



# POLICY RECOMMENDATIONS FOR MONGOLIA'S REAL ESTATE BROKERAGE INDUSTRY

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**THE AMERICAN CHAMBER OF COMMERCE IN MONGOLIA**

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## OVERVIEW

The real estate brokerage industry is relatively new to Mongolia but has grown rapidly. The value of Real Estate market is projected to reach US\$36.07bn in 2023. Residential Real Estate dominates the market with a projected market volume of US\$26.45bn in 2023. The value is expected to show an annual growth rate (CAGR 2023-2028) of 10.38%, resulting in a market volume of US\$59.09bn by 2028<sup>1</sup>.

Eighty-eight companies, or 31 percent of all licensees registered with the Financial Regulatory Commission (FRC), are international franchisees. Sixty-six firms have RE/MAX franchise licenses, 21 companies hold Century 21 licenses, and one company has a Keller Williams franchise license.

Between 2020-2022, AmCham Mongolia organized three sector-based discussions with the FRC, making a significant contribution to the establishment of the United Roof Association of Real Estate Business Owners, a very important event for the development of the country's real estate sector of the country. The organization was established in 2021 to build the capacities of the sector's professionals.

The FRC is working on a bill to regulate real estate brokerage activities and plans to make it ready for public discussion in 2023. **AmCham Mongolia will cooperate with the FRC to organize a public discussion on the bill.**

Companies and individuals operating in the real estate brokerage sector have been involved in money laundering and financing terrorism, which put Mongolia on the Financial Action Task Force (FATF) list of countries with strategic deficiencies, the "grey list". As risk remains, this policy document includes AmCham Mongolia's recommendations for the further development of the real estate brokerage sector.



## 1. THE CURRENT STATE OF REAL ESTATE BROKERAGE

### A. General market information

According to the National Statistics Office (NSO), Mongolia has a population of about 3.5 million, which is expected to reach four million by 2041. Currently, 411,420 households live in the capital city, which is the country's most populated city. Only half of them, 199,000 households, live in apartments; 91,000 live in gers and 112,000 live in shacks. These people need to move to apartments connected to clean water and sewage lines to improve their living conditions in the coming years. There are 207,000 households that are not connected to the sewage system.

According to a Financial Regulatory Commission report for the first half of 2023, 311 special licenses for real estate brokerage services were issued in Mongolia. This is a 9.5 percent increase in the number of regulated entities from the same period last year.

According to the NSO, housing prices in Ulaanbaatar increased by 10.9 percent in October 2023 compared to the same period last year and by 0.8 percent compared to the previous month. As of October, the average price of an apartment per square meter in Ulaanbaatar was 3.95 million MNT, the highest in Khan-Uul District at 4.26 million MNT, and the cheapest was 2.6 million MNT in Songinokhairkhan District. Compared to the previous month, the average price increased by 0.1 million MNT, new apartments in Khan-Uul District increased by 0.14 million MNT, and prices in Songinokhairkhan District decreased by 0.18 million MNT.

In October 2023, the average price per square meter for an old apartment was 3.47 million MNT, and the highest price was 3.89 million MNT in Sukhbaatar District.

According to the NSO, the average price for an old apartment was 3.47 million MNT per square meter with the highest price in Sukhbaatar at 3.89 million MNT, and 2.54 million MNT in Songinokhairkhan. In the second quarter of 2023, the average price per square meter for newly commissioned apartments in Khan-Uul District was 4-5 million MNT, driving overall growth.<sup>3</sup>



<sup>2</sup> Статистикийн мэдээллийн нэгдсэн сан (1212.mn)

<sup>3</sup> Bloomberg TV Mongolia



## B. Operations

The real estate brokerage service is a relatively new industry in Mongolia, but it has been growing rapidly recently. As of the first half of 2023, real estate brokerage firms have made a total of 4,728 transactions, sales of an area of 707.6 thousand square meters, and gained a commission income of 22,219,001.9 thousand MNT. Compared to the same period of the previous year, the number of transactions has increased by 1.3 times, and the sales has increased by 1.6 times. (Figure 1)

	Contracts	Area (sqm)	Amount (Mln Tugrik)
2022.II	3,688	765.0	617,145,290.0
2023.III	4,728	707.6	992,027,038.4

Figure 1. Real estate sales and purchases

In the first half of 2023, 127 real estate brokerage firms made 2,735 rental and lease transactions, exceeding 66.3 billion MNT for 232,100 m<sup>2</sup>, earning over 4.38 billion MNT in commissions. The number of transactions was 1.5 times higher than in the same period of the last year, and prices were 1.4 times higher. (Figure 2)

	Contracts	Area (sqm)	Amount (Mln Tugrik)
2022.II	1,777	172.1	48,172,358.8
2023.III	2,735	232.1	66,331,239.8

Figure 2. Leasing and rental services

## 2. UNITED ROOF ASSOCIATION OF REAL ESTATE BUSINESS OWNERS AND AMCHAM

On February 19 and September 14, 2020, AmCham held discussions on the real estate sector with the the Ministry of Foreign Affairs, the U.S. Embassy, the U.S. Department of the Treasury, and real estate agencies.

The discussions included the challenges of complying with anti-money laundering and countering the financing of terrorism (AML/CFT) reporting requirements in the real estate sector and the real estate bill. The participants agreed that Mongolia's real estate industry had made remarkable progress in the previous two years, thanks to the creation of a new legislative environment and changes to licensing requirements.

The representatives of the real estate brokerage organizations who participated in the discussion agreed on the urgent need to establish an association, as the FRC demanded a unified association of real estate brokerage professionals.



***On March 15, 2021, the United Bridge of Real Estate Business Owners and the United Association of Real Estate Brokers merged and established the United Roof Association of Real Estate Business Owners.***

The association cooperates with international and local professional organizations and experts to provide capacity building and implement activities protecting the rights and common interests of its members. The main goal is to guide development by improving the real estate market's legal environment.

The association is building public awareness of challenges in the real estate industry, such as law and policy enforcement, and providing training courses for employees.

Individuals and legal entities with a special license to engage in real estate activities, and who have accepted the rules of the association, are entitled to participate.

The association is currently focused on the following activities:

- Creating a cooperation plan;
- Establishing strategic, ethical, marketing, and training committees;
- Developing a comprehensive training program for granting rights and signing an agreement with the FRC.

It should be emphasized that the establishment of the United Roof Association of Real Estate Brokers was a very important event for the Mongolian real estate industry. However, there are still many issues that need to be addressed by the FRC, real estate agents, and brokers.

### 3. THE LEGAL ENVIRONMENT

Between 2020 and 2023, the FRC has developed and implemented the following regulations related to the real estate brokerage sector:

1. Procedures for conducting remote and on-site inspections of reporting entities other than banks in combating money laundering and terrorism financing (January 13, 2023)
2. Procedure for determining eligibility (April 8, 2020);
3. Procedures for remote and on-site monitoring and inspection of the activities of real estate brokerage organizations (September 8, 2021);
4. Procedure for determining the requirements for the professional association of real estate brokerage organizations (April 14, 2021);
5. Procedures for special licenses, authorizations, and the registration of real estate brokerage organizations (March 11, 2020);
6. Fees collected for coordination services by real estate brokerage organizations (March 11, 2020).<sup>4</sup>

On November 22, 2022, in cooperation with the FRC, AmCham Mongolia organized a roundtable meeting on the legal environment of Mongolia's real estate sector. The meeting was attended by representatives of the Agency for Land Administration and Management, Geodesy and Cartography, the United Roof Association of Real Estate Brokers, the U.S. Embassy, RE/MAX, and Century 21. The FRC introduced measures against money laundering and terrorism financing, presented its activities to avoid FATF grey listing, and a draft of legislation on regulating mediations.



<sup>4</sup> <http://www.frc.mn/frc/o/c/573/d/pc/8594>

During the meeting, the FRC said it was working on a bill to regulate real estate brokerage activities, with plans to make the bill ready for public discussion by the first quarter of 2023.



#### 4. FATF GREY LIST

On October 23, 2020, Mongolia was removed from the FATF's grey list after addressing "strategic deficiencies" in combating money laundering and financing terrorism and the proliferation of weapons of mass destruction. Mongolia's progress in quickly implementing the FATF's recommendations and strengthening the system for combating money laundering and terrorism was highlighted.

By Order No. 90 of the Minister of Finance, dated April 27, 2020, a sub-working group for conducting AML/CFT reporting was established with 82 members.

As part of Recommendation 28, which states that non-financial business and professional service providers should be subject to regulatory and inspection measures, a new office was set up for real estate brokers and dealers in precious metals, precious stones, or articles made from them. The office is responsible for prevention, control, and accountability for real estate brokerage organizations and individuals who engage in money laundering and terrorism financing.

#### 4. POLICY RECOMMENDATIONS

As there is a risk of companies and individuals operating in the real estate brokerage sector being involved in money laundering and terrorism financing crimes, which would lead to Mongolia's placement on the FATF grey list of countries with strategic deficiencies, AmCham Mongolia issues the following policy recommendations to further develop the real estate brokerage industry:

1. **Improve the legal environment of the real estate brokerage industry:** For example, accelerate the development of the bill regulating the activities of real estate brokerage based on international best practices;
2. **Include the United Roof Association of Real Estate Brokers, AmCham Mongolia, and other business associations** in the discussion of the bill;
3. **Organize public discussions on the draft legislation.**