

Quick Stats

	Change from	
	H2 '10	H1 '10
New Supply	↓	↓
Rent	→	→
Vacancy	↓	↓

Hot Topics

- Continuing slowdown in development completions – 15,500 sq m (-63% y-o-y)
- Demand is getting stronger: take-up grew by 34% y-o-y
- Vacancy rate is declining: market average figure has fallen to 15.7% (-4.8pp from Q4 2010) on the back of low supply and improving demand
- Prime rents are unchanged - \$5.5 - \$6.5/sq m/month

FUNDAMENTALS

In Q1 2011, GDP growth accelerated to an estimated 5.3% y-o-y (+1.1pp from Q4 2010) thanks to stronger domestic demand. Over Q2 2011, however, main components of GDP were showing mixed results and the forecast for economic growth in 2011 was thus downgraded and now varies between 4.0% and 5.5%<sup>1</sup>. The level of unemployment is expected to stay relatively unchanged from a year ago, meaning that labour market is still struggling to recover. Nevertheless, in six months of 2011 retail turnover grew by 15.2% y-o-y fuelled by rising real wages and better consumer credit conditions. At the same time, industrial production, one of the key macroeconomic indicators affecting demand for warehouse premises, expanded at a more moderate pace over H1 2011 of just 9.0% y-o-y versus 12.2% in the same period in 2010.

DEMAND

Slow recovery in demand for warehouse premises that began in 2010 was maintained in 2011. Encouraged by improving economic fundamentals, the users continued to consolidate their operations and also began to expand warehouse space. Their rising confidence is reflected in the take-up figures for the first six months of the year, which are 35% higher from a year ago.

The biggest share of **take-up** (ca. 74%) was recorded in Q1 2011 as ongoing deals from 2010, were signed at the beginning of 2011. Seasonal factors also explain the lack of significant leasing activity in Q2 2011.

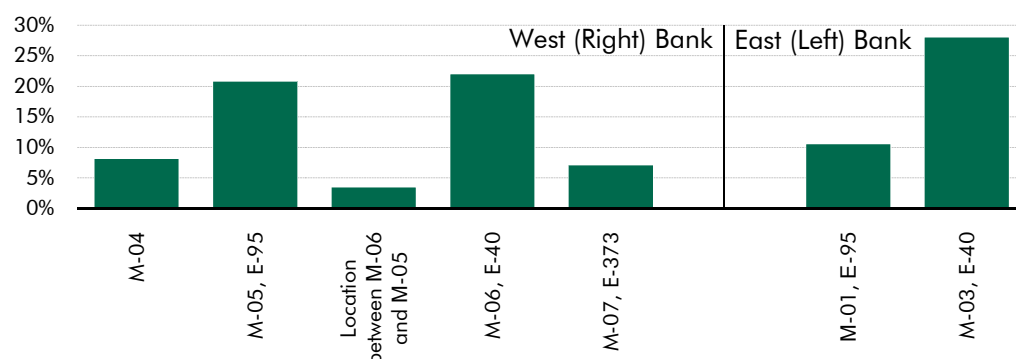
Key Warehouse Transactions in H1 2011

OCCUPIER	INDUSTRY	PROPERTY	HIGHWAY	GLA*, sq m
Optima Pharm	Wholesale and retail trade	Plazma Logistics	M-03, E-40	18,860
DHL Freight	Transportation and Storage	Komodor Logistics Park	M-06, E-40	16,334
Auchan	Wholesale and retail trade	East Gate Logistic	M-03, E-40	12,137
Epicenter	Wholesale and retail trade	Kyivmetaloprom	M-05, E-95	19,400
Confidential	Wholesale and retail trade	L-Town	M-04	9,500
Logistic Plus	Transportation and Storage	West Gate Logistic	M-06, E-40	5,400

\* - gross leasable area  
Source: CB Richard Ellis

In terms of location preferences, the majority of transactions took place on the West (Right) bank – 61% of the total volume and twice as much as in H1 2010. Despite the fact that the East (Left) witnessed fewer transactions – only 39% of total volume – in general take-up there increased by 12% compared to H1 2010.

Take-up Structure by Highways in H1 2011\*



\* base – volume of transactions, sq m  
Source: CB Richard Ellis

<sup>1</sup> - 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

In terms of industry breakdown, wholesale and retail sector were responsible for the lion share (ca. 63%) of the take-up in H1 2011. Transportation and Storage came 2nd with just under 28% of transacted space. These figures confirm the trend of the last 12 months, in which the relative activity of wholesale and retail sector (as measured by take-up numbers) has been steadily increasing, overcoming Transportation and Storage by December 2010 and maintaining the lead by the end of Q2 2011.

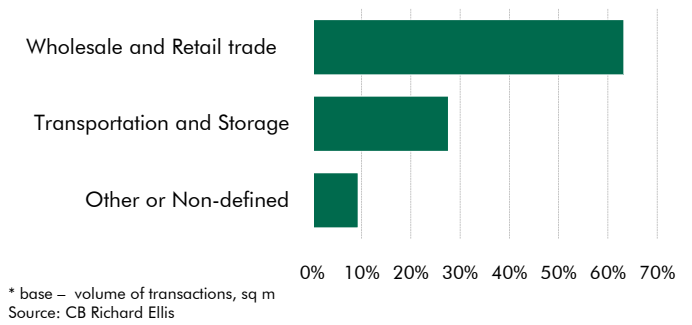
As to the transaction size, small deals (5,000 sq m or less) accounted for 65% (+19pp y-o-y, by number of transactions) in the reported take-up in H1 2011, whereas large deals remain a rare occasion on the market. However, there were three acquisitions for owner-occupation recorded in the first six months of 2011(41% of take-up), while the same period last year saw only one owner acquisition.

**SUPPLY**

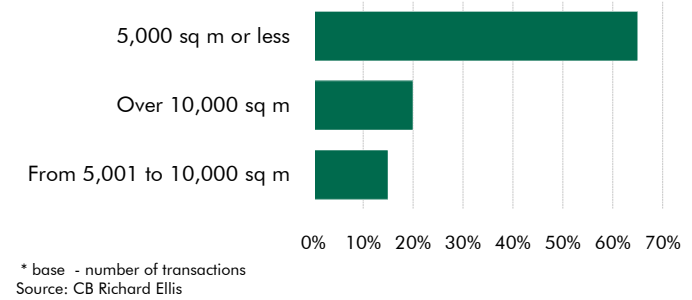
In six months to the end of June 2011, only three warehouse schemes were completed, adding just 15,500 sq m to the speculative market. **Total competitive stock**, therefore, amounted to ca. 996,000 sq m as of the end of Q2 2011.

Notwithstanding the growth in the retail sector, the warehouse market saw no corresponding increase in construction activity. There were no development starts recorded throughout H1 2011 and what is more significant, the construction of some of the projects has been halted, thus reducing the delivery pipeline for 2011. For instance, ISTIL Real Estate has postponed the construction of their logistics complex along Kharkiv highway (M-03, E-40) due to high vacancy rate on the East (Left) bank.

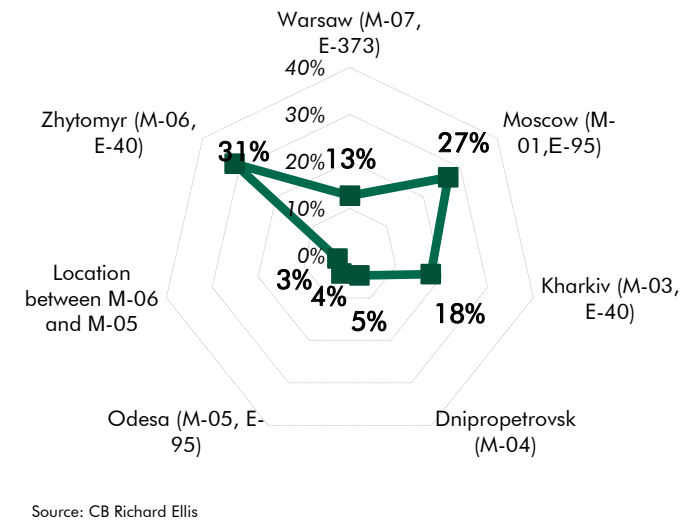
**Take-up Structure by Industry in H1 2011\***



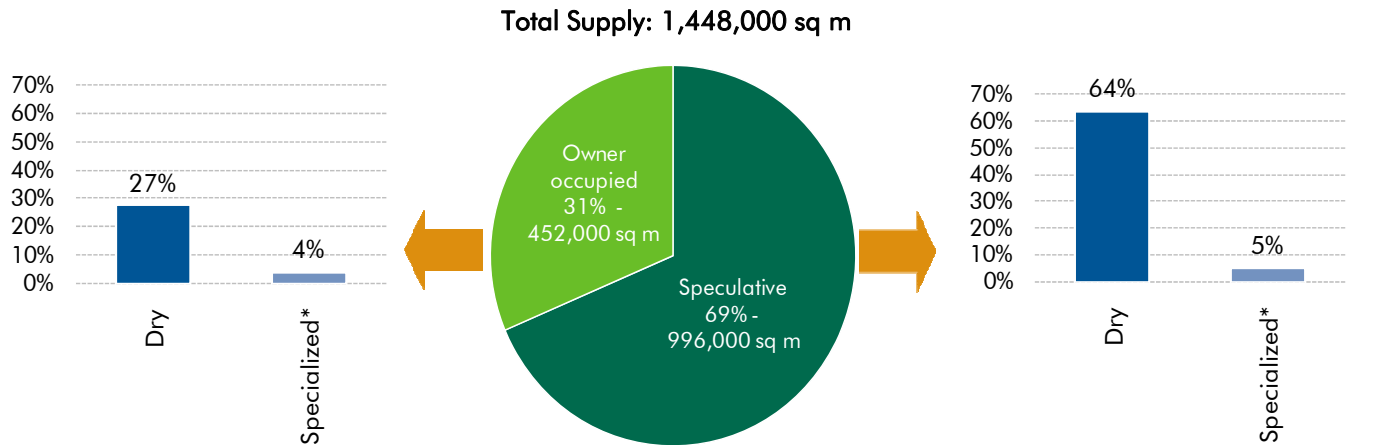
**Take-up Structure by Transaction Size in H1 2011\***



**Warehouse Stock by Highways in 2011**



**Stock Structure by Type**



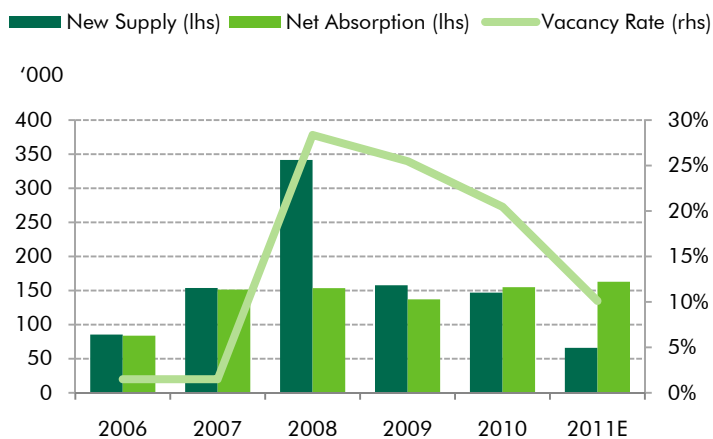
\* - excludes premises within production units and unprofessional (low-quality) schemes, old industrial refrigerators, storage facilities, etc.  
Source: CB Richard Ellis

**Key Warehouse Schemes in 2011**

NAME	CLASS	DEVELOPER	WAREHOUSE PREMISES, sq m	HIGHWAY	COMPLETION
Amos	A	Energoprylad	11,800	M-01, E-95	H1 2011
Warehouse scheme	B	Eurotrade	2,000*	M-06, E-40	H1 2011
Santa Frost (Phase II)	A	Santa Bremor Ukraine	1,700	P-04	H1 2011
Amtel (Phase I)	A	Amtel-Properties	37,000	P-04	H2 2011
Trans West Logistic	A	Local	8,600	M-06, E-40	H2 2011
Mirage 3	A	Mirage	7,000	M-07, E-373	H2 2011

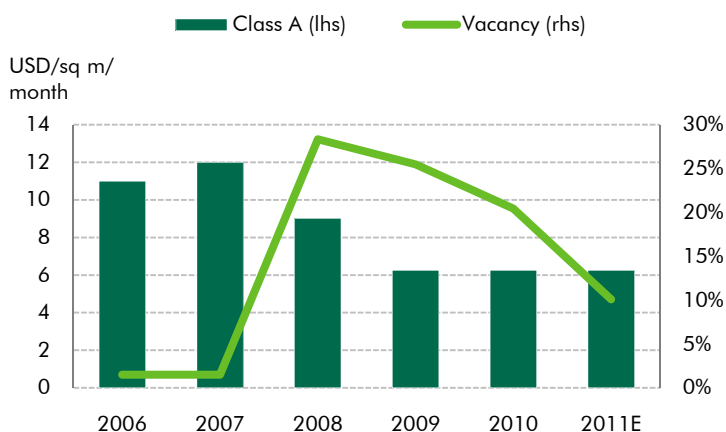
\* - premises for lease  
Source: CB Richard Ellis

**New Supply, Net Absorption and Vacancy Rate**



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

**Rental and Vacancy Rates**



E- estimate  
Source: CB Richard Ellis

Currently, there are ca. 51,000 sq m of warehouse space under construction in Kyiv region with high delivery probability for H2 2011. The most anticipated completion of 2011 is Phase I of warehouse complex, developed by Amtel-Properties. At the same time, despite the still uncertain attitude of the majority of developers towards warehouse segment, it slowly starts to draw the attention of investors. At the end of Q2 2011, Arca Capital (Slovakia) announced plans to build three logistics complexes in Kyiv region in the nearest future.

Even as the market is still lacking professional specialized premises and despite construction plans announced by many players no significant changes took place on the development side of the market over the first six months of the year. In fact, only the Phase II of Santa Frost (1,700 sq m) was added to the stock over the reported period. By the end of the year we expect the completion of the second specialized warehouse complex of Scandinavia company (ca. 13,000 sq m), which is extending its existing warehouse facilities and, once finished, will be one of the largest quality specialized complex in the greater Kyiv area.

**VACANCY**

The absence of large completions in the greater Kyiv area in H1 2011 made it easier for demand to contribute towards gradual absorption of available space on the market, pushing average vacancy down from 20.5% in December 2010 to 15.7% in June 2011.

Looking at the geographical spread, the highest vacancy is observed on the East (Left) bank, where the availability is quite substantial along Moscow highway (M-01, E-95). More than one third of existing stock along that highway is vacant (65% of all vacant premises on the market). In contrast, warehouses premises along the Kharkiv highway (M-03, E-40) are almost fully leased (vacancy rate is less than 5%). Availability rate along Zhytomyr highway (M-06, E-40), the most popular location, – is 6.4%. Premises along Warsaw highway (M-07, E-373) continue to experience high vacancy levels which make up ca.18.0% of the local stock. The volume of unoccupied premises along other directions is not too large to have any significant influence for market average.

## RENTS

Over the last six months **prime rents** stayed unchanged. Net effective rental rents (net of VAT and OPEX) ranged between \$5.5 and \$6.5/sq m/month on average. Traditionally, the highest rents are asked for warehouse space located closer to the city. For the most sought-after premises along Warsaw highway, the rents are in between \$5.0 and \$7.0/sq m/month. Professional warehouse space on the Left bank could be leased at \$4.5 - \$6.0/sq m/month.

## YIELDS

As of today, warehouse segment is the least attractive for investors among other segments of commercial real estate. Still, even in the absence of any investment activity in H1 2011, we estimate that yields compressed by 1 pp from Q1 to 15% on the back of stronger economic fundamentals. We do not anticipate to see any investments transactions on the warehouse market for the rest of the year as prime rents are yet to demonstrate an upturn.

## OUTLOOK

2011 is expected to see another year-on-year drop in deliveries as the market is still facing considerable vacancy (15.7% as of Q2 2011). Developers are not yet rushing in to begin construction, reflecting limited demand on the market, but the amount of projects is still high. On the other hand, based on a warehouse construction period of 6-8 months, the situation can change radically in 2012-2013 if developers see solid and broad-based increase in demand.

Despite conservative forecasts, we expect market to witness further growth in leasing activity. Slower pace of development completions and the much expected rise in tenants' activity over the next six months, should boost further absorption of available space, driving vacancy down. We forecast that average market vacancy will go down markedly as soon as Moscow direction starts to be absorbed at a faster pace. Net take-up there will be facilitated by the fact that currently large-size units for lease (exceeding 10,000 sq m) are available only along Moscow highway. We expect rents to resume growth in the most popular warehouse schemes in the vicinity of key road junctions in H2 2011.

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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**