

### HOT TOPICS

- Considerable slowdown of speculative development: just 35,000 sq m of new space, a more than twofold decrease on 2012
- Healthy indicator of transactional activity: take-up doubled due to a large build-to-suit lease transaction and sizable sales transactions
- Achievement of a market equilibrium: by the end of Q4 2013 the vacancy rate reached 8.1% (-4.7 pp y-o-y)
- Relative stability of prime rents: base rents for top quality premises remained generally flat at \$5.5-6.5/sq m/month with expected upward pressure

### FUNDAMENTALS

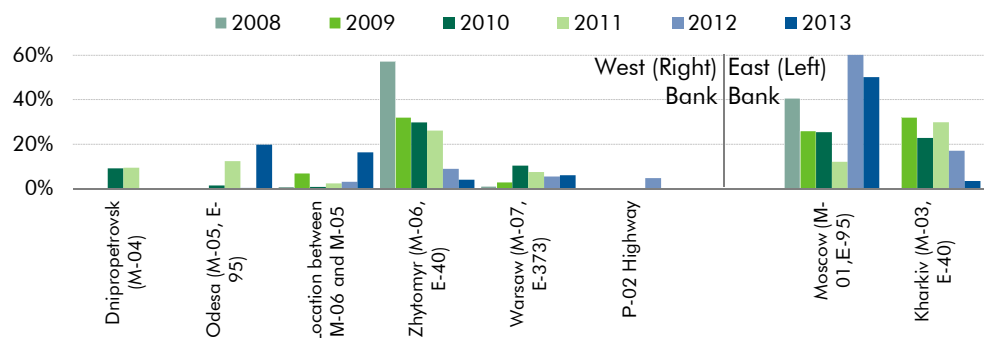
Weak economic fundamentals prevailing on external and domestic markets, accompanied by the fluctuating political climate, negatively affected the economic performance in Ukraine over 2013. According to the available official statistics, with real GDP falling by 1.1% y-o-y in Q1 2013, even more significant declines (-1.3% y-o-y) were recorded during Q2 2013 and Q3 2013. Most estimations for the annual real GDP growth in 2013 falter around 0%. Although the economic and political uncertainty has brought expectations for economic growth in 2014 down, forecasts for real GDP growth in 2014 vary in the range of 1% - 2%<sup>1</sup>.

The major sectors of the economy ambiguously responded to the economic challenges that occurred during the year, having adverse effects on the demand for warehouse space. Due to constrained external demand for major export products, industrial output fell by 4.7% y-o-y in 2013, predominately in the chemical industry, machine building, and metallurgy. At the same time, agricultural production displayed strong growth patterns and accelerated by 13.7% y-o-y. Despite the prevailing negative economic trends over 2013, the retail sector contributed to the stable demand for warehouses in Kyiv posting a 9.5%<sup>2</sup> y-o-y growth in retail turnover during the year, though the pace of growth has slowed compared with the previous year.

### DEMAND

Despite generally weak economic indicators, the still growing retail turnover supported the demand for warehouse premises. On the back of the large, one-time, build-to-suit lease transaction - Fozzy Group has leased around 100,000 sq m in a newly built-to-suite warehouse complex - take-up doubled in 2013 with about 345,700 sq m of leasing and sales transactions. While leasing activity continued to post relatively strong results, the sales indicator has improved as well. Over the course of 2013, there were two sales transactions, totaling around 90,000 sq m, signed in the market compared to the only purchase agreement with around 9,000 sq m in 2012. Retail operators concluded both transactions.

### 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, National Bank of Ukraine, World Bank

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

Just like in 2012, transactional activity in the warehouse sector during 2013 was mainly focused on the Moscow direction (M-01, E-95) – 50% in total take-up - where a high proportion of vacant space is concentrated. A significant volume of vacant premises (32,500 sq m) was leased out between M-06 and M-05 highways in the Amtel warehouse complex (Phase I), which now makes it 100% occupied. As a result, the share of the above-mentioned submarket accounted for 16% of overall take-up, having improved by 13 pp from 2012. Due to the large sales transaction – Epicenter, the national DIY retailer, acquired the Kalinovka Logistic Center (65,000 sq m GBA) – the share of the submarket located along Odesa (M-05, E-95) highway accounted for 20% of take-up. Transactional activity in other submarkets was considerably less against the background of the relatively low level of vacant space in the existing warehouse complexes.

70% of warehouse space that either let or sold during 2013 was boosted by the wholesale and retail trade sector, while the transportation and storage sector accounted for a further 19% of take-up. The contributions of other sectors remained small.

In terms of take-up structure by transaction size, there were almost no changes in 2013. The lion’s share of transactions in the warehouse sector was made up by small transactions (below 5,000 sq m in size) – 66% in take-up. The share of medium-sized transactions accounted for 23% of transactional activity, while large transactions in excess of 10,000 sq m are still rare on the warehouse market.

**SUPPLY**

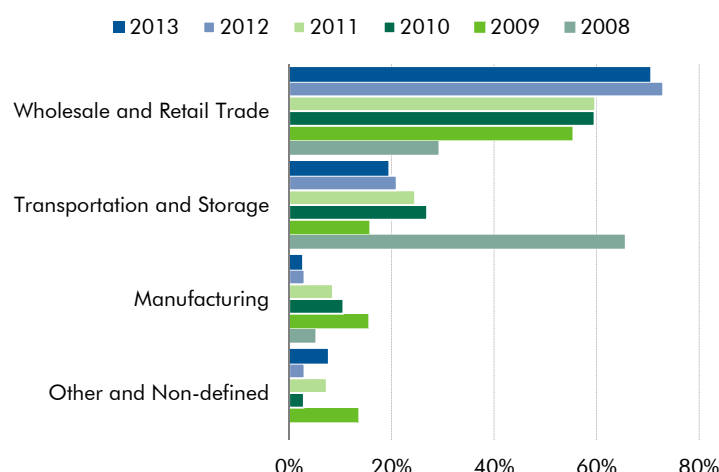
The modern warehouse stock witnessed about 125,200 sq m of new completions in 2013, having grown by 58% compared to 2012. However, only 35,200 sq m of the total new supply was for speculative market, while another 100,000 sq m was constructed on a build-to-suit basis. Additionally, 6,000 sq m of the previously owner-occupied property was added to the speculative stock. At the same time, approximately 20,000 sq m of warehouse premises was extracted from the speculative stock due to the fact that one speculative warehouse complex - Logistic Park East One - was acquired by ATB-market, the national discounter chain, for owner-occupation purposes. Therefore, the total competitive stock amounted to around 1.21 mln sq m by the end of 2013.

**KEY TRANSACTIONS IN 2013**

OCCUPIER	TENANTS TYPE	PROPERTY	DERICTION	sq m	DEAL TYPE
Fozzy Group	Wholesale and retail trade	Fozzy distribution Center	Moscow (M-01, E-95)	100,000*	lease
Ekol	3PLs, Transportation	Amtel I	T-1012	13,500	lease
UVK	3PLs, Transportation	Omega II	Moscow (M-01, E-95)	10,000	lease
Zammler	3PLs, Transportation	BF-Sklad	Kharkiv (M-03, E-40)	10,000	lease
Farmaplaneta	Other	Transwest	Zhytomyr (M-06, E-40)	8,800	lease
Exim Trade	Wholesale and retail trade	Mirazh	Warsaw (M-07,E-373)	7,500	lease
K&N	3PLs, Transportation	Omega II	Moscow (M-01, E-95)	6,000	lease
Furshet	Wholesale and retail trade	Kyivshchyna Terminal 2	T-1027	5,400	lease
Symba Toys	Wholesale and retail trade	V-log	Moscow (M-01, E-95)	5,400	lease
Modna Casta	Wholesale and retail trade	SAN factory I	Kyiv city	5,400	lease
Ditrade	Wholesale and retail trade	SAN factory I	Kyiv city	5,112	lease
ATB	Wholesale and retail trade	Logistic Park East One	Moscow (M-01, E-95)	23,850*	sale
Epitsenter	Wholesale and retail trade	Kalinovka Logistic center	Odesa (M-05, E-95)	65,000*	sale

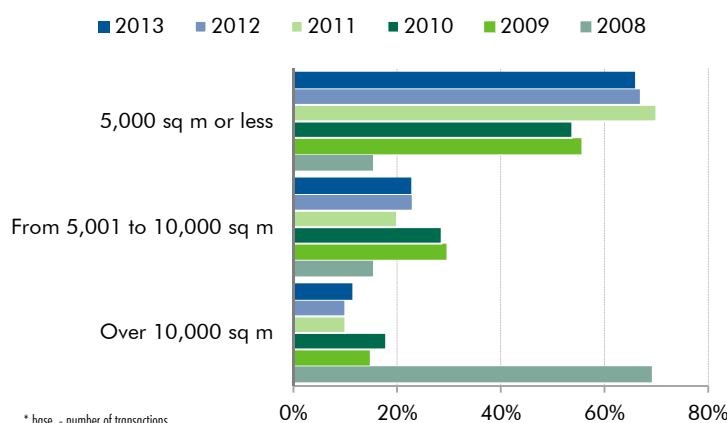
\* - total area of a complex  
Source: CBRE

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



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

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



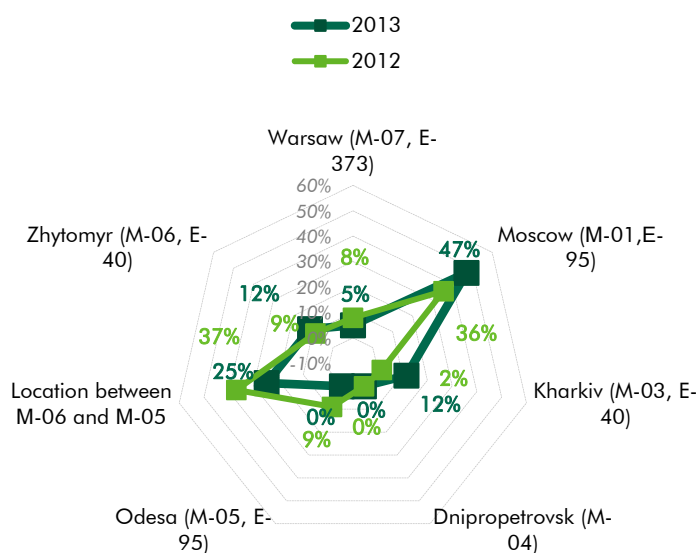
\* base - number of transactions  
Source: CBRE

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*	Tehnotrade	90,000	M-01,E-95	H1 2013

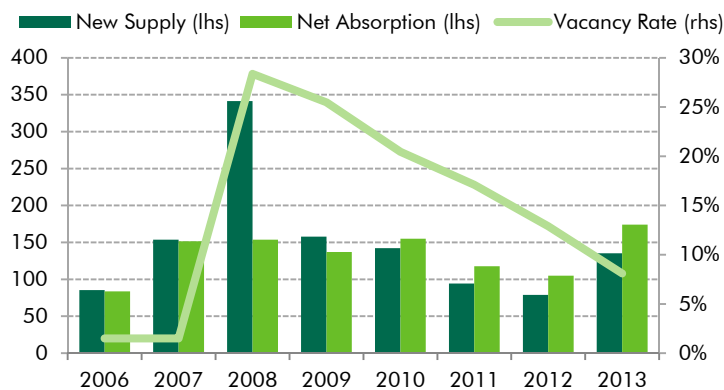
\* - warehouse complex, delivered as build-to-suit  
Source: CBRE

VACANT STOCK BY HIGHWAYS\*



\*base - total vacancy  
Source: CBRE

NEW SUPPLY, NET ABSORPTION AND VACANCY RATE



lhs - left hand side  
rhs - right hand side  
Source: CBRE

As of January 2014, there are two speculative warehouse complexes under construction in the market: the second phase of the SAN factory warehouse complex totaling 7,000 sq m, initially planned for delivery in 2013, and a multi temperature complex with storage space of 54,000 sq m. Therefore, 2014 will be the second consecutive year of a considerable slowdown in new supply of ambient space for speculative purposes, while the segment of specialized developments will see a noteworthy addition. Also of note, there are two modern warehouse schemes for owner occupancy under construction. Logistic providers such as FM Logistic and Raben Group are developing warehouse complexes with a total area of 28,000 sq m and 20,000 sq m, respectively. Both warehouse schemes are planned to be commissioned in 2014.

VACANCY

With speculative development activity slowing down and demand remaining relatively stable, overall vacancy declined from 12.9% in Q4 2012 to 8.1% in Q4 2013. At the same time, distribution of unoccupied space in the market was still patchy. By the end of 2013, most of the vacant space was mainly concentrated along the Moscow (M-01, E-95) highway on the Left (East) Bank - 47% in the total volume of unoccupied premises (+12pp y-o-y). The Kharkiv (M-03, E-40) direction saw a somewhat increase in vacant space; as a result, the share of this submarket in overall vacancy went up to 12% from 2% in 2012. Meanwhile, the submarket between M-05 and M-06 highways, another direction that allocated a large volume of unoccupied lots over last several years, witnessed a notable reduction in the vacancy rate due to gradual absorption of warehouse premises in the first phase of Amtel warehouse complex. The share of the above-mentioned submarket in total vacancy reached 25% compared to 37% in 2012. As a result, in terms of distribution of unoccupied space across submarkets, the vacancy trend has reversed in 2013 with the Left (East) Bank accumulating the largest portion of unoccupied space in the market yet again.

RENTS

Generally, over the course of 2013, base rents for prime space for lot size of around 5,000 sq m remained relatively stable and ranged from \$5.5 to 6.5/sq m/ month (triple net) across the market. At the same time, on the back of declining vacancy, a movement in the range of asking prices was witnessed across submarkets during the second half of the year.

On the Right (West) Bank, both the lower and upper limits saw slight changes. As a result, by the end of the year, asking rents varied there from \$5.5 to \$7.5/sq m/month (-\$0.5/sq m/month and +\$0.5/sq m/month, respectively). At the same time, the existing volume of unoccupied space on the Left (East) Bank pushed the upper limit of asking prices down by \$0.5/sq m/month. Therefore, asking rents for warehousing space on the submarket ranged from \$5.0 to \$6.5/sq m/month. Storage premises close to the city are the most expensive ranging between \$5.8 to \$7.5/sq m/month.

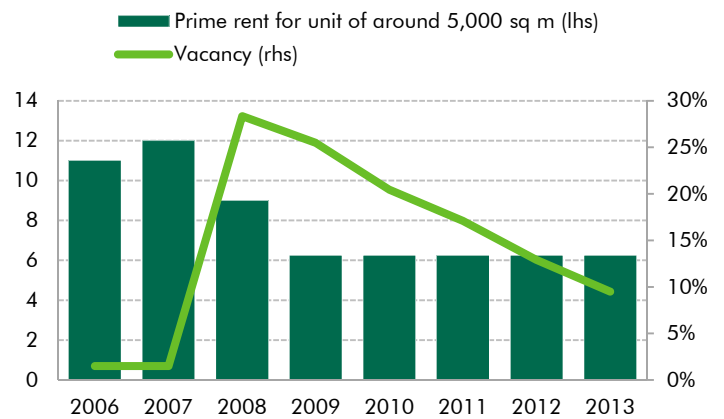
## YIELDS

No investment transactions were recorded in the warehouse market over the course of 2013. As a result, the prime notional yield remained unchanged at 15% in 2013. Unless the general economic and political fundamentals do not deteriorate, prime yields are expected to stay broadly flat.

## OUTLOOK

As 2014 progresses, the modern warehouse market will see a strong deficit of speculative space; therefore, some rental growth is likely to be more apparent over the course of the year. At the same time, demand is likely to decrease as well due to most of the occupiers,

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



Source: CBRE

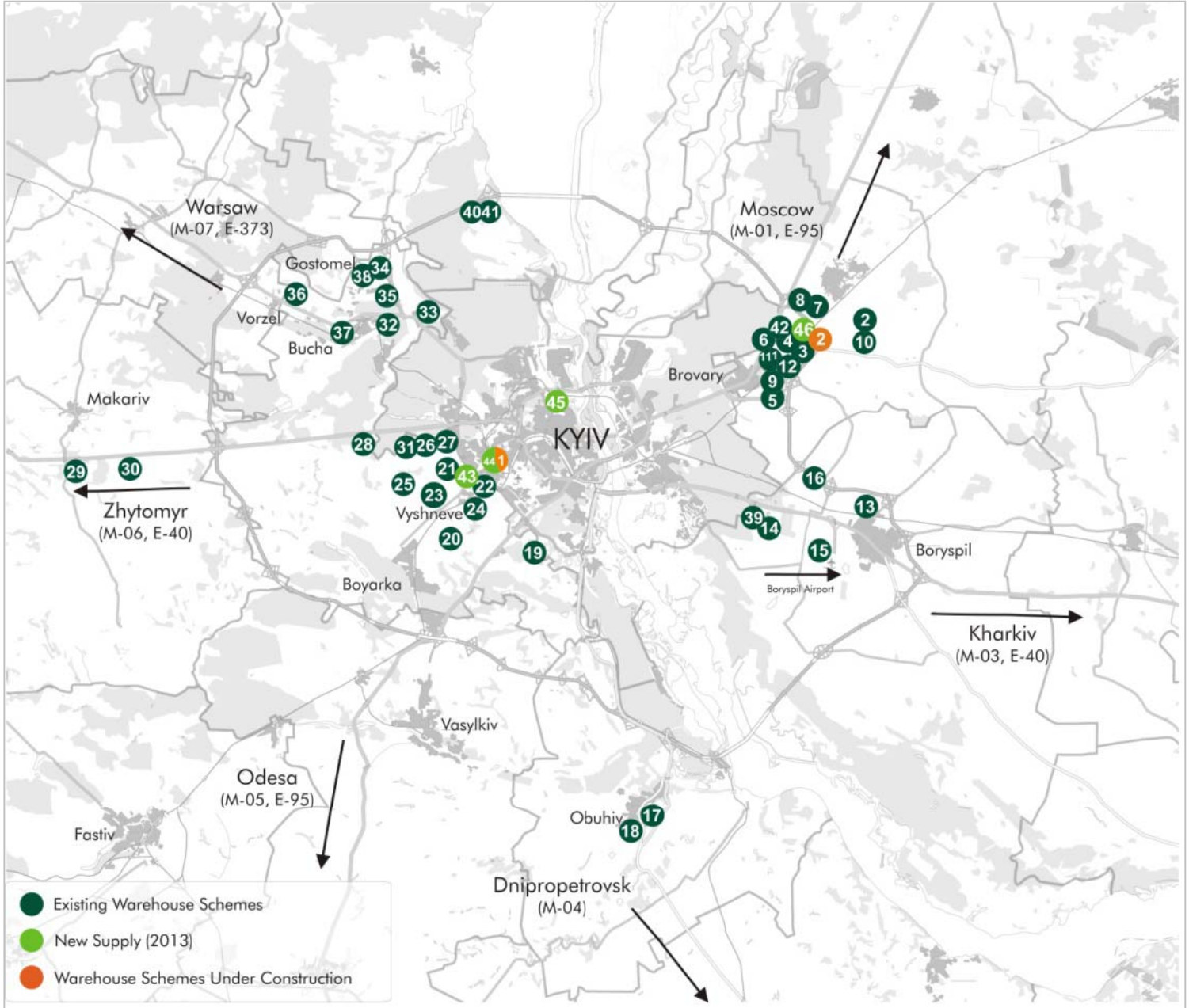
mainly from retail sector, have already extended their premises and made relocations. Moreover, with the economic environment remaining weak, strengthening of the recovery trend in the warehouse segment will be slow at best. The most expected scenario is the change on market practice from mostly speculative developments towards build-to-suit projects and construction of warehouse complexes for owner occupancy where a part of premises can be offered for lease. New developments may also be driven by pre-lease agreements on a high proportion of space in the future complex.

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	Tehnoyarmark	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	100,000	H1 2013
Key Future Warehouse Schemes			
#	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
1	SAN factory (Phase II)	7,000	2014
2	Warehouse complex*	60,000	2014

\* - specialized warehouse  
Source: CBRE



KYIV WAREHOUSE COMPLEXES



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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2013

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