MARKETBEAT

ALMATY

Office Q1 2020

CUSHMAN & WAKEFIELD

	12-Mo. Forecast
18.5% Class A Vacancy	—
$45.8 Class A Rents*	—
10.1% Class B Vacancy	▲
$12.2 Class B Rents*	▼

** average weighted rental rates are indicated OPEX and VAT exclusive*
*** the rents are based on the KZT/USD rate of 381.18 provided by the National Bank of the Republic of Kazakhstan as of 12/31/2019*

Source: Cushman & Wakefield Kazakhstan Research
Information is available as of Q4 2019

ALMATY ECONOMIC INDICATORS AS OF Q1 2020

	12-Mo. Forecast
2.7% GDP Growth	▼
5.1% Unemployment Rate	▲
389.56 KZT/USD	

Source: Department of the Statistics of Kazakhstan

OVERVIEW

The global COVID-19 pandemic has delivered financial and economic consequences across the globe. Locally we have seen a wide range of measures and responses to contain the spread of the virus, from a national lockdown to forced social distancing, closed businesses and public places. In light of this, it is still too early to gauge the impacts on the economy and property markets, though even now it is obvious that the CRE industry has entered a new operating normal.

Leasing activity in Almaty office market has essentially stalled in mid March 2020 when COVID-fighting measures were imposed by the Government to prevent virus spreading. Within the implied restrictions companies have been forced to turn towards home-based office mode with limited physical business activities. As a result the demand for office space has eased significantly with many occupiers putting on hold their real estate decisions for either expansion or relocation. Additionally, due to quarantine challenges all the earlier proposed redevelopments and refurbishments have been suspended.

Since the coronavirus pandemic swept through Almaty, many tenants have struggled simply to keep their businesses afloat with SME being hit the hardest. Rental tensions surge. The bulk of occupiers have been experiencing imminent business interruption and consequent cash flow issues. In response 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 their financial soundness.

OUTLOOK

CRE leasing fundamentals typically lag the economy. While retail and hospitality industries have been immediately paralyzed, the size of impact on the office sector will become evident later on and result in the industry's structural changes.

Rising vacancy is likely to suppress office rent growth until business confidence and activity is restored. However, we expect prime office projects to remain more resilient due to a stronger tenant mix.

The impact on the future physical office environment remains to be seen. On one hand, following the COVID-19 outbreak we expect new health and safety guidelines to be implemented universally throughout the office sector. Focus on employees' wellbeing will be factored in in office layout, spacing and seating arrangement, use of hands-free technology, routing and traffic flows. On the other hand, an urge to create effective and high performing work environments will incentivize the market players to reconsider the traditional notion of workplace culture and, in turn, embrace flexibility, diversity and choice of workplace settings.

MADINA KERIMBAYEVA
Head of Consultancy Services
CDC-2 business centre, 240V Nazarbayev Avenue,
Almaty A26F8D3
Kazakhstan
Tel: +7 (727) 33 44 000
madina.kerimbayeva@cushwake.kz

cushwake.kz

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

This report has been produced by Cushman & Wakefield Kazakhstan for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield Kazakhstan believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield Kazakhstan shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Cushman & Wakefield Kazakhstan. All rights reserved.

SNAPSHOT

ALMATY

Retail Q1 2020

CUSHMAN & WAKEFIELD

12-Mo. Forecast

239,979 KZT
Average Quarterly Wage

0.1%
Retail Sales Growth

1.3%
CPI

Source: Department of the Statistics of Kazakhstan

ALMATY ECONOMIC INDICATORS AS OF Q1 2020

12-Mo. Forecast

2.7%
GDP Growth

0.4%
Population Growth

5.1%
Unemployment Rate

389.56
KZT/USD

Source: Department of the Statistics of Kazakhstan

OVERVIEW

Increasing consumer confidence and robust sales growth during 2019 continued in January/February 2020. However, by the end of the first quarter the retail market became practically paralyzed as a direct consequence of several simultaneous impacts - the economic implications of the COVID-19 outbreak and depreciation of the Tenge by over 15% amid the sharp reduction in oil & gas prices. In March retail sales turned negative. Overall growth in KZT slowed to 0.1% in Q1 when compared to the corresponding period of 2019. Thus, even a noticeable growth at the beginning of the year failed to compensate of the negative developments in March.

In response to the State measures to tackle the pandemic all non-essential non-food retail, leisure and entertainment venues have been closed in the city since the middle of March. The only businesses that remain open are food related outlets, convenience stores and pharmacies. F&B operators are closed to in-house customers and have had to switch to delivery service. Online retailers are stressed to meet the increased demand. However, significant sales gains in e-commerce will not be able to offset losses in traditional retail.

Struggling occupiers are seeking rent reductions. With physical stores now closed, more landlords are under pressure to offer their tenants rental renegotiations and/or temporary suspension. For example, management of MEGA shopping centres have granted their occupiers relief from rent, operational and utility expenses for the period of the closure.

Due to quarantine challenges all the earlier proposed redevelopments and refurbishments are suspended.

OUTLOOK

A slow and difficult recovery awaits the retail sector. In the short run, we expect the quarantine restrictions to be lifted gradually in phases. Shopping centres, café, restaurants, and indoor sport and recreation facilities will reopen last. There are likely to be strict rules on how shops will operate in a post-pandemic society, potentially including new health and safety standards, space distancing and restrictions on the number of people allowed in a store at one time.

Despite the support offered by the State to some affected businesses not all operators will be able to survive a prolonged forced closure. Post-pandemic surge of consumer activity will be delayed and short-lived due to consumers' weakened purchasing power.

The impact on the future physical retail infrastructure remains to be seen. However, the recognised importance of omni-channel platforms will accelerate and further integrate offline/online retail services.

MADINA KERIMBAYEVA
Head of Consultancy Services
CDC-2 business centre, 240V Nazarbayev Avenue,
Almaty A26F8D3
Kazakhstan
Tel: +7 (727) 33 44 000
madina.kerimbayeva@cushwake.kz

cushwake.kz

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

This report has been produced by Cushman & Wakefield Kazakhstan for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield Kazakhstan believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield Kazakhstan shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Cushman & Wakefield Kazakhstan. All rights reserved.

MARKETBEAT

ALMATY

Industrial Q1 2020

CUSHMAN & WAKEFIELD

12-Mo. Forecast

$5.8
Prime Rents*

4.1%
Prime Vacancy

310,000 m²
Prime Stock

Source: Cushman & Wakefield Kazakhstan Research
Information is provided as of Q4 2019

**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 Q1 2020

12-Mo. Forecast

2.7%
GDP Growth

0.1%
Retail Sales Growth (KZT)

1.3%
CPI Growth

389.56
KZT/USD

Source: Department of the Statistics of Kazakhstan

OVERVIEW

The arrival of the COVID-19 pandemic coupled with national currency depreciation amid sharp reduction in oil prices caused an unprecedented global uncertainty and economic downturn that have likely pushed the national economy into recession. In an attempt to contain the virus spreading, the Government invited several restrictions in mid March including the closure of border ports, massive lockdown and non-essential business suspension. Thus, retail establishments, restaurants, passenger transportation, schools and leisure activities have almost all closed down while customers were forced into self-quarantine and social distancing.

Not all CRE market segments have been equally hit by the pandemic. Industrial and warehousing market is proving to be by far the most resilient property sector. Retailers from essential business list like food, pharmaceutical, FMCG, hygiene and cleaning products, have been experiencing surge in demand and hurry to secure storage capacity. Additionally, COVID-fighting measures have gradually changed consumer consumption patterns and led to growing e-Commerce demand, pushing up demand for warehousing and logistics space.

On the supply side most real estate players are adopting a wait-and-see approach. All on-going or planned warehousing projects are postponed or put on hold for an indefinite period of time.

OUTLOOK

The level of uncertainty in the economy is currently at an all-time high with the trajectory of the recovery difficult to forecast.

While national economy is not expected to bounce back immediately after the COVID-19 contained restrictions are eased or ceased, national currency depreciation and subdued business activity have the potential to suppress consumer confidence pushing retail sales down and in turn adversely affecting demand for warehousing space in the mid to long-run period.

Decrease in demand will be partially offset or slowed down by the rapid development of local e-Commerce industry. As stay-at-home consumers are creating and reinforcing new online buying behaviours and habits we expect e-commerce retailers to accelerate sales in post-pandemic environment. Expansion of e-Commerce will increase warehousing needs within the city fringe in the form of local distribution hubs and depots, considering customer proximity to be a key factor in determining optimal ship locations.

MADINA KERIMBAYEVA
Head of Consultancy Services
CDC-2 business centre, 240V Nazarbayev Avenue,
Almaty A26F8D3
Kazakhstan
Tel: +7 (727) 33 44 000
madina.kerimbayeva@cushwake.kz

cushwake.kz

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

This report has been produced by Cushman & Wakefield Kazakhstan for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield Kazakhstan believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield Kazakhstan shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2020 Cushman & Wakefield Kazakhstan. All rights reserved.