

August 2024

Kazakhstan: Commercial Real Estate and the Prospects of the REIT Market

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EXECUTIVE SUMMARY

- Kazakhstan is experiencing significant demographic and economic shifts, with key trends indicating sustained growth and development. As the largest economy in Central Asia, Kazakhstan is projected to expand its GDP to \$355 billion by 2028 and potentially reach \$900 billion by 2050.
- Kazakhstan's proactive investment policies and strong economic growth have positioned it as a top choice for foreign investors in the region. Over the past decade, investments in operations with real estate have grown significantly, reaching \$7.1 billion in 2023. FDI to Kazakhstan in operations with real estate reached \$379.5 million, breaking a record for the last ten years.
- The demand for commercial real estate in Kazakhstan is projected to rise alongside economic and population growth, particularly in sectors such as shopping and entertainment malls, offices, and warehouses. In recent years, rental rates have grown significantly across these three categories of commercial real estate. This growth makes Kazakhstan increasingly attractive to potential investors.
- The office real estate markets in Almaty and Astana have undergone significant changes driven by various factors affecting supply volumes and rental rates. In 2023, Kazakhstan commissioned 595,590 m² of office space, valued at \$296 million with Astana and Almaty leading the way, demonstrating ongoing growth in both area and cost trends.
- In 2023, Kazakhstan experienced a peak in the commissioning of shopping and entertainment malls over the past nine years, both in terms of area and cost. A total of 28 malls, covering 174,001 m² were commissioned, representing almost 60% growth compared to 2022.
- The warehouse real estate market in Kazakhstan faces a shortage of Class A and Class B spaces amid increasing demand. Rental rates index rose by 3% in Q4 2023 compared to 2022, continuing an upward trend since 2020. Class A and B warehouses are particularly sought after, with projected rental rates for 2024 indicating significant year-over-year growth.
- The AIFC plays an important role in promoting investment in Kazakhstan's real estate sector and enhancing its investment frameworks, thereby stimulating growth, and attracting international investors to the dynamic REIT market. As of August 2024, 37 companies operating in the real estate sector and four REITs are registered at the AIFC.

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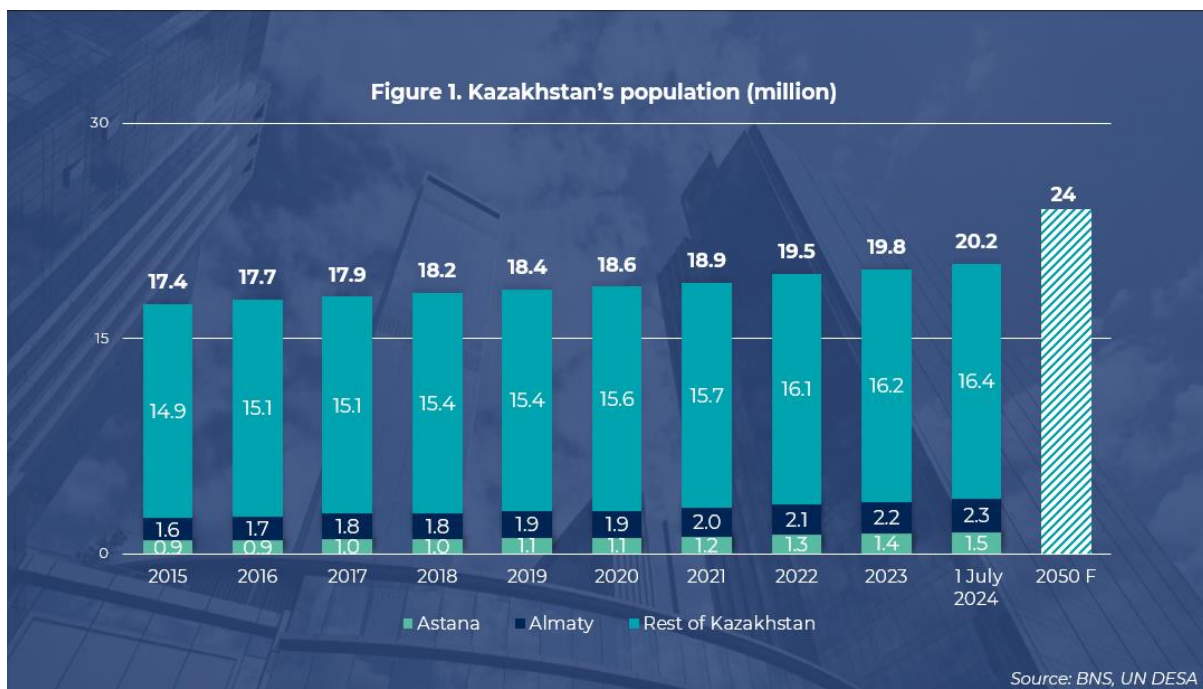
This report focuses on commercial real estate properties, such as offices, shopping and entertainment malls, and warehouses, with a particular emphasis on Astana and Almaty.

1. DEMOGRAPHIC AND ECONOMIC TRENDS IN KAZAKHSTAN

1.1. Kazakhstan's population

Almaty and Astana are the two largest cities – in terms of population and economy – with a republican status in Kazakhstan. As of 1 July 2024, the populations of Almaty and Astana were 2.3 million and 1.5 million, respectively.

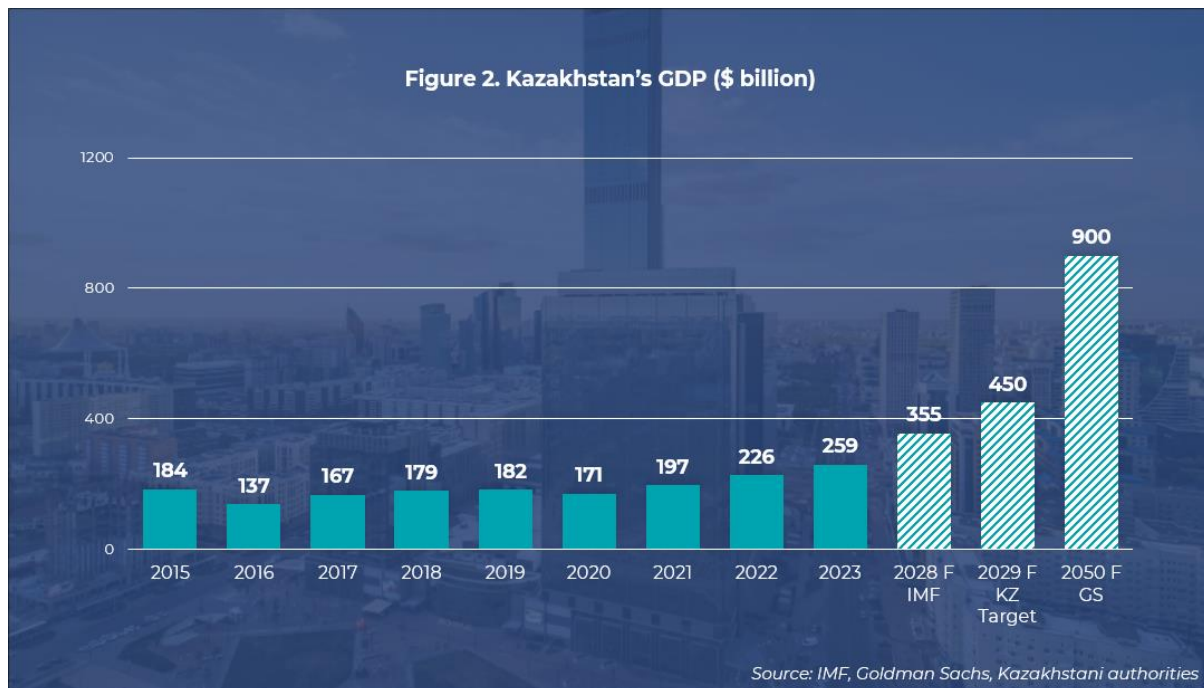
Kazakhstan has experienced a steady population growth over the past decade. Since 2015, the population increased by approximately 2.4 million people. The population in Kazakhstan is set to keep growing over the next few decades and will reach approximately 24 million people by 2050, according to the UN DESA.¹



¹ The Astana Times “Kazakh Population to Reach 24 million by 2050, According to UN Forecast”

1.2. Kazakhstan's economy

The economy of Kazakhstan is the largest in Central Asia and has been demonstrating stable growth. The country has also been providing favourable environment for attracting investment across various sectors. Compared to a \$259 billion GDP in 2023, Kazakhstan's economy is projected to reach \$355 billion by 2028 and \$900 billion by 2050, according to forecasts. Recently, Kazakhstan announced a target nominal GDP of \$450 billion in 2029.²



2. INVESTMENTS IN THE REAL ESTATE SECTOR

Kazakhstan's strong economic growth trajectory and proactive investment policies have solidified its position as an attractive destination for foreign investors in the region. Investments in real estate have been growing significantly over the last years.

2.1. Investments in fixed capital

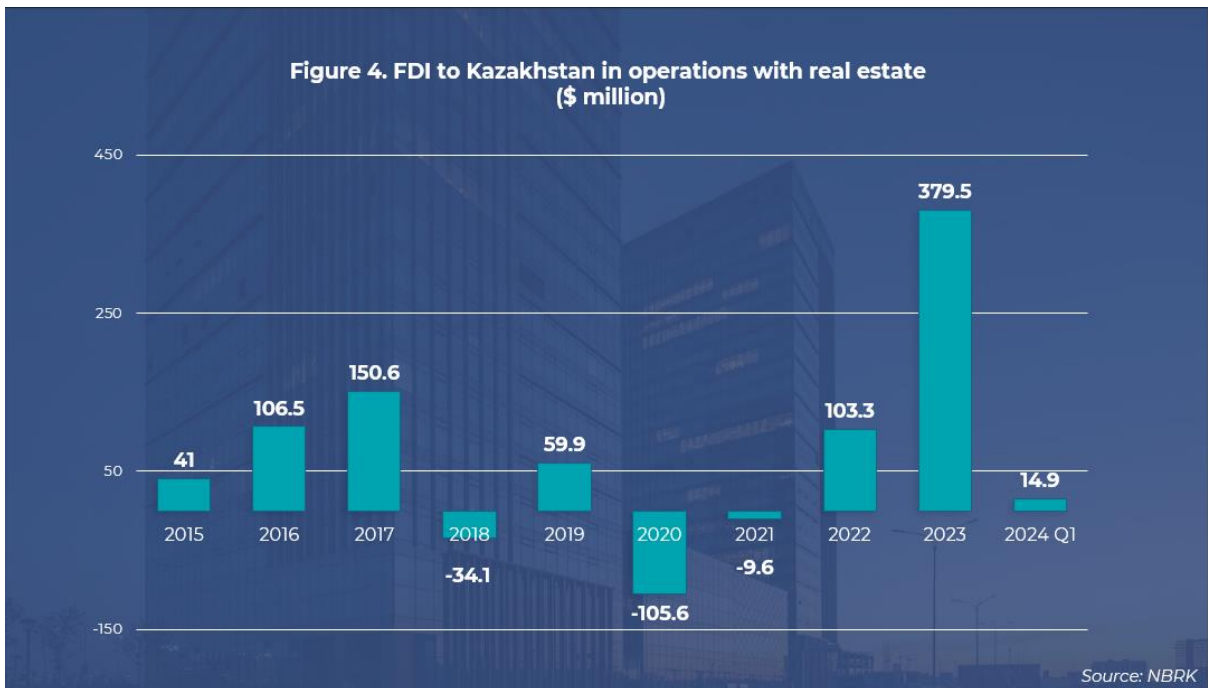
Commercial real estate is one of the most attractive sectors for investment. According to the Bureau of National Statistics, investments in fixed capital in operations with real estate in Kazakhstan showed stable growth over the past decade, reaching \$7.1 billion in 2023, a 2-fold increase compared to 2015.

² Akorda, President Kassym-Jomart Tokayev's State of the Nation Address "Economic course of a Just Kazakhstan"



2.2. Gross FDI in operations with real estate

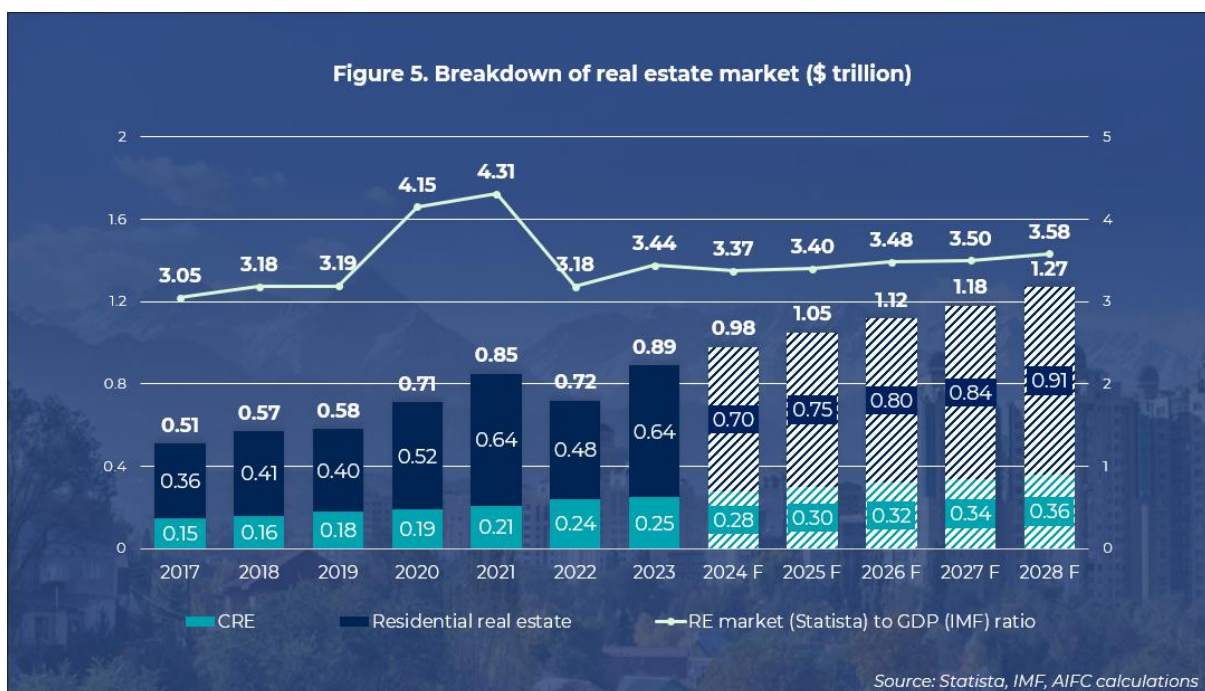
In 2023, gross FDI to Kazakhstan in operations with real estate reached \$379.5 million, breaking a record for the last ten years. In 2024 Q1, gross FDI stood at \$14.9 million. It is worth noting that there was a gross outflow of FDI in 2020 and 2021.



3. KAZAKHSTAN'S COMMERCIAL REAL ESTATE MARKET OVERVIEW

The real estate market in Kazakhstan has been experiencing a significant growth in recent years. The real estate market in Kazakhstan was \$0.89 trillion in 2023. The real estate market is forecast to reach a value of US\$0.98 trillion in 2024, and with a CAGR of 6.7% until 2028, expected to reach \$1.27 trillion. In 2024, commercial real estate will account for around \$0.28 trillion, while the residential real estate – \$0.7 trillion.³

In 2023, Kazakhstan's real estate market to GDP ratio was 3.44, compared to 4.15 for the US, 3.69 for Canada, and 7.43 for China.



Unique local conditions in Kazakhstan contribute to shaping the real estate market. With its vast land area and comparatively sparse population, the country presents opportunities for new construction and growth. In addition, government policies designed to attract foreign investment have helped stimulate the real estate market. Underlying macroeconomic factors, including economic growth, have also contributed to the growth of the real estate market in Kazakhstan.⁴

With growing economy and population, the demand for commercial real estate – including shopping and entertainment malls, offices, and warehouses – in Kazakhstan is forecast to further

³ Statista, Real Estate in Kazakhstan

⁴ Statista, Real Estate in Kazakhstan <https://www.statista.com/outlook/fmo/real-estate/kazakhstan>

increase. This, coupled with a continued growth in commercial real estate rental market in Kazakhstan, may attract the attention of potential investors.

The commercial real estate market in Kazakhstan is also being shaped by the growing number of companies relocating to the country, rising demand for coworking spaces (IT startups, remote working, freelancers, etc.), shifting supply chains and trade flows, and booming e-commerce.⁵

3.1. Rental rate indices for commercial real estate

There was a 2.7% rise in the rental rate indices for commercial real estate in 2023 4Q compared to the same period in 2022. Overall, rental rate indices for commercial real estate have been growing, except for in 2020 which was impacted by the Covid-19 pandemic. Since 2022, the price indices' growth has accelerated.⁶



3.2. Commissioning of offices, malls, and warehouses

There was a notable growth in the total area of commissioned offices, shopping and entertainment malls, and warehouses in 2023 compared to 2022. In 2023, 595,590 m² of offices were commissioned, 174,001 m² of shopping and entertainment malls, and 196,415 m² of warehouses.

⁵ Forbes.kz, Kazakhstan's Top Rank Ranking – 2023

⁶ Starting from 2021, rent price is compared to the 4Q of the previous year



3.3. Revenues from shopping and entertainment malls and business centres

In 2022, each commercial real estate in Almaty brought in an average of \$6.7 million, in Astana – \$6.1 million.⁷ On average, the estimated revenue of one shopping and entertainment mall/shopping centre in 2022 was \$10.9 million, and one business centre – \$3 million.⁸

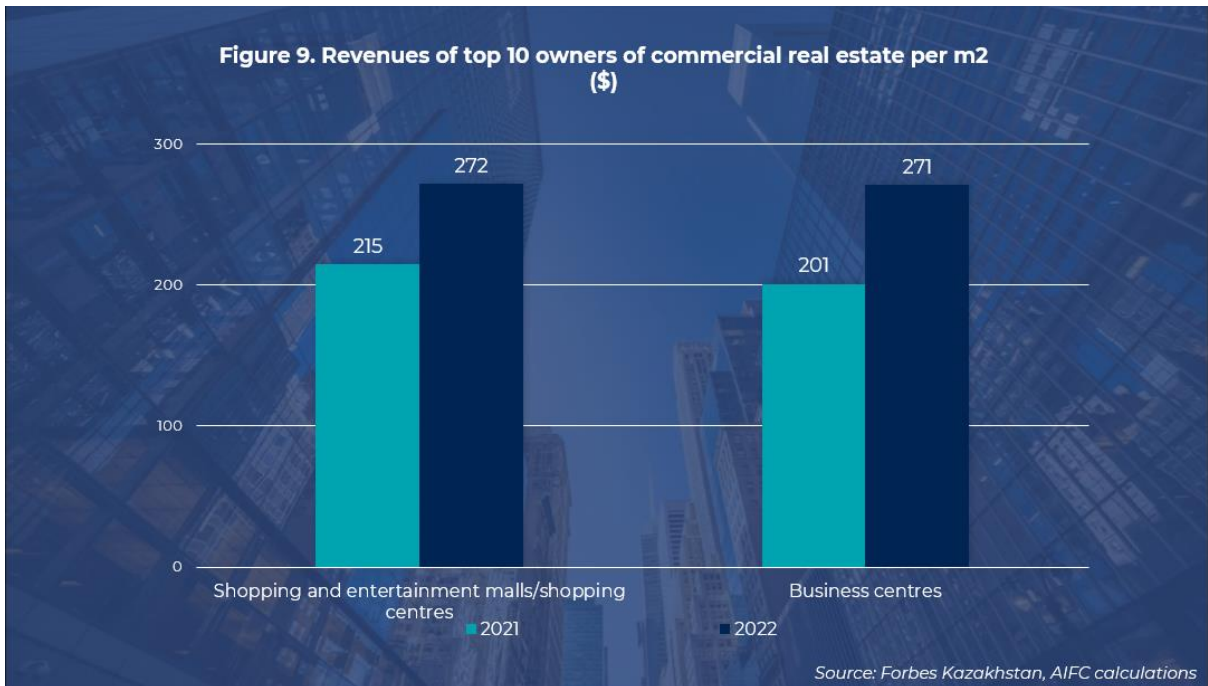
The total estimated revenue of top 10 owners⁹ of shopping and entertainment malls, shopping centres, and business centres increased by 42.7%, from \$232 million in 2021 to \$306 million in 2022. Of this, \$224.1 million (73.2%) was generated by shopping and entertainment malls/shopping centres and \$81.9 million (26.8%) – by business centres.¹⁰

⁷Shymkent – \$5.4 million

⁸Forbes.kz, 10 Largest Owners of commercial real estate in Kazakhstan

⁹ 54 commercial real estate properties, including 30 business centres and 24 shopping and entertainment malls and shopping centres

¹⁰ Forbes.kz, 10 Largest Owners of commercial real estate in Kazakhstan



4. OFFICES

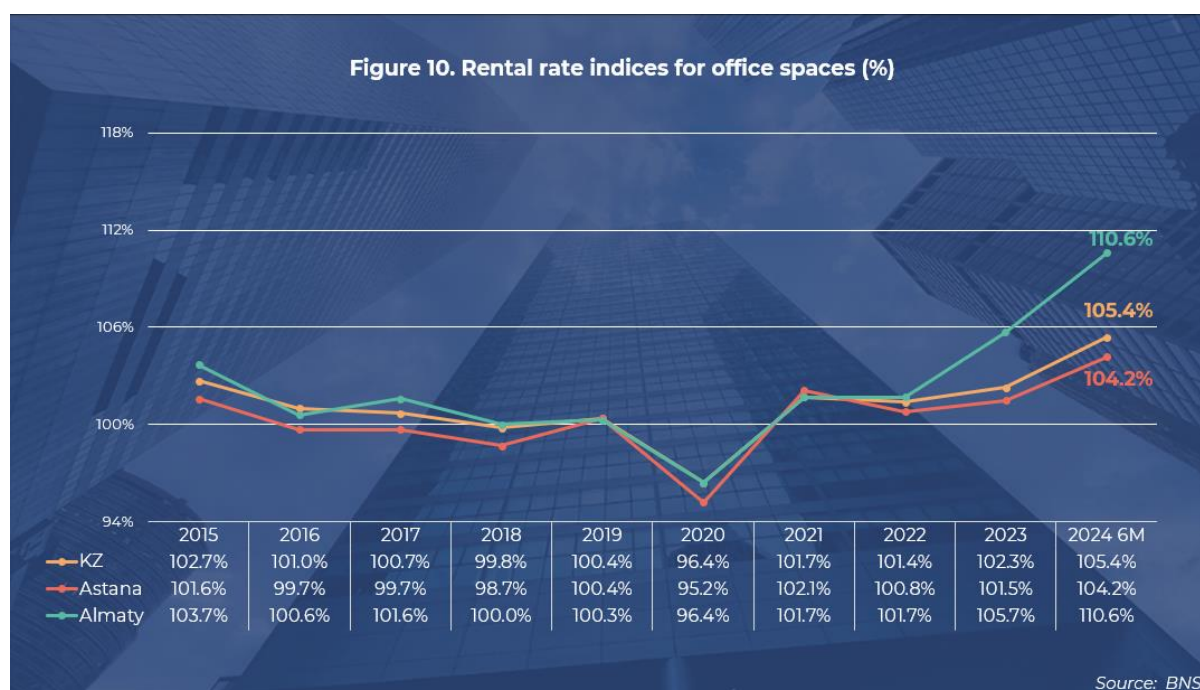
The office real estate market in Almaty and Astana has undergone significant changes over the last few years due to a variety of factors that have impacted the volume of supply and rental rates.¹¹ For instance, as of August 2024, the number of international organisations operating in

¹¹ Baker Tilly, Capitalization of the Future: The Rise and Dynamics of Commercial Real Estate in Kazakhstan

Kazakhstan amounted to 44,237 (in 2022 – 36,592, in 2021 – 25,206). These companies include Honeywell, Fortescue, Playrix, Tinkoff, inDrive, Yandex, Lamoda, and Ozon.^{12 13}

4.1. Rental rate indices for office spaces

There was a 2.3% rise in the rental rate indices for office spaces in 2023 Q4 compared to the same period in 2022, with Almaty demonstrating a 5.7% growth during the same period. In 2024, the growth in the indices accelerated, reaching 10.6% in Almaty, 4.2% in Astana, and 5.4% across Kazakhstan. Since 2021, rent price for offices has been growing.



4.2. Rental rates for offices in Astana and Almaty

The significant increase in office rental rates is driven by high occupancy rates and a supply that has not caught up with demand. Due to this, some companies have started purchasing office premises as opposed to renting them.¹⁴

As of 2023 Q4, average rental rate for offices in Astana was \$23.5/m², for class A+ – \$73.5/m², for class A – \$28.1/m², for class B+ – \$22.8/m², and for class B – \$16.1/m².¹⁵ The growth of office

¹² Forbes.kz, Class A office rent in Astana and Almaty has become more expensive than in Moscow

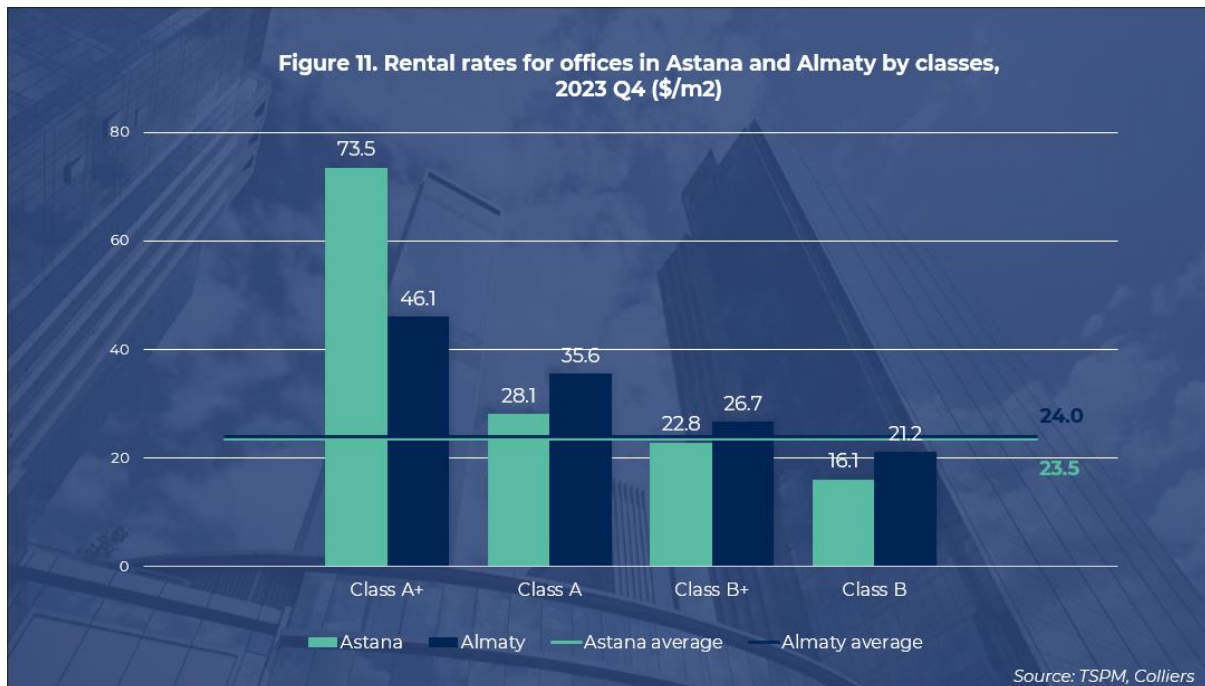
¹³ EY-Class A office real estate: trends and development prospects in Kazakhstan

¹⁴ Forbes.kz, Kazakhstan’s Top Rank Ranking – 2023

¹⁵ TSPM, Digest of the retail market of the Republic of Kazakhstan

rental rates was primarily due to the active relocation of international organisations that started in 2022.¹⁶

During the same period, average rental rate for offices in Almaty was \$24/m², for class A+ – \$46.1/m², for class A – \$35.6/m², for class B+ – \$26.7/m², and for class B – \$21.2/m².¹⁷ Growth in rental rates in Almaty can be attributed to higher supplier prices, increased repair costs, higher utility bills and maintenance costs, as well as due to the high cost of bank loans in Kazakhstan.¹⁸



Between 2019 Q4 and 2023 Q4, rental rates for offices in Astana grew by 6.7%. The largest growth was recorded in 2022 – 12%. In 2023, the growth was insignificant at 1.4%. The rental rates for offices in Astana are expected to grow by 2-4% in 2024.¹⁹

¹⁶ Baker Tilly, Capitalization of the Future: The Rise and Dynamics of Commercial Real Estate in Kazakhstan

¹⁷ TSPM, Digest of the retail market of the Republic of Kazakhstan

¹⁸ Baker Tilly, Capitalization of the Future: The Rise and Dynamics of Commercial Real Estate in Kazakhstan

¹⁹ TSPM, Digest of the retail market of the Republic of Kazakhstan



Between 2019 Q4 and 2023 Q4, rental rates for offices in Almaty grew by 57.4%. The largest growth in dollar terms was recorded in 2023 – 22.1%. Unlike in Astana, rental rates kept growing in Almaty in 2023. The rental rates for offices in Almaty are expected to grow by 10-15% in 2024 due to several factors, including a deficit of land plots for business centres, rising cost of construction, and high interest rates from commercial banks. The current situation in Almaty’s business centres can be described as landlord driven market.²⁰



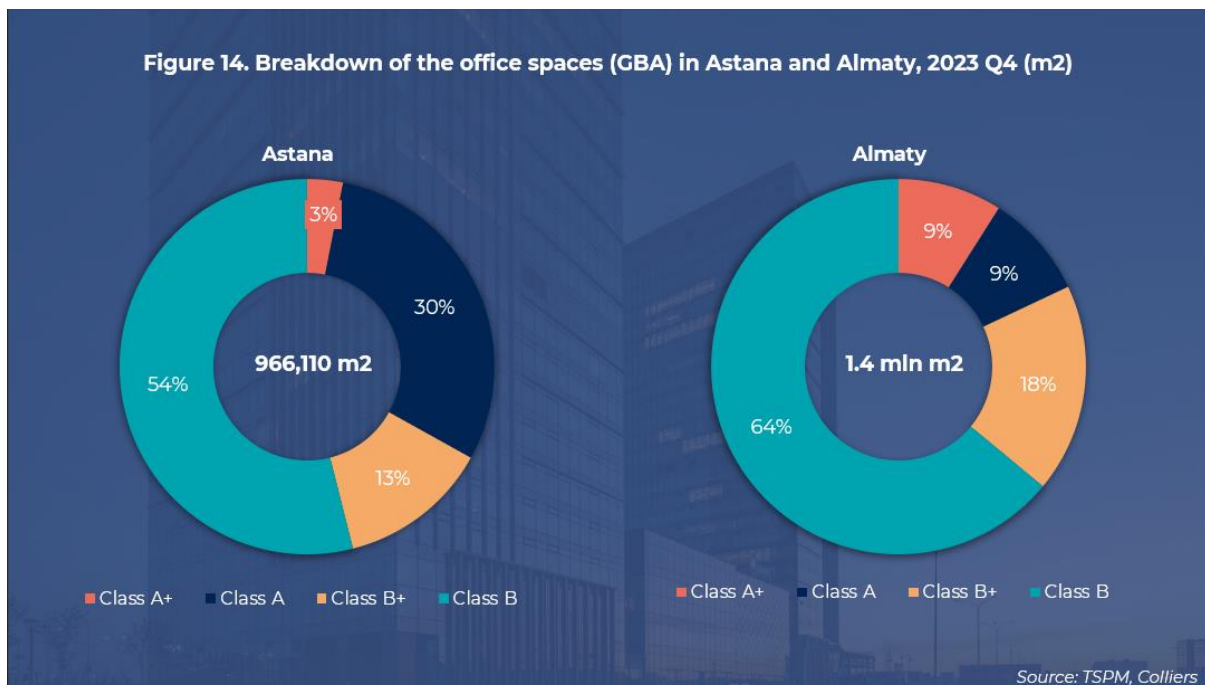
²⁰TSPM, Digest of the retail market of the Republic of Kazakhstan

According to IBC Real Estate, in 2023 Q3, average rental rates for class A offices in Almaty and Astana were more expensive than in Moscow.²¹

4.3. Gross building area (GBA) of office spaces in Astana and Almaty (classes A and B)

As of 2023 Q4, GBA of Almaty’s office real estate market was 1.4 mln m2, of which class A+ accounts for 9%, class A – 9%, class B+ – 18%, and class B – 64%. The GLA of business centres in Almaty is 968,161 m2.

The GBA of Astana’s office real estate market is 966,110 m2, of which class A+ accounts for 3%, class A – 30%, class B+ – 13%, and class B – 54%. The GLA of business centres in Astana is 612,312 m2.²²



Although there are high-level requirements²³ in defining office classes, the absence of a generally accepted classification of the commercial real estate market in Kazakhstan makes the process of distributing business centres by classes difficult. The attribution of business centres to one or another class is made subjectively by the owner or management company.²⁴ The attribution of

²¹Forbes.kz, Kazakhstan’s Top Rank Ranking – 2023

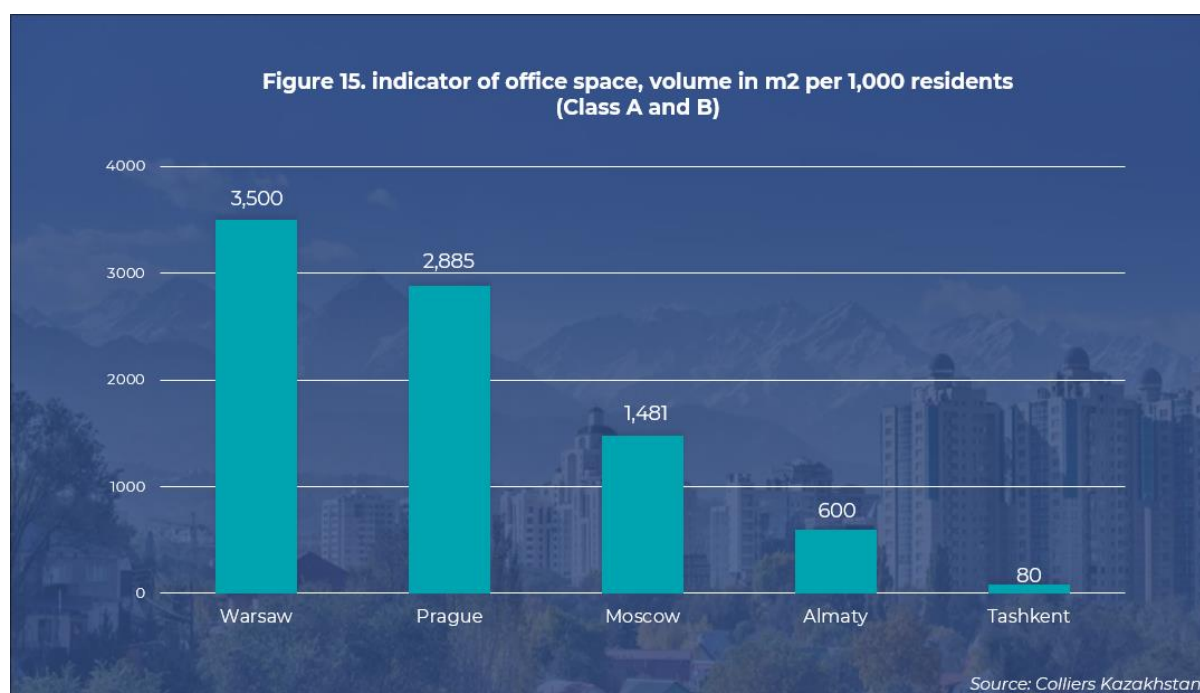
²²TSPM, Digest of the retail market of the Republic of Kazakhstan

²³Adilet.zan.kz, On approval of the Methodology for constructing a price index for commercial real estate rental

²⁴Kursiv.kz, Why classification of office premises is needed

business centres in the above chart was based on international practice and internal rules of Colliers.²⁵

The indicator of office space in Almaty is about 600 m² per 1,000 residents (only classes A and B are considered). For comparison, this is 2.5 times less than in Moscow and 5-7 times less than in Prague or Warsaw.²⁶



As of 2023, in Astana, Class A offices are mainly located on the left bank and include Talan Towers, Abu Dhabi Plaza and Q. As for Almaty, Class A offices are primarily located in the Bostandyk and Medeu districts and include Esentai Tower, Park View and AFD.²⁷

4.4. Demand for offices in Astana and Almaty

During the first half of 2022, IT and financial companies were the most active in the market. Increased demand for high-quality office spaces from such companies put an upward pressure on rental rates.

The high occupancy rates of business centres pose a serious problem for foreign companies planning to relocate to Kazakhstan; the average area of the available premises with finishing touches is only 198 m².²⁸

²⁵ TSPM, Digest of the retail market of the Republic of Kazakhstan

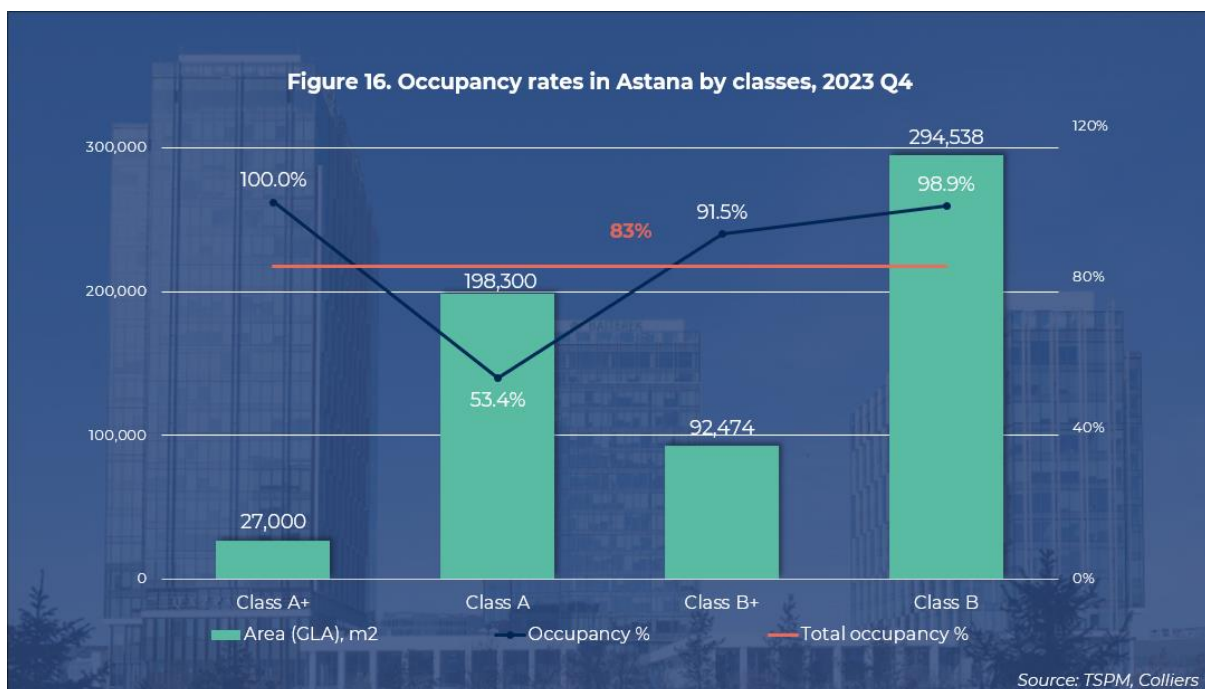
²⁶ Kursiv.kz, In Almaty, four business centers were immediately withdrawn from the rental market

²⁷ Forbes.kz, Class A office rent in Astana and Almaty has become more expensive than in Moscow

²⁸ Forbes.kz, Kazakhstan's Top Rank Ranking – 2023

A particularly important factor in the development of commercial real estate is the “residence permit programme” which provides an opportunity for opening a business, employment in companies of Kazakhstan and investment opportunities. Also, the ability to expedite the process of obtaining residence permits via the AIFC is expected to boost employment opportunities and lead to a rise in demand for office spaces.²⁹

As of 2023 Q4, the occupancy rate of offices in Astana was 83%. The highest occupancy rates were in class A+ and B offices, at 100% and 98.9%, respectively. The occupancy rate in class B+ offices was 91.5%, while the lowest occupancy rate was in class A offices at 53.4%.³⁰

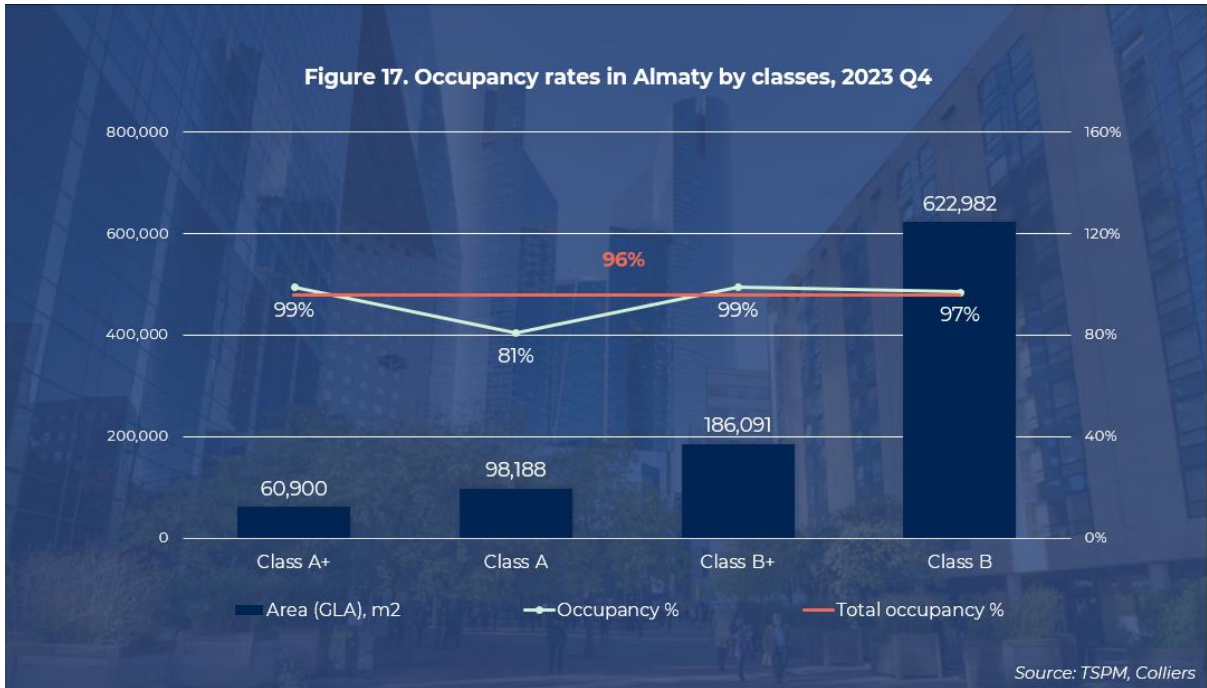


During the same period, the occupancy rate of offices in Almaty was 96%, 13 percentage points higher than in Astana. The highest occupancy rates were in class A+ and B+ offices, at 99%. The occupancy rate in class B offices was 97%. Similar to Astana, the lowest occupancy rate was in class A offices at 81%.³¹

²⁹ Baker Tilly, 2022, English Commercial Real Estate Market in Kazakhstan

³⁰ TSPM, Digest of the retail market of the Republic of Kazakhstan

³¹ TSPM, Digest of the retail market of the Republic of Kazakhstan



Relatively low occupancy rates of class A offices in Astana and Almaty are primarily due to the commissioning of new spaces that are currently seeking tenants. It is expected that the occupancy of class A offices will increase.³²

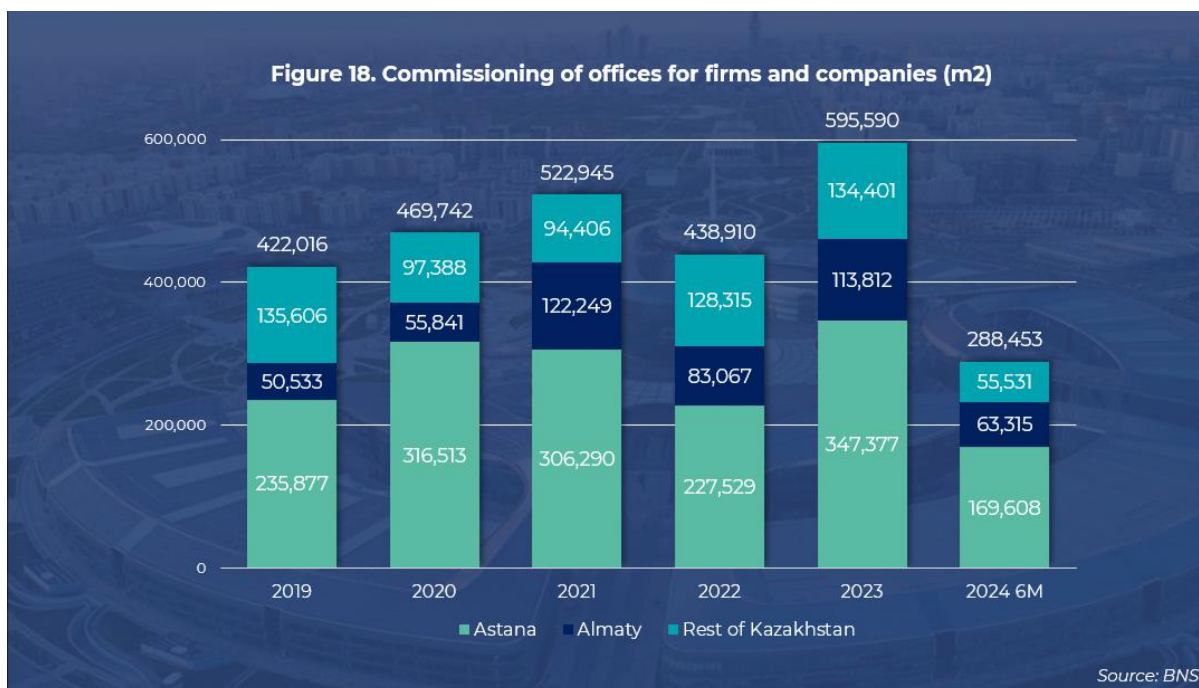
It is worth noting that there are hardly any vacant premises with finishing touches in Kazakhstan, accounting for only 1.2% of the total office supply volume.³³

4.5. Commissioning of office spaces in Kazakhstan

In 2023, the area of commissioned offices for firms and companies amounted to 595,590 m2. Overall trend in the supply of office spaces has been upward over the last few years – both in terms of area and cost. The actual cost of commissioned offices for firms and companies in 2023 amounted to \$296 million. Astana and Almaty accounted for the majority of commissioned office spaces, with 347,377 m2 and 113,812 m2 in 2023, respectively.

³² TSPM, Digest of the retail market of the Republic of Kazakhstan

³³ Forbes.kz, Class A office rent in Astana and Almaty has become more expensive than in Moscow



4.6. Commissioning of class A and B offices in Astana and Almaty

Supply of class A and B office spaces in Astana and Almaty grew by over 100,000 m2 and around 35,000 m2 (GBA) in 2023, respectively. By the end of 2024, 102,000 m2 of office spaces, mostly class A+ and A, are expected to be commissioned in Almaty.³⁴

Currently, the total area of class A offices in Kazakhstan exceeds 500,000 m2. It is expected that, by 2027, the total area of class A offices will almost double and exceed 1 million m2, Astana will account for over 500,000 m2 and Almaty – over 450,000 m2.³⁵

Major class A business centres to be commissioned between 2024-2027 include Deniz Park (≈ 47,000 m2), Sensata (≈ 15,000 m2), New Nurly Tau (50,000 m2), Abu Dhabi Plaza (≈ 30,000 m2), Capital City Park (≈ 100,000 m2), and Ortau (≈ 36,000 m2). About 40% of class A spaces under construction will be leased before completion.³⁶

5. SHOPPING AND ENTERTAINMENT MALLS

5.1. Rental rate indices for shopping and entertainment malls and shopping centres

In 2023 Q4, there was a 2.5% rise in the rental rate indices compared to the same period in 2022, with Astana and Almaty demonstrating 3.9% and 0.4% growth, respectively. In 2024 Q2, rent index growth in Almaty rebounded to 4.2%. It is worth noting that the rent prices recovered immediately after the height of the Covid-19 pandemic in 2020.

³⁴ TSPM, Digest of the retail market of the Republic of Kazakhstan

³⁵ EY-Class A office real estate: trends and development prospects in Kazakhstan

³⁶ EY-Class A office real estate: trends and development prospects in Kazakhstan



5.2. Rental rates in shopping and entertainment malls

In 2023 1H, the average rental rate for shopping and entertainment malls in Kazakhstan increased by 3% compared to the previous year and stood at \$11.7/m².³⁷ In KZT terms, overall trend is that after a decline in 2020, the rental rates for shopping and entertainment malls have been consistently increasing. Given the expansion of international brands to Kazakhstan, it is expected that rental rates at shopping and entertainment malls will increase.³⁸

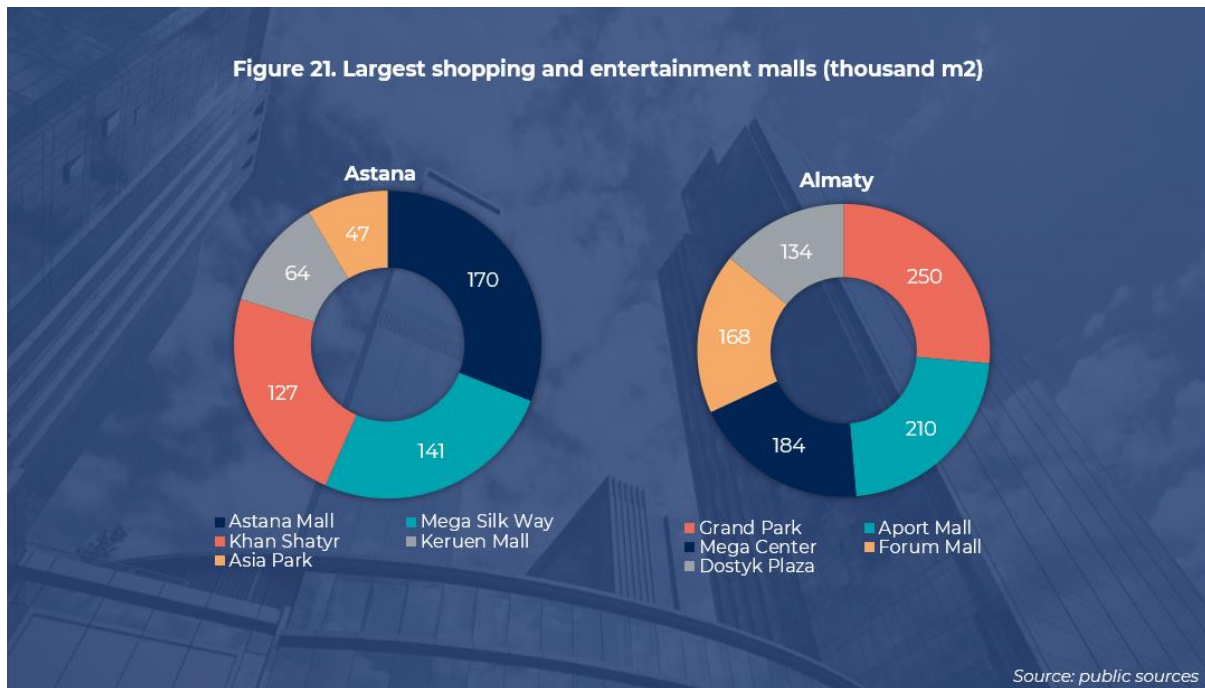


³⁷ Baker Tilly, Capitalization of the Future: The Rise and Dynamics of Commercial Real Estate in Kazakhstan

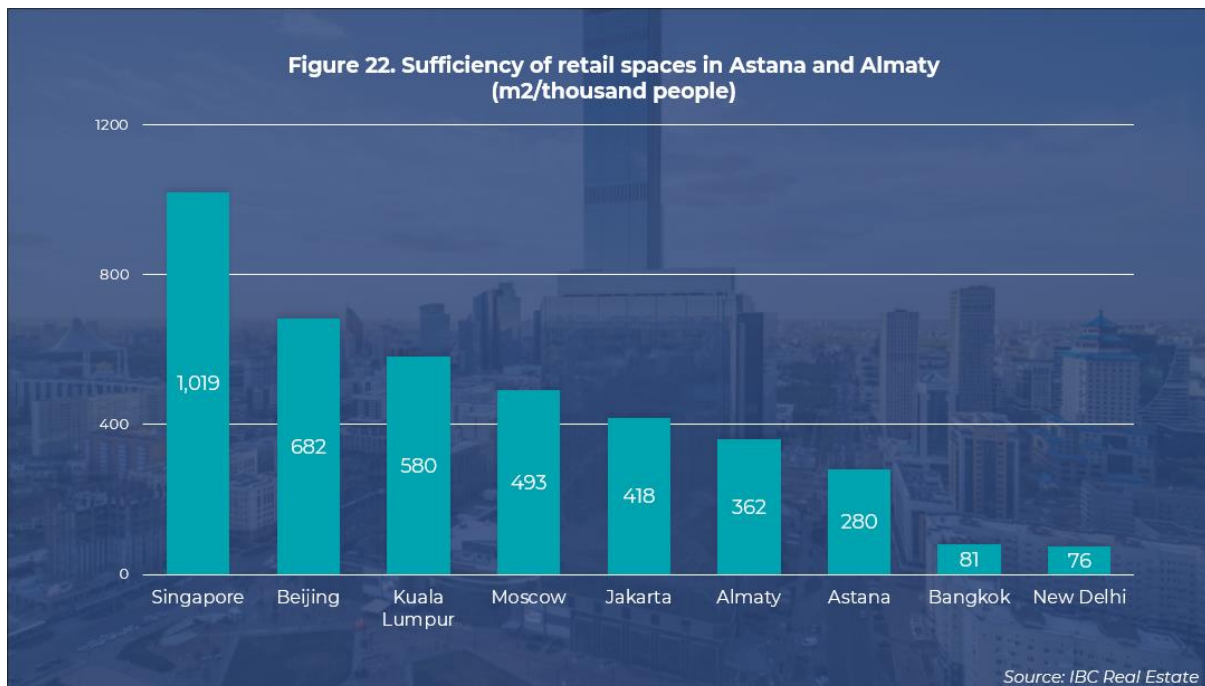
³⁸ Kursiv.kz, Changes in tenant composition in Kazakhstani shopping and entertainment malls

5.3. The largest shopping and entertainment malls in Astana and Almaty

In terms of area, the largest shopping and entertainment malls in Astana are Astana Mall, Mega Silk Way, Khan Shatyr, Keruen, Asia Park. In Almaty, the largest ones are Grand Park, Aport Mall, Mega Center, Forum Mall, and Dostyk Plaza. Malls with areas greater than 100,000 m² have taken over the market and are expected to dominate retail traffic.³⁹



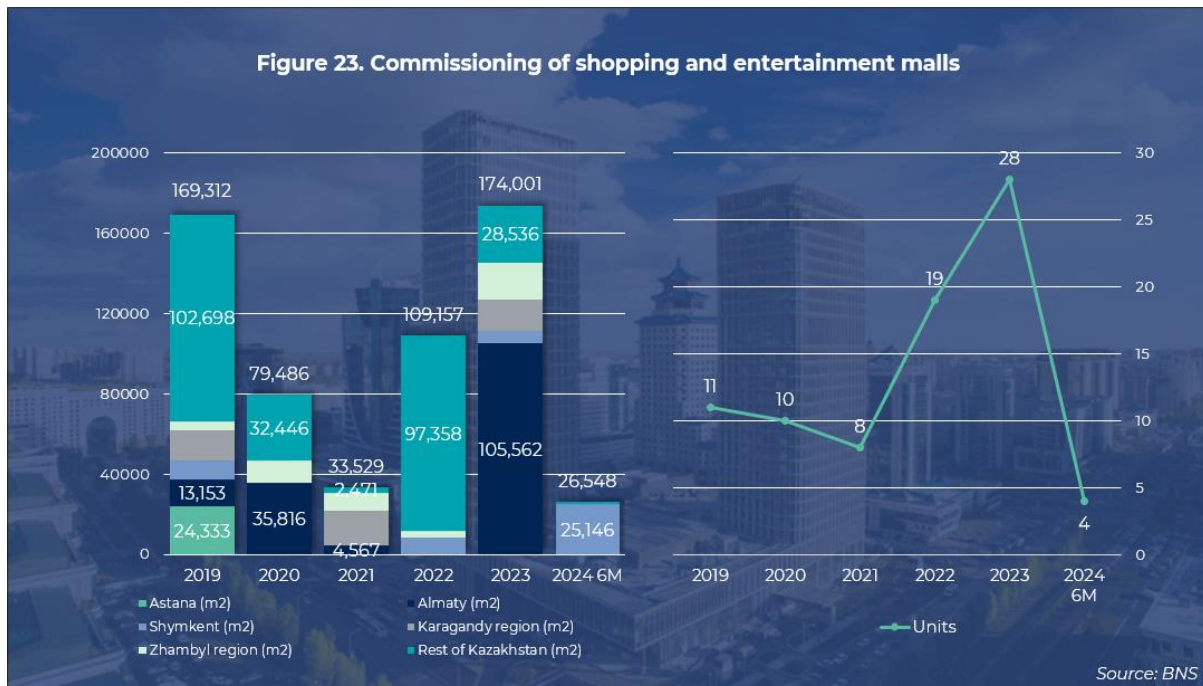
In terms of sufficiency of retail spaces, despite commissioning of several shopping and entertainment malls over the last years, Astana and Almaty lag behind most major cities in Asia.



³⁹ Kursiv.kz, Changes in tenant composition in Kazakhstani shopping and entertainment malls

5.4. Commissioning of shopping and entertainment malls

In 2023, commissioning of shopping and entertainment malls reached its peak over the last nine years – both in terms of area and cost. In 2023, a total of 28 shopping and entertainment malls with 174,001 m² area (an almost 60% growth compared to 2022) were commissioned and recovered to pre-Covid levels in terms of area. The cost of shopping and entertainment malls commissioned in 2023 amounted to \$97.2 million, an almost 3 times growth compared to 2022. Almaty accounted for majority of commissioned malls in terms of area over the last five years, with 105,562 m² in 2023.



6. WAREHOUSES

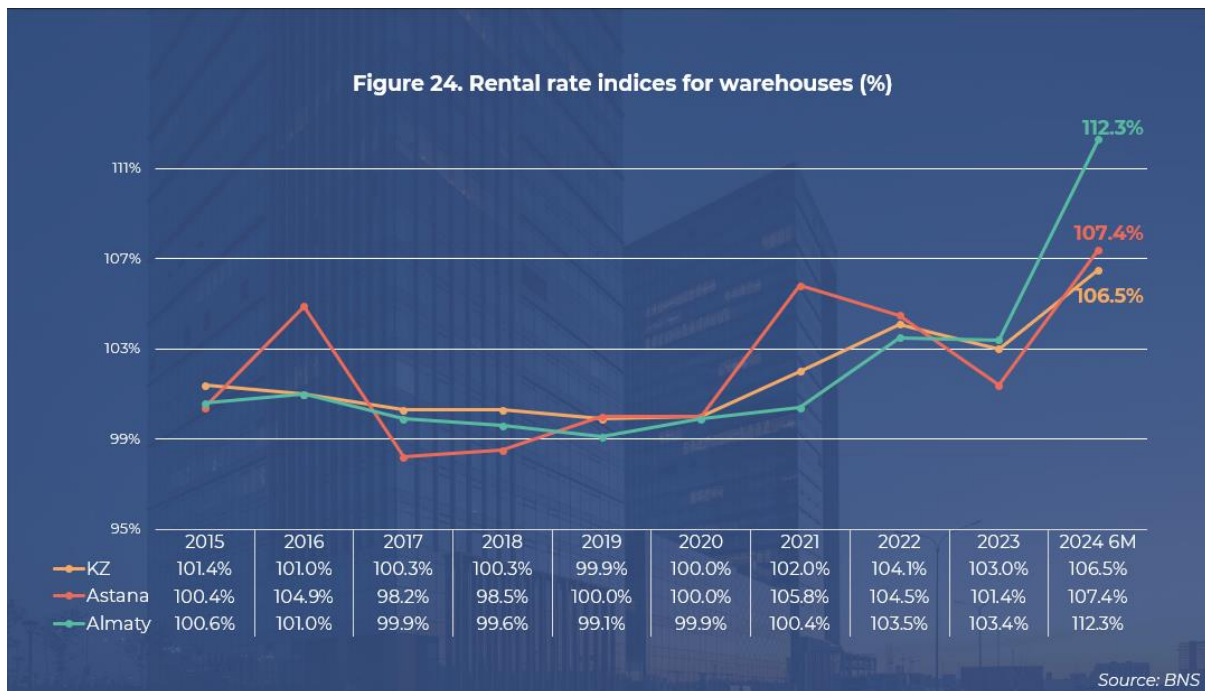
The situation in the warehouse real estate market in Kazakhstan is currently characterised by a shortage of available spaces in class A and class B warehouses and a growing demand for quality warehouses.⁴⁰ Class A and Class B are covered warehouses of at least 10m and 6m ceiling height, respectively, with specific requirements on location, construction quality, amenities, and others.

6.1. Rental rate indices for warehouses

There was a 3% rise in the rental rate indices for warehouses in 2023 Q4 compared to the same period in 2022. The growth in indices accelerated in 2024 Q2, demonstrating increases of 7.4% and 12.3% for Astana and Almaty, respectively.

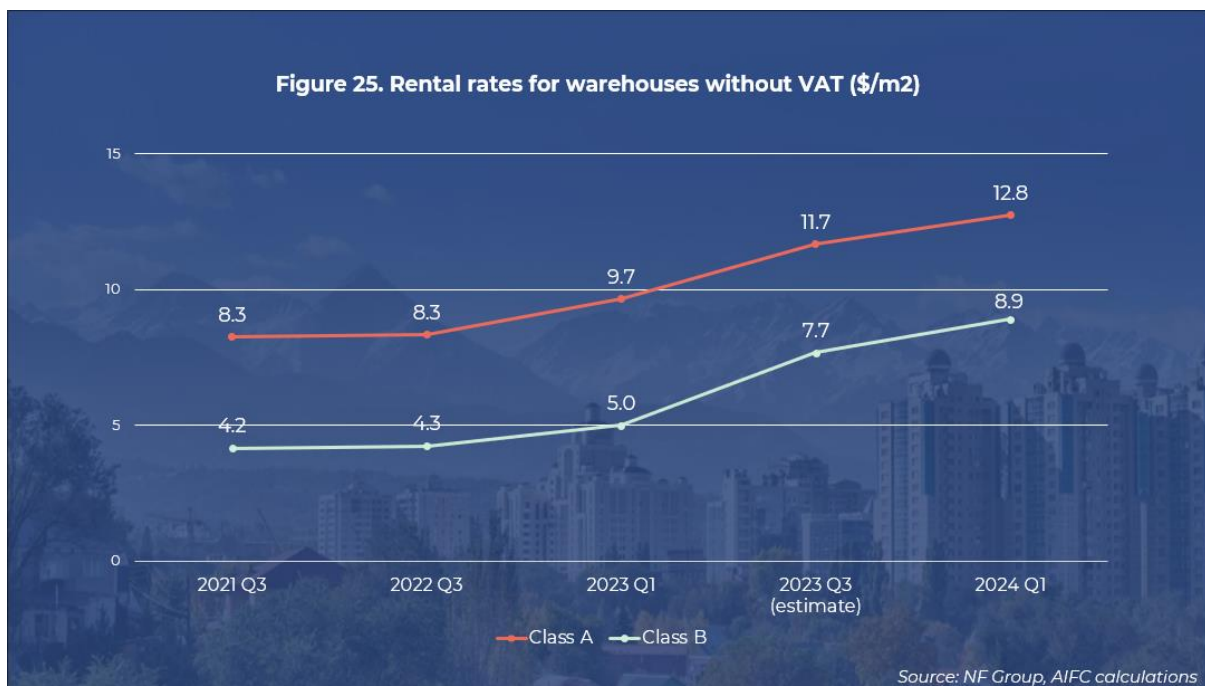
⁴⁰ Kursiv.kz, Warehouse market in Kazakhstan: The combination of low competition and high demand

Interestingly, rental rate indices for warehouses did not change during the pandemic-hit 2020. Overall, in Kazakhstan, rent prices for warehouses have been growing, except for in 2019.



6.2. Rental rates for warehouses (without VAT)

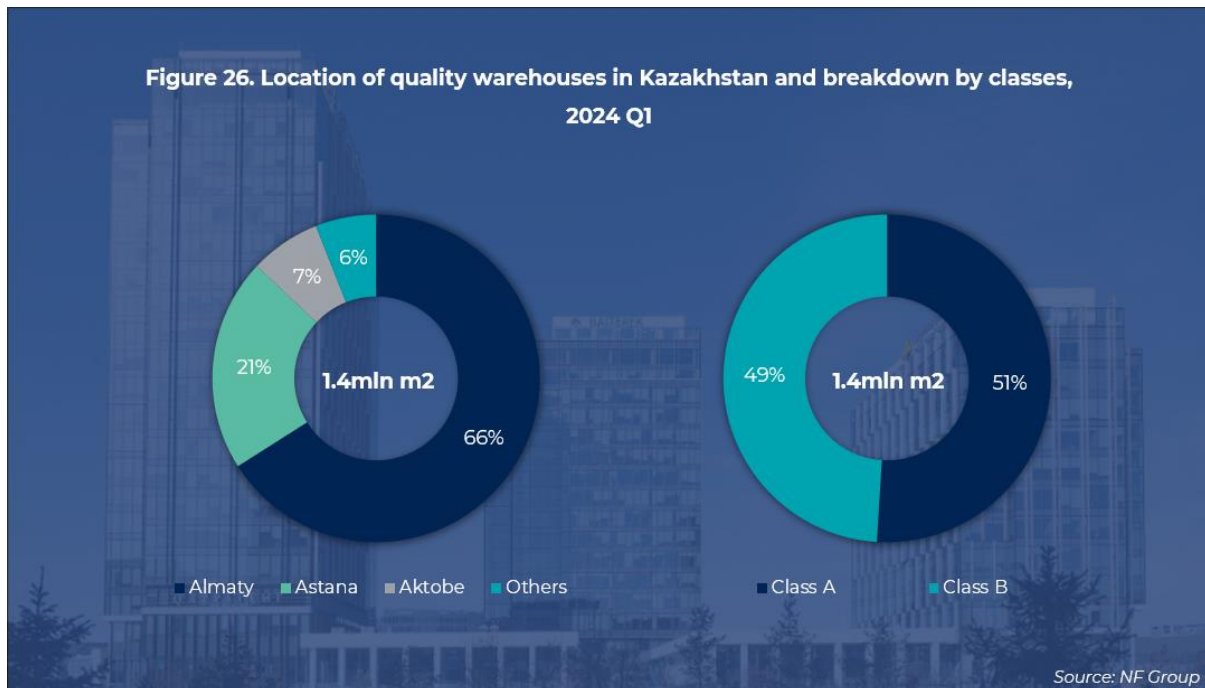
Rental rates for class A and class B warehouses have risen significantly over the last years. In 2024 Q1, the rental rates were \$12.8/m² for class A (31.9% growth y-o-y) and \$8.9/m² for class B (78.4% growth y-o-y). This growth is also attributed to the increasing demand for and shortage of available space in class A and class B warehouses.⁴¹



⁴¹ NF Group, Market of high-quality warehouse real estate in Central Asia, Transcaucasia, and Belarus

6.3. Total area of warehouses

Kazakhstan's market of quality warehouses is the largest in Central Asia, with a total area of 1.4 million m². Almaty, Astana, and Aktobe account for 94% of quality warehouses in Kazakhstan. Importantly, class A warehouses account for 51% of total area.



6.4. Demand for warehouses

According to the Concept for the Development of Transport and Logistics Potential of Kazakhstan until 2030, approved in December 2022, it was estimated that the demand for warehouses of international standards would be 2 million m², with expected freight processing and distribution in Kazakhstan, which also covers neighbouring countries, at 20 million tonnes per year.⁴²

According to NF Group, the share of available space in class A and class B warehouses in Kazakhstan was 1.6% as of 2024 Q1⁴³, which is higher than the 1% recorded in 2023 3Q.⁴⁴ Previously, there was no available space in quality warehouses. This implies that the demand for high-quality warehousing property is extremely high, and supply is not catching up with demand. Rising demand is also due to the boom in e-commerce.⁴⁵ In Almaty, a quarter of the warehouses,

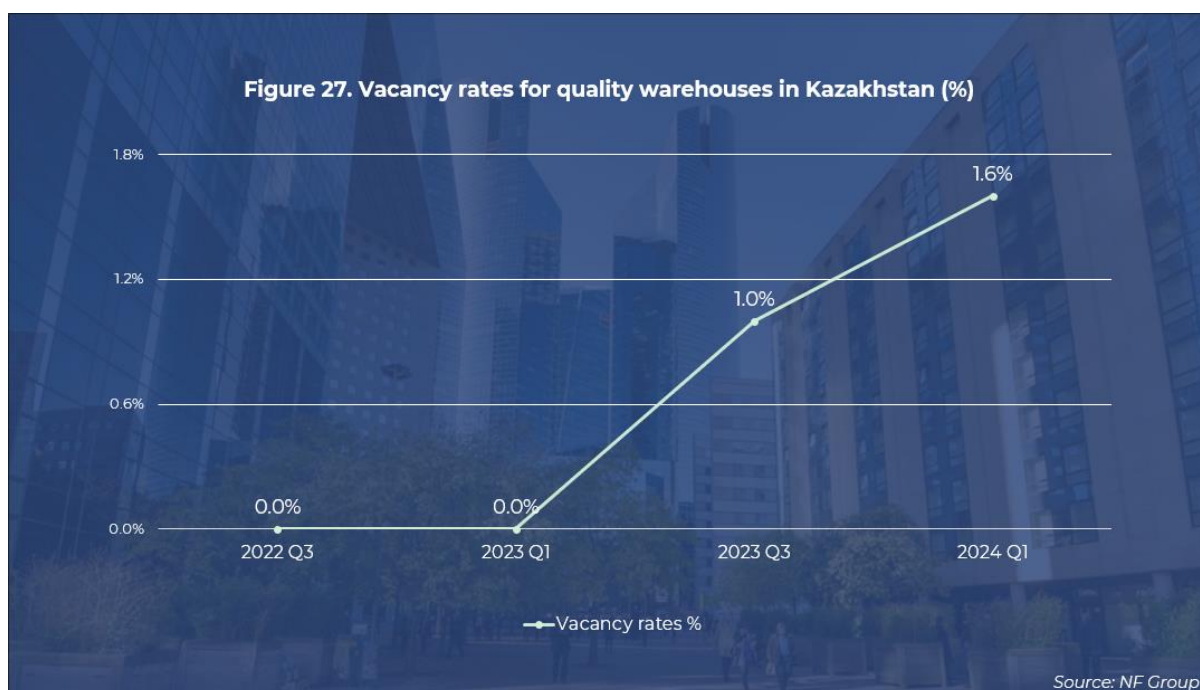
⁴² Adilet.zan.kz, Approval of the Concept of development of transport and logistic capacity of the Republic of Kazakhstan till 2030

⁴³ NF Group, Market of High-Quality Warehouse Real Estate in Central Asia, Transcaucasia, and the Republic of Belarus

⁴⁴ NF Group, Market of High-Quality Warehouse Real Estate in Central Asia, Transcaucasia, and the Republic of Belarus

⁴⁵ CWKZ, Marketbeat Astana

whether under construction or in the planning stages, are being developed for designated tenants.⁴⁶



The main trend among major players is 3PL, which refers to outsourcing logistics and supply chain management functions, such as transportation, warehousing, and order fulfilment, to a specialised external provider.⁴⁷

Table 1. Leading warehousing companies in Almaty and Astana⁴⁸

City	Company	Class	Area (m2)	3PL
Almaty	ILP	A	90,000	Yes
Almaty	Damu Logistics	A	110,000	Yes
Almaty	ALG Company	A	48,000	Yes
Astana	TLC Astana	A	51,000	
Astana	AIE Logistics	A	36,000	Yes
Astana	Astyk Logistics	A	30,500	Yes

6.5. Commissioning of warehouses

The total area of commissioned wholesale and non-wholesale warehouses and transport and logistics centres reached its peak in 2022 and stood at 256,010 m². In terms of investments, the

⁴⁶ CWKZ, Marketbeat Almaty

⁴⁷ TSPM, Digest of the retail market of the Republic of Kazakhstan

⁴⁸ TSPM, Digest of the retail market of the Republic of Kazakhstan

facilities commissioned in 2023 had the highest total cost – \$102 million. Although the transport and logistics centres were relatively small in terms of area, they accounted for 30% of cost in 2023.



It is expected that 700,000 m2 of quality warehouses will be commissioned in 2024 and 2025, including the logistics terminal Kedentransservice (37,400 m2), first stage of the logistics park Focus-Aksengir built for Ozon (35,000 m2), the warehousing complex Damu Logistics Almaty (21,500 m2), the warehouse of Wildberries (11,500 m2).⁴⁹

7. THE AIFC'S ROLE IN REAL ESTATE

The AIFC plays an important role in promoting investment in the real estate sector. As of August 2024, 37 companies operating in the real estate sector are registered at the AIFC.

The AIFC also allows the establishment of a Real Estate Investment Trust (REIT), an entity that owns and manages income-generating real estate. This chapter discusses REITs, global REIT market and the AIFC's role in developing the REIT market.

7.1. Definition of REIT and global REIT market

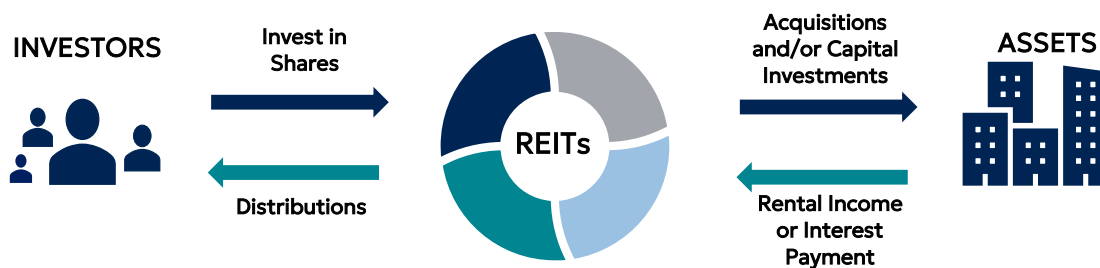
Similar to mutual funds, REITs aggregate capital from investors who receive dividends from the

⁴⁹ NF Group, Market of high-quality warehouse real estate in Central Asia, Transcaucasia, and Belarus

trust's real estate investments. Investors are not responsible for individually purchasing, managing, or financing properties.⁵⁰

Although traditional sectors such as residential and office buildings remain dominant in REITs, alternative asset classes like industrial, retail, and healthcare REITs are experiencing significant growth, reflecting evolving economic dynamics.⁵¹

Image 1. How do REITs work?



Source: GLOBAL REIT⁵²

REITs combine the potential for capital appreciation (like equities) with a steady income stream (like bonds), making them an asset class that has characteristics of both equity and fixed-income investments. REITs also serve as a hedge against inflation.

For instance, Equity REITs own and manage real estate properties and generate income through rental payments from tenants. Mortgage REITs (mREITs) REITs provide financing for income-generating real estate by purchasing or originating mortgages and mortgage-backed securities. They earn income from the interest on these investments.

REITs can also be divided as publicly traded and private:

- **Publicly Traded REITs** are registered with a regulatory authority and trade on major stock exchanges. They offer liquidity and can be bought or sold like any other publicly traded stock.
- **Private REITs** are not traded on stock exchanges and are typically sold to institutional investors. They may have limited liquidity and higher minimum investment requirements.

Advantages of investing in REITs include:

- **Competitive Long-Term Performance:** Historically, REITs have delivered long-term total returns comparable to those of other stocks, making them attractive for investors seeking competitive performance.
- **Substantial, Stable Dividend Yields:** REITs have a track record of providing substantial and stable dividend yields, offering investors a consistent income stream.

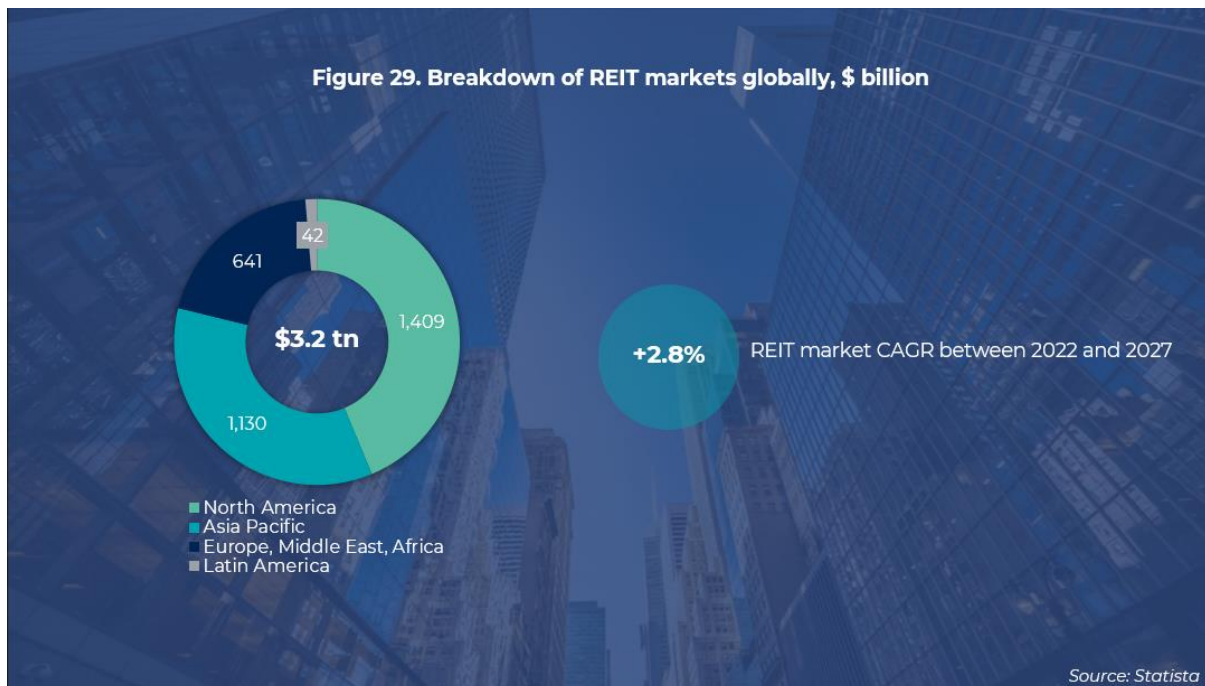
⁵⁰ Investopedia, REIT: What It Is and How to Invest

⁵¹ Medium.com, Unveiling the REIT Landscape: A Deep Dive into Market Size, Trends, and Future

⁵² GLOBAL REIT

- **Liquidity:** Publicly traded REITs can be easily bought and sold on major stock exchanges, providing investors with liquidity and flexibility.
- **Transparency:** Listed REITs are subject to scrutiny from independent directors, analysts, auditors, and the financial media, ensuring transparency and accountability.
- **Portfolio Diversification:** Investing in REITs offers diversification in an investment portfolio, as the real estate market tends to have low correlation with other stocks and bonds.

As of December 2023, there were 940 REITs operating globally, compared to 120 REITs in 1990.⁵³ According to Statista, in 2023, the global market size of listed REITs exceeded \$3.2 trillion⁵⁴, with North America and Asia Pacific accounting for around 79% of the market. It is expected that the global REIT market will keep growing and, according to some estimates, with a CAGR of 2.8% between 2022 and 2027.⁵⁵ The growth in the REIT market will be driven by continued urbanisation and the rise of middle classes in emerging economies, among others.⁵⁶



7.2. Establishment of REITs at the AIFC

REITs in the AIFC are the funds that:

- Invest at least 80% of their assets in income-generating real estate, encompassing residential, commercial, and other income-generating properties, with the remainder invested in cash or other securities.

⁵³ Learn about Global Real Estate Investments Today

⁵⁴ Statista, Value of listed real estate market worldwide as of December 2023, by region

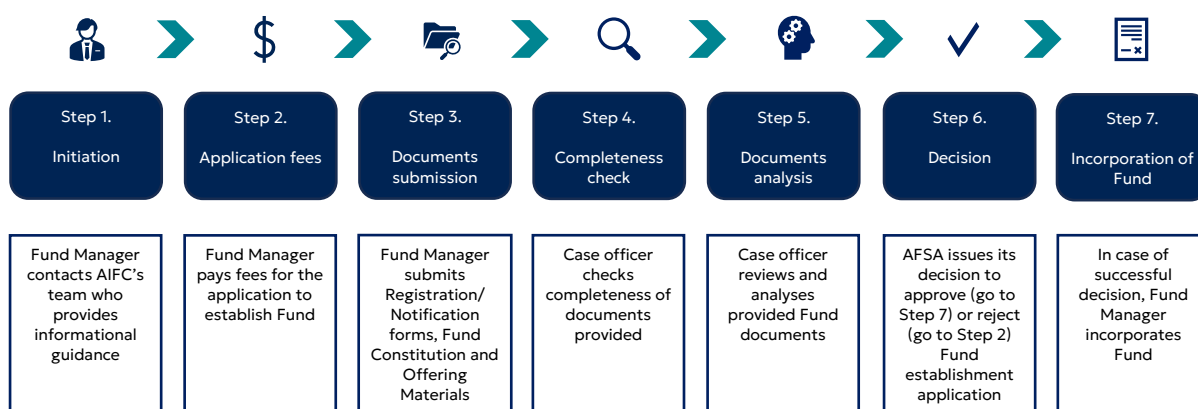
⁵⁵ Technavio, REIT Market by Type, Application, and Geography - Forecast and Analysis 2023-2027

⁵⁶ Medium.com, Unveiling the REIT Landscape: A Deep Dive into Market Size, Trends, and Future

- Generate a minimum of 50% of their net income from property rentals.
- Distribute at least 80% of their yearly net income to investors.⁵⁷

Additionally, no more than 10% of the funds can be invested in ongoing projects, subject to regulatory requirements, such as providing a guaranteed letter confirming the successful completion of the project.

Image 2. Fund establishment process at the AIFC



Source: AFSA

Table 2. Categories of REIT: Non-Exempt Fund or Exempt Fund

	Non-Exempt Fund	Exempt Fund	
Fund Manager	Domestic Fund Manager	Domestic Fund Manager	Foreign Fund Manager
Minimum capital requirements of Fund Manager	US\$ 150,000	US\$ 50,000*	n/a
Fund Domiciliation	AIFC and foreign jurisdictions		AIFC
Fund Registration/Notification	Registration	Notification	Registration
Fund Constitution	Required		
Offering Materials	Required		
Investors/Unit holders	Any	Professional Clients only	
Minimum Subscription amount	-	US\$ 50,000	
Eligible Custodian	Required		
Fund Auditor	Required		
Periodic reports	Annual and quarterly	Not Required	
Financial reports	Annually (IFRS or US-GAAP)		

Source: AFSA

⁵⁷ AFSA, Specialist Funds

Considering the Retail Client-oriented nature of Non-Exempt Funds, the degree and extent of disclosures and requirements applicable to Non-Exempt Funds are more stringent than for Exempt Funds.⁵⁸

7.3. REITs at the AIFC

Currently, there are several REITs registered at the AIFC, including SEVEN OEIC Ltd., ONE OEIC Ltd., TSPG, and Global Property REIT OEIC.⁵⁹ Namely, TSPG comprises two of the largest shopping and entertainment malls in Kazakhstan: Dostyk Plaza (Almaty) and Shymkent Plaza (Shymkent). These two malls generated a rental income of \$43.8 million in 2023.⁶⁰ The REIT is managed by Provident Fiduciary. In the near future, TSPG plans to own and manage other class A commercial properties and become the largest REIT in Central Asia.⁶¹

Interview with Asset Abdygapparov, CEO at Provident Fiduciary Ltd

As part of the Report, Mr. Asset Abdygapparov, Chief Executive Officer at Provident Fiduciary Ltd, was interviewed. Provident Fiduciary Ltd is a managing company for three REITs registered at the AIFC. During the interview, Mr. Abdygapparov shared his views on REITs, current situation in the REIT market in Kazakhstan and its outlook.

1. What are the investment benefits of REITs and why should individuals invest in REITs?

The major benefits of REITs are as follows:

- spread of risk over the larger properties reducing exposure to particular fixed physical square metres and to a particular tenant;
- ability to pool capital and invest collectively in large ticket properties otherwise unavailable for individual investors;
- professional property management team takes care of interactions with tenants and all day-to-day routine operations and maintenance of the facilities;
- good diversification tool for any investment portfolio, as REITs are classified as alternative investments and possess characteristics of both equity – providing ownership and capital appreciation, as well as debt – providing stable periodic cash flow.

⁵⁸ AFSA, Guidance for Fund Management Activity and Funds in the AIFC (2023)

⁵⁹ AFSA, Public Register

⁶⁰ TSPG

⁶¹ Forbes.kz, Mr. Serik Tolbassy Transfers Assets to REIT TSPG

2. When evaluating a REIT for investment, what key factors should be considered?

First of all, any investor shall assess his or her current portfolio structure and ability to take, increase or rearrange exposure to the real estate sector. Real estate portfolio allocation varies between 5% and 15% in the developed capital markets. Here in Kazakhstan, I believe, average allocation of individual wealth to real estate generating investment income is much higher. Local investors might consider shifting their risk from directly owning income-producing real estate to REITs to take advantage of the benefits of REITs mentioned earlier.

When selecting a particular REIT for investment, I think the most relevant factors to consider are:

- track record of financial performance and cost structure;
- track record and performance of property management team;
- types, classes and locations of properties;
- mix and characteristics of tenants.

3. What are the most significant risks associated with investing in REITs, and how can they be mitigated?

In my opinion, the biggest risk of REITs operating in our market is concentrating on a limited number of properties. The market is at an early stage of development. Local REITs are established with anchor investors contributing their properties. These anchor investors are willing to retain controlling stakes while allowing pools of newcomers investors to take only minority stakes.

This ownership structure gives way to the second risk – a limited liquidity of shares. The secondary market is thin because large stakes of most local REITs are closely held and concentrated in single hands. Both of these risks will decrease as the market continues to develop.

4. What is the current situation with the REIT market in Kazakhstan? And what is your outlook?

Although the number of registered REITs is constantly growing, access to shares of these REITs by the general public is extremely limited. There are over 10 REITs operating under general regulation in Kazakhstan and four REITs operating in the AIFC. All of those REITs are placed privately among a very limited number of investors.

Number of REITs and their size will continue to grow. I believe there will be consolidation in the sector and REITs will begin to gradually become available to investors over the next 2 to 5 years.

5. Why did you decide to establish a REIT? What is the AIFC's role in this?

The decision to establish REITs had been driven by our clients. One of them, a real estate development company, encountered difficulties in selling the office buildings it had built. The company saw an opportunity to sell those properties to pools of investors of REIT more quickly, rather than searching for one potential buyer. The other client had been looking for raising capital from foreign institutional investors to fund its growth program. Being involved in the commercial rental real estate business, the client saw an opportunity to create a corporate structure in the form of a REIT, which was familiar and convenient to foreign investors.

6. What types of properties does you REIT own and manage?

Our REITs specialize in mid-sized office buildings of approximately 10,000 m² and on large upscale commercial properties with more than 50,000 m² of leasable space.

7. What are your plans on further development of your REIT?

Our team is working to further diversify the types of property in our REITs. We plan to integrate logistics, industrial, infrastructure and other assets into our product line.

Classification of office buildings⁶²

Office buildings are typically classified into one the following categories: class A, class B, class C, and class D. Each category means a different level of price, quality, and amenities. However, since real estate quality varies greatly from place to place, A, B, C, and D classifications are subjective. As a result, they are based on what is available in a specific, local area.

Class A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility, and a tangible market presence.

Class B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

Class C

Buildings competing for tenants requiring functional space at rents below the average for the area.

Class D

Buildings are usually the ones that have been sitting vacant for a long period of time, in less than desirable locations, and are in need of extensive renovation and capital repairs.

Classification of shopping facilities⁶³

Shopping and entertainment mall is a stationary retail facility consisting of one or more stationary retail facilities located within the boundaries of a planned territory, represented by a multitude of domestic trade entities, with a mixed assortment, as well as the presence of catering facilities and additional purposes, including consumer services, entertainment and others, the total area of which is more than fifteen percent of the retail area of the shopping and entertainment mall, with a parking lot for vehicles within the boundaries of its territory, functioning and managed as a single facility that may be part of a retail network.

Shopping centre is a stationary shopping facility represented by a collection of trade entities, with a mixed or specialized assortment, as well as the presence of public catering facilities and additional purposes, including consumer services, entertainment and other things, the total area of which does not exceed fifteen percent of the retail area of the shopping centre, with a parking area for vehicles within its territory, can be part of a retail chain.

Trading house a stationary trading facility represented by domestic trade entities selling specialized or mixed range of goods, with catering facilities and personal services, a parking area for vehicles within the boundaries of its territory, may be part of a trading network.

⁶² BOMA International

⁶³ Adilet.zan.kz, On approval of the Internal Trade Rules

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