

12-Mo.
Forecast**268,463 KZT**

Average Quarterly Wage

**9.6%**

Retail Sales Growth (KZT)

**6.8%**

CPI



Source: Department of the Statistics of Kazakhstan

ECONOMIC OVERVIEW

The economic environment in Almaty continues to improve with GDP posting 2.2% growth registered as of the first six months of 2021. The positive economic backdrop is reflected in recent sales performances and footfall numbers - notably in prime schemes. During Jan-Jun 2021 the retail sales denominated both in USD and KZT posted growth by 32% and 31%, compared to corresponding period of 2020, when retail sales drastically plunged as lockdown took effect.

SUPPLY & DEMAND

Consumer spending bounced back sharply as the retail facilities were allowed to resume operations. The rebound of consumer activity continued throughout Q2 2021, driven by pent up demand coupled with the seasonal sales. However, since consumer confidence has drastically plunged compared to pre-pandemic levels we expect demand for non-essential goods remaining selective in the year ahead.

Occupational metrics' volatility persisted throughout Q2 2021. Retailer profit margins remain under pressure in an intensely competitive pricing environment, the effect of which is being compounded by rising costs and uncertainty Covid restriction measures. Ongoing store rationalisation programs have caused retail vacancy rates to remain above average in the secondary locations. Thus, polarisation in the sector is ongoing, as occupiers retain focus on prime, high footfall locations with less popular retail schemes struggling. Repurposing of such retail assets is a major area of opportunity, including mixed-use and specific sector prospects.

In addition to the recessionary impacts associated with COVID-containment measures when retail operations have been put on hold or ceased, e-commerce made significant penetration in categories that were once dominated by bricks and mortar. The e-commerce continued to thrive throughout Q2 2021.

OUTLOOK

Despite vaccine rollout, the vaccination situation remains fluid, with herd immunity is likely to fail being achieved this summer, causing next restriction measures to be imposed. However we expect the retail survivors will gain significant market share and be in position to grow and thrive after Covid-containment program is cancelled.

Going forward, consumer confidence will be a critically important indicator to watch in gauging the future trajectory of the retail sector.

**ALMATY ECONOMIC INDICATORS
AS OF Q2 2021**12-Mo.
Forecast**2.2%**

GDP Growth

**3.1%**

Population Growth

**5.2%***

Unemployment Rate

**428.36**

KZT/USD

*Statistics is available as of Q1 2021

Source: Department of the Statistics of Kazakhstan

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12-Mo.
Forecast

11.9%

Class A Vacancy



\$38.03

Class A Rents*



6.8%

Class B Vacancy



\$12.14

Class B Rents*



* average weighted rental rates are indicated OPEX and VAT exclusive
 ** the rents are based on the KZT/USD rate of 428.36 provided by the National Bank of the Republic of Kazakhstan as of 30/6/2021

Source: Cushman & Wakefield Kazakhstan Research

ALMATY ECONOMIC INDICATORS AS OF Q2 2021

12-Mo.
Forecast

2.2%

GDP Growth



5.1%

Unemployment Rate



428.36

KZT/ USD

Source: Department of the Statistics of Kazakhstan

ECONOMIC OVERVIEW

GDP rose by 2.2% over the first six months of 2021, which represented the third consecutive monthly increase. The return to growth came after retailers reported increased sales and construction output drastically increased. The economy is slowly regaining the initial losses caused by lockdowns: GDP for the end of 2021 is estimated to be above 3% in accordance with the National Bank of Kazakhstan official report. As of Q2 2021 Almaty unemployment rate fell to 5.1%, a pre-COVID level, supported largely by the government's job retention scheme and an increase in hiring associated with reopening of the economy.

SUPPLY & DEMAND

Occupier sentiment has started to improve commencing 2021 as lockdown restrictions are fully lifted and the vaccine programme progresses, encouraging the overall office space take-up to rise. Year-to-date (YTD) new leasing activity translated into 7.2% of the overall occupancy (compared to 10.8% registered as of the end of 2020) and is poised to continue its upward trajectory as firms solidify their return-to-work policies and long-term office requirements. However, present market activity is predominantly driven by the renewals of existing lease contracts with some pockets of growth, when office space expansion is attributed to economic industries deemed essential.

Prime rentals remained stable throughout the first six months of 2021, reflecting the improving sentiment and weight of demand. However, to ensure occupancy gains the rental rates in prime locations have been adjusted downward by 16.8% compared to pre-pandemic levels (Q4 2019). In contrast, overall asking rents in class B reached \$12.5 (KZT 5,341) per sqm as of Q2 2021, up \$0.3 from Q4 2019.

On the supply side, there is currently 60,000 sqm under construction speculatively that are slated for completion in short- to mid-term. So we expect rental rates to come under further downward pressure heading into 2022.

OUTLOOK

Leasing momentum accelerated in Q2 2021 and will continue to rise through the rest of the year as the economy regains its footing, office occupancy increases, and occupiers who sat on the sidelines during the pandemic reenter the market.

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12-Mo.
Forecast**\$5.3**

Prime Rents*

**1.6%**

Prime Vacancy

**310,000 m²**

Prime stock



Source: Cushman & Wakefield Kazakhstan Research

*rents are indicated VAT exclusive, OPEX inclusive; asking (marketing rents) may deviate from real transaction rents by 10-15% downwards

ECONOMIC OVERVIEW

Kazakhstan economy rebounded with positive dynamic of GDP registered for the first time since the pandemic commenced: GDP posted growth by 2.2% as of the first six months of 2021. The freight volume (indicated in USD) increased by 15% YOY, while retail sales rose by 17% in the reported period as business was fully reopened and vaccine rollout expanded.

As a result, the same positive dynamics that shaped Almaty logistics market during 2020 were in play heading into 2021 with the occupational market remained resilient despite COVID-related headwinds.

SUPPLY & DEMAND

Following a record year in 2020, there was no sign of logistics and industrial leasing momentum slowing down in the first six months of 2021. As of Q2 2021 the vacancy in prime locations soared to 1.6%, when compared to 4.1% registered in Q4 2019 before the containment measures were imposed/ the economy disruptions. The Almaty industrial market is currently driven by pandemic-related factors such as surging e-commerce demand. Demand for class B warehousing developments remains selective with well located and refurbished Class B stock retained its attractiveness, achieving high rents and occupancy, while less popular locations are struggling.

Prime segment is now faced with a growing shortage of suitable stock. However prime headline rents denominated in KZT remained fairly stable since the of pre-pandemic level (Q4 2019), whilst USD-denominated decreased by 0.8% over the same period of time.

Despite limited suitable space to satisfy existing demand, developers have adopted 'wait-and-see' approach on the backdrop of persisting economic uncertainty. Developers are reluctant to break ground on additional speculative projects, instead they are increasingly turning to BTS solutions. At Q2 2021, we were tracking no large-scale logistics quality units of committed speculative development for 2022.

OUTLOOK

Given the tight market conditions, developers are expected to break ground on additional speculative projects in 2021-2022, which will help bring supply and demand fundamental closer to balance in prime development sector.

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