

Quick Stats

	Change from	
	Q3 13	Q4 12
Prices	↔	↑
Absorption	↔	↑

Hot Topics

- Stable levels of selling prices and rental rates on the residential market of Almaty;
- The number of actual residential sale-purchase transactions increased slightly during the reported period of 2013 compared to the same period of 2012;
- Residential construction under the 'Affordable Housing – 2020' Government program.

OVERVIEW

In the course of 2013 the residential real estate market of Almaty showed noticeably higher levels of activity. We observed the continuing construction of residential projects not only under the "Affordable Housing – 2020" program, but also of Business-class residential developments, such as 'Asyl Tau', 'Korkem Tau' and the new residential development at the intersection of Khadzhy-Mukana Str. and Mendikulov Str. In addition, the construction of the residential compound under the new name 'AFD Plaza' along Al-Farabi Ave., the projects at the intersection of Shevchenko Str. and Dzerzhinsky Str., Gogol Str. and Masanchy Str., and the residential projects 'Shahristan', 'Vesnovka' and 'Mega Towers' is in progress.

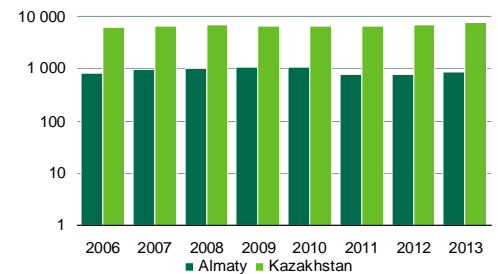
The implications and impact of the global economic downturn have "cooled down" the Residential market segment, as a result of which many players have left the market. However, the stronger and more financially capable developers have continued their construction activities, although at slower rates.

The total residential space commissioned in Almaty during 2013 comprised 866,561 sqm, which represents a 2% increase on a y-o-y basis. At the same time, according to the Akim of Almaty city, the construction of 156 residential buildings is planned to start during 2014.

Despite the increasing number of incoming requests for sale & purchase of apartments/houses and land plots, the real estate sales market still remains slow. Property owners still quote high prices, which affects the market in a negative manner, as potential buyers still cannot afford purchasing housing at relatively high prices. The volumes of commissioned residential space in Kazakhstan in 2013 were slightly higher than the same period of 2012 and showed an increase of ca.1.5%. According to official statistics, the largest shares of residential space in this period were commissioned in Astana (16.09% of total), Almaty province (12.66% of total) and Almaty (12.16% of total).

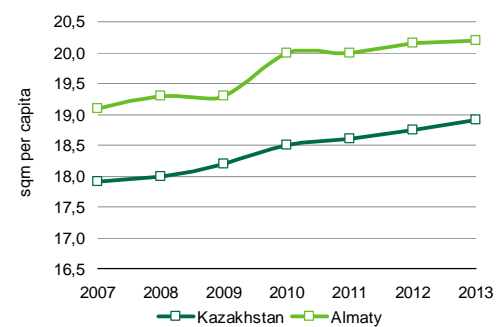
Regardless of the relative overall improvement of the market situation, the activity of real estate market players remains quite moderate. This can be explained by the ongoing process of overcoming the consequences of the market downturn, as well as the low level of confidence in the property market and caution with regard to real estate investments.

Completed Residential Buildings ('000 sqm)



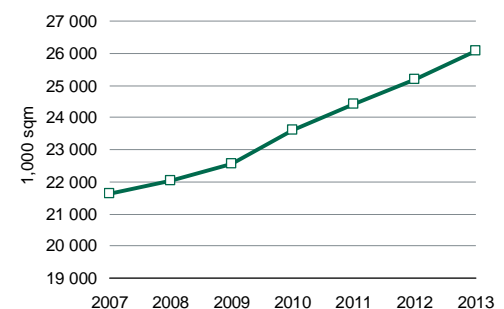
Source: Kazakhstan Statistics Agency

Housing Stock per Capita



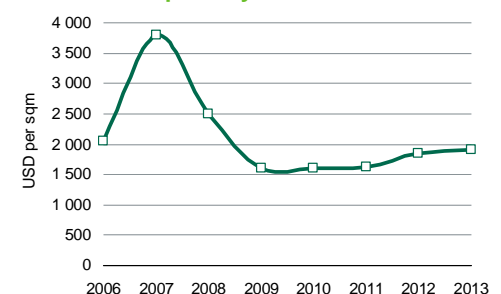
Source: Kazakhstan Statistics Agency

Almaty Housing Stock



Source: Kazakhstan Statistics Agency

Average sale price, primary market



Source: Kazakhstan Statistics Agency

The increase of supply of mortgage products from specialized institutions, such as 'KMC' and 'Zhilstroysberbank', shows the wish of the Government to stimulate the construction sector. Following that, second tier banks have also increased the volume of offered mortgage loans.. Increased competition between the mortgage market players resulted in somewhat eased financing terms and lowered interest rates of mortgage loans. 'Zhilstroysberbank' moderated the terms for the participants of housing construction saving system, which mainly means decrease of the interest rates. In addition JSC 'Mortgage Organization 'Kazakhstan Mortgage Company' also changed its credit conditions for purchase of housing and interest-shared participation in the construction of multi-family residential houses, by decreasing the interest rate.

However, despite the above, the system of evaluation of borrower's solvency remains strict. The banks continue to check solvency and paying capacity of customers very thoroughly.

Based on the instructions issued by the Head of State, starting from 2011 a new residential construction program is being implemented. Its main purpose is to stimulate supply, in order to prevent a rapid increase of property prices, which may take place due to the current increase of demand and shrinking of supply on the residential market. There are practically no new developments due to financing difficulties arising from the cautiousness of investors on the one hand, and high interest rates on foreign loans for local commercial banks on the other hand. The housing development program in the period 2011-2014 assumes the commissioning of 6 Mln sqm of residential space per year.

The program for Government support of the residential sector includes 3 major support schemes:

- construction of affordable housing by local authorities using the residential savings system,
- allocation of funds to second-tier banks for the subsequent financing of construction and mortgage lending,
- construction of utility infrastructure.

In addition, one of the goals of the State Program for the Development of Residential Construction in the Republic of Kazakhstan is to increase the affordability of housing for wider public through a better development of housing saving system. In particular, this program stipulates that JSC 'Housing Construction Saving Bank' ('Zhilstroysberbank') will grant loans to the special-priority groups of the population at an interest rate as low as 4% per annum.

The new "Affordable Housing - 2020" residential construction program was given a start during Q2 2012. The construction of a new residential project - 'Asyl Arman' - was started during Q3 2012 under this program. The sales of apartments will be implemented through the "lease- with subsequent buyout" option. The government programs are aimed at achieving a volume of construction of new residential space at the level of 6 Mln sqm per year, and reaching 10 Mln sqm per year by 2020.

It should be noted that in contrast with the pre-crisis period, when a large portion of buyers was willing to participate in shared interest construction projects, today this method of purchasing a housing unit is the least popular among potential buyers due to the facts of non-bona fide activities of development companies using this scheme. At the same time, another scheme of purchasing residential units in unfinished projects is rather popular – storage of the buyers' funds in a so-called 'escrow account' with different commercial banks until the commissioning of the residential project.

Currently the largest part of potential buyers are either considering the use of mortgage loans or their own funds, or would proceed with the state housing program for obtaining an apartment. We would also like to note the relatively higher attractiveness of some residential projects on the Almaty real estate market offering to potential buyers their own "in-built" installment payment program.

The sales offices of several higher-end residential complexes note a certain growth of customer activity, as well as an increased number of sales-and-purchase transactions. Our Company is also receiving more enquiries from people interested in buying properties.

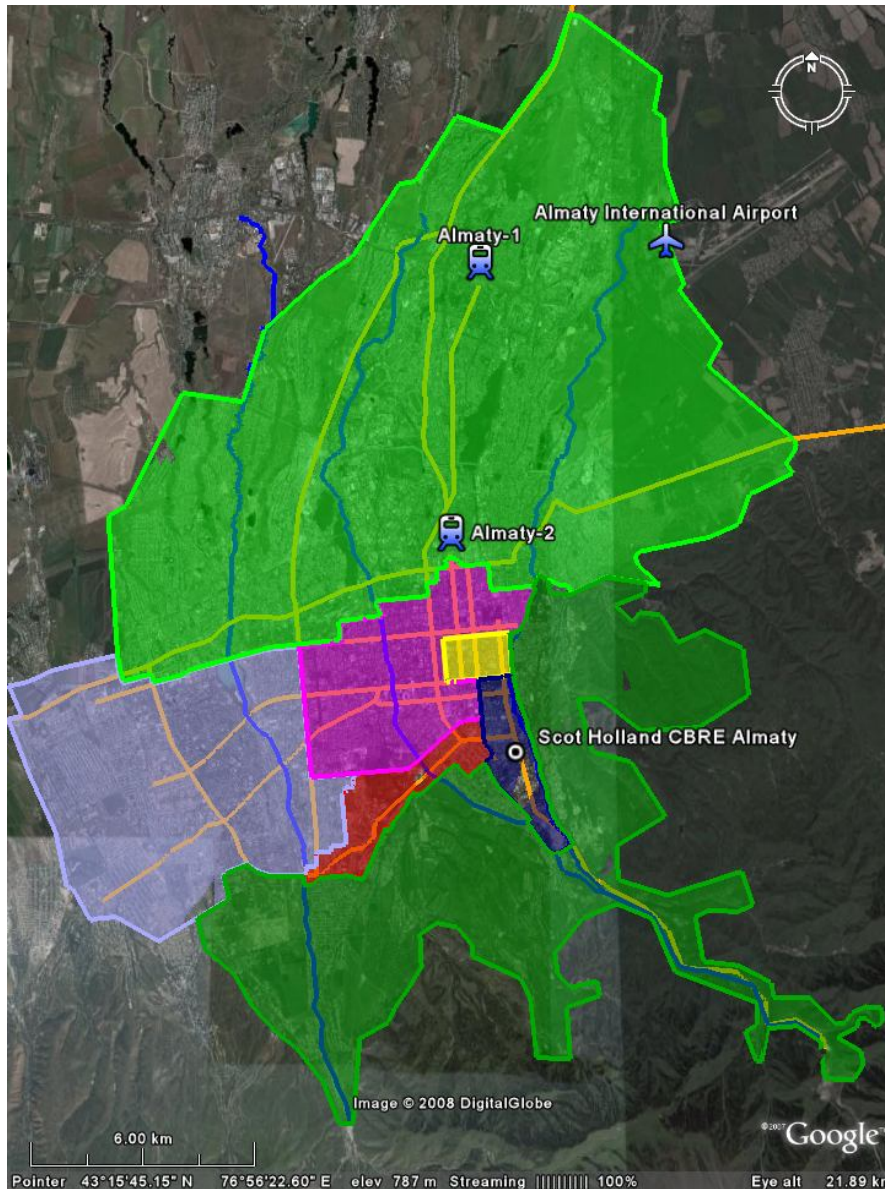
In addition, an increased interest in the property market of Kazakhstan in general and Almaty in particular can be observed on behalf of local and foreign investors and construction companies, due to the higher property investment yields in Kazakhstan compared to other cities in Europe and the CIS

Despite the relative "revival" of the real estate market as a whole, one of the recent trends on the rental housing market is that corporate clients are now coming in with much lower budgets to lease apartments for their employees. For example, several large companies are looking for housing (both apartments and stand-alone houses) at around USD 2,000 per month, while the group of potential tenants with a budget in the range USD 4,000 - 5,000 per month is somewhat smaller.

We have also observed situations when tenants move from expensive houses to more affordable ones. Landlords are now going to have to tighten their belts and offer their properties at much more realistic prices. The boom time of leasing prices, at least for the moment, is well and truly over.

Rental rate levels continue to hold although landlords seem to be slightly more willing to negotiate. High end properties are in demand (though much rarer) but unfortunately good ones are now proving extremely difficult to find, which indicates of a very limited supply of properties with an actually good quality.

In conclusion, we would like to note that the average price levels on the Almaty primary and secondary residential markets have remained practically unchanged in the course of Q4 2013.



Source: Google, Scot Holland LLP

Map indications:

- Al-Farabi Corridor – red;
- Dostyk Corridor – dark blue;
- Extended Centre – magenta;
- Golden Square – yellow;
- Lower Town – light green;
- Micro-districts – light blue;
- Mountain Belt – dark green.

- **Al-Farabi Corridor** – Currently, the most popular area for up-market projects, mostly due to the availability of large land plots for development and re-development, good road connections (though over-reliance on this artery leads to heavy traffic jams and is likely to decrease its popularity) and proximity to the mountains and to the expanding CBD of Almaty;
- **Dostyk Corridor** – Lower part – Samal micro-districts were quite popular in the 1980's – 1990's when they were newly developed; there are some land plots for development and re-development; most projects in this area are Elite class, though Business class projects can also be found;
- **Extended Centre** – Mostly residential stock from the 1950's – 1970's; with some land plots for development and re-development, there are a few Elite and Business class developments;
- **Golden Square** – In the second half of 20th century, centre of Almaty City; residential stock mostly built in 1950's – 1960's, most of which is with excellent for those years quality and still very demanded; virtually there is not land free for development, but there are a few spots that were or will be re-developed; most of the buildings completed in the past 10 years are Elite class;
- **Lower Town** – Poor quality residential stock, mostly individual houses and some apartment buildings; it is largely unpopular due to poor air quality, inefficient road network causing traffic jams, and higher density of industrial enterprises in the area;
- **Micro-districts** – Mostly residential stock built in 1960's – 1980's, and some parts with single-family houses; the areas closer to the centre and to the mountains attract Business class developments, while the remaining territory hosts mostly Economy class projects;
- **Mountain Belt** – Most of the residential stock is single-family houses; an attractive area due to its proximity to the mountains and lower population density, hosts a variety of Deluxe, Elite and Business class projects.

Quick Stats

	Change from	
	Q3 13	Q4 12
Rental rates	↔	↑
Occupancy	↔	↑

Hot Topics

- Despite the consequences of the global financial crisis, the Office market remains relatively stable;
- The rental rates across all classes of office properties remained practically unchanged during Q3 2013;
- The demand for office space has been increasing slightly compared to the previous year indicators;
- Occupancy rates in Business Centers demonstrate a stable increase..

OVERVIEW

Almaty remains the commercial focal point of oil-rich Kazakhstan and aspires to become Central Asia's regional financial centre.

The commercial real estate market of Almaty is the best developed in the country, especially the office segment.

The bank liquidity crisis which started in August 2007 affected the office market through slowing down the construction and investment rates in the real estate industry.

Nevertheless, both the economic and market indicators offer a positive outlook for the future of office real estate projects in Almaty. This optimism has attracted multiple investors and developers, thus making the office market environment more competitive every day.

Taking into consideration projects completed during 2010-2012, it is our estimate that at the present moment there are approximately 650,000 sqm of leasable office space in Almaty.

However, this number does not include numerous smaller office projects which are mostly graded as Class B- or lower.

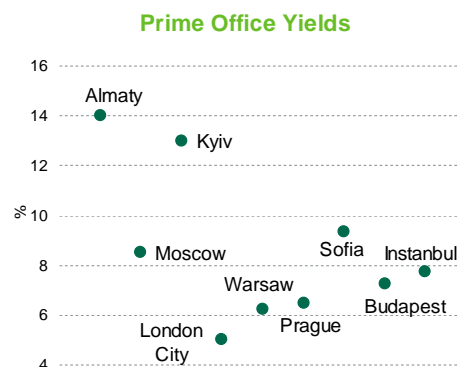
An analysis of the prime office yield levels in the EMEA regions (Europe, Middle East and Africa) shows that the Almaty market has one of the highest indicators, which on one hand evidences a high risk degree of the investments, and on the other hand shows that the local office market is very attractive for new players and investors.

Due to the decreased demand for space in office and administrative buildings, the vacancy rate largely increased in 2009 reaching a level of approximately 40% both in Class A and Class B projects.

However, starting from Q4 of 2009 the demand for higher-class office premises started recovering gradually, and by the date of this report the estimated average vacancy rate is approximately 24-25% and is expected to decrease further in the short-to-medium term.

The growth of business activity of manufacturing, retail and other entities in 2011 is a sign of improvement of the economic situation, resulting in a GDP growth of 5% in 2012.

No significant increase in the rate of construction of office developments was observed during Q4 of 2013.



Source: Scot Holland LLP



Source: Kazakhstan Statistics Agency

The 4th Quarter of 2013 was characterized by a relative stability of rental rates across all Classes of office properties. Pending for the annual financial performance results, many companies are postponing their relocation to a new office premises on to the next year. The CBRE research work in the EMEA region shows that in the current environment many companies (regardless of the industry they operate in), still consider real estate as an important element of cost cutting (see graph below). In particular, the companies having long-term lease agreements in Almaty are looking to agree on a lower rental rate, and/or negotiate other commercial terms of their lease agreements.

Currently, the base rental rates for Class A office buildings vary in the range USD 30 - 50 per sqm per month, with an estimated average of USD 40 per sqm per month. However, some specific Class A business centres still keep higher rental rate levels, in some cases (where for example the client leases small-size premises) up to USD 50-65 per sqm per month.

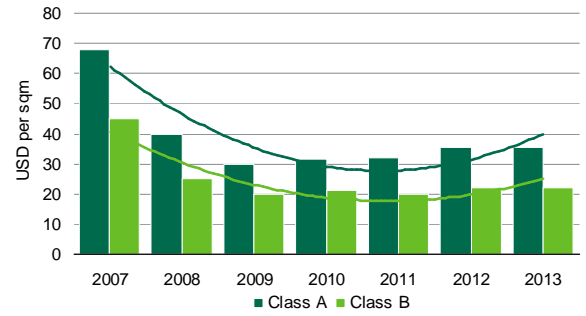
The difference in office rental rates between Class A and Class B is approximately 30%. The base rental rates for Class B offices start from USD 15, up to ca. USD 25 per sqm per month, with an estimated average of USD 20 per sqm per month.

Service charges are in the range USD 3-7 per sqm per month, depending on the location and class of the business centre, as well as the amenities and services offered.

The average selling prices of office space in business centres differ from district to district, and the current Almaty average is approximately USD 2,000 per sqm. This being said, it should be noted that the selling prices of premium-class office space have slightly increased during 1st Half of 2012 (by approximately 2-3%). In addition, we have noted that companies tend to submit more inquiries for the purchase of their own office premises.

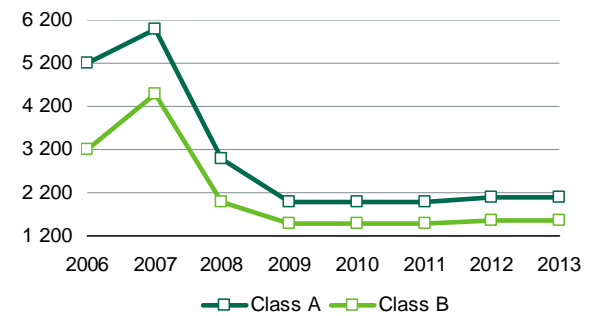
A comparative analysis of prime office rents in EMEA region (Europe, Middle East and Africa) showed that despite the fact that Almaty rates are lower than in other large cities like Moscow and London, they are still above the prime rental rates in many large cities of Eastern Europe and Asia.

Office Monthly Rental Rates



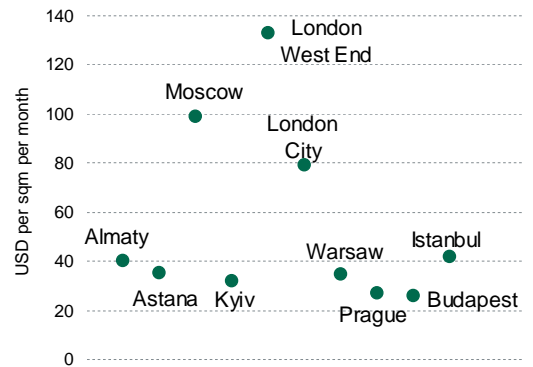
Source: Scot Holland LLP

Almaty Office Sales Prices (USD per sqm)



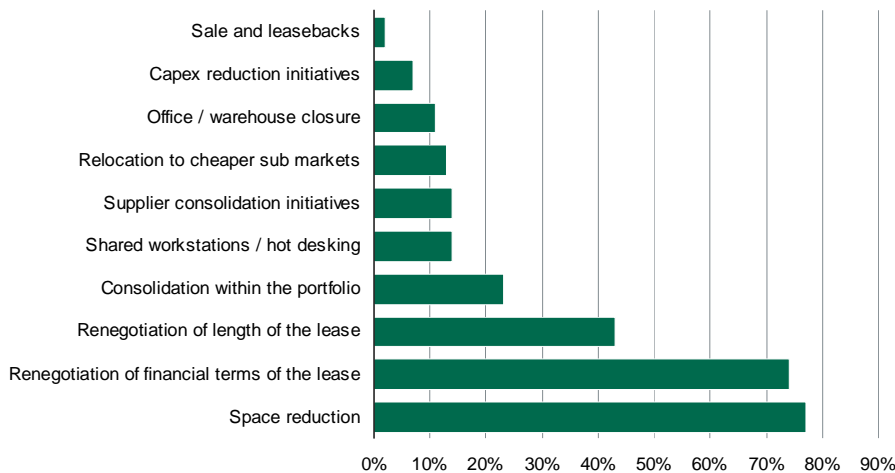
Source: Scot Holland LLP

Prime Rents for Office Space



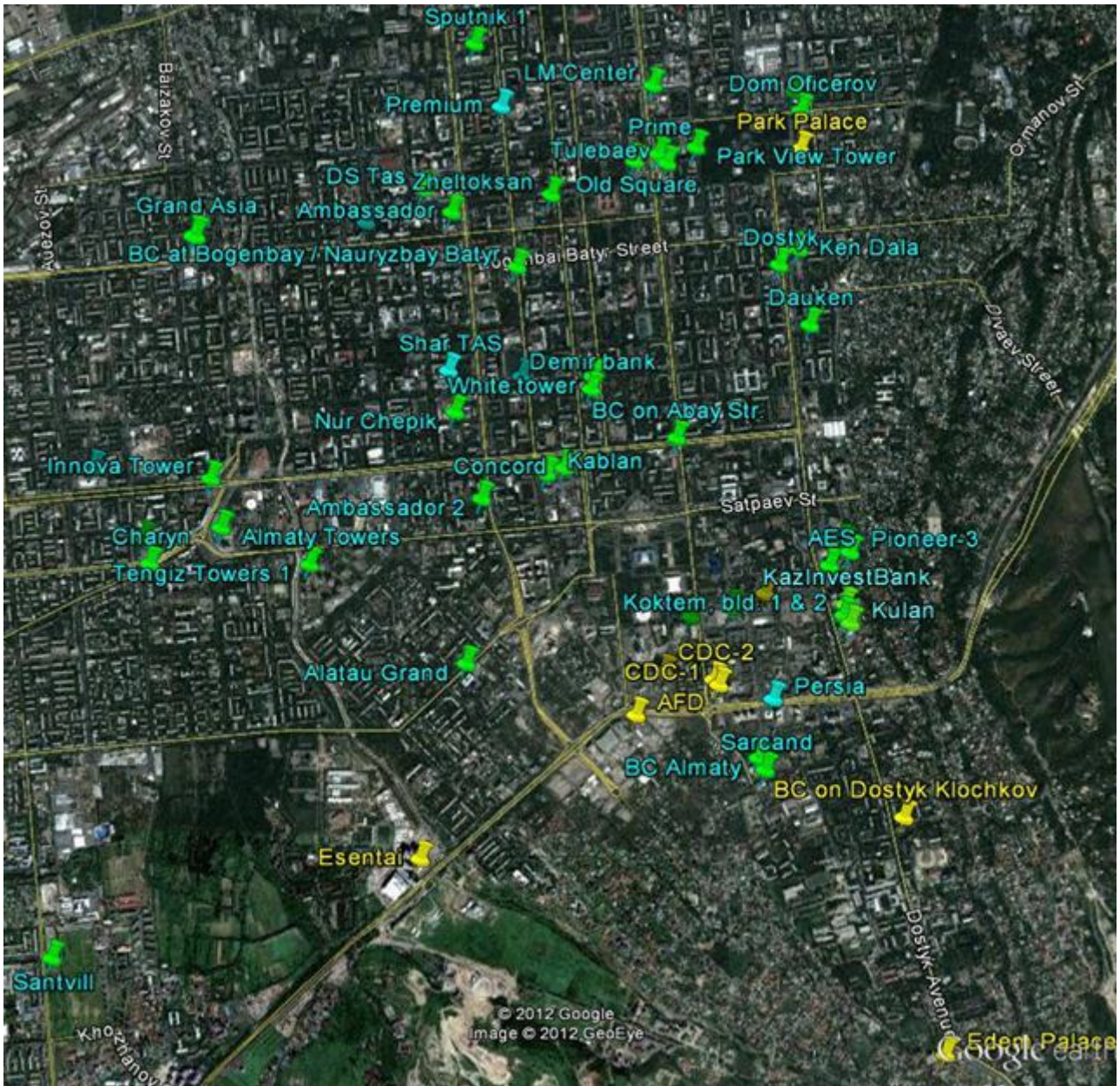
Source: Scot Holland LLP

Main cost saving initiatives



Source: Scot Holland LLP

Locations of major Office developments in Almaty



Source: Google, Scot Holland LLP

Market Zones

- **Al-Farabi Corridor** – New Class A office buildings which include Nurdy Tau, Esentai Park, and AFD, are located along Al Farabi Str. This zone will be the prime office property area for the following reasons: major tenants, existence of large land plots, high-rise buildings, world known design companies, professional property management companies, higher prices and rental rates, sufficient tenant/visitor parking, etc;
- **Dostyk Corridor** – Older Class A office buildings along Dostyk Ave. and up to Gogol Str. to the North is a less desirable office space area, due to higher congestion, government restrictions on reconstruction, lack of clear land plots, limited tenant/visitor parking, lower prices and rental rates;
- **Extended Centre** – An area with new Class B office premises, demanded by smaller companies who are willing to pay higher rental rates in order to stay closer to the centre of Almaty. Located predominately south of Abay Str. and east of Rozybakiev Str., this area is characterized by both residential and commercial use projects and availability of land plots due to demolishing of older residential and commercial buildings;
- **Historic Centre** – This office space area with older and lower-quality Class B buildings is located in the northern part of Almaty, up to Raimbek Ave. This zone is the least desirable due to high congestion, high residential use, lower quality buildings with practically no property management, limited or no tenant/visitor parking, and the lowest selling prices and rental rates.

Quick Stats

	Change from	
	Q3 13	Q4 12
Rental rates	↔	↑
Absorption	↑	↑

Hot Topics

- Increase of rental rates short- to medium-term in new conceptual and popular centres;
- We estimate that at the current moment the total Retail stock (GLA) in Almaty has reached ca. 577,000 sqm;
- Stable demand for street retail facilities with intense pedestrian flows, good location and accessibility.

OVERVIEW

The 4th Quarter of 2013 was characterized by a continuous positive trend and higher demand for lease of retail premises. At the same time new brands are entering the market in addition to the existing portfolio of experienced retail market players.

The tendency towards involving new brands and experienced international players would definitely contribute to the faster 'natural development' of the retail market segment, and especially of larger trade formats required by international brands.

We expect that other international retail operators will enter local market; however this process would require sustained negotiations.

Overall, the retail market in Kazakhstan consists of individual and specialized stores, shopping centres, bazaars, and wholesale markets. Due to its historical and economic particularities, the fact that it is an immature market with very low population density, and the dependence of the economy on global oil & gas prices, the retail system and quality levels in Kazakhstan vary widely across the country cities and regions.

The active development and construction of shopping centres and shopping & entertainment centres in Kazakhstan during the past 5-6 years was concentrated mostly in Almaty and Astana.

The relatively low level of development of the Kazakhstan retail market and the noticeable absence of large international operators are caused by several reasons, the most prominent among which are: very low population density, geographical position and complicated logistics caused by poor and outdated infrastructure. As a result, we can observe a lack of good quality retail space.

Kazakhstan is the largest of the five countries forming the Central Asian region, but at the same time its low population of approximately 17 million people places it among the least densely populated countries in the world.

This factor, along with the outdated and poorly maintained infrastructure across all regions, makes it logistically challenging in terms of transporting goods and providing services on a nationwide basis, and significantly increases overall business running costs.

As a result, up until now many international retailers and world-known brands were having second thoughts about the feasibility of entering the market and investing significant amounts of money in retail facilities in cities across Kazakhstan.

Since late 2010 the retail market of Kazakhstan saw some professional international retailers becoming more active with implementing their development programs in the country.

Their plans for expansion include mainly well located shopping centres with a strong mix of both anchor tenants and internationally known brands. When negotiating with landlords, many well-established retailers manage to get favourable lease conditions.

The situation on the retail market is starting to change in a positive direction, due to the fact that several large internationally known chains and brands have started looking for possibilities to enter the market, either independently or through local partners.

At the moment, catering brands (cafes and restaurants both currently operating and planning to enter the local market) demonstrate a certain interest in opening new retail outlets on the local Kazakhstan market.

International retailers which have the Kazakhstan market "on their radar screens" are primarily seeking opportunities in Almaty, due to its relatively larger retail volumes. It should be noted that Russian retailers express the highest interest in researching the local market.

In recent years more than 30 shopping & entertainment centres (with a TGA of more than 5,000 sqm each), were constructed or reconstructed. However, for various reasons, Almaty market still experiences a deficit of conceptual project with proper location.

The table below shows existing Retail stock in Almaty, as well as vacancy levels:

Retail Market Indicators	
Total existing stock (GLA, sqm)	577,000
Vacancy	starting from 5%

Source: Scot Holland LLP

According to our estimates, at the beginning of 2013, the total retail stock in Almaty (taking into account only centres with GLA above 5,000 sqm) reached approximately 577,000 sqm.

More than 10 projects are currently under construction or at a planning stage (expected to be completed in the course of 2014 or later). The shopping centres 'Dostyk Plaza' on Dostyk-Zholdasbekova, 'Grand Canyon' on Abaya-Momyshuly and 'Alma-Ata' on Abaya-Rozybakyeva' can be noted among others.

Many existing shopping centres and retail facilities are of poor quality and lack an efficient concept, professional property management and appropriate tenant mix.

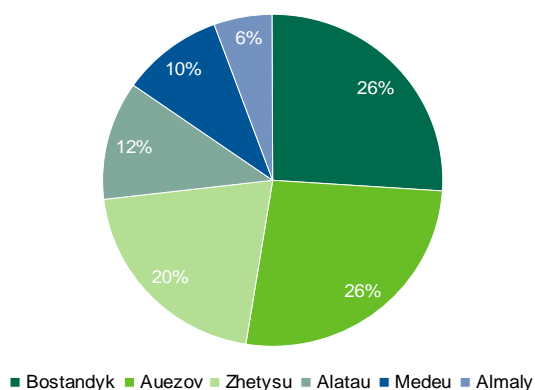
Today, 'Mega Alma-Ata', 'Sputnik', 'A'port', 'Essentai Mall' and 'ADK' can be classified as the most conceptual and professionally managed shopping & entertainment facilities in Almaty.

Distribution of modern retail space by administrative district of Almaty City	
Bostandyk	26%
Auezov	26%
Zhetysu	20%
Alatau	12%
Medeu	10%
Almaty	6%

Source Scot Holland LLP

The map on the next page shows the locations of all existing shopping & entertainment facilities in Almaty.

Distribution of Modern Retail Space, by Almaty Districts



Source: Scot Holland LLP

The rental rates in the existing shopping centres remained at the same level during the previous Quarter, with exception of the shopping centres with least successful concepts, which are likely to decrease rental rate levels.

The current GLA index per 1,000 persons in Almaty in comparison to other Large Kazakhstan, CEE and CIS cities is shown below (conceptual centres only).

Due to the fact that the commissioning dates of a number of shopping centres were re-scheduled to a later date, the demand for high quality retail space still remains relatively high in conceptual shopping centres with professional management.

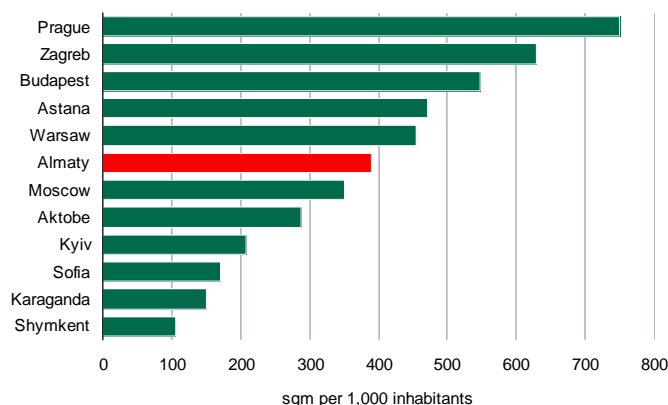
In addition, the expected entry of new international brands and retailers should stimulate the more active market development and absorb newly-added retail space.

The demand for retail premises in stand-alone buildings within the retail zones of Almaty remained high during Q4 2013. Most retailers seek to occupy space in the so-called «Golden Square», which however is short of proper retail premises with large windows, high ceilings, loading areas, easy access ways and sufficient parking. In most cases, available premises in the retail zones of Almaty do not meet the requirements of international and local retailers. However the demand for such premises is still quite high, which is a reason for relatively high rental rates.

Last but not least, we would like to note some additional factors, which will also have a significant, although indirect, influence on the longer-term supply/demand balance in the Retail property market segment:

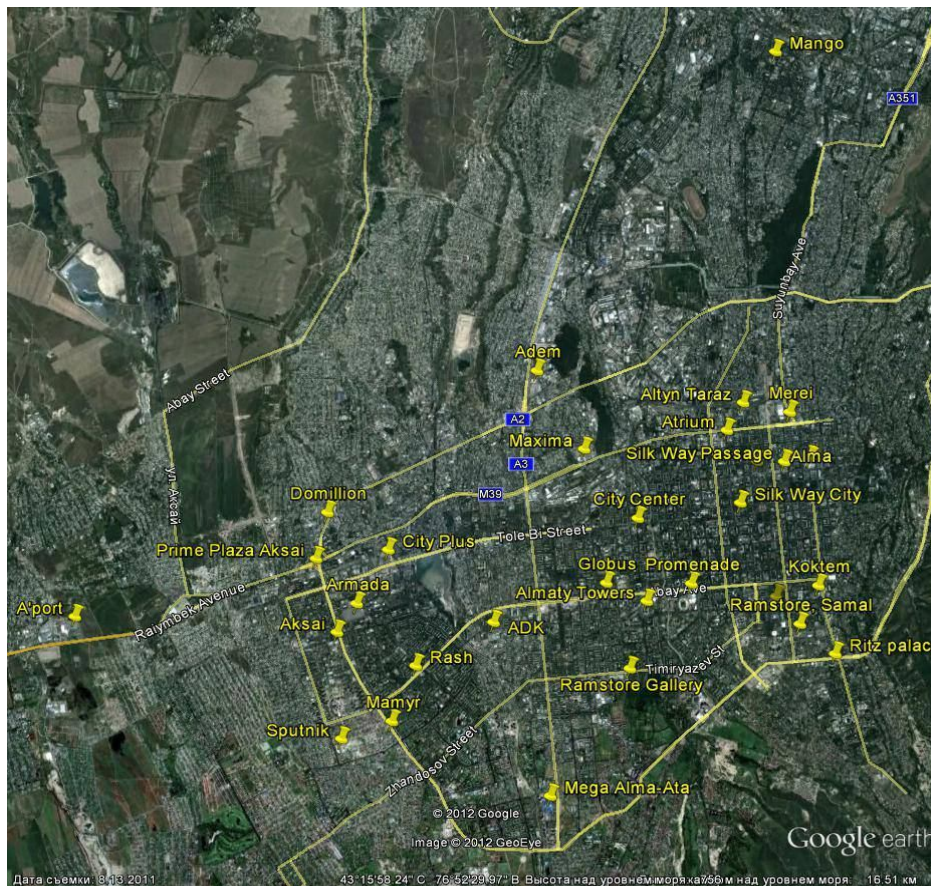
- Overall economic development of the country;
- Growth of the average income level of the population;
- The entry of new international brands and retailers;
- Expected population growth;
- Participation in the newly-formed Customs Union with Russia and Belarus would have a positive effect on the rate of development of the local retail market segment;
- Pending infrastructure improvements in Kazakhstan's major regional cities, etc.

Total Shopping Centre Provision Rates of Large CEE and CIS Cities



Source: Scot Holland LLP

Locations of large-size modern existing shopping centres in Almaty:



For more information regarding the Market View, please contact:

Scot Holland LLP
Strategic Consulting

Eugene Dolbilin
Vice President
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
eugene.dolbilin@cbre.kz

Peter Goranov
Director
Strategic Consulting and
Valuations
105, Dostyk Ave.,
3rd floor
Almaty, 050051
Kazakhstan
T: +7 (727) 258 1760
F: +7 (727) 258 1768
peter.goranov@cbre.kz

Source: Google, Scot Holland LLP

Administrative Districts

- **Alatau** - a new administrative district of Almaty, which was formerly the western outskirts of the city; population 168,500; it represents a mix of low quality individual households, industrial facilities etc;
- **Almaly** – comprises the central part of Almaty; population 195,500; mostly residential properties, both prestigious and less so, condominiums and houses; both fine and basic retail facilities; also some office space and light industrial facilities;
- **Auezov** – comprises the western part of Almaty; population 301,700; mostly residential, not very prestigious properties, multi-family at south-eastern part of the district, individual houses in the other parts; basic retail; no contemporary office space;
- **Bostandyk** – comprises the southern part of Almaty; population 281,100; mostly business class residential multi-family properties plus a few prestigious residential developments; expanding retail facilities; business centres at the eastern end of the district;
- **Medeu** – comprises the south-eastern part of Almaty; population 173,200; the most prestigious residential part with condominiums along Dostyk Ave. and individual houses in outlying parts; both fine and basic retail facilities; the business core of Almaty;
- **Turksib** – comprises the outlying north-eastern part of Almaty; population 188,400; not prestigious individual houses; basic retail; no contemporary office space and some industrial facilities;
- **Zhetisu** – comprises the northern part of Almaty; population 142,000; a mix of industrial facilities, trade centres and less prestigious residential properties – condominiums at the southern end and individual houses at the eastern and western parts.

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