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MarketView

Kyiv Warehouse

Full Year 2010

Quick Stats

	Change from	
	2009	2008
New Supply	↓	↑
Rent	→	↓
Vacancy	↓	↑

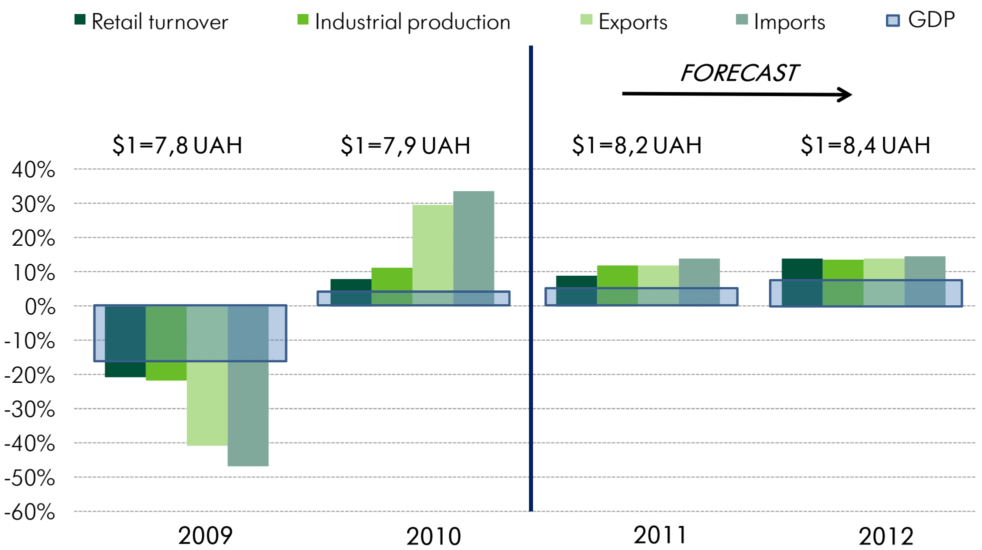
Hot Topics

- Slowdown in development completions – 142,000 sq m (-10% y-o-y)
- Gradual recovery of demand: net absorption is up 13% y-o-y
- Vacancy rate dropped from 25% to 20% on the back of the increased activity on the occupier market and slowdown in development completions
- Rental rates remained flat at $5.5-6.5/sq m/month throughout the year

FUNDAMENTALS

Key macroeconomic indicators affecting demand for warehouse space (retail turnover, industrial production, exports and imports of goods) showed positive dynamics in 2010. Ukrainian economy expanded by 4.2% after shrinking by 15.1% in 2009. Recovery started with improvement in external demand, while domestic consumption (the main driver of demand for warehouse premises) started to pick up only from H2 2010. According to Oxford Economics[1] forecast, Ukrainian economy will continue to recover in 2011 and will further strengthen in 2012. Better economic prospects should trigger more activity on the part of warehouse users pushing up demand for all kinds of storage space over the next two years.

Key Macroeconomic Indicators of Ukraine (% change, y-o-y)



* – including estimated sales at marketplaces and sales by sole proprietorships

Source: State Statistics Committee, National Bank of Ukraine

Forecast: GDP, exports and imports (goods), industrial production index, official exchange rate (period average) - Oxford Economics; retail turnover - International Centre for Policy Studies

SUPPLY

By the end of 2010, total professional warehouse space aggregates were as follows:

- **total supply** – 1,430,000 sq m (new supply – 151,000 sq m);
- **total speculative supply** - over 981,000 sq m (new supply – 142,000 sq m).

The pace of new warehouse completions has slowed considerably (10% down from 2009 and more than two times below 2008 results). The decline was mainly due to contraction of speculative development as pre-leases are still rare. Whereas prior to the recession delivery delays were largely attributable to technical and legal issues, the prime reason for postponement in commissioning today is weak demand.

Geographically, new supply is spread out more or less evenly on the West (Right) and East (Left) banks of the Dnipro River (53% and 47%, correspondingly). Yet, the majority of professional warehouse stock is concentrated on the West (Right) bank with Zhytomyr highway (M-06, E-40) remaining the most popular destination.

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[1] - Oxford Economics (Great Britain) - a leading economic forecasting consultancy

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New schemes completed in 2010 added approximately 33,000 sq m of specialized premises to total supply. They included: **UKR DC Phase I, Santa Frost Phase I, Biocon Phase II and III**, and **warehouse complex of ABC Logistics Group**. The development of specialized warehouses has a number of important features. For instance, the construction cost of a specialized warehouse is much higher than that of a dry warehouse. Prior to economic downturn, developers preferred to build dry warehouse since they offered better and quicker returns, a strategy, which by now translated into lack of professional specialized warehouses.

In H2 2010, responding to the growth in chilled/frozen goods consumption and tightened requirements for perishables storage, several companies (Scandinavia, Raben Ukraine, Green Team, UVK) announced plans to develop professional specialized schemes. All announced projects will be delivered mainly for owner-occupation. As before, developers are not ready to deliver specialized warehouse schemes on speculative basis since market capacity for such product is much lower compared to 'dry' segment. Conversely, temporary saturation of 'dry' sector, growing demand for specialized storage facilities, limited capacity and obsolete state of non-professional properties encourage developers to explore the cold segment niche. Moreover, since specialized warehouses are used to store essential goods irrespective of the economic environment, demand for this type of facilities remains stable.

DEMAND

Taking advantage from favourable market conditions in 2010, some tenants consolidated and/or improved quality of their premises. In addition, several companies even expanded their occupied warehouse space.

Similarly to 2009 results, retailers and distributors were the most active players on the market during the analyzed period – they accounted for ca. 60% of the total take-up.

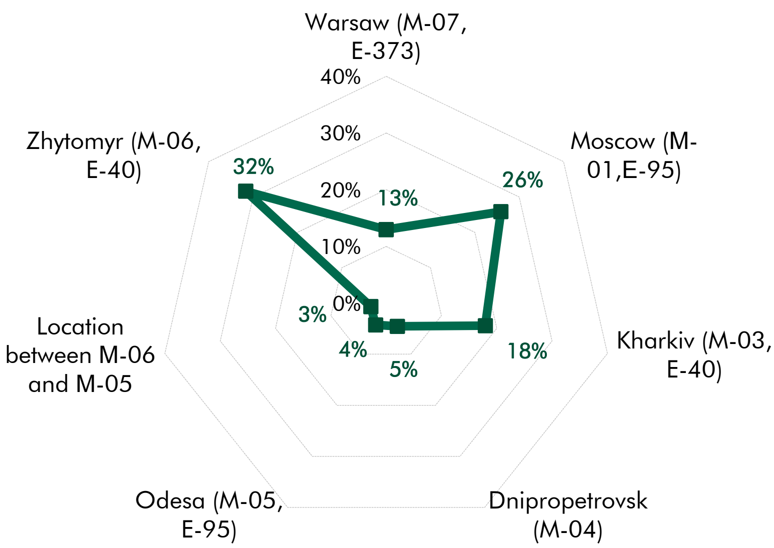
Major Warehouse Schemes in 2010*

Name	Developer	Warehouse premises, sq m	Location, highway
Terminal Brovary	Aisi Realty	42,300	M-01, E-95
Bucha Terminal	Ukrainian developer	31,000	M-07, E-373
Biocon (Phases II and III)	Biocon	18,000	M-03, E-40
Krasilovka Industrial Park (Phase I)	V-log	15,000	M-01, E-95
UTA Service	UTA Service	9,400	M-06, E-40
UKR DC (Phase I)	UKR DC	5,200	M-05, E-95
Warehouse scheme	ABC-Alliance	8,100	M-05, E-95
Santa Frost (Phase II)	Santa Bremor Ukraine	1,700	P-04

* - includes completed, but yet to be commissioned schemes offered for rent

Source: CB Richard Ellis

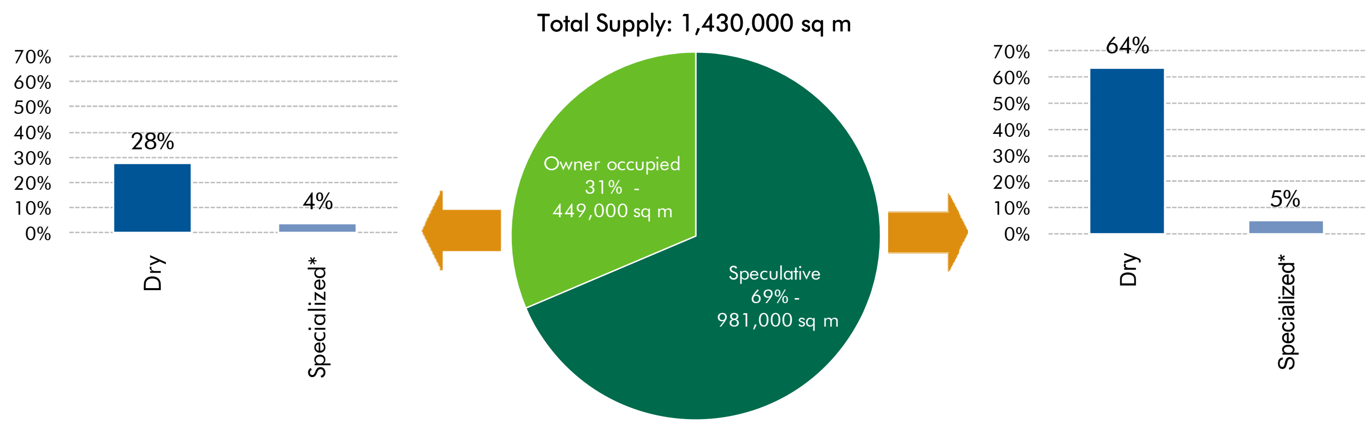
Warehouse Stock by Highways, 2010



Source: CB Richard Ellis

At the same time, despite logistics operators' activity remaining still far from pre-crisis levels, their share of the total take-up in 2010 made up 27% (+11% y-o-y).

Stock Structure by Type, 2010



*- excludes premises within production schemes, unprofessional (low-quality) premises, old industrial refrigerators, storage facilities, etc.

Source: CB Richard Ellis

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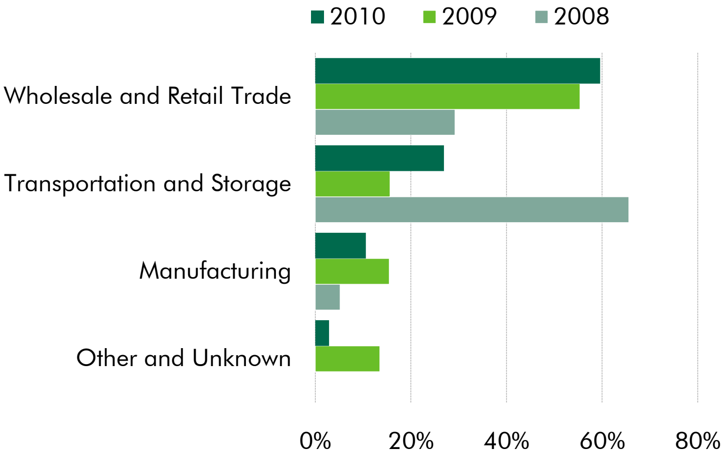
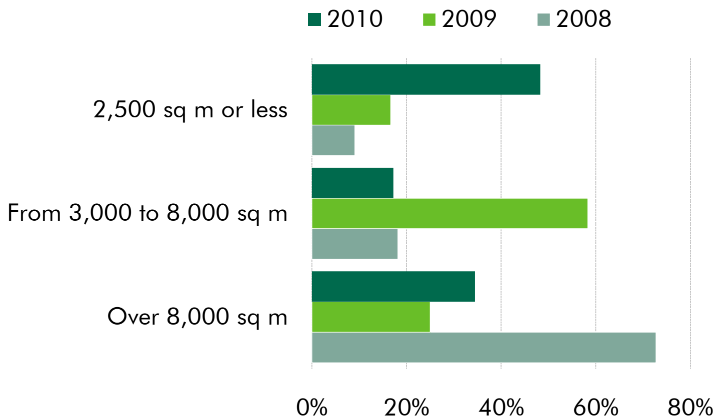
Take-up Structure by Industry*



* base – volume of transactions, sq m

Source: CB Richard Ellis

Take-up Structure by Transaction Size*



* base - number of transactions

Source: CB Richard Ellis

In terms of transaction size, wholesalers and retailers leased space ranging from 1,000 sq m to 15,000 sq m, while logistics companies leased warehouse premises of no less than 3,000 sq m and more. In general, deals of up to 2,500 sq m were most common on the market – their share has been growing for the second consecutive year. Furthermore, we single out the increase in the number of deals for over 8,000 sq m The share of such transactions decreased considerably in 2009 comparing with pre-crisis figure of 2008.

Geographically, 52% of space (+10% y-o-y) was leased on the West (Right) bank in 2010. Zhytomyr highway (M-06,E-40) remains the most wanted direction with a 30% share of total transaction volume. % or pp

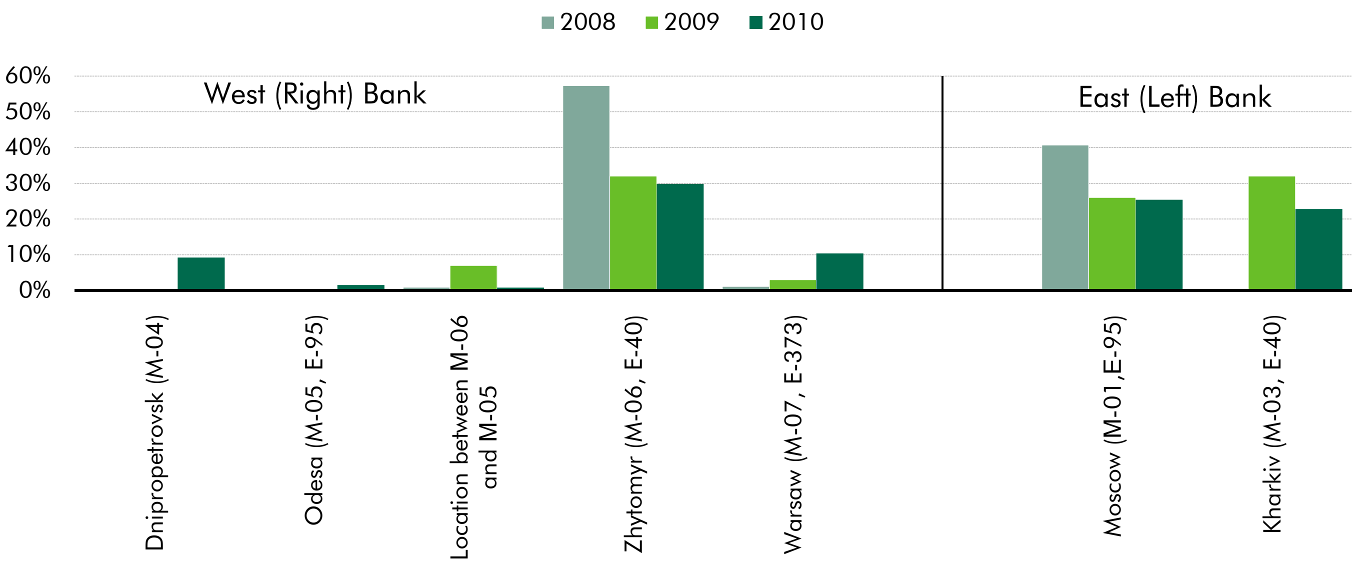
VACANCY

Slowdown in development completions and gradual recovery of demand on the part of retailers and logistics operators have led to increased **net absorption** (+13% y-o-y). In turn, average **vacancy rate** in the greater Kyiv area decreased from 25% to 20% over H2 2010.

Demand was strongest on Zhytomyr and Kharkiv directions, pushing vacancy rates down from 18% to 12% and from 42% to 25% respectively in just six months.

Vacancy rates jumped in those directions where new deliveries entered the market. Komodor (M-06, E-40) and BF (M-03, E-40) logistics centres accounted for almost one third of all leasing transactions during the review period.

Take-up Structure by Highways*



* base – volume of transactions, sq m

Source: CB Richard Ellis

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RENTAL RATES

Presently high vacancy rate limits the possibility for rental rate growth. Average rents for professional warehouses stabilized in Q4 2009 and remained flat during 2010. Prime rents range from $5.5/sq m/month to $6.5/sq m/month (net of VAT and OPEX).

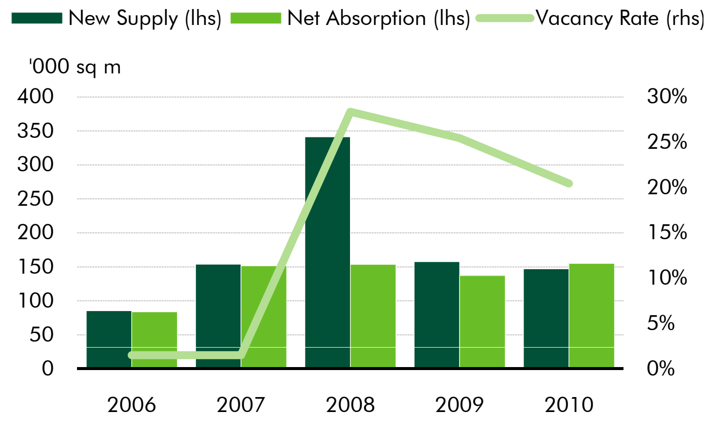
OUTLOOK

2011 is likely to see further contraction in development completions, with the volume of new deliveries likely to be the lowest for the last five years. Notable projects due to enter the market include dry warehouse complex of Amtel-Properties company (first phase comprises 37,000 sq m of warehouse premises) and specialized warehouse of Scandinavia company (ca. 13,000 sq m). Both properties are located on the West bank. Completion of the second phase of dry warehouse complex developed by Amtel-Properties (ca. 51,000 sq m) is projectedin 2012. However, short warehouse construction cycle enables developers to promptly resume their postponed projects in response to changes in demand. This elasticity of supply, in turn, complicates forecasting new supply volumes in two years time. Still, we think developers will be cautious in realization of projects along the highways where vacancy is at a high level, especially on the East (Left) bank. Securing commitments from anchor tenants is a key factor that may encourage developers to resume construction.

Recovering macroeconomic fundamentals, upbeat corporate sentiment and increased activity of warehouse occupiers at the end of 2010 are expected to drive up demand in 2011. Slowdown in new completions and increased activity of tenants will boost further absorption of available space, driving down vacancy rate.

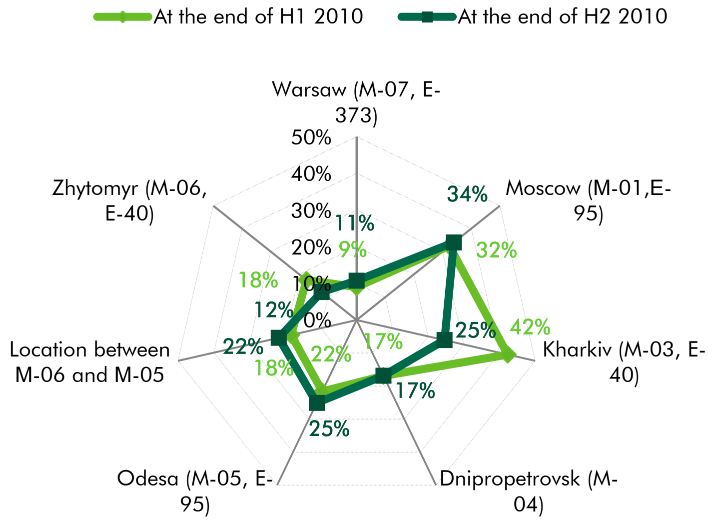
For rental rates to gain growth momentum, the market must be balanced with no more than 8-10% of vacant space. Since vacancy in warehouse premises along the most popular Zhytomyr highway (M-06, E-40) is already approaching that level (12%), we expect this direction to be the first to enjoy rental growth. Furthermore, we believe that rents may resume growth in the most popular warehouse schemes in the vicinity of key road junctions already in H2 2011.

New Supply, Net Absorption and Vacancy Rate



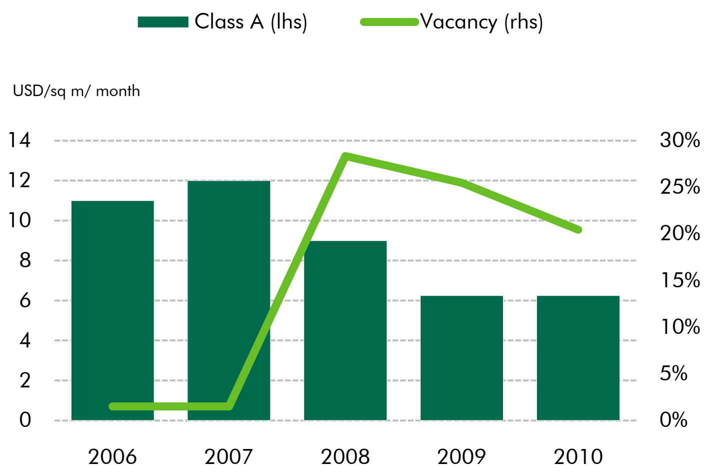
lhs - left hand scale
rhs- right hand scale
Source: CB Richard Ellis

Vacancy Rate by Highways, 2010



Source: CB Richard Ellis

Rental and Vacancy Rates



Source: CB Richard Ellis

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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 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.

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 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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