

MARKETBEAT ALMATY

Q1 2023



**CUSHMAN &
WAKEFIELD**

ALMATY MARKETBEAT

Offices

ECONOMIC OVERVIEW

The gross regional product (GRP) increased by 27.11% YoY in KZT terms over the course of Q1 2023, and grew QoQ by 68.12% in KZT terms. The latest unemployment data shows that the figures have stayed stable at 5.0%. The average quarterly wage as of the latest data is 338,636 KZT (Q1 of 2023). Capital investments in the city grew YoY by 20%. The construction industry growth rate YoY was 5.81% in KZT terms.

SUPPLY & DEMAND

The rental rates for class A office facilities have stayed stable QoQ in USD terms, in KZT terms the figures have increased by 2,84%. This is due to exchange rate fluctuations during the quarter. The vacancy rates have also have not changed, staying at 11 year low. In class B office facilities the rental rates have registered a mild increase of 1,06% in USD terms and 2,34% in KZT terms. The vacancy rates have almost doubled QoQ, however are still at critical low levels. This is now, the 5th consecutive quarter on record of vacancy levels below 5%, the previous quarter being the lowest vacancy rate ever recorded.

Therefore, we now have been witnessing a prolonged and unprecedented demand for office space. In Q1 2023 the number of co-working spaces and the total space occupied have been steadily growing which also pushes the vacancy down, due to the fact the space in office buildings is being occupied by flexible space operators. In fact, there are 24 in operation in the city, occupying a total of 37,200 m² (3.3% increase QoQ).

In the flexible space industry significant demand is being observed for small serviced offices and less demand for open-space working desks. New developments in the city are in the final stages of completion, adding around 33,000 m² of stock, most of this stock is class A. There is limited construction in class B facilities, with an expected increase of around 60,000 m² in the coming years. This will result in an increase of 31% of class A stock and 4.5% increase of class B stock.

OUTLOOK

In the foreseeable future vacancy and rental rates in class A will most likely increase before dropping as new developments in the class is expected to be completed in 2023. In class B we expect that rental rates will increase as inflation is expected to continue to grow coming into 2023, however, we do not expect the vacancy figures to increase significantly past 5% in the coming quarters.

Class A Vacancy

0.0%



Class B Vacancy

2.7%



41.0 USD
Class A Rents*

15.84 USD
Class B Rents*

* average weighted rental rates are indicated
OPEX and VAT exclusive
** the rents are based on the KZT/USD rate of 454.93 provided by the National Bank of the Republic of Kazakhstan as of Q1 2023.
Source: Cushman & Wakefield Kazakhstan
Research Information is available as of Q1 2023

GDP Growth

3.5%



ALMATY ECONOMIC INDICATORS AS OF Q1 2023

Unemployment Rate*

5%



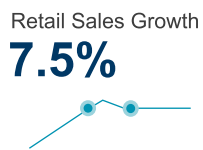
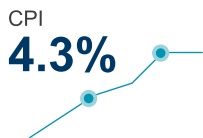
454.93

KZT/USD

Source: Department of the Statistics of Kazakhstan
* latest data (Q1 2023)

ALMATY MARKETBEAT

Retail

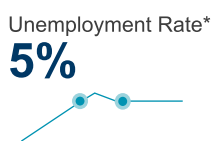


338,636 KZT
Average Quarterly Wage*

* latest data (Q1 2023) Source: Department of the Statistics of Kazakhstan



ALMATY ECONOMIC INDICATORS AS OF Q1 2023



454.93
KZT/USD

Source: Department of the Statistics of Kazakhstan
* latest data (Q1 2023)

ECONOMIC OVERVIEW

The retail sector in Almaty has seen positive growth both YoY and QoQ, with the following figure registered: 40.51% in KZT terms (QoQ). The inflation rate was at 16.4% since the start of the year. Population growth in the city has registered an increase of 2.87% since the start of the year. The unemployment rate in the city is 5.0% as of the latest data.

SUPPLY & DEMAND

Growth QoQ in the consumer price index for wholesale products was 1% and 8.04% since the start of the year. The National Bank of Kazakhstan reports that the median estimate of expected inflation is 21.3%.

Several food retailers have come to dominate the market, among them Toimart - 37 (up from 32 at the start of the year) stores in Almaty, Magnum - 86 (up from 66) and Small - 45 (up from 42). Zolotoe Yabloko (Russia based perfume and cosmetics retailer) has opened its second store in Almaty in Mega Mall. LC Waikiki has been aggressively expanding in the region, notably opening a 5,200 m² store in Dostyk Plaza shopping center.

Eurospar supermarket, which has opened for the first time in Almaty, Kazakhstan, becoming the 49th country where the brand operates, has garnered public and investor attention. Small, the operator of the Spar franchise in the country is yet to open stores in other formats, such as: Spar and Express.

No new shopping malls have been construction and introduced into the market over the quarter. The market is now quiet mature and the customer has a large pool of options. In order to keep up with consumer demands, retailers are now embracing and re-evaluating space that they occupy in order to provide omnichannel solutions. This means that a growing number of purchases are made online and later picked up at physical stores. Shopping malls now have to adapt to a large number of delivery personnel as well as insure that sales are being recorded by the retailer in an organised manner.

OUTLOOK

The construction of Aport mall on the outskirts of the city is ongoing. When completed, an additional 100,000 m² of retail shopping space will be added to the region, serving the populations of the surrounding cities. The state compensation program for the damage incurred during the January events to businesses is now in the final stages of completion. With a total of 8.3 billion KZT was distributed among those whose businesses suffered, most have now received some form of compensation.

ALMATY MARKETBEAT

Industrial

ECONOMIC OVERVIEW

The prime industrial sector has continued showing that it is one of the most resilient industries, the demand for high-quality storage facilities remains robust. Freight delivery volume have been increasing QoQ; the total quantity of KG of freight delivered during the quarter climbed by 1.6% YoY. The construction industry growth rate YoY was 5.81% in KZT terms. Russia-based e-commerce giant Ozon continues their expansion of operations in Kazakhstan.

SUPPLY & DEMAND

The rental rates for prime warehouse facilities in the city have increased slightly from 6.51 USD per m², however this change is due to the fluctuations in the USD/KZT exchange rate, in KZT terms the rental rate did not change. However, the rental rates within extension of expiring leases are negotiated in the range of 6-10 USD, whilst only a few new acquisitions are closed and still no transparent information is available.

The vacancy rate has remained unchanged. Notably in Q4 of 2021 the figures were at an all time low of 0.4%. The vacancy rate has now been below 1% since Q1 2023, less than 2% since Q2 2021, and below 5% since Q3 2018 reflecting the demand for quality warehouse space.

The rental rate in class B is \$3.85. While the vacancy figures are also below 1% at 0.4%. The market saw no warehousing facilities delivered during this quarter, reflecting a scarce development pipeline. Although, extensions to existing locations are to be expected.

This quarter did not register any change in net absorption. The industry employs a little more than 36 thousand people. The average nominal wage in this field of work is around 489,699KZT as of Q1 of 2023, and has grown by 10.63% in real terms QoQ. E-commerce operators in the city are redeveloping or building from the ground up new specialized storage facilities for their needs. In city storage facilities are used as online order pick-up points and have a relatively small footprint.

OUTLOOK

Record low vacancy rates will undoubtedly result in an increase of the rental rate in KZT terms as well as provide additional incentives for commercial development in the area. Currently most companies in need of storage space opt for built-to-suit options. In the medium to long run the industry will see more investments.

Prime Vacancy



6.51 USD
Prime Rents*

346,000 m²
Prime Stock

Source: Cushman & Wakefield Kazakhstan Research Information is provided as of Q1 2023

*rents are indicated VAT exclusive, OPEX inclusive; asking (marketing rents) may deviate from real transaction rents.

GDP Growth



ALMATY ECONOMIC INDICATORS AS OF Q1 2023

Unemployment Rate*



454.93
KZT/USD

Source: Department of the Statistics of Kazakhstan
* latest data (Q1 2023)

ALMATY MARKETBEAT

F&B Industry

MARKET OVERVIEW

AVERAGE PRICES FOR OUR FOOD SELECTION:



Burger
2.98 USD



Caesar
5.00 USD



Latte
2.40 USD



Lemonade
2.46 USD



Lagman
4.50 USD



Margarita
5.63 USD

Lemonade prices are for 400 ml and latte prices are for 350 ml.

* The calculations of prices are made based on the average KZT/USD rate of 454.93 provided by the National Bank of the Republic of Kazakhstan for Q1 of 2023.

There are around 4,650 F&B units in the City, that provide a variety of services. There is a variety of different forms of facilities: tea clubs, fast food, coffee shops, ready meals, pizzerias, canteens, sushi bars, and more. Quick-service restaurants are the largest category of F&B units in Almaty. Canteens are another F&B format that has been gaining traction over the past few years. This is followed by cafés and pubs, reflecting the lifestyle choices made by local consumers.

Most cafes & restaurants are located in Medeu, Bostandyk, and Almaty districts, cumulatively accounting for 57% of the market in Almaty. However, the districts with the largest populations do not always have the largest quantity of units. Auezov, Alatau, and Tuksib are all densely populated districts, yet possess a very little number of food outlets. The chart to the left illustrates the share of stock of F&B units by the district.

The F&B facilities in the city can be separated into 4 main categories:



QSR



Casual dining



Delivery



Pubs & Bars

*QSR: a specific type of restaurant that serves fast food and has minimal table service

As illustrated in the pie chart to the left, there is a strong concentration of F&B outlets in the Almaty district of the city. This is due to the nature of the district, which is relatively small in size as compared to other districts. Moreover, it covers the historical city center, which is a popular pedestrian zone and a high-footfall area, making the district highly attractive for various types of F&B outlets

There is a growing demand for healthy foods to be offered by F&B operators as well as provide pre-made meals for delivery the cooking of which is intended to be finalised by the customer. Dark kitchens are capitalizing on the demand for food delivery apps.

338,636 KZT
Average wage

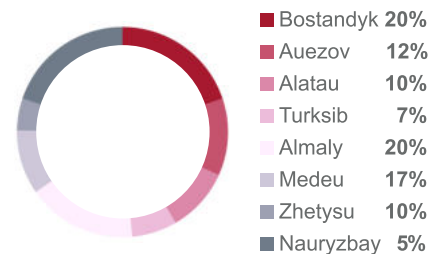
2,156,700
Population

4,650
F&B Stock

F&B UNITS BY AVERAGE BILL



F&B STOCK BY DISTRICT



ALMATY MARKETBEAT

F&B Industry

MARKET OVERVIEW

There are 16 well-known chains (local and global franchises) that represent 13% of all F&B units in the city and dominate the market. Most known are ABR, Bahandi, Salam Bro, KFC, McDonald's, etc. Burger units are even more concentrated based on the fact that 50% of the units are operated by fast-food chains. The average bill accounts for 1,000-2,000 KZT per person targeting the low to mid-income population. Central districts witness an average bill of 3,000 KZT and higher per person.

Food delivery services are dominated by Glovo, Wolt, Yandex Food, and Chocofood. However, not all F&B brands opt for outsourcing delivery, doing so in order to have greater control over the quality of service. As of the latest news, the company that operated McDonald's franchises in Kazakhstan has opened some of its cafes without the McDonald's brand name, after shutting down across the country due to logistics issues. Although this is not the first time that the fast food chain incurred large-scale closures, it was the longest non-operational period. In addition, McDonald's mother company has banned its Russian successor, 'Vkusno and Tochka', from opening establishments in the country.

The Almaty F&B scene is continuing its development as local brands continue expansion, and new brands enter the industry (local and foreign). Central Asian cuisine is gaining popularity, which new restaurants providing great services and amenities while serving familiar dishes.

The city has seen a notable increase in mono concept cafés and food trucks, which are now becoming sustainable businesses due to maturing of consumer demand. This is possible because significant consumer demand is able to support the needed levels of sales.

In March – April, the month of fasting began for Muslims, usually during this period, restaurants labeled "Halal", such as the recently opened cafe Issmile, gain popularity.

With the warming of the weather, hiking in the mountains has become more frequent, with the opening of the summer season, restaurants and recreation areas on the way to the slopes have become popular again, there is a very extensive selection of establishments, ranging from small barbecue areas to large banquet halls where you can hold events.

Sometimes spring culinary festivals with dishes of different nationalities are held in open-air parks. Kaspi.kz plans to invest 70 billion tenge in E-Magnum – a joint company with Magnum. 10% of the equity will belong to Magnum, the remaining 90% will be owned by Kaspi.kz. The direction of e-Grocery in Almaty Kaspi.kz and Magnum launched in the summer of 2021 and has three dark stores, including one in Astana.

The invested funds will be used to open about 15 dark stores and meet the working capital needs of e-Grocery. According to Forbes Kazakhstan, Kaspi store ranks first in the ranking of the "40 largest online trading platforms - 2022", MagnumGO ranks 27th and is also the number 1 grocery retailer in Kazakhstan. In all districts, an increase in the number of food and beverage outlets was registered by 2-4% QoQ. However, Alatau district is one of the latest districts to be added to Almaty city (added in 2008) and has been rapidly developing in large part due to heavy investment from the government.

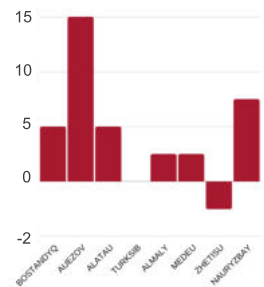
338,636 KZT
Average wage

2,156,700
Population

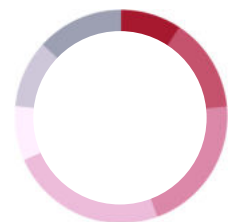
4,650
F&B Stock

Source: Department of the Statistics of Kazakhstan

% INCREASE IN F&B UNITS BY DISTRICT



POPULATION PER F&B UNIT



| | |
|-----------|-----|
| Bostandyk | 200 |
| Auezov | 309 |
| Alatau | 454 |
| Turksib | 516 |
| Medeu | 179 |
| Zhetysu | 222 |
| Naurzabay | 286 |

ALMATY MARKETBEAT

Flexible Space

24

Number of Coworkings

37,237 m²

Total Stock

118,500 KZT

Average Rate/Desk

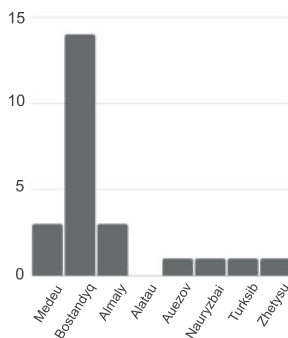
MARKET OVERVIEW

In the first quarter of 2023, no new operators opened or closed. Since 2021, there have been 18 openings and 11 closures. Currently, two-thirds of all operational flexible spaces opened since the start of 2020. The market is currently experiencing closures of low-quality flexible spaces, while high-quality flexible spaces are seeing record low vacancy rates.

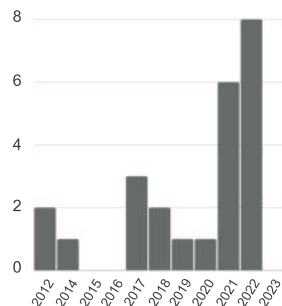
A-class developments are experiencing an average of 12.6% vacancy rates, as of the latest data. The average rental rate for a desk has decreased by 13% QoQ from 118,500 KZT per work desk. This is due to more expensive premises coming into the market. Nevertheless, the occupancy levels have stayed high QoQ, dropping a bit from a high of around 90% in Q3 2022 to the current 87.37% on average and 91.28% market-wide. This means that about 3,500 m² of stock is currently vacant. One operator expanded their premises during the quarter, adding 1,200 m² of stock to the market. Notably, a few operators are now repurposing meeting rooms into serviced offices.

Almaty city has around 60 people/m² of flexible space. In comparison with similar population size cities, Phoenix (population of 1.6 m) has a figure of 11, and Austin (population of 0.95 m) - has 27. Suggesting that there is still a lot of room for growth.

TOTAL STOCK BY DISTRICT



COWORKING SPACES BY OPENING DATE



MARKET PERFORMANCE

Number of flexible offices, operating as of December 2022: 24

Supply in class A

2

developments

Supply in class B

22

developments

Market Occupancy

91.3%

Average Occupancy per flexible space

87.4%

25,000 KZT

Average rental rate per parking lot

37,237 m²

Total Stock

118,500 KZT

Average rental rate per workstation

ALMATY MARKETBEAT

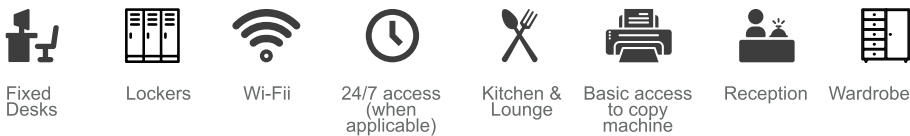
Flexible Space

MARKET TRENDS

The average size of the new flexible spaces after 2021 is 2x as small as compared to openings before. The average size of flexible spaces that have opened after or during 2020 is around 1,000 m², while the average size of all spaces currently in operation is around 1,500 m². Although a trend for opening smaller-sized locations to suit the needs of lower-budget clients was observed prior, it should be noted that only professionally operated flexible spaces that usually occupy larger areas continue to operate in the long term. The average area of operators that have closed down since 2020 is around 360 m².

As the IT sector continues to grow, companies are enticed to choose these sorts of amenities due to the increasing quality of the facilities as well as the adequacy of the working conditions, which are greatly suited for the most important needs of the employees. Independent operators currently represent around 50% of the offerings on the market. Nonetheless, our analysis of the quality of service and working conditions provided has made clear a correlation that the landlord-operated flexible spaces usually offer a higher quality of service and infrastructure for their clients and usually focus more on providing smaller-sized offices, rather than coworking spaces.

Services that are included in the average rate within flexible offices:



Services that are not included in the calculation of the average rate within flexible offices: Enclosed offices, Meeting Rooms, Conference Rooms, Canteen, Sleeping Room, Legal Address registration.

There is a shift from open space coworkings to closed serviced offices in new openings. Specialized coworking centers are emerging in the market. They are focused on providing working space for self-employed, design, and psychology specialists as well as business networking.

MARKET OUTLOOK

The number of flexible space operators is ought to continue growing as the market matures, especially taking into account that the total space occupied is much smaller when compared with other more developed cities of this size and population count. It should also be mentioned that the quarterly growth rate of the total market stock since Q3 of 2020 has averaged 8.26%, while YoY growth equals 34.55%, which accounts for 99.13% net stock growth since the relevant date.

Although the concentration of operations in the Bostandyk, Medeu, Almaty districts is not expected to decrease, new openings in other districts of the city, as the population and working space demands in the city change, will take place. The first locations to open in the remaining districts will most probably be of lower quality and smaller size, serving companies with a lower budget and individual entrepreneurs.

24

Number of Coworkings

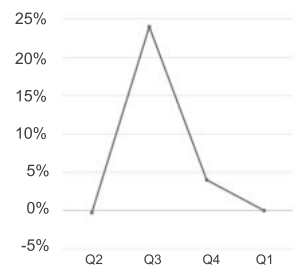
37,237 m²

Total Stock

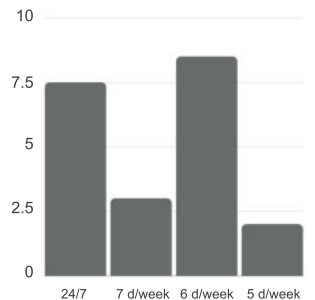
118,500 KZT

Average Rate/Desk

QUARTERLY TOTAL STOCK GROWTH



OPEN HOURS





Gulshat Sariyeva
Partner | Head of Country
+7 (701) 941 41 39
gulshat.sariyeva@cushwake.kz



Semyon Yurchenko MRICS
Partner | Head of Occupier Services
+7 (701) 951 15 24
semyon.yurcheko@cushwake.kz



Chingiz Mussin | Editor in Chief
Consultant | Occupier Services
+7 (701) 221 07 46
chingiz.mussin@cuswake.kz



Dalel Mussina
Consultant | Investor Services
+7 (777) 026 63 95
dalel.mussina@cushwake.kz



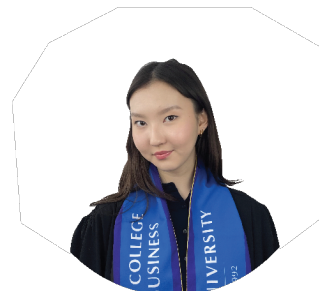
Adeliya Bolysbek
Analyst
+7 (771) 574 35 42
adeliya.bolysbek@cushwake.kz



Ali Kassymguzhin
Consultant | Industrial
+7 (702) 276 64 99
ali.kassymguzhin@cushwake.kz



Dinmukhamed Sametkhan
Analyst
+7 (747) 607 69 67
dinmukhamed.sametkhan@cushwake.kz



Adiya Abisheva
Visual Aids
+7 (771) 211 49 15
adiya.abisheva@cushwake.kz



RESEARCH & ADVISORY
CDC-2 business center,
240G Nazarbayev Avenue,
Almaty A26F8D3
Kazakhstan
Tel: +7 (727) 33 44 000
agency@cushwake.kz
cushwake.kz

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