

Almaty Market View

Residential

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Q3 2009

Quick Stats

	Change from	
	Q2 09	Q3 08
Prices	↔	↓
Absorption	↓	↓

Hot Topics

- The Residential market segment in Almaty remains somewhat slow, compared to the level of activity in pre-crisis years;
- Some 'frozen' residential developments in Almaty resumed construction in Q2-Q3 2009, with the help of target financing from the 'Samruk-Kazyna' Fund;
- The Kazakhstan Government is making significant efforts to minimize the number of defrauded interest holders in the future;
- Residential prices have practically reached 'rock bottom', with minor fluctuations of only 0.2-0.6% per week.

OVERVIEW

The implications and impact of the current global economic downturn have 'cooled down' the Residential market segment, and we do not expect construction activity of similar volumes to occur short- to medium-term. Having said that, it must be noted that the stronger and more financially capable developers continue their construction activity, although at slower rates.

The Residential market segment has proven to be fairly volatile and was experiencing a period of decline since late 2007. Nevertheless, despite the temporary challenges, it is expected that the construction industry will recover and should continue to be one of the sources of economic growth of the Kazakhstan economy over the long term.

The total residential space commissioned in Almaty in January-August 2009 comprised 685,000 sqm, which represents a 45.7% growth y-o-y.

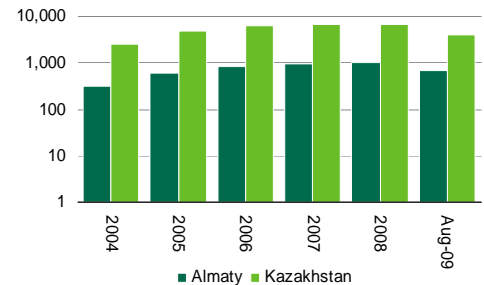
The Almaty property market currently shows signs of gradual revival and higher construction activity combined with a slightly increased interest on behalf of the population. However, potential buyers still cannot afford purchasing residential units at relatively high prices, and potential investors still remain cautious about investing into residential property. In addition, the so-called 'speculative apartments' are being offered for sale by their owners. However, it is difficult to sell residential space today, as potential customers are waiting for a further price decrease, and even those willing to bear the burden of a mortgage are constrained by stricter loan-granting conditions, according to which a considerable proportion of potential borrowers are simply not eligible.

In late 2008, due to the global economic recession and more skeptical market sentiment, the residential price trend turned to stagnation, and later – again to a slow regression, which continued during the 1st half of 2009. Nevertheless, the market situation in Q3 began leveling off with year-to-date addition of residential space catching up the figures of the previous year and prices reaching a point of temporary stabilization.

At the same time, residential construction volumes in Kazakhstan during H1 of 2009 almost reached the levels of 2008 and even outran them in Q3, demonstrating a 3% increase in Jan-Aug 2009 as compared to Jan-Aug 2008. According to official statistics, the largest amounts of residential space in January-August 2009 were commissioned in Astana (24.2% of total), Almaty (17.6% of total) and Almaty province (11.8%).

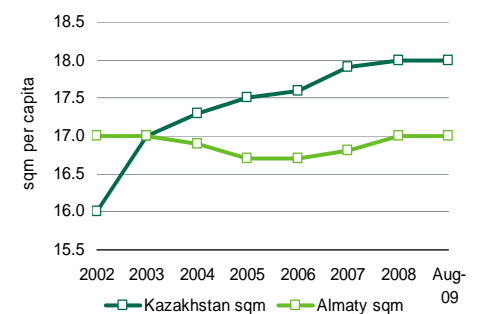
The current edition of the Almaty City Master Plan indicates that the housing stock will provide approx. 22 sqm of residential space per capita by 2020. Traditionally Almaty has had a lower average than Kazakhstan as a whole – currently 17 sqm of residential space per capita. Comparing this with the Kazakhstan average of 18 sqm, and the EU average of 48 sqm, gives a positive outlook for residential developers.

Completed Residential Buildings ('000 sqm)



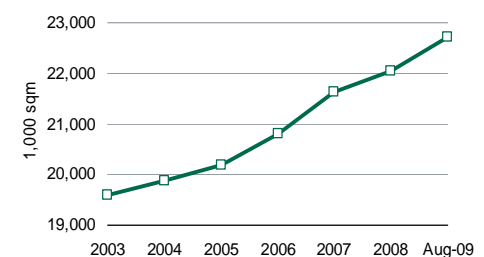
Source: Kazakhstan Statistics Agency

Housing stock per capita



Source: Kazakhstan Statistics Agency

Almaty Housing Stock, 2003-Aug-2009



Source: Kazakhstan Statistics Agency

The remarkable fact is that no new residential projects have started in Almaty recently, and all the active developments represent ongoing projects, which were started prior to the economic crisis but were suspended or postponed due to various (mostly financial) reasons.

A total of 265 projects are currently under construction in Almaty, including 107 residential and 158 community facilities. The total amount of residential space planned for commissioning in 2009 is 1,100,000 sqm, which is 10% more than in 2008.

In respect to the shared interest projects, according to the approved schedule the number of residential developments completed in 2009 will be 29 (4,277 interest holders). Another 35 residential developments (8,114 interest holders) are scheduled for completion in 2010-2011.

By the end of 2010, it is planned to solve the problems of most interest holders in such residential projects as: 'Ahsel Kent', 'Bes Tulga', 'Tau Samal', '46 Kvartal', 'Ush Tobe'. Each development has its progress schedule worked out. Major current issues of such developments include utilities, changes of intended use etc.

The construction of several other "troubled" residential developments in Almaty, such as projects of the 'Kuat' construction company, is expected to be re-started with the support of the 'Samruk-Kazyna' National Welfare Fund and its subsidiary 'Real Estate Fund' JSC.

The main activity of the Real Estate Fund is promoting and implementing the "government housing program" through the buy-out of incomplete residential developments and subsequent sales and lease of apartments upon completion.

According to the Program, the key parameters for the selection of potential tenants include:

- Purchasing capacity (the aggregate family income must not be less than KZT 50,000 per month, but must not exceed KZT 250,000 per month);
- No alternative housing available;
- Budget employees, such as teachers and doctors, will have a priority.

Indicatively, the Fund will buy out the residential space at the price of KZT 120,000 per sqm for business class developments, and KZT 100,000 per sqm for economy class developments.

In general, the Real Estate Fund will buy out apartments at a fixed price, not higher than USD 1,000 per sqm in fine-finished condition and then rent these apartments out to private individuals at a fixed monthly rental rate of KZT 1,000 per sqm.

Taking into account the current conditions of the mortgage lending and commercial lease, the terms offered by the Real Estate Fund will be approximately 40% more affordable for those tenants renting apartments under the Fund program.

In addition, budget allocations of KZT 50.5 Bn are planned to be used this year for the development of different facilities under the state construction program, including the completion of 85,000 sqm of residential space and 80 km of main utility networks.

The Kazakhstan Government is making significant efforts to minimize the number of defrauded interest holders in the future. The new Law on Shared Interest Construction, which is currently reviewed in Parliament, will make it significantly more difficult for small developers and so-called 'bubble' construction firms to collect money from interest holders. In addition, the entire scheme of fund-raising would be changed under the new Law, where the money invested will be deposited with a commercial bank, not kept internally by the construction company.

Below is a list of residential developments commissioned during Q3 2009 in Almaty:

- Block No.5 of 'Nurly Tau' mixed-use complex;
- 'Tengiz Towers' residential development;
- 'Shakhristan' residential development, phase 1;
- 'Real - Almaty' residential development;
- 'Bukhar Zhyrau Tower' residential development;
- 'Solnechnaya dolina' residential development, phase 1;
- 'Zhetysu-3' residential development.

An analysis of completed residential projects, as well as projects under construction, shows that the Almaty market is becoming increasingly oriented towards Business class developments.

The total number of apartments commissioned in the period Jan-Aug 2009 is more than the same period of last year, indicating a 55.4% growth and totaling 4,546 apartment units. The difference in growth rates of total residential space and total number of apartments commissioned leads to the observation that the average size of the apartments commissioned in 2009 is less than the size of apartments commissioned in 2008. This fact may serve as evidence of orientation towards a more mass-market, which should be taken into consideration by residential developers.

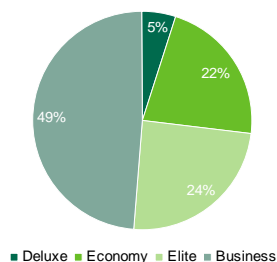
After a strong growth during the pre-crisis period, residential prices peaked in 2007, and then dropped between 10% and 50% across the different classes and city market zones after the start of the financial and credit crisis in August 2007.

According to the Kazakhstan Statistics Agency, the average price level on the Almaty primary residential market in July 2009 was approximately USD 1,600 per sqm.

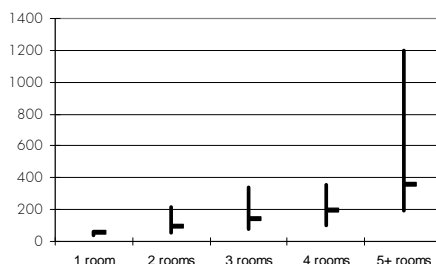
By the date of this report, the prices on the Almaty secondary market have decreased by approximately 5-7% year-to-date, and have reached USD 1,480 per sqm. In our opinion, residential prices have practically reached the 'rock bottom', fluctuating within 0.2-0.6% range per week.

Despite the current slowdown, construction activity is expected to double by 2016-2017, increasing the Almaty housing stock per capita by approximately 30% by the year 2020.

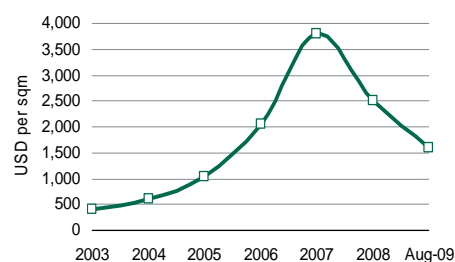
Distribution of residential units under construction by class



Apartment sizes related to the number of rooms (sqm)



Average sale price, primary market, 2003 - Aug 2009

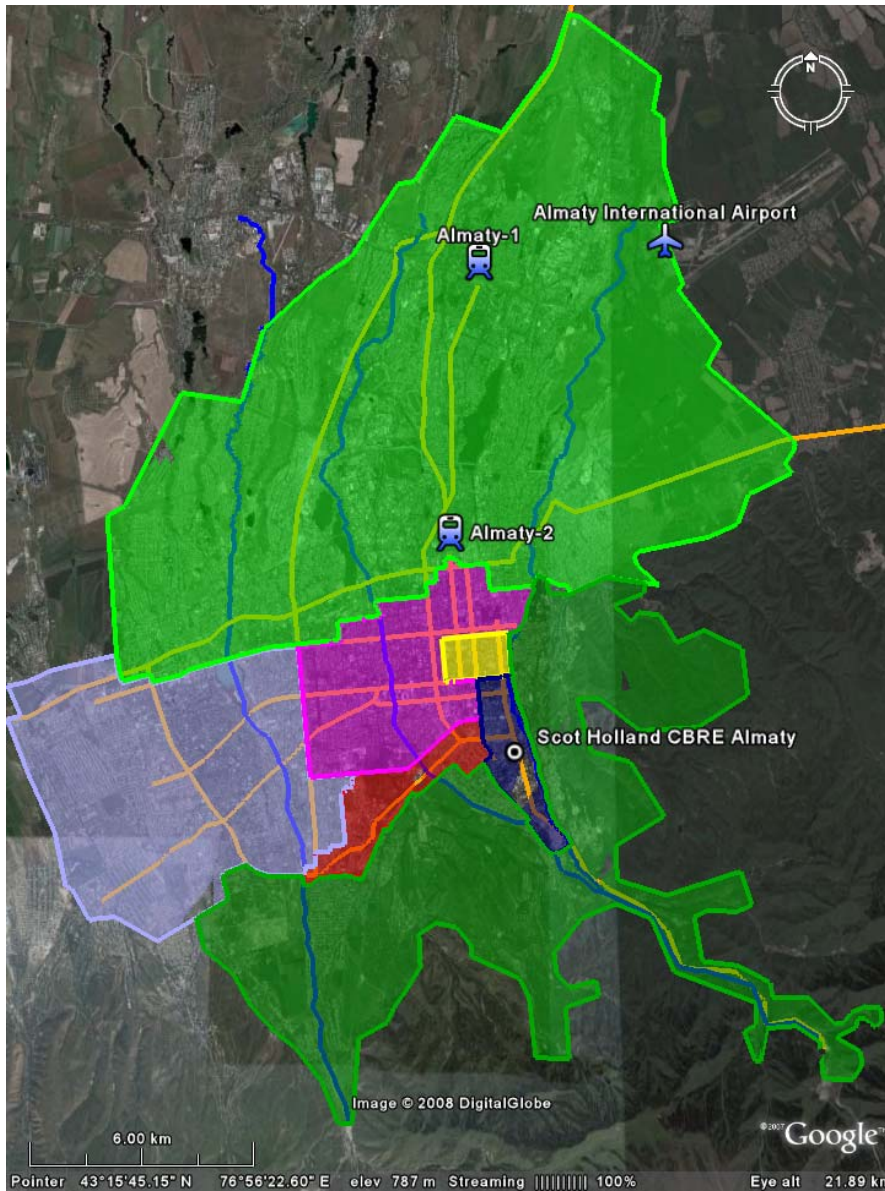


Source: Scot Holland CBRE

Source: Scot Holland CBRE

Source: Kazakhstan Statistics Agency

Map of Almaty Residential market zones



Source: Google, Scot Holland CBRE

Map legend:

- 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.

Market Zones

- **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 – Small 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.

Almaty Market View

Offices

Quick Stats

	Change from	
	Q2 09	Q3 08
Rental rates	↔	↓
Occupancy	↔	↓

Hot Topics

- Despite the current financial crisis and bank liquidity issues, the Office market remains relatively stronger than the more volatile Residential sector;
- The 3rd Quarter of 2009 was characterized by relatively stable rental rates across all office Classes;
- The demand for office space continued recovering smoothly during the third quarter of 2009;
- We expect 2009 to be more active in terms of office space development compared to 2008, adding around 30-40% of new office stock.

OVERVIEW

Almaty is Kazakhstan's largest city and its economic, educational and cultural hub. Almaty remains the commercial focal point of oil-rich Kazakhstan and aspires to become Central Asia's regional financial center. Its commercial real estate market is the most developed in the country, especially the office segment with approximately 30-40% growth in total gross area estimated in 2009.

The bank liquidity crisis which started in August 2007 has 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.

In 2008, the Almaty office stock increased by only 13% compared to the previous year. As comparison, in 2006 and 2007 the developers added around 73% and 89% of office space in Almaty, respectively.

Currently, the existing stock of Class A and Class B office properties in Almaty has reached 515,000 sqm; however, this number does not include numerous smaller office projects which are mostly graded as Class B- or lower.

Taking into consideration the projects, which are currently under construction and scheduled to be completed in 2009, it is expected that the total office stock in Almaty will reach 684,652 sqm (see chart below), which represents a 50% increase compared to the existing office stock. This being said, it is our estimate the actual increase of total office stock in 2009 to be approximately 30-40%

A 2005 study of the Almaty office stock by the Kazakhstan Statistics Agency showed a total Gross Area (TGA) of 4.6 mln sqm. About 70% of these offices are 'Old Soviet' type of real estate properties which are either not involved in the office rental market or are renting only 10-15% of the premises, mostly to affiliated companies. Hence, this stock is not included in our market analyses.

Today, a successful Office development would be a combination of good location, high construction quality, professional property management and superior amenities, including sufficient parking space.

Due to the decreased demand for space in office/administrative buildings, the vacancy rates increased significantly in Q1 2009, reaching approximately 30%.

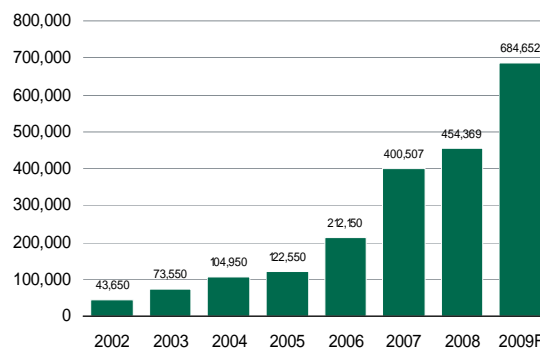
Despite the slowly increasing office space demand in Q2-Q3 2009, the vacancy rates in completed and newly-commissioned projects remained practically unchanged. The situation has slightly changed in Q3 with the gradual inflow of tenants to newly commissioned centres

The global financial market volatility and tighter credit conditions were persistent throughout 2008, resulting in lowering the GDP growth forecast to 0.1-0.3% per annum in 2009.

Below is a short list of business centres commissioned during Q3 of 2009:

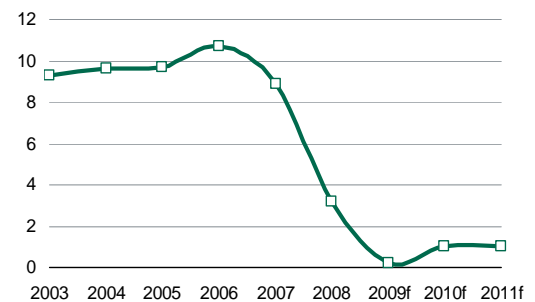
- Business Centre Alma-Ata;
- Business Centre Hermes;
- Business Centre Park View Tower.

Almaty Office Stock (TGA), sqm



Source: Kazakhstan Statistics Agency

GDP Growth Rate, % y-o-y (2003-2011)



Source: Kazakhstan Statistics Agency

The 3rd Quarter of 2009 was characterized by relatively stable rental rates across all Classes of office properties. However, lower rental rates compared to the beginning of the year, combined with the expectations for an overall improvement of the business environment, encouraged local market participants to show a higher interest in new office premises. Office brokerage companies operating on the Almaty market have noted an increase in the number of new orders.

Currently, the base rental rates for Class A office buildings start from USD 20, up to approximately USD 42 per sqm per month, with an estimated average of USD 30 per sqm per month. However, some specific Class A business centres still keep much higher rental rate levels, in some cases up to USD 50 per sqm per month or higher.

The difference in office rental rates between Class A and Class B is approximately 15% – 20%. The base rental rates for Class B offices start from USD 15, up to approximately USD 25 per sqm per month, with an estimated average of USD 20 per sqm per month. This indicates that the office rental market in Almaty has reached its 3-5 year low.

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 in some instances demonstrate quite different dynamics. The current average selling price of office space in Almaty is approximately USD 2,000 per sqm.

The selling prices of premium-class office space remained relatively stable during Q3 of 2009.

Having analysed the existing office stock in Almaty, it must be noted that approximately 24% of all office premises are Class A, while the remaining 76% are Class B or B- (see pie-chart on the right).

Another notable tendency in the Office segment is that a relatively high proportion of developers choose to build higher-class premises. An indication of this is the fact that 47% of all business centres under construction are announced as “meeting international Class A standards and requirements”.

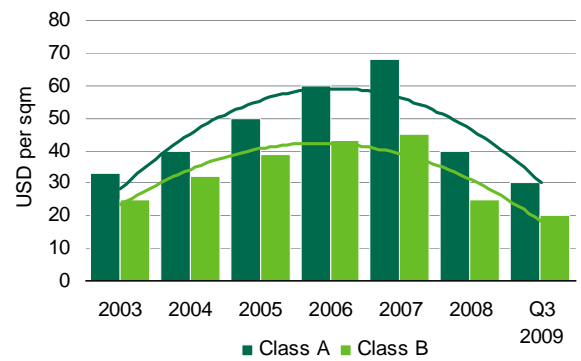
Most developers prefer to retain ownership of the business centres after completion, and lease the premises to multiple tenants. On rare occasions, whole buildings are offered for sale to institutional investors, and some projects are completed as built-to-suit. Currently Nurly Tau is the only sizeable project for sale ‘by the piece’.

The practice of office pre-leasing has traditionally been quite popular and successful on the Almaty market. During the pre-crisis period, many newly-built business centers were more than half leased out to tenants even before the completion of construction.

Vacancy rates across all office Classes remained practically unchanged during Q3 2009, despite the slowly increasing demand on behalf of local market participants.

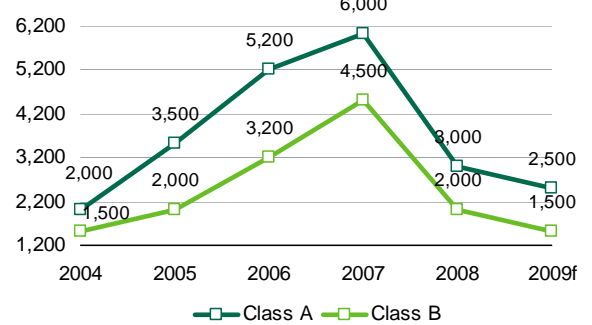
Sometimes vacancies are partially caused by the shuffle of tenants between buildings, or between different floors of the same building.

Office Monthly Rental Rates



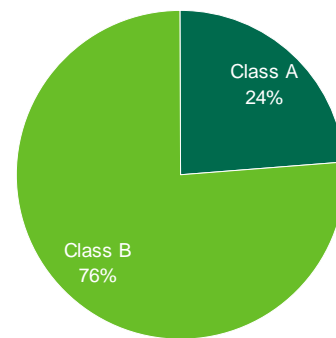
Source: Scot Holland | CBRE

Almaty Office Sales Prices (USD per sqm)



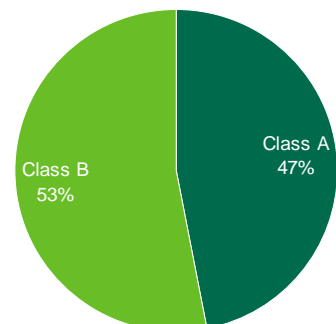
Source: Scot Holland | CBRE

Completed Business Centres



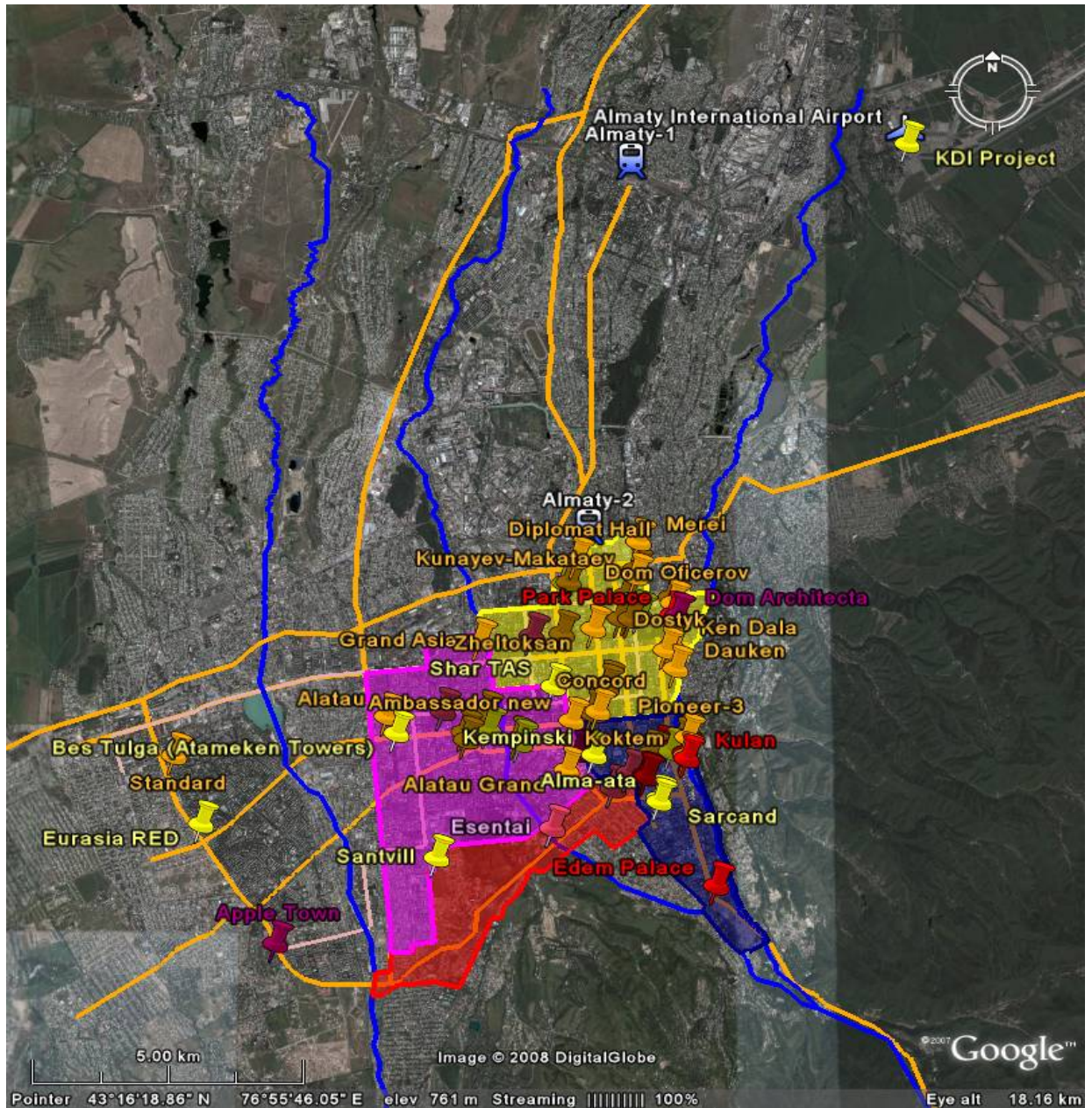
Source: Scot Holland | CBRE

Business Centres Under Construction



Source: Scot Holland | CBRE

Locations of major Office developments in Almaty



Source: Google, Scot Holland CBRE

Map legend:

- Al-Farabi Corridor – red;
- Extended Centre – magenta;
- Dostyk Corridor – dark blue;
- Historic Centre – yellow.

Market Zones

- **Al-Farabi Corridor** – New Class A office buildings which include Nurly 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 Abai 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.

Almaty Market View

Retail

Quick Stats

	Change from	
	Q2 09	Q3 08
Rental rates	↔	↓
Absorption	↔	↓

Hot Topics

- Relatively stable rental rates short- to medium-term in new conceptual and popular centres;
- Expected increase of the number of professional Property Management companies, caused by the overall improvement of the quality of the retail market;
- We estimate that by the end of 2009 the total retail stock (GLA) in Almaty will reach approximately 533,800 sqm;
- The further addition of 191,500 sqm (GLA) in 2010 will bring the total retail stock to 725,300 sqm (GLA);
- Some shopping centres under construction and planned for commissioning in 2009 have postponed their launch until 2010-2011;
- Higher demand for street retail facilities with intense pedestrian flows and good location;
- Non-conceptual and poorly managed shopping centres experience lower turnover and decreased customer flows.

OVERVIEW

Because of the worldwide financial and liquidity crisis, which affected mostly the residential and office market segments in Kazakhstan and caused a visible decline of property sales, local developers may have to consider shifting their focus and strategies from residential and office projects to retail & entertainment facilities.

Actually, some first attempts in this direction came even earlier than the start of the liquidity crisis, and were made by local developers building up several shopping facilities in the city centre, where relatively high population density is complimented by better infrastructure and accessibility.

Starting from 1999, the increasing number of new retail developments with a total area between 5,000 and 20,000 sqm attracted more and more the attention of Almaty residents.

However, it is more likely that future shopping centre developments will be much larger (more than 50,000 sqm) and will involve larger anchor tenants, caused by the expected entrance of experienced international retail operators.

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 non-food international brands.

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 retail quality levels in Kazakhstan vary widely across the cities and regions of the country.

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 retail chains are due to several reasons, the most prominent among which are very low population density and difficult logistics caused by poor infrastructure.

Kazakhstan is the largest of the five countries forming the Central Asian region, but at the same time its population of 15.8 million people places it among the least densely populated countries in the world.

This factor, along with the outdated and very poorly maintained infrastructure across all regions of the country, makes it logistically challenging in terms of transporting goods and providing services on a nationwide basis, and significantly increases the 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 shopping centres and other retail facilities in cities across Kazakhstan.

Q3 2009 showed a continuous trend of international retailers cutting their development programs in Kazakhstan and focusing on the improvement of existing stores. The plans for expansion and opening new stores cover only well located shopping centres with a strong mix of both anchor tenants and famous brands. When negotiating with landlords, most well-known retailers insist on calculating the rental rates as percentage of the retail turnover.

However, we expect that the retail situation might start changing in a positive direction quite soon, due to the fact that several large internationally known chains have started looking for possibilities to enter the market, but this process is quite slow and is often hindered by some local factors.

The international retailers, which now have the Kazakhstan market 'on their radar screens' are primarily seeking opportunities in Almaty, due to its relatively large retail volumes.

During the last five years, 19 large shopping & entertainment centres, each of them with a Total Gross Area (TGA) of more than 5,000 sqm, were constructed. However, for various reasons, mostly due to lack of proper concept, balanced tenant mix and professional property management, not all of them can be considered successful.

The table below shows existing Retail stock in Almaty, as well as expected/planned additions in 2009:

Retail Market Indicators	
Total existing stock (GLA, sqm)	461,800
Total stock in modern shopping centers (GLA, sqm)	315,700
Delivery in Q3 of 2009 (GLA, sqm)	43,600
New retail facilities to be launched by year-end 2009 (GLA, sqm)	72,000
Vacancy	5-10 %

Source: Scot Holland CBRE

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

As of today, 'Mega Alma-Ata' could be classified as one of the most successful shopping & entertainment facilities in Almaty.

A total of 11 modern projects with a combined Gross Leasable Area (GLA) of 263,500 sqm are currently under construction or at planning stage (2009-2010), out of which:

- 4 to be completed by the end of 2009;
- 7 to be completed by the end of 2010.

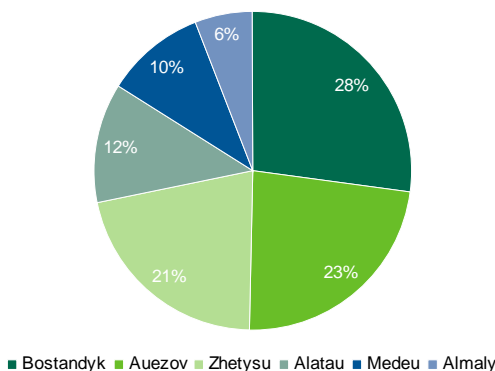
Some shopping centres under construction and planned for commissioning in 2009 have postponed their launch until 2010-2011.

The 1st Phase of the 'Aport' shopping and entertainment centre opened in September 2009 includes a hypermarket, DIY-format store, as well as stores of worldwide famous brands.

Distribution of existing shopping centres by administrative district of Almaty City	
Bostandyk	27.3 %
Auezov	23.0 %
Zhetisu	21.4 %
Alatau	12.2 %
Medeu	10.3 %
Almaty	5.9 %

Source Scot Holland CBRE

Distribution of Modern Retail Space, by Almaty Districts



Source: Scot Holland CBRE

A map with a more detailed explanation of the city administrative districts is given on the next page. The map also shows the locations of existing shopping & entertainment facilities in Almaty.

According to our estimates, by the end of 2009 the total retail stock in Almaty will reach approximately 533,800 sqm, and the further addition of 191,500 sqm of GLA in 2010 will bring the total Almaty retail stock to 725,300 sqm.

Consequently, at the end of 2010 the GLA index per 1,000 persons should reach 275 sqm (taking into consideration only retail projects with a good concept and tenant mix), which is slightly above the average European standard of 250 sqm.

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

As a result of the completion of new retail projects in the period 2009-2010, the Almaty retail market may experience oversupply for the first time in its history.

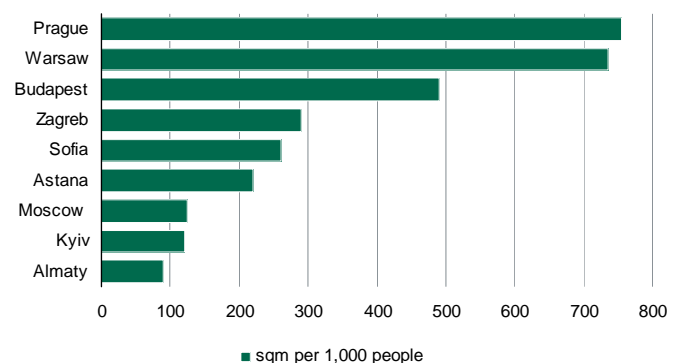
At the same time, even despite the current economic situation, the demand for modern retail space in Almaty is still high, which keeps vacancy rates relatively low. In addition, the expected entry of new international brands and retailers should stimulate the more active market development and absorb newly-added retail space.

Due to the fact that the commissioning dates of a number of shopping centres were re-scheduled to 2010-2011, the demand for high quality retail space still remains relatively high in conceptual shopping centres with professional management.

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:

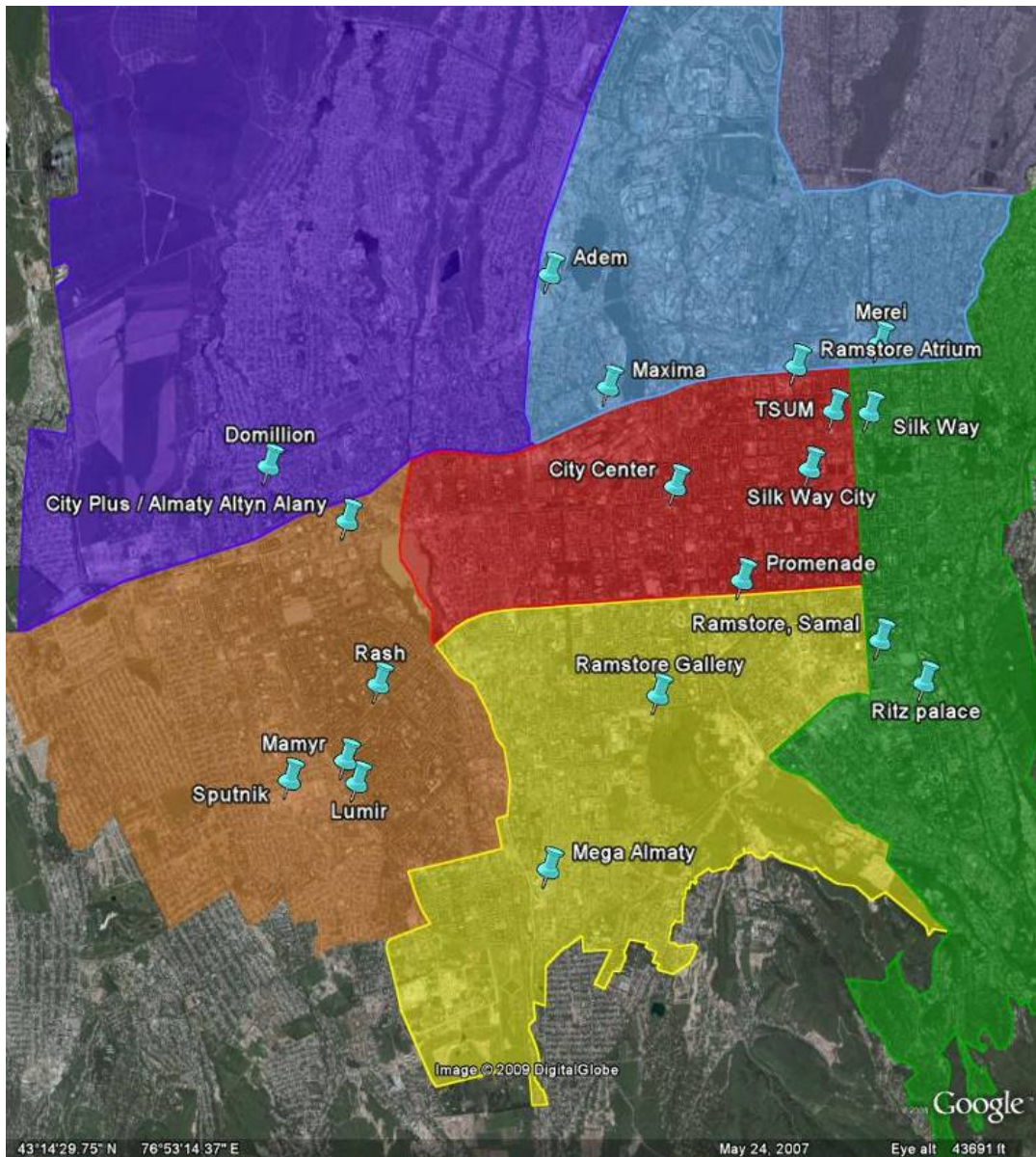
- Overall economic development of the country after the end of the current economic and financial crisis;
- Subsequent growth of the average income level of the population;
- The appearance of new international brands and large-scale retailers;
- Expected population growth;
- Pending infrastructure improvements in Kazakhstan's major cities, etc.

Total Shopping Centre Provision Rates of Large CEE and CIS Cities (2009)



Source: Scot Holland CBRE

Locations of shopping & entertainment centres in Almaty



Map Legend:

- Place marks – shopping & entertainment centres;
- Blue polygon – Alatau
- Red – Almaty;
- Orange – Auezov;
- Yellow – Bostandyk;
- Green – Medeu;
- Purple – Turksib.
- Light Blue – Zhetisu.

Source: Google, Scot Holland CBRE

Administrative Districts

- **Alatau** - a new administrative district of Almaty, which was formerly the western outskirts of the city; its population is still to be assessed to obtain reliable figures; it represents a mix of low quality individual households, industrial facilities etc – in blue on the map above;
- **Almaty** – comprises the central part of Almaty; population 183,000; 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 – in red on the map above;
- **Auezov** – comprises the western part of Almaty; population 342,300; 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 – in orange on the map above;
- **Bostandyk** – comprises the southern part of Almaty; population 291,700; 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 – in yellow on the map above;
- **Medeu** – comprises the south-eastern part of Almaty; population 151,400; 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 – in green on the map above;
- **Turksib** – comprises the outlying north-eastern part of Almaty; population 185,900; not prestigious individual houses; basic retail; no contemporary office space and some industrial facilities – in purple on the map above;
- **Zhetisu** – comprises the northern part of Almaty; population 169,700; 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 – in light blue on the map above.

Almaty Market View

Warehouses

www.cbre.kz

Q3 2009

Quick Stats

Change
from
Q2 Q3
09 08

Rental rates	↔	↓
Supply	↔	↔

Hot Topics

- In 2009, the base rental rate of high-end warehousing facilities has decreased by around 25% year-to-date;
- No significant change in warehouse rental rates was seen in Q3 2009.

OVERVIEW

In the period 1991-1994 there were practically no warehouse developments in Almaty. This market segment started developing with the arrival of large international companies to the Kazakhstan market (for example 'Procter & Gamble' in 1994), nevertheless they were not A or even B class. The very first modern warehouse facility was founded in 1996 by USKO, and is still operating.

According to our estimates, the current Almaty warehouse space amounts to approximately 800,000 sqm, including old Soviet-type warehouses, which represent approximately 70% of the total existing stock. Soviet-type warehouses are usually rented by smaller (predominantly local) companies, which are either not interested in the quality level of the facility and services it offers, or simply cannot afford more expensive premises of better quality.

Currently, there is practically no supply of land plots with a ready infrastructure for the construction of an industrial park. This market is still at a very rudimentary stage of development.

New commercial developments reside along the Almaty – Astana road. Lack of railways in the west of Almaty (Bishkek road) has created a problem for construction of warehouses in this area. Future investment in new projects will stimulate the warehouse sector development and become a key factor for most practical placement of storage complexes.

Some companies prefer to build their own warehouses (about 14% of the market in 2008), which are subsequently taken off the market, and are therefore not taken into consideration in this report.

Market practices show that if companies have specific requirements for warehouse storage, they construct their own facilities around 20-50 kilometers from the city and one storage-yard in the city, which is used as a distribution centre. Other companies rent small storage places, mainly of Class B or lower, attracted by the lower price.

A number of players in the logistics/warehousing segment have selected a strategy of providing 'logistic outsourcing' services to their clients, instead of ordinary lease-out of warehousing premises.

Logistic outsourcing means that the customer receives a whole set of logistics services, including stock management services, transportation, storage and handling of all related business processes in return for an agreed fee paid to the logistic operator.

The high level of transportation-related traffic leading to the quick deterioration of the road surface, together with the threatening increase of the level of pollution in the air, provided an impetus to the local city administration to develop a new policy of reducing the transportation burden and improving the environment.

Several plans have been devised to move all warehousing and industrial premises out of the city, in conjunction with the construction of the new 'Large Almaty Ring Road' (BAKAD).

Today, many old-type logistics terminals are in the process of renovation, the quality of the infrastructure (motor-ways in particular) is being improved and the traffic capacity - extended. Though this is not a quick process, the sector shows a relatively good future outlook.

The construction of new generation warehouses should partially relieve the Almaty road system of its current traffic congestions, optimize storage conditions, and solve a number of logistic problems in the retail sector.

The annual rental rates for warehouse space in Almaty vary quite significantly, from USD 30 to USD 110 per sqm, which means USD 2.5-9 per sqm per month.

In 2009, the base rental rate of high-end warehousing facilities has decreased by around 25% year-to-date.

At the same time no significant change in warehouse rental rates was seen in Q3 2009.

Below we are giving the average rental rate levels of warehousing space in Almaty (by class):

Class	Rental rate, USD per month (including VAT)
Class A	7-9
Class B	5-7
Lower class	2.5-5

Source: Scot Holland CBRE

The average selling price of warehouse space is approximately USD 600 per sqm.

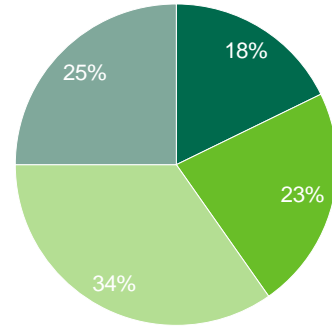
The slowdown of the global markets and the national economy of Kazakhstan, together with the decrease of business activity, have led to the increase of vacancy rates in existing warehouses, sometimes reaching 50%.

Net Usable Warehouse Stock (sqm)	800,000
Vacancy rate (%)	35 %

Source: Scot Holland CBRE

Although Kazakhstan currently ranks 133rd in the logistics development list by the World Bank, it is obvious that the situation is starting to improve.

Existing warehousing stock, by size



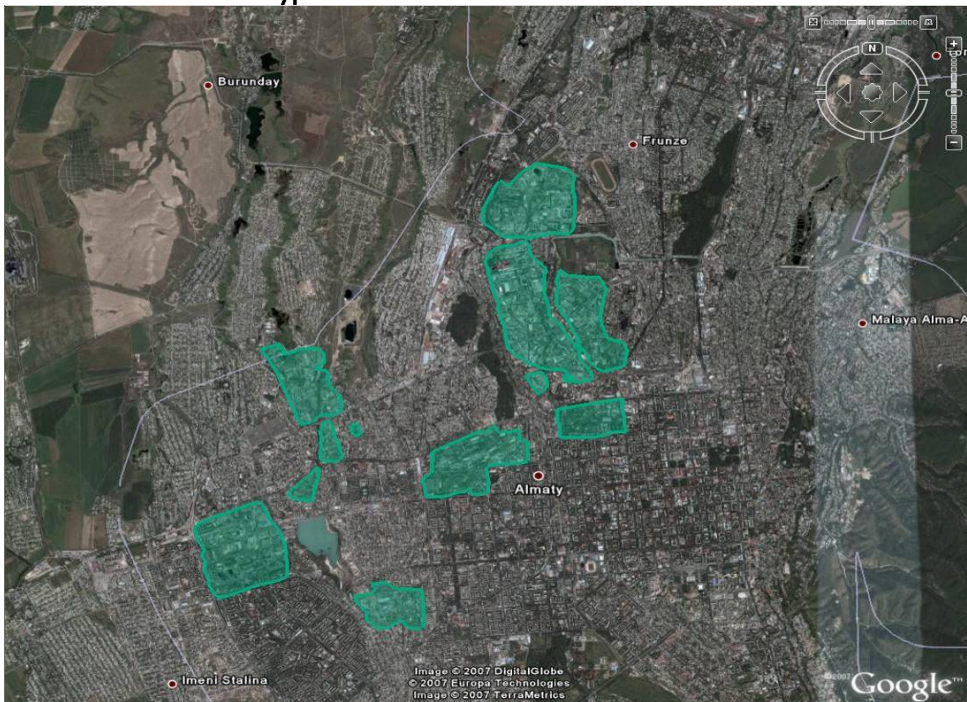
■ 15.000-20.000 ■ 20.000-40.000 ■ 40.000-60.000 ■ > 60.000

Source: Scot Holland CBRE

Rapidly developing export and import operations, domestic production and transit flows contribute to the promotion and evolution of the logistics sector of Almaty.

New logistical centres under construction are an evidence of the demand for more sophisticated services caused by higher customer requirements.

Map of locations of old Soviet-type warehouses and industrial facilities

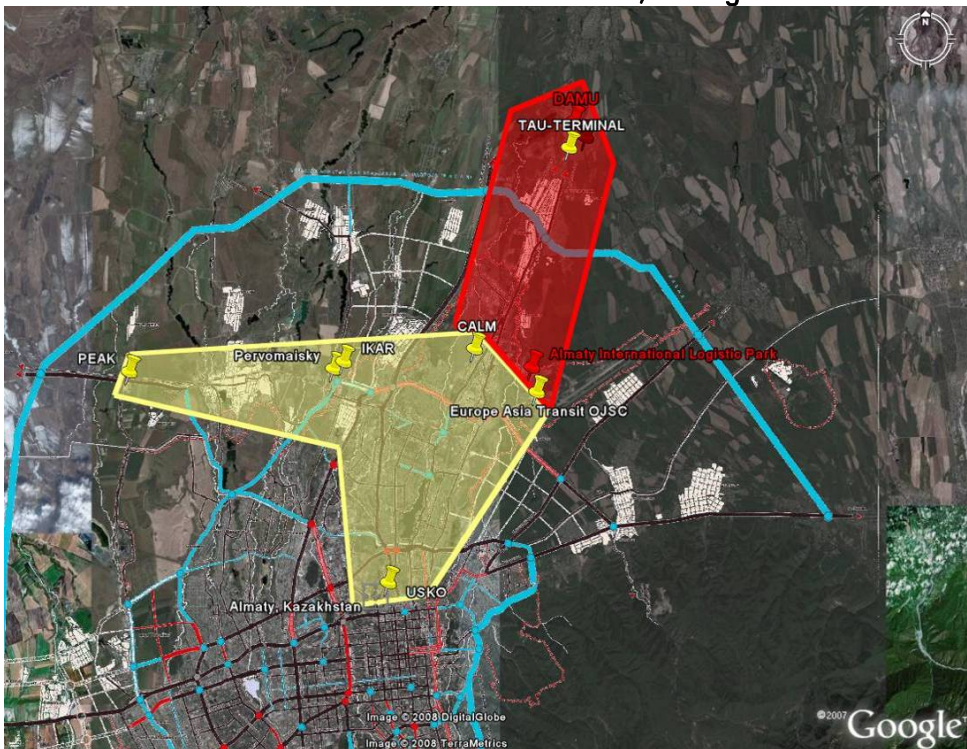


Source: Google, Scot Holland CBRE

Map Legend:

The green areas on the map indicate old Soviet-type industrial zones, mostly outdated and not properly managed and maintained.

Map of locations of modern warehouses and industrial facilities, existing and under construction



Source: Google, Scot Holland CBRE

Map legend:

Yellow placemarks represent completed Class A and B warehouse facilities; Red placemarks represent new projects under construction. It is obvious that the warehouse facilities concentration depends on its class and age in two distinctive zones highlighted in Yellow (completed Class A and B), and Red (under-construction Class A).

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