

Nur-Sultan Office Market Snapshot

First Quarter | 2019

Overview

For the year to date the post EXPO activity has fueled the Nur-Sultan office market development. Most of the upcoming office supply were proposed as part of larger urban development schemes that are being implemented in line with the city modernisation program. With all the new and proposed developments Nur-Sultan has outperformed to date the largest office market of Almaty both in terms of scale and quality of supply offered.

Hosting 'Astana EXPO-2017' exhibition posed new urban challenges for the city. Today it is the cities and not the industries that determine the competitiveness of countries. The capital of Nur-Sultan holds responsibility to act as the engine of the country's economic growth and ultimately to become a megacity - the center of attraction for talent, tourists and investors. However, the exhibition is yet to prove its benefits, as for now most of the proposed large-scale projects take a longer view and are not being commercially justified in the current market conditions.

Demand

Nur-Sultan office market started the year of 2019 with an upswing. While leasing activity in class A segment was somewhat sluggish during the first quarter with occupancy remaining unchanged QOQ, demand for class B office developments demonstrated a healthy pace of absorption. Despite the quality office space additions registered during the past three months, the overall vacancy in B class segment witnessed a quarter uptick of 0.3%. As of Q1 2019 the quality Class B office premises are sought after affordable accommodation options, which drive the market activity.

Average rental rates for both Class B and A assets across the Capital remained flat over the past three months with Class A CBD rates being relatively stable YOY at about USD 55 overall. On the other hand, Class B office assets, which comprise nearly 90% of the total market inventory (tracked by Cushman & Wakefield), witnessed a 2% QOQ increase in overall weighted asking rate to USD 15.4 attributed mainly to prevailing demand for better value for money options.

Supply

A total of about 35,000 m² of new office space commissioned in late December - early January expanded the class B overall inventory by 5%. However Nur-Sultan office industry cannot yet breathe a sigh of relief on the development front, as the construction pipeline remains stubbornly high with about 120,000 m² of quality office space slated for completion in the mid-term. The projected growth in supply is mainly associated with office segment of 'Abu-Dhabi Plaza' mixed-use development.

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.

Outlook

Kazakhstan economic activity is expected to remain steady in 2019, which should bolster healthy pace of leasing volume and net absorption. However, considering the office space due for completion in the mid-term, we expect occupier market to persist. A growing availability of quality office stock particularly in the CBD area will continue to place upward pressure on vacancy levels, pushing the rentals down or at least preventing their growth.

MARKET INDICATORS

Market Outlook

Prime Rents:	We expect rentals to remain stable for core assets, but softer rental terms are anticipated elsewhere as Landlords re-evaluate pricing and risk.	▶
Occupancy:	An excess of stock, particularly in the will keep occupancy levels in check in the short run.	▶
Supply:	The pipeline remains active. An increase in speculative development continues to prevent rental growth.	▶
Demand:	Growth will be offset by a rising supply of new buildings, yet we expect the market to require some time to absorb the scheduled completions.	▶

Office rents* – March 2019

MARKET SEGMENT	KZT SQ.M MONTH	US\$ SQ.M MONTH	US\$	
			Q4 2018	Q1 2018
Class A	20,432.5	53.2	57.1	56.7
Class B	5,905.6	15.4	13.4	16.8

Office vacancies** – March 2019

MARKET SEGMENT	Q1 2019	Q4 2018	Q1 2018
Class A	70.5	71.2	74.9
Class B	8.6	8.9	5.6

Rentals range – March 2019

MARKET SEGMENT	KZT	USD
Class A	17,289.0 – 21,131.0	45.0 – 55.0
Class B	2,571.0 – 10,714.0	6.8 – 28.2

* average weighted rental rate, excluding OPEX and VAT

** USD rents are calculated using the KZT/USD rate of 380.4 stated by the National Bank of the Republic of Kazakhstan as of 31/03/2019

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