

KAZAKHSTAN

Cushman & Wakefield

Global Cities Retail Guide

The Republic of Kazakhstan, the ninth largest country in the world, is a transcontinental country in Central Asia and Europe, which benefits from its proximity to Russia, China and India, three of the economically active BRIC nations.

Kazakhstan became independent in 1991 and is the most economically advanced of the post-Soviet “Stan” countries. It has transformed from a predominantly centrally planned agrarian economy and raw materials supplier of the former Soviet economy, where the military industry played the dominant role, to a market economy. The country is rich in oil, gas, coal, minerals, metals and many other natural resources and has the highest level of GDP per capita in the region.

Kazakhstan is a growing retail market with high potential for further development. It has the third largest expenditure market in the CIS (Commonwealth of Independent States) after Russia and Ukraine.

An aerial photograph of a city, likely Astana, Kazakhstan, showing a mix of modern high-rise buildings and older structures. A prominent red diagonal shape overlays the right side of the image, creating a graphic design element. The text 'KAZAKHSTAN OVERVIEW' is printed in white on the red background.

KAZAKHSTAN OVERVIEW

KAZAKHSTAN

ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2018	2019F	2020F	2021F	2022F
GDP growth	4.1	3.3	4.0	4.5	4.9
Consumer spending	4.6	5.0	5.1	5.2	5.2
Industrial production	3.1	3.4	2.5	3.5	3.6
Investment	4.4	5.2	5.4	5.1	5.0
Unemployment rate (%)	4.9	4.4	4.0	3.9	3.9
Inflation	6.0	5.0	5.5	5.5	5.5
Tenge/€ (average)	407.2	429.4	455.2	485.9	504.0
Tenge/US\$ (average)	344.7	375.8	382.9	393.0	403.2
Interest rates Short Term (%)	9.3	9.0	9.0	9.0	9.0
Interest rates 10-year (%)	5.0	4.8	4.8	4.9	5.1

ECONOMIC BREAKDOWN

Population	18.4 million (2018F)
GDP (nominal)	US\$163 billion (2018F)
Public Sector Balance	-1.5% Of GDP (2018F)
Public Sector Debt	20.6% Of GDP (2018F)
Current Account Balance	0.6% Of GDP (2018F)
Parliament	Presidential Republic
Head of State	Kassym-Jomart Tokayev
Prime Minister	Askar Mamin
Election date	March 2019

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

KAZAKHSTAN	2018	2019F	2020F	2021F	2022F
Retail Volume*	5.0	5.6	5.8	6.1	6.2

NOTE: *annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

CITY	POPULATION (2018)
Almaty	1,854,556
Nur-Sultan	1,078,362
Shymkent	1,011,511
Karaganda	497,767
Aktobe	429,462
Taraz	357,528
Pavlodar	343,781
Ust-Kamenogorsk	331,597
Semey	326,989
Uralsk	303,939
Kyzylorda	283,934
Atyrau	269,704
Kostanay	242,997
Petropavlovsk	218,056
Aktau	183,006
Turkestan	164,963
Kokshetau	147,752



KAZAKHSTAN LARGEST CITIES

KAZAKHSTAN

RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Magnum, Galmart, Small, Interfood, A-store, Anvar, Ideal

MAJOR INTERNATIONAL FOOD RETAILERS

METRO Cash & Carry, Ramstore, Macrocenter

MAJOR DOMESTIC NON-FOOD RETAILERS

Technodom, Sulpak, Mechta, Evrika, Alser, BSB Group (Beautymania, French House, Planeta Krasoty), Mon Amie, Meloman Group (Meloman, Marwin, Komfort,), Happylon, Mimioriki, Intertop, Kimex, Grazie, Empire

INTERNATIONAL RETAILERS IN KAZAKHSTAN (Selection)

Louis Vuitton, Dolce & Gabbana, Saks Fifth Avenue, Gucci, Prada, Moncler, Burberry, Dior, Moschino, Stella McCartney, Fendi, Loro Piana, Giorgio Armani, Lanvin, Tommy Hilfiger, Inditex Group (Zara, Zara Home, Massimo Dutti, Bershka, Pull & Bear, Stradivarius, Oysho, Uterque), H&M, La Senza, Marks & Spencer, Mango, GAP, Aldo, Monsoon, Accessorize, Mothercare, MAC, Bobbi Brown, NYX cosmetics, Miniso, LC Waikiki, Kotton, Benetton, Clarks, Ecco, Geox, Diesel, Calvin Klein Jeans, Emporio Armani, Armani Exchange, Petit Bateau, Jacadi, Calzedonia, Intimissimi, Falke, CK Underwear, VDP, Max Mara, Marina Rinaldi, Under Armour, NEXT etc.

FOOD AND BEVERAGE OPERATORS

Starbucks, Costa Coffee, McDonald's, Burger King, KFC, Hardee's, Pizza Hut, Gloria Jean's Coffees, Hard Rock Cafe, Segafredo, Baskin Robbins, Coffeeshop company, Nathan's, Movenpick, Paul Café, Marrone Rosso
Local chains: Parmigiano Group (EAST Restaurant, CRUDO, OLIVIER, Barmaglot etc.), AB Restaurants Group (Del Papa, Daredjani, Cafeteria, Bochonok etc.), Mamma Mia Group (Mamma Mia, Ciao Pizza, Dushes etc.), Assorti, Pinta,, Rumi Group (Rumi, Madeni)

TYPICAL HOURS (SHOPPING CENTRES)

MONDAY – FRIDAY	SATURDAY	SUNDAY
10.00-22.00	10.00-22.00	10.00-22.00

NEW ENTRANTS TO MARKET

OBI, Leroy Merlin, Bobby Brown, NY Cosmetics, Moleskine, Reserved, Tchibo, Parfois, Coccinelle (LPP S.A.), Gloria Jeans, Mi Store (Xiaomi), Under Armour, Tumi, Moncler, QVS, Uterque, Hummel, Li-Ning



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RETAIL SCENE

The Republic of Kazakhstan is one of the most-promising retail markets across CIS countries. The country also serves as a gateway to the growing economies of the Central Asian countries. However, several factors, such as low population density, consumer behaviour, poor transport logistics and underdeveloped retail infrastructure hinder the market from active growth.

During the past years the list of negative factors affecting Kazakhstan's retail market has grown, with the global economic uncertainties that caused dramatic national currency depreciation in 2015 that in turn forced many retailers to modify their strategies and adopt a more conservative approach, contracting their presence on the market. This, combined with a consumer downshift to greater frugality, has contributed to the most challenging retail landscape of the past years.

Since 2017 the Kazakhstan economy has demonstrated some signs of improvement with GDP posting an annual growth of 4%, increase in business investment, and retail sales suggesting greater consumer confidence. Kazakhstan's economy kicked off 2019 on a positive note, although it is expected that economic growth will slow over the next 24 months, thus preventing any potential rebound in the retail market activity. Projected growth remains positive at 3.8% in 2019, and then somewhat moderating to 3.5% in 2020-2021.

Since the first KZT devaluation in 2015, consumer confidence has become less sensitive to the national currency fluctuations with consumers turning from retrenchment to healthy spending mode. Despite ongoing uncertainty and further national currency volatility, the consumer economy has held up fairly well. However, Kazakhstan's largest retail markets are still characterized by relative limited activity of retailers, seeking to expand or enter the Kazakhstan market. The retail market has become more occupier-driven – the use of rents based on a percentage of turnovers has become more common. The Landlords shifted from rental rates denominated in USD to rentals indicated in national currency. Occupiers have become cautious in their real estate strategy.

Despite the existing variety of shopping formats available, Kazakhstan's retail industry has been going through the continuing shift of development activity from traditional markets to modern conceptual retail establishments with the retail market becoming more current and advanced.

Refurbishment projects and greater investment in leisure facilities are now a major focus for developers, aiming to create more sophisticated, modern shopping experience. Even a number of existing shopping destinations of Almaty and Nur-Sultan are continually being proposed for expansion and upgrades. Going forward, we expect to see a growing number of redevelopments, refurbishments, re-sizing and reconfiguration projects.

The total supply of quality retail space in the key retail destinations – Almaty and Nur-Sultan - as of Q1 2019 is estimated at 660,000 sqm of GLA. Additionally, there are a number of projects at different stages of development, including 'Republic Plaza' (Nur-Sultan) and retail components as part of a mixed-use development 'Abu Dhabi Plaza' and 'Talan Towers' (Nur-Sultan). Once completed, the projects will bring the existing modern retail stock to c.750,000 sqm (GLA). We expect the growing supply of properties will put rents under downward pressure while demand for retail facilities expected to remain scarce due to continuing decreases in consumer spending.

Street retail is one of the most popular retail experiences found in developed countries. However, it is somewhat immature and underdeveloped in Kazakhstan based on the street retail density and number of outlets. Compared to the shopping centre sector, the on-street retail market is facing even more challenges associated with lack of appropriate urban infrastructure and climatic characteristics of the region.

E-commerce is very much in its infancy but is steadily growing. Although accurate figures are not yet available, buying goods via the Internet makes up only a very small part of the retail market (about 5%). Scattered population and underdeveloped logistics leading to long and unstable delivery times have been a barrier for e-commerce.

Driven by the consumer boom of the late 2000s, spending patterns in Kazakhstan have begun to resemble those of the western markets, creating a demand for global brands and quality products. As of today more and more international retailers assess the country's market potential, however, most of them are not ready to expand directly and, in general, turn to local partners or master franchisees to help them establish their presence in the region. Retailers are represented in the market either by local partners (direct franchisees) or through franchise retail groups like Alshaya, Al Hokair Fashion Retail, MD Fashion, Union Space, Almeo Group and others. There is also a growing number of direct entrants such as Inditex Group and H&M, who launched their first stores in 2009 and 2017 respectively.



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SHOPPING CENTRES

TOP TEN SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
A'port Mall (1,2,3 phases)	Almaty	113,500	2009 (phase 1) 2012 (phase 2) 2017 (phase 3)
MEGA Alma-Ata, (1,2,3 phases)	Almaty	90,000	2006 (phase 1) 2013 (phase 2) 2019 (phase 3)
MEGA Silk Way	Nur-Sultan	84,000	2017
Khan Shatyr	Nur-Sultan	80,000	2010
Forum Almaty	Almaty	71,000	2018
Dostyk Plaza	Almaty	54,000	2014
Esentai Mall	Almaty	48,500	2012
MEGA Park	Almaty	46,335	2014
Keruen	Nur-Sultan	35,000	2008
Keruen City	Nur-Sultan	34,500	2007

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KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	The average lease term varies significantly between 7 and 15 years for anchor tenants and 3-7 years for small/medium-sized retailers, dependent upon the type of retail sector and type of tenant. Anchor tenants, which are key to the overall success of the scheme, will be able to negotiate preferential lease terms to offset longer leases. In the absence of a clear agreement in the lease, the tenant has no legal right to break so long as the landlord fulfills his obligations and break options are not common in the market. However in some cases unilateral termination from Tenant's side is acceptable with 6 months notice. The authorized use will depend on the terms of the lease, which will also state the degree to which this may be varied by the tenant.
Rental Payment	Rental payments are usually made on a monthly basis. Rents are normally paid on a fixed basis or a turnover rent (percentage of turnover). Most of Retailers focus on turnover rent with a small fix, plus service charges and marketing fees. A security deposit of 2-3 months is common, depending upon the lease length. This may be increased to 6 months upon signing the pre-lease agreement.
Rent Review	The lease agreements are mostly tied to the national currency. Even if a developer insists on a foreign currency (USD) a currency band is applied. Rent reviews are uncommon. Usually the terms are stipulated for the entire duration of the contract. In rare cases (more an exception than a rule) anchor tenants tie the rate to the footfall of a shopping centre, so the flat rate is adjusted accordingly.
Service Charges, Repairs and Insurance	A service charge is usually payable in multi-tenanted buildings and is measured using a device of any type on the leased space. The landlord is responsible for external/structural works in multi-let buildings. The tenant is responsible for internal repair and insurance. The landlord usually insures the main structure and external fabric but will charge this back to the tenant through the service charge.
Property Taxes and other costs	The local property tax is charged based on the residual value of the asset stated in financial reports. VAT at 12% is charged on rental payments.
Disposal of a Lease	The tenant has a right to sub-let/assign their premises, subject to landlord's approval. The landlord has a right to terminate the lease prior to lease end if the tenant does not fulfill his obligations under the terms of the lease. At lease expiry, the tenant is responsible for re-instating the premises to the same condition as at the beginning of the lease, subject to normal wear and tear.
Valuation Methods	There are no special valuation methods attributed to retail premises. The common valuation is on an "overall" basis per sqm per month in local currency (tenge). Retail space is measured on a net internal area basis excluding any common areas, services, internal walls etc.
Legislation	All leases are governed by the Civil Code of the Republic of Kazakhstan due to the lease agreements being negotiated between both sides. Both the landlord and the tenant are responsible for the registration of the lease agreement at the appropriate authorities and share the cost and all registration fees. However, this can be renegotiated at the time of the lease agreement where, in most cases, the landlord registers and pays all costs.

* The lease conditions stated above are considered as general market practice, yet every lease contract is subject to negotiations and the agreed contract terms (contract details) are unique and may substantially deviate from the 'average'.

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WHAT'S NEXT

REDEFINING THE LANGUAGE OF
RETAIL & LEISURE



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