

CAPITALIZATION OF THE FUTURE: Rise and dynamics of commercial real estate in Kazakhstan

In the context of the prospects for the development of the commercial real estate market in Kazakhstan, including office, retail, and warehouse real estate, there are several significant trends will remain relevant in the coming years. These trends significantly impact the market dynamics and determine the prospects for its development.

The commercial real estate market in Kazakhstan expects a period of significant growth and development in 2024. In 2024 we can expect the development of new services and technological solutions in co-working spaces, which will make them even more attractive for tenants. Thus, the development of co-working spaces in Almaty in 2024 will be driven by the economic efficiency of such spaces and innovations offered by co-working spaces. This trend emphasizes the flexibility and adaptability of commercial real estate to the changing needs of businesses and professionals.

With the development of information technology and access to the internet, e-commerce has become one of the fastest-growing segments of the economy. It is predicted that this trend will continue to grow in 2024, creating a significant demand for warehousing facilities. The growth of online commerce not only increases sales turnover but also generates the need for efficient logistics. Online retailers and logistics companies are looking to reduce delivery times and improve customer service, which means actively seeking warehouse space close to key markets and consumers. Increased demand for warehouse space will have a significant impact on the commercial real estate market.

Kazakhstan is a strategically important geography for many e-commerce players, in terms of commercially viable location, and also presents transit potential for shipping products to other Central Asian countries. The Kazakhstan e-commerce market has also started to develop such trends as "Darkstore, Dark kitchen, and Q-commerce".

Darkstore is a format in the retail sector - warehouses, where orders are collected, are very similar to the usual supermarkets, but the goods are displayed not in such a way as to attract the customer's attention, but in such a way as to speed up the process of order assembly. There are several categories of FMCG delivery players in Kazakhstan. In addition to darkstores (such as Arbuz.kz, the Almaty project "Ryadom" or polkilo.kz from Astana), these are offline store chains with their delivery service (Magnum Go)

or cooperating with aggregators (Small); delivery services that combine online delivery services of several stores and markets under their service (Instashop.kz); hybrid networks that combine offline stores, order pickup points and same-day delivery (the supermarket chain "Astykhzan").

Dark kitchens are restaurants whose format is focused on online delivery and are not designed for diners. Such establishments receive orders online and work exclusively on delivery. Opening a Dark kitchen allows restaurants to significantly reduce costs by saving on rent, interior design and waiters. Fewer investments will make it easier to scale the business and transfer communication with the client in an online format. But also the owners of this direction can note as a disadvantage - a high rate of load during the preparation of the order, which should adhere to the usual pace in the work of the standard format of establishments and quality support because in addition to the time for the preparation of the order is taken into account and delivery time.

Q-commerce - delivery that takes place in less than an hour from pickup to delivery point. The letter Q in this term comes from the word Quick - speed, thus marking the difference from e-commerce, as in e-commerce delivery time can reach 1-2 days. The main players in the Kazakhstan segment of Q-commerce are Wolt, Glovo and Yandex.Food, according to Glovo in Central Asia the monthly number of orders in the period of the first half of 2022 is more than 1.6 million orders per month.

With the growing demand for quality warehouses, new strong players entered to the market, which together formed more than half of the total market supply in Class A. The warehouse real estate market in Kazakhstan has growth potential, due to the increase in transit trade in major cities of the country, with the improvement of the macroeconomic situation in the country.

Wildberries, the second largest marketplace in the country, with a turnover of about 200 mln USD in 2022, with its distribution centers, logistics service, courier delivery and a network of points

of delivery, intends to build another logistics center in the industrial zone of Almaty and plans to invest about 100 mln USD. Almaty plans to invest about 100 mln USD in construction. 100 mln USD in construction. In 2022, the platform strengthened the logistics direction in the country - the area of the logistics center in Astana was expanded 2.5 times (up to 10,000 sq.m.) and a point of acceptance of deliveries from local entrepreneurs was launched in Khorogos. The development of the logistics structure opened access to local manufacturers to markets in all regions where Wildberries operates.

In December 2022, Turkish retailer LC Waikiki opened its second-largest store outside of Turkey in Almaty. The company plans to invest 15 mln USD. The company plans to invest 15 mln USD in a new logistics center - a warehouse with a total area of 20 th. sq. m., which will be completed in 2023.

In the context of real estate market development and demand growth, it is noted that in Almaty in the first half of the year, investors bought out several large business centers for their own needs. This strategic move for the long term can be explained by several fundamental reasons, and its impact on the office real estate market of this city is significant. Firstly, it is due to the high demand for office space in Almaty. The city remains the center of business and financial operations in Kazakhstan, and therefore demand for quality office space remains high. Investors who bought out business centers for their own needs may have decided to do so to optimize their operations and reduce operating costs. Buying your own office space can be beneficial in the long run, as it reduces dependence on the rental market and allows you to control your working environment. Secondly, the acquisition of business centers could be linked to the expectation of rising rental rates in the future. Investors could see the potential for increased rental income in the future, making office real estate an attractive asset. Third, this acquisition of business centers may be part of a long-term investment strategy. Office real estate is often seen as a stable and reliable investment with a relatively constant cash flow.

It is expected that in 2023-2024 several new office facilities will appear in Almaty, including Class A business centers - BC Deniz Park (47,000 sq.m.) and BC Ortau (36,443 sq.m.), Class B+ - Polyfunctional Center Nurly-Tau (10,518 sq.m.), ALA Center (2,500 sq.m.) and BC on Leskovaya Street (2,500 sq.m.), class "B+" - Polyfunctional Center Nurly-Tau (10,518 sq.m.), BC ALA Center (2,500 sq.m.) and BC Leskova,3 (8,088 sq.m.) and in Astana - BC Sensata (15,000 sq.m.). The opening of new business centers indicates that the office real estate market is one of the most popular segments with the highest share of demand. These factors reflect positive trends, giving the commercial real estate market in Kazakhstan a key importance in the structure of the economy.

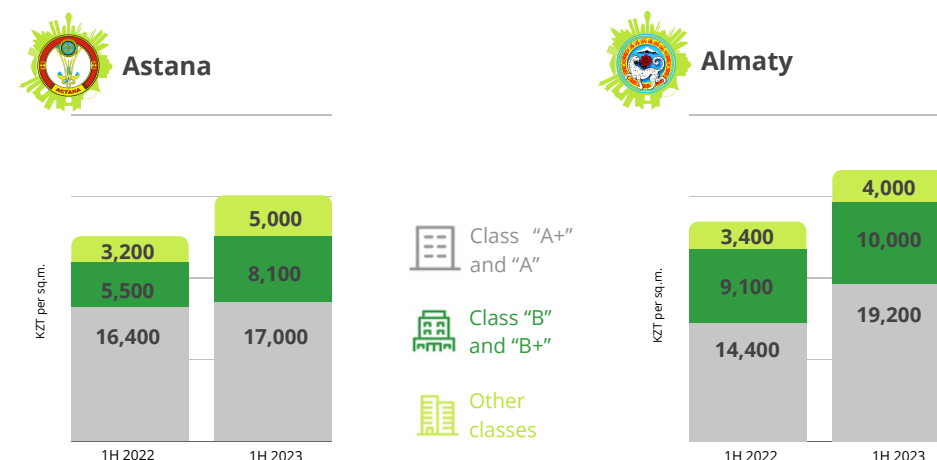
The relocation of specialists from the Russian Federation and the opening of representative branches in our country have driven demand for flexible workspaces, including co-working spaces, and this is due to several key factors. The first significant factor is the steady growth of the IT industry. This is due to both the development of its own IT ecosystem and the relocation of Russian specialists who have switched to a remote online work format. The second factor is the increase in the number of independent entrepreneurs, freelancers, student organizations and local startups. The remote work model provides an opportunity to organize the workspace according to the needs, providing the necessary infrastructure and social interaction.

Analysis of the Business Centers

The office real estate market in Almaty and Astana has undergone significant changes over the last year, being exposed to a variety of factors that have influenced the volume of supply and rental rates.

Dynamics of growth of rental rates of office premises in Astana and Almaty for the period 1H 2022-1H 2023, KZT per sq.m.

Source: public sources



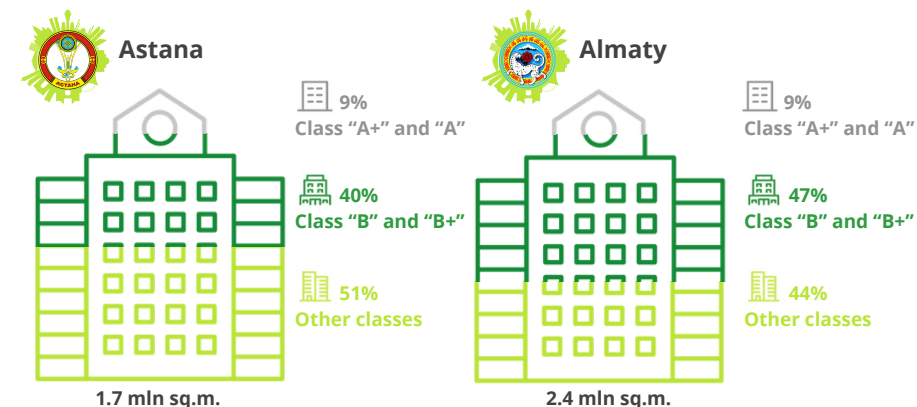
The most significant growth of rental rates in Astana city is observed in class "B" and "B+". Rental rates for Class "A" and "A+" offices as of 1H 2022 were around 16,400 KZT/sq.m. and compared to 1H 2023 increased to 17,000 KZT/sq.m., representing an increase of around 4%. The growth in rates reflects the intensive development of the capital city and increased demand for high-end office space. Rental rates for Class "B" and "B+" offices as of 1H 2023, increased from 5,500 KZT/sq.m. to 8,100 KZT/sq.m. compared to 1H 2022, representing a 47% increase. Offices of other classes increased by 56% compared to the same period in 2022 (from 3,200 KZT/sq.m. to 5,000 KZT/sq.m.). The growth of rental rates was due to the active relocation of international organizations in 2022. However, in the second half of 2023, the situation may change due to the possible migration of tenants to new class "A" office buildings. The capital market is also waiting for new class "B+" BCs and new players in the furnished office market. So, for example, Russian co-working "Praktik" with hybrid office space with a total area of 1,900 sq. m. and OFIX

co-working with an area of 410 sq. m. for 95 workplaces in the format of smart offices for short-term rent intend to launch business in Astana. Nevertheless, this will not lead to a significant correction of rental rates, because the maintenance of offices has increased against inflation, but will reduce the occupancy of classes "B" and "B+".

In Almaty, prices for Class "A" and "A+" offices in 1H 2023 increased from 14,400 KZT/sq.m. to 19,200 KZT/sq.m. Compared to the previous year, representing an increase of around 33%. This increase can be attributed to higher supplier prices, repair costs, utilities and maintenance costs, as well as due to the high cost of the bank loans. For 1H 2023, the rental rate for "B" and "B+" class offices also shows an increase, from 9,100 KZT/sq.m. to 10,000 KZT/sq.m. compared to 1H 2022, an increase of about 10%. This trend may indicate a change in tenants' preferences. For 1H 2023, the rental rate for offices in other classes increased by 18% compared to the same period of 2022 (from 3,400 KZT/sq.m. to 4,000 KZT/sq.m.)

Breakdown of the office real estate market in Astana and Almaty as of 1H 2023, mln. sq. m.

Source: public sources

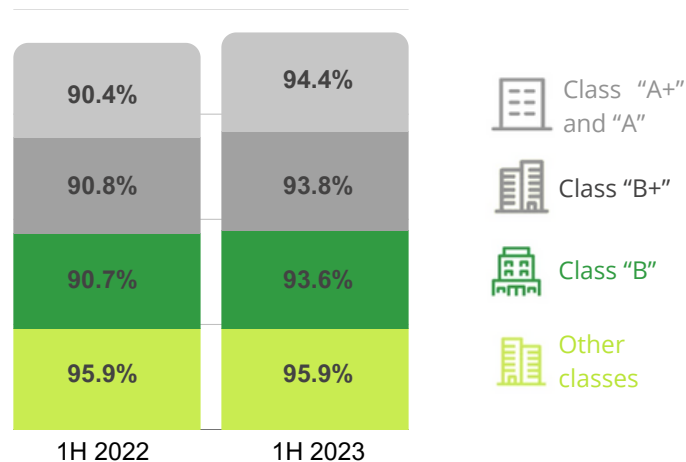


Almaty has the largest office real estate market with a total area of 2.4 mln sq.m. as of 1H 2023, of which Class "A" and "A+" - 9%, Class "B" and "B+" - 47% and other classes - 44%. At the end of 1H 2023, the office space per 1,000 residents in Almaty amounted to 2,352 sq.m.

The total area in Astana's office real estate market is 1.7 mln. sq.m. as of 1H 2023, of which class "A" and "A+" - 9%, class "B" and "B+" - 40% and other classes - 51%. At the end of 1H 2023, the indicator of office space per 1,000 residents in Astana city amounted to 1,650 sq.m.

Dynamics of office space occupancy by class in Almaty for the period 1H 2022 - 1H 2023, %

Source: public sources



In 1H 2023, the occupancy rate of Class "B" increased to 93.6% compared to 1H 2022 (from 90.7% to 93.6%). Class "B+" also increased from 90.8% in 1H 2022 to 93.8% in 1H 2023. Class "A" and "A+" office occupancy increased from 90.4% in 1H 2022 to 94.4% in 1H 2023. This data shows a stable growth of interest in office space in classes "A+" and "A", which indicates the attractiveness of the commercial real estate market in Almaty. For 1H 2023 the occupancy rate of offices of other classes amounted to 95.9% and remained at the level of the same period of 2022.

In terms of the balance between Landlords and Tenants, the current situation in the office real estate market in major cities of Kazakhstan is characterized by a rather low vacancy rate among Class A and B premises. This indicates that demand exceeds supply, which makes the market more favorable for Lessors. Landlords have started to dictate their rental terms and increase

rates. This is mainly due to the growth of demand on the background of large-scale relocation of Russian companies to Kazakhstan, as well as from neighboring countries and the tendency to reduce the mode of remote work.

Analysis of the warehouse market

The situation in the warehouse real estate market in Kazakhstan is currently characterized by an acute shortage of vacant warehouse space. The main factors contributing to the shortage of Class "A" and "B" warehouses over the past three years include the gradual consolidation of market players, the growth of inventories of almost all market players and the active penetration of international manufacturers and suppliers.

As for the reluctance of large developers to invest in the construction of modern warehouse facilities, this can be attributed to the relatively low margins and high dependence on borrowed

credit resources in the warehouse real estate market in Kazakhstan. As of 1H 2023, the cost of construction of a Class "A" warehouse in Almaty is approximately 1.5 th. USD/sq. m. High cost due to the cost of construction materials, which are equipped with expensive climate control systems and other equipment, as well as transportation and logistics costs.

The dynamics of the index of rental rates for warehouses have increased significantly compared to last year. Over 2022, the average rental cost of Almaty warehouses increased by 36%. Astana saw an increase from 0.4% to 1.6%, and Almaty from 0.8% to 1.8%.

Recently, there has been an active development of projects oriented towards the construction of warehouse complexes for a specific tenant based on the Built-to-Suit principle. This approach is beginning to take a central place in the segment of warehouse real estate development. Build-to-Suit construction of warehouses for the needs of a specific customer (Build-to-Suit construction) has started to develop actively in Kazakhstan. Among the trends in the field of warehouse construction, we can note the increase in the size and height of warehouse facilities, the growing popularity of Build-to-Suit construction, as well as the influence of sustainable development trends.

The first Build-to-Suit project appeared in Kazakhstan in March 2023 for Ozon in Astana. The project was implemented according to international standards. Another Ozon warehouse facility will be realized in 2024 in Almaty.

With the shortage of warehouse real estate in Kazakhstan, it is difficult to find large vacant blocks in quality premises for lease, which forces

companies to conclude Build-to-Suit deals. In addition, rental rates for existing space increase, and under the terms of a Build-to-Suit agreement, the tenant is usually protected from tariff increases.

Build-to-Suit projects have specific technical characteristics that meet the customer's business processes, hence the cost of the facility increases. It is also important to realize that when a lease is terminated, it will not always be easy for the owner to find a replacement for the current tenant. Thus a special case of Build-to-Suit is Built-to-lease (BTL), which is when a developer builds a warehouse facility on behalf of a client and leases the facility on a long-term lease of 7 to 15 years. As a rule, these are non-cancellable contracts, or terminable, but with large penalties from the client. The growth of Build-to-Suit transactions appeared due to the low volume of construction of speculative warehouses with high demand, which indicates the active development of the market.

Analysis of shopping and entertainment centers

As of the beginning of 2023, there are 102 shopping and entertainment centers in Kazakhstan, of which 33 objects (which is 32% of the total number) are located in Almaty, 11 objects (11% of the total number) are located in Astana. The remaining cities of Kazakhstan concentrate 58 facilities (57% of the total number).

In terms of changes over the last year, it is worth noting the launch of Mall Aport East, which undoubtedly added important value to the retail real estate structure in Almaty. The growth of commercial space, especially in the segment of shopping and entertainment centers, which has led to increased competition and a variety of offerings for consumers. Consequently, the launch of Mall Aport East may have a positive impact on the commercial real estate market in Almaty, contributing to its development and attracting new investments in this sector. The growth of rental rates and the high occupancy rate of the mall indicate the stability and prospects of this market segment, which can be an important factor when making decisions on investment and leasing in commercial real estate in Kazakhstan. All this confirms that the commercial real estate market in Kazakhstan is generally stable and can maintain the growth of rental rates even after economic shifts. This may be an interesting signal for investors considering Kazakhstan as a potential destination for investment in commercial real estate.

It is important to note that from 2019 to 2020, there was a 9% decrease in rates, likely influenced by economic factors related to the COVID-19 pandemic.

In addition, from 2021 to 2022, there was a 14% increase in rental rates, indicating a market recovery after the COVID-19 quarantine measures were lifted. After the pandemic, most shopping centers switched to a system of receiving

a percentage of tenant turnover, or as a combined payment: minimum rental rate plus a percentage of turnover.

For 1H 2023, the average rental rate for shopping centers in Kazakhstan increased by 3% Compared to the previous year, reaching 5,278 KZT/sq.m. This indicates that the commercial real estate rental market in Kazakhstan continues to grow and strengthen, which may attract the attention of potential investors and landlords.

Dynamics of the index of rental rates for warehouses for the period 2012-2022, %

Source: Bureau of National Statistics of the Republic of Kazakhstan



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