacate the land within 30 days after receiving the compensation in full, unless stated otherwise in the contract referred to in provision 42.3 of this Law.

43.6. The compensation shall not apply to citizens, companies and organizations using the land.

Article 44. Giving Land for Use

44.1. The issue of giving land for use to foreign countries, international organizations and foreign legal entities shall be dealt with in the same manner as that in provisions 17.1.2 and 18.1.6 of this Law.

44.2. The principle of reciprocity shall be applied if it is necessary to establishing the size of land and the amount of fees for land to be used by foreign diplomatic missions and consulates, as well as resident offices of international organizations.

44.3. Conditions and procedures for use of land by foreign diplomatic missions and consulates, as well as resident representatives offices of international organizations shall be established by international treaties of Mongolia.

44.4. Governors of soums and districts shall make decision on giving land for use to foreign citizens and stateless persons permanently residing in Mongolia (for more than 183 days) through land auctions for household needs only.

44.5. Citizens referred to in provision 4 of this article may be given land for use not exceeding 0,05 ha for a residential lot, and not exceeding 0,1 ha for cultivating vegetables, fruits and berries. Land may be given for use for up to 5 years through a contract. Land use contract may be extended by up to 5 years at a time.

44.6. Foreign citizens and stateless persons shall obtain a certification from the relevant authority in charge of foreign citizens’ issues before submitting their requests for land use.

44.7. Procedures of provisions 32, 33.1.2, 33.2, 34.1-34.5, 34.6.1-34.6.8, 34.6.10, 34.6.11 and 34.7-34.10 of this Law shall be followed in making requests for land use, reviewing requests and making decisions on the requests, determining contents of land use contracts, and making such contracts.

Article 45. Rights and Obligations of Land Users

45.1. Land users shall enjoy the rights and obligations of provisions 35.1.1, 35.1.2, 35.1.5 and 35.3.1-35.3.5 of this Law, as well as rights and obligations according to other legislation.

Article 46. Using Land in Possession or in Use for Common Tenure and Special Needs

46.1. The Cabinet and governors of aimags, the capital city, soums and districts may use state-owned land already in possession or use for common tenure and special needs with or without payment, upon such prior agreement with the land possessor or user.

46.2. The Cabinet, due to inevitable social needs, may make a decision to use land in possession or in use for common tenure or special needs with or without payments through administrative orders until such needs disappear.

Article 47. Transfer of Rights on Property Located on Land upon Expiration of Rights of Land Possession and Use

47.1. Unless otherwise stipulated in the Law and contracts, the rights of the owner to use their constructions, other properties on the land shall also expire upon expiration of rights to possess or use that land.

47.2. Unless otherwise stipulated in the Law and contracts, citizens, companies or organizations who possessed or used the land shall return this land to its initial condition upon expiration of rights to possess or use the land.

47.3. Disputes arising in relation to constructions and other property on the land upon land expiration of land possession or use rights shall be resolved according to provision 63.1.4 of this Law.

Article 48. Entering and Crossing Land in Possession or in Use

48.1. If land in possession or in use is not specifically protected by erected fences or posted warning signs prohibiting entering and crossing, any person may enter or cross this land without causing damage to the land.

48.2. The government authority in charge of land issues shall determine the design, of warning signs referred to in provision 1 of this article as well as procedures for their use.

Article 49. Limited Use of Land in Possession or in Use

49.1. To use and protect their property, owners of immovable property shall have the right to demand a limited use of land possessed or used by others in order to construct roads, power, communication and engineering lines through that land, transit points and for other purposes.

49.2. The limited right to use land shall be established by an agreement between the possessor or user of land and the person demanding to use the land with limited rights.

49.3. Possessors and users of land shall have the right to demand the person using the land with limited rights to terminate their land use if it makes the land unusable for its purposes

49.4. Disputes arising in relation with using land with limited rights shall be resolved according to provision 63.1.4 of this Law

Article 50. Preserving the Right of Limited Use of Land

50.1. If land possession or use rights are transferred to another legal person, the limited rights of persons to use land shall be preserved.

50.2. It shall be prohibited to transfer the limited land use rights to persons other than owners of the property referred to in provision 49.1 of this Law.

Article 51. Expiration of Property Rights upon Expiration of Land Use Rights of Certain Persons

51.1. Upon expiration of land use rights of bodies described in articles 44 and 45 of this Law, the rights of property owners to use their constructions, other property on that land shall expire unless otherwise stipulated in the law.

d. CHAPTER SIX - EFFICIENT AND RATIONAL USE OF LAND AND LAND PROTECTION

Article 52. Common Requirements for Efficient and Rational Land Use and Its Protection

52.1. Possessors and users of land shall meet the following requirements for efficient and rational land use and its protection:

52.1.1. to take measures at their expense to preserve land characteristics and quality, to prevent deterioration of soil fertility, deterioration of vegetation cover, soil erosion, degradation, soil becoming arid, marshy, soil salinization, its pollution and poisoning (chemical pollution) due to natural causes and human factors;

52.1.2. to restore and maintain at their expenses the land eroded and damaged due to digging it for mining purposes, preparing building materials, building rail and motor roads, mineral exploration and surveying, testing, research works and other activities;

52.1.3. not to cause an adverse impact on the environment and the land when using land, its resources and common mineral resources;

52.1.4. to preserve and protect lands with forests, rare and endangered animals and plants, historical and cultural monuments;

52.1.5. not to undertake activities which may cause an adverse impact on the environment, and the state-owned land as well as land possessed or used by other persons.

Article 57. Rational Use and Protection of Subsoil

57.1. Activities related to use of subsoil shall have been included in national, aimag, and the capital city general land management plans, as well as annual land management plans of soums and the capital city.

57.2. Users of subsoil shall have the environmental assessments done, and shall have planned land protection and rehabilitation projects.

57.3. Users of subsoil shall have environmental assessments done by a professional organization authorized by the State Central Administrative Authority for Nature and the Environment, prior to commencement of their activities.

57.4. [They] shall have land protection and rehabilitation projects, as well as annually developed plans developed on the basis of the project approved by the State Central Administrative Authority for Nature and the Environment.

57.5. Implementation in accordance with land protection and rehabilitation plans shall be discussed and assessed by Citizens Representatives Khurals of soums and districts. If necessary, Citizens Representatives Khurals of soums and districts may make decisions to stop the use of subsoil, and may take measures for correcting incompliance.

Article 58. Rational Use and Protection of Lands Under Cities, Villages and Other Urban Settlements and Their Surrounding Areas

58.1. Land in cities, villages and urban other settlements may be given for possession or use to citizens, companies and organizations only according to general development plans of those cities and villages developed and approved according to the annual general land management plan of the administrative or territorial unit to which this city or village belongs, and as well as according to partial and phased implementation plans developed on the basis of the former plan, and according to procedures set forth in this Law.

58.2. The issue of giving licenses for possession or use of land in cities, villages and other urban settlements where the general construction plan has not been developed shall be dealt with based on the land management plan of the administrative or territorial unit and in accordance with procedures set forth in this Law.

58.3. Such factors as infrastructure, development perspectives, hygienic, health, ecological and fire safety requirements, city development policy and perspectives shall be considered when giving land in cities, villages and other urban settlements for possession or use.

58.4. Relevant level governors shall treat the land in cities, villages and other urban settlements which is not in anyone’s possession or use by taking it under protection including posting signs showing the purpose of land use, date when land use is planned to be started, other conditions and requirements in accordance with the general land management plan; erecting fences around the plot; and putting guards for it.

58.5. If the relevant government authority or an official gives a notification to vacate land to citizens, companies or organizations whose land possession or use licenses expired or who have erected constructions and buildings without appropriate permits, the concerned

citizens, companies and organizations shall be obliged to vacate the land within a set time period.

58.6. If land is not released within the set time, forceful eviction from land shall take place in accordance with a decision of governors of soums or districts.

58.7. Land possessors shall keep not less than 10% of their land covered by vegetation in order to improve the appearance of the city or village, to meet proper health and sanitary conditions and to protect the land.

Article 61. Responsibilities of the Police Related to Land

61.1. The police shall have the following responsibilities regarding vacation and eviction from land:

61.1.1. to implement the Governor's decision on eviction if land possession or use rights have expired, or land had been possessed or used with no appropriate permit, or land fee has not been paid within the due time, pursuant to the its authorities and procedures stipulated in the land Law and contract

61.1.2. to take due measures in accordance with relevant procedures if enforcement of land vacation, confiscation or eviction actions were met by force, opposition, or organized obstacles.

Article 62. Responsibilities of the Court Decision Enforcement Agency Related to Land

62.1. The Court Decision Enforcement Agency shall be responsible for implementing decisions of governors of soums and districts, and the relevant government authority to resolve land conflicts.

Article 63. Settlement of Land Related Disputes

63.1. The following [types of] land related disputes shall be settled by the following organizations and officials:

63.1.1. disputes over the State owned land related to its possession and use between citizens, companies or organizations and governors shall be settled by a governor of the higher level;

63.1.2. disputes between citizens, companies and organizations regarding land use and possession, as well as disputes between land possessors and users regarding contract terms and conditions of land use shall be settled by the governor of the corresponding level;

63.1.3. disputes on land characteristics and quality, efficient and rational land use or land protection shall be settled in accordance with legislation by an official in charge of inspection of an appropriate professional organization or the governor of the corresponding level;

63.1.4. disputes over limited use rights for land possessed or used by others as well as over property disputes related to the land shall be settled by the court.

63.2. If citizens, companies or organizations disagree with the decision on land disputes made by the authority or the official referred to in paragraphs 1, 2 and 3 of provision 1 of this article, the dispute shall be settled either by the authority or the official of a higher level, or the court.

63.3. If not dealt with in contracts, disputes related to land use by companies with foreign investment shall be settled in accordance with procedures set forth in this article.

Article 64. Cancellation of Illegitimate Decisions and Termination of Illegitimate Actions

64.1. If a decision or action (inaction) of the relevant government authority violates land legislation and legitimate interests of land possessors and users, the organization or the official themselves, or an organization or official of a higher level or the court shall cancel the illegitimate decision and terminate the action.

Article 65. Compensation for Damages

65.1. Persons culpable for causing damage to land shall, regardless of whether they are charged with an administrative or criminal actions, [be obliged to] take measures on elimination of the damages at their expense, or finance the total costs if a professional organization repairs the damage.

65.2. Person culpable for causing irreparable damages to land shall, regardless of whether they are charged with an administrative or criminal actions, shall compensate or finance all costs necessary for land improvement works.

65.3. Citizens, companies and organizations who acquired land into possession despite clearly visible damage on land shall repair the damages at their own expense.

Article 67. The Effective Date of the Law

67.1. This Law shall be in effective from the date of its enactment.

Law of Mongolia on Land fees

Article 1. Purpose of law

The purpose of this law is to charge citizens, business entities, and organizations with fees for possessing and/or using state-owned land, and to regulate the relations arising from paying the fees to the state budget.

Article 2. Legislation on land fee

The legislation on land fees shall consist of the Land Law, General Law on Taxation, this Law and other legislative acts issued in conformity with these laws.

Article 3. Land fee payer

Mongolian citizens, business entities, or organizations possessing or using land based on contracts made according to the terms and conditions of the Land law, and foreign diplomatic missions and consular offices, representative agencies of international organizations, foreign legal bodies and citizens and stateless persons that use land shall be land fee payers.

Article 4. Land subject to fee charge

Land fees shall be charged for lands falling under the main classification of the unified land territory or special usage land specified in Article 10 of the Land law and possessed or used by citizens, business entities, or organizations according to land possession and/or usage contracts.

Article 5. Land base rate and determining it:

The land base rate shall be determined by the Government.

The following principles shall be followed in establishing land base rate:

1) the land rate of cities,villages, and other settled places shall be determined depending on their rank, location, engineering facilities, social, economic, engineering, geological and environmental conditions and their utilization purpose

2) rates of lands except those referred in 1) of this paragraph shall be determined differently for each zone depending on their purpose of use, geographical location, and as well as income differential caused by the land fertility and yield.

Division of unified land territories by integrated natural and territorial conditions into rating zones and the value ratings of cities, villages, and other settled places shall be determined by the Government.

Article 6. Indicators used in estimating land fees and determining the indicators

1. The units of indicators used to set land fees shall be determined as follows:

1) the fee of land possessed or used as pastureland is to be estimated as a percentage of the base rate of the unit square of the land and for per head of livestock animal converted to sheep head equivalent;

2) Land fee shall be charged for each km of land under roads or networks referred in Article 13 of the Land law

3) For lands other than those referred in 1 and 2 of this paragraph, land fee shall be charged at a percentage of the base value of one hectare land.

When setting the land fee of pastureland by converting the number of livestock heads into sheep heads, the number of horses counted at the end of the previous year should be multiplied by 6.0, cattle – by 6.0, camels-by 5.0, and goats –by 0.9.

Land fee charged for the base rate of land under cities, villages and other settled places maybe increased or decreased - within the ranges specified in 3), paragraph 1, Article 7 of this law- by ratios dependent on their engineering facilities, purpose of use, location, environmental impact, and the need to protect the green belt. The boundary of land to which a ratio is to be applied and the ratio value shall be determined by the Citizens' representatives meeting of soums and districts.

Land fee shall be determined according to the total size of the possessed and/or used land.

When determining the fee of land allocated to foreign diplomatic missions and consular offices, if considered necessary the principle of reciprocity with the country shall be followed.

Article 7. Amount and percentage of land fee

Land fee shall be established by the indicators stated in Article 6 of this law as percentage of the land base rate, within the following range:

1) land fee range for per head of sheep pasture is 0.01-0.03%1;

2) land fee range for per hectare possessed and/or used land allocated for cultivation and haymaking- 0.01-0.03 %;

3) land fee range for per hectare possessed and/or used land of cities,villages, and other settled places - 0.1-1.0 %;

4) the minimum land fee for per km land of roads and networks is 1500 MNT, and the maximum –7500 MNT;

5) land fee range for lands other than those referred in subparagraphs 1) to4) of this paragraph is 0.01-0.03 %;

The amount of land fee shall be determined by the Government, within the ranges specified in paragraph 1 of this Article, for each agricultural land zone, city, village, and other settled places according to their land rate.

The fee of land under agricultural buildings and facilities shall be twice as low as the land fee of the nearest city, village, and other settled places in the land.

The fee of a mining operation field shall be set twice as high as that of the zone of agricultural land rating, or city, village, or other settled place existing on the field prior to the start of mining.

The fee of land with forest or water reservoirs shall be twice as high as that of the nearby agricultural land rate zone, or city, village, or other settled place.

For citizens, companies, and organizations running activities in conformity with appropriate legislation and contracts, on the territory of specially protected areas, the land fee of these areas as they belong to agricultural land rate zone, or city, village, or other settled place rate shall be increased three times.

7. The fee of land used for travel and tourism purpose shall be the same as that of the nearest agricultural rate zone or city, village, or other settled place.

8. The fee of land left fallow or uncultivated for a year without an official decision of authorities shall be the same as the fee for crop land of that agricultural zone.

Article 8. Exemption from land fee

The following payers shall be exempt from land fees for possessing and/or using the below mentioned lands:

1) herder families, exempt from fees for pastureland and hayfields;

2) Mongolian citizens, exempt from 90% of the fee for up to 0.07 hectare land possessed and used by him or her for residential use;

3) Mongolian citizens, business entities, and organizations are exempt from fees for border strips

4) Mongolian citizens - from fees for land made to be possessed by them so that the natural, historical, and cultural valuable objects can be kept and protected;

5) Lands for a kindergarten, nursing home, children's camp, secondary school, and an orphanage, regardless of their ownership – from land fees;

6) Citizens, business entities, and organizations – from land fees, for up to first 5 years, for possessing and using lands planted with perennial and leguminous plants in order to improve soil structure and/or to transplant to pastureland;

7) Citizens, business entities, and organizations – from land fees, until the first harvest, for possessing and using lands planted anew with perennial plants, fruits and berries;

The Government shall decide whether to provide land fee partial or whole exemption to citizens, business entities, and organizations who use technologies to protect or rehabilitate land or environmentally friendly technologies.

Article 13. Effective date of this law

This law shall be in effect from July 1, 1997.

LAW ON ALLOCATION OF LAND TO MONGOLIAN CITIZENS FOR OWNERSHIP

a. CHAPTER ONE. GENERAL PROVISIONS

Article 1. Purpose of the Law

1.1. The purpose of this law is to govern allocation of land to citizens-families (hereinafter, "Citizens") for ownership and related relations arisen out of such allocation.

Article 2. Legislation on Allocation of Land to Citizens for Ownership

2.1. The legislation on allocation of land to Citizens for ownership shall consist of the Constitution of Mongolia, Civil Code, Law on Land, Law on Land Fee, this Law and other legislative acts issued in conformity with them.

Article 3. Legal Definitions

3.1. The following terms used in this Law shall be understood as follows:

3.1.1. “land” shall mean strata of space consisting of surface of land, its soil and vegetation;

3.1.2. “allocation of land to Citizens for ownership” shall mean transfer of land, that is allowed to be owned by citizens of Mongolia in the Constitution of Mongolia, to citizens - families (members) based on size, criteria, requirements and conditions provided by this Law;

Article 4. Purpose of Land Allocated to Citizens for Ownership 4.1. Land shall be allocated to Citizens for the following purposes:

4.1.1. for family needs;

4.1.2. for agricultural purposes; and 4.1.3. for other purposes;

Article 5. Principles of Allocating Land to Citizens for Ownership

5.1. The following principles shall be observed in allocating land to Citizens for ownership:

5.1.1. land allocation shall be carried out based on voluntary will of a citizen (citizens) and only for the purposes stated in this Law, under the government and public supervision; 5.1.2. allocation of land to Citizens for ownership for purposes provided by subparagraphs 4.1.1 and 4.1.3, shall consider and be based on total size and location of land provided for allocation by the General and Partial City Development Plans, General Land Management Plans of the Capital City, and cities of Darkhan and Erdenet, urban district annual land management plans, decisions of Citizens Representatives Hurals made at respective levels of centres of region, regional base cities, aimag and soum centres and villages, as well as the number of citizens willing to own land;

5.1.3. allocation of land to Citizens for ownership for purposes provided by subparagraph 4.1.2. shall consider and be based on the total size and location of land provided for allocation by long-term and annual crop development plans of respective aimags, the Capital City, soums and districts, as well as the number of citizens willing to own land;

5.1.4. allocation of land to citizens for purposes provided by subparagraph 4.1.1. shall be carried out once and for free, and shall be based on shared ownership;

5.1.5. in allocating land to citizens for ownership for purposes provided by subparagraph 4.1.1., the following shall be observed:

5.1.5.1. If land possessed by a citizen according to Law on Land [meaning “lawfully”] belongs to the category of land to be allocated for ownership as described by plans provided in subparagraph 1.2. of this Article and the citizen in question wishes to own the land, the land must be allocated to him/her;

5.1.5.2. If land possessed by a citizen according to Law on Land does not belong to the category of land to be allocated for ownership as described by plans and decisions provided in subparagraph 1.2. of this Article and the citizen in question wishes to own the land, the land must be allocated to him/her out of lands covered by plans and decisions provided in subparagraph 1.2. of this Article, on a first come basis.

5.1.6. in allocating land to citizens for ownership for purposes provided by subparagraph 4.1.3. the following shall be observed:

5.1.6.1. If land is possessed by a citizen for purposes provided by subparagraph 4.1.3. of this Law according to a decision made by an authorized organization in accordance with procedures provided by legislation on land, and on the basis of a contract, for buildings built by his/her private property, buildings in the process of construction, privatised buildings or buildingts transferred into his/her ownership according to procedures provided by the Civil Code and the Law on State and Local Government Property; and if this land belongs to the category of land provided in subparagraph 1.2. of this Article to be allocated for ownership; and the citizen in question wishes to own the land, the land must be sold to him/her for purposes of shared ownership;

5.1.6.2. If land, to be owned for purposes of maintaining buildings or constructions to be built by a citizen’s property or to be privatised according to procedures provided by law, or to be transferred to his/her ownership according to procedures provided by Laws on Land, and Law on State and Local Property, belongs to the category of land provided in subparagraph 1.2. of this Article to be allocated for ownership, the land must be sold through an auction for shared ownership;

5.1.7. allocation of land to citizens for purposes provided by subparagraph 4.1.2., shall be carried out through transfer of the land to citizens for group or shared ownership, who had run or are running agricultural business for not less than 5 consecutive years;

5.1.8. in allocating land to citizens for ownership for purposes provided by subparagraph 4.1.2., the following shall be observed:

5.1.8.1. If agricultural land possessed by a citizen according to Law on Land belongs to the category of land described in plans provided by subparagraph 1.3. of this Article to be allocated for ownership, and the citizen in question wishes to own the land, the land must be sold to him/her on preferential rights for purposes of ownership;

5.1.8.2. If a citizen, who does not possess agricultural land according to Law on Land, wishes to own the land, and the land belongs to the category of land described in plans provided by subparagraph 1.2. of this Article to be allocated for ownership, the land shall be sold and transferred to ownership through an auction;

Article 7. Size of Land to be Allocated for Ownership

7.1. Land to be allocated to Citizens for ownership for purposes of provided by subparagraph 4.1.1. shall be of following size, depending on its location and purpose:

Land to be allocated to families for ownership Location Size (hectares)

in the Capital City up to 0.7 hectare

Centres of other regions, cities of Darkhan and Erdenet, other regional base cities up to 0.5 hectare

Centres of aimags, soums and villages up to 0.35 hectare

7.2. The size of land to be allocated to Citizens for purposes provided by subparagraph 4.1.3. shall be of the following:

7.2.1. the size of the land described by subparagraph 5.1.6.1. shall be equal, depending on its location and purpose, to the size of the land allocated for possession for purposes of maintaining respective buildings/constructions;

7.2.2. the size of the land described by subparagraph 5.1.6.2. shall be equal to the size of the land sold through auction.

7.3. The size of land to be allocated to citizens for purposes provided by subparagraph 4.1.2. shall be of the following size:

7.3.1. the size of the land described by subparagraph 5.1.8.1. shall be equal, depending on its location and fertility, to the size of the land allocated for possession to the respective citizen;

7.3.2. the size of the land described by subparagraph 5.1.8.2. shall be equal to the size of the land sold through auction.

b. CHAPTER TWO. AUTHORITIES OF THE NATIONAL AND LOCAL GOVERNMENTS REGARDING ALLOCATION OF LAND FOR OWNERSHIP AND COORDINATION OF PRIVATELY OWNED LAND RELATIONS

Article 9. Authority of the Cabinet

9.1. The Cabinet shall exercise the following authorities:

9.1.2. based on the proposals of aimags and the Capital City, to determine the size of land to be allocated to Citizens for ownership for a given year, nationwide;

9.1.3. to determine the base valuation of land to be allocated to Citizens for ownership; 9.1.4. based on special need of the State, to make decisions with respect to replacing or taking back Citizens’ privately owned land, with compensation;

Article 14. Authorities of the Soum and District Governors

14.1. Governors of soums and districts shall exercise the following authorities:

14.1.3. to receive applications from Citizen to own a land and to make decisions on allocating land for ownership;

14.1.4. if a Citizen uses the owned land in contradiction with interests and concerns of health of the people, environment or national security to file a claim with a Court in order to have the land confiscated;

14.1.5. to receive applications from Citizens to let others to possess or use the owned land and to issue permissions for others to possess or use the land;

c. CHAPTER THREE. ALLOCATION OF LAND TO CITIZENS FOR OWNERSHIP

Article 17. Inspection and Certification of the Status [the state of the land] and Quality of Land To Be Allocated to Citizens for Ownership

17.1. Inspection and certification of status and quality of the land must be carried out in allocating land to Citizens for ownership.

17.2. According to legislation on land, a professional entity licensed by the State Administrative Organisation in charge of land issues shall carry out inspection and certification of status and quality of the land to be allocated to Citizens for ownership and shall issue an opinion.

17.3. The opinion of the state inspection on status and quality of the land shall be inseparable part of the state immovable property registry certificate issued to the citizen acquiring land for ownership by an authorised organisation.

Article 18. Grounds for Determining the Value of Land To Be Allocated to Citizens for Ownership

18.1. The Government [Cabinet] shall determine the base value of land to be allocated to Citizens for ownership.

18.2. The State Administrative Organisation in charge of land relation issues shall determine land evaluation methods.

Article 19. Determination of Price of Land To be Allocated to Citizens for Ownership, and Terms and Procedures for Its Payment

19.1. The price of land to be allocated to Citizens for ownership for purposes described in Article 4 of this law shall be determined by Governors of soums and districts based on the base value of land described by subparagraph 18.1. of this Law and land evaluation method described by subparagraph 18.2.

19.2. Before having registered the land acquired for ownership for purposes described in subparagraphs 4.1.2. and 4.1.3. of this Law, Citizens must have paid the land price to the soum or district government budget.

Article 21. Tax On Land Allocated for Citizens for Ownership

21.1. Citizens shall pay immovable property tax on the land owned according to provisions of Law on Immovable Property Tax.

Article 22. Rights and Duties of Citizens Who Acquired the Land for Ownership 22.1. Citizens with the right to acquire land for ownership shall have following rights:

22.1.1. to submit application to Governors of soums and districts on acquiring land from the areas permitted for ownership by this Law;

22.1.2. to acquire land for purposes described by subparagraph 4.1.1. of this Law, once and for free;

22.1.3. to acquire land described by subparagraph 5.1.5.2. of this Law, for free, on the right of first refusal;

22.1.4. if land wanted for purposes described by subparagraph 4.1.1. of this Law by a citizen, who does not possess land according to Law on Land, belongs to the category of land provided by subparagraph 5.1.2. of this Law to be allocated for ownership; and if the land is not possessed or used by anyone, he/she shall acquire the land for ownership, for free, depending on the sequence of submission of applications to Governors of respective soum or district;

22.1.5. to acquire land described by subparagraph 5.1.6.1 of this Law for ownership by paying the price of the land;

22.1.6. to enjoy preferential rights to buy land described by subparagraph 5.1.8.1; 22.1.7. to acquire land described by subparagraphs 5.1.6.2 and 5.1.8.2 through an auction.

22.2. Citizens with the right to acquire a land for ownership shall have following duties:

22.2.1. to have the national cadastral map of the land produced;

22.2.2. to have the boundaries and limits of the owned land marked with signs;

22.2.3. to have the state inspection on status and quality of the land carried out on the land to be acquired for ownership;

22.2.4. in connection with acquiring land for ownership, to prepare objectively and correctly the package of documents provided by Article 23 of this Law.

Article 23. Application to Acquire Land for Ownership and Its Review

23.1. Citizens must include following in their applications to acquire land for ownership:

23.1.1. family names, parents names and given names of every member of the family, number of the citizen (ID) cards, registration numbers [this is a number given to each Mongolian citizen and it is the same through a lifetime, appears on birth certificates and ID cards] (if a member has not reached 16 years of age, then a copy of the birth certificate certified by a notary);

23.1.2. address of the place of residence, phone number, administrative and territorial jurisdiction of the land to be acquired for ownership;

23.1.3. purpose and size of the land to be acquired for ownership;

23.1.4. if a land to be acquired for ownership for purposes of subparagraph 4.1.2 of this Law is to be owned partially by citizens - members of a family on a shared basis, then a request to such effect;

23.1.5. date of the application and signatures of every members who have reached 18 years of age.

23.2. Citizens must attach the following documents to their applications to acquire land for ownership:

23.2.1. copies of birth certificates of family members who have not reached 16 years of age, certified by a notary;

23.2.2. a letter of confirmation by a Governor of bagh or khoroo (or village head person) on the status of the family and number of its members;

23.2.3. if land is possessed according to Law on Land, then copies of the licenses to possess the land, or document certifying the right to possess the land, the contract on possession of the land, all certified by a notary;

23.2.4. an outlining map showing location and size of the land requested (if the land is to be owned on a shared basis among a group then an outlining map of every parcel belonging to each owner showing its size, location and boundary).

23.3. Upon receiving an application, a Governor of soum or district or an official authorised by him/her shall make a note on the application indicating its number in the list of applications, date and time and shall sign it.

23.4. A Governor of a soum or a district shall review and resolve [the issue] within 3 months after the date of receiving the application to acquire land for ownership.

Article 24. Making a Decision to Allocate Land for Ownership

24.1. [Based on verifying] an application submitted by a Citizen and proving that [the Citizen is indeed] a person authorised to own a land according to provisions of this Law, Governor of soum or district shall issue an order to allocate a land for ownership.

24.2. The order shall state the location, boundary, purpose of the land to be allocated for ownership, family names, father names and given names of the owner (owners), numbers of the citizen (ID) cards, registration numbers, with respect to a member who has not reached 16 years of age the number of his/her birth certificate, the price of the land, if the land is to be acquired for shared ownership and for agricultural purposes then size of every parcel belonging to each owner and its boundary.

Article 25. Certifying Rights of Citizens to Own Land

25.1. Based on the decision of Governor of soum or district on allocating land to a Citizen for ownership, the immovable property registration agency shall register the land allocated to the Citizen for ownership in the national registry according to provisions of Law on Registry of Immovable Property and related legislation, and shall issue a National Immovable Property Registry Certificate (hereinafter, -the National Registry Certificate) that certifies that the citizen in question is the lawful owner of the land.

Article 26. Implementation of Land Arrangement and Handing over the Land Allocated for Ownership to Citizens

26.1. The land to be allocated to Citizens for ownership shall have been included in the national registry of land.

26.2. Soum official in charge of land issues or district land services shall be responsible for implementation of measures regarding inclusion of land to be allocated to Citizens for ownership in the national registry, to hand over the land to its owner based on proper decisions, to determine and mark its boundary and to make a record.

d. CHAPTER FOUR. SPECIFIC REGULATION OF RELATIONS WITH RESPECT TO CITIZEN’S OWNERSHIP OF LAND

Article 30. Rights and Duties of Citizens Owning Land

30.1. Citizens owning land shall have following rights:

30.1.1. to possess, use, administer and dispose the owned land on his/her discretion within the scope and limitation established by law and without violating rights of others granted to them by law or contracts;

30.1.2. to let others to possess and use the owned land as provided by Article 32 of this Law;

30.1.3. according to relevant procedures, to administer and dispose the owned land through sale, trade, inheritance or pledge to other Citizens;

30.1.4. to use free of charge any natural resources on the owned land;

30.1.5. to charge appropriate fee for temporary use of the owned land for public use or special needs, as agreed;
30.1.6. according to provisions of relevant laws and legislation, to use widely available mineral resources of the owned land for the needs of the family, to build wells and use the water;

30.1.7. to build buildings , constructions and engineering lines and networks on the owned land according to standards, instructions, procedures and requirements adopted and approved by relevant law, legislation and authorised entities;

30.1.8. to get compensations according to provisions of this Law, if the owned land is to be replaced or taken back for special needs of the state;

30.1.9. other rights and preferential rights provided by law and legislation. 30.2. Citizens owning land shall have following duties:

30.2.1. to implement Laws on Land and on Allocating Land to Citizens of Mongolia for Ownership, other relevant law and legislation and decisions issued by the state authorised entities in connection with enforcement of the laws;

30.2.2. to use the owned land for its purposes;

30.2.3. to have the land, acquired for ownership, registered with the agencies of land registration and immovable property registration, and to have the contracts related with transfer of the land to others, or allowing others to possess and use, or pledging registered with the agency of immovable property;

30.2.4. to protect and keep intact marks and signs of boundary, limits, and geodetic signs located on the owned land;

30.2.5. not to carry out activities that would damage lawful rights and interests of other land owners, possessors or users or activities that would negatively affect the health of the population and the environment;

30.2.6. not to cause deterioration of the status and quality of the land;

30.2.7. during exploitation of the owned land to observe and implement construction, ecological, health and sanitary, fire safety and other relevant standards, instructions, procedures and requirements;

30.2.8. once every 5 years, to have inspection and certification of the status and quality of the land carried out by an authorised entity for his/her own expenses;

30.2.9. other duties provided by law and legislation.

Article 31. Actions Prohibited for Citizens Owning Land

31.1. Following aspects shall be prohibited for Citizens owning land:

31.1.1 to transfer the owned land to ownership of foreign citizens or stateless persons through sale, trade, gift or pledge;

31.1.2. to allow others to possess or use the owned land without the permission provided by Article 32 of this Law;

31.1.3 to use the owned land in violation of interests and concerns of the population health, environment and national security.

Article 32. Allowing Others to Possess or Use Land

32.1. Citizens may allow others to possess or use the owned land along with its purposes, for certain period, with the permission of Governor of soum or district.

32.2. Citizens shall submit their request to obtain permission for allowing others to possess or use the owned land to Governor of soum or districts in writing.

32.3. In the request described by paragraph 2 of this Article, the purpose and period of allowing others to possess or use the owned land shall be indicated and every member of the family who has reached 16 years of age shall sign it.

32.4. One original copy of the Contract, certified by the notary, with the person to possess or use the land owned by the Citizen shall be attached to the request described by paragraph 2 of this Article.

32.5. Upon receiving the request described by paragraph 2 of this Article, Governor of soum or district shall resolve, within 15 days, the issue of granting or refusing to grant the permission.

32.6. If it is established that the person to possess or use the Citizen’s owned land violated this Law, Law on Land, Law on Land Fee and Law on Environment Protection or if it is likely that he/she may carry out activities in violation of interests and concerns of health of the people, environment and national security, Governor of soum or district may refuse to grant the permission.

32.8 If the person possessing or using the Citizen’s owned land has carried out activities in violation of this Law, Law on Land, Law on Land Fee, Law on Immovable Property Tax and Law on Environment Protection or has carried out activities in violation of interests and concerns of the population health, environment and national security, Governor of soum or district shall revoke the granted permission.

32.9. Foreign legal entity, foreign citizens or stateless persons leasing or renting on contractual basis a Citizen’s owned land may transfer the land to a third person through re- leasing and re-renting, only with the permission of the owner.

Article 33. Allowing Temporary Use of Land Owned by Citizens for Purposes of Public Use or Special Needs

33.1. Citizens may allow temporary use of the owned land for special needs of the state, aimag, the Capital City, soum or district based on prearranged agreement with the Cabinet or Governors of aimag, the Capital City, soum or district on contractual basis, for a fee.

e. CHAPTER FIVE. CESSATION AND LIMITATION OF THE RIGHT OF LAND OWNER

Article 34. Cessation of the Right of Land Owner

34.1. The right of Citizens to own land shall cease on following grounds:

34.1.1. upon transfer of the owned land to ownership of other Citizen;

34.1.2. upon relinquishment of the right to own land;

34.1.3. other grounds provided by law and legislation.

Article 35. Replacing or Taking Back Land Owned by Citizens for Special Needs of the State with Compensation

35.1. Based on following special need of the state, land owned by citizens may be replaced or taken back, with compensation:

35.1.1. to ensure national defence and security;

35.1.2. to create a permanent exploitation field for scientific and technological experiment and environmental or climatic observation.

35.1.3. to build roads, lines and networks and other objects of national scale.

35.2. Decision on replacing or taking back Citizen's owned land based on special needs of the state and for fee shall be made by the Cabinet.

35.3. The decision to replace or take back Citizen' owned land for a fee shall clearly indicate the grounds of inevitable replacement or taking the land back.

35.4. The state administrative organisation/agency in charge of land matters shall enter into preliminary agreement with the owner of the land one year prior to making a decision on replacing or taking back the land owned by citizens for special needs of the state, with compensation.

35.5. In replacing or taking back Citizen' owned land for fee, based on special needs of the state, the owner and state administrative organisation/agency in charge of land relations matters shall enter into preliminary agreement on the following issues:

35.5.1. the land value;

35.5.2. the value of immovable property on the land;

35.5.3. investment made by the owner on the land, size of damages to be caused by the replacement or taking back of the land for fee based on special needs of the state; 35.5.4. size of the land to be taken back for the special needs of the state;

35.5.5 location, size, status and quality of the land to be allocated in replacement of the land taken back for the special needs of the state.

35.5.6. conditions and term of vacating the land;

35.5.7. rights and duties of the parties in connection with vacating the land;

35.5.8. amount of compensation, procedures and term for its payment.

35.6. In replacing or taking back Citizen's owned land for fee, based on special needs of the state, the compensation fee shall be paid from the Government budget.

35.7. If the issue of replacing or taking back Citizen's owned land for fee, based on special needs of the state, was not agreed as provided by subparagraphs 4 and 5 of this Article, the dispute shall be resolved by Court.

Article 37. Expropriation of Land Owned by Citizens

37.1. During occurrence of environmental or public disasters such as damages to lives and health of many people, loss of animals and livestock, earthquakes, strong wind, drought, zud, flood, fire, outbreak of lethal infectious diseases that may cause significant damage to property and environment or emergency situations such as big scale industrial accident, loss of radio active or poisonous chemical substances, a land owned by Citizens may be expropriated according to procedures provided by law and based on decision of authorised state entity for purposes of taking measures in order to protect and rescue the population, livestock, animals and property and to eliminate the negative consequences. Damages caused to Citizens owning land due to such expropriation shall be compensated to full extent.

37.2. If it becomes impossible to return the expropriated land, the owner shall be compensated for the value of the land and the damages according to the market rate of that time or the damages shall be compensated by allocating other land not worse than the expropriated land by its status and quality.

37.3. If there is a dispute regarding the determination of the rate of the expropriated land and damages caused to the land owner, it shall be resolved by Court.

Article 38. Confiscation of Land Owned by Citizens

38.1. If a Citizen owning a land or other persons possessing or using the land have violated the procedures on possession, use, administration and disposal of land, the land may be confiscated through procedures of administrative penalty.

f. CHAPTER SIX. GUARANTEE FOR CITIZENS RIGHT TO OWN LAND

Article 39. Restoration of Citizens Violated Right to Own Land

39.1. If the right of a Citizen to own a land has been violated, it shall be restored through Court procedures.

39.2. Court decision on restoration of Citizens right to own land, that has entered into force shall serve as legal grounds for registering the land by Immovable Property Registration Agency in the state registry as provided by Law and legislation on Immovable Property Registration and for issuing National Registration Certificate for Immovable Property to a Citizen, whose right was restored.

39.3. Damages caused to a Citizen due to decisions of state administrative organisation, as well as of local self governing organisation issued in contradiction with laws and legislation or in violation of Citizen's right to own land or lawful interests, shall be compensated by the organ which has issued such decision.

39.4 An institution that has violated the right to own a land shall fully compensate the damages caused to the citizen including the revenue that could be generated [opportunity cost], according to provisions of Civil Code and other legislation.

Article 40. Ensuring Guarantee for Citizens Right to Own Land When Replacing or Taking Back the Land Owned by Citizens Based on Special Needs of the State with Compensation

40.1. Activities directed at replacing or taking back the land owned by citizens for compensation based on special needs of the state shall be carried out after implementation of the following measures:

40.1.1. In case of replacing the land owned: land not worse than the previously owned land by its status and quality, based on request of the citizen, shall be allocated for ownership. 40.1.2. In case of the taking back of land: its value shall be paid.

40.1.3. The value of immovable property attached to the land previously owned by the Citizen shall be paid.

40.1.4. Investment made by the owner to the land shall be paid.

40.1.5. Damages to be caused to the owner due to replacement or taking back of the land based on the special needs of the state shall be paid to full extent according to Civil Code and legislation.

40.2. The land owner shall be notified in writing not less than one year prior to making the decision on replacing or taking back a land owned by a citizen, based on the special needs of the state.

40.3. If the term of one year has passed after receiving the note described by paragraph 2 of this Article by the land owner, and if the measures provided by paragraph 1 of this Article have been carried out, the land owned by a Citizen replaced or taken back based on the special needs of the state.

40.4. Compensations for immovable property built or costs of other measures taken to significantly increase the land value after receiving the note described by paragraph 2 of this Article shall not be paid.

Article 41. Prohibiting Obstruction of Citizens Right to Own Land

41.1. It shall be prohibited to other persons to obstruct the right of Citizens to own land. Article 42. Filing Complaints

42.1. If a Citizen considers that a Government organisation or an official has unlawfully obstructed exercise of his/her right to own land he/she shall file a complaint to respective higher ranking organisation or official of the organisation or official in the question.

Article 45. Effective Date of the Law

45.1. This Law shall be come into force from 2002.

LAW OF MONGOLIA ON REGISTRATION OF IMMOVABLE PROPERTY

a. Chapter One General Provisions

The purpose of this law shall be to determine the legal status of the registration by immovable property organisation and to regulate matters relating to the registration and protection of rights of ownership of immovable property, other than property owned by the State and local property for public use.

Article 2. Legislation on registration of immovable property and scope of the law

1. Legislation on registration of immovable property is comprised of the Civil law, this law and other relevant legislation which are consistent with them.

2. If an international treaty to which Mongolia is a party is inconsistent with this law, then the provisions of the international treaty shall prevail.

3. Any property situated in the territory of Mongolia, being property with certain boundaries measurable by actual and abstract methods, such as land and buildings which would lose their purpose and economic value if separated from land, and plants and perennial herbs, except land which buildings owned by the state and local property for public use, shall be registered at the Registration Office in accordance with the paragraph 3 of Article 77 of the Civil law.

4. An immovable property in the ownership, possession and use of a person or legal person of Mongolia in the territory of a foreign country may be registered at the Registration Office.

Article 3. Rights of ownership, possession and use of immovable property

1. Subject to the provisions of the law, the right of a person or legal person to own the immovable property arises upon the registration at the Registration Office.

2. A agreement to transfer of immovable property to the ownership, possession and use of another person shall be valid upon the registration at the Registration Office, and the rights of ownership, possession and use of the immovable property shall then arise as provided by of the agreement.

Article 5. The Registration Office

1. The office for registration of immovable property (hereinafter referred to as the “Registration Office”), which is within the framework of functions of the Minister of Justice, shall be responsible for the registration of immovable property.

2. The legal status of the Registration Office shall be determined in accordance with this law and other relevant legislation.

3. If it is not provided otherwise in the law, only the Registration Office stated in the paragraph 1 of this Article shall be responsible for the state registration of immovable property.

Article 6. Duties of the Registration Office

The Registration Office shall have the following duties:

1) to inspect and make proper decision in relation to applications for registration of immovable property;

2) to register immovable property and issue Certificates of State Registration of Immovable Property;

3) to maintain a register containing records relating to immovable property
and agreements with regard thereto, including agreements of transfer and collateral agreements;

4) to provide to authorised persons, in accordance with the relevant
procedure, such information and reference relating to immovable property as is considered;

5) to compile, maintain and protect the Register of Immovable Property and agreements with related to immovable property;

6) to maintain archives of documents on registration of immovable property;

7) to deposit the land cadastral map with its dimensions and other required criteria as an Annex to the registrations; and

8) such other duties as are provided for by law. Article 7. Organizational structure of the Registration Office

1. The Registration Office shall have local branches for the registration of immovable property.

2. The Government shall approve the rules of the Registration Office and procedures for the work of the State Registrar.

3. The registration of immovable property shall be carried out by the State Registrar. The State Registrar shall have an Assistant Registrar.

4. The Registration Office may have a division whose functions are to control the cadastral measurement and land valuation.

5. The Minister of Justice shall approve the form of the State Registry book, stationary (letterhead) and the Certificate form of the State Registration of Immovable Property.

Article 8. Registration duties and service fees

1. Stamp duty shall be paid upon the registration of immovable property in accordance with the procedure of this law.

2. Immovable property transferred from the State after proper payment in accordance with the procedure of the law shall exempt from stamp duty stated in t paragraph 1 of this Article.

3. A service fee shall be paid for the registration of agreements to transfer the rights in relation to immovable property and for copying of registration documents.

4. The Government shall establish procedures relating to service fees and their disposal.

b. Chapter two Registration of immovable property

Article 9. Application for the registration of immovable property

1.Persons of Mongolia, legal persons and/or their legal representatives shall submit an application for the registration of immovable property (hereinafter referred to as the “Application”) to the related Registration Office where the immovable property is located.

2. A single application shall be submitted for the registration of immovable property under joint ownership. The application shall contain written consent of each applicant.

3. submit the application for registration of the part to which he/she is entitled.

Each owner of an immovable property in partial ownership shall independently

4. A single application shall be submitted for the registration of an immovable property, which forms and is used as complex.

5. An application for registration shall contain the items listed in the paragraph 1 of Article 12 and shall the following documents have attached to it:

1) a document certifying the applicant’s right to ownership of the immovable property; and

2) a document by a competent authority setting out the dimensions ad valuation of the property.

The documents attached to the application shall be certified by a Notary.

An applicant shall have the right to withdraw the application before his/her immovable property is registered at the Registration Office. The procedures for withdrawal of the initial application shall be same as for an application for registration.

8. If the applicant is a non-permanent resident of Mongolia, he/she shall make the application for registration or withdraw an application through an authorized representative who is a permanent resident of Mongolia, and certified to be so by a Notary.

Article 10. Refusal to accept an application

1. The Registration Office may refuse to accept an application if it is not complete or there is a dispute in regards to the ownership and possession of the immovable property.

2. Where the Registration Office refuses to accept an application, it shall inform the applicant officially of the reasons for the refusal, and shall return the documents supplied by the applicant.

Article 11. Procedure relating to registration

1. The Registration Office shall decide whether to register or not to register and make verification on immovable property within 30 days from the application date.

2. The State Registrar shall verify the application and decide whether it complies with the requirements set out in Article 9 of this law. If the State Registrar considers that all such requirements have been met, he/she shall register the property on the date of the receipt of the application.

Following a decision to register, the Assistant Registrar shall enter in the Register record of the registration of immovable property, which shall be endorsed by the State Registrar and the Assistant Registrar.

3. If the Registration Office makes an incorrect registration, it shall be responsible for its correction and invalidation.

Article 12. Registration of immovable property

1. Each immovable property except that of the kind referred to in paragraph 2,3,4 of Article 9 of this law shall be registered separately at the State Registration of immovable property (hereinafter referred to as the “State Registration”), and the following shall be recorded in the Register:

1) the location, dimensions and purpose of the immovable property;

2) the given name, surname, residential address and signature of immovable property’s owner, and the registration number of his/her passport;

3) if the owner is a legal person - its name, addresses, the number of the State

Registration, the given name and surname of a person authorized to represent the legal person and dispose the immovable property, his/her residential address, the registration number of his/her passport and signature;

4) the legal grounds for the registration of immovable property;

5) notes on the transfer to the ownership, possession or use by others and/or used as a collateral;

6) the date of the application;

7) notes and justification for cancellation of the State Registration; and

8) the given name and surname of the Notary who certified the relevant documents.

2. In the case if the registration of an agreement for the transfer of the immovable property of a legal person to the ownership, possession and use of others carried out by an authorized representative, the authorization shall be signed and stamped by the executive officers, accountant (or their representatives) and certified by a Notary.

Article 13. Certificate of the State Registration of Immovable Property

1. The Certificate of the State Registration of Immovable Property (hereinafter referred to as “Registration Certificate”), which confirms the State registration of immovable property and the legal owner thereof, shall be issued to the owner.

2. The Registration Certificate shall be issued by the State Registrar. The procedure for issuing of the Registration Certificate shall be determined by the Minister of Justice.

3. Where a Certificate in respect to an immovable property was issued by a State Authority prior to the State Registration, the State Registrar shall confirm the legal ownership by an appropriate note in the Registration Certificate.

Article 14. Amendments to State Registration

1. Appropriate amendments to the State Registration shall be made where:

1) an immovable property has been transferred to the ownership, possession and use of another person or legal person pursuant to the agreement;

2) the owner or possessor of an immovable property has changed by virtue of the decision of a competent authority; or

3) the dimensions of the immovable property have changed.

2. Prior to any amendments to the State Registration, the consents of persons, legal persons and/or State competent authority whose rights may be infringed as a result of such amendments shall be obtained. The consent of a person and legal entity shall be certified by a Notary.

3. If an immovable property have been transferred to another person or legal entity, a record of this shall be made at the Registration Office, and a Registration Certificate shall be issued to the new owner.

All amendments to State Registration shall be recorded in the Register.

Article 15. Special records

The Registration Office shall make a special record in its books in the following cases:

1) if a court has declared the owning legal entity insolvent;

2) if a court has made a decision on asset recovery against the owner; or

3) if a court has made a decision of legal disability against an owner, has declared an owner a spendthrift or has announced the death of an owner.

Article 16. Preliminary records (caveat)

1. If requested by the buyer or successor to an immovable property, the Registration Office shall make a preliminary record (enter a caveat), to protect the rights of the buyer or successor.

2. If the buyer fails to fulfill his/her obligations, the owner of the immovable property shall have the right to apply to the Registration Office for the removal of the preliminary record (caveat).

3. If the owner desires to dispose of the immovable property during the effective period of the preliminary record (caveat), the owner shall obtain a written consent of the person who requested the preliminary record (caveat) to be made. The consent shall be certified by a Notary.

Article 17. Cancellation of registration

Following an application with relevant documents attached, the Registration Office shall cancel registration of an immovable property and the Registration Certificate in the following cases:

1) if the immovable property in Mongolia is destroyed;

2) if the immovable property in the territory of a foreign country is destroyed; or

3) if the ownership right of the property is terminated.

Chapter three - Registration of Collateral agreements and transfers to others the ownership, possession and use of immovable property

Article 18. Registration of agreements related to immovable property

1. The owner shall apply for the registration of an agreement to transfer an immovable property to the ownership, possession and use by others within such period of time as is provided by this law.

2. The registration of an agreement to transfer (hereinafter referred to as the “Agreement”) of immovable property to ownership, possession and use by others shall give legal effect to the transfer in accordance with the terms set forth in the law.

3. The Agreement shall be enforceable in accordance with the provisions and procedures set forth in the Civil law.

4. The registration of an agreement shall record the following:

Type of Agreement and content of the obligations; 2) Parties to the agreement and their rights;

3) Articles of the Agreement, the definition and criteria; 4) Duration of the Agreement;

6) Agreement price and the validation period of the Agreement and its justification.

Article 19. Registration of a collateral agreement of immovable property

1. A collateral agreement relating to an immovable property shall be registered in accordance with the procedures provided in this law.

2. The Registration of a collateral agreement relating to an immovable property shall contain the following:

1) the given name, surname, residential address and registration number of the passport of mortgagor, mortgagee and the guarantor;

2) the mortgaged items and their definition; and

3) the content of the mortgage obligations, the duration of the mortgage and the agreement price.

3. Each collateral agreement shall be separately registered with State in accordance with the provision of this Article if several mortgages co-exist towards an immovable property. The priority for releasing monies under the pledge shall be given by the date of the State registration of the collateral agreement.

Article 20. Records of registration of agreements and changes in agreements on immovable property

The Registration Office shall record the registration of an agreement in its books.

The Registration Office shall also record any changes in the parties to the agreement

or their rights and duties and/or the termination of an agreement.

Records regarding the agreement shall be closed if the agreement is terminated.

c. Chapter four Miscellaneous

Article 21. Auction

If a court decides that an immovable property is to be auctioned, then the Registration Office shall organize the auction, and it shall be conducted by the court decision enforcement office in accordance with the Law on the Court Decision Enforcement.

Article 24. Coming into effect

This law shall come into effect from 1 May 1997.

LAW OF MONGOLIA ON STATE STAMP DUTIES

a. Chapter One General Provisions

The purpose of this law is to regulate the establishment, payment and collection of stamp duties.

Article 2. Legislation of Mongolia on stamp duties

The legislation of Mongolia on stamp duties is comprised of the Constitution of Mongolia, the General Law on Taxation, this law and other relevant legislation, which is consistent with those laws.

2. If provisions of an international treaty to which Mongolia is a party do not state otherwise than this law, then the provisions of the international treaty shall prevail. – (This paragraph was added by the law of 31 October, 1997)

Article 5. Types of services for which stamp duty shall be collected

Stamp duty shall be collected for the following services:

1) The settlement of legal disputes by the Courts;

2) Notarial services;

3) The registration of the status of citizens and the issue of passports, permits and visas;

4) Consular services;

5) The registration of vehicles and the issue of permits to drive;

6) The registration of guns;

7) The registration of newspapers and magazines;

8) The registration of business entities and organisations;

9) The granting of authorisation to establish business entities with foreign investment and representative offices of foreign organisations;

10) The granting of authorisation to provide services which require, or to carry out production which requires, special authorisation or expertise;

The issue of patents for inventions and industrial designs, the registration of trade marks, ensuring the validity of patents and the registration of licences in respect of patents and trade marks;

The registration of copyright works;

13) The granting of permission to carry out activities in respect of securities and the registration of securities; and – (This provision was added by the law of 26 June, 1995).

14)Any other services provided by this law.

Article 5 $^{1.}$ Amount of Duty

The amount of duty to be collected in accordance with the paragraph 3 of Article 8 and paragraph 2 of Article 9 may be established on a principle of mutual equality with country of origin of that certain foreign citizen. - (This article was added by the law of 31 October, 1997)

Article 7. Amount of duty for notarial services

1. Duty shall be collected for notarial services in the following amounts:

1) For the certification of non-property agreements and contracts or agreements and contracts which have no fixed value - 500 togrogs

For the certification of amendments to non-property agreements and contracts or agreements and contracts which have no fixed valueor the extension of their terms - 500 togrogs;

3) For the certification of property lease agreements - 750togrogs;

4) For certification of documents of the creation of legal entities – 2,000 togrogs;

5) For certification of amendments to the documents of the creation of legal entities and the extension of their terms - 500 togrogs;

6) For certification of warrants - 500 togrogs;

7) For certification of documents – 50 togrogs per page;

8) For certification of translations of documents – 50 togrogs per page;

9) For certification of signatures on documents – 1,000 togrogs;

For certification of the copies of certified documents – 50 togrogs per page; 11) For examining of the core documents upon the request of a customer – 2,000 togrogs;

13) For certification of the rights of members of a family to own property commonly or separately by parts – 250 togrogs;

14) For certification of documents on immovable property – 2,000 togrogs;

17) For certification of contracts other than those provided for in provisions 1, 2, 3 and 16 of this paragraph - 0.02 percent of the value of contracts involving up to 1 million togrogs, and 0.01 percent of the value of contracts exceeding 1 million togrogs;

2. Unless otherwise provided by a contract or an agreement, parties to it shall make equal contributions to the payment of duty.

(This paragraph was re-edited by the law of 2 May, 1997)

Article 14. Amount of duty for the issue of permits to operate a branch or representative office of a foreign business entity or to establish a business entity with foreign investment

1. Duty shall be collected for the issue of a permit to operate a branch or representative office of a foreign business entity in the following amounts:

1) For the issue of a permit to establish and operate a foreign branch or representative office - US$500.00 or the equivalent in togrogs;

2) For an extension of the term of a permit to operate a foreign branch or representative office - US$200.00 or the equivalent in togrogs.

2. Duty shall be collected for the issue of a permit to establish a business entity with foreign investment in the following amounts:

1) For the initial issue of a certificate and its reissue - 6,000 togrogs; 2) For an extension of the term of the certificate - 3,000togrogs. (This subparagraph was amended by the law of 17 April, 1997)

Article 17 ^{1} Amount of duty for granting permission to carry out and register securities operations

Duty shall be collected in the following amounts for granting permission to carry out activities in respect of securities and the registration of securities:

For authorisation to issue and register securities - 15,000 togrogs;

For authorisation to offer securities by way of tender - 10,000 togrogs;

3) For authorisation to carry out activities in respect of securities - 10,000 togrogs.

(This article was added by the law of 26 June, 1995)

Article 17 $^{2.}$ Amount of duty for the registration of immovable property

Duty for the registration of immovable property shall be collected in the amount of 0.01 percent of the value of the property.]

(This article was added by the law of 4 July, 1997)

This law shall come into force on 1 September 1993. Chairman of the State Ih Hural of Mongolia.

VALUE ADDED TAX LAW OF MONGOLIA

Article 1. The purpose of the Law

1.1 The purpose of this Law is to regulate the imposition of a value-added tax on imported and exported goods, goods sold, jobs performed, and services rendered in the territory of Mongolia, sale of imported goods by citizens and legal entities in Mongolia, and to the payment of value-added tax to the budget. /This paragraph was changed by Law of June 29, 2001/.

Article 5. Goods, jobs and services subject to imposition of a value-added tax

5.1 Unless otherwise provided in this Law, the value-added tax shall be imposed on the following goods, jobs and services:

5.1.1 goods sold in the territory of Mongolia;

5.1.2 goods exported from the territory of Mongolia for use or consumption outside the territory of Mongolia;

5.2 For the purposes of this Law, the following shall be treated as the "sale of goods":

5.2.1 the sale of a business and business rights;

5.2.2 any goods, jobs and services retained by a taxpayer for himself from the business assets upon termination by the taxpayer of his production and services and cessation of the value-added tax payer's registration;

5.2.3 any goods, jobs and services for which a credit has been allowed under Article 11 of this Law;

5.2.4 any goods, jobs and services of a taxpayer that are sold in satisfaction of a debt owed to others persons.

5.1.3 jobs performed and services rendered in the territory of Mongolia; 5.1.4goods imported for sale, use or consumption in the territory of Mongolia.

5.3 For purposes of this Law, the following shall be treated as the "sale of services":

5.3.1 the supply of electricity, heat, gas, water, postal services, communications, and other utilities;

5.3.2 the leasing of goods or other grant of the right to possess or to use;

5.3.3 the renting of (or other grant of the right to possess or to use) accommodation in a hotel or a similar establishment;

5.3.4 the renting of (or other grant of the right to possess or to use) premises in a building; /This subparagraph was changed by Law of August 28, 1998/.

5.3.5 the renting of (or other grant of the right to possess or to use) premises for storing goods;

5.3.6 the sale, transfer, and assignment of patent, copyright, trade mark, software and other proprietary information;

5.3.7 the provision of the right to participate in any gambling.

5.4 Following conditions need to be met in imposing taxes on goods, works and services specified in paragraph 1 of this Article:

a/ seller shall be the value added tax payer as provided in Article 4 of this Law; b/ sales shall be conducted within the scope of business activities. /This paragraph was added by Law of August 28, 1998/

Article 6. Value- added tax rates

6.1 Value-added tax shall be imposed on each case of imports or sale of goods, jobs and services.

6.2 Unless otherwise provided in this Law, the value-added tax shall be imposed at the rate of 10 percent of the value of imported or sold goods performed jobs and rendered services.

Article 7. Taxable amount

7.1 The taxable amount for imported goods shall be defined by total amount of price determined by the Customs in conformity with Custom Tariff Law, plus custom duty, excise tax and other taxes./This paragraph was changed by Law of August 28, 1998/.

7.2 The taxable amount for goods sold, jobs performed and services rendered in the territory of Mongolia shall be based on the price or tariffs of goods sold, jobs performed and services rendered.

7.3 The taxable amount for goods, jobs and services indicated in clauses 5.2.1, 5.2.2, 5.2.3 of this Law shall be based on the current market price or tariffs of the goods, jobs and services sold.

7.4 The taxable amount of sold goods, performed jobs and rendered services for which the price or tariffs are uncertain, shall be defined by the Tax and Customs Administrations based on their current market value. /This paragraph was changed by Law of August 28, 1998/.

7.5 The taxable amount for any goods, jobs and services exchanged (whether in whole or in part) shall be defined based on the current market value of the goods or jobs and services exchanged.

7.6 The taxable amount for any goods, jobs and services sold to an associated citizen, entity or organisation at an unreasonably low or high price or tariffs shall be based on the current market value of those goods or jobs and services.

7.7 In the case of the provision of gambling services, the taxable amount shall be equal to the total amount paid by participants less any amount paid out as winnings.

7.8 Where the taxable amount is expressed in foreign currency, it shall be converted into togrogs using the exchange rate fixed by the Mongol Bank on the day specified in accordance with the clause 10.1 of this Law.

7.9 A free transfer of the goods or jobs and services to others or use for personal needs /except used for internal production turnover/ shall not serve a basis for exemption from the VAT.

Article 8. Zero-rating for exports

8.1 The rate of tax imposed in compliance with the clause 6.3 of this Law shall be zero /"0"/ with respect to the following goods, jobs and services:

8.1.1 Any sale of goods by the taxpayer who have met the following conditions:

a/ export of goods from the territory of Mongolia for sale;

b/ export of such goods from the territory of Mongolia has been verified by the Customs Administration.

8.1.2 Any passenger and cargo transportation services: a/ from the territory of Mongolia to a foreign country; b/ from a foreign country to the territory of Mongolia; c/ from a foreign country to a foreign country.

8.1.3 Any services rendered /"including non taxable services"/ outside the territory of Mongolia; /This paragraph was changed by Law of August 28, 1998/.

8.1.4 Any sale of services /"including non taxable services"/ to a foreign citizen or a legal person, who is outside the territory of Mongolia at the time, the services are rendered;

This does not apply to services, which are rendered in direct connection with movable or immovable property situated in the territory of Mongolia. /This paragraph was changed by Law of August 28, 1998/.

8.1.5 A citizen or a legal person specified in clause 8.1.4 of this Law shall be deemed to be outside the territory of Mongolia if that person:

a/ has a permanent representative office in his country and no such office in the territory of Mongolia;

b/ has no representative office in his country but resides permanently in the country other than Mongolia;

c/ has representative offices both in his country and in Mongolia, but the services are wholly or mainly used for the representative office in his country. 8.1.6 Services provided to the international aircraft.

8.2 Paragraph 1 of Article 8 shall apply to an individual or legal person registered as value added tax payer and engaged in exporting activity on the basis of a contract concluded with foreign business entity, organization or individual./This paragraph was added by Law of June 29, 2001/

Article 9. Exemptions from VAT

9.1 To the extent provided in this Law, the following services are exempted from the value-added tax:

9.1.1 Financial services:

a/ exchanging currency;

b/ banking services, such as the receipt or transfer of, or any dealing with, money, any security for money or any note or order for the payment of money and the operation of any savings account;

c/ insurance services, reinsurance and registration of property;

d/ the issuance, transfer or receipt of any securities, shares, and underwriting of such securities;

e/ the making the advance or the granting of credit;

f/ the provision, or transfer of an interest on social insurance fund;

g/ any services in respect of fees for bank interest, dividend, credit guarantees or insurance contract;

h/ the financial leasing.

9.1.2the renting of accommodation in a building as a place of residence or abode;

9.2.10 equipment and heavy machinery to be used and assembled for technological purposes in production by a business entity with foreign investment which has made an investment into priority industries and export goods manufacturing. List of priority industries shall be approved by the Government./This subparagraph was edited by Law of November 17, 2000/

9.2.11 sale of apartment and or part of it. This provision shall not apply to apartment or to its part, newly built for purposes of sale. / This subparagraph was added by Law of August 28, 1998 and by Law of June 29, 2001/.

14.1 The present Law shall come into force from July 1, 1998.

LAW ON LEGAL STATUS OF FOREIGN CITIZENS CHAPTER ONE: GENERAL PROVISIONS

Article 1. Purpose of the law

The purpose of this law is to regulate relations concerning the entry, exit, transit and residence of foreign visitors and stateless persons in Mongolia and to define their rights and responsibilities.

Article 2. Legislation and international treaties on legal status of foreign Citizens

1. Legislation on the legal status of foreign citizens is comprised of the Constitution of Mongolia, this law and other legislative acts made in conformity with them.
2. If the international treaties of Mongolia stipulates otherwise than the present law, the international treaties shall prevail.

Article 3. Foreign citizens

Persons with legal documentation certifying their foreign citizenship shall be considered as foreign citizens.

a. CHAPTER TWO: LEGAL STATUS OF FOREIGN CITIZENS

Article 8. Basic principles of the rights and duties of foreign citizens

1. All persons legally residing in Mongolia shall be equal before the law and the courts.
2. Foreign citizens in Mongolia shall exercise the rights and freedoms equally to citizens of Mongolia provided for by the legislation of the country.
3. In establishing the rights and duties of foreign citizens in this law, other legislative acts and international treaties of Mongolia, Mongolia shall adhere to the principle of reciprocity with the country of which the person is a citizen.
4. In exercising their rights and freedoms, as provided for in the legislation of Mongolia and its international treaties, foreign citizens shall not infringe on the interests of Mongolia or the rights and freedoms of Mongolian citizens or other human rights.

Article 32. Enforcement of the law

This law shall come into effect on 1 February 1994.

THE LAW ON THE REGULATION OF FOREIGN INVESTMENT IN ENTITIES OPERATING IN STRATEGIC SECTORS

PART ONE
GENERAL PROVISIONS

Article 1. Purpose of the law

1.1. The purpose of this Law is to regulate investment by foreign investors, the persons and the third parties with common interest with these investors in entities operating in the strategic sectors and the relations pertaining to the permission with a view to ensuring the national security.

Article 2. The legislation on the regulation of foreign investment in entities operating in strategic sectors

2.1. The legislation on the regulation of foreign investment in entities operating in the strategic sectors shall consist of the Constitution of Mongolia, the National Security Law, the National Security Concept of Mongolia, the Foreign Investment Law, the Competition Law, this law and other legislative acts enacted in conformity with them.

2.2. In case of inconsistency of this Law with the provisions of international treaties to which Mongolia is a party, the provisions of the international treaty shall prevail.

Article 3. Definitions

3.1. For the purpose of this Law:

3.1.1. “an entity operating in the strategic sector” means an entity operating in the sectors provided for in Article 5.1 of this Law;

3.1.2. “vetoing the decisions of the management” means the possibility to cease the enforcement of the decisions of the management as stipulated to be adopted by the majority of votes in the laws, the rules and a contract of an entity by foreign investors, the persons and the third parties with common interests with these investors;

3.1.3. “a foreign investor” means an investor as provided for in paragraph 2 of Article 3 of the Foreign Investment Law;

3.1.4. “persons with common interests” means the persons as provided for in Article 99.1 of the Company Law;

3.1.5. “a third party” means a legal person or an individual that has a continuous link with the foreign investor and the persons with common interests with that investor and not registered in Mongolia;

3.1.6. “a national entity” means an entity established by a Mongolian citizen, legal person, a payer of a corporate and other taxes, a citizen and an entity of Mongolia owning more than 50% of that entity’s share;

3.1.7. “making an investment” means investment as provided for in Article 6 of Foreign Investment Law and the purchase and transfer of shares of an entity operating in the strategic sector by companies registered in foreign countries, their subsidiaries, the companies under their control and the persons with common interests therewith;

Article 4. Applicability of the law

4.1. In case an entity or an international organization owned partly or fully by a foreign state, the persons and the third parties with common interests with them wish to operate in Mongolia or to make an investment in an entity operating in Mongolia, the persons and the third parties with common interests therewith, shall obtain a permit from the Government of Mongolia through an entity registered in Mongolia.

4.2. A foreign entity, the persons and the third parties with common interests with that entity wishing to operate in a strategic sector as indicated in Article 5.1 of this Law, or to make a transaction with a company that is an entity operating in the strategic sector as provided for in Article 6 of this Law shall obtain a permit from the Government of Mongolia (hereinafter referred to as “the Government”) through an entity operating in the strategic sector and registered in Mongolia.

4.3. This Law shall not extend to the relations pertaining to foreign investment made under any international treaty to which Mongolia is a party.

4.4. Any transaction made by a foreign investor, the persons and the third parties having common interests with that investor with an entity operating in the strategic sector in breach of the provisions of this Law shall be forbidden.

4.5. If any transaction made outside of the territory of Mongolia pertains to the provisions of Article 4.1 and 4.2 of this Law, this Law shall apply.

4.6. This Law shall be equally applied for the creation of a new company under Article

3.1.1 of this Law, as well as foreign investors, the persons and the third parties having a common interest with that investor in acquiring the shares of a company that is an entity operating in the strategic sector.

4.7. In case foreign investor’s share in an entity operating in the strategic sector exceeds 49% and the amount of investment at that time is more than 100 billion tugrugs, the State Great Hural shall decide upon the submission by the Government. In all other cases, the Government shall make a decision on the permission.

4.8. An entity operating in the strategic sector shall give a priority treatment to national entities of Mongolia in procuring goods, works and services. The Government shall adopt the rules for the priority rights.

PART TWO

STRATEGIC SECTORS,
OBTAINING A PERMIT

Article 5. Strategic sectors

5.1. The following sectors shall be considered as strategic for the purposes of national security with a view to ensuring the basic needs of the population, the independence, the normal operations of the economy and the national revenues and affirming the national security:

5.1.1. mining;
5.1.2. banking and finance;
5.1.3. media, information and communications.

5.2. In case the Government considers any sector as strategic, it shall submit to the State Great Hural for a decision.

Article 6. Obtaining a permit

6.1. The following transactions as per this Law (hereinafter referred to as “transactions”) shall require a permit:

6.1.1. a transaction to acquire one third or more of the shares of the company that is an entity operating in the strategic sector;

6.1.2. a transaction that confers an unconditional right for electing the executive management, the majority of the joint executive management and the board of directors of an entity operating in the strategic sector;

6.1.3. a transaction that ensures the rights to veto the decision of the management of an entity operating in the strategic sector;

6.1.4. a transaction that confers the rights to enforce the directions of the management of an entity operating in the strategic sector, determine its decisions and exercise the economic activities;

6.1.5. a transaction likely to ascertain the buyer’s and the seller’s monopoly in the commercialization of raw minerals and their products at the international and Mongolian markets;

6.1.6. a transaction likely to impact directly or indirectly the market or the price of Mongolian mining products for export;

6.1.7. the conclusion of a transaction that would result in the decrease of shares of the company that is an entity operating in the strategic sector by itself, or the persons and the third parties having common interests with that investor with others;

6.2. The persons indicated in Articles 4.1 and 4.2 of the Law shall, upon the agreement on the transaction as provided for in Article 6.1, submit an application for a permit to the state administrative body responsible for foreign investment through an entity operating in the strategic sector and registered in Mongolia within 30 days.

6.3. A foreign investor, the persons and the third parties having common interests with that investor that concluded a transaction as per Article 6.1.1 and 6.1.7 shall, in accordance with the taxation legislation of Mongolia, pay the taxes to the state budget from the payment made to the other side. This action shall be the responsibility of the entity operating in the strategic sector and registered in Mongolia.

PART THREE
EXAMINATION OF THE APPLICATION AND MAKING A DECISION

Article 7. Application for a permit, filing of the application and making a decision

7.1. The persons indicated in Article 4.1 and 4.2 of this Law wishing to make a transaction as provided for in Article 6 of this Law shall submit an application for a permit to the state administrative body responsible for foreign investment through an entity operating in the strategic sector and registered in Mongolia.

7.2. The Government shall adopt the detailed regulation on the receipt and the discussion of the application provided for in Article

7.1 of this Law and making a decision thereupon.

7.3. The state administrative body responsible for foreign investment shall, upon the receipt of an application under Article 7.1 of this Law, examine:

7.3.1. if any activity of a foreign investor and the nature of the investment conflicts with the National Security Concept of Mongolia;

7.3.2. if the applicant meets the conditions and feasible to observe the laws, the regulations and the business norms of Mongolia;

7.3.3. if the investment has a nature to restrict competition in the concerned sector and establish a dominating position;

7.3.4. if the investment would have a serious impact on the budget income, other policies and activities of Mongolia;

7.3.5. if the investment would have a negative impact on the operations of the concerned sector;

7.4. The state administrative body responsible for foreign investment shall, within 45 days upon the receipt of the application provided for in Article 7.1 of this Law, deliver its recommendation on the permissibility of the transaction to the Government.

7.5. Except as provided for in Article 4.7 of this Law, the Government shall, within 45 days upon the receipt of the recommendation under Article 7.4 of this Law, draw its decision either on the permissibility or impermissibility of the transaction.

7.6. The state administrative body responsible for foreign investment shall, within 5 days after the decision is made under Article 7.5 of this Law, inform the applicant of the decision through an entity operating in the strategic sector and registered in Mongolia.

7.7. Except as justified by the provisions of Article 7.3 of this Law, the Government shall not object to give a permit.

Article 8. Informing of the transaction

8.1. The foreign investor, the persons and the third party having common interests with that investor shall have an obligation to inform of the acquisition of 5 and more percents of the share of the company that is an entity operating in the strategic sector up to the percentage level provided for in Article 6.1.1 of this Law and an entity operating in the strategic sector and registered in Mongolia to inform the state administrative body responsible for foreign investment of the conditions provided for in Article 6.1.7 of this Law within 30 days.

8.2. The persons indicated in Article 4.1 and 4.2 of this Law shall, within 180 days after the entry into force of this Law and through an entity operating in the strategic sector and registered in Mongolia, inform the state administrative body responsible for foreign investment of the ownership of 5 and more percents of the shares of the company that is a strategic entity before the entry force of this Law.

PART FOUR
OTHER PROVISIONS

Article 9. Legal consequences

9.1. A transaction made in breach of the requirements under this Law and of Article 4.1 and 4.2 shall be considered null and void.

9.2. The respective authorities shall terminate the operations and invalidate the permit of an entity operating in the strategic sector that breached this Law.

XXXI.SAMPLE DOCUMENTS

The document below is an example of a Mongolian “Immovable Property Certificate”. This is the standard form for certificates issued by the Immovable Property Office, providing proof of ownership of a unit of Immovable Property, residential of commercial. The document has been appended with English language translations.

МОНГОЛ УЛС
ҮЛ ХӨДЛӨХ ЭД ХӨРӨНГӨ ӨМЧЛӨХ ЭРХИЙН
УЛСЫН БҮРТГЭЛИЙН
ГЭРЧИЛГЭЭ

Дугаар CERTIFICATE NUMBER

[redacted]

DEFINITION OF COMPANY OR INDIVIDUAL OWNER(S)

Нийслэлийн DISTRICT дүүргийн SUB-DISTRICT

[redacted]

BUILDING AND APARTMENT NUMBER -д байршилтай

GENERAL LOCATION зориулалттай

SIZE OF THE PROPERTY үл хөдлөх эд хөрөнгийн хууль ёсны өмчлөгч тул эрхийн улсын бүртгэлийн

REGISTRATION NUMBER дугаарт бүртгэж гэрчилгээ олгов.

Улсын ерөнхий бүртгэгч DISTRICT OFFICIAL SIGNATURE [redacted]

Улсын бүртгэгч STATE OFFICIAL SIGNATURES [redacted]

УЛСЫН БҮРТГЭЛИЙН ЕРӨНХИЙ ГАЗАР

[redacted]

МОНГОЛ УЛС

ГЭР БҮЛИЙН ХАМТЫН ХЭРЭГЦЭЭНИЙ
ЗОРИУЛАЛТААР ГАЗАР ЭЗЭМШИХ ЭРХИЙН
ГЭРЧИЛГЭЭ

Дугаар CERTIFICATE NUMBER

OWNER'S NAME [redacted] [redacted] -д
(ургийн овог) (эцэг /эх/-ийн нэр) (нэр)

CITY/PROVINCE аймаг (нийслэл)-ийн DISTRICT/SUB-PROVINCE сум (дүүрэг)-ын

нутаг дэвсгэрт Засаг даргын YEAR/DAY/MONTH өдрийн #REF тоот

шийдвэрийг үндэслэн, нэгж талбарын CADASTRAL No дугаар бүхий

SIZE м² /га/ газрыг TERM жилийн хугацаатай

ADDRESS [redacted] -д
(газрын байршлын хаяг, нэр)

TYPE OF USE [redacted] зориулалтаар

эзэмшүүлэхээр энэхүү гэрчилгээг олгов.

[redacted] PLACE OF ISSUE
аймаг (нийслэл)-ийн сум (дүүрэг)-ын

ГАЗРЫН АЛБАНЫ ДАРГА /СУМЫН ГАЗРЫН ДААМАЛ

ТАМГА/ТЭМДЭГ [redacted] NAME AND SIGNATURE OF LOCAL AUTHORITY

[redacted] DATE OF ISSUE

The document below is an example of a Mongolian “Land Registration Certificate”. This is the standard form for certificates issued by local authorities, providing proof of ownership of a unit of land. Land can only be owned by Mongolian citizens, for household use at present. The document has been appended with English language translations.

1. SAMPLE APARTMENT LEASE AGREEMENT IN MONGOLIAN AND ENGLISH

ОРОН СУУЦ ХӨЛСЛӨХ ГЭРЭЭ

___________________ ___________________
/он,сар, өдөр/ /үйлдсэн газар/

Гэрчилгээний дугаар__________________
Улсын бүртгэлийн дугаар______________

Иргэний хуулийн 302.1 дэх хэсгийн заалтыг үндэслэн нэг талаас ____-д оршин суух _____________________ийн ____________________би /хөлслүүлэгч тал/ бид харилцан тохиролцож, дараахь нөхцөлтэйгөөр энэхүү гэрээг байгуулав.

Нэг. Нийтлэг үндэслэл

1. Хөлслүүлэгч _______________________нь хөлслөгч _____________________-д өөрийн өмчлөлийн орон сууцаа _________ оны_________сарын________-ны өдрөөс _________ оны_________сарын________-ны өдрийг хүртэл нийт ______сар /жил/-ийн хугацаагаар хөлслүүлнэ.
2. Орон сууц нь ____хаягт байрладаг, __________________тоот орон сууц өмчлөх эрхийн гэрчилгээ, улсын бүртгэлийн __________________дугаар бүхий, _______м2 талбайтай, __________өрөө бөгөөд хөлслүүлэгч ______________________-ны өмч болох нь нотлогдсон болно.
3. Уг орон сууц нь битүүмжлэгдээгүй, аль нэг байгууллага, иргэнд худалдагдаагүй, барьцаалагдаагүй, түрээслүүлээгүй болно.
4. Иргэний хуулийн 288.2.3, 289.2.3-т заасан тохиолдолд гэрээг хугацаанаас нь өмнө цуцалж болно.
5. Хөлслөгч орон сууц хөлсөлсний төлбөрийг сар бүр, улирал, хагас жил, бүтэн жилээр /алин болохыг доогуур нь зурах/ төлөх бөгөөд нийт төлбөр _______________/тоогоор/___________________________________/үсгээр/ төгрөг байна.
6. Орон сууцыг тавилга, бусад эд хогшлын хамт хөлслүүлж байгаа нөхцөлд “Хүлээлцэх акт” үйлдэн талууд гарын үсэг зурж, гэрээнд хавсаргана.

____
/тавилга, бусад эд хогшлын хамт хөлслүүлж буй эсэхээ тэмдэглэх/

Хоёр. Хөлслүүлэгчийн эрх, үүрэг

1. Хөлслүүлэгч нь ашиглалтын шаардлага хангасан, биет байдлын болон эрхийн доголдолгүй орон сууцыг хөлслөгчийн эзэмшил, ашиглалтад ____оны ___дугаар сарын____-ны өдөр хүлээлгэн өгнө.
2. Хөлслүүлэгч хөлслөгчөөс орон сууц хөлсөлсний төлбөрийг гэрээнд заасан хугацаанд төлөхийг шаардах эрхтэй.
3. Хөлслүүлэгч Иргэний хуулийн 288.2.3-т зааснаар хугацаанаас өмнө гэрээг цуцлахаар бол 1 сараас багагүй хугацааны өмнө хөлслөгчид мэдэгднэ.
4. Гэрээнд өөрөөр заагаагүй бол хөлслүүлэгч орон сууцны засвар, үйлчилгээг өөрийн хөрөнгөөр хийнэ.
5. Иргэний хуулийн 288 дугаар зүйлд заасан бусад эрх, үүрэг.

Гурав. Хөлслөгчийн эрх, үүрэг

1. Хөлслөгч хөлслөн авсан орон сууцыг гэрээнд заасан нөхцөл, зориулалтаар нь ашиглаж, түүний бүрэн бүтэн байдлыг хангана. Хөлслөгч орон сууцыг буруу эзэмшиж, ашигласнаас үүссэн засвар, эвдрэл гэмтлийн төлбөрийг өөрийн хөрөнгөөр засварлагдна.
2. Хөлслөгч гэрээнд заасан хугацаанд заасан орон ёууц хөлслөсний төлбөрийг хөлслүүлэгчид төлнө.
3. Хөлслөгч гэрээний хугацаа дуусгавар болохоос 2 сарын өмнө Иргэний хуулийн 296.2 дахь хэсэгт заасныг үндэслэн тухайн Орон сууц хөлслөх гэрээг сунгах хүсэлтээ гаргах буюу 303.1 дэх хэсэгт заасны дагуу шинэ гэрээг тэргүүн ээлжинд байгуулах давуу эрх эдлэнэ.
4. Иргэний хуулийн 289, 303, 305 дугаар зүйлд заасан бусад эрх, үүрэг.

Дөрөв. Нэмэлт нөхцөл

1. Орон сууцны цахилгаан, дулаан, цэвэр, бохир ус, утасны төлбөрийг хөлслөгч тал төлнө.
2. ____ ___________________________________

Талууд гарын үсэг зурж, нотариатчаар гэрчлүүлэн, Үл хөдлөх эд хөрөнгийн бүртгэлийн газар бүртгүүлснээр энэхүү гэрээ хүчин төгөлдөр болно.

ГЭРЭЭ БАЙГУУЛСАН

ХӨЛСЛҮҮЛЭГЧ: **ХӨЛСЛӨГЧ:**

______________ ________________ ______________ _____________

/нэр/ /гарын үсэг/ /нэр/ /гарын үсэг/

Иргэний үнэмлэхийн дугаар__________ Иргэний үнэмлэхийн дугаар___________
Регистрийн дугаар__________________ Регистрийн дугаар__________________

Хамтран хөлслөгчид:

1. ___________________________________

(Эцэг/эхийн нэр, нэр)
нэр)_____________________________________
(регистрийн дугаар, Гарын үсэг)

2. ____________________________________
(Эцэг/эхийн нэр, нэр)
нэр)_______________________________________

(регистрийн дугаар, Гарын үсэг)
3. ____________________________________

(Эцэг/эхийн нэр, нэр))
нэр)_______________________________________
(регистрийн дугаар, Гарын үсэг)

4.____________________________________

(Эцэг/эхийн нэр, нэр)
нэр)_______________________________________
(регистрийн дугаар, Гарын үсэг)

5.____________________________________

(Эцэг/эхийн нэр, нэр)
нэр)_______________________________________
(регистрийн дугаар, Гарын үсэг)

Хамтран хөлслөгчид:

1.___________________________________

(Эцэг/эхийн нэр, first
____
(регистрийн дугаар, Гарын үсэг)

2.____________________________________
(Эцэг/эхийн нэр,
____

(регистрийн дугаар, Гарын үсэг)
3._____________________________________

(Эцэг/эхийн нэр,
____
(регистрийн дугаар, Гарын үсэг)

4.___________________________________

(Эцэг/эхийн нэр,
____
(регистрийн дугаар, Гарын үсэг)

5. __________________________________

(Эцэг/эхийн нэр,
____
(регистрийн дугаар, Гарын үсэг)

Тамга

Нотариатч________________________

/Year, month, day /Place witnessed/

Certificate number________________________

State registration number___________________

Regarding clause 302.1 from law on citizenship from one side____addressed ______________________________here I /the lessor party/ from the otherside______________________________addressed /the lessee party/ initiated this agreement under our negotiation with following terms.

One. Common Justification

Lessor's ______________________ own apartment to the lessee______________________will be rented from date____________to date__________total _____month/year/ duration.

The apartment ____located by this address, ____number apartment owning certificate, state registration _____________________number, ___________sq.m, _________________________number of room and approved that it is the lessor's____________________apartment.

The apartment is not sold to any citizen or organisation, and approved it is not mortgaged or rented.

The agreement can be terminated regarding clause 288.2.3, 289.2.3 from law on citizenship.

The lessee will cover the renting fee monthly, quarterly, semi-year, full year/underline which/ will cover and total coverage will be____________________/by number/_____________________________________/by letter/.

In case the lessee is renting the apartment with the furniture and other belongings witness and attach to the agreement with both parties signature an "acceptance report".

____

/note if renting with or without furniture, and other belongings/

Two. Lessor right and responsibility

Lessor will hand over, fulfilling condition, tangible, and without any defect of authorisation to the lessee's occupancy and utilisation on the date of __________________.

The lessor will have the right to ask for the renting fee from the lessee in the designated time regarding the agreement.

The lessor shall notify the lessee not less than one month regarding the clause 288.2.3 from the law on citizenship in case of terminating the agreement.

In case the agreement denotes the lessor will cover the apartment renovation service.

Other rights and responsibility regarding clauses 288 from the law on citizenship.

Three. Lessee right and responsibility

The lessee will have the responsibility to utilise the apartment in a way in keeping with the terms of the agreement. The Lessee will cover the costs of any damage caused by himself/herself.

The lessee shall cover the the renting fee to the lessor during the designated period.

The lessee will request to extend the apartment renting agreement two months before the agreement terminates regarding the clause 296.2 from the law on citizenship, and will have the right initiative right to re-initiate the agreement regarding 303.1.

Other rights and responsibility regarding clauses 289, 303, 305 from the law on citizenship.

Four. Additional terms

The lessee party will cover the electricity, heating, pure and impure water, telephone bills.

____

This agreement will be valid once the parties have signed, witnessed by the notary, and registered at the immovable property office.

Agreement Initiated

Lessor **Lessee**

____________________ _____________________

/name/ /signature/

Citizen authentication number_______________

Registration number_______________________

Joint owners:

1. ___________________________________

(Father/mother name, first name)

____

(Registration number, signature)

2.___________________________________

(Father/mother name, first name)

.______________________________________

(Registration number, signature)

3___________________________________

(Father/mother name, first name)

____

(Registration number, signature)

4.___________________________________

(Father/mother name, first name)

____

(Registration number, signature)

5.___________________________________

(Father/mother name, first name)

____

(Registration number, signature)

____________________ ___________________

/name/ /signature/

Citizen authentication number_______________

Registration number_______________________

Joint owners:

____

(Father/mother name, first name)

____

(Registration number, signature)

____

(Father/mother name, first name)

____

(Registration number, signature)

____

(Father/mother name, first name)

____

(Registration number, signature)

____

(Father/mother name, first name)

____

(Registration number, signature)

____

(Father/mother name, first name)

____

(Registration number, signature)

Seal

Notary__________________________________

2. SAMPLE APARTMENT / HOUSE PURCHASE AGREEMENT IN MONGOLIAN AND ENGLISH

ОРОН СУУЦ ХУДАЛДАХ, ХУДАЛДАН АВАХ ГЭРЭЭ

....
/огноо/ /үйлдсэн газар/

Гэрчилгээний
дугаар..
Улсын бүртгэлийн дугаар ....

Иргэний хуулийн 243.1 дэх хэсгийг үндэлэн нэг талаас...тоотод оршин суух.......................................овогтой.................................би /цаашид “Худалдагч” гэнэ/, нөгөө талаас ....тоотод оршин суух........................овогтой...................................../цаашид “Худалдан авагч” гэнэ/ бид харилцан тохиролцсоны үндсэн дээр энэхүү гэрээг байгуулав.

1. Энэхүү гэрээгээр худалдагч тал нь худалдан авагчийн өмчлөлийн.. байрлах, ...м2, ... өрөө бүхий үл хөдлөх эд хөрөнгийг худалдан авагчид шилжүүлэх үүрэг хүлээнэ.

2. Худалдан авагч тал нь худалдагч талтай харилцан зөвшилцсөний үндсэн дээр ..../үсгээр/ ..../тоогоор/ төгрөгөөр худалдахаар тохиролцов.

3. Худалдан авагч тал төлбөрийг ....оны.............сарын................-ны өдөр төлж барагдуулсан байна. Төлбөрийг талууд харилцан тохиролцсоны дагуу валют, төгрөг, эсхүл эд хөрөнгийн хэлбэрээр үйлдэж болно.

....
....
....

4. Худалдагч талын шилжүүлэх орон сууцны чанар, ашиглах хугацаанд гарсан элэгдэл болон бусад хүчин зүйл нь Иргэний хуулийн 243.1 дэх хэсгийн шаардлагад нийцсэн байна.

5. Уг үл хөдлөх эд хөрөнгийг худалдаагүй, барьцаалаагүй, битүүмжлээгүй, хөлслүүлээгүй болно. Мөн эд хөрөнгөтэй холбогдох /байрны, утасны хөлс, гэх мэт/ төлбөр, тооцооны асуудалгүй болно. Үүнийг гэрчилж ..../худалдагч тал/ гарын үсэг зурав.

6.Гэрээ нотариатчаар гэрчлэгдсэн Үл хөдлөх эд хөрөнгийг бүртгэлийн газар бүртгүүлсэнээр хүчин төгөлдөр болно.

7. Энэхүү худалдах худалдан авах гэрээг хүчин төгөлдөр болох хүртэл үүнтэй холбогдон гарсан зардлыг гэрээний худалдагч тал ....% худалдан авагч тал ....% -ийг гаргахаар тохиролцов.

8. Гэрээний нэмэлт нөхцөл...
....

Талуудын хаяг:

Худалдагч тал: Худалдан авагч тал:

Регистрийн дугаар: Регистрийн дугаар:

....

Иргэний үнэмлэхийн дугаар:	Иргэний үнэмлэхийн дугаар:
....	....
Оршин сууж буй хаяг:	Оршин сууж буй хаяг:
....	....
Холбоо барих утас:	Холбоо барих утас:
....	....

Гэрээ байгуулсан:

Худалдагч:	Худалдан авагч:
..................................овогтой	..................................овогтой
....	....
.........................../гарын үсэг/	............................/гарын үсэг/

Гэрээ байгуулсан:

Худалдагч:	Худалдан авагч:
..................................овогтой	..................................овогтой
....	....
.........................../гарын үсэг/	............................/гарын үсэг/

Иргэний хуулийн 128-д зүйлийн 2-т зааснаар зөвшөөрөл олгосон хамтран өмчлөгчид :

Хамтран өмчлөгчид:	Хамтран өмчлөгчид:
Эцгийн нэр, нэр, регистрийн дугаар, гарын үсэг	Эцгийн нэр, нэр, регистрийн дугаар, гарын үсэг
1...	1...
2...	2...
3...	3...
4...	4...
5...	5...

Гэрээг гэрчилсэн:

Нотариатч:...

Тамга:

APARTMENT SELLING, PURCHASING AGREEMENT

....
/date/ /Place of witnessed/

Certificate number..
State registration number..................................

From one side regarding clause number 243.1 from the law on citizenship
Resident at apartment number……………………………
.... Surname.............................First name
I /hereby referred as "the selling party"/, from another
side ....located at apartment
number........................surname......................................first name/ referred as "the purchaser party"/ initiated this agreement under our negotiation.

By this agreement the seller party will be responsible to transfer all immovable property owning .... location, ...sq.m. ....room.

2. The price will be set as.. ..../by letter/ ..../by number/ MNT regarding the the negotiation of purchasing party with the seller party.

3. The purchaser party will cover the payment by the date of ....year.............month................day. The price will be set regarding the parties negotiation whether it will be in USD, MNT or property.

....
....
....

4. The quality, depreciations of the utilities and other factors of the apartment transferred by the seller party will be meeting the standard regarding the clause 243.1 from the law on Citizenship.

5. The immovable property is unsold, unmortgaged, not encumbered, unrented. Also, the related bill issues will be settled /apartment bill, phone bill, etc/ payment. Approving the above ..../seller party/ signed.

6. The agreement will be valid after being registered by the immovable property registering bureau and confirmed by a notary.

7. Until the agreement is valid the seller and purchaser parties are negotiated to cover any related by seller party ....% purchaser party ....%.

8. Additional terms to the agreement...
....

Addresses of the parties:

Seller party:	Purchaser party:
Register number	Register number
....	....
Identification card number	Identification card number ....
Current address	Current address
....	....
Contact number	Contact number

....

................................/signature/ ..../signature/

Initiated the Agreement:

Seller Purchaser

..................................surname ....surname
....
.........................../signature/ ..../signature/

Permitted joint owners regarding clause 2 of article 128 from the law on citizenship:

Joint owners Joint owners

Father's name, name, register number, signature **Father's name, name, register number, signature**

1... 1...
2... 2...
3... 3...
4... 4...
5... 5...

Agreement confirmed by:

Notary:.. Seal..

XXXII.NOTES ON METHODOLOGY

Mongolia's development towards a fully fledged market economy involves various institutional transformations. One of the most significant of these is production of information and data that may be utilised to inform domestic and foreign engagement in markets. Whilst information gathering and reporting mechanisms have gathered momentum in the financial sector in recent years the real estate sector lags behind. Whilst information is routinely released by the NSOM concerning property price changes, this is limited and information to transaction records are not freely available.

In compiling this report we therefore developed and deployed several techniques for determining real estate prices across Ulaanbaatar and secondary cities. Information has been provided using a sample of MAD Investment Solutions' databases of property transactions. This sample references transacted prices for over 7,000 transactions between 2003 and 2014, with a total transacted value in excess of US$ 100 million for residential properties alone.

Contemporary market data is developed from frequently updated property baskets which contain detailed data on over 600 residential and commercial developments around Ulaanbaatar. These are updated continuously and totally overhauled and updated twice yearly to provide the most up-to-date industry scope. Property baskets are updated with reference to enquiries made to individual real estate agents, project managers and developers, appended with data taken from marketing materials. Transaction data is directly obtained from official transaction records.

Our secondary city data-sets are obtained through on-the-ground research and underpinned by demographic data from the National Statistics Office of Mongolia and local government. Infrastructural data comes from various agencies responsible for amenities and infrastructure and is bolstered with research data from reports published by various NGOs and multi-lateral organizations operating within Mongolia at the present time. All secondary city pricing data comes from direct, empirical research conducted by MAD. Our research team also conduct yearly industry surveys and market perception studies using questionnaires with respondents numbering in the region of n=250 for each targeted questionnaire.

Qualitative and interview data also holds significant value in such a nascent market and both have been used at every stage to help inform and verify projections of future supply, current prices and uptake across different sectors. This methodological resource is both useful and representative of a market which runs on word of mouth and networks of connections between a small community of developers and investors.

In compiling population data we have had recourse to using property office published figures as well as census data collected on a district by district level since 2010. Data of the NSOM, Ministry of Tourism and Immigration has been heavily used in determining economic health of Mongolia and reports and indications of international organisations undergirds projections of economic growth, as have reports from the World Bank, Asian Development Bank, International Monetary Fund and the European Bank for Reconstruction and Development. Reports by the Administration of Land Affairs, Geodesy and Cartography of Mongolia play a significant role in this report in terms of supplying facts and figures relating to land use.

Mongolian real estate sector news has been compiled from print media sources, Government Bulletins and interview data. Where print media and interview data has been referenced our researchers have taken every precaution and exercised due diligence in establishing the veracity of the information delivered. Nevertheless, where reliant upon national or local media caution must be exercised as facts and figures have, in the past, been misreported in order to lower tax costs of transaction.

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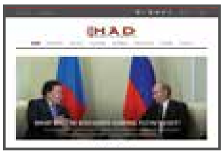

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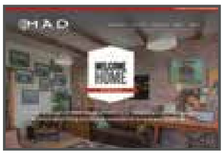

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