

Quick Stats

	Change from	
	H2 '11	H1 '11
New Supply	↓	↑
Rent	→	→
Vacancy	↑	↑

Hot Topics

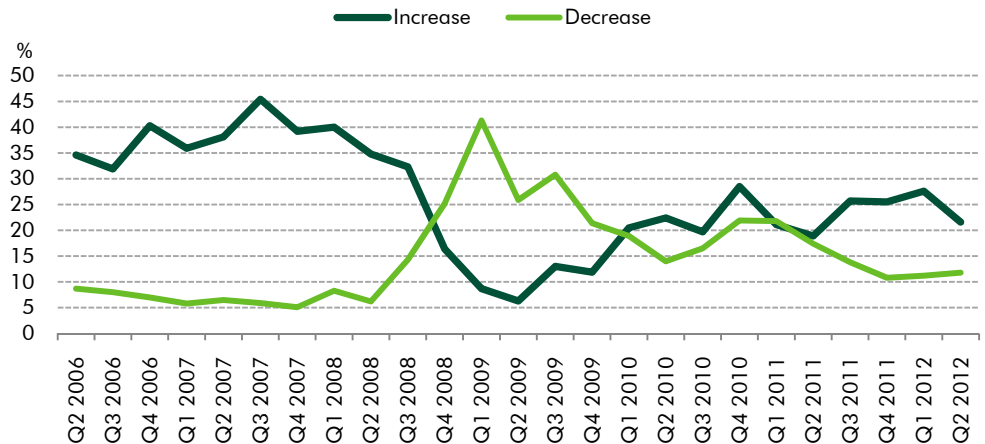
- Fall in leasing activity: gross absorption more than halved in H1 2012 to just over 30,000 sq m
- Growth in new supply: speculative market saw the delivery of 74,100 sq m of space in six schemes
- Increase in the market average vacancy rate to 21.8% (+2.7 pp. from Q4 2011) on the back of strong growth in supply and moderate demand
- Stabilization of prime rents due to the lack of preconditions for further growth

FUNDAMENTALS

Because of unfavorable external conditions, Ukrainian economy was driven primary by domestic consumption in Q1 2012. In the first three months of the year, GDP grew only 2% y-o-y. Despite expectations for a faster pace in Q2, weak external demand hinders the expansion and the latest forecasts for economic growth in 2012 now vary between 1.3 and 2.5%¹.

As to the jobs market situation, unemployment forecast for 2012 averages at around 8%, unchanged from 2011 when it was 7.9%. This outlook is reflected by business sentiment. Latest poll results show that employers are getting slightly less optimistic as far as hiring is concerned. The share of firms planning to employ more staff in the next 12 months was 21.6% in Q2 2012 vs. 25.5% in Q4 2011. Likewise, the share of companies that do not intend to hire new personnel increased to 66.6% in Q2 2012 from 63.7% in Q4 2011.

Kyiv Corporate Hiring Expectations over the Next 12 Months



Source: National Bank of Ukraine

DEMAND

Similar to H2 2011, leasing activity remained moderate in the first six months of 2012. CBRE preliminary estimates that take up equaled just over 30,000 sq m in that period, up 10% from H2 2011, but more than two times less the amount recorded a year ago. Furthermore, a single lease deal by Samsung (15,700 sq m) accounted for more than half of all the transacted space in H1 2012. It should be said, however, that it was the largest office lease transaction ever and not only among the latest ones.

We should note that almost all of the deals in excess of 1,000 sq m were completed in new office buildings. Also there was not a single owner-occupier transaction in H1 2012, although acquisition interest remains high.

¹ - Latest forecasts provided by 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

Key Office Lease Transactions in H1 2012

Occupier	Industry	Property	Submarket	GLA*, sq m
Samsung Electronics	IT & High Tech, telecommunications	101 Tower	South-West	15,700
Diplomatic mission	Extraterritorial organizations and bodies	Confidential	Olimpijskyi	4,500
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, Gaydara St.	South-West	1,200
System Integration Service	IT & High Tech, telecommunications	BC at 50, Gaydara St.	South-West	1,200
ENI	Manufacturing, Industrial and Energy	Podol Plaza	Podil	800

*- 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

Companies within the IT & High Tech and Telecommunications sector still make up the lion's share of the overall take-up, accounting for 62% of all transactions. The demand from banking, finance and business services companies, which used to be the main users of space in the past, remains weak as they make up only 5% of all deals. Most of the transactions are still largely driven by consolidation plans of the companies or their intentions to move to premises of better quality in terms of class or location.

SUPPLY

In H1 2012 total competitive stock grew by 74,000 sq m of space. Almost half of that space was delivered in just one scheme – class A offices as part of *Toronto-Kyiv* mixed use (GLA – 35,000 sq m). As of the end of Q2 2012 total competitive office stock in Kyiv equaled 1.304 million sq m.

We expect another 100,000 sq m of space to be delivered before the end of the year. Should all that space gets delivered as planned, annual completions will amount to 170,000 sq m (+23% y-o-y), of which 87,200 sq m are class A properties within CBD. Moreover, almost all new office schemes are located on the West (Right) bank. The only exception is *Crystal office building* (GLA – 9,000 sq m), delivered in Q2 2012. The geographical imbalance within the office stock will, therefore, continue to grow even further.

In 2012 Olimpijskyi submarket is expected to grow significantly in terms of new class A supply, while in 2013 large office schemes are scheduled for delivery in Podil and Pechersk. No significant increase in new supply is expected in Prime and Shevchenkivskyi submarkets over 2012-2013.

Another 150,000 sq m of office space currently under construction may enter the market in 2013. It should be noted that this amount also includes schemes which were initially planned for the delivery in 2012.

New Supply in 2012 (major schemes)*

Name	Class	Submarket	Developer	GLA, sq m	Delivery
Toronto-Kyiv	AA	Olimpijskyi	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/Continental)	AA	Olimpijskyi	Mandarin Plaza	47,200	H2 2012
BC at Sahaydachnogo St.	BA	Podil	Local developer	2,800	H2 2012
BC at 98 Chervonoarmijska St.	AA	Olimpijskyi	VS Energy International Ukraine	7,500	H2 2012
BC at 40/85 Saksaganskogo St.	BA	Olimpijskyi	Local developer	2,500	H2 2012
Forum B7	BB	South-West	Forum Management Group	2,200	H2 2012
BC at 36 Shorsa St.	BB	South	Zhytlobud	24,800	H2 2012
Eleven II	BB	South-West	Center-Invest	3,900	H2 2012
BC at 69 Frunze St. (Phase I and II)	BB	North	UBK	6,000	H2 2012

* according to developers' announcements

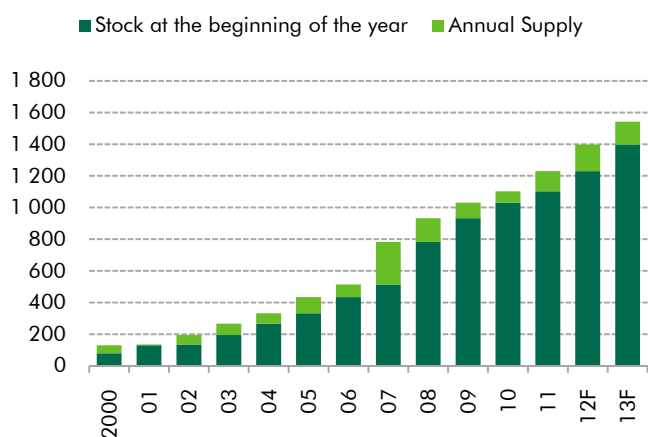
Source: CBRE

New Supply in 2013 (major schemes)*

Name	Class	Submarket	Developer	GLA, sq m	Delivery
BC at 25B Khmelnytsyi St.	BA	Prime	Vector	5,100	H1 2013
Merx Center 2	AB	South	Merx Group	21,800	H1 2013
Metropol (Maria)	AA	Pechersk	K.A.N. Development	40,000	H1 2013
Silver Breeze	BC	NC-NE	Svitland Ukraine	26,000	H1 2013
Horizon Podol II	AA	Podil	ISA Prime Development	16,000	H1 2013
BC at 28A Moskovskyi Ave.	AB	North	Local developer	20,000	H1 2013
Podol Prestige	BA	Podil	Local developer	12,000	H2 2013
BC at 69, Frunze St. (Phase III and IV)	BB	North	UBK	6,000	H2 2013

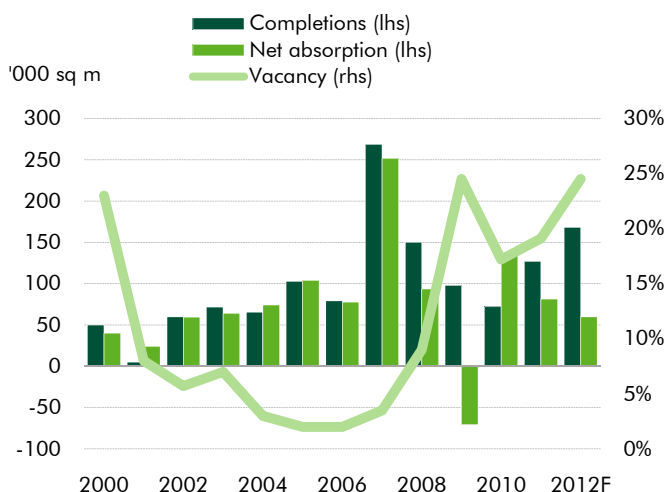
* according to developers' announcements
Source: CBRE

Kyiv Annual Development Completions and Total Competitive Stock



F - forecast
Source: CBRE

New Supply, Net Absorption and Vacancy Rate



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

Vacancy and Rates

Analysis of net absorption dynamics indicates that relocations from grey stock (non-classified office buildings) to competitive stock are fading away. At the same time, expansions are progressing only slowly given the unfavorable trends in the broader economy. The combination of modest demand and large new supply has brought about an increase in vacancy rate to 21.8% (+2.7 pp from Q4 2011; +8.8 pp y-o-y).

Due to the delivery of the office scheme Toronto-Kyiv, vacancy rate on Olympiyskyi submarket doubled to 31.4%, driving the overall CBD vacancy to 16.1% from 10% in Q4 2011. Still, the biggest share of vacant space (38.2%) is concentrated outside of the city center. Vacancy rate within the area bordering CBD fell to 17.0% from 32.7%, but that shift was entirely attributed to a single lease deal: Samsung taking up 15,700 sq m in 101 Tower.

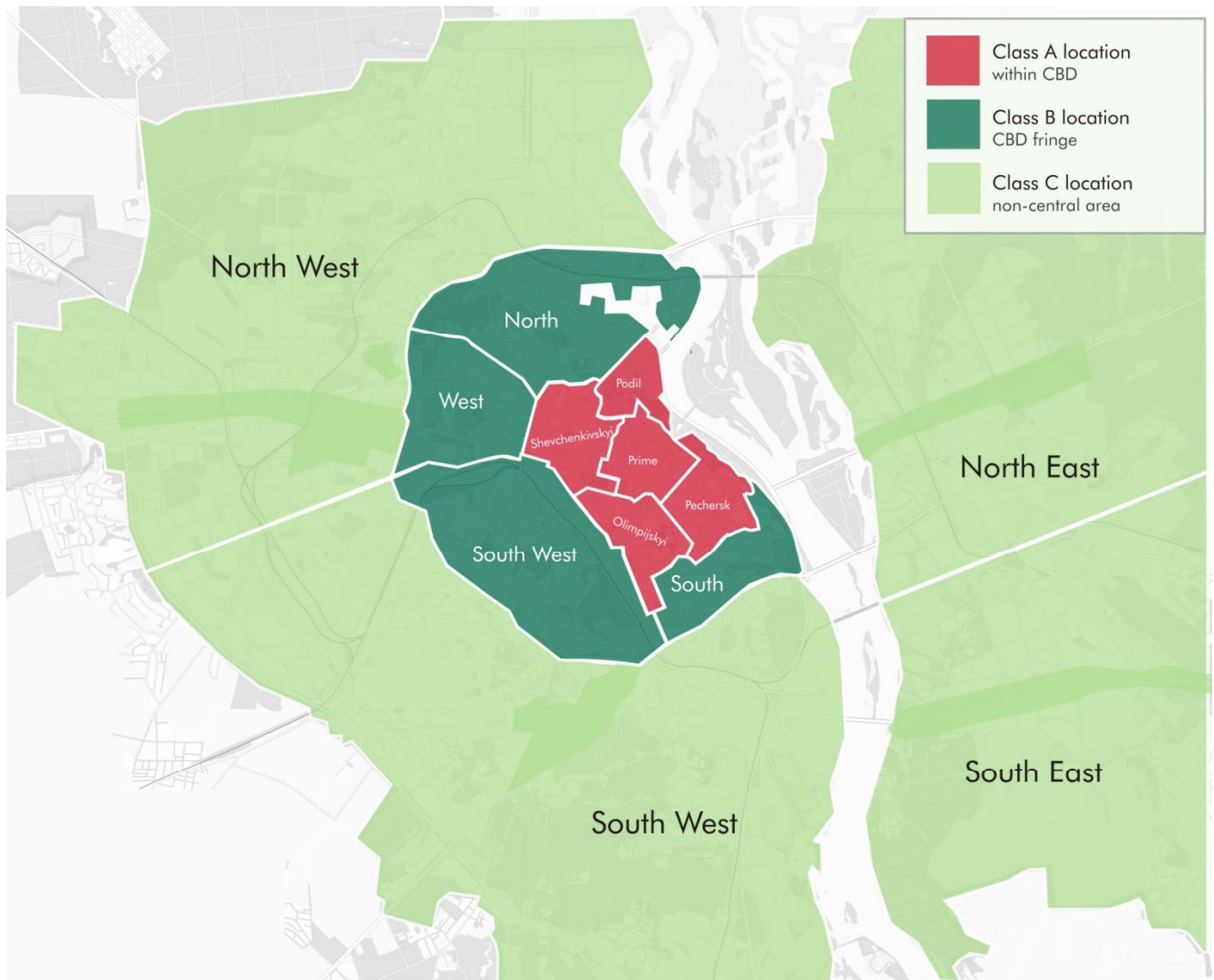
There were no significant changes in rental rates in H1 2012. As of the end of Q2 2012, average base rental rates for Class A properties in CBD stayed in the range of \$25-42/sq m/month. Average rental rate for Class B properties was around \$23/sq m/month (net of VAT and OPEX).

Kyiv Office Base Rental Range and Vacancy, by Location as of Q2 2012

Class A location	Quality A	Quality B	Vacancy
Prime	\$35-42	\$25-30	5.4%
Pechersk	\$35-42	\$25-30	9.0%
Podil	\$28-35	\$23-25	10.0%
Shevchenkivskiyi	-	\$22-30	11.5%
Olimpijskiy	\$25-32	\$23-27	31.4%
Class B location	Quality A	Quality B	Vacancy
CBD fringe	\$20-25	\$14-20	17.0%
Class C location	Quality A	Quality B	Vacancy
Non-central area	-	\$12-15	38.2%

Source: CBRE

Map of Office Submarkets in Kyiv



Source: CBRE

YIELDS

Not a single investment transaction² took place in the office market during the first six months of the year. The economic uncertainty holds back the development of commercial real estate market and we do not expect to see any improvements before the year end. Until political and financial risks start to decline, prime yields should stay where they are now – at 13% – provided the economic situation does not deteriorate further.

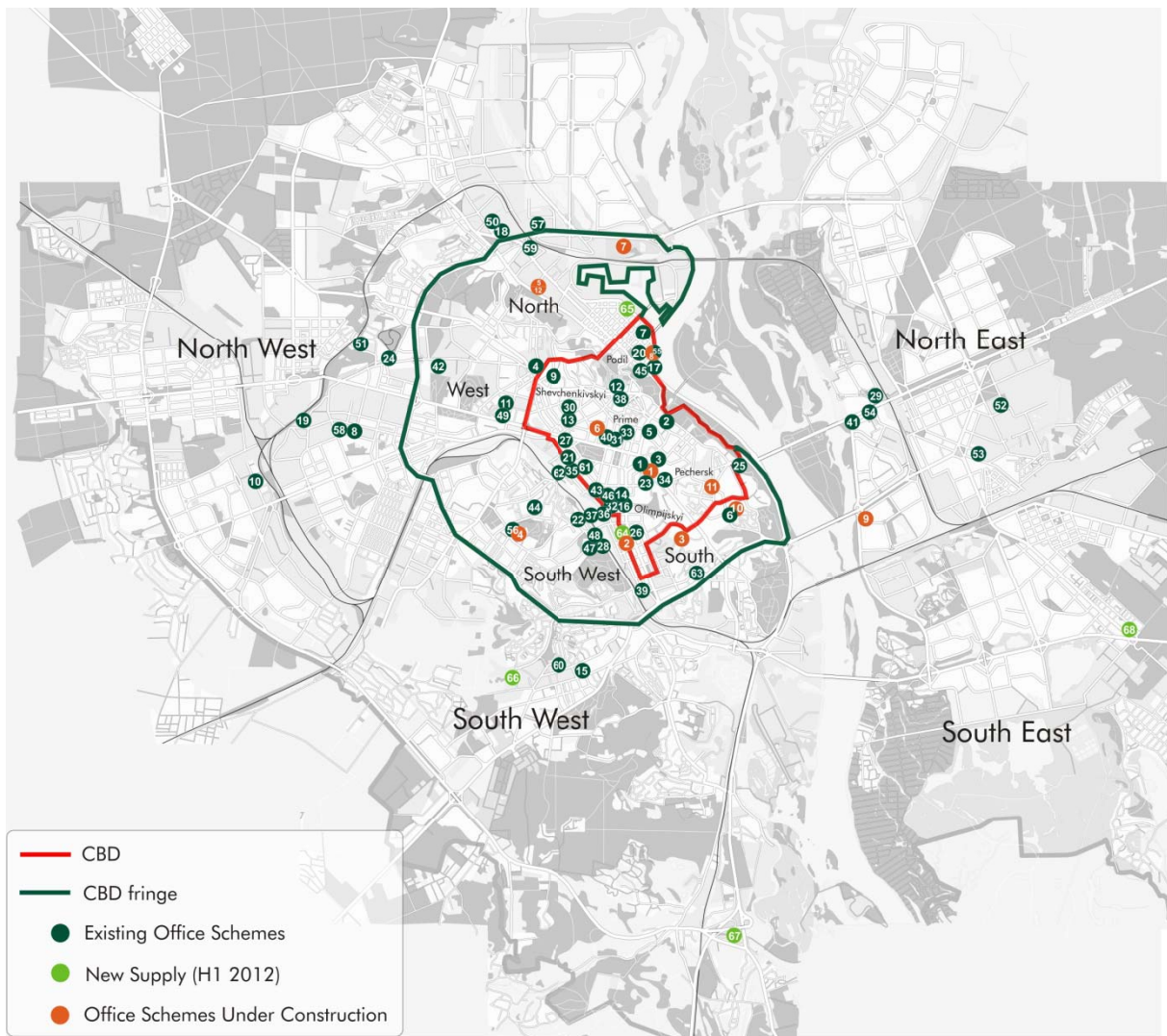
OUTLOOK

H1 2012 was characterized by a rather moderate dynamics in office real estate market. Should the absorption rate remain stable and the schemes under construction get delivered as planned (+100,000 sq m) average market vacancy rate will rise to 24.5%.

High vacancy rate will spur competition among the properties. Since the delivery of several schemes was postponed until 2013, the share of class A properties in 2012 new stock has declined from 67% (forecast made in Q4 2011) to 52%. This figure, however, is still large enough to put a downward pressure on rental rates. Against the backdrop of moderate demand, landlords will have to offer better terms and start making concession to tenants. We expect the upper limit of rental rates to decline gradually in H2 2012. Already top rents on Class B properties in Prime submarket decreased by \$5 in anticipation of new class A deliveries, which have lower rents compared to the existing schemes.

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

KYIV BUSINESS CENTERS



Source: CBRE

Key Existing Office Schemes

No	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 Leiptysgska 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				
No	NAME	ADDRESS	GLA, sq m	COMPLETION
14	Aquamarin	29 Zhylyanska St.	5,300	2003
15	Stend	14 Vasytkivska St.	11,500	2004
16	Olympiyskyi	72 V.Vasytkivska St.	7,000	2004
17	Igorivskyi	13/5 Igorivska St.	6,700	2004
18	Forum Park Plaza	9 Moskovskyi 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 Dehtyariivska St.	5,700	2005
25	Meganom	1 Dnirovskiyuzviz	5,500	2005
26	Capital	77A V.Vasytkivska 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 Dehtyariivska 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 Kurenivskyi 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 Moskovskyi 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	Pankivskyi	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	H1 2012
65	Kanyon	56A Yaroslavka St.	5,500	H1 2012
66	Forum Victoria Park (Phase I)	7A Akhtyrskyi lane	7,200	H1 2012
67	Domosfera	101 Stolychne shose	17,100	H1 2012
68	Crystal	175-177 Kharkivske highway	9,000	H1 2012

Key Future Office Schemes

No	NAME	ADDRESS	GLA, sq m	COMPLETION
1	Gulliver (Esplanada/Continental)	1 Sportyvna Sq.	47,200	H2 2012
2	BC at Chervonoarmijska St.	98 Chervonoarmijska St.	7,500	H2 2012
3	BC at Schorsa St.	36 Schorsa St.	24,800	H2 2012
4	Eleven II	11 Solomenska St.	3,900	H2 2012
5	BC at Frunze (Phase I,II)	69 Frunze St.	6,000	H2 2012
6	BC at B. Khmelnytskogo St.	52B B. Khmelnytskogo St.	5,120	H1 2013
7	BC at Moskovskyi Ave.	28A Moskovskyi Ave.	20,000	H1 2013
8	Horizon Podil (Phase II)	9 N. Khreschatytska St.	15,400	H1 2013
9	Silver Breeze	Serafimovycha/Tychyny St.	26,000	H1 2013
10	Merx Center II	15A Leipsigska St.	21,800	H1 2013
11	Metropol (Maria)	2/32-34 Moskovskaya St.	40,000	H2 2013
12	BC at Frunze (Phase III,IV)	69 Frunze St.	6,000	H2 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 deal flow is very limited or made up of unusual one-off deals. 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 deals (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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