

# COVID - 19:

## Impact on the CRE market in Kazakhstan



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Prior to the first confirmed cases in Kazakhstan, in the second half of March, the government pre-emptively sprung into action and gradually introduced strict measures in an attempt to minimise the outbreak of Covid-19. With a state of emergency declared on 15 March, authorities progressively enforced the closure of all public places, educational institutions, and non-essential business enterprises. Commercial air and rail service across the country were suspended for an indefinite period. Quarantine and lockdown were first introduced on the 22<sup>nd</sup> of March in the two largest cities and business hubs of the country - Nur-Sultan and Almaty. Later, to combat the spread, full lockdown has been adopted in other cities. Communities in the quarantine areas are instructed to leave household isolation for emergency reasons only. Restrictions are set on the movement of people and personal vehicles with all non-essential business activity. The lockdowns have recently been extended to April 30.

The number of patients as well as the number of fatal cases is relatively small when compared to more affected regions. As of April 9, Kazakhstan has 764 confirmed Covid-19 cases, 7 people have died.

Given the economic implications of Covid-19, combined with the sharp reduction in oil and gas prices, the Asian Development Bank lowered GDP growth outlook for Kazakhstan to 1.8% for 2020. The national currency Tenge has also tumbled amid low oil prices. The State Assistance programme is helping moderate the impact of shocks.

To protect businesses and households, the State has pledged a fiscal stimulus of KZT 4.4 trillion (US \$10 billion or 6 percent of GDP), including cash payments to unemployed, a lower VAT rate for food, as well as additional spending to strengthen the health sector and support employment and business:

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1. subsidised lending (KZT 1 trillion);
  2. actions to help small and medium-sized enterprises (SMEs) finance their working capital (KZT 600 billion);
  3. actions to support employment (KZT 1 trillion);
  4. tax incentives for SMEs and individual entrepreneurs;
  5. deferral of loan repayments;
  6. refrainment from charging penalties and additional payments for overdue interest for affected borrowers;
  7. suspension of loan repayments for retail sector borrowers;

***In 2021, the growth is expected to rebound to 3.6%, reflecting predicted stronger oil revenues and an expansionary fiscal policy.***

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### *What it means for the Property Market*

The effects of the pandemic are already being felt in the real estate market. The sectors currently most affected are retail, leisure and hospitality, but it is anticipated that the impact of the pandemic and other challenges the country is currently facing, will broaden to the entire occupational real estate sectors.

Immediate visible effect of the strict quarantine measures has been seen in the hospitality and retail sectors. Most offline non-food and leisure retail is closed. Some retailers have shifted to delivery services. Inline with other countries, companies from the food (including groceries and F&B takeaways), pharmaceutical, FMCG, hygiene and cleaning products are experiencing strong consumer demand growth and are looking for solutions to meet the surge in demand.

Due to the travel and business operation restrictions, hotels across the country have either suspended their operation or experience very low occupancy levels. Some hotels are being converted into quarantine facilities, shelters and temporary accommodation for medical personnel. Others are being leased by local business owners for their employees from outside the quarantined areas.

We are seeing increased demand for logistics space, as retailers hurry to secure storage capacity to meet peak demand for necessities. Online retail growth is also contributing to the increased demand for logistics space.

Struggling occupiers are seeking rent reductions. With physical stores now closed, more landlords across the country are under pressure to offer their tenants rental renegotiations and/or temporary suspension. Many office occupiers are also asking landlords for rent concessions to cover the Covid-19 restriction period.

Players in the real estate market generally are adopting a cautious approach. The sector is witnessing the postponement of both investment transactions and rental contracts. Most existing construction projects struggle with the supply of materials and personnel and are largely on hold.

We are yet to see a change in pricing in connection with the pandemic and the latest economic developments.

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4. *Committee for Quality Control and Safety of Goods and Services of the Ministry of Healthcare of the Republic of Kazakhstan.*

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