MARKET REVIEW
Kyiv Warehouse

CBRE | Ukraine

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2012

Quick Stats

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

Hot Topics

- Further reduction in the volume of new supply, with just 79,000 sq m including build-to-suit schemes (-14% y-o-y) entering the market in 2012
- Continued recovery in leasing activity: transaction volume grew by 9% y-o-y
- Gradual reduction in vacancy rate, which fell from 17.1% to 12.9% (-4.2 pp from Q4 2011)
- Stable rental rates: base rents for prime properties remained in the $5.5-6.5/sq m/month range
- Renewed interest in build-to-suit projects on the part of warehouse users

FUNDAMENTALS

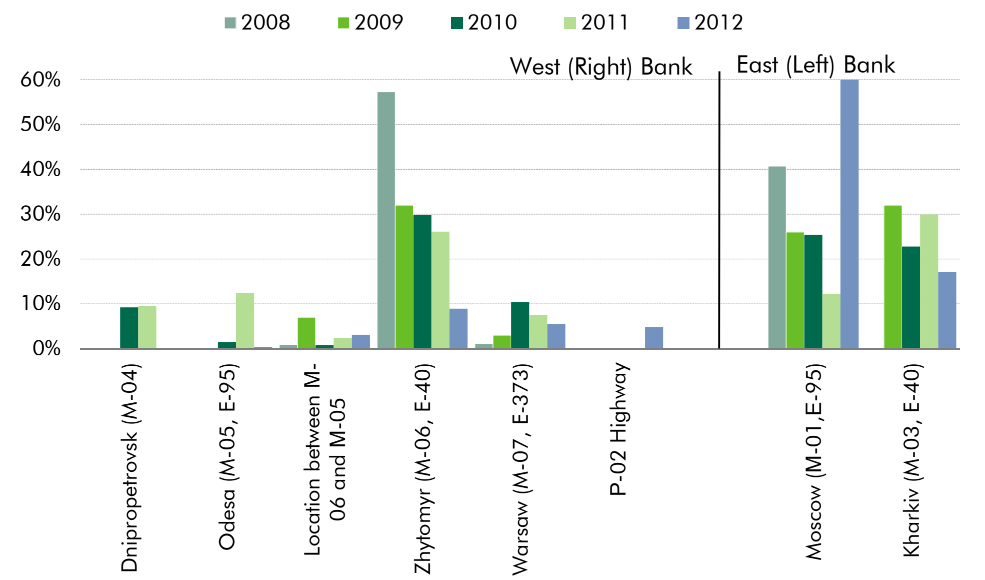
According to the State Statistics Committee of Ukraine, the economy expanded by 2.2% and 3% in Q1 and Q2 respectively. In Q3, however, the economy contracted by 1.3% on the back of significant deterioration in external conditions and weak agricultural output. In the final quarter of the year GDP declined by another 2.5% y-o-y. Total annual growth, therefore, came to just 0.2% compared to 5.2% in 2011. The economy managed to post a minor increase only thanks to robust consumer spending. Real GDP is forecast to grow between 1.3% and 3.7% in 2013[1].

Key macroeconomic drivers of demand for warehouse space, such as the volume of retail sales and industrial production demonstrated opposing trends in 2012. Due to the increase in real wages and stronger consumer lending, retail sales increased by 15.9%[2] (+1.2 pp. y-o-y). At the same time, the reduction in external demand had a negative impact on the volume of industrial production, which marginally fell by 1.8% in 2012, compared with 7.6% growth in 2011.

DEMAND

In 2012, the demand for warehouse space remained at almost the same level as in the prior year. Gross absorption, which includes both rental transactions and the purchase of warehouse space for owner occupation, was about 196,000 sq m, a 7% decrease on 2011. However, when looking at leasing and sales markets separately, the leasing market showed a healthy growth, with the sales activity demonstrating a noticeable decline. Capital transactions showed a reduction both

Take-up Structure by Highways*



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

[1] - 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, Troika Dialog, Goldman Sachs, National Bank of Ukraine

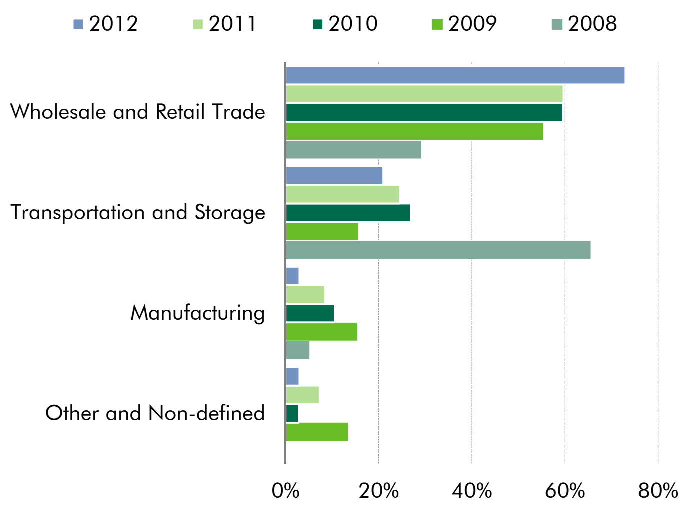
[2] - including estimated sales at marketplaces and sales realized by sole proprietorships

in number and size of transactions, whereas in the leasing segment tenants were growing rather actively. The amount of rented space increased by 9% y-o-y, while the volume of space, purchased for owner occupation shrank 5 times compared to 2011. Just one purchase agreement was signed in 2012 with Ukrainian Eastern Fish Company, an importer of fish and seafood, acquiring a part of Olvita warehouse complex, with total area of ca. 9,000 sq m. In 2011, however, there were three such transactions.

There was also a shift in the geographical structure of demand in 2012: the Right Bank, a leader in terms of gross absorption during the previous years, lost out to the Left Bank. The total share of Moscow (M-01, E-95) and Kharkiv (M-03, E-40) directions in the overall take-up reached 77%, up 35 pp from 2011. In addition, the majority of transactions (60% in the demand structure) were concluded in the Moscow direction (M-01, E-95). On the one hand this trend is explained by the availability of space on the Left Bank offered at lower rental rates than on the Right Bank, and on the other hand it is a result of a large amount of open offers of different areas on the Left bank, with most of the right-bank facilities almost completely occupied. What is also notable, however, is the fact that two new properties, delivered on the Left Bank in late 2011-mid 2012 Universal Logistics Park II (22,000 sq m GLA) and Schastlyve warehouse complex (23,000 sq m GLA) have been fully leased. A significant amount of space was leased out in Terminal Brovary warehouse complex – more than 23,000 sq m – which now makes it almost 100% occupied. Although a substantial amount of vacant space is still present on the Left Bank (36%), the properties with 0% occupancy, which were commonplace in the recent past, are now absent. Kyiv Logistic Park, Logistic Park East I and Top Trance welcomed their first tenants in 2012. Kyiv Logistic Park and Logistic Park East I still offer large units for rent of up to 10,000 sq m. Large units on the Right Bank are rare, with a 5,000 sq m unit only available at the new Amtel Logistics Complex.

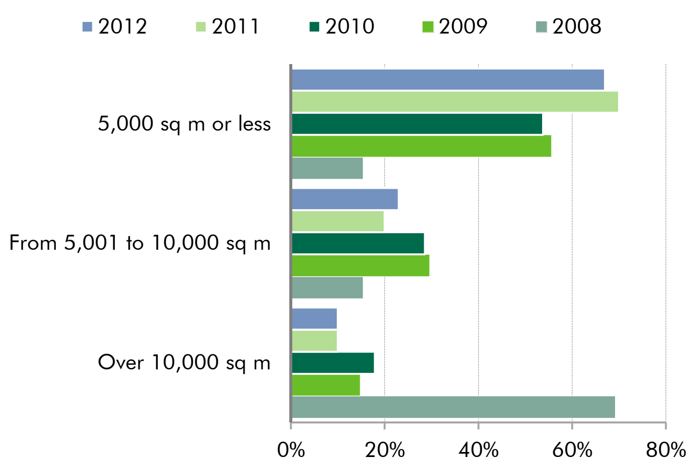
As previously, retailers and distributors continue to account for the lion's share of gross absorption at 73% in 2012, up 13 pp y-o-y. The share of logistics operators who come second in the overall structure of take-up has declined to 21%. It must be mentioned, however, that while the retail chains were mostly relocating, logistics operators were expanding their presence, though not significantly. Due to the fact that some retailers decided to discontinue the use of logistic companies' services and lease storage space for themselves, there was a number of transactions that contributed to the increase in final gross absorption in 2012.

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

Small transactions of up to 5,000 sq m were most common in 2012, with their total share at 67% of take-up. The share of mid-sized transactions (5,001-10,000 sq m) increased by 3 pp y-o-y to 23%. As previously, however, large transactions in excess of 10,000 sq m are still rare in the market.

Key Warehouse Schemes in 2012

NAME	DEVELOPER	WAREHOUSE PREMISES, sq m	HIGHWAY	COMPLETION
Schastlyve warehouse complex	Alfa Development Group	23,000	M-03,E-40	H1 2012
Logistics Invest Center	Local developer	8,500	P-02	H2 2012
Warehouse complex	Local developer	6,000	P-02	H2 2012
Trans-West*	Trans West	9,500	M-06,E-40	H2 2012
Interfarm	Interfarm	8,000	M-07, E-373	H2 2012
Warehouse complex	Local developer	6,000	M-06,E-40	H2 2012
Technopolis (Phase II)**	Technopolis	22,000	M-01,E-95	H2 2012

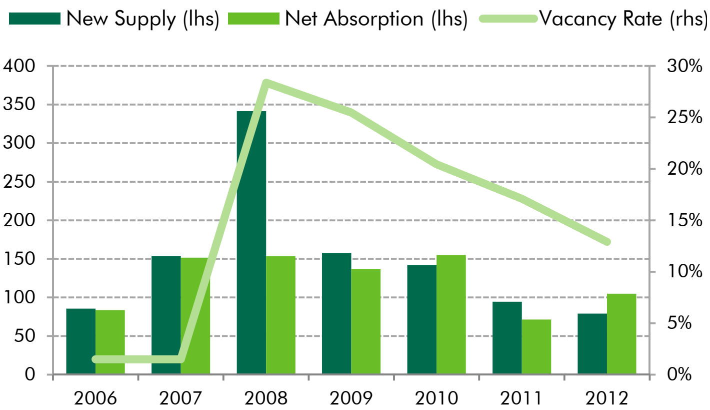
*- the property has been commissioned, but will not be ready to welcome new tenants until Q2, 2013.
** - specialized complex, delivered as build-to-suit
Source: CBRE

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)	Sky Development	10,500	Kyiv city	H1 2013
SAN factory (Phase II)	Sky Development	7,000	Kyiv city	H2 2013
Fozzy distribution center*	Technopolis	90,000	M-01,E-95	H2 2013

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

New Supply, Net Absorption and Vacancy Rate



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

SUPPLY

Despite the fact that demand has been relatively stable, the past year did not witness any acceleration in the supply growth. New deliveries (including one built-to-suit scheme) amounted to ca. 79,000 sq m, which is 14% below the level of new supply in 2011 and four times smaller than the 2008 record.

Overall, by the end of Q2 2012 total professional warehouse stock came to the following:

- Total stock – approximately 1,652,000 sq m (83,000 sq m new supply)
- Total speculative supply – approximately 1,025,000 sq m (79,000 sq m new supply)

Slightly more than 120,000 sq m of warehouse space is currently under construction, although 75% of that amount is accounted for by a single property developed on a build-to-suit basis and will not be available in the open market. Therefore despite a nominal increase in new supply, the expected deliveries on the speculative market in 2013 are mainly represented by a few small properties located in the Kyiv city. Phase II of Amtel logistics complex, which was initially planned to be commissioned in 2013, has now been put on hold and is expected to be delivered not earlier than 2014.

VACANCY

The vacancy rate continued to decline gradually, reaching 12.9% at the end of Q4 2012, which is 4.2 pp lower than in 2011. The decline was made possible thanks to a combination of relatively stable demand and rather limited supply.

The largest amount of vacant space is currently located on two submarkets in the Moscow direction (M-01, E-95) and another submarket located between the M-06 and M-05 on the Right bank, with these two locations accounting for approximately two thirds of all unoccupied premises. In 2012, there was a change in the vacancy rate structure along the highways. The distribution of vacant space between the Right and Left banks of Kyiv region has changed thanks to a strong absorption of warehouse space on the Left Bank. As of the end of 2012, 63% of all unoccupied premises were located on the Right bank, whereas in 2011 that figure was only 39%.

RENTS

No meaningful fluctuations in rental rates for warehouse space were observed in 2012. Base rent for prime space of about 5,000 sq m remained in the range of $5.5-6.5 /sq m/month (triple net). Despite the stability of effective rents in general, landlords' expectations began to change. The owners of the warehouse properties on the Right Bank lowered the maximum threshold for asking rents by $0.5/sq m/month. Therefore, unoccupied space in that submarket is available for rent from $6 to $7/sq m/month (triple net). Conversely, the owners of logistic complexes on the Left bank have increased the minimum threshold by $0.5/sq m/month due to a gradual decline in the amount of free space available. Asking rental rates for warehousing space on the Left bank range from $5 to $7/sq m/month (triple net). Storage space close to the city is the most expensive in the market, ranging between $6 to $9/sq m/month.

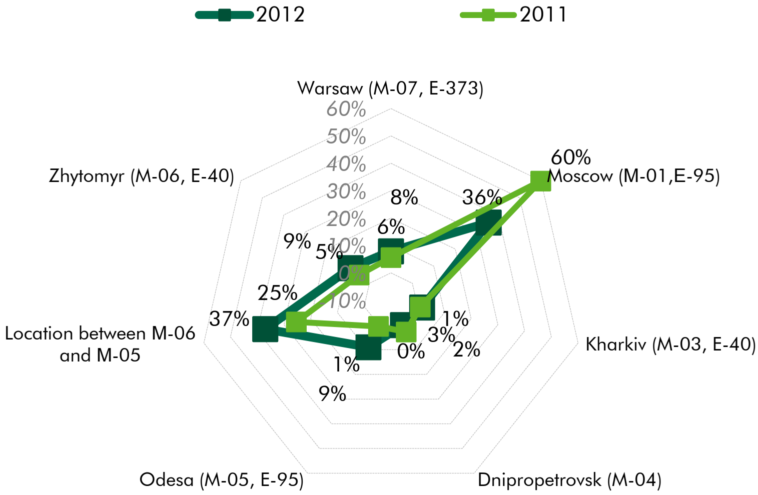
YIELDS

No investment transactions were completed on the market in 2012, making it the fourth straight year since 2008 with no transactions for warehouse properties. Thanks to relatively stable conditions of the market and in view of a lack of positive signals from the broader economy, the estimated prime yield remained unchanged for the last year at 15%.

OUTLOOK

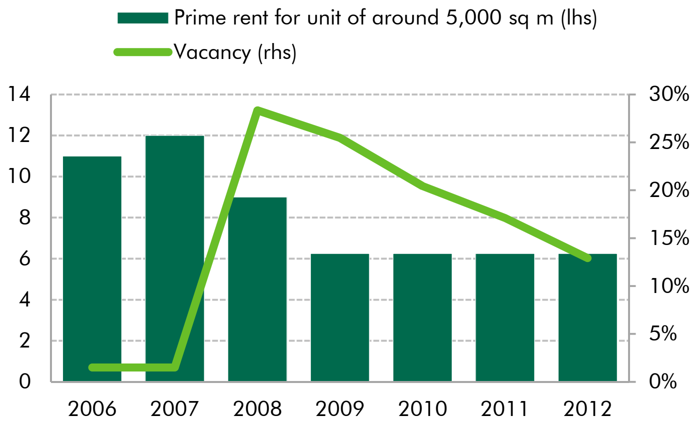
The trend which was common over the last four years – decline in new deliveries, gradual absorption of existing space and, as a result, falling vacancy – is expected to continue in 2013. Toward the end of 2013 vacancy may fall below 10% (provided no external shocks to economy), which could signal the rise in market average rents. However, given the fact that the main macroeconomic indicators show weak or negative growth, the economic recovery will take time and therefore one should not expect significant or sudden improvements in the warehouse market in 2013. Given a reduction in vacant space and limited new supply, successful schemes will most likely charge higher rent but not above the maximum rate achievable in today's market of ca. $6.5 /sq m/ month (triple net). As a result the base average market rental rate may end up growing by the end of 2013, but that growth will be negligible. In order for rents to break the upper limit and go higher, the economy needs to show signs of sustainable recovery.

Vacant Stock by Highways*



Source: CBRE

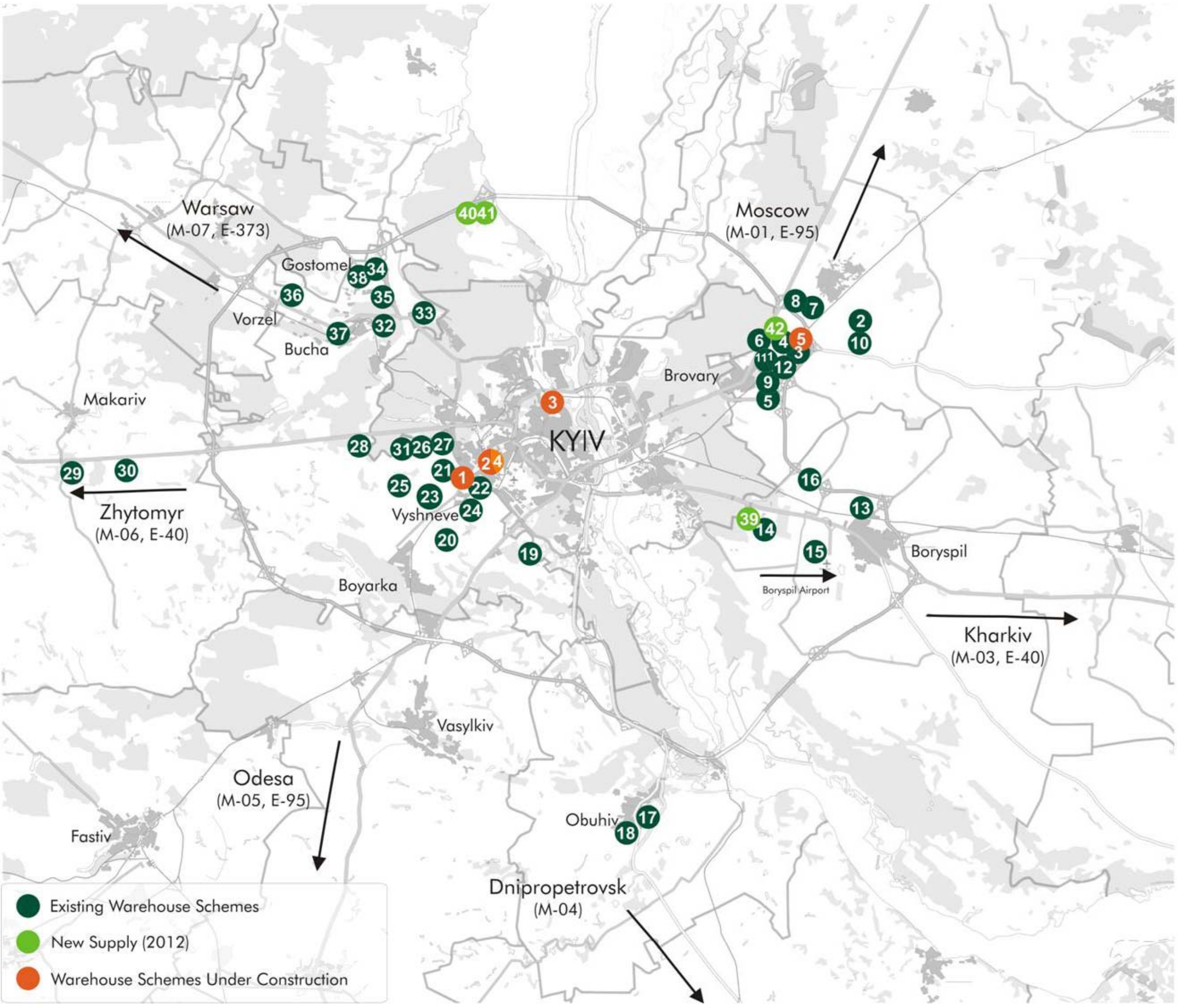
Rental and Vacancy Rates (USD/sq m/month)



Source: CBRE

As for the construction of new premises, due to the fact that rental rates for warehouse space continue to be "unattractive" for developers, launching of large-scale speculative projects is not expected in the short term future. At the same time, due to a shortage of new quality space, it is possible that construction of build-to-suit schemes will accelerate.

KYIV WAREHOUSE COMPLEXES



Source: CBRE

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

Key Existing Warehouse Schemes

#	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
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	Tehnoyarmarok	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

Key Future Warehouse Schemes

#	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
1	Kyivschyna Terminal (Phase II)	9,800	H1 2013
2	SAN factory (Phase I)	10,512	H1 2013
3	Ice-Box*	5,100	H1 2013
4	SAN factory (Phase II)	7,000	H2 2013
5	Fozzy distribution center	90,000	H2 2013

* - specialized warehouse
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

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