

12-Mo.
Forecast

22.7%

Class A Vacancy



\$46.5

Class A Rents*



8.4%

Class B Vacancy



\$10.7

Class B Rents*



* average weighted rental rates are indicated OPEX and VAT exclusive

** the rents are based on the KZT/USD rate of 429.51 provided by the National Bank of the Republic of Kazakhstan as of 30/09/2020

Source: Cushman & Wakefield Kazakhstan Research
Information is available as of Q3 2020

ALMATY ECONOMIC INDICATORS AS OF Q3 2020

12-Mo.
Forecast

-2.8%

GDP Growth



5.1%

Unemployment Rate



417.92

KZT/USD

Source: Department of the Statistics of Kazakhstan

ECONOMIC OVERVIEW

After the WTO reported Kazakhstan among the hardest virus-hit countries worldwide in late June and the second lockdown was imposed in response to alarming infection rates the Kazakhstan economy posted 1.8% GDP contraction as of H1 2020 – the lowest drop over a decade. However the initial reopening of most industries in mid August has paid dividends to the recovery of economic activity as of Q3 2020 despite GDP growth as of Jan-Sep is still negative.

DEMAND & SUPPLY

The persistent global uncertainty continued to have an impact on all aspects of Almaty office market, with COVID-contamination measures cited as a key contributing factor, that puts pressure on take-up volumes and rental rates growth. Facing headwinds occupiers are keen to revise their existing portfolios to understand what space they require in the line with cost-optimisation strategy they adopted. As a result, the difference in market/ investment performance between sectors, and assets within each sector and submarket, is getting highly polarised with some buildings being in high demand, while others are struggling.

However as of Q3 2020 class B overall vacancy remained fairly stable YOY, ticking slightly upward. In contrast, vacancy level for Class A assets declined by 4.2% YOY as of Q3 2020, reflecting occupiers' shift to retrenchment mode.

The occupier-driven market continued in Q3 2020 with landlords' flexibility remaining key driver for market activity. Meanwhile, landlords are trying to be amenable to tenant rental reduction and abatement requests. There is no single approach to commercial terms reconsideration, tailored solutions are provided for each occupier in accordance with his financial soundness. Despite rental rates (both quoted in KZT and USD) remained flat throughout Q3 2020 landlords are eager to provide lease incentives while negotiating terms of rent.

OUTLOOK

We expect pricing and demand for office space may take up to five years to recover from the damage wrought by the pandemic. The persistence of job losses and remote working will reduce space needs. On top of that healthy development pipeline will hinder rental growth in the short- to mid-run. Rentals will remain stable for core assets, but softer rental terms are anticipated elsewhere as landlords re-evaluate pricing and risk. The recovery is likely to remain uncertain and gradual with demographic growth helping to mitigate office job losses in the aggregate.

RESEARCH & ADVISORY

CDC-2 business centre,
240G Nazarbayev Avenue,
Almaty A26F8D3
Kazakhstan
Tel: +7 (727) 33 44 000
info@cushwake.kz

cushwake.kz

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12-Mo.
Forecast

\$6.9

Prime Rents*



0.6%

Prime Vacancy

310,000 m²

Prime Stock



Source: Cushman & Wakefield Kazakhstan Research
Information is provided as of Q3 2020

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

ALMATY ECONOMIC INDICATORS AS
OF Q3 202012-Mo.
Forecast

-2.8%

GDP Growth



11.4%

Retail Sales Growth (KZT)



6.6%

CPI Growth



417.92

KZT/USD

Source: Department of the Statistics of Kazakhstan

ECONOMIC OVERVIEW

As a consequence of the COVID-19 pandemic, Kazakhstani GDP is projected to fall steeply by 2.2% as of 2020 in accordance with Kazakhstan official reports. However industrial market were far more resilient throughout Q3 2020 bolstered by improved retail statistics.

Despite continuing national currency depreciation and contraction in consumer purchasing power, retail sales had demonstrated some rebound in Q3 2020 after retail facilities were reopened for business, fuelling demand for warehousing spaces. As of Q3 2020 the retail sales volume denominated both in KZT and USD increased by 4.0% and 11.4% correspondingly.

SUPPLY & DEMAND

Despite COVID-19 containment measures causing economic turbulence, Almaty industrial market, with the continued support of tailwinds like expanding e-commerce, has managed to remain sustained through the first three quarters of 2020. Thus, the overall vacancy rate climbed up to 1%, reaching a new historical high. Occupancy gains were recorded across both class A and B submarkets at 99.4% and 98.2% correspondingly.

In turn, industrial asking rents continued to trend higher. Sustained levels of limited supply in class A have encouraged landlords to adjust rentals by more than 15% year-over-year up to \$6.9 per square meter in prime locations, while class B rentals saw minor upward correction.

Retailers from essential business list like food, pharmaceutical, FMCG, hygiene and cleaning products continue to drive demand for warehousing space. Additionally, COVID-fighting measures have gradually changed consumer consumption patterns and led to growing e-commerce segment, pushing up demand for warehousing and logistics space.

On the supply side most real estate players are adopting a wait-and-see approach with all on-going or planned warehousing projects being postponed or put on hold for an indefinite period of time. Developers prefer to start construction after a tenant has been secured: a number of developers are concentrating on the realisation of 'build-to-suit' options.

OUTLOOK

We expect the market to remain fundamentally strong in the latter of the year, with further upward correction of rentals, and occupiers' interest in the sector showing no signs of abating.

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Almaty A26F8D3
Kazakhstan
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12-Mo. Forecast

236,208 KZT

Average Quarterly Wage



11.4%

Quarterly Retail Sales Growth



6.6%

CPI



Source: Department of the Statistics of Kazakhstan

ALMATY ECONOMIC INDICATORS AS OF Q3 2020

12-Mo. Forecast

-2.8%*

GDP Growth



1.1%

Population Growth



5.3%

Unemployment Rate



417.92

KZT/USD

*compared to corresponding period of 2019

Source: Department of the Statistics of Kazakhstan

ECONOMIC OVERVIEW

Upon the arrival of COVID-19 in Kazakhstan, the economy entered a recession in March 2020 with massive closures occurred in response to the number of infection cases rising at an "alarming rate". Despite another national lockdown imposed in Q2 2020 muted the retail market activity / summer shopping season, mounting evidence indicates that some recovery began in August with Q3 2020 data likely reflecting that: the retail sales statistics have demonstrated rebound in Q3 2020.

SUPPLY & DEMAND

Kazakhstan was moving ahead with quarantine easing throughout Q3 2020: commencing September the 1st shopping malls, covered food and non-food markets and F&B facilities had been reopened for business, although with adoption of reinforced health, safety, and social distancing requirements. In response, after two quarters of disappointing growth Almaty retail market has indicated surge in retail activity with retail sales posted growth by 4.0% and 11.4% (denominated in USD and KZT correspondingly). However retail sales curve is expected to flatten after pent-up demand is satisfied.

Retailer challenges continued throughout Q3 and varied considerably by category, and that variability was reflected in the performance of retail shopping centers depending on their type and quality. The suspension in retail has led to an even stronger polarisation in the shopping centre market, with competitive prime schemes on the one hand and struggling secondary destinations on the other hand. While prime sites still have the scope for recovery and have fared relatively better, secondary and tertiary are reaching breaking point, and will be unable to recover unless they opt for an entirely value retail mix, more F&B, or find alternative uses for the vanishing occupied spaces/ stores. Consequently, this is expected to result in the re-purposing of existing secondary retail space to office, residential and other uses. In essence, many shopping centres are likely to be transformed into mixed-use schemes.

Despite the support offered by the State to the affected businesses, not all operators were able to survive a forced closure. In turn, the COVID-19 crisis and the slump in economic activity that it caused, encouraged landlords to accept the tenants' demand for flexibility, making it a guiding principle that bolsters fair retail market performance in a new reality. With physical stores closed, more landlords were under pressure to offer their tenants rental renegotiations and/or temporary suspension. Turnover-based rent has become widely adopted.

OUTLOOK

We expect shopping center performance in the remainder of the year will be highly dependent on tenant mix and with variations by type and location. Defaults and strategic store closures will remain elevated.

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