Aggravated by external threats to the country’s sovereignty, throughout 2014 the economic situation in Ukraine worsened with businesses largely adopting a wait-and-see attitude in relation to their short-term operations in Ukraine. Significant devaluation of the Ukrainian hryvnya had an additional strong negative impact on the business dynamics in Ukraine. Nevertheless, the expectations of the international business community in Ukraine on longer-term development of the country largely remain positive.

Despite the challenging economic situation and the negative office property dynamics in Kyiv, year of 2014 witnessed the commissioning of around 86% of the space scheduled for delivery in 2014. This resulted in a further increase in vacancy to over 23% and a downward correction of rents on the office property market in Kyiv.

Though being relatively resilient to the effects of the financial crisis in 2008/09, the retail property market in Ukraine suffered severely during 2014. Increasing supply in the sector combined with a highly challenging business environment in Ukraine offers opportunities for retailers to further improve their occupational position.

Despite suppressed business dynamics in Ukraine, the market-wide vacancy in the logistics property sector in the Greater Kyiv decreased to 6.1% at the end of 2014. Prime rents in the sector were subject to downward pressure in the US dollar equivalent. The logistics property sector in Kyiv is attractive from the secondary investment perspective due to existing opportunities to acquire property assets at below replacement cost and, with net initial yield around 15% despite low market vacancy and historically low rents in the sector.

There were a very few secondary investment deals on the Ukrainian property market reported in 2014, mainly due to conflict in Eastern Ukraine and challenging economic situation in the country, as well as inconsistency in vendors’ and purchasers’ expectations on values. Prime commercial property yields in Kyiv remain at high levels compared to other Central European capitals, reflecting both country risk and opportunities for investors (Fig. 1).
Economic Overview
Throughout 2013 general business dynamics in Ukraine was suppressed with negative economic dynamics witnessed in the country since the third quarter of 2012.

At the end of 2013, Ukraine faced political uncertainty with increasing civil unrest following a decision by the government to seek closer political alignment with Russia at the expense of long-term structural reforms in the country and development of economic, social and institutional ties with the EU. Further escalation of public protests across Ukraine resulted from the authorities’ attempts to forcefully suppress peaceful pro-European meetings.

Following the two-month escalation of the political crisis in Ukraine, in late January 2014 the Prime Minister along with the Cabinet of Ministers resigned, whilst President Victor Yanukovych and his government left the country. The Acting President of Ukraine was appointed by the Parliament, and a new temporary government was formed. New presidential elections were held on 25 May 2014, and delivered a first-round victory for pro-western businessman Petro Poroshenko.

In spring 2014, Ukraine has faced new challenges and threats. Following the annexation of the Autonomous Republic of Crimea by the Russian Federation in March 2014, turbulence has emerged in Eastern Ukraine, whilst the military conflict, actively supported by Russia, continues at the time of writing this report.

The Parliamentary elections held in October 2014 resulted in the victory of pro-western parties, which formed coalition government comprised of reform-oriented ministers.

Aggravated by the threats to the country’s sovereignty, in the first half of 2014 the economic situation in Ukraine worsened with businesses largely adopting a wait-and-see attitude in relation to their further activity across the country. Significant devaluation of the Ukrainian hryvnya during the year had an additional strong negative impact on the business dynamics in Ukraine and consumer sentiment in the country.

The expectations of business community to the long term economic development of Ukraine remain largely positive, in view of the country’s potential, the announced intentions of new Ukraine’s authorities to implement the necessary reforms and, the support to the country demonstrated by the USA, EU and the Group of 7, and major international financial institutions such as IMF, World Bank and EBRD. In April 2014, the IMF approved a two-year Stand-By Arrangement for Ukraine, amounting to approximately $17.01 billion, whilst the first tranche of USD 3.19 billion was allocated in early May 2014.

Economic growth
In the first quarter of 2014, real GDP in Ukraine (excluding the Autonomous Republic of Crimea) decreased by (-1.2%) year-on-year. In April-June 2014, economic decline reached (-4.6%) year-on-year, followed by further drop in real GDP by (-5.3%) year-on-year. The official figures on economic growth in the fourth quarter of 2014 and for the year 2014 are to be released by the State Statistics Committee of Ukraine in March 2015. Nevertheless, Oxford Economics projected that real GDP growth decreased by (-7%) in 2014. Such forecast is supported by other international and Ukrainian think tanks, and reflects more positive expectations than earlier during the year.

The negative economic dynamics in Ukraine during 2014 has been commonly attributed to such factors as economic and political crisis at the start of the year, as well as continuing military conflict in Eastern Ukraine and absence of structural reforms in the country. These factors resulted in unfavourable business climate, slowdown in domestic consumption and retail dynamics, sharply declined industrial production and contraction of investment activity in Ukraine.

As of November 2014, Oxford Economics projected that in 2015 real GDP in Ukraine will decrease by (-1%) with return to growth of 5% in 2016 and 5.3% in 2017. The think tank considers that prospects of positive economic dynamics from 2016 are good in Ukraine, even if territorial disputes remain unresolved, as improved access to a recovering EU market will enable export-led recovery of the country.

In December 2014, the Cabinet of Ministers of Ukraine projected that real GDP will decrease by (-4.3%) in 2015.

In view of the ongoing military conflict in Eastern Ukraine, short term economic performance of the country remains uncertain. However, Ukraine’s significant potential remains obvious, as well as numerous economic and institutional issues requiring effective actions to ensure further sustainable economic development of the country.
Ukraine H2 2014

Industrial production
In 2013, industrial production in Ukraine decreased by (-4.3%) year-on-year.

In January-November 2014, industrial production further contracted by (-10.1%) compared to the respective period of 2013. During the first 11 months of 2014, the most significant negative growth dynamics was witnessed in such export-oriented industries, as metallurgy (-14.9%), chemical production (-14.9%) and machine building (-21%).

In November 2014, Oxford Economics projected that industrial production in Ukraine will decrease by (-9.3%) in 2014, followed by further decline by (-0.5%). The think tank forecasted that industrial production growth in the country will be resumed in 2016 at 6.5% year-on-year.

Agriculture
In January-November 2014, agricultural output in all categories of agricultural enterprises increased by 5% year-on-year compared to the growth by 12.1% in the respective period of 2013 and the decrease by (-4.3%) in 2012.

Despite the decline in most of the economic sectors in Ukraine, agricultural sector demonstrated positive growth dynamics in 2014, and remained one of major positive contributors to GDP.

Unemployment
In accordance with the ILO methodology (that defines unemployment based on the population 15-70 years of age), the unemployment rate in Ukraine amounted to 7.2% at the end of 2013 compared to 10.7% in European Union (28).

The unemployment rate in Ukraine increased to 9% in January-March 2014 and fell to 8.6% based on the figure for the first half of the year. In January-September 2014, the unemployment rate in Ukraine reached 8.9% compared to 10.1% in European Union (28) in September 2014.

The figure for the unemployment rate in Ukraine 2014 will be published by the State Statistics Committee of Ukraine in March 2015.

In November 2014, Oxford Economics projected that the unemployment rate in Ukraine would decrease amounting to 7.5% by the end of 2014 and 7% in 2015.

Inflation
In January-December 2014, consumer price inflation reached 12.1% year-on-year compared to 0.3% deflation in 2013. Major sources of price inflation throughout the year were increased prices of imported goods, including fuel, due to the devaluation of the Ukrainian currency, as well as growth of the state-regulated tariffs.

In January-November 2014, the basic consumer price index in Ukraine increased by 8.7% compared to the growth by 0.2% in the respective period of 2013.

In November 2014, Oxford Economics projected that consumer price inflation in Ukraine will amount to 15% in 2015 and 8.3% in 2016.

In December 2014, the Cabinet of Ministers of Ukraine projected that CPI inflation will amount to 13.1% in 2015. According to the World Bank, consumer prices will increase by 10% in 2015.

National currency
In the first quarter of 2014, significant devaluation of the Ukrainian hryvnya took place in Ukraine, with the official exchange rate changed from 7.993 UAH / USD during the period July 2012 – February 2014 to around 11.72 UAH/USD in mid-June 2014.

In the second half of 2014, the hryvnya was subject to further significant devaluation. After an almost 15% depreciation in November 2014, the Ukrainian currency continued to weaken in December. As of mid-December 2014, the official exchange rate was at 15.78 UAH / USD; however, at the black market the US dollar was traded at the exchange rate sometimes exceeding 20 UAH / USD.

At the end of 2014, major think tanks expected that the exchange rate of the hryvnya against the US dollar will be at around 18 UAH/USD at the end of 2015, if Ukraine will receive foreign financial assistance, strictly conditional on reforms targeted at restoring macroeconomic stability in the country and give impetus to its future economic growth.

Consumer confidence
In November 2014, GfK Ukraine reported a decrease in consumer confidence index in the country. In the experts’ opinion, further devaluation of the Ukrainian hryvnya and perceived by population slow formation of the coalition government undermined the traditional post-election strengthening of consumer confidence. At the same time, Ukraine’s population remained largely positive about the long-term economic development of the country.

Household income
According to the data published by the State Statistics Committee of Ukraine, the average nominal monthly salary in Ukraine in January-November 2014 was UAH 3,439 (equivalent to USD 230 based on the official exchange rate in late November 2014), increasing by 6.3% in the hryvnya equivalent compared to the respective period in 2013, but dropping by almost 57% in the US dollar equivalent.

Due to acceleration of price inflation, in January-November 2014, real salaries decreased by 5.7% year-on-year compared to the 8.4% annual growth in the respective period of 2013.

When analysing household income in Ukraine, it is worth noting that a considerable unregistered ‘grey’ salary segment exists.

Retail sales
In January-November 2014, retail sales in Ukraine decreased by (-7.5%) year-on-year compared to the 9.2% growth registered in the respective period of 2013.

Negative dynamics of retail sector in 2014 was attributed to consumer price inflation, devaluation of the Ukrainian hryvnya and decrease in real household incomes.
Foreign trade and foreign direct investment

The National Bank of Ukraine preliminary reported that in January-October 2014, exports of goods from Ukraine decreased by (-10.8%) year-on-year, because of a significant deterioration of conditions for foreign trade and aggravation of the situation in Eastern Ukraine. The most significant reduction was observed in exports of machines, equipment, transport vehicles and devices – by (-26.7%) year-on-year, chemical products – by (-26%), ferrous and non-ferrous metals and their products – by (-9.7%).

At the same time, imports of goods into the country decreased by (-26.4%) year-on-year, mainly due to contraction of imports of machine-building products by (-37.6%), ferrous and non-ferrous metals and their products by (-33%), food and raw materials for their production by (-23.3%), and chemical products by (-18.1%).

Higher rate of decrease in imports compared to exports of goods was attributed to continuous decline in economic activity and devaluation of the Ukrainian hryvnya.

As of 1 October 2014, gross FDI into Ukraine amounted to USD 48,522.6 million or USD 1,129.2 per capita, decreasing by 14.9% since the start of the year. Net outflow of FDI from Ukraine amounted to around USD 8,469.6 million during the first three quarters of 2014 (Fig. 3).

Outlook

As forecast by leading Ukrainian and international experts, Ukraine will witness economic decline in a range of (-5.1%) in 2015. The Cabinet of Ministers of Ukraine projected that real GDP will decrease by (-4.3%) in 2015.

Oxford Economics expect gradual return to GDP growth with 5% in 2016 and 5.3% in 2017. The think tank considers that prospects of positive economic dynamics from 2016 are good in Ukraine, even if territorial disputes remain unresolved, as improved access to a recovering EU market will enable export-led recovery of the country.

In accordance with the Global Competitiveness Report 2014-2015, restoring peace in Eastern Ukraine is the country’s highest priority, but far-reaching reforms are necessary to create favourable conditions for further sustainable economic development. A strengthening of financial markets is also believed to further help stabilize the economy.

Despite the ongoing military conflict in Eastern Ukraine and poor prospects over short-term economic performance of the country, Ukraine is recognised to have a significant potential and competitive strengths resulting from the large market size and a solid educational system providing easy access to all levels of education and setting grounds for development of the innovation capacity of the country.
Offices
Extremely suppressed business dynamics, combined with significant new office delivery, resulted in a further increase in vacancy and a downward correction of rents on the office property market in Kyiv during 2014.

Supply
There was approximately 1,714,272 sq m (GLA) of speculatively delivered office stock in Kyiv at the end of 2014, excluding government buildings and offices constructed by owner-occupiers (Fig. 4).

New office supply in Kyiv in the second half of 2014 amounted to around 47,493 sq m (GLA). This number included BC ‘Advance’, BC ‘Kuznetsky’, and several other smaller office properties. It was also officially disclosed about the delivery of BC at 36 Schorsa Str. in 2013 where office premises are offered for purchase.

The cumulative new office supply in 2014 in Kyiv reached approximately 154,768 sq m (GLA) and was around 18% higher than at the end of 2013 and only 1% less than in 2012.

As of early 2015, around 105,000 sq m (GLA) of new office space was under construction, scheduled for delivery during 2015. Major office schemes, which are scheduled for delivery in Kyiv during 2015 include ‘Astara’ and BC at intersection of Vasylkivska Str. and Akademika Hlushkova Str., though their delivery is subject to market conditions and business climate in Ukraine in 2015.

More office projects are in the pipeline, waiting for an improvement in office market dynamics in Kyiv.

In view of the present, comparatively high vacancy levels and an expected further softening of rents in the office property market in Kyiv, developers of some sizeable pipeline schemes may well decide to defer speculative commissioning to later periods beyond 2015.

The office property market in Kyiv remains structurally undersupplied compared to other CEE capitals in terms of total office stock, stock per capita, as well as, importantly, the variety of formats and the quality of properties available for occupation (Fig. 5).

### Table 1

**Key office property market indicators in Kyiv**

<table>
<thead>
<tr>
<th>Stock (sq m)</th>
<th>2012</th>
<th>2013</th>
<th>Q1 2014</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
<th>Annual outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>New supply (sq m)</td>
<td>1,434,350</td>
<td>1,564,150</td>
<td>1,653,960</td>
<td>1,675,195</td>
<td>1,673,434</td>
<td>1,714,276</td>
<td>▲</td>
</tr>
<tr>
<td>Take up (sq m)</td>
<td>158,000</td>
<td>131,100</td>
<td>86,040</td>
<td>21,235</td>
<td>6,640</td>
<td>40,853</td>
<td>▲</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>18.1</td>
<td>17.0</td>
<td>23.8</td>
<td>23.6</td>
<td>23.1</td>
<td>23.4</td>
<td>▲</td>
</tr>
<tr>
<td>Prime rents (USD/ sq m/ month)</td>
<td>35-41</td>
<td>25-38</td>
<td>22-38</td>
<td>20-36</td>
<td>19-30</td>
<td>18-29</td>
<td>▼ / ● ● ●</td>
</tr>
</tbody>
</table>

Source: DTZ Research

Notes: All figures are period-end and due to non-transparency of the market are subject to continued revision. Take-up and vacancy figures do not include sub-lease opportunities.

* Assumption overall stabilisation in Ukraine in 2015.
Table 2
Major office schemes delivered in Kyiv in 2014

<table>
<thead>
<tr>
<th>Period</th>
<th>Project</th>
<th>Location*</th>
<th>Size (sq m)</th>
<th>Developer</th>
<th>Major occupiers**</th>
<th>Occupancy** (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1, 2014</td>
<td>IQ BC</td>
<td>Pechersk</td>
<td>33,950</td>
<td>KAN Development</td>
<td>Sport Life</td>
<td>11</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>BC at 15a Leiptsihska Str.</td>
<td>Pechersk</td>
<td>21,800</td>
<td>Merx</td>
<td>Metinvest – SMC</td>
<td>82</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Sigma BC</td>
<td>NC-WB</td>
<td>18,650</td>
<td>Midland Development</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Forum Victoria Park (phase 2)</td>
<td>NC-WB</td>
<td>13,800</td>
<td>FMG</td>
<td>SETA Decor</td>
<td>34</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Domino BC</td>
<td>Podil</td>
<td>8,740</td>
<td>local developer</td>
<td>War Gaming</td>
<td>72</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Advance BC</td>
<td>Podil</td>
<td>7,500</td>
<td>local developer</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Lahoda BC (phase 1)</td>
<td>NC-WB</td>
<td>5,605</td>
<td>Georgiy</td>
<td>24 TV, Depositphotos, MagNet</td>
<td>100</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>BC at 14 Koltsova Bould.</td>
<td>NC-WB</td>
<td>4,242</td>
<td>NBK</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>BC Demievsky</td>
<td>NC-WB</td>
<td>3,192</td>
<td>local developer</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>Kuznetskiy BC</td>
<td>C</td>
<td>3,100</td>
<td>local developer</td>
<td>Bank Finansovaya Initsiativa, Coal Energy S.A.</td>
<td>82</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>SMART Office House BC</td>
<td>NC-WB</td>
<td>2,400</td>
<td>Smart Development</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>BC Lahoda (phase 2)</td>
<td>NC-WB</td>
<td>2,060</td>
<td>Georgiy</td>
<td>3Shape</td>
<td>100</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>BC at 40/85 Saksahanskooh Str.</td>
<td>CBD</td>
<td>2,040</td>
<td>local developer</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>BC at 3 Tarasa Shevchenko Lane</td>
<td>CBD</td>
<td>1,910</td>
<td>local developer</td>
<td>Kernel</td>
<td>100</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>Intelect BC</td>
<td>NC-EB</td>
<td>1,500</td>
<td>local developer</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

Source: DTZ Research

* CBD – Central Business District; C – central outside CBD; NC-WB-non-central area on the western bank of Dnipro River, NC-EB-non-central area on the eastern bank of Dnipro River.
** As of late December 2014

Table 3
Major office projects scheduled for completion in Kyiv in 2015

<table>
<thead>
<tr>
<th>Project</th>
<th>Location*</th>
<th>Size (sq m)</th>
<th>Developer</th>
<th>Developer’s nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>BC Astarta (phase 1)</td>
<td>Podil</td>
<td>15,130</td>
<td>Energoinvest</td>
<td>UA</td>
</tr>
<tr>
<td>BC at Vasylykivska Str. / Akademika Hlushkova Str</td>
<td>NC-WB</td>
<td>13,000</td>
<td>Rele Invest</td>
<td>UA</td>
</tr>
<tr>
<td>Podil Prestige BC</td>
<td>Podil</td>
<td>12,960</td>
<td>Pateli Leasing</td>
<td>UA</td>
</tr>
<tr>
<td>Residence BC</td>
<td>NC-WB</td>
<td>11,000</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>BC at 69-71 Frunze Str.</td>
<td>NC-WB</td>
<td>10,900</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>BC Lahoda (phase 3)</td>
<td>NC-WB</td>
<td>9,000</td>
<td>Georgiy</td>
<td>UA</td>
</tr>
<tr>
<td>BC at 46-46a Horkoho Str.</td>
<td>CBD</td>
<td>7,400</td>
<td>Inor</td>
<td>UA</td>
</tr>
<tr>
<td>BC at 98 Chervonoarmiyska Str.</td>
<td>C</td>
<td>6,300</td>
<td>VS Energy International</td>
<td>UA / RUS</td>
</tr>
<tr>
<td>BC at 5/1 Zoolohichna Str.</td>
<td>NC-WB</td>
<td>5,000</td>
<td>Ludmyla Pharma</td>
<td>UA</td>
</tr>
<tr>
<td>BC at 8 Dorohohytyska Str.</td>
<td>NC-WB</td>
<td>8,083</td>
<td>Granit</td>
<td>UA</td>
</tr>
<tr>
<td>BC at 32-36 Zhylyanska Str.</td>
<td>CBD</td>
<td>3,125</td>
<td>local developer</td>
<td>UA</td>
</tr>
</tbody>
</table>

Source: DTZ Research

* CBD – Central Business District; C – central outside CBD; NC-WB – non-central area on the western bank of Dnipro River, NC-EB – non-central area on the eastern bank of Dnipro River.
Table 4
Selected major new office lease transactions in Kyiv in 2014

<table>
<thead>
<tr>
<th>Period</th>
<th>Tenant</th>
<th>Size (sq m)</th>
<th>Occupier sector*</th>
<th>Building</th>
<th>Location**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4, 2014</td>
<td>confidential</td>
<td>4,464</td>
<td>FIRE</td>
<td>Ilyinskyi BC</td>
<td>Podil</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>PwC</td>
<td>3,489</td>
<td>FIRE</td>
<td>Eurasia BC</td>
<td>CBD</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>KPMG</td>
<td>2,126</td>
<td>FIRE</td>
<td>Senator BC</td>
<td>Pechersk</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Porsche Ukraine</td>
<td>1,905</td>
<td>Wholesale &amp; retail</td>
<td>Silver Breeze BC</td>
<td>NC-EB</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Kemel</td>
<td>1,910</td>
<td>Agriculture</td>
<td>BC at 3 Tarasa Shevchenko Lane</td>
<td>CBD</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>Porsche Leasing</td>
<td>1,195</td>
<td>FIRE</td>
<td>Silver Breeze BC</td>
<td>NC-EB</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>SDL Tridon Development lab</td>
<td>1,146</td>
<td>Service Industry</td>
<td>SP Hall</td>
<td>NC-WB</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Kuehne Nagel</td>
<td>1,120</td>
<td>Logistics</td>
<td>BC at 4 Garmatna Str.</td>
<td>NC-WB</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Bunge</td>
<td>1,070</td>
<td>Agriculture</td>
<td>Leonardo BC</td>
<td>CBD</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>confidential</td>
<td>938</td>
<td>ICT</td>
<td>Eurasia BC</td>
<td>CBD</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>E-Consulting</td>
<td>850</td>
<td>ICT</td>
<td>BC at 5a Zoologichna Str.</td>
<td>NC-WB</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Deutsche Bank</td>
<td>740</td>
<td>FIRE</td>
<td>BC at 20 Lavrskaya Str.</td>
<td>Pechersk</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Unity-Bars</td>
<td>628</td>
<td>ICT</td>
<td>Silver Breeze BC</td>
<td>NC-EB</td>
</tr>
</tbody>
</table>

Source: DTZ Research
* FIRE – Finance, Insurance, Real Estate; ICT – Information and Communication Technologies.

Demand

As a result of an increased availability of office space and a downward correction of rents, DTZ witnessed heightened activity amongst office occupiers in Kyiv in 2013.

The significant deterioration of the business climate in Ukraine resulted in low occupier demand for office space in Kyiv during 2014. In the first half of 2014, office take-up in the Ukrainian capital amounted to only around 28,800 sq m (GLA), whilst in the second half of the year the figure reached 57,300 sq m (GLA).

In 2014, office property demand in Kyiv was driven by the companies operating in manufacturing and distribution industries (particularly, FMCG and pharmaceutical sectors), ICT and financial sector. There was also a relative increase in activity in Kyiv from companies relocating from Eastern Ukraine.

In 2014, a number of major occupiers sought to renegotiate their lease contracts and the volume of these transactions accounted for around 40% of cumulative take-up in the office property sector in Kyiv. During the analysis period there were almost no new market entries, whilst take-up was dominated by relocations of occupiers (50% of cumulative take-up).

In 2014, similar to 2009-2012 pre-lets on the office property market in Kyiv were effectively absent, due to overall business uncertainty in Ukraine, the availability of opportunities to occupy space in already operating schemes and a lack of confidence in the timely delivery of pipeline schemes.

Corporate occupiers have been extremely conservative in their growth projections for the forthcoming 5 years in view of the uncertain geopolitical and macroeconomic outlook for Ukraine. However, many of them expect an improvement of the overall situation in Ukraine and plan moderate business growth in the country with a resultant office expansion in Kyiv, whilst being very sensitive in terms of quality, efficiency and cost of occupation of office space.

Further, many leases signed or renewed in 2009/12 will expire, and this factor, combined with an increased availability of space at relatively low rents, could stimulate some positive dynamics during 2015.

Figure 6
Vacancy on the office property market in Kyiv by locations (%)
Vacancy
At the end of the first quarter of 2014, the primary vacancy in the office property sector in Kyiv reached 23.8%, having increased by 6.8% from late 2013 and established the new historic record for the local market (Fig. 7).

During the rest of the year, the primary market-wide vacancy decreased by 0.3% and amounted to 23.5% at the end of 2014. In 2014, the highest vacancy was registered in Pechersk outside the CBD due to significant new supply being delivered in this part of the city during the period. At the same time, the lowest figure was in the Central business district, Podil and the non-central areas on the western bank of the Dnipro River (Fig. 6).

Rents
At the end of 2013, prime asking office rents in the Ukrainian capital varied in the range of USD 25-38 per sq m per month, while B-class and C-class space commanded monthly rents of USD 14-28 per sq m and USD 8-17 per sq m respectively. Since the start of 2014 the general business climate in Ukraine deteriorated, and the office rents were subject to downward pressure.

During 2014, DTZ witnessed a further correction of the office rents across all property classes in Kyiv. In December 2014, prime asking office rents in the Ukrainian capital varied in the range of USD 18-29 per sq m per month, while B-class and C-class space commanded monthly rents of USD 10-25 per sq m and USD 7-12 per sq m respectively.

In present market conditions, typical incentive packages offered by landlords in the office property sector in Kyiv include rent-free periods and occasional fit-out contributions.

As of Q3, 2014 prime office rents in Kyiv remained higher than those in Bucharest, Budapest, Prague and Warsaw.

DTZ is of the opinion that the effective rents in Kyiv may lower further across all classes of office space in 2015, as a result of suppressed business dynamics in Ukraine and increased competition between landlords in the sector.

Outlook
Considerable new office supply was delivered during the period from 2011 to 2014, and more is scheduled for delivery in Kyiv during 2015. Such dynamics of new office supply, combined with the currently unfavourable business climate in Ukraine, adds to pressure on office rents in Kyiv.

In 2016, some improvements in the general economic conditions are expected in Ukraine, as well as a resultant increase in occupier demand for offices in Kyiv. Prospects of positive economic dynamics in 2016 could also attract potential foreign developers which will increase future office stock.

The dynamics of prime office rents and vacancy in Kyiv in the medium term remains highly sensitive to the general macroeconomic and political condition in Ukraine, as well as new delivery dynamics and the pricing strategies applied in relation to sizeable business centres competing for quality occupiers.

In view of the high level of competition, developers may enhance letting prospects in their office properties not only by employing a competitive pricing strategy, but also by delivering space of higher quality and/or in more advanced condition, or being open to alternative incentives, which address the main barrier to relocation, i.e. capital expenditure.

On the positive side, increased availability of office space and a lack of a unified pricing strategy, undertaken by landlords operating on the market in Kyiv, enhance demand dynamics in the sector and provide opportunities for occupiers to optimise their longer-term occupational conditions in the city.
Ukraine H2 2014

Map 1

Major office and retail schemes in central Kyiv

Source: DTZ Research
Major office and retail schemes in Kyiv (outside central areas)

Map 2

Source: DTZ Research
Retail
Increasing supply in the retail property sector combined with a highly challenging business environment in Ukraine offers opportunities for retailers to improve their rental position, but this hits landlords hard.

Supply
Though being relatively resilient to the effects of the financial crisis in 2008/09, the retail property market in Ukraine was suffering severely during 2014 because of the political and the resultant economic crisis in the country.

Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Donetsk and Lviv have been traditionally considered to be major cities of Ukraine, attracting particular interest from retailers, developers and investors. However, due to the ongoing unrest in Eastern Ukraine, Donetsk is now largely discounted by active players on the retail property market in the country. At the same time, retail attractiveness of Lviv significantly increased.

Kyiv benefits from the largest stock of modern retail space, whilst the smallest retail stock is registered in Lviv. Based on official demographic statistics, the highest saturation in the sector is registered in Kyiv followed by Odessa, while the lowest figure is recorded in Kharkiv (Fig. 8).

Total modern retail stock in Kyiv amounted to around 1,529,440 sq m (GLA) in December 2014, or 533 sq m (GLA) per 1,000 inhabitants. This figure accounts for all major retail developments in the city of or over 5,000 sq m gross lettable area (including multi-tenant retail centres and ‘big box’ single-occupied developments).

Cumulative gross leasable area of multi-tenant shopping centres in the Ukrainian capital amounted to approximately 1,063,000 sq m (GLA), with around 35% of this figure formed by first generation and/or poor quality schemes with some redevelopment potential.

In January-September 2014, the shopping malls ‘Prospekt’ and ‘Atmosfera’ were opened in Kyiv, as well as the DIY-store ‘Leroy Merlin’ and the small-format retail centre ‘Appetite’. These retail properties are located in non-central areas of the city, and their cumulative area amounts to 89,890 sq m (GLA).

An additional 120,300 sq m (GLA) was added to the total retail stock in Kyiv during the fourth quarter of 2014. The hypermarket ‘Epicentre’ of total area around 105,000 sq m in Obolon is the major retail scheme delivered in the city during the period.

As a result, new retail supply in Kyiv amounted to around 210,200 sq m (GLA) in 2014, exceeding by 18% the figure registered in 2013.

As of December 2014, total retail stock in Kyiv increased by around 16% compared to late 2013 and more than doubled since 2008.

Major openings in other regions of Ukraine during 2014 included ‘City Centre Kotovskyi’ and ‘City Centre I’ (phase 2) in Odessa, ‘Karavan’ (phase 3) in Dnipropetrovsk and ‘PortCity’ in Lutsk.

Table 5
Key retail property market indicators in Kyiv

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Q1 2014</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
<th>Annual outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (sq m)</td>
<td>1,319,240</td>
<td>1,334,240</td>
<td>1,367,730</td>
<td>1,409,130</td>
<td>1,529,440</td>
<td>▲</td>
</tr>
<tr>
<td>New supply (sq m)</td>
<td>177,440</td>
<td>15,000</td>
<td>33,490</td>
<td>41,400</td>
<td>120,300</td>
<td>▲</td>
</tr>
<tr>
<td>Prime shopping centre rents (USD/ sq m / month)</td>
<td>150-200</td>
<td>110-160</td>
<td>100-150</td>
<td>100-150</td>
<td>80-120</td>
<td>➕鼙</td>
</tr>
<tr>
<td>Prime high street rents (USD/ sq m / month)</td>
<td>110-230</td>
<td>n/a*</td>
<td>70-160</td>
<td>50-110</td>
<td>45-90</td>
<td>➕鼙</td>
</tr>
</tbody>
</table>

Source: DTZ Research
Notes: All figures are period-end, while rents quoted for retail units of area of 100-250 sq m.
* In Q1 2014, prime central retail locations in Kyiv became the arena for massive protests known as ‘Euromaidan’
The existing retail stock in Ukraine is mainly comprised of shopping malls of varying quality and stand-alone retail warehouses. The first factory outlet, ‘Manufacture outlet village’, was opened in the Greater Kyiv area in 2013. Retail parks are yet to appear in the country.

As of December 2014, DTZ estimates that presently around 807,400 sq m (GLA) of new ‘modern’ retail space is in active stage of planning or construction in Kyiv.

A majority of pipeline retail stock scheduled for opening in Kyiv by 2017 are regional and super-regional shopping malls. Development activity in other regions of Ukraine is significantly lower.

In Ukraine there are several sizeable shopping malls presently under construction, which are scheduled for opening in 2015.

During 2015 new supply on the retail property sector in Kyiv may exceed 505,000 sq m (GLA). Major retail developments scheduled for delivery in the Ukrainian capital next year include ‘Blockbuster Mall’, ‘Respublika’, ‘Retroville’, ‘Lavina Mall’ and ‘Podil Mall’.

The shopping mall ‘Forum Lviv’ will be opened in the city of Lviv by the international firm ‘Multi Development’, and will be major retail development scheme in the regional cities of Ukraine scheduled for delivery in 2015. The year 2015 may also see opening of the shopping malls ‘Nikolskiy’ in Kharkiv and ‘Yessa’ in Odessa (both by ‘BUD HOUSE GROUP’), as well as ‘Hollywood’ in Chernihiv.

Taking into account the scale and location of the properties scheduled for opening in 2015, against the background of the presently challenging economic conditions, delivery of some of them may be postponed to 2016 and later periods.

Table 6

<table>
<thead>
<tr>
<th>Period</th>
<th>Project</th>
<th>City</th>
<th>Size (sq m)</th>
<th>Developer</th>
<th>Major brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>December, 2014</td>
<td>Epicentre</td>
<td>Kyiv</td>
<td>105,000</td>
<td>Epicentre</td>
<td>Epicentre, Le Silpo, café by the Holding ‘FEST’</td>
</tr>
<tr>
<td>September, 2014</td>
<td>Prospekt</td>
<td>Kyiv</td>
<td>41,400</td>
<td>Arricano Development</td>
<td>Auchan, Jysk, Foxtrot, PlanetToys, LPP brands, MANGO, Gloria Jeans, New Look, Bomond, McDonald’s, Salateira, Multiplex, others</td>
</tr>
<tr>
<td>April, 2014</td>
<td>Atmosfera</td>
<td>Kyiv</td>
<td>30,000</td>
<td>DeVision / B&amp;S Holding</td>
<td>Furschet Gourmet, JOCP!, OTRADA, Kredens Cafe, bowling, VIP cinema, others</td>
</tr>
<tr>
<td>May, 2014</td>
<td>Port City</td>
<td>Lutsk</td>
<td>26,090</td>
<td>Remmebl / Continium</td>
<td>Tam Tam, Foxrot, LPP brands, Megasport, LTB, CCC, Top Secret, L’Etoile, COLIN’S, Kari, Centro, oodji, Respect, Watsons, kid’s play, bowling, cinema, roller drome, eateries, others</td>
</tr>
<tr>
<td>February, 2014</td>
<td>City Centre</td>
<td>Odessa</td>
<td>20,120</td>
<td>Venford</td>
<td>Tavria-V, Comfy, INCITY, oodji, COLIN’S, Antoshka, Planeta Kino, others</td>
</tr>
<tr>
<td>March, 2014</td>
<td>City Center I (phase 2)</td>
<td>Odessa</td>
<td>20,000</td>
<td>Venford</td>
<td>Silpo, Foxrot, Comfy, LPP brands, Intertop, L’Etoile, oodji, INCITY, Piazza Italia, Sport Life fitness centre, Planeta Kino cinema, Ihroland kid’s play, others</td>
</tr>
<tr>
<td>March, 2014</td>
<td>Karavan (phase 3)</td>
<td>Dnipropetrovsk</td>
<td>10,430</td>
<td>CDA Real Estate</td>
<td>Hypermart ‘Karavan’; furniture store ‘Karavan-Mebli’, Oldi, Eldorado, Comfy, Sportmaster, Brocard, Adidas, Intertop, Plato, Centro, oodji, O’stin, Mothercare, Budynok Ihrashok, Multiplex cinema, Ihroland kid’s play, ice-rink, others</td>
</tr>
</tbody>
</table>

Source: DTZ Research
### Table 7

<table>
<thead>
<tr>
<th>Period</th>
<th>Project</th>
<th>City</th>
<th>Size (sq m)</th>
<th>Developer</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Respublika</td>
<td>Kyiv</td>
<td>139,000</td>
<td>KAN Development / Megapoliszhytlobud</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Lavina Mall</td>
<td>Kyiv</td>
<td>124,000</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Blockbuster Mall</td>
<td>Kyiv</td>
<td>120,000</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>Q3, 2015</td>
<td>Retroville</td>
<td>Kyiv</td>
<td>82,760</td>
<td>Stolitsa Group</td>
<td>UA</td>
</tr>
<tr>
<td>2016-2017</td>
<td>KyivMall</td>
<td>Kyiv</td>
<td>75,400</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>2017</td>
<td>Levada Mall</td>
<td>Kharkiv</td>
<td>60,000</td>
<td>East Gate Development</td>
<td>UA</td>
</tr>
<tr>
<td>2016-2017</td>
<td>Hartz</td>
<td>Kyiv</td>
<td>57,018</td>
<td>BUD HOUSE GROUP</td>
<td>UA</td>
</tr>
<tr>
<td>2016-2017</td>
<td>Fabrika-2</td>
<td>Zaporizhzya</td>
<td>57,000</td>
<td>BUD HOUSE GROUP</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Nikolskyl</td>
<td>Kharkiv</td>
<td>52,000</td>
<td>BUD HOUSE GROUP</td>
<td>UA</td>
</tr>
<tr>
<td>2016-2017 (in phases)</td>
<td>Ideal</td>
<td>Kyiv</td>
<td>51,000</td>
<td>Immochan Ukraine</td>
<td>FRA</td>
</tr>
<tr>
<td>2015-2016</td>
<td>Victoria Gardens</td>
<td>Lviv</td>
<td>50,630</td>
<td>Yeditepe / Fenix Capital</td>
<td>TUR</td>
</tr>
<tr>
<td>2016-2017</td>
<td>River Mall</td>
<td>Kyiv</td>
<td>49,070</td>
<td>Vilna Ukrayina</td>
<td>UA</td>
</tr>
<tr>
<td>2016-2017 (in phases)</td>
<td>Retail park Les</td>
<td>Odessa</td>
<td>48,000</td>
<td>Immochan Ukraine</td>
<td>FRA</td>
</tr>
<tr>
<td>2015-2016</td>
<td>Lukyanivka Mall</td>
<td>Kyiv</td>
<td>47,052</td>
<td>Arricano Development</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Hollywood</td>
<td>Chernihiv</td>
<td>43,200</td>
<td>Hollywood Capital</td>
<td>UA</td>
</tr>
<tr>
<td>2015-2016</td>
<td>Yessa</td>
<td>Odessa</td>
<td>38,000</td>
<td>BUD HOUSE GROUP</td>
<td>UA</td>
</tr>
<tr>
<td>Q2, 2015</td>
<td>Forum Lviv</td>
<td>Lviv</td>
<td>36,000</td>
<td>Multi Development</td>
<td>NTL</td>
</tr>
<tr>
<td>2016-2017</td>
<td>Rose Park (phase 2)</td>
<td>Donetsk</td>
<td>32,500</td>
<td>Immochan Ukraine</td>
<td>FRA</td>
</tr>
<tr>
<td>2016</td>
<td>TSUM (reconstruction)</td>
<td>Kyiv</td>
<td>22,500</td>
<td>Esta Holding</td>
<td>UA</td>
</tr>
<tr>
<td>2016</td>
<td>Stanislav</td>
<td>Ivano-Frankivsk</td>
<td>15,500</td>
<td>local developer</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Podil Mall</td>
<td>Kyiv</td>
<td>13,825</td>
<td>TAS / Building Invest Group</td>
<td>UA</td>
</tr>
</tbody>
</table>

Source: DTZ Research

### Table 8

<table>
<thead>
<tr>
<th>Lease duration</th>
<th>3-5 years – for standard retail units of 50-250 sq m; 7-10 years – for semi-anchors (500-1,000 sq m) and 10-15 years – for anchor tenants plus a priority right to renew the lease.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent payment</td>
<td>Usually pegged to the US dollar or Euro, but paid in the Ukrainian hryvnya. Increasingly retailers are seeking UAH fixed rent or rent subject to exchange rate corridors.</td>
</tr>
<tr>
<td>Indexation</td>
<td>Annually, by change in CPI in the United States published by the US Department of Labour, by change of Euro CPI published by Eurostat or by change in CPI in Ukraine published by the State Statistics Committee.</td>
</tr>
<tr>
<td>Rent</td>
<td>Fixed, an additional turnover rent has now become a common practice applied in the new high-quality retail developments (e.g. Riviera Shopping City, Sky Mall, Forum Lviv, King Cross Leopolis, and others).</td>
</tr>
<tr>
<td>Service charge</td>
<td>USD 2-8 per sq m per month in addition to utility costs, depending on quality of a retail development.</td>
</tr>
<tr>
<td>Marketing charge</td>
<td>USD 2-5 per sq m per month, depending on quality of a retail development.</td>
</tr>
<tr>
<td>Fit-out of retail units</td>
<td>Shell &amp; core. Cost contribution for partial fit-out or turn-key condition in sometimes provided to anchor tenants.</td>
</tr>
<tr>
<td>Guarantee</td>
<td>The form of cash deposit or bank guarantee in the amount from 2 to 6 months of lease period has been common. Parent company guarantee is rarely applied.</td>
</tr>
</tbody>
</table>

Source: DTZ Research
Demand

Due to the challenging political and economic situation in Ukraine, declining purchasing power of the country's population and devaluation of the hryvnia, retailers have been suffering heavily from the lack of demand from customers since early 2014. Furthermore, Eastern Ukraine, which has traditionally formed a significant market share on the retail market in the country, is currently a battleground.

Over the course of 2014, the vast majority of retailers in Ukraine initiated negotiations on rent and other occupational terms for their retail units across Ukraine. Some retailers have suspended operations of some of their non-performing brands, others started closing retail stores crossing over to Internet retail, or decreased areas of their retail units in shopping malls. A few retail chains left Ukraine, or are considering such option.

On the demand side, the retail property market in Ukraine in 2014 was marked by several events, including the following:

- The retail company 'Helen Marlen Group' closed its five stores of luxury fashion brands in prime high street retail locations in Kyiv.
- The fashion brands ‘GAP’ and ‘Marks&Spencer’ decided to vacate the premises in high street location in Kyiv – on Khreshchatyk Street. At the same time, the franchise holder Argo opened its two multi-brand outlet stores ‘ARGO OUTLET’ on Khreshchatyk Street.
- The retail company ‘Intermoda-trade’ closed its 10 stores of the footwear brand ‘Minelli’ in Ukraine.
- The international DIY chain ‘OBI’ stopped operations in Ukraine in the first quarter of 2014. The food retailers ‘Spar’ and ‘Perekrestok’, and the fashion retailer ‘Bosco Sport’ also left the Ukrainian market in 2014.
- The Baltic concern ‘Baltika Group’ sold its Ukrainian business, which comprises 17 stores of the fashion brands ‘Monton’ and ‘Mosaic’, to ‘Ellipse Ukraine’ for 1.25 million Euros.
- Several Ukrainian and international retail chains with reliable sources of finance and positive experience in Ukraine demonstrated a reasonably high expansion activity across the country. These included the retail chain of homeware goods ‘JYSK’, which has further developed across Ukraine with its 12 new stores opened in Kyiv, Dnipropetrovsk, Lviv, Kharkiv, Vinnytsya, Lutsk and Khmelnytskyi in 2014.
- The Ukrainian big box food retail operator ‘Fozzy Group’ and the food retail chains ‘Novus’, ‘ATB-market’ and ‘VARUS’ further expanded in the country, as well as the Austrian retailer ‘Billa’.
- Electronics and home appliance chains ‘Foxtrot’ and ‘Eldorado’ continued opening their new stores across Ukraine, whilst ‘Comfy’ somewhat slowed down expansion in the country.
- In 2014, the chains of drogerie stores ‘Watsons’ and ‘EVA’ continued active penetration of the Ukrainian retail market.
- The major Ukrainian big box retailer Epicentre’ maintained its leadership on the Ukrainian DIY market. In the second half of 2014, new DIY-stores ‘Epicentre’ opened in Kharkiv, Sumy and Brovary (Kyiv oblast). In December 2014, the 105,000 sq m hypermarket ‘Epicentre’ was delivered in Kyiv.
- The Lutsk-based retail company ‘Continium-Trade’ opened its first hypermarket ‘Tam Tam’ in Kyiv in December 2014.
- In the first half of 2014, the Spanish fashion retailer ‘Mango’ directly entered the Ukrainian market and opened its store on Khreshchatyk Street in Kyiv in May 2014.
- In the first quarter of 2014, the stores of the lingerie brands ‘Intimissimi’ and ‘Calzedonia’ were opened in the shopping mall ‘Karavan’ in Kyiv as in accordance with the lease agreements signed in late 2013.
- The retail company ‘KarKat Fashion’ opened the first store of the fashion brand ‘Pedro del Hierro’ in the shopping mall ‘Gulliver’ in Kyiv, and also plans to bring the fashion brand ‘Cortefiel’ onto the Ukrainian market.
- Though the initial expansion plans were corrected to comply with the changed market conditions, the Turkish fashion retailer LC Waikiki opened its new stores in Kyiv and Odessa.
- DTZ has also witnessed a reasonably high expansion activity of several chains of fast food restaurants and coffee cafes, including ‘Salateira’, ‘Kredens Cafe’ and ‘KFC’, which mainly developed in Kyiv during 2014, as well as the Holding ‘!FEST’.
- The first brasserie of the French chain ‘Paul’ was opened via franchisee in central Kyiv in May 2014.
- In October 2014, the first restaurant of the German chain ‘Vapiano’ was opened in the retail centre ‘Arena City’ in Kyiv. In November 2014, the restaurant ‘Vapiano’ also started operating in Lviv. There are plans to open the restaurants ‘Vapiano’ in Dnipropetrovsk, Kharkiv and Odessa.
- The Ukrainian hotel chain Reikartz Hospitality Group, jointly with the Swedish Trade and Invest Council ‘Business Sweden’, brought to the Ukrainian market the Swedish chain of the cafes ‘Fika’. The first cafes ‘Fika’ were opened in Cherkassky and Rivne, with new openings planned in Lviv and other regional cities of Ukraine.

In view of the political and economic tension in Ukraine, several European, Turkish and Russian retailers reconsidered their earlier plans to enter or expand on the retail market in Ukraine. The opening of the stores by IKEA, H&M, C&A, Debenhams and Peek & Cloppenburg in Ukraine remains unlikely in the short term.
After the Autonomous Republic of Crimea was annexed by the Russian Federation in March 2014 under controversial conditions, several Ukrainian and international retailers decided to suspend operations on the Crimean market. These included ‘McDonalds’, ‘Sushiya’, ‘JYSK’, ‘MTI’, ‘MOYO’. Despite earlier plans, the Spanish retailer ‘Inditex Group’ temporarily refused to open its stores in the shopping mall ‘Meganom’ in Simferopol.

Map 3

Major cities in Ukraine

CITIES WITH POPULATION

- > 2,000,000
- 700,000 - 1,500,000
- 500,000 - 700,000
- 200,000 - 500,000
- < 200,000

Temporary occupied territory of Ukraine

Source: DTZ Research

At the same time, the food retail chain ‘ATB-market’ opened new stores in the Crimea, and the retailers ‘Auchan’, ‘Metro Cash&Carry’, ‘Foxrot’ and ‘Eldorado’ continue operating on the peninsula.
Rents
During the period from October 2011 to June 2013 inclusive, average monthly rents in quality retail schemes in Kyiv remained generally stable at USD 70-90 per sq m for premises of 100-250 sq m, reaching highs of USD 160-200 per sq m per month in the most sought-after prime properties. However, due to increasing supply in the sector, in July-December 2013, prime rents in the shopping malls in the Ukrainian capital were subject to some downward correction (Fig. 9).

High street retail rents in Kyiv and other major cities of Ukraine with total population over 750,000 inhabitants remained generally stable during 2013.

The challenging situation in Ukraine, the resultant decrease in purchasing power of the population and retail turnover, as well as devaluation of the hryvnya led to strong downward pressure on the rents across all categories of retail space in Ukraine during 2014.

In order to retain quality retailers in their retail properties, many landlords have negotiated occupational costs individually with each retailer. Some of the landlords provided temporary discounts in the range of 20-50% of the contractual rents (depending on the tenant and its lease terms). Other landlords are known to have fixed the rental payment in the amount equivalent to the exchange rate of 12-14 UAH/USD, or defined the upper value of the Ukrainian hryvnya against the US dollar. Therefore, in the US dollar equivalent retail rents decreased in a majority of shopping malls in Ukraine.

Decrease in demand from the retailers and the Ukrainian currency devaluation has led to downward correction of rents in the high street retail locations in Kyiv and other regional cities of Ukraine. Also, after the events in early 2014 the central Khreshchatyk Street in Kyiv lost its previous attractiveness to retailers as a prime high street location.

DTZ anticipates that base rental rates in the first half of 2015 will remain stable in relation to the best properties, if there is no additional devaluation of the Ukrainian currency.

Rental rates in poorly conceived retail schemes in Kyiv will be subject to further downward pressure due to the economic and political uncertainty in Ukraine, as well as the comparatively low retailers’ demand and lack of critical mass of actual new market entries combined with significant retail stock in pipeline.

The longer term sustainability of current rental rates will depend on the actual commissioning and quality of new sizeable pipeline retail schemes scheduled for completion in 2015-2017, as well as general macroeconomic conditions in Ukraine and exchange rate fluctuations.

Outlook
The potential of the retail market in Ukraine is high, despite presently unfavourable economic and political conditions, country’s perceived risks and comparatively low incomes of the population.

Though remaining rather immature in terms of quality and formats of existing stock compared to other CEE countries, the retail property market in Ukraine benefits from large country size, significant population density, perceived high brand awareness and propensity to spend of population.

The opportunities within the retail property sector remain of high interest for most developers and investors operating in Ukraine, particularly within cities with total population over 750,000 inhabitants.

However, the competition in the retail property sector has been strengthening with more modern retail projects delivered and planned. Therefore, quality and professional management remain crucial factors for the success of all existing and new retail developments in Ukraine.

A number of sizeable retail projects in Kyiv and the regional cities of Ukraine were opened in 2012-2014 and more large-scale projects are in delivery pipeline.

As a result, in light of the strengthening competition in the sector, the Ukrainian market will offer more opportunities for retail chain expansion, but localised retail rents will be subject to further downward pressure, particularly in poorly conceived first generation retail schemes.
Industrial & logistics

Despite suppressed business dynamics in Ukraine, the market-wide vacancy in the logistics property sector in the Greater Kyiv decreased to 6.1% at the end of 2014.

Supply

At the end of 2014, total stock of modern warehousing and logistics space in the Greater Kyiv area amounted to around 1,716,000 sq m (GLA) (Fig. 10). This figure includes approximately 340,140 sq m (GLA) of modern specialised chilled & frozen and chemical warehousing facilities.

In 2014, around 136,840 sq m (GLA) were delivered on the logistics property market in the Greater Kyiv area. The figure is in line with the new delivery in the sector during 2013.

There were no new logistics and warehousing properties delivered during the first three months of 2014. In the second quarter of 2014, new supply on the logistics property market in the Greater Kyiv area reached around 126,640 sq m (GLA).

In April-June 2014, the commercial warehousing complexes ‘Terminal Bucha’, ‘SAN factory’ (phase 2), warehouse complex ‘Mirage-3’ and a new warehouse complex, owner-occupied by Raben Ukraine, were commissioned in the Greater Kyiv area. In addition, the company ‘TechEnergoTrade’ delivered its 63,000 sq m (GLA) ‘Refrigerated Logistics Complex’.

In the fourth quarter of 2014, warehousing complexes were delivered by ETALON Logistics in Vyshneve Town and by the Ukrainian company Alfa Development Group in Shchaslyve Village. During the period total stock of modern warehousing and logistics space in the Greater Kyiv area increased by approximately 10,200 sq m (GLA).

In the Greater Kyiv area, the majority of warehousing and logistics properties are located along Kyiv-Zhytomyr Highway (M-06), and in the location referred to as Kyiv-Moscow Highway (M-01) and Brovary-Boryspil Ring Road (Fig. 11).

Overall development activity in the warehousing and logistics property sector in the Greater Kyiv area remains comparatively low. As of December 2014, DTZ projects that new supply of warehousing and logistics space in the Greater Kyiv area may reach up to around 76,000 sq m (GLA) in 2015. Majority of the properties, scheduled for delivery in 2015, are built for owner-occupation purposes.

Table 9

<table>
<thead>
<tr>
<th>Key industrial and logistics property market indicators for the Greater Kyiv area</th>
<th>2013</th>
<th>Q1 2014</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
<th>Annual outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock (sq m)</td>
<td>1,575,350</td>
<td>1,579,150</td>
<td>1,705,790</td>
<td>1,706,790</td>
<td>1,715,990</td>
<td>▲</td>
</tr>
<tr>
<td>New supply (sq m)</td>
<td>139,200</td>
<td>0</td>
<td>126,640</td>
<td>0</td>
<td>10,200</td>
<td>▼</td>
</tr>
<tr>
<td>Take up (sq m)</td>
<td>311,380</td>
<td>39,100</td>
<td>44,300</td>
<td>66,780</td>
<td>50,300</td>
<td>▲</td>
</tr>
<tr>
<td>Vacancy rate (%)</td>
<td>3.2</td>
<td>4.7</td>
<td>10.1</td>
<td>6.5</td>
<td>6.1</td>
<td>▲/▼</td>
</tr>
<tr>
<td>Prime rents (USD/ sq m/ month)</td>
<td>5-7</td>
<td>4-7</td>
<td>3.5-6.5</td>
<td>3.5-5.5</td>
<td>3-5</td>
<td>▲/▼**</td>
</tr>
</tbody>
</table>

Source: DTZ Research

*Including ancillary office and mezzanine space
** If there is no significant devaluation of the Ukrainian hryvnya against the US dollar
### Table 10
**Major logistics schemes delivered in the Greater Kyiv area in 2013-2014**

<table>
<thead>
<tr>
<th>Period</th>
<th>Scheme</th>
<th>Location*</th>
<th>Total area (sq m)</th>
<th>Developer</th>
<th>Nationality</th>
<th>Occupancy** (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2, 2013</td>
<td>Warehouse complex</td>
<td>M-01, E95</td>
<td>100,000</td>
<td>TechEnergoTrade</td>
<td>UA</td>
<td>100</td>
</tr>
<tr>
<td>Q4, 2013</td>
<td>Orimi Trade</td>
<td>M-01, E95</td>
<td>13,000</td>
<td>local developer</td>
<td>UA</td>
<td>100</td>
</tr>
<tr>
<td>Q1, 2013</td>
<td>SAN factory (phase 1)</td>
<td>Kyiv City</td>
<td>10,500</td>
<td>SKYLINE Development</td>
<td>UA</td>
<td>100</td>
</tr>
<tr>
<td>Q1, 2013</td>
<td>Terminal Kyivschna</td>
<td>Kyiv Ring Road</td>
<td>10,000</td>
<td>local developer</td>
<td>UA</td>
<td>100</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Refrigerated Logistics Complex</td>
<td>M-01, E95</td>
<td>63,000</td>
<td>TechEnergoTrade</td>
<td>UA</td>
<td>71</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Terminal Bucha</td>
<td>M-07, E373</td>
<td>31,692</td>
<td>RM Logistic</td>
<td>UA</td>
<td>78</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>New Warehouse Complex by Raben Ukraine</td>
<td>Brovary Ring Road</td>
<td>20,000</td>
<td>Raben Ukraine</td>
<td>PL</td>
<td>100</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>SAN factory (phase 2)</td>
<td>Kyiv City</td>
<td>8,440</td>
<td>SKYLINE Development</td>
<td>UA</td>
<td>90</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Warehouse complex ETALON (phase 2)</td>
<td>Vysheneve</td>
<td>6,000</td>
<td>ETALON Logistics</td>
<td>UA</td>
<td>100</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>Warehouse complex (phase 2)</td>
<td>Shchaslyve, M-01</td>
<td>4,200</td>
<td>ADG</td>
<td>UA</td>
<td>0</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Mirage-3</td>
<td>Hostomel, M-07</td>
<td>3,350</td>
<td>Mirage Group</td>
<td>UA</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: DTZ Research*

### Table 11
**Major pipeline logistics schemes planned for delivery in the Greater Kyiv area in 2015**

<table>
<thead>
<tr>
<th>Period</th>
<th>Scheme</th>
<th>Location</th>
<th>Total area (sq m)</th>
<th>Developer</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Logistics complex</td>
<td>M-05, E95</td>
<td>40,000</td>
<td>Epicentre</td>
<td>UA</td>
</tr>
<tr>
<td>2015</td>
<td>Warehouse complex FM Logistic (phase 2)</td>
<td>Dudarkov, P-03</td>
<td>28,000</td>
<td>FM Logistic</td>
<td>FRA</td>
</tr>
<tr>
<td>Q2, 2015</td>
<td>Warehouse complex</td>
<td>Kyiv City, M-04</td>
<td>8,000</td>
<td>Imperial Tobacco</td>
<td>International</td>
</tr>
</tbody>
</table>

*Source: DTZ Research*
Ukraine H2 2014

Demand
The demand for warehousing and logistics space in the Greater Kyiv area amounted to around 199,500 sq m (GLA) during 2014, decreasing by 36% compared to the figure registered in 2013, but being almost 37% larger than in 2009.

The demand for quality industrial and logistics space in the Greater Kyiv area in 2014 was traditionally driven by the companies operating in logistics and transportation, FMCG and food retail, as well as pharmaceutical sector, which cumulatively accounted for approximately 63% of total take-up registered during the year (Fig. 13).

At the same time, occupier demand in the warehousing and logistics property sector in the Greater Kyiv area during 2014 was heavily dominated by relocations with the intentions of several existing tenants to improve their space occupied and/or secure opportunities to expand under the present conditions of diminishing availability and expected upward pressure on the rents in the sector. New market entries were almost absent in 2014.

In accordance with DTZ’s expectations in late 2013, occupier demand for warehousing and logistics space in the Greater Kyiv area weakened in 2014, because in 2012-2013 many occupiers relocated or renewed their leases based on 1-3-year contracts, or even purchased warehousing space for owner-occupation needs. In addition, the presently extremely challenging economic situation in Ukraine and the military tension on the country’s eastern border have formed an obstacle for any strengthening of occupier demand in the sector.

Table 12
Major logistics lease transactions in Greater Kyiv area in 2014

<table>
<thead>
<tr>
<th>Period</th>
<th>Scheme</th>
<th>Occupier</th>
<th>Occupier sector*</th>
<th>Total area (sq m)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1, 2014</td>
<td>WWM</td>
<td>Ekol</td>
<td>L&amp;T</td>
<td>11,600</td>
<td>Kyiv Ring Road</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>Refrigerated Logistic Complex</td>
<td>AVK</td>
<td>FMCG</td>
<td>11,000</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>BF Terminal</td>
<td>Kari Ukraine</td>
<td>Fashion retail</td>
<td>11,000</td>
<td>M-03, E40</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>Krasylivka Logistic Park</td>
<td>Zammel Sklad</td>
<td>L&amp;T</td>
<td>10,300</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>Food retail</td>
<td>10,000</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>Pharmaceuticals</td>
<td>8,804</td>
<td>P-02</td>
</tr>
<tr>
<td>Q3, 2014</td>
<td>Refrigerated Logistic Complex</td>
<td>Fozzy Group</td>
<td>Food retail</td>
<td>6,781</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>Pharmaceuticals</td>
<td>6,300</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>Agriculture</td>
<td>6,000</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q1, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>Non-food retail</td>
<td>5,500</td>
<td>M-01, E95</td>
</tr>
<tr>
<td>Q2, 2014</td>
<td>confidential</td>
<td>confidential</td>
<td>FMCG</td>
<td>5,200</td>
<td>Kyiv Ring Road</td>
</tr>
<tr>
<td>Q4, 2014</td>
<td>WWM</td>
<td>FRA-M</td>
<td>Pharmaceuticals</td>
<td>5,000</td>
<td>Kyiv Ring Road</td>
</tr>
</tbody>
</table>

*FMCG – fast moving consumer goods, L&T – logistics and transportation

Source: DTZ Research

Figure 12
Take-up of logistics space in the Greater Kyiv area (sq m)

Figure 13
Take-up of speculative logistics space by type of occupiers in the Greater Kyiv area (share in total 100%)

Source: DTZ Research
Vacancy
In the first quarter of 2014, primary vacancy in the logistics property sector in the Greater Kyiv area amounted to 4.7% compared to 3.2% in late 2013.

During the following three months primary vacancy in the sector further increased, reaching around 10.1% in late June 2014. Such dynamics of primary vacancy in the sector resulted from delivery of several relatively sizeable schemes during the second quarter of 2014 against the background of extremely suppressed business dynamics in Ukraine.

Due to low new delivery in the sector during the second half of 2014, during the period primary vacancy in the logistics property sector in the Greater Kyiv area was subject to downward correction, and amounted to 6.5% in late September 2014 and 6.1% at the end of the year.

Rents
Though in 2011-2013 prime asking rents for warehousing and logistics space in the Greater Kyiv area remained generally stable in the US dollar equivalent, by the end of 2014 they decreased by around 30% year-on-year.

In late December 2014, monthly asking rents varied from USD 3 to USD 5 per sq m for prime warehousing space in the Greater Kyiv area, while for B-class properties they were in the range of USD 2-3 per sq m. Achievable rents in the sector generally depend on the quality of space, location and accessibility, as well as general lease terms.

Prime logistics rents in the Greater Kyiv area are comparable to those registered in the suburbs of Bucharest (Romania) and Krakow (Poland), but lower than in Moscow (Russia), Warsaw (Poland) and Prague (Czech Republic) (Fig. 14).

DTZ projects that, other things being equal, during the first half of 2015 rents for prime warehousing space in the Greater Kyiv area will remain generally unchanged.

Outlook
Given relatively low volumes of short-term delivery pipeline, vacancy in the logistics property sector in the Greater Kyiv area is forecast to remain below 10% in the first half of 2015.

In 2015, if general economic situation in Ukraine improves, prime rents for quality modern warehousing space in the Greater Kyiv area may be subject to upward correction. Nevertheless, a number of local developers are ready to develop warehouses within built-to-suit contracts at the market rents that prevailed at the end of 2013, and this factor reduces the risk of sharp upward correction of rents in the sector in the short to medium term.

In the longer term, an increase in commercial activity in Ukraine and resultant strengthening of occupier demand may lead to a fall in vacancy and upward pressure on logistics rents in the Greater Kyiv area. DTZ is of the opinion, however, that the price elasticity of warehouse supply is higher compared to other sectors of commercial property market in Ukraine, and larger-scale new logistics delivery could recommence relatively quickly.
Ukraine H2 2014

Map 4
Greater Kyiv map

Major logistic developments
1. FIM Logistics Centre
2. Warehouse by Kuehne+Nagel
3. Warehouse Complex "Mirage-1"
4. Warehouse Complex
5. Warehouse Complex
6. L-Town Warehouse Complex
7. Warehouse Complex by Rhenus Renew
8. Raben Logistics Park
9. MLP-Chovka
10. Kamboor Logistics Park
11. West Gate Logistics
12. Kapylu Logistics Park
13. Europolis Park Kyiv**
14. Warehouse Complex "Mirage-3"
15. Office and warehousing complex "Sthchaslyve"
16. Logistics Complex
17. East Gate Logistic
18. USA Service
19. Warehouse Complex*
20. Logistics Park East
21. Universal Logistic Park
22. Omega Logistics Centre
23. Logistics Complex by ICT GmbH
24. Kavshian Logistics Park**
25. Warehouse Complex by Imperial Tobacco (phase 2*)
26. MLP-Boryspil**
27. Warehouse Complex
28. Terminal Bucha
29. Worldwide Manufacturing E.D.
30. Beacon Logistic Centre
31. Refrigerated Logistics Complex
32. Warehouse Complex Ali Ao Kiber
33. Logistics Complex by FM Logistic (phase 2*)
34. Smot Logistic Complex
35. BF Terminal
36. Andrista Chilled Warehouse
37. Kasyanka Industrial Park
38. Dinka Warehouse Complex
39. Warehouse Complex "Mirage-2"
40. Omega II Logistics Centre
41. Warehouse Complex by EMA
42. Prommar Bakery
43. Kalyava Logistics Centre
44. Kymatitoprivo Warehouse
45. Warehouse by VE Development

Odesa
M-05, 695

VASYLYKIV

46. Top-Trans Logistics Centre
47. Optima Pharma Warehouse
48. Logistics Centre "Prologistic Service"
49. August Plus
50. Terminal Kryvyshyna
51. Ice-Terminal Chilled Warehouse
52. Ost-West Express Warehouse
53. Chilled & Frozen Logistics Centre
54. Warehouse Complex by FAB
55. Terminal Susan
56. Terminal Bucha
57. Santa-Foot Warehouse Complex
58. Office and logistics complex Ukr DC
59. Akhilk Logistics Centre
60. Logistics Complex VASLYKIV
61. Logistics Invest Centre
62. Warehouse TechnoPark
63. Warehouse Interpharm
64. SAN factory
65. Ornos Trade
66. Warehouse Complex ETALON

Legend

* Scheme under construction
** Scheme planned / BTS project

Source: DTZ Research
Investment

Due to high country risks aggravated by ongoing armed conflict in Eastern Ukraine and unfavourable economic situation, there were only a few secondary investment deals reported on the commercial property market in Ukraine during 2014. At the same time, most foreign and local investors recognize the country’s property market potential.

Transactions

DTZ estimates that total direct investment volume in the commercial property market in Ukraine during 2014 amounted to around USD 47 million, which is similar to the figure in 2013.

There were no secondary investment deals on the Ukrainian property market reported in the first quarter of 2014, mainly due to challenging political situation in the country.

In the following three months, total secondary investment volume amounted to around USD 16 million: an office building in central Kyiv was sold for around USD 12.5 million, as well as the pharmaceutical warehouse in the Greater Kyiv area with the deal estimated at approximately USD 3.5 million.

In the third quarter of 2014, the warehouse in the Greater Kyiv area was sold by the commercial bank to the Ukrainian retailer at the estimated price of USD 1 million.

According to public information, there were no secondary investment transactions in the commercial property sector in Ukraine during the fourth quarter of 2014. This is attributable to the tense geopolitical situation in Ukraine, further devaluation of hryvnya, which increased downward pressure on rents, and inconsistency in vendors’ and purchasers’ expectations on values.

Several other major investment transactions were reported in Ukraine in 2014, the most notable of which were as follows:

- The Ukrainian DIY-chain ‘Epicentre’ is known to have purchased the 5.8018 ha site for a big box retail development in the northern periphery of Donetsk. The deal was made via the auction in January 2014 and reported at around USD 2.4 million.

- The Dnipropetrovsk-based retail chain ‘Varus’ purchased the chain of the Ukrainian stores of the Russian supermarket chain ‘Perekrestok’ comprised of 13 stores. The deal is estimated in the range of USD 5-10 million.

- The German DIY chain ‘Praktiker’ sold its four Ukrainian stores located in Kyiv, Lviv, Mykolayiv and Makivka near Donetsk to an EU private equity fund represented by Ukrainian company Kreston Guarantee Group. The deal is estimated at around USD 5 million.

- A 5.6 ha industrial site was sold in Obolon area in Kyiv by a Ukrainian development company. The deal is estimated at around USD 7 million.

- Due to the annexation of the Crimea by Russia, in the second quarter of 2014 several real estate assets in the Autonomous Republic of Crimea were exchanged between the Ukrainian and Russian SPVs within international companies operating in Ukraine and Russia. These, for example, include Metro Group and Groupe Auchan S.A.

- The 17 ha site, located near Sevastopol in the Autonomous Republic of Crimea, was sold by the Ukrainian entity to the Russian investor. The deal was reported in the third quarter of 2014 and is estimated at around USD 10 million.

- The majority ownership share of the office building is known to be sold in the third quarter of 2014. The deal is estimated at around USD 17 million.

Two major shopping malls in Simferopol in the Autonomous Republic of Crimea, namely ‘Meganom’ of 60,320 sq m (GLA) owned by Ukrainian Development Partners and ‘Yuzhnaya Gallereya’ of 32,800 sq m (GLA) owned by Arricano Development, are known to be available for sale. As of December 2014, the sale of these properties was not reported.

The completion of several sizeable deals was postponed during 2012-2014, due to market uncertainty and deteriorated country risk in 2014. Whilst interest still remains in closing some of these deferred transactions, investors take a highly cautious approach to investment opportunities in Ukraine.

Quality income generating office, retail and logistics properties located in Kyiv remain the most sought-after investment assets in the country. Some investors are also prepared to consider quality existing retail properties in other major cities of Ukraine, obviously except for eastern regions of the country.

Figure 15

Investment volume in Ukraine* (million USD)

Source: DTZ Research

Note: All figures are period end.
*The figure includes secondary investment transactions (the sale of land plots was excluded).
** Year-end projections.
Due to the situation in Eastern Ukraine and economic hardship in the country, many investors and developers put their activity on hold. At the same time, some activity was demonstrated by more adventurous investors, who realise the Ukrainian property market long-term potential and intend to take benefit from the decreased ‘price of entry’ at higher risks.

The opportunities on the investment property market in Ukraine are most actively considered by big box retailers, local development companies, private investors from the CIS and Russia, as well as local private individuals that dominate the market. In the second half of 2014, DTZ witnessed increased interest from the companies willing to purchase properties for owner-occupation purposes, taking advantage of downward correction of values.

Similar to 2012-2013, in 2014 on the Ukrainian property market the most active vendors willing to dispose of their assets in Ukraine remained local companies and individuals, as well as international companies (investment funds and developers), which acquired real estate assets prior to economic downturn, have asset managed them for over 5 years and now are needing to exit in order to make returns for their shareholders.

The Ukrainian companies are also increasingly willing to dispose their real estate assets.

The year 2013 witnessed the first signs of a material flow of assets coming to the market via banks, which have recovered secured assets on non-performing loans. This pattern strengthened in 2014, particularly in view of liquidity problems of several commercial banks, and it is expected to increase in 2015.

Despite a broad range of prime and secondary assets in all classes now being available for sale, liquidity has remained disappointingly low due to the worsening overall investment climate in Ukraine and, the ever diminishing availability of debt finance. Where assets are available with the transfer of some debt then, this materially adds to potential liquidity.

Yields

During the period from June 2013 through until April 2014, DTZ has not witnessed any yield movement. In April-June 2014, 0.5% upward correction of prime office and retail yields was registered on the investment property market in Kyiv, with further 0.5% increase in prime office yields during the fourth quarter of the year. At the same time, prime logistics yields remained generally stable in 2014. However, this analysis in the absence of arms length transactions is based upon investor sentiment demonstrated in interest being expressed for a number of assets.

At the end of 2014, prime net initial yields stood at around 13.5% for prime office and retail space. Investor sentiment for prime net initial yields for logistics properties in the Greater Kyiv area remained generally stable at 15% (Fig. 16).

Because of the hryvnya devaluation combined with high country risks of Ukraine, DTZ witnessed strong downward pressure on capital values across all asset classes. However, most of the vendors have not been prepared to accept bids at heavily discounted prices, particularly as some assets are in negative equity positions.

Outlook

Though the presidential elections in May 2014 delivered a first-round victory for pro-western businessman Petro Poroshenko, country risks remain high due to further threats to the sovereignty of Ukraine and delays with reforms implementation by the country’s authorities.

On the positive side, expectations of business community on the long term economic development of Ukraine have now been rather positive.

As of late December 2014, we project that total volume of secondary investment transactions in 2015 in Ukraine may potentially amount to around USD 60 million. The actual annual figure is highly uncertain due to the current instability in Ukraine.

DTZ expects that in the first half of 2015 prime net initial yields in Kyiv will remain generally flat across all property sectors. However, yields in the commercial property sector are sensitive to general political and economic situation in the country. In the longer term, as the Ukrainian property market matures, there is further scope for yield compression, coming off comparatively high present levels.
Definitions

Office
Office stock: Gross lettable area of speculative office schemes (including new buildings and refurbishments) positioned in A, B and C classes and delivered since 1991.

Office take-up: Total floor space known to have been let (pre-let) to tenants or sold (pre-sold) to owner-occupiers during the survey period with respective contracts signed. Office take-up includes renegotiations and lease extensions, but excludes sub-leases.

Prime office rent: The attainable average prime rent that could be expected for an office unit of a minimum size of 100 sq m in a modern prime quality business centre located in the CBD. The rent is given as a base rent, i.e. no service charge and tax is included.

Retail
Retail stock: Individual stand-alone retail developments or multi-tenant retail centres and shopping malls with a gross lettable area of or exceeding 5,000 sq m.

Prime retail rent: The attainable average prime rent that could be expected for a retail unit of size in the range of 100-200 sq m located along the high street (i.e. prime high street rent) or in the prime retail scheme (i.e. prime shopping centre rent). The rent is given as a base rent, i.e. no service charge and tax is included. Frontage zoning is not adopted in Ukraine.

Logistics
Logistics stock: Gross lettable area of modern logistics schemes of area exceeding 1,000 sq m, delivered since 2001. Logistics stock includes area of warehousing, office and mezzanine space.

Prime warehousing rent: The attainable average base prime rent that could be expected for a modern warehousing unit offering a minimum size of 1,000 sq m in a modern logistics scheme, which is located in a prime location away from the city centre and close to communication links. The rent is given as a base rent, i.e. no service charge and tax is included. It is quoted for warehousing space within the scheme, i.e. it is not a ‘blended rent’, rents for office and mezzanine parts of the property not included.

Investment
Prime yield: The initial yield estimated to be achievable for a notional property of highest quality and specification in the best location fully let and immediately income producing on present market terms at the survey date.
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