

### HOT TOPICS

- Slight increase in speculative supply: just 35,200 sq m of new space entered the market compared with 23,000 sq m a year ago
- Slowdown in leasing activity and reduction in transaction volume: take up down 14% y-o-y
- Deceleration in the decline of vacancy: share of unoccupied space fell slightly and reached 12.5% (-0.04 pp from Q4 2012)
- Stable prime rents: base rents for top quality premises were flat at \$5.5-6.5/sq m/month

### FUNDAMENTALS

The recession caused by industrial decline has continued into 2013, as main EU markets remained flat. According to the State Statistics Committee of Ukraine, GDP shrank by 1.1% in Q1 compared to the same period last year, which represents the third consecutive quarter of contraction in output. However, compared to Q4 2012, GDP still grew, but only at a mere 0.6% rate on a seasonally adjusted basis. Stronger exports and rising agricultural output are expected to slow down or stop the slide in GDP in Q2. Economic growth for 2013 is forecast to be between 0% and 1.5%<sup>1</sup>. The expected EU recovery should lift economic growth to 3-4% in 2014 via stronger exports.

Retail sales, one of the key macroeconomic drivers of demand for warehouse premises, continue to grow, but at a more moderate pace. In five months to the end of May the indicator increased by 11.6%<sup>2</sup> (-3.9 pp y-o-y). At the same time, industrial production demonstrated a 5.2% decline over the same period versus 2% growth a year ago. Therefore, economic background for the warehouse market remains challenging.

### DEMAND

Significant slowdown of the economy in 2012 and weak macroeconomic indicators at the beginning of the current year resulted in low levels of transactional activity in the warehouse market over the first six months of 2013. After two years of relatively stable transaction volumes, take-up comprised slightly over 80,000 sq m in H1 2013, having decreased by 14% y-o-y and by 20% compared to H2 2012.

### TAKE-UP STRUCTURE BY HIGHWAYS\*



\* base – volume of transactions, sq m  
Source: CBRE

<sup>1</sup> - based on the latest forecast from the following organizations: EBRD, Oxford Economics, Cabinet of Ministries of Ukraine, Ministry of Economic Development and Trade of Ukraine, Troika Dialog, Goldman Sachs, National Bank of Ukraine

<sup>2</sup> - including estimated sales at marketplaces and sales realized by sole proprietorships

A closer look at transactional activity across submarkets during the first half of 2013 indicates that absorption between M-05 and M-06 highways started to increase, rising to 36% (+26 pp y-o-y) in the overall take-up structure. Zhytomyr direction (M-06, E-40) recorded a 17% share in gross absorption (+15 pp y-o-y) on the back of new supply in that area. At the same time, 46% (-20 pp y-o-y) of transaction volume contracted along the Moscow direction (M-01, E-95) was boosted only by a single sale transaction in which approx. 23,000 sq m were acquired by a local supermarket chain. Right (West) Bank has, therefore, regained its leading position in term of gross absorption by geographical distribution, with a 53% share in take-up, following a mere 16% recorded a year ago.

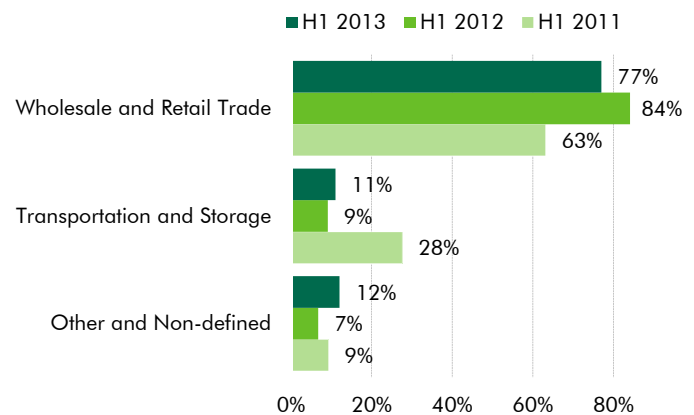
There were no significant changes in the take-up structure in terms of industry distribution. In view of growing retail turnover, wholesale and retail trade sector still dominates with a 77% share in take-up, having lost 7 pp y-o-y, while the contributions of other sectors to demand do not exceed 11%. Following the trend of the previous years, trade companies predominantly relocated to new warehouse space.

Almost three quarters of all the take-up in the Kyiv region (74%; +12 pp y-o-y) during the first six months of 2013 are made up of small transactions – below 5,000 sq m in size. At the same time, the share of medium-sized transactions accounted for only 22% (-11 pp y-o-y) after a twofold increase a year ago. Large transactions in excess of 10,000 sq m are still rare on the warehouse market.

**SUPPLY**

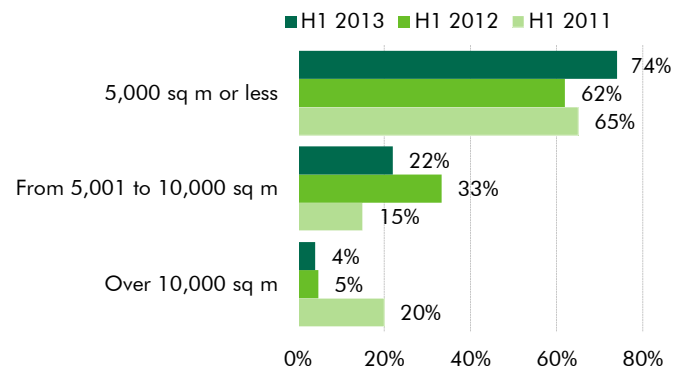
Competitive stock reached approx. 1.18 mln sq m by the end of Q2 2013, growing by 8% since the beginning of the year. The warehouse market saw 86,200 sq m of new supply, including 45,000 sq m of the first phase of Fozzy build-to-suit distribution center and 6,000 sq m of space previously used for owner occupation. By the end of the year, new competitive space is expected to grow by over 138,000 sq m with the delivery of two phases of the above mentioned build-to-suit project. An important fact is that there are no speculative schemes under construction in excess of 10,000 sq m, which signified that developers are not willing to take risk associated with large speculative projects or that sizeable ground-up construction remains economically unviable.

**TAKE-UP STRUCTURE BY INDUSTRY\***



\* base – volume of transactions, sq m  
Source: CBRE

**TAKE-UP STRUCTURE BY TRANSACTION SIZE\***



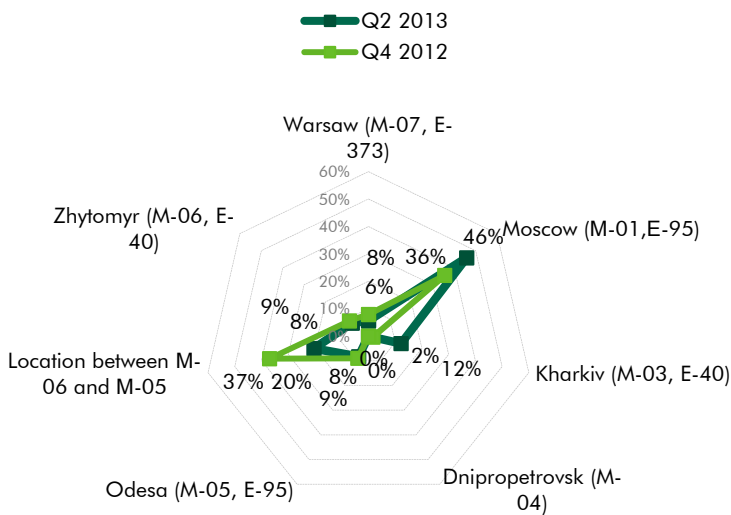
\* base - number of transactions  
Source: CBRE

**KEY WAREHOUSE SCHEMES IN 2013**

NAME	DEVELOPER	WAREHOUSE PREMISES, sq m	HIGHWAY	COMPLETION
Refrigerator warehouse Ice-Box	Ice-Box	5,100	Kyiv city	H1 2013
Kyivschyna Terminal (Phase II)	Local developer	9,600	T-1027	H1 2013
SAN factory (Phase I)	Skyline Development	10,500	Kyiv city	H1 2013
Warehouse complex	Local developer	3,000	P-02	H1 2013
Pharmaceutical warehouse complex	Local developer	7,000	M-07,E-373	H1 2013
Fozzy distribution center (Phase I)*	Local developer	45,000	M-01,E-95	H1 2013
SAN factory (Phase II)	Skyline Development	7,000	Kyiv city	H2 2013
Fozzy distribution center (Phase II)*	Local developer	45,000	M-01,E-95	H2 2013

\* - warehouse complex, delivered as build-to-suit  
Source: CBRE

VACANT STOCK BY HIGHWAYS\*

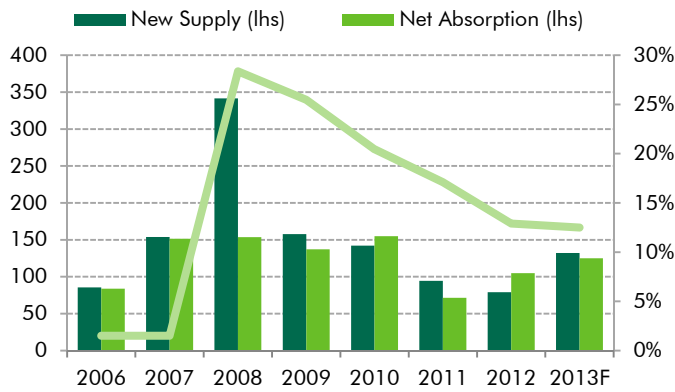


\*base – total vacancy  
Source: CBRE

VACANCY

Vacancy rate continued to decline over the first three months of 2013. However, by the end of Q2 it went up for the first time since the end of 2011 and almost reached the level recorded in Q4 2012 of about 12.5%. Due to Fozzy Group relocating to its Distribution center (1st phase), constructed on build-to-suit lease agreement, a considerable volume of vacated space came to the market along the Moscow (M-01, E-95) and Kharkiv (M-03, E-40) highways. As a result, the share of Left (East) Bank vacancy went up from 37% at the end of 2012 to 58% at the end of Q2 2013. Meanwhile gradual absorption of vacant space located between M-05 and M-06 highways led to a decline in the vacant share of Right (West) Bank from 37% to 20% during the same period. The bulk of unoccupied space is therefore now concentrated on the Left (East) Bank – a dramatic shift for a submarket that has been enjoying strong demand for a year.

NEW SUPPLY, NET ABSORPTION AND VACANCY RATE

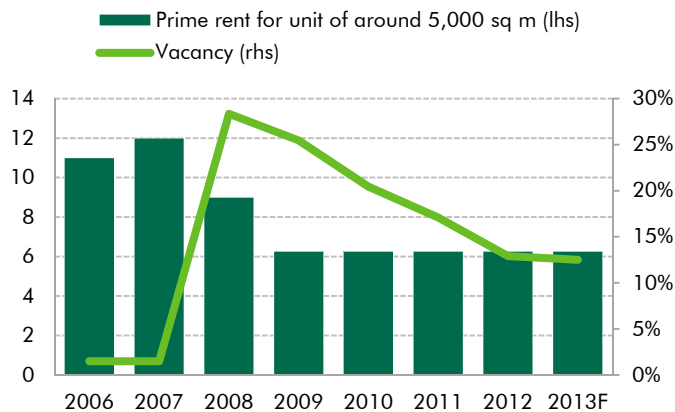


lhs – left hand side  
rhs – right hand side  
F – forecast  
Source: CBRE

RENTS

Just like in previous several quarters, prime rents remained flat with no significant changes recorded over the first six months of 2013. Base rents for prime space for lot size of around 5,000 sq m range from \$5.5 to 6.5/sq m/ month (triple net) across the market. Unoccupied space on the Right (West) Bank is available from \$6 to \$7/sq m/month. Asking rents for warehousing space on the Left (East) Bank range from \$5 to \$7/sq m/month. Storage premises close to the city are the most expensive ranging between \$6 to \$9/sq m/month.

PRIME RENT AND VACANCY (USD/SQ M/MONTH)



F – forecast  
Source: CBRE

YIELDS

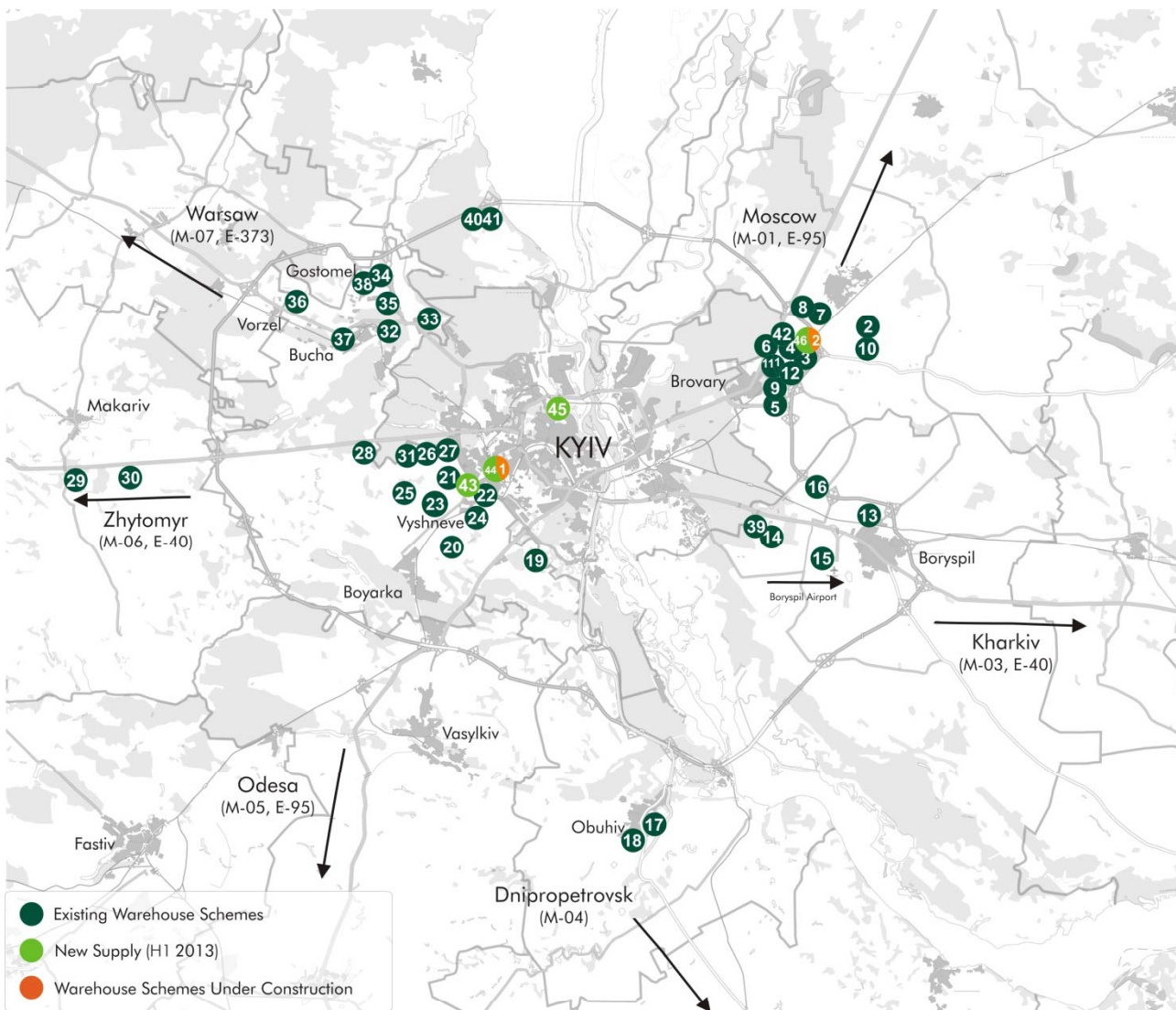
There are still no signs of investor interest in the logistics sector. Given the absence of positive trends in the economy and a relatively stable situation on the warehouse market, the estimated prime yield remained flat at 15%. By the end of 2013, prime yield should stay unchanged provided no further deterioration of the economy at large.

OUTLOOK

New supply in 2013 may total 138,000 sq m, which is about twice the amount recorded in 2012. With no new speculative starts expected before the end of the year, the market will likely experience a particularly low level of development completions in the near term future. Project size is unlikely to exceed 10,000 sq m, with medium and large-scale schemes emerging only under build-to-suit arrangements.

The fundamental reasons for further vacancy decline to the market equilibrium level (10%) have become less obvious in H1 2013, as relocations and expansions of national food retail chains boosting demand for warehouse premises over 2012-H1 2013 have run out of steam, while demand from other sectors is still moderate. As of the end of Q2 2013, the most likely scenario is for the vacancy rate to stabilize in the 12%-13% range by the end of the year. Another factor giving grounds for caution is the fact that retail turnover, one of the key factors driving warehouse demand, is beginning to slowdown. Under these conditions, it is highly unlikely that the base prime rent will show any signs of growth in 2013. On the positive note, however, online retailing is expected to grow, which may result in some demand for warehouse premises, as evidenced by first transactions appearing on the market in 2012-2013.

### KYIV WAREHOUSE COMPLEXES



Source: CBRE

Key Existing Warehouse Schemes			
#	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
1	Universal Logistics Park (Phase I)	15,000	2006
2	Logistic Park East 1	19,600	2007
3	Omega 1	15,500	2007
4	Prommash Brovary	13,800	2007-2008
5	Omega 2 (Logistic Center MMK)	24,500	2009
6	Technopolis warehouse	22,500	2009
7	Top Trans	17,600	2009
8	Ice-Terminal*	16,500	2009
9	Terminal Brovary	42,300	2010
10	Krasilovka Industrial Park	15,000	2010
11	Universal Logistics Park (Phase II)	22,200	2011
12	Energoprylad	11,800	2011
13	East Gate Logistic	39,900	2007
14	Olvita	15,000	2008
15	BF Warehouse	84,600	2009
16	Biocon*	28,000	2008-2010
17	L-town 2	9,500	2005
18	L-town 1	8,200	2004
19	ABC-Alliance*	8,100	2010
20	UKR DC *	5,200	2010
21	WWM Center	10,000	2007
22	Kyivshchyna Terminal 1	6,100	2008
23	Amtel (Phase I)	42,500	2011
24	Arktika*	13,000	2011
25	Santa Frost*	3,400	2010-2011
26	FIM Service	23,000	2006
27	MLP-Chaika	94,900	2008
28	West Gate Logistic	78,000	2008
29	Komodor Logistics Park	59,500	2008
30	Kopylov Logistics Park	25,700	2008
31	UTA Service	9,400	2010
32	Andakta*	5,200	2007
33	Mirage-Gorenka (Phase I)	6,000	2007
34	Mirage-Gostomel	28,000	2007-2008
35	August Plus	7,200	2008
36	Vorzel Terminal	10,600	2009
37	Tehnoyarmarok	31,000	2010
38	Impeco	9,400	2010
39	Schastlyve	23,000	2012
40	Logistics Invest Centre	8,500	2012
41	Warehouse complex	6,000	2012
42	Technopolis (Phase II)*	22,000	2012
43	Kyivshchyna Terminal (Phase II)	9,800	H1 2013
44	SAN factory (Phase I)	10,512	H1 2013
45	Ice-Box	5,100	H1 2013
46	Fozzy distribution center (Phase I)	45,000	H1 2013
Key Future Warehouse Schemes			
#	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
1	SAN factory (Phase II)	7,000	H2 2013
2	Fozzy distribution center (Phase II)	45,000	H2 2013

\* - specialized warehouse  
Source: CBRE

## DEFINITIONS

(in alphabetical order)

**Development Completions (new supply)** – represents the total rentable area of completed new and significantly refurbished/renovated (stripped back to shell and core) floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit, where required, has been issued during the survey period. **Development completion** data includes properties dependant on **total competitive stock** definition or **total stock** definition (see below).

**Leasing Activity** – represents the total floorspace known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period. Unlike **take-up** (see definition below) it includes sales and leasebacks, renewals, regears, as well as subleases.

**Net Absorption (occupancy growth)** represents the change in occupied stock within a market during the survey period.

**Prime Rent** – represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand, of highest quality and specification and in the best location in a market at the survey date. **Prime Rent** reflects the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if transaction flow is very limited or made up of unusual one-off transactions. If there are no relevant transactions during the survey period, the quoted figure is more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification will still apply.

**Take-up (gross absorption)** – represents the total floorspace known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period. A property is deemed to be taken-up only when contracts are signed or a binding agreement exists. Pre-let refers to **take-up** that was signed either in the planning or construction stage. All transactions (including pre-lets and pre-sales) are recorded in the period that they were signed. Exclusions include space that is under offer, sales and leasebacks (as there has been no change in occupation), contract renewals and renegotiations (unless the occupier took additional space, when only the additional space is included) and subleases.

**Total Competitive Stock (speculative stock)** – represents the total completed space (occupied and vacant) in the private sector at the survey date, recorded as gross rentable area. Includes purpose-built, space converted from other uses and independent space forming part of a mixed-use development. **Total competitive stock** excludes any buildings that are not considered to be 'competitive' or active in the marketplace. Exclusions include; government and public buildings, where the public sector space is purpose built and owner occupied and the public sector does not engage in the open market; singly occupied properties, occupied by a tenant as the owner or on a long-term lease agreement; properties that are not considered to be actively competitive due to a size threshold, age, use or class. **Total competitive stock = total stock** (see below) - owner-occupied properties.

**Total Stock** – represents the total completed space (occupied and vacant) in the private sector at the survey date, recorded as gross rentable area. Includes purpose-built, space converted from other uses and independent space forming part of a mixed-use development. **Total Stock** excludes any buildings that are not considered to be 'competitive' or active in the marketplace. Exclusions include; government and public buildings, where the public sector space is purpose built and owner occupied and the public sector does not engage in the open market and properties that are not considered to be actively competitive due to a size threshold, age, use or class.

**Vacant Space** – represents the total gross lettable (or rentable) floor space in existing properties, which is physically vacant and being actively marketed at the survey date. Space that is physically vacant, but not being marketed or is not available for occupation is excluded from **vacancy**. Space that is **under construction** is also excluded from **vacant space**

**Vacant Space Rate** represents the percentage ratio of total **vacant space** to **competitive stock**

# RESEARCH REPORT

## Kyiv Industrial Big Box

**CBRE** | **Ukraine**

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H1 2013

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