

## Overview

Kazakhstan economy kicked off 2019 on a positive note, although it is expected that the economy growth will slow over the next 24 months, thus preventing any potential rebound in the office market activity. Projected growth remains positive at 3.8% in 2019, and then somewhat moderating to 3.5% in 2020-2021.

## Occupier focus

The Almaty office market continued to witness restrained occupier demand for office space throughout the first quarter of 2019. Take-up dipped slightly during first three months of the year pushing in the line with growing supply the overall vacancy up to 13.6%.

Class A vacancy remained largely stable over the past 3 months. In contrast, vacancy level for Class B assets rose by 4.2% throughout Q1 2019, even though occupiers had continued to seek out affordable space options available in the market. Lower occupancies were driven by the expansion of Class B supply by 15,000 m<sup>2</sup> of GLA in early January.

Overall vacancy is expected to rise over the next 24 months, once AV-Architects and Parmigiano Group deliver 95,600 sqm of office premises as part of the on-going 'Esentai City' mixed-use development. The project is currently proposed for sale only, however, we expect some of the office blocks to be acquired for subsequent lease, consequently expanding the speculative supply. In addition the total inventory in class A segment is anticipated to increase with the delivery of Class A office premises of 17,000 m<sup>2</sup> of GLA that are set for completion by the end of 2021.

Quarterly rental rates remained flat throughout Q1 2019 with average metrics remained fundamentally unchanged. Class B office assets, which comprise the bulk of market inventory tracking by C&W, witnessed a +8.6% QOQ increase in overall weighted asking rate to USD 13.7 (VAT and OPEX exclusive) following the growing supply.

## 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.

## Market outlook

As for the office sector, the Almaty office market is yet to see some performance improvement. The sound construction pipeline of future projects combined with restrained occupier activity evident across all submarkets will continue to encourage a tenant-driven market. Cushman & Wakefield anticipates rents to be adjusted downward, which will push key developers to postpone proposed projects.

Positive sentiment is expected to support occupier demand, yet office operators' flexibility in negotiating rental terms is set to remain a key driver of leasing activity in the year ahead. An increased focus on the quality of supply will continue in the remainder of 2019, as occupiers across all sectors have demonstrated that cost is not always the concern.

### MARKET INDICATORS

#### Market Outlook

Rents:	Rents are not expected to see any major uplift in the short term.	▶
Occupancy:	Occupancy levels are anticipated to increase in the line with market absorbing new construction.	▶
Supply:	Development pipeline remains healthy.	▶
Demand:	Demand for well-positioned affordable Class B assets will continue to drive market activity.	▶

#### Office rents – March 2019

MARKET SEGMENT	KZT SQ.M MONTH	USD SQ.M MONTH	USD Q4 2018	USD Q1 2018
Class A	17,100.6	45.0	50.0	48.5
Class B	5,262.7	13.7	12.6	14.0

#### Office vacancies – March 2019

MARKET SEGMENT	Q1 2019	Q4 2018	Q1 2018
Class A	26.2**	16.1	23.75
Class B	12.5	8.3	14.63

#### Rentals range – March 2019

MARKET SEGMENT	KZT	USD
Class A	15,216 – 19,020	40.0 – 50.0
Class B	2,725 – 11,412	7.2 – 30.0

\* average weighted rental rates are indicated OPEX and VAT exclusive

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

\*\*\* the metrics were recalculated

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