MARKET SNAPSHOT
Kyiv Office Market

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Q1 2015

HOT TOPICS

- Occupiers' demand was mostly driven by relocation, cost-cutting and renegotiation
- New supply amounted to 33,000 sq m of office space
- Vacancy rose to 31% (+1.0 pp from Q4 2014) due to new supply and slow absorption pace
- Rents remained under downward pressure: indicative prime rent declined to $23 per sq m/month (triple net) (-8% q-o-q) owing to additional decline in national currency value

PERFORMANCE

Office market did not show any significant signs of recovery in Q1 2015. This was largely reflective of the prevailing economic uncertainty and persistent tensions in the Eastern part of the country, which adversely impacted market occupiers' real estate decisions. Leasing activity remained heavily driven by relocation, cost-cutting and consolidation rather than expansion. 33,000 sq m of new space within four small-scale office schemes were delivered to the market during Q1 2015. As a result, total competitive stock reached approximately 1.6 mln sq m by the end of March. Limited levels of take-up followed by moderate increase in new supply of office space brought the vacancy rate up by 1.0 pp reaching 31% by the end of Q1 2015. Due to further devaluation of national currency rental rates generally faced downward pressure. The indicative prime rent declined by 8% on average from $25 to $23 per sq m/month (triple net) during the quarter. Secondary buildings and locations have seen 15%-30% rental declines over the first three months of 2015. In some cases, owners of secondary buildings had to reduce rents sharply in an attempt to retain occupiers.

OUTLOOK

Economy is expected to remain in recession in 2015 and this will continue to hamper prospects for business activity and office market respectively. 68,000 sq m of new office space is forecast for delivery by the end of 2015. Development pace of large-scale office schemes decelerated considerably with some properties postponing their opening for 2016. The average vacancy rate is expected to grow moderately in case of the delivery of new office space and fragile occupiers' demand. Rents may see further gradual reduction but should stabilize during 2015 with the prime effective USD rate somewhat upwards of $20/sq m/month.

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