

Nur-Sultan Industrial Market Snapshot

First Quarter | 2019



Overview

Nur-Sultan (former Astana) entered 2019 continuing to rank the 2nd most developed city in Kazakhstan (after Almaty) in terms of modern logistics and warehousing developments. On path to become one of the key regional transportation hubs the city benefits from regular international investment programmes and local governmental strategies. Occupier demand for prime warehousing space in Nur-Sultan predominantly comes from the companies that are using the city's warehousing and logistics facilities as large distribution centres to service the northern regions of the country.

As the consumer goes, so goes the industrial market with a significant portion of demand for industrial space being driven by consumer spending. Based on the official statistics available as Q1 2019 retail sales (quoted in KZT) increased by 12% whilst indicated in USD the retail sales continued the downward trend demonstrating 4% decrease YOY — a growth rate that is not sufficient to boost demand for industrial real estate.

Occupier Focus

Despite headwinds associated with the national currency volatility Nur-Sultan industrial market remained static through the first quarter, demonstrating occupancy's moderate pace of growth. The vacancy rate for the market decreased by 4.4% QOQ to 11.5%. The modest growth registered on the market was not due to lack of activity, but the market still adjusting to the additional approx. 30,000 m² of prime warehousing space, that was added in 2015 when the city's class A inventory had more than doubled.

However, the market still did not fully absorb the significant expansion, keeping the overall vacancy above average. Landlords and tenants are still adapting to the additional swing in inventory. Once the excess space is leased out the market will see a long awaited increase in rental rates. As of Q1 2019, warehouse prime rents were registered at USD 5.26, a 3.1% increase YOY.

Supply

Since the beginning of the year there was no expansion of prime warehousing inventory recorded in the market. The aggregate supply of Class A warehouse premises is currently estimated at 160,000 m² with the key industrial and logistics players operating almost 100,000 m² of speculative prime warehousing stock.

The construction pipeline continues to be limited. An additional 4,500 m² of warehousing space is scheduled for delivery by the end of 2019. Developers continue to maintain a 'wait-and-see' approach, carefully assessing the opportunities for industrial projects of new construction.

Investment focus

There is a consistent lack of transactional transparency across all sectors of the investment market with most deals being 'off-market' and negotiations taking place directly between parties. Indeed, there is no evidence of any interest from funds from outside of Kazakhstan seeking to acquire, which exacerbates the lack of Information available.

Outlook

Allowing for fair resilience of the Nur-Sultan industrial & logistics property sector in a context of wider economic and political uncertainty, the signs of economy recovery combined with improving consumption is expected to ensure healthy retail demand for warehouse and industrial space in the latter part of the year. Considering the cautious economic outlook, speculative supply will continue to outstrip demand for warehousing developments during the mid-term.

MARKET INDICATORS

Market Outlook

Prime Rents:	Rents are likely to remain at their current level.	▶
Occupancy:	We expect take-up growth to continue at a moderate pace.	◀
Supply:	The construction pipeline remains scarce.	▶
Demand:	Demand for quality warehousing spaces is anticipated to persist	◀

Prime Industrial Rents – March 2019

CLASS A LOGISTICS LOCATION	KZT	US\$	US \$	
	SQ.M MONTH	SQ.M MONTH	Q4 2018	Q1 2018
Nur-Sultan	2,000	5.26	5.33	5.1

Vacancy – March 2019

CLASS A LOGISTICS LOCATION (FIGURES ARE NET, %)	Q1 2019	Q4 2018	Q1 2018
Nur-Sultan	11.5	15.5	24.4

* the rents are based on the KZT/USD rate of 380.4 provided by the National Bank of the Republic of Kazakhstan as of 31/03/2019

** rentals are indicated VAT and utilities exclusive; OPEX are included