

### Quick Stats

	Change from	
	2011	2010
New Supply	↑	↑
Rent	↓	↓
Vacancy	↑	↑

### Hot Topics

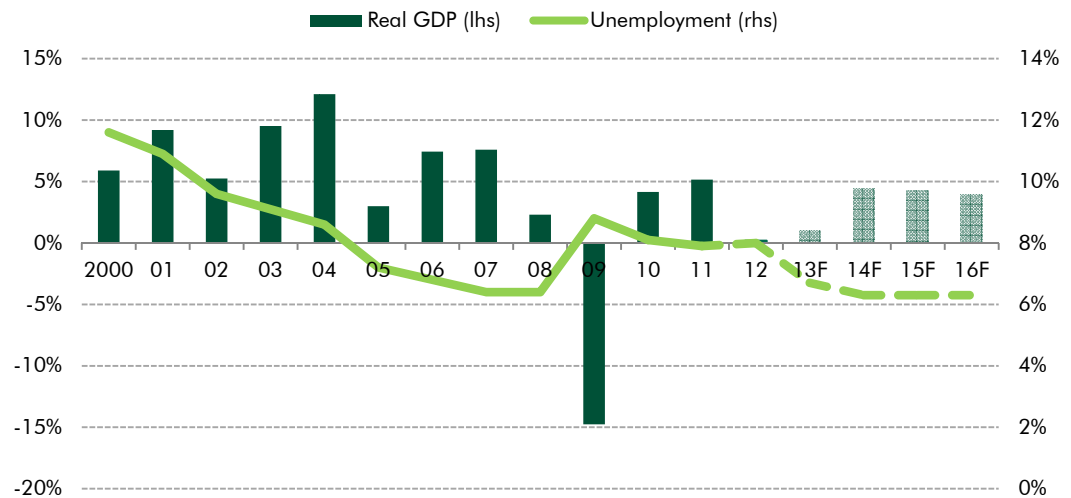
- Reduction in demand: take-up more than halved in 2012 compared to 2011
- Supply growth: some 150,000 sq m of space entered the market (+18% y-o-y)
- Increase in the average vacancy rate: combination of strong supply and weak demand brought vacancy rate to 25% (+5.9 pp from Q4 2011)
- Falling rental rates: average rate for prime premises declined from \$35 to \$33 sq m/month

### FUNDAMENTALS

Ukrainian economy slowed down considerably in 2012 amid deteriorating external conditions. Positive growth in real GDP recorded in the first half of the year was completely reversed in the second half. According to the preliminary estimates by the State Statistics Committee, real GDP grew by about 0.2% in 2012. Such a low rate is mainly due to a decline in agricultural production (-4.5% y-o-y) and industrial output (-1.8% y-o-y), which in turn was due to a reduction in external demand. The main driver of the economy was strong consumer demand, fuelled by a strong growth in real wages (+12.5% y-o-y – Kyiv) and low inflation. Growth of real GDP in 2013 is forecast to be in the 1.3% to 3.7% range<sup>1</sup>.

Due to the poor state of economy, companies' hiring expectations were falling during the year. The national unemployment rate (as measured using ILO methodology) was 8% at the end of 2012, up 0.1% compared to the same period last year. According to the latest surveys, the percentage of companies interested in expanding their staff was down from 25.5% at the end of 2011 to 23.9% in 2012, while the share of those planning staff reductions increased from 10.8% to 18.4%. These figures demonstrate that companies' management aims at cutting costs in order to maintain stable operating performance at the time of economic uncertainty.

### Real GDP Growth and Unemployment in Ukraine



lhs – left hand scale  
 rhs – right hand scale  
 F – forecast  
 Source: State Statistics Committee  
 Forecast - Oxford Economics

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

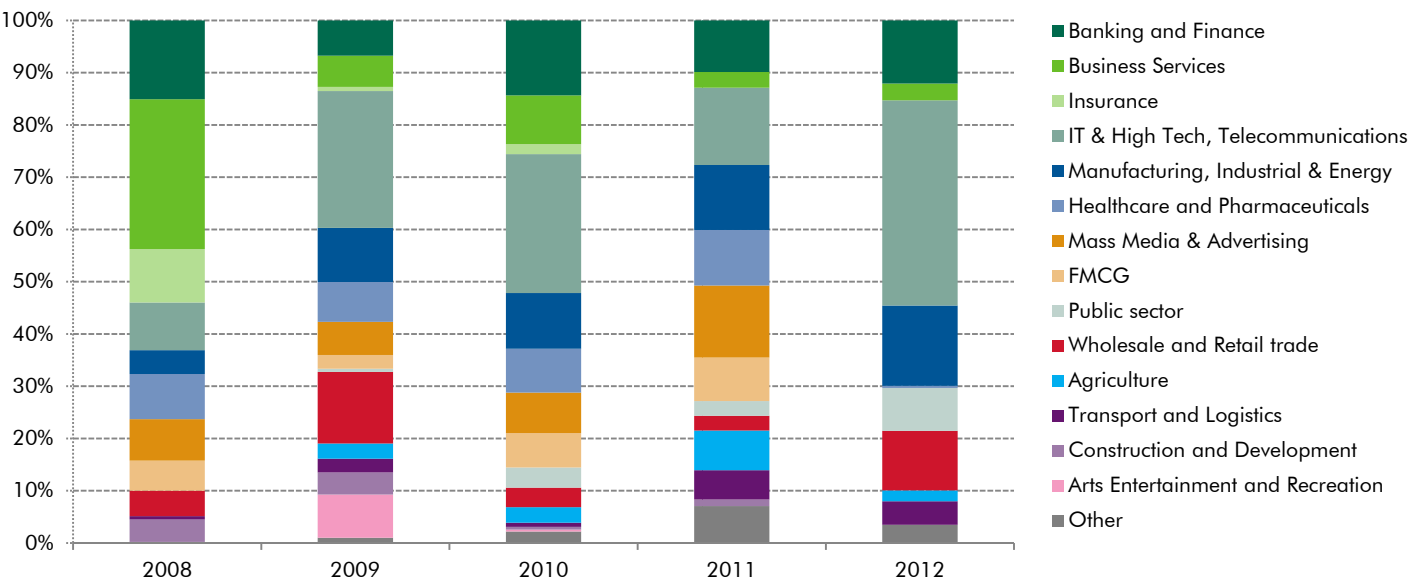
**DEMAND**

2012 produced a noticeable reduction in the market activity compared to 2011. Take-up fell by 35% y-o-y and amounted to just 75,000 sq m. Furthermore, after two years of positive growth, the share of transactions motivated by expansion dropped by 14 pp to 24% of the total number of transactions, a level not seen since 2009. As in previous years, transactions were motivated mainly by relocations (65% of all transactions) for the purposes of improving quality of offices and/or location. Among positive trends, there was a slight increase in the number of transactions related to new market entries.

In terms of absorption by business sector, *IT & High Tech* as well as *Telecommunications* companies featured prominently, as their share in the total volume of transactions reached 39%. They are followed by *Manufacturing, Industrial and Energy* companies which have gradually increased their share from 5% in 2008 to 15.4% in 2012. *Wholesale and Retail Trade* sector have also noticeable increased their activity in the office leasing segment accounting for 11.4% of the total transaction volume in 2012, up 9 pp from 2011. The share of *Banking, Financial, Business Services and Insurance* companies, which are the main users of quality office space, came to about 15% of transactions in 2012, just 2 pp over the prior year's level.

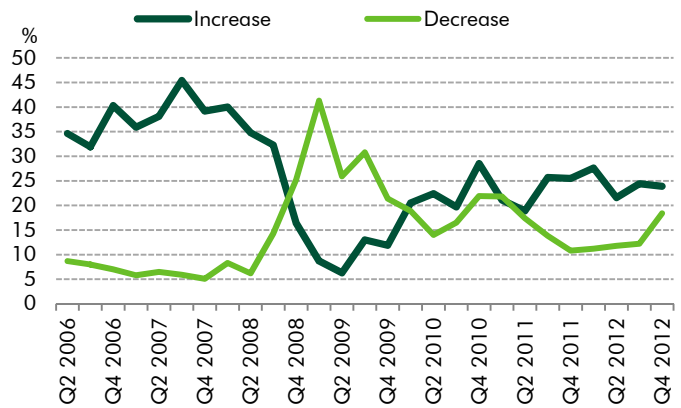
As for the types of transactions, one should note that despite the fact that there are companies in the marketplace who are actively considering to purchase office buildings for occupation, not a single significant acquisition took place in the course of 2012.

**Annual Take-up by Industry (% share)**



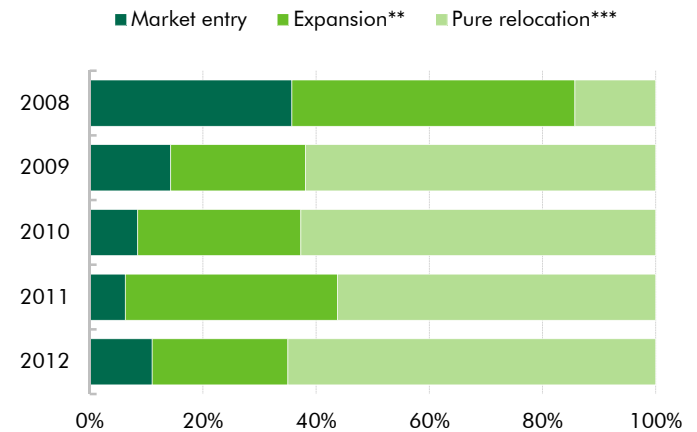
Source: CBRE

**Kyiv Corporate Hiring Expectations Over the Next 12 Months**



Source: National Bank of Ukraine

**Annual Take-up by Motivation\* (% share)**



\* - number of transactions, including sub-lease  
 \*\* - with or without relocation  
 \*\*\* - net of expansion  
 Source: CBRE

## Key Office Lease Transaction in 2012

OCCUPIER	INDUSTRY	PROPERTY	SUBMARKET	GLA*, sq m
Samsung Electronics	IT & High Tech, Telecommunications	101 Tower	South West	15,700
Delegation of the EU to Ukraine	Public sector	BC at 101 Volodymyrska St.	Olimpijskyi	4,500
Centrenerg	Manufacturing, Industrial & Energy	OB at 4 Vorovskogo St.	Shevchenkivskyi	4,137
Ukrfinance	Business Services	Eleven 2	South West	3,683
Magento	IT & High Tech, Telecommunications	Rialto	North	3,500
Nova poshta	Transport and Logistics	Europe	NC-SW	2,480
Watson	Wholesale and Retail trade	Forum Victoria (Phase I)	NC-SW	1,634
Mary Kay	Wholesale and Retail trade	BC at 2A Novovokzalna St.	South West	1,348
Software Outsourcing Team	IT & High Tech, Telecommunications	BC at 50 Gaidara St.	South West	1,200
System Integration Service	IT & High Tech, Telecommunications	BC at 50 Gaidara St.	South West	1,200
Zepter	Wholesale and Retail trade	BC at 19 Druzhby Narodiv bulv.	South	1,200
Panasonic	Wholesale and Retail trade	Forum Victoria (Phase I)	NC-SW	1,000

\* - gross leasable area

Note: submarkets defined according to the new central business district (CBD) delineation introduced by CBRE in September 2011

Prime, Pechersk, Podil, Olimpijskyi, Shevchenkivskyi – CBD; South, South West, West, North – CBD fringe; NC-SW – non-central location, south west (right bank), NC-NW – non-central location, north west (right bank), NC-NE – non-central location, north east (left bank), NC-SE – non-central location, south east (left bank)

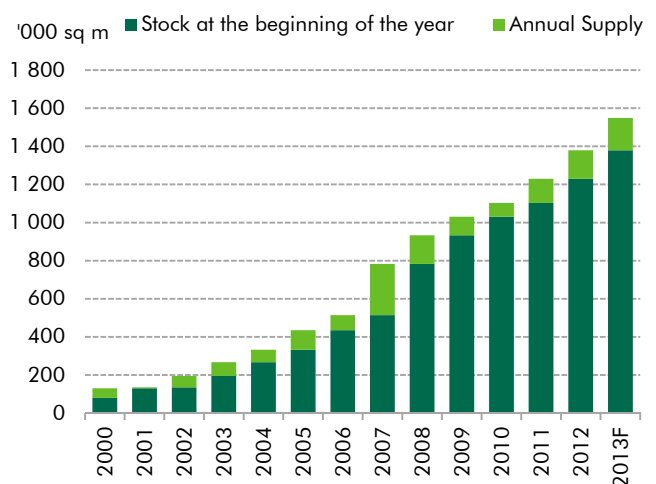
Source: CBRE

## SUPPLY

At the end of Q4 2012, total competitive office stock in Kyiv stood at some 1.379 million sq m. Around 150,000 sq m of new space were added on the market in 2012, an 18% increase on 2011. Most of the new office buildings are located in CBD, with two sizeable class A office components within Toronto-Kyiv (32,500 sq m office GLA) and Gulliver (59,000 sq m office GLA) mixed used schemes accounting for 60% of the new supply. As a result the stock of high-quality space in the Olympiyskiy submarket has significantly increased. An important point, however, is that despite being technically commissioned, the above buildings were not ready to welcome tenants at the end of the year.

Another 170,000 sq m of office space is expected to enter the market in 2013 including schemes that were initially planned for opening in 2012. More than 54% of this new supply is to be delivered in the Pechersk and South submarkets. Senator office building (45,000 sq m GLA) expected to be commercially ready in 2013 will become Kyiv's fourth largest scheme among high quality properties such as 101 Tower, Gulliver and Toronto-Kyiv.

## Kyiv Annual Development Completions and Total Competitive Stock



F – forecast  
Source: CBRE

## Key Office Schemes in 2012

NAME	CLASS	SUBMARKET	DEVELOPER	GLA, sq m	DELIVERY
OB at 33 Sagaidachnogo St.	BA	Podil	Local developer	2,800	H1 2012
Toronto-Kyiv	AA	Olimpijskiy	Toronto-Kyiv	32,500	H1 2012
Kanyon	CB	North	Kanyon	5,500	H1 2012
Forum Victoria Park (Phase I)	BC	NC-SW	Forum Management Group	7,200	H1 2012
Domosfera	BC	NC-SW	DeVision	17,100	H1 2012
Crystal	BC	NC-NE	First Dnepr Investment Company	9,000	H1 2012
Gulliver (Esplanada/Continetal)	AA	Olimpijskiy	Mandarin Plaza	59,000	H2 2012
BC at 37 Sagaidachnogo St.	BA	Podil	Local developer	2,800	H2 2012
BC at 40/85 Saksaganskogo St.	BA	Olimpijskiy	Local developer	2,500	H2 2012
Forum B7	BB	South-West	Forum Management Group	2,200	H2 2012
Eleven 2	BB	South-West	Center-Invest	3,900	H2 2012
OB at 45-49 Vozdvizhenska St.	BA	Podil	Local developer	5,000	H2 2012

Source: CBRE

## Key Office Schemes in 2013

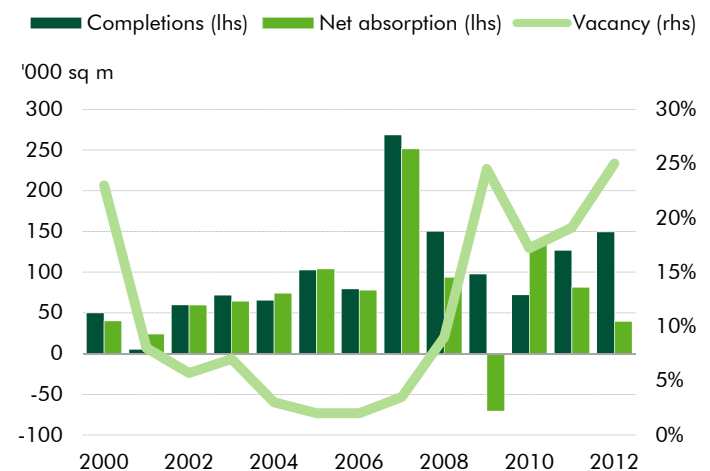
NAME	CLASS	SUBMARKET	DEVELOPER	GLA, sq m	DELIVERY
BC at 98 Chervonoarmijska St.	AA	Olimpijskiy	VS Energy International Ukraine	7,500	H1 2013
BC at 36 Shorsa St.	BB	South	Zhytlobud	24,800	H1 2013
BC at 52B B. Khmelnytskogo St.	BA	Prime	Vector	5,100	H1 2013
Merx Center 2	AB	South	Merx Group	21,800	H1 2013
Senator (Maria)	AA	Pechersk	K.A.N. Development	45,000	H1 2013
Silver Breeze	BC	NC-NE	Svitland Ukraine	28,500	H1 2013
BC at 28A Moskovskiy Ave.	AB	North	Local developer	20,000	H1 2013
BC at 69 Frunze St. (Phase I)	BB	North	UBK	3,000	H2 2013
Forum Victoria Park (Phase II,III)	BC	NC-SW	Forum Management Group	15,500	H2 2013

Source: CBRE

## VACANCY &amp; RENTS

A more than twofold decline in net absorption amid slowing economy and rapidly rising supply raised the market average vacancy rate to 25% by the end of 2012. The most dramatic increase was recorded in the Olimpiyskiy submarket where the share of unoccupied space rose to 40.7% (+24.7 pp y-o-y). The reason for the vacancy hike is a simultaneous delivery of two large-scale office schemes: office components within Toronto-Kyiv and Gulliver mixed-use properties. As a result the average vacancy rate in CBD increased from 10% to 17% over the course of one year. At the same time the vacancy rate in the areas bordering the CBD stood at 19.9%, which is 12.8 pp below the 2011 level.

## New Supply, Net Absorption and Vacancy Rate



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

Office buildings located outside the city center recorded a 36.8% vacancy rate, up 3.8 pp y-o-y. Kyiv CBD, therefore, witnessed the highest increase in average vacancy rate.

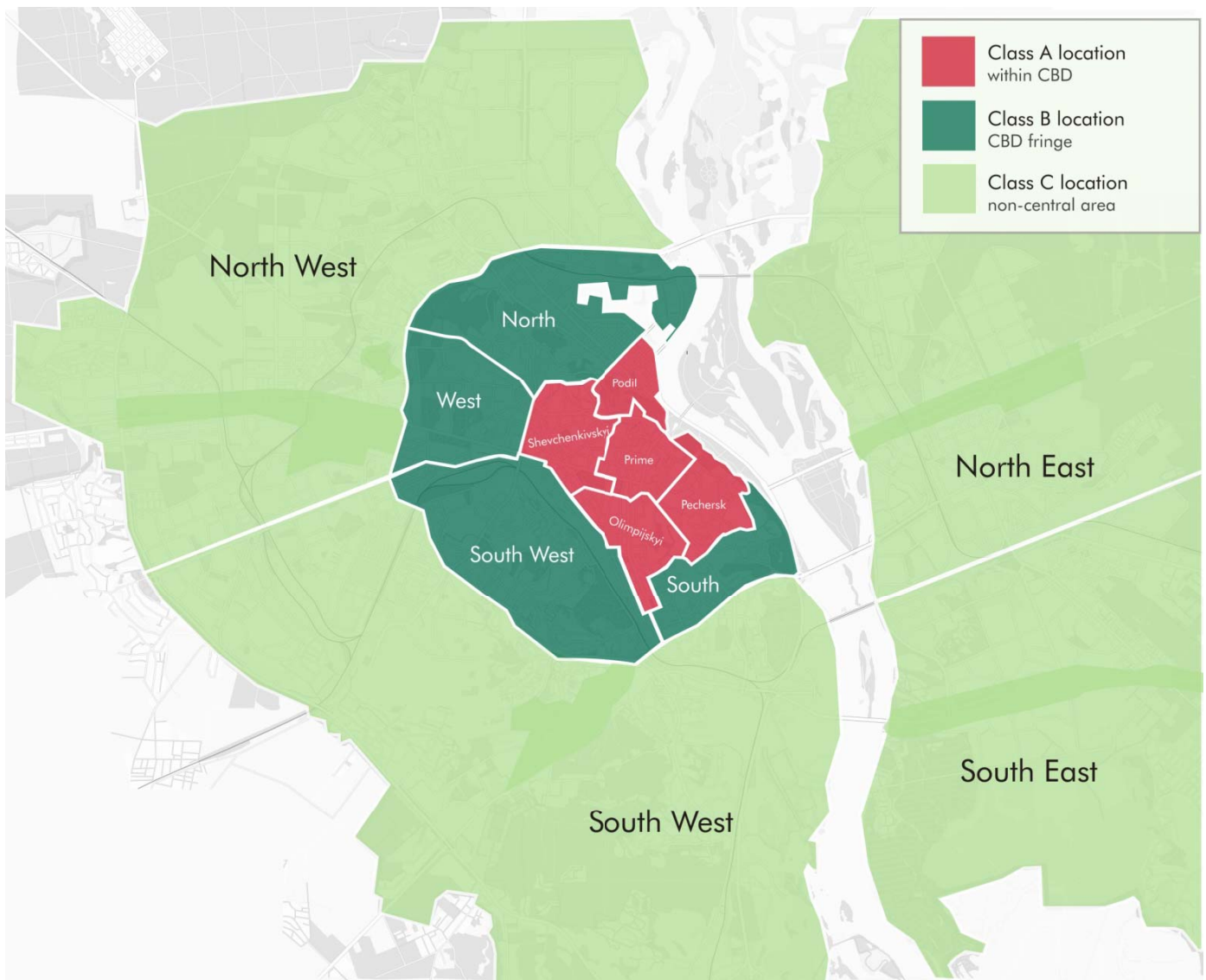
Delivery of such a large amount of office space in the market at a time of rather limited demand influenced rental rates. Indicative base rental rates (triple net) for prime space fell from \$35 to \$33 sq m/month in Q4 2012. Currently asking base rental rates vary on average from \$25 to \$40 per sq m/month for Class A space and from \$12 to \$29 per sq m/month for class B properties in CBD depending on location and building occupancy.

**Kyiv Office Base Rental Range and Vacancy by Location, as of Q4 2012 (USD/sq m/month)**

Class A location	Quality A	Quality B	Vacancy
Prime	\$35-40	\$24-29	8.5%
Pechersk	\$35-40	\$24-29	13.6%
Podil	\$28-32	\$23-25	5.7%
Shevchenkivskiyi	-	\$22-26	16.2%
Olimpijskiy	\$25-33	\$18-25	40.7%
Class B location	Quality A	Quality B	Vacancy
CBD fringe	\$23-30	\$12-20	19.9%
Class C location	Quality A	Quality B	Vacancy
Non-central area	-	\$12-15	36.8%

Source: CBRE

### Map of Office Submarkets in Kyiv



Source: CBRE

## YIELDS

Not a single investment transaction<sup>2</sup> took place on the office market in 2012. As a result the estimated prime yield remained unchanged at 13%. Among development transactions KDD Group's mixed-use complex Sky Towers currently under construction changed hands. Sale of a notable income generating class A office property (ca. 20,000 sq m GLA) may take place in 2013. Yields should stay where they are now at 13% provided the economic situation does not deteriorate further.

## OUTLOOK

Moderate take-up once again confirms the fact that the demand for office space is highly sensitive to the dynamics of GDP. Therefore reactivation of transactional activity should not be expected in 2013. Once the economy starts to grow, noticeable improvements in the office market are bound to follow. Meanwhile the most likely scenario is for take-up to return to the levels of 2010-2011, i.e. slightly over 100,000 sq m per year.

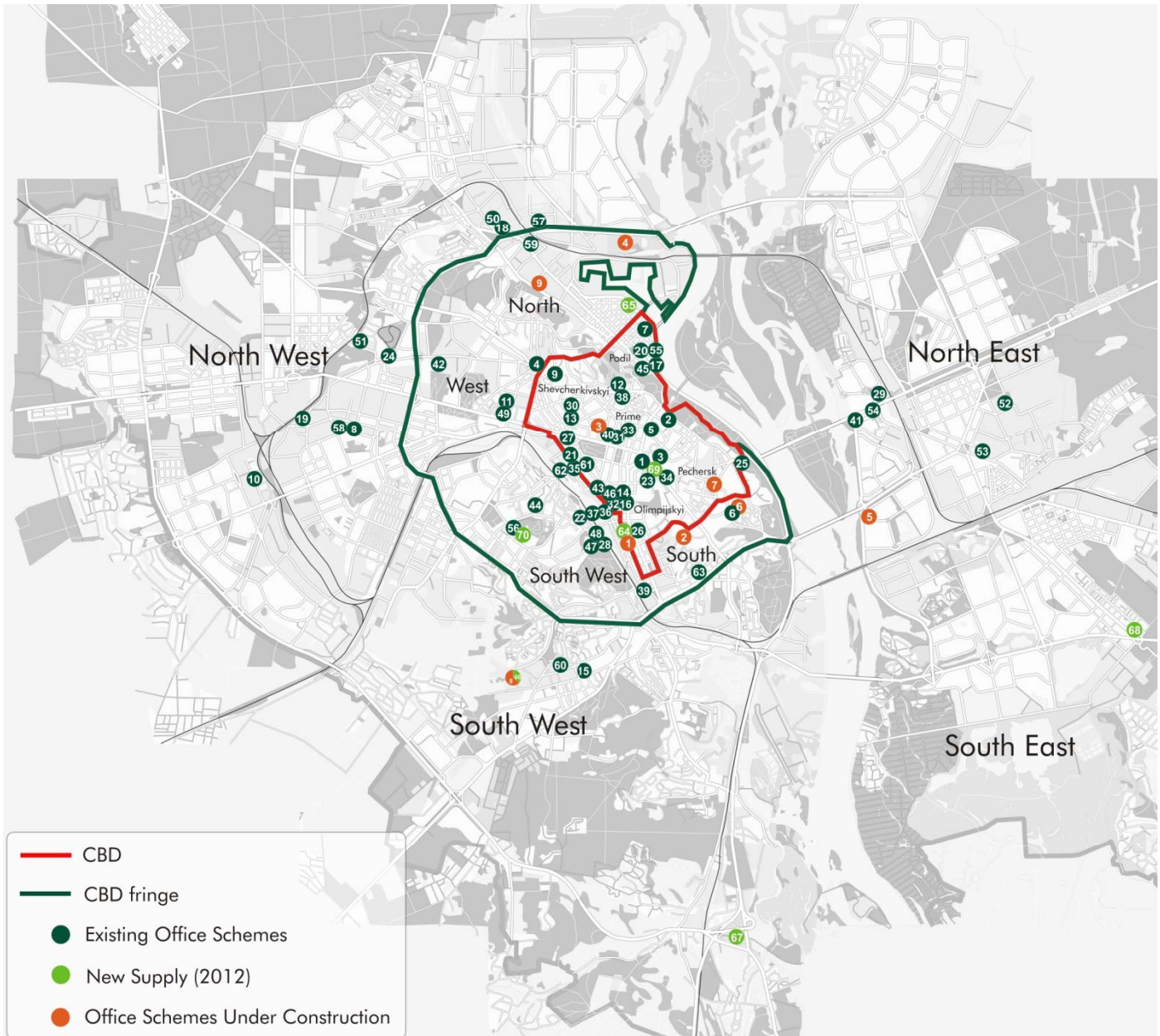
Despite significant improvements in the quality of supply, the sheer volume of the recently delivered space and planned volume of deliveries combined with continued slow absorption rates mean that the average market vacancy will remain high and will increase competition among office buildings. The market in 2013, therefore, will remain favorable for the tenant and will be such where landlords will increasingly play a more active role in designing various benefit schemes to lure occupiers. As a result the downward pressure on effective rents will persist and will take various forms: reduction in the actual rent, longer rent-free periods, free or partly covered internal finishing, capped operating expenses, flexible break or surrender clauses &c. The degree of concessions will depend on the policy of the landlords, new supply delivery rates and commercial readiness of new building to welcome tenants.

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<sup>2</sup> - Property investment transactions exclude corporate transactions, in which real estate is only (a necessary) part of a transaction of a total business, land/development transactions and owner-occupier transactions, where a buyer has no intention to receive income from the property



# KYIV BUSINESS CENTERS



Source: CBRE

Key Existing Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
1	Makulan	9/2 V.Vasylykivska St.	8,000	1993
2	Europa	4 Muzeinyi lane	5,600	1995
3	Horizon Office Towers	42-44 Shovkovychna St.	12,000	1998
4	Artem	4 Glubochytska St.	10,200	1998
5	Khreschatyk Plaza	19A Khreschatyk St.	6,500	1999
6	Merx Center 1	15 Leipytsygska St.	5,100	1999
7	Podil Plaza	30 Spaska St.	19,800	2000
8	Silver Center	4 I.Lepse blvd.	6,500	2001
9	Forum Business City	13 Pymonenka St.	28,000	2002
10	Forum Satellite	4 Geroiv Kosmosa St.	12,000	2003
11	Cubic Center	3 Sholudenka St.	11,600	2003
12	Panorama	20 V. Zhytomyrska St.	8,900	2003
13	Poligrafist	33 Vorovskoho St.	8,000	2003

Key Existing Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
14	Aquamarin	29 Zhylyanska St.	5,300	2003
15	Stend	14 Vasylkivska St.	11,500	2004
16	Olympiyskyi	72 V.Vasylkivska St.	7,000	2004
17	Igorivskiy	13/5 Igorivska St.	6,700	2004
18	Forum Park Plaza	9 Moskovskiy ave.	27,200	2005
19	Irva (Phase I,II)	10/14 Radischeva St.	26,000	2005-2009
20	Illinskyi (Phase I,II,III)	8 Illinska St.	25,500	2005-2008
21	Botanic Towers	119-121 Saksahanskoho St.	7,000	2005
22	FIM Center 1	17 Liniyna St.	6,500	2005
23	Olimp	3 Sportyvna Sq.	6,500	2005
24	Fermmash	62 Dehtyarivska St.	5,700	2005
25	Meganom	1 Dniprovskiy uzviz	5,500	2005
26	Capital	77A V.Vasylkivska St.	3,800	2005
27	Europa Plaza (Phase I,II)	120 Saksahanskoho St.	26,700	2006-2007
28	Horizon Park 1	4B Grynchenka St.	16,000	2006
29	Komod	4 Lunacharskoho St.	15,000	2006
30	Renaissance	24 Vorovskogo St.	14,500	2006
31	Leonardo (Phase I)	17/52 Khmelnytskogo B. St.	11,300	2006
32	Senator	101 Volodymyrska St.	6,000	2006
33	Seven Hills	49A Volodymyrska St.	6,000	2006
34	Parus	2 Mechnykova St.	52,700	2007
35	Eurasia	73-79 Zhylyanska St.	23,400	2007
36	BC at Fizkultury St.	28 Fizkultury St.	11,700	2007
37	Fahrenheit	30 Fizkultury St.	10,000	2007
38	Staryi Grad	6 Rylskoho lane	5,200	2007
39	Palladium	172 Antonovycha St.	20,000	2008
40	Leonardo (Phase II)	19-21A B. Khmelnytskogo St.	15,200	2008
41	Watergate	8B Okipnoy R. St.	11,000	2008
42	Mikom Palace	27 Dehtyarivska St.	10,900	2008
43	Prime	48, 50A Zhylyanska St.	8,400	2008
44	Vremena Goda	16 Kudryashova St.	7,100	2008
45	Podil Kyiv	25B Sahaidachnoho St.	6,000	2008
46	Capital Hall	31-33 Zhylyanska St.	5,000	2008
47	Horizon Park 2 (Phase I,II)	12A Amosova St.	30,400	2009-2010
48	Protasov Business Park	2/1 Hrynchenka St.	21,300	2009
49	Vector	10G Starokyivska St.	9,600	2009
50	Forum Kinetic	12 Kurenivskiy lane	9,000	2009
51	Flora Park	8 Tankova St.	8,300	2009
52	FIM Center 2	1 Magnitogorska St.	7,400	2009
53	Prague	6 Sosyury St.	7,000	2009
54	Livoberezhnyi	2A M. Raskovoi St.	5,700	2009
55	Horizon Podil (Phase I)	9 N.Khreschatytska St.	1,200	2009
56	Eleven	11 Solominska St.	8,000	2010
57	Lucky.net Telecom Office	13A Moskovskiy ave.	5,500	2010
58	Premium Business Center	6Z I.Lepse blvd.	38,000	2011
59	Rialto	18 Novokonstantynivska St.	15,200	2011
60	BC at Kozatska St.	120/4 Kozatska St.	7,000	2011
61	Pankivskiy	70/16B Saksahanskoho St.	9,600	2011
62	101 Tower	57 L'va Tolstogo St.	46,000	2011
63	BC at Druzhby Narodiv	19 Dryzhby Narodiv Blvd.	7,000	2011
64	Toronto-Kyiv	79 Antonovycha St.	32,500	2012
65	Kanyon	56A Yaroslavskaya St.	5,500	2012
66	Forum Victoria Park (Phase I)	7A Akhtyrskiy lane	7,200	2012
67	Domosfera	101 Stolychne shose	17,100	2012
68	Krystal	175-177 Kharkivske highway	9,000	2012
69	Gulliver (Esplanada/Continental)	1 Sportyvna Sq.	47,200	2012
70	Eleven 2	11 Solomenska St.	3,900	2012
Key Future Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
1	BC at Krasnoarmijska St.	98 Krasnoarmijska St.	7,500	2013
2	BC at Schorsa St.	36 Schorsa St.	24,800	2013
3	BC at B. Khmelnytskogo	52B B. Khmelnytskogo St.	5,120	2013
4	BC at Moskovskiy Ave.	28A Moskovskiy Ave.	20,000	2013
5	Silver Breeze	Serafimovycha/Tychyny St.	28,500	2013
6	Merx Center 2	15A Leipstyska St.	21,800	2013
7	Senator (Mariya)	2/32-34 Moskovskaya St.	45,000	2013
8	Forum Victoria Park (Phase II, III)	7A Akhtyrskiy lane	15,500	2013
9	BC at Frunze (Phase I)	69 Frunze St.	3,000	2013

Source: CBRE



## DEFINITIONS

**CBD** – central business district

**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. For offices, the **prime rent** should represent the typical “achievable” open market headline rent which a blue chip occupier would be expected to pay for:

- an office unit of standard size commensurate with demand in each location, typically 500 sq m
- an office unit of highest quality and specification within the local market
- an office unit within the prime location (CBD, for example) of a market

**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 (unless the occupier took additional space, when only the additional space is included).

**Total Competitive Stock** – represents the total completed space (occupied and vacant) in the private sector at the survey date, recorded as gross leasable 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.

**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**

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