

RENTAL APARTMENTS REPORT

MID-YEAR 2023

Cushman & Wakefield Research Publication



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Executive Summary

Our team is pleased to present our new annual Rental Apartment Market Report for 2023.

In this publication, we have reviewed the two most developed cities in terms of rental housing market in Kazakhstan and Georgia, these are the cities of Almaty and Batumi, which continues yet another year as one of the strongest multifamily markets.

THE HIGHLIGHTS OF THIS YEAR'S STUDY INCLUDE:

- X In Almaty, the rental property sector continues to exhibit notable resilience, as evidenced by its consistent high demand and the subsequent continuous escalation of rental prices. This robust demand dynamic translates into swift returns on investment for property owners. On average, the rental income derived from these properties is capable of covering mortgage obligations within a relatively condensed period of 7-8 years.

- X The increased demand for residential properties in Georgia has led to a flourishing construction industry. However, this surge in demand has also resulted in rising construction costs in the residential sector. The sustained demand for residential properties in Batumi, coupled with the sector's ability to navigate challenges, indicates a positive outlook for the construction and real estate industry in Georgia.





Economic Overview - Almaty

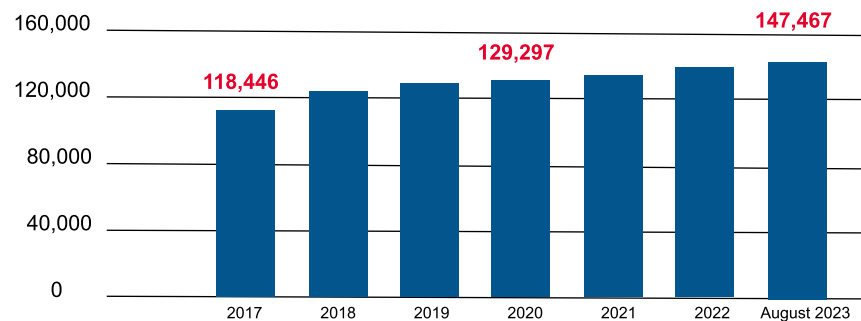
Almaty, located in the southeast of Kazakhstan, is the largest city in the country and serves as a major centre for commerce, finance, science, and culture. It held the status of Kazakhstan's capital until 1997 when the capital was relocated to Astana. The city of Almaty spans an area of 683 square kilometres, while the Almaty region covers a larger area of 105,100 square kilometres. The Almaty Region includes one city, Konayev, and nine districts.

In the structure of GDP for 2022, the largest share is occupied by Almaty -18.5%. In the GRP structure for the 1st quarter of 2023, the share of Almaty occupies -20.24%.

Being the most developed megacity of the Central Asian region, Almaty is also traditionally the most attractive destination in terms of cities of Kazakhstan for international companies planning to enter the Republic's market. While the capital's market accounts for 18.4% of the total number of foreign companies operating in the Kazakhstan market, in relation to Almaty, this figure reaches 45.2%, which, of course, indicates the financial importance and investment attractiveness of the city, and at the same time, the high business activity of its population.

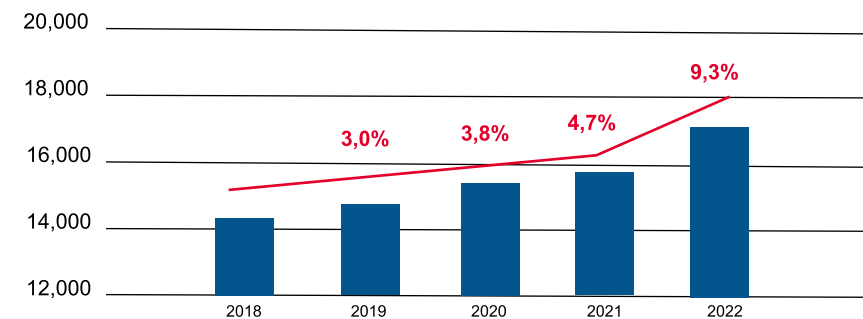


Figure 1. The number of legal entities registered in Almaty (at the beginning of the year)



Source: Buero of National Statistic

Figure 2. Dynamics of foreign companies registered in Almaty (at the beginning of the year)



Source: Buero of National Statistic

Economic Overview - Almaty

Demography

As of the beginning of 2023, Almaty had a registered population of 2.2 million people. The population of the city has been experiencing a growth rate of 2.9% in 2022.

Almaty demonstrated a positive net migration of 36.5 thousand people in 2022. This influx of migrants reflects the city's attractiveness as a destination for individuals seeking economic opportunities, education, and a vibrant urban lifestyle. Additionally, the natural population growth of Almaty increased by 4.1 thousand people or 20.7% compared to 2021, reaching a total of 23.8 thousand people in 2022.

Looking ahead, the administration of Almaty has conducted assessments and projected the city's future population trends. According to these estimates, by the year 2030, Almaty's population is anticipated to reach 2.5 million people.

The Almaty region experienced a significant transformation in 2022, as part of administrative reorganization, two new regions were separated from the Almaty region. Consequently, this restructuring led to a reduction in population by approximately 30%.

Figure 3. The Population of Almaty (beginning of the year), mlns

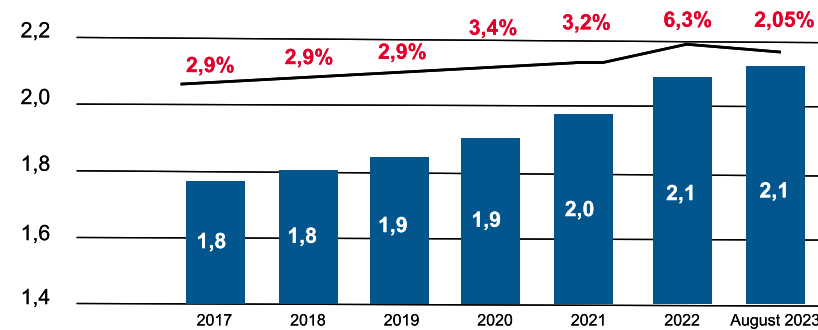
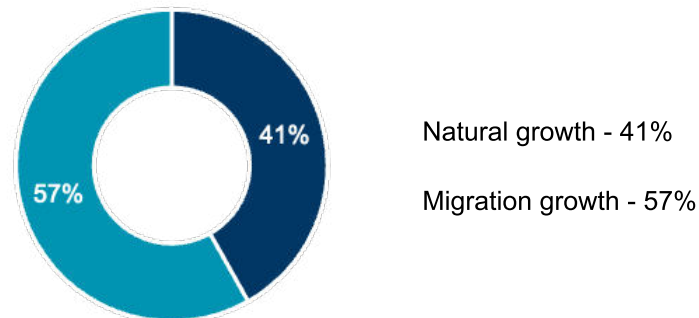


Figure 4. the structure of population growth in Almaty, 2021



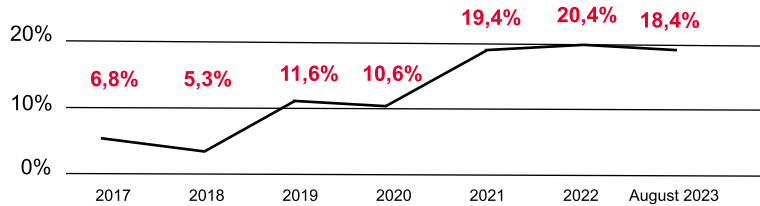
Factors Affecting The Rental Housing Market

Income Of The Population

The salary level in Almaty is one of the highest in the country and significantly exceeds the national average of 670 USD (in Almaty average wage is 900 USD).

As shown in the graph, there is a positive trend in the growth of wages of residents of the city. Over the past 6 years, the average monthly salary has increased by more than 50%. Since 2019, the growth of nominal wages has shown a twofold increase.

Figure 5. Dynamics of nominal wage growth in Almaty



Source: Bureau of National Statistic

Educational Cluster

The city accounts for more than one third of the country's higher education institutions. At the beginning of the academic year 2022-2023, the number of students in Almaty amounted to 250 thousand people, which is 45% more than the previous year. Most of the applicants (about 70%) are non-resident students. The huge flow of students increases the load on the housing stock and infrastructure of the city. Only 15% of students are settled in dormitories, while the majority are forced to seek accommodation in alternative places of residence.

Tourism

Following the establishment of the Astana International Financial Center in 2018 and the move of the National Bank of the Republic of Kazakhstan to Astana, there has been a noticeable shift in the focus of business tourism towards the capital city. This trend has been further reinforced by the relocation of local and foreign organizations' headquarters to Astana, as well as the hosting of international events like forums, congresses, exhibitions, and conferences.

However, despite the increasing significance of Astana, Almaty continues to hold its position as Kazakhstan's primary economic center. Almaty's appeal is largely due to its well-developed urban infrastructure and transportation networks, which make it a major attraction for tourists. Additionally, the city boasts a diverse array of natural attractions, further solidifying its role as the cornerstone of the nation's tourism sector.

At present, Almaty's hotel industry predominantly caters to the needs of the business community, aligning with the city's pivotal role in regional and national development strategies. Nonetheless, with the implementation of initiatives aimed at capitalizing on the region's tourism potential, Almaty is projected to enhance its allure as a leisure tourism destination.



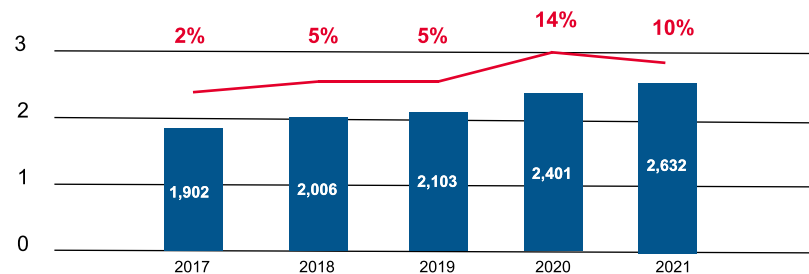
Factors Affecting The Rental Housing Market

Dynamics Of The Residential Real Estate

The pace of housing commissioning in Almaty is characterized by high indicators. From 2017 to 2022, the average annual growth rate was 7% or an average of 1.1 sq.m. per person per year. In 2020 and 2021, the commissioning of housing showed a twofold increase. This year, the city has maintained positive rates. So, in 2022, 1.552 million square meters of housing were commissioned, which is 6.1% higher than in the same period last year.

In 2021, the provision of housing for the population in Almaty amounted to 23.6 sq.m per person. According to world standards, there should be at least 30 square meters of living space per person living in the city.

Figure 6. Commissioning of residential buildings in Almaty



Source: Buero of National Statistic

The existing engineering infrastructure of Almaty cannot withstand intensive construction, which objectively limits the commissioning of housing. In this regard, in 2022, the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan lowered the plan for the annual commissioning of housing in the city to 1.5 million square meters with an annual increase of up to 10%.

Mortgage Lending

Mortgage lending is the main way of buying real estate for an ordinary resident of the country. Preferential mortgage programs have restrictions and strict criteria for participation. For example, the maximum cost of housing in Almaty under the "7-20-25" program is 25 million tenge. That is, the terms of the preferential mortgage are aimed at economy and comfort class housing.

Since 2019, the mortgage lending market has been experiencing high growth rates due to the implementation of public housing programs. An additional impetus during the pandemic was given thanks to the possibility of early withdrawal of pension funds from the Unified Accumulative Pension Fund for the purchase of residential real estate.

During the spring of 2023, the average interest rate offered by banks on deposits from individuals experienced an increase, reaching 13.9%. Certain banks are providing more enticing terms to their customers, surpassing this average rate. This strategy ensures profitability and safeguards deposits against the impact of inflation. For instance, ForteBank and Halyk Bank are offering a deposit rate of 17%, while Jusan Bank provides 16.8%.

In the Republic of Kazakhstan, approximately ten second-tier commercial banks and one state-affiliated bank, Otbasy Bank, are involved in providing mortgages. Notably, Otbasy Bank holds a significant majority of the market share when it comes to issued mortgages.

Supply Analysis

Residential rental market is dominated by individual owners operating under unregistered lease agreements, which leaves tenants exposed to all sorts of related risks and uncertainty.

Due to a substantial portion of the market operating unofficially, estimating the exact supply volume is challenging. As of November 2022, there was an excess of 98 thousand apartments compared to the number of households. The formal, regulated business segment in this industry constitutes a maximum of 11%, contrasting with higher proportions in more developed markets. This implies that the real estate market in Almaty is in its early stages of progression.

The dominant portion of the legitimate market consists of lodging establishments that typically offer accommodations on a daily or weekly basis, primarily catering to short-term stays of up to a month. Merely 3% of this market segment comprises establishments that provide medium to long-term accommodations, primarily serving students, migrant workers, and similar groups, with rental periods extending to a year or more.

The medium-term residential segment is more resistant to a decrease in demand, as such facilities are able to navigate the markets of both medium-term and long-term rentals at the same time at more competitive rates, featuring amenities and flexibility unique to the sector.

Figure 7. Structure of the market of services by type of placement

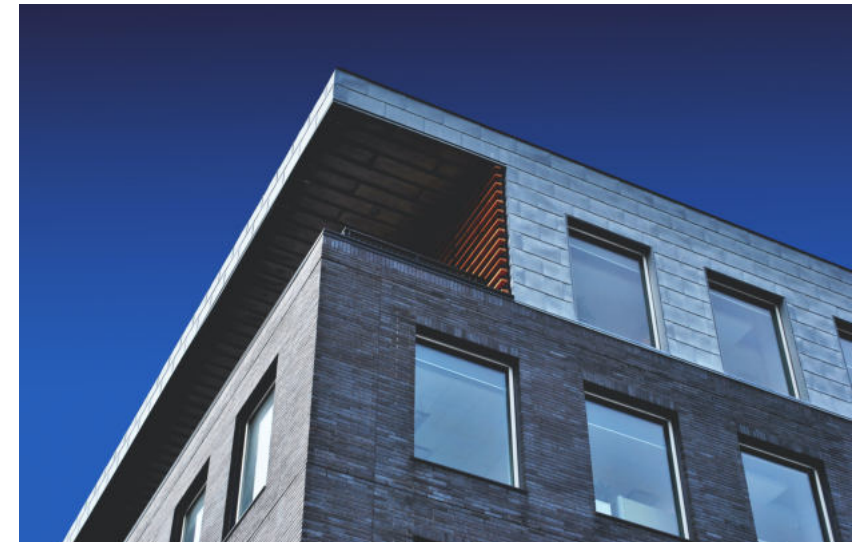


Source: Buero of National Statistic

Medium-Term Placement Objects

To date, we have identified several facilities involving the provision of medium-term accommodation services in Almaty, these include the combined Novotel Living hotel, two apart-hotels affiliated with the A&G chain, Almarent Apart Hotel, and Apartments 95, all catering to medium-term stays. Despite this, the demand for medium-term lodging (duration of stay one month and longer) remains inadequately met. Consequently, individuals on business trips often find themselves compelled to opt for shorter, more frequent visits.

The sector encompassing medium-term residential real estate exhibits a relatively higher resilience against declines in demand. Such properties have the ability to simultaneously target both medium-term and long-term rental markets, capitalizing on competitive pricing, distinctive amenities, and adaptability that cater to the needs of this specific segment.



Demand Analysis

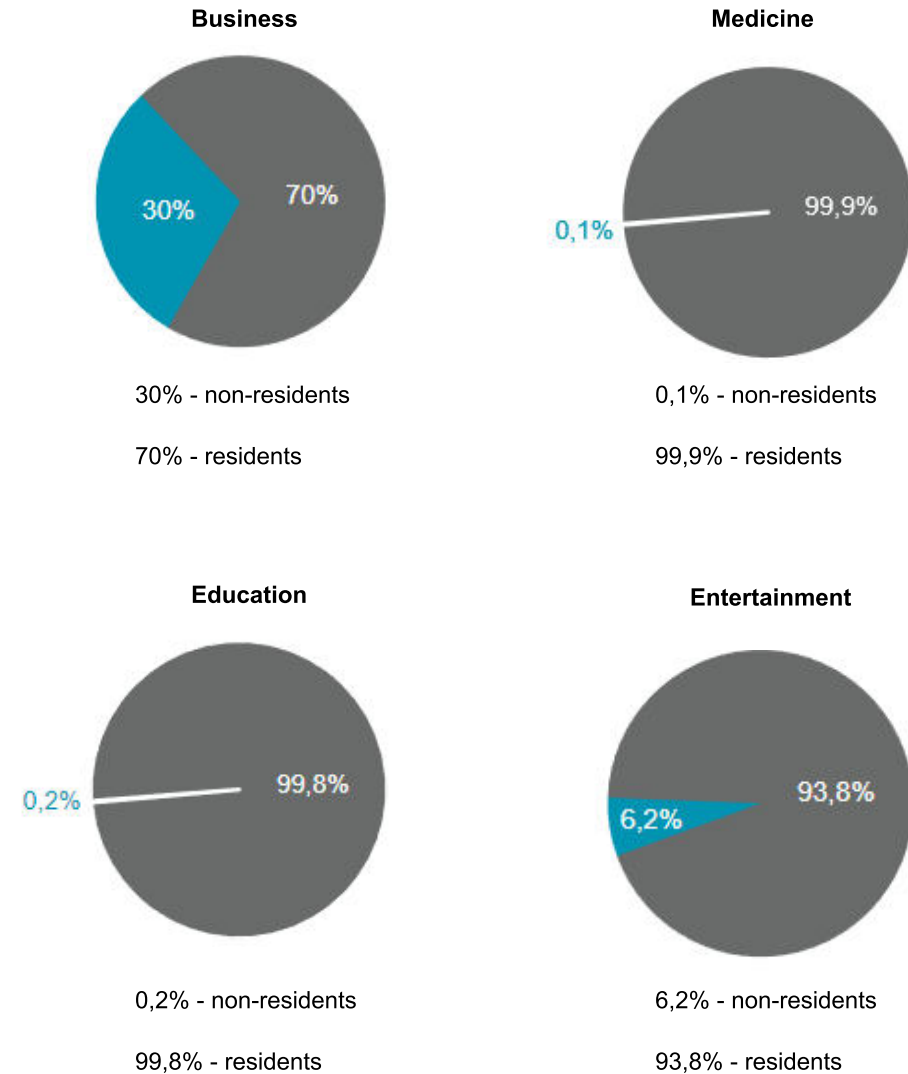
The demand structure demonstrates the predominance of business tourists in the total volume of visitors to the city. In general, according to the information of the Bureau of National Statistics, according to the results of the second half of this year, the share of business visitors to Almaty amounted to 80%. Among non-residents it is higher - 77%, among residents it is lower – 45%.

The corporate sector, which requires housing for its employees or corporate guests, due to the need to move, or the implementation of business projects generates demand for medium-term and long-term accommodation facilities. However, as noted earlier, facilities offering medium-term placement are not represented on the Almaty market. At the same time, a significant part of the available stock of apartments falls on the unregulated market of traditional residential real estate.

Thus, the market has significant potential due to the demand for a high-quality product of medium-term accommodation from foreign companies, business tourists, as well as due to rising prices and the lack of a reasonable pricing policy in international class hotels and the lack of high-quality alternative solutions in the city.

There is a growing trend in the market of “lifestyle” consumers who prefer rented housing to their own. This trend is just emerging, but by indirect signs we see its prospects. This trend may have an impact on the market in the long term.

Figure 8. Breakdown of visitors by purpose



Source: Buero of National Statistic

Demand Analysis

In Almaty, the demand for rental properties remains consistently high, which is reflected in the continuous growth of prices. This sustained demand underscores the fact that the rental market in Almaty remains robust. It's worth highlighting that due to this strong demand, apartments have a quick return on investment. On average, the income generated from renting out properties can cover mortgage payments within a relatively short timeframe of 7-8 years. In 2018, the average rental price was 5,18 \$ tenge per m2 and grew to 5,40 \$ - 5,83 \$ per m2 in 2020

The cost of renting housing by districts:

2018	2020
Alatau - 3,96 \$	Alatau - 4,26
Turksib - 4,08 \$	Turksib - 3,76 \$
Zhetysu - 4,06 \$	Zhetysu - 4,15 \$
Nauryzbay - 4,25 \$	Nauryzbay - 4,01 \$
Auezov district - 5,00 \$	Auezov - 5,65 \$
Almaly - 6,33 \$	Almaly - 6,45 \$
Bostandyk - 7,20 \$	Bostandyk - 6,39 \$
Medeu - 7,31 \$	Medeu - 7,02 \$

In 2022, the arrival of citizens of the Russian Federation led to a temporary increase in the cost of renting a square meter in Almaty. By August, the price reached 10.00 - 11.00 \$ per m2, and by September it had grown to almost 12 \$. The average rental prices for various types of apartments in September were as follows: one-bedroom apartments averaged about 432 \$, two-bedroom apartments - 648 \$, and three-bedroom apartments - 972 \$. Closer to winter, prices began to return to their original values, but despite the decline in prices during the winter months, rental rates in Almaty remained relatively high, ranging at 12 - 13 \$ per m2 in December.

Following the autumn-winter surge in rental rates, in April 2023 the prices declined by 7.9% compared to January figures and 2.0% compared to March figures. Rates then saw a 1% increase in May, yet still maintained a 7% decrease from winter rates. In July, rental rates rose again, registering a 7% upswing from June and returning to January levels.

For the year 2023, the average cost of renting a two-room apartment in Almaty is projected to be 432 \$. Between June and July, average rates surged by 7%. Looking at the overall trajectory from the year's start, the average rent remained relatively stable (-1%). The average rental cost for a two-bedroom apartment reaches 713 \$, while for a three-bedroom apartment, it stands at 972 \$.

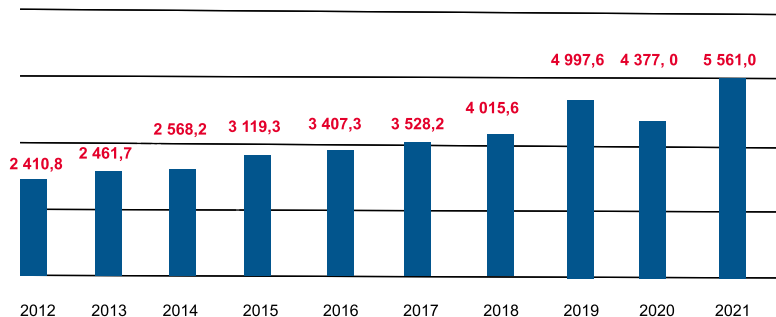


Economic Overview - Batumi

Nestled along the captivating coastline of the Black Sea, Adjara region stands as an alluring tourism destination, seamlessly blending natural beauty with rich cultural experiences. Its pristine beaches, framed by verdant mountains, provide a picturesque backdrop for leisure and relaxation. Beyond its scenic vistas, Adjara boasts a vibrant local culture, with traditional music, gastronomy, and warm hospitality captivating visitors. The region's historical sites, including the charming city of Batumi with its modern architectural marvels, add layers of intrigue to its allure. With a harmonious fusion of nature, culture, and contemporary urbanity, Adjara promises a captivating and unforgettable journey for every traveler.

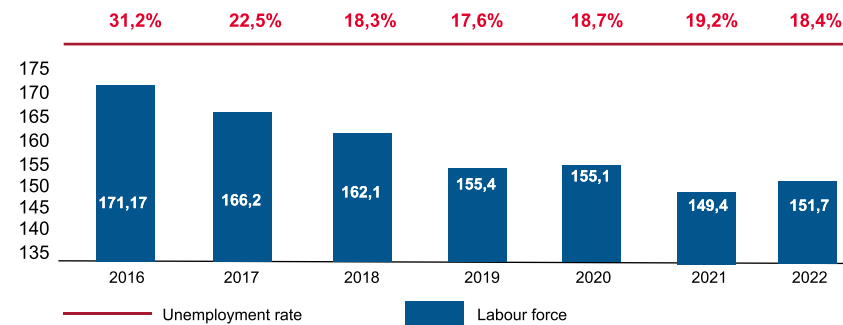
Adjara serves as the principal seaside resort region, making a substantial annual contribution to the country's GDP. According to the latest statistics, Adjara's GDP totals 5,561 million GEL, boasting a GDP per Capita of USD 4,860.9. The region supports a workforce of 123.8 thousand, out of which 73000 are engaged in the business sector. The average salary within this sector rests at 1080.6 GEL, and the current unemployment rate stands at 18.4%. As for Foreign Direct Investment (FDI) in Adjara, it achieved a notable figure of 116,542.8 USD thousand in the year 2022.

Figure 1. GDP Dynamics, GEL



Source: National Statistic Office of Georgia

Figure 2. Unemployment Dynamics



Source: National Statistic Office of Georgia

Batumi serves as the administrative center of Adjara, encompassing a total area of 82.3 km² and housing a population of 179.2 thousand residents, thereby ranking as one of Georgia's most densely populated cities. Renowned for its population diversity, Batumi comprises not only ethnic Georgians but also a rich tapestry of other ethnic minorities, including Russians, Ukrainians, Armenians, Pontic Greeks, Abkhaz, and more. This multicultural blend imbues the city with a vibrant and distinctive character.

With its active seaport and well-established railway connections, Batumi holds a pivotal role as both a land and maritime gateway to Georgia. The city is home to the nation's second-largest port, fostering crucial trade links with Ukraine, Romania, Bulgaria, and Turkey. This strategic positioning significantly enhances the region's accessibility and connectivity.

The primary avenue for regional access is Batumi International Airport, situated a mere 2 kilometers south of Batumi, the airport bolsters the city's seamless integration into international, regional, and local transportation networks. This robust transportation infrastructure profoundly contributes to Batumi's captivating allure.

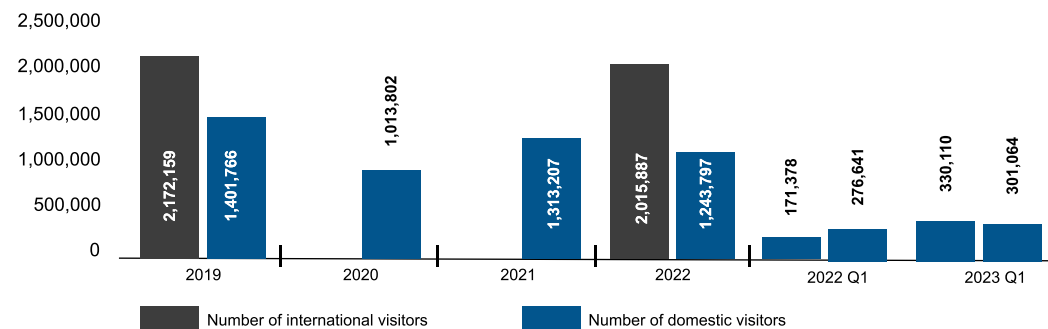
Factors Affecting The Rental Housing Market

Tourism In Batumi

Batumi, recognized as the summer tourism capital of Georgia, holds a prominent position among the country's most celebrated destinations. Nestled on the stunning Black Sea Coast, this city provides visitors with a plethora of entertainment choices along its picturesque seaside park-boulevard. Batumi effortlessly merges the charm of a sophisticated, "old-world" southern city with the conveniences of modern infrastructure and innovative architectural advancements.

In 2019, Batumi welcomed a total of 3.57 million visitors, comprising both domestic and international travelers. By 2022, Batumi recorded 2,015,887 international visitors, with a notable portion coming from Turkey. Additionally, there was a significant influx of visitors from various other regions, including the USA and Asia, which added to the diversity of Batumi's visitor profile. Moving on to the first quarter of 2023, the city experienced an arrival of 330,110 international visitors, while the number of domestic visitors amounted to 301,064. It's worth mentioning that both international and domestic visitor numbers have seen an increase compared to the first quarter of 2022.

Figure 3. International and Domestic visitors in Batumi - Absolute numbers



Source: GNTA

In the first half of 2019, Batumi International Airport transported 246,296 passengers. Fast-forwarding to the same period in 2023, the airport served 236,444 passengers, showcasing a significant recovery of 96% compared to the pre-pandemic levels. Additionally, when comparing the number of passengers transported in the first half of 2023 to the same period in 2022, there was a notable increase of 9%.

Regarding the number of flights at Batumi International Airport, the first half of 2023 witnessed a 13% increase compared to the same period in 2022. Furthermore, the month of June 2023 saw a 21% rise in number of flights compared to June 2022. These statistics indicate a positive rebound in passenger traffic and flight operations at Batumi International Airport, reflecting a steady recovery in the aviation sector after the challenges posed by the pandemic.

Residential Market

Rental Apartments

In recent years, Batumi has undergone a notable trend towards urbanization, mainly fueled by its rising status as a favored tourist destination. The city's popularity among tourists has led to the development of modern infrastructure, including a new international airport, hotels, and residential complexes. The accelerated growth of the city has resulted in the creation of numerous job opportunities, making it an attractive destination for those looking to relocate or invest in real estate.

Especially in recent past the city has received an extremely high surge in housing demand, mainly due to an influx of expats from Russia, Ukraine, and Belarus. Furthermore, a considerable number of Georgian citizens, both living domestically and abroad, have also chosen to invest in newly constructed secondary housing properties, adding to the demand. As a result, the demand for housing options in Batumi is significant, drawing interest from both local and foreign buyers.



Notably, serviced apartments have emerged as highly popular investment opportunities in Batumi. The city has become a hotspot for such developments, with various projects offering branded apartments managed by renowned international brands, as well as landmark developments that have in-house management for the apartments. Batumi's status as a resort town further enhances the appeal of investing in serviced apartments. Buyers are drawn to the idea of owning accommodation in a seaside resort for a weekend getaway while having the option to rent these apartments out when not in use.

Residential Market

Rental Apartments

Transactional data highlights the growing popularity of Batumi's residential real estate market, with evident increases in both sales volume per square meter (SQM) and average prices. During the first two quarters of 2023, the total sales volume reached an impressive 374,148 SQM, while the average price per SQM stood at \$876. Meanwhile, the market was valued at approximately \$328 million.

When examining the preferences for apartment sizes in the Batumi residential real estate market during the Q1 and Q2 of 2023, it was observed that the majority of the market was comprised of apartments measuring below 50 SQM, accounting for a significant 58% of total sales. Larger apartments between 51 to 70 SQM and 71 to 100 SQM constituted 25% and 12% of the sales, respectively.

Additionally, when examining the pricing categories in the Batumi residential real estate market during the first half of 2023, it was found that apartments priced below \$1000/SQM were the most sought-after, making up a substantial 65% of the market share. Apartments falling within the price range of \$1001 to \$1500/SQM accounted for approximately 20% of total sales, while those priced between \$1501 and \$2000/SQM represented 9% of the market.

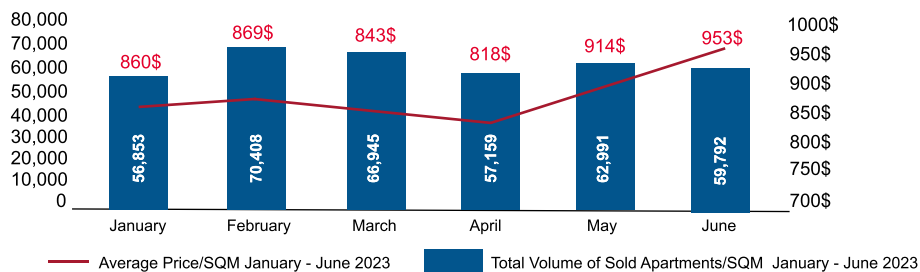
The increased demand for residential properties in Georgia has led to a flourishing construction industry. However, this surge in demand has also resulted in rising construction costs in the residential sector.

These construction costs directly impact the pricing of residential units across the country. The costs of construction materials, salaries, and utilities have all been on the rise, contributing to a year-on-year growth of 10.3% in the total cost of construction by the end of 2022. Despite these challenges, the construction sector in Georgia has historically shown resilience, adapting to changing market conditions.

There are also other specific factors that can significantly impact the construction costs of residential properties, such as the cost of land acquisition and preparation, site clearing and excavation, the cost of building materials, labor, equipment, and the complexity of the design - number of floors, balconies and furnishing.

Despite the above mentioned, the sustained demand for residential properties in Batumi, coupled with the sector's ability to navigate challenges, indicates a positive outlook for the construction and real estate industry in Georgia.

Figure 6. Average Price Distribution in the Total Volume of Sold Apartments



Source: NAPR, Cushman & Wakefield Georgia

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