

### HOT TOPICS

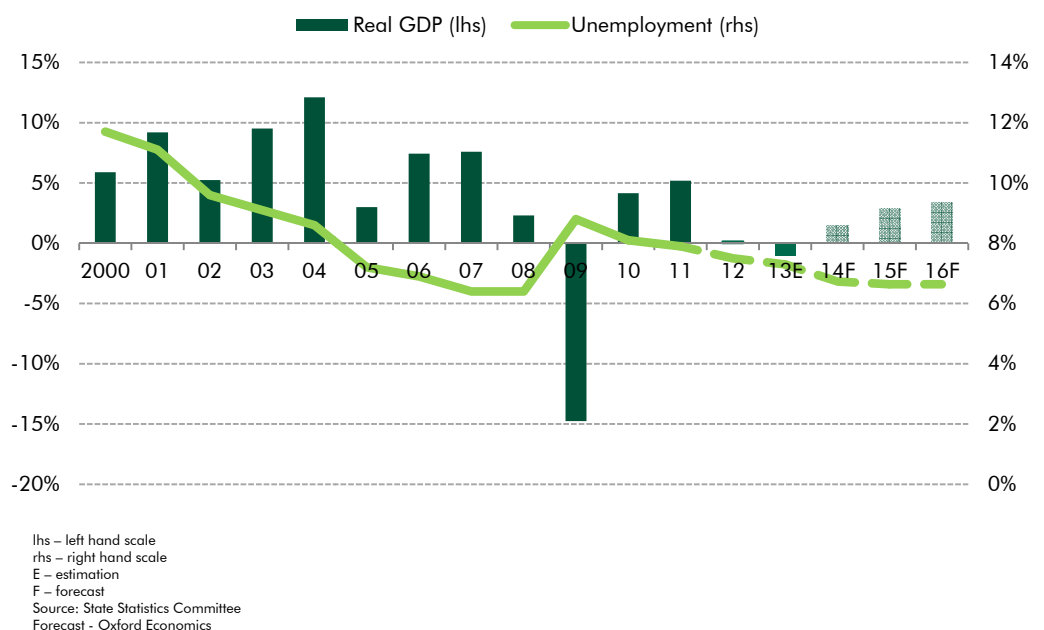
- Slight rebound in demand: take-up increased by 25% in 2013 compared to 2012
- Supply growth: around 124,700 sq m of office space entered the market (-16% y-o-y)
- Continuing increase in the average vacancy rate: combination of a strong supply and weak demand brought the vacancy rate up to 27.5% (+2.5 pp y-o-y)
- Relative stability of achievable prime rent: average rate for prime premises remained stable at \$33/sq m/month

### FUNDAMENTALS

While the European economies appear to have entered a period of slow recovery, the Ukrainian economy is lagging far behind. After five consecutive quarters of decline in real GDP, Ukraine was just about to stagger out of the recession towards the end of 2013; however, ongoing political instability since November put the first signs of improvement on hold. According to the State Statistics Committee, the pace of decline in industrial production eased markedly to 4.7% y-o-y. On a positive note, the economy was supported by the agricultural sector, which continued to post growth rates (+13.7% y-o-y), and retail sales growth, that even though has slowed, it has remained quite healthy (+5.6% y-o-y). Ukrainian GDP growth is estimated at 0% in 2013, versus 0.2% in 2012, although Q4 data are very questionable and may be subject to further adjustment following change of government. As of January 2014, growth of real GDP in 2014 is forecast to be in the 1% to 2% range<sup>1</sup>.

Companies' hiring expectations demonstrated a mixed trend over the course of the year. After a gradual downward shift from 23.9% in Q4 2012 to 18% in Q2 2013, the percentage of companies interested in expanding their staff rose sharply to 29% in Q3 2013, reflecting companies' increased confidence in their business future. However, Ukraine's political crisis, aggravated at the end of Q4, rolled the indicator back to 23.3% (-0.6 pp y-o-y). On a positive side, the share of those planning staff reductions decreased from 18.4% to 12.3% over the course of the year.

### REAL GDP GROWTH AND UNEMPLOYMENT IN UKRAINE



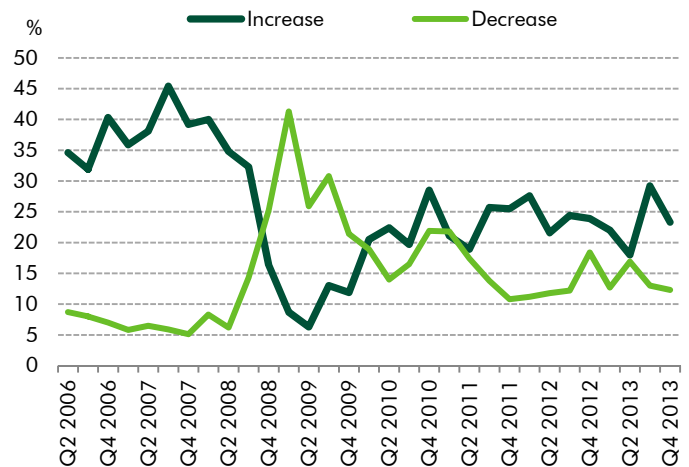
<sup>1</sup> - based on the latest forecast from the following organizations: EBRD, Oxford Economics, The World Bank, Cabinet of Ministries of Ukraine, Ministry of Economic Development and Trade of Ukraine, National Bank of Ukraine

## DEMAND

2013 has not brought a notable upturn in the Kyiv office market, and the situation in the segment remained largely unchanged. The first half of 2013 was marked by some recovery of the leasing activity (gross take-up), which can be partly explained by the fact that the number of agreements signed five years ago when the office segment was at its peak came to an end. Given the high political risks and still weak economic data, the second half of the year did not witness continuation of the incipient trend. By the full year results of 2013, a high proportion of leasing activity was represented by renegotiations and renewals of existing leases (in the order of 25%-30% of total volume transactions, CBRE rough estimation). Take-up reached approximately 95,000 sq m in 2013 as a whole, which is 25% higher than in 2012 but 7% below the five-year average level. As in previous periods, most of the transactions were due to relocations (75% of all transactions).

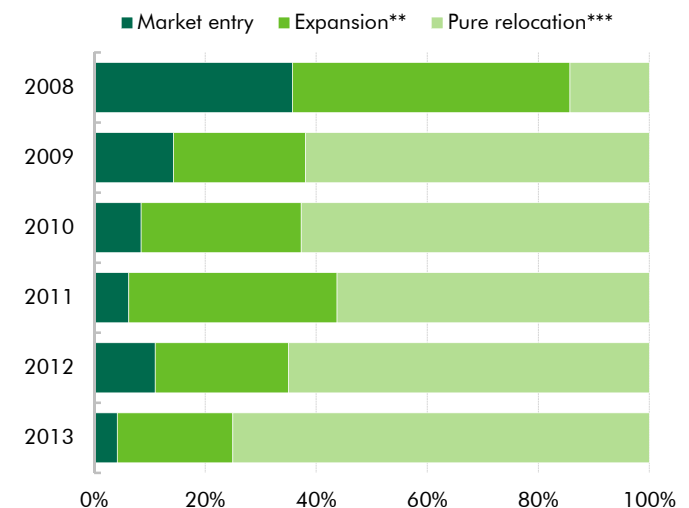
Take-up distribution by the industry shows that the most active business sectors in 2013 were *IT & High Tech* and *Telecommunications companies*, which together accounted for 41% of total take-up. *Banking, Financial, Business Services, and Insurance companies* (the main users of quality office space) followed the dominant sectors with a 20% share in the total volume of transactions. Notably, in 2013, the main users of quality office space demonstrated a slight improvement in demand for office space, having increased its share in take-up structure by 5 pp when compared to the prior year's level and 7 pp on 2011. This gives a background for the suggestion that a positive trend gradually began to gather steam but has yet to show convincing signs of continuation in the future. *Manufacturing, Industrial, and Energy* companies remained quite active with an 11% share in take-up structure, despite having lost 4 pp and the second position from 2012.

## KYIV CORPORATE HIRING EXPECTATIONS OVER THE NEXT 12 MONTHS



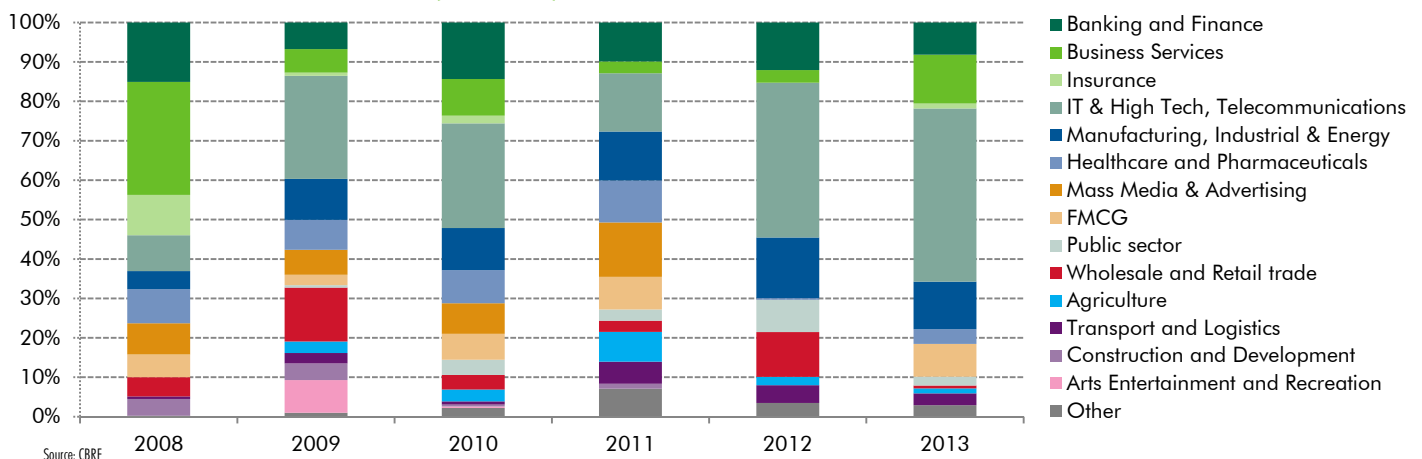
Source: National Bank of Ukraine

## ANNUAL TAKE-UP BY MOTIVATION\* (% SHARE)



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

## ANNUAL TAKE-UP BY INDUSTRY (% SHARE)



Source: CBRE

## KEY OFFICE LEASE TRANSACTIONS IN 2013

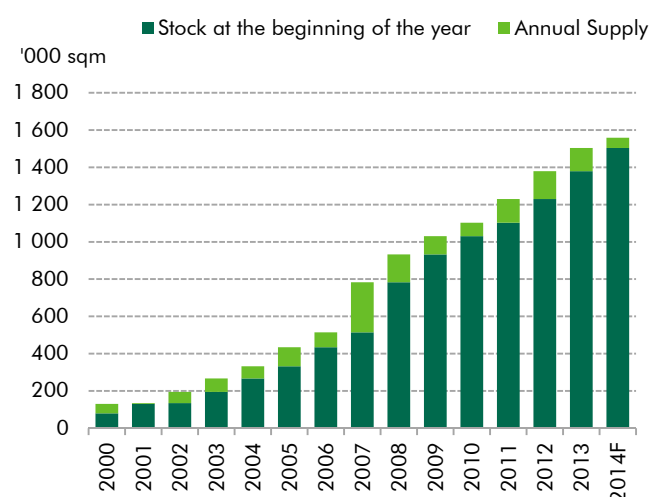
OCCUPIER	INDUSTRY	PROPERTY	SUBMARKET	GLA*, sq m
Giklum	IT & High Tech	Gulliver	Olimpijskyi	7,000
MTS	Telecommunications	Merx 2	South	7,000
DTEK	Manufacturing, Industrial & Energy	101 Tower	South-West	5,400
Ukrrechflot	Transport and Logistics	Rialto	North	2,400
EPAM Systems	IT & High Tech	Eurasia	Olimpijskyi	2,300
Parimatch	IT & High Tech	OB at 14a, Bazhana St.	NC-SE	2,100
Glaxo SmithKline Export Representative office	Healthcare and Pharmaceuticals	Silver Breeze	NC-NE	2,000
German Embassy	Public Sector	101 Tower	South-West	1,800
Mars	FMCG	Toronto-Kiev	Olimpijskyi	1,500
Boehringer Ingelheim Pharma GmbH	Healthcare and Pharmaceuticals	101 Tower	South-West	1,400
Ykrgorg	Other Sectors	SP Hall	North	1,200
Elit LLC	FMCG	SP Hall	North	1,100
Roche Ukraine	Manufacturing, Industrial & Energy	OB at 32, Sagaidachnogo St.	Podil	1,100
TLScontact	Other Sectors	Artem	Shevchenkivskyi	1,100
Yves Rocher	Wholesale & Retail Trade	OB at 33, Sagaidachnogo St.	Podil	1,000
Johnson & Johnson	Manufacturing, Industrial & Energy	Silver Breeze	NC-NE	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

## KYIV ANNUAL DEVELOPMENT COMPLETIONS AND TOTAL COMPETITIVE STOCK ('000 SQ M)



F-forecast  
Source: CBRE

As for the types of transactions, the only owner-occupier acquisition of 7,500 sq m in the Class B Premium Center, located outside of CBD, took place in 2013. It is virtually the first acquisition transaction in almost two years. A low level of purchase agreements on the office market indicates that the asking prices for the office properties available for sale likely do not meet the expectations of potential buyers, and the trend of leasing office buildings as opposed to purchasing them is prevailing.

## SUPPLY

Competitive office stock (modern office premises for lease) increased by around 124,700 sq m in 2013 and reached 1.5 mln sq m. Despite the fact that volume of new completions was somewhat below the level of 2012 (-16 pp y-o-y), 2013 has become the third consecutive period characterized by a significant input to the total speculative supply in spite of weak net absorption. Among the most notable new deliveries were Class A office spaces within Senator BC (32,700 sq m office GLA), SP Hall BC (22,000 sq m office GLA), and Silver Breeze mixed-used scheme (28,500 office GLA).

Barely delineated signs of slowdown in new completions' growth in 2013 will become more apparent in 2014. New quality supply in 2014 may comprise around 55,400 sq m, which is more than a twofold decrease compared to 2013. The most notable IQ Business Center (30,000 office GLA) is to be delivered in the South submarket outside CBD. As of January 2014, there was only one large-scale scheme (Sky Towers BC within mixed-use scheme totaling 95,000 sq m office GLA) under construction on the market, which is expected to appear within the West submarket (CBD fringe) in a one-two year perspective. Therefore, as of today, there are no large-scale speculative starts within CBD. Sky Towers BC will be Kyiv's largest and tallest building among six other, high quality properties such as 101 Tower, Gulliver, Toronto-Kyiv, Senator (Maria), and IQ Business Center. Everything mentioned above indicates that starting from 2014, the previously observed trend of CBD area domination in the new supply structure prevailing in 2012-2013 will reverse - mainly CBD fringe and non-central areas will enjoy the major portion of new completions in the next few years.

### VACANCY AND RENTAL RATES

Due to substantial growth in new supply and limited net absorption, the average market vacancy rate increased gradually over the first nine months, and by the end of Q3, the share of non-occupied office space reached 27.5%. Slowdown in the pace of growth of new completions in the second half of the year helped to stop an 18-month period of rise in overall vacancy. As a result, Q4 finished with roughly the same indicator relative to Q3.

In terms of geographical distribution, the CBD area experienced an increase in the vacancy rate from 16.1% to 23.1% over the course of the year, mostly on the back of one, large-scale completion on the Pechersk submarket. At the same time, the CBD fringe and non-central areas saw somewhat of a decrease in the vacancy levels to 14.7% (-5.2 pp y-o-y) and 33.9% (-2.9 pp y-o-y), respectively. Therefore, areas bordering the CBD became the zone which enjoyed the lowest office vacancy level as of the end of 2013.

As for rental rates, the indicative prime rent remained flat at \$33/sq m/month (triple net) by the end of 2013. Despite the fact that many landlords decreased the level of asking rents, as a whole, the range stayed almost without change from \$25-\$42/sq m/month for Class A space and from \$12-\$30/sq m/month for class B properties in CBD, depending on location and building occupancy.

### KEY OFFICE SCHEMES IN 2013

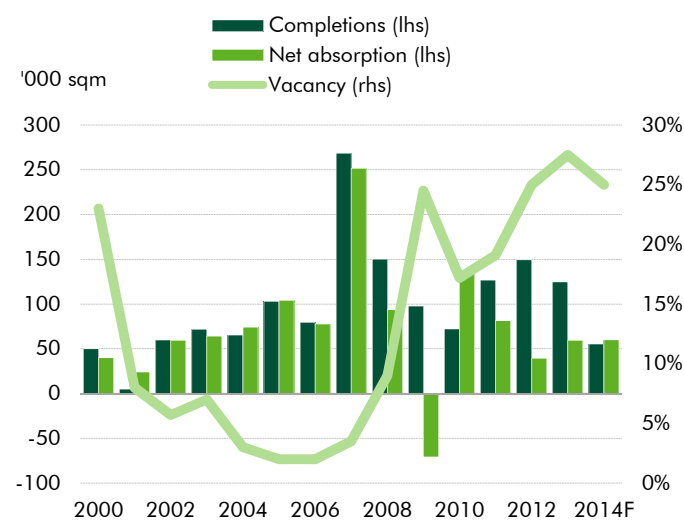
NAME	CLASS	SUBMARKET	DEVELOPER	Office GLA, sq m	PREMISES FOR	DELIVERY
Senator (Maria)	AA	Pechersk	K.A.N. Development	32,700	Lease	H1 2013
SP Hall	AB	North	Lenkorn	22,000	Lease	H1 2013
Silver Breeze	BC	NC-NE	Svitland Ukraine	28,500	Lease	H1 2013
BC at 52B B. Khmelnytskogo St.	BA	Prime	Vector	5,100	Lease	H1 2013
Merx Center 2	AB	South	Merx Group	15,400	Lease	H2 2013
Forum Victoria Park (Phase II,III)	BC	NC-SW	Forum Management Group	15,500	Lease	H2 2013
BC at 21, Polyova St. (Phase I)	BC	NC-SW	Local	5,500	Lease	H2 2013
BC at 98 Chervonoarmijska St.	AA	Olimpijskiyi	VS Energy International Ukraine	7,500	Sale	H2 2013
BC at 36 Shorsa St.	BB	South	Zhytlobud	24,800	Sale	H2 2013

### KEY OFFICE SCHEMES IN 2014-2016

NAME	CLASS	SUBMARKET	DEVELOPER	Office GLA, sq m	DELIVERY
Office-retail-scheme at 10-a V.Val St.	BA	Podil	Local	7,500	H1 2014
Sigma	BC	NC-NW	Midland Development	17,900	H1 2014
IQ Business Center	AB	South	K.A.N. Development	30,000	H1 2014
Sky Tower	AB	West	Cimbrorum Holdings LLC	95,000	2015-2016

Source: CBRE

### NEW SUPPLY, NET ABSORPTION AND VACANCY RATE



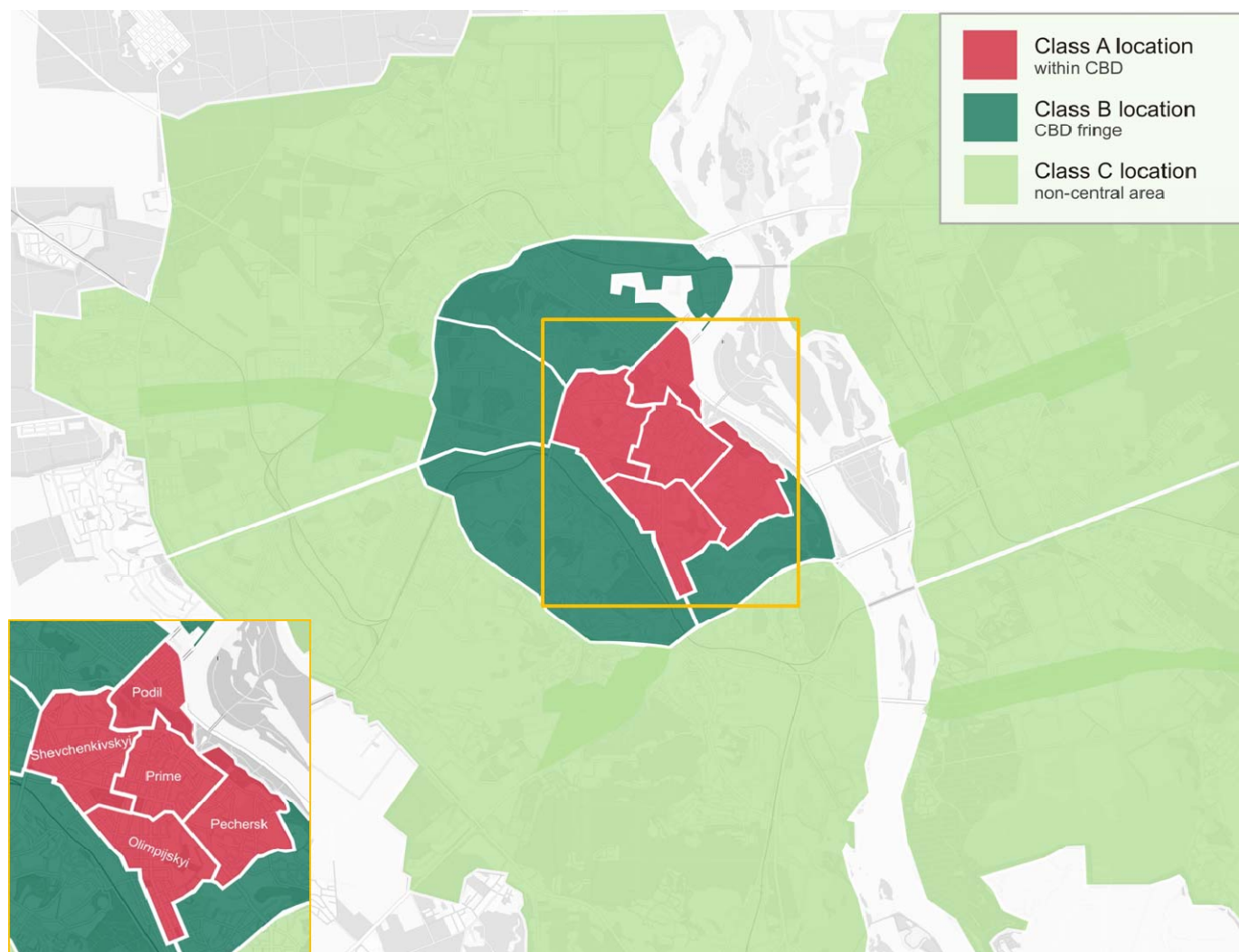
F – forecast  
 lhs – left hand side  
 rhs – right hand side  
 Source: CBRE

**KYIV OFFICE BASE RENTAL RANGE AND VACANCY, BY LOCATION AS OF Q4 2013 (USD/SQ M/MONTH)**

Class A location	Quality A	Quality B	Vacancy Q4 2012	Vacancy Q4 2013
Prime	\$35-42	\$24-30	8.5%	6.8%
Pechersk	\$28-32	\$23-26	13.6%	38.9%
Podil	\$28-32	\$23-25	5.7%	11.4%
Shevchenkivskiy	-	\$22-30	16.2%	22.3%
Olimpijskiy	\$25-35	\$18-25	40.7%	26.2%
Class B location	Quality A	Quality B	Vacancy	Vacancy
CBD fringe	\$17-32	\$12-20	19.9%	14.7%
Class C location	Quality A	Quality B	Vacancy	Vacancy
Non-central area	\$21-23	\$12-18	36.8%	33.9%

Source: CBRE

**KYIV OFFICE SUBMARKETS**



Source: CBRE

The most significant shift occurred on the Pechersk submarket where asking rents were adjusted downward by 15-25% by the end of 2013 in view of considerably increased competitions among high quality properties within CBD. In general, the spread between asking base rent and agreed rent may achieve 10-20%. Moreover, landlords continue to attract tenants with a wide range of incentives. As a result, against the background of improving lease terms for occupiers and different concessions, almost all new large quality office properties saw their first tenants in 2013.

**YIELDS**

The Kyiv office market has not witnessed classical investment transactions<sup>2</sup> since 2008. As of the end of Q4, the estimated prime notional yield remained unchanged at 13%. Yields should stay where they are now, at 13%, provided the economic and political situation does not deteriorate further.

<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 deals and owner-occupier deals, where a buyer has no intention to receive income from the property

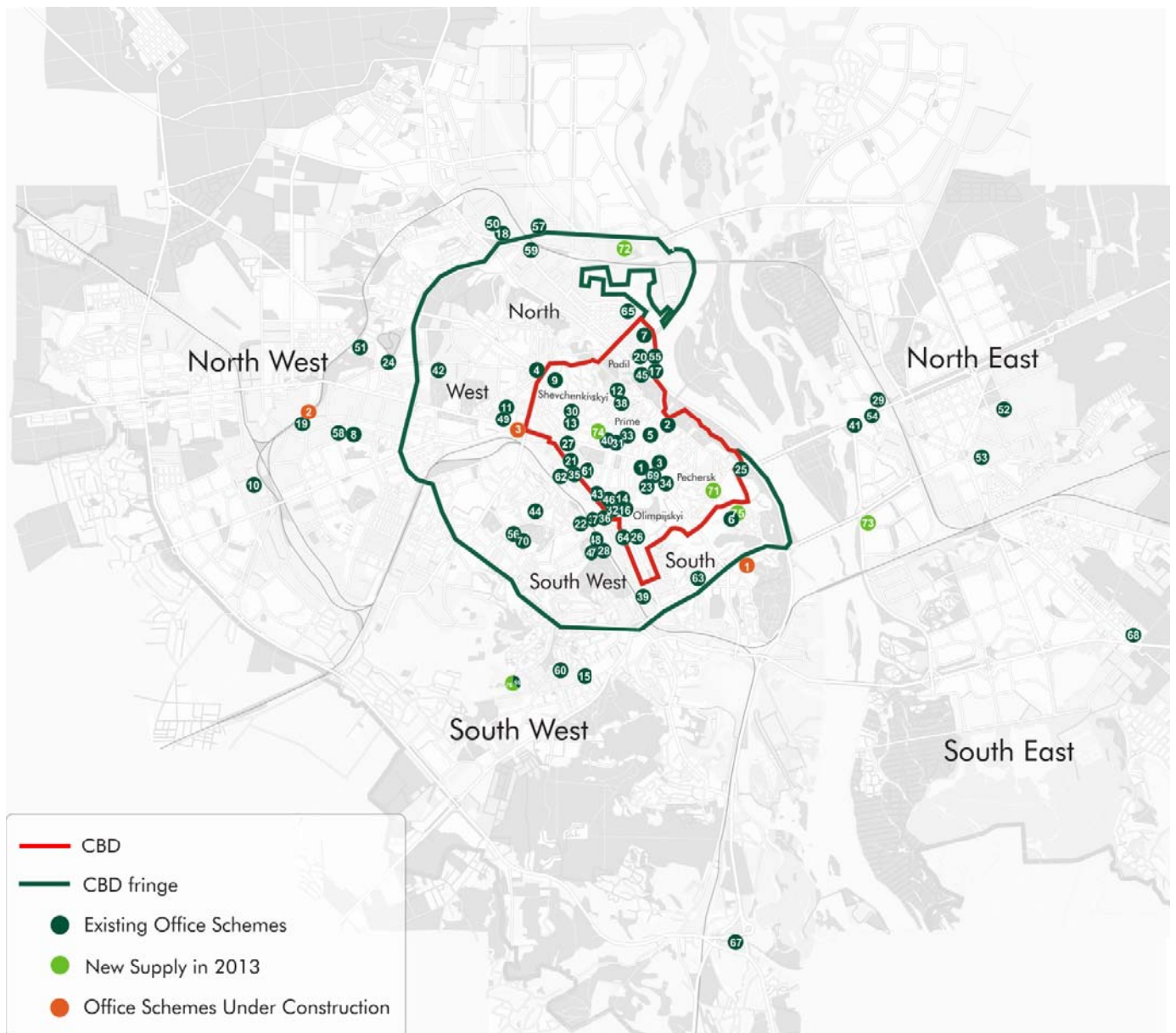


## OUTLOOK

Looking forward into 2014, the political and economic conditions remain difficult to predict. In the context of weak economic growth, employment growth is expected to be extremely subdued for the foreseeable future. Therefore, there are no evident sources of significant demand growth for extra office space. As a result, leasing activity will continue to be motivated predominantly by relocations, renegotiations, and renewals, and will stay at the 2013 level at best. Rental rates will continue to be adjusted in view of high competition level and limited demand.

The extent to which rent prices will be driven downward will depend heavily on the supply side changes and the economic growth picture combined with the political situation. As for overall vacancy, slowdown in new completions will stimulate the absorption of existing office premises, and as a result, will help to decrease the vacancy rate somewhat. However, to reduce vacancy substantially, the sort of pace needed, in turn will require sustained economic momentum to drive absorption levels upwards.

## KYIV BUSINESS CENTERS



Source: CBRE

Key Existing Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
1	Makulan	9/2 V.Vasylkivska 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 Leiptsygska 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 Sholudenska St.	11,600	2003
12	Panorama	20 V. Zhytomyrska St.	8,900	2003
13	Poligrafist	33 Vorovskoho St.	8,000	2003
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	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 Dehtyarivska St.	5,700	2005
25	Meganom	1 Dniprovskyi 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

Source: CBRE

Key Existing Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
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.	60,000	2012
70	Eleven 2	11 Solomenska St.	3,900	2012
71	Senator (Mariya)	2/32-34 Moskovskaya St.	32,700	H1 2013
72	SP Hall	28A Moskovskiy Ave.	22,000	H1 2013
73	Silver Breeze	Serafimovycha/Tychyny St.	28,500	H1 2013
74	BC at B. Khmelnytskogo	52B B. Khmelnytskogo St.	5,120	H1 2013
75	Merx Center 2	15A Leiptsigka St.	15,400	H2 2013
76	Forum Victoria Park (Phase II, III)	7A Akhtyrskiy lane	15,500	H2 2013
Key Future Office Schemes				
#	NAME	ADDRESS	GLA, sq m	COMPLETION
1	IQ BUSINESS CENTER	S.Strutynskogo, St., 13-15	30,000	2014
2	Sigma	I. Lepse blvd., 6	17,900	2014
3	Sky Towers	Peremohy Ave.	95,000	2015-2016

Source: CBRE



### DEFINITIONS (in alphabetical order)

**CBD** – central business district

**Leasing Activity** – represents the total floor space 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 floor space 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**

### CONTACTS

For more information regarding the Market Review, please contact:

#### CBRE | Ukraine

Expandia LLC

26 I. Fedorova St.,

Kyiv 03680

t: +38-044-390-00-00

e: ukraine@cbre.ua

**Sergiy Sergiyenko**

Managing Partner

e: sergiy.sergiyenko@cbre.ua

**Radomyr Tsurkan**

Managing Partner

e: radomyr.tsurkan@cbre.ua

**Maryna Gavrylenko**

Head of Research

e: maryna.gavrylenko@cbre.ua

#### DISCLAIMER 2014 CBRE

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by Expandia LLC | Part of the CBRE affiliate network clients, and cannot be reproduced without prior written permission of Expandia LLC | Part of the CBRE affiliate network.

© Copyright 2014 Expandia LLC | Part of the CBRE affiliate network