

ALMATY

RETAIL MARKET REPORT



Retail Market

FIGURE 1 MEGA Almaty



Источник: Colliers Kazakhstan

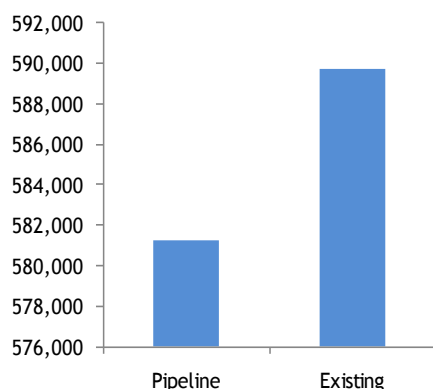
MAJOR MARKET TRENDS

- Retail market has remained stable for many years, which makes it more attractive for investment compared to other sectors of the commercial real estate market;
- Trade Development Programme for 2010-2014, which was adopted by the Government of Kazakhstan in October 2010, is continuing to be implemented;
- Construction of new shopping centers in Almaty is still relevant;
- By 2014 the total area of modern shopping centers in the city will increase by more than 650,000 sq.m., in case if all announced retail projects are successfully completed.

OVERVIEW OF THE ALMATY RETAIL MARKET

Almaty retail market has remained stable for many years, and after the crisis of 2008-2009, is reviving faster than other market segments, which makes it more attractive for investment compared to other real estate markets in Kazakhstan.

FIGURE 1 Total Area of Shopping Centers in Almaty: existing and under construction



Source: Colliers Kazakhstan

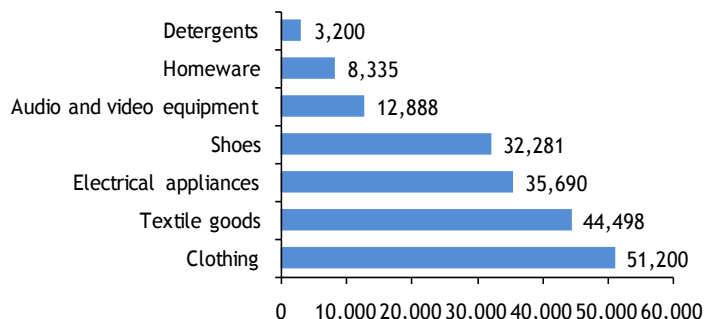
If we consider supply of retail space in the regional context, according to JSC “Center for Trade Policy Development”, Almaty is better provided with retail space than other regions of Kazakhstan - 456 sq. m per 1,000 people, followed by Astana - 389 sq. m. and North Kazakhstan oblast - 292 sq. m. The worst situation in the supply of retail space is observed in the Almaty Oblast - 70 sq.m per 1,000 people and the South Kazakhstan Oblast - 69 sq.m. per 1,000 people, which indicates that trade in these regions is developed predominantly through bazaars (open markets) rather than shopping centers.

However, construction of new shopping centers in Almaty is still relevant. Further increase in retail space in the city will depend on growth of household incomes as well as on gradual closure of bazaars and indoor markets. Quality and popularity of a shopping centre among residents are the two very important factors which should be considered when a new shopping centre is to be built. As rule, success of a shopping centre depends on a proper concept, presence of well-known retailers, both local and international, and variety of tenants, including anchor tenants, such as supermarket or cinema, and fashion gallery operators: clothing, shoes, accessories, etc.

KEY INDICATORS OF THE RETAIL MARKET GROWTH

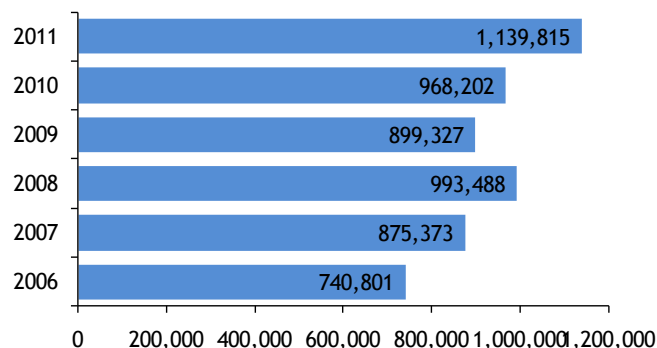
Almaty retail market has a great potential since increase in household incomes stimulates consumer demand. Food and non-food products amount to about 80% of consumer expenditure in Kazakhstan. Of these, about 40% is allocated to food products and the remaining 60% to non-food products.

FIGURE 2 Structure of Retail Turnover: non-food products



Source: Colliers International, based on the data from the Almaty Department of Statistics

FIGURE 3 Total Volume of Retail Turnover, thousand KZT



Source: Colliers International

Unlike other segments of the real estate market, retail market demonstrated a positive trend throughout 2011: following growth in household incomes demand for retail space in Almaty has increased. As a result, in 2010, overall increase in the modern retail space in Almaty amounted to more than 40,000 sq. m., mainly due to commissioning of three new shopping centers: Prime Plaza, Globus and Mango.

MODERN SHOPPING CENTERS

Currently the total area of all shopping centers in Almaty is about 590,000 sq. m. There are 20 existing modern shopping centers and 10 more are in various stages of construction and design. The largest number of operating modern shopping centers is concentrated in Auezov District - 6 shopping centers, which is followed by Bostandyk and Turksib Districts with 4 shopping centers in each, and Medeu and Zhetysay Districts having 3 shopping centers each.

As regards recently opened retail projects, ADK shopping centre, total area 45 000 sq.m., was opened at the end of 2011 in the Western part of Almaty which is the largest dormitory area of the city. Also, early in March 2012 Zangar shopping centre (former ZUM) was re-opened after refurbishment. Now such popular brands as Zara, Accessorize, Monsoon, La Senza and GAP are accommodated there in 3-level stores with the total area of 16,000 sq.m. At the end of April 2012 the first underground shopping centre Almaty was opened in Almaty, total area 25 000 sq.m., GLA 10 000 sq.m.

As of today the largest shopping center in Almaty is Aport Mall, which is located on Raiymbek Avenue on the exit way from Almaty (63,600 sq. m. of GLA). The most popular shopping center is Mega Alma-Ata, which was built in 2006 (37,000 sq.m. of GLA).

The most common types of entertainment offered by shopping centers are children's entertainment zones and cinemas - these are represented almost in all existing shopping centers (as well as food courts and internet cafes). Leisure activities such as rock climbing and aquapark are offered only in some shopping centers.

Rent Rates

Average rent rates* in 2012 remained almost unchanged, in comparison with previous year, and amounted to:

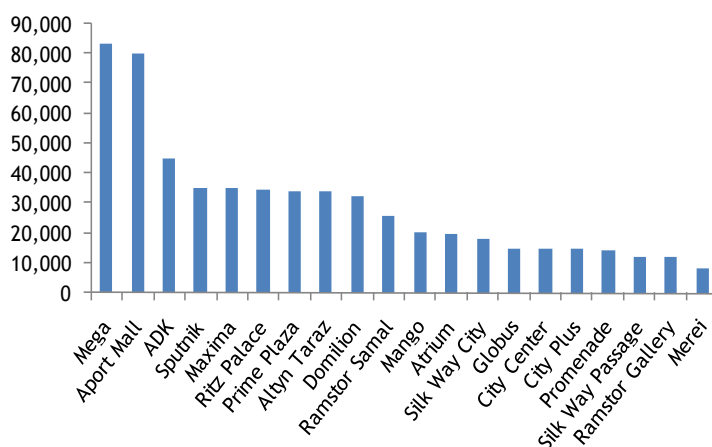
- \$60-90 sq.m./month for tenants occupying boutiques of up to 60-100 sq. m.
- \$50-60 sq.m./month for medium-size anchor tenants with the total area of up to 500-1,500 sq.m.
- \$10-30 sq.m./month for large-size anchor tenants with the total area of 1,500-5,000 sq.m.

The highest rent rates are observed in the shopping centers Mega Alma-Ata and Ramstor-Samal.

In 2012 rent rates in the street retail segment were in the range of \$7-130 sq.m./month. Average rate was about \$27. The highest rates are still observed around Arbat, as well as on Zhibek Zholy and Gogol Streets.

*All rates are exclusive of VAT and operating expenses

FIGURE 4 Existing Shopping Centers



Source: Colliers International

International Brands

International brands' entrance to the Almaty and Kazakhstan market is a major stimulus for further development of the retail market. In Q2 2011, stores of GAP, Sportmaster, Ecco, Oasis and Peacocks - brands that were not previously represented in Kazakhstan - were opened in Almaty. Such brands as New Yorker and Debenhams, which entered to Kazakhstan market through opening their first stores in Khan Shatyr shopping center in Astana, are planning further expansion across the country.

There are over 100 international retail brands in Kazakhstan. At the same time, there is still a need for brands targeted at mass market consumers, for example, H&M, Marks & Spencer, C&A, New Look, FG4 and Quiz. Retailers' interest to Kazakhstan and further expansion of international brands will increase in coming years due to the presence of such well-known brands as Zara, Bershka, Monsoon, Accessorize and New Yorker. The entrance of new international players to Kazakhstan will also depend on development of the new high quality shopping centers which will correspond to world standards.

The deal between Spanish Inditex and Fawaz Alhokair was completed. As a result, Inditex obtained direct supervision and control over the stores of Zara, Pull and Bear, Massimo Dutti, Bershka and Stradivarius in Kazakhstan. Additionally, two international brands that are new to Kazakhstan, GAP and Top Shop, opened their stores in Almaty at the end of 2011.

Trade Development Programme

Since trade has a significant impact on the development of other sectors of the economy, in October 2010, Government of Kazakhstan adopted the "Trade Development Programme for 2010-2014." The main purpose of this program is to create systematic and institutional frameworks for sustainable development of Kazakhstan's trading industry and to increase its competitiveness. In order to realize the aforementioned, the following main tasks were set:

- to create a system of state support for internal trade (co-financing, staffing of the industry);
- to create favorable conditions for rapid development of stock exchange trading and electronic commerce;
- to bring a regulatory framework for trade activities in line with objectives of the state policy in the sector;
- to integrate the wholesale trade into the international transit network;
- to create favorable conditions for the development of production of modern and competitive goods on the territory of Kazakhstan, as well as for the development of new export-oriented industries, and attracting foreign investment into hi-tech sector;
- to create favorable conditions for export of the country's goods to foreign markets;
- to organize support for domestic trade participants (informational, analytical, and other).

The main indicators showing fulfillment of the above tasks and goals are:

- achieving an annual growth rate in retail trade turnover (at current prices) in percentage change on previous year starting from 2014 of at least 106%, with 102% in 2011, 103% in 2012, 104% in 2013;
- achieving an annual growth of retail trade volume index, in 2011 - 104%, in 2012 - 104.1%, in 2013 - 104.4%, and in 2014 - 105.3%, in percentage on previous year;
- increasing the share of trade companies' area in the total retail trade area (including bazaars) by 30% by 2014;
- increasing the share of retail space supply per 1,000 people by 30% by 2014;
- increasing the share of modern retail centers in the total retail trade turnover to 50%;
- completing the formation of the Customs Union within the Eurasian Economic Community;
- unification of the rates of import customs duties of members of the Customs Union (Belarus, Kazakhstan, Russian Federation) - in 2011 - to 96%, in 2012 - to 97%, in 2013 - to 99%, and in 2014 - to 99%;
- completing the formation of the common economic space of Belarus, Kazakhstan, and the Russian Federation;
- entering to the World Trade Organization;
- increasing WEF ranking in terms of involvement in the world trading system to number 80.

In order to implement the above tasks, Government allocated 20 million KZT in 2011, while it has been planned that 35 million KZT were allocated in 2012, and 25 million KZT - in 2013. In general, funding for the programme is carried out at the expense of state development institutions and enterprises' own funds, domestic and foreign investment, and within the funds provided for in the national budget.

FUTURE DEVELOPMENT FORECAST

According to our preliminary estimates, by 2014 the total area of modern shopping centers in the city will increase by more than 650,000 sq.m., in case if all announced retail projects are successfully completed. This means that the growth will exceed 90% compared to the current level of retail space on the market.

Such volume of retail space will be absorbed by the market provided that new international brands from Russia and other countries enter Kazakhstan, which is quite realistic considering the fact that most new retail projects will be leased on the bases of pre-brokerage when preliminary lease agreements are signed prior to commissioning.

Meanwhile, commissioning of such a large number of retail space within three years is likely to lead to a general adjustment in the rent rates. In such conditions only owners of the shopping centers offering quality retail space in conjunction with a high level of service will enjoy premium rates.

TABLE 1 MAJOR SHOPPING CENTERS TO BE OPENED IN ALMATY

PROJECT	ADDRESS	PLANNED OPENING DATE	TOTAL AREA, SQ M.
Esentai Mall	Al-Farabi Ave - Esentai River	Q4 2012	117 924
Mega Center 2	Rozybakiev Str - Al -Farabi Ave	Q4 2012	55 000
Shopping center on Al-Farabi	Al-Farabi ave - turn to Bagatashil	2014	171 500
Dostyk Plaza	Dostyk Str - Zholdasbekov Str.	2013 - 2014	124 000
Almaty	Abai Str - Rozybakiev Str.	2012 - 2013	110 000
Mart	Near Almaty 1 Railway Station	Q2 2012	26 756
Aport Mall 2 on Kulja	on Kulzha Highway, near the Airport	Q1-Q2 2013	73 000

Source: Caïm www.htl.kz

Among indirect factors which influence further development of the retail market in Almaty and Kazakhstan as a whole, the following can be distinguished:

- simplification of customs procedures;
- improvement of logistics;
- active development of the transport sector.

Transport and logistics infrastructure of the country will be improved through appropriate government actions. According to the President, by 2014, around 2.8 trillion KZT will be allocated for development of the transport sector and transport infrastructure. In particular, Government plans to bring 85% of the republican and 70% of the local road network to a good and satisfactory level, as well as to increase the speed of freight traffic by railway by 15-20%, including by international corridors by 20-30%.

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- \$1,8 billion in annual revenue
- 2,5 billion square feet under management
- More than 12,300 professionals



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