CB RICHARD ELLIS

MarketView

Kyiv Warehouse

Quick Stats

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

Hot Topics

- Reduction in new supply: the delivery of only one logistics complex of 23,000 sq m
- Leasing market recovery: transaction volume up 17% y-o-y
- Gradual fall in vacancy rate: the share of unoccupied space declined to 13.8% (-3.3 pp from Q4 2011)
- Base rental rate is unchanged at $5.5-6.5/sq m/month
- Rising interest in build-to-suit projects

FUNDAMENTALS

Ukrainian GDP grew 2% in Q1 2012 mostly on the back of strong private consumption (up 9.8%). Towards Q2 the economy has most likely picked up the pace as follows from the available data on main GDP components. Despite unfavorable base effects, basic sector output was up 3.2% y-o-y in May from 1.3% in April and 0.5% in March. Still, the current state of external market sets no preconditions for growth in foreign demand, which could have improved Ukrainian GDP dynamics. Hence the low forecast for economic expansion in 2012, calling for just 1.3-2.5% growth[1].

Retail sales, one of the key macroeconomic indicators for warehouse market, continue to grow strongly and were up 15.5% y-o-y in five months to the end of May. However, the change in industrial production, also a key indicator, was less impressive – only 0.7% y-o-y over the same period versus 9.2% a year ago.

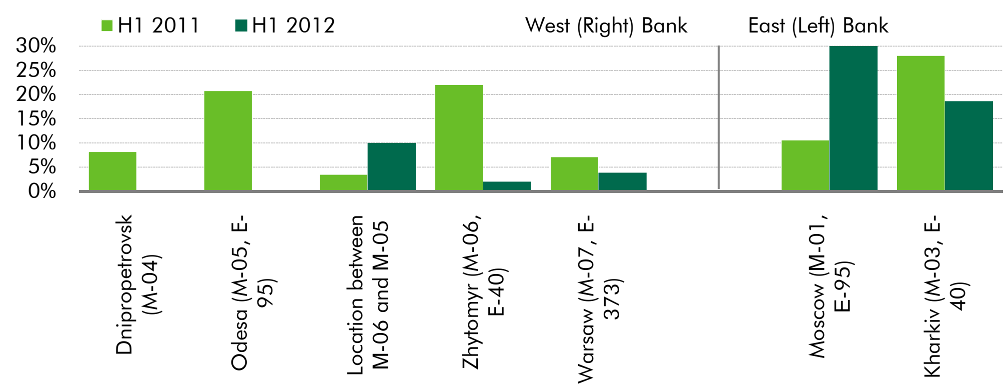
DEMAND

Take-up of warehouse space reached around 100,000 sq m in H1 2012, 19% less than over the same period a year ago. However, it is worth noting that last year's results were boosted by a number of large transactions for owner-occupation, whereas this year no such deals were completed. Conversely, there is a clear increase in the number of leasing deals. Indeed, leasing activity in H1 2012 was 17% and 19% higher than in H1 and in H2 of 2011 respectively.

The structure of take-up has changed substantially: the share of the Left Bank in the total number of transactions has reached 84% (last year it was only 39%), with 65% of all deals completed along Moscow highway (M-01, E-40). Furthermore, another two build-to-suit properties of more than 100,000 sq m are currently under construction on the Left Bank. It should also be noted that absorption rate has picked up towards the end of Q2 2012: around 80% of all deals were completed in May-June 2012.

When looking at the absorption dynamics in H1 2012, it is clear that price/rental rate of the property is playing a key role for the tenants, while location characteristics have become less important. In H1 2012 high leasing activity was witnessed on the East (Left) Bank thanks to lower pricing policy in comparison to the offers on the West (Right) Bank. For example, *Unilogic Park* warehouse complex in Brovary (approx. 22,000 sq m), which was delivered in Q4 2011, has been completely leased out in less than six months. Likewise, *Schastlyve Logistic Complex*, which was delivered in April 2012, but has been marketed since the end of 2011, was 70% full by July 2012. The rents on the West (Right) Bank are higher and properties there are taken up slowly.

Take-up Structure by Highways in H1 2012*



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

[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

Retail chains and distributors continue to dominate the take-up structure with a share of 84% in H1 2012 (+21 pp. y-o-y). While retail chains have been mostly upgrading their premises and were relocating to better quality properties, the deals involving logistics operators were driven primarily by expansion (9% in the total take-up structure).

While small deals (less than 5,000 sq m) are still more widespread on the market comprising about 62% of all transactions (-3 pp. y-o-y), the share of medium-sized deals (5,000-10,000 sq m) has more than doubled in the last six months, reaching 33%. Bigger transactions (more than 10,000 sq m) are more of an exception than the rule.

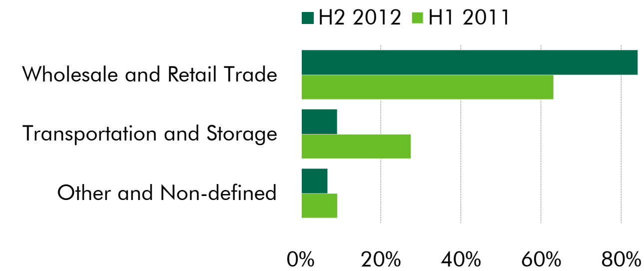
SUPPLY

Schatslyve Logistics Complex of 23,000 sq m was the only scheme delivered onto the speculative market in H1 2012. The delivery date for the Phase II of *Amtel Logistics Complex* was moved to 2013. By the end of the year we expect to see the completion of another three mid-sized schemes totaling some 24,000 sq m. We anticipate new supply in 2012 to equal just 47,300 sq m, mostly due to the delay in the delivery of *Amtel Logistics Complex*. It is evident, therefore, that the volume of new supply has been shrinking for the third consecutive year.

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

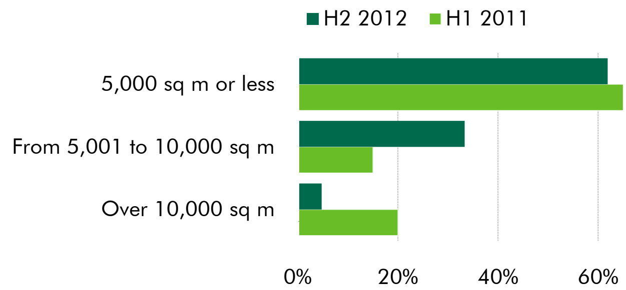
- Total stock – approx. 1,592,000 sq m
- Total speculative supply – approx. 1,048,000 sq m

Take-up Structure by Industry in H1 2012*



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

Take-up Structure by Transaction Size in H1 2012*



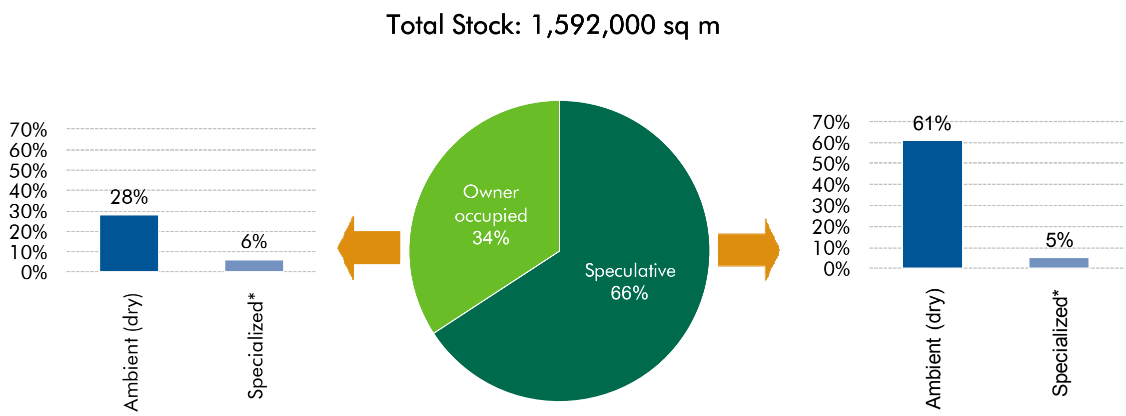
* base - number of transactions
Source: CBRE

New Supply in 2012 (Major Schemes)

NAME	CLASS	DEVELOPER	WAREHOUSE PREMISES, sq m	HIGHWAY	COMPLETION
Schastlyve Logistics Complex	A	Alfa Development Group	23,000	M-03,E-40	H1 2012
Petrivtsi Logistic Complex	A	local	8,500	M-07,E-373	H2 2012
Warehouse scheme	A	local	6,000	M-07,E-373	H2 2012
Kyivschyna-2 Terminal	A	local	9,800	T-1012	H2 2012

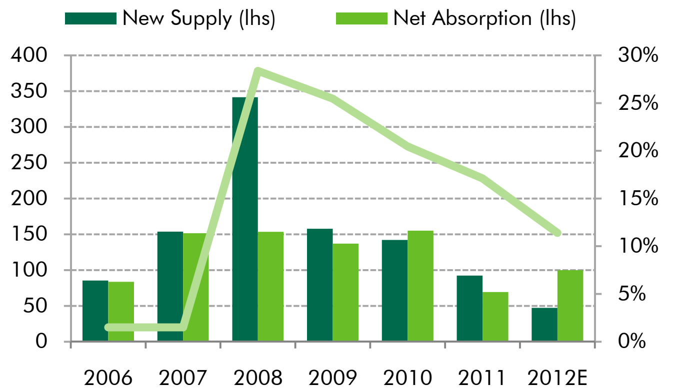
Source: CBRE

Total Stock Structure by Type (H1 2012)



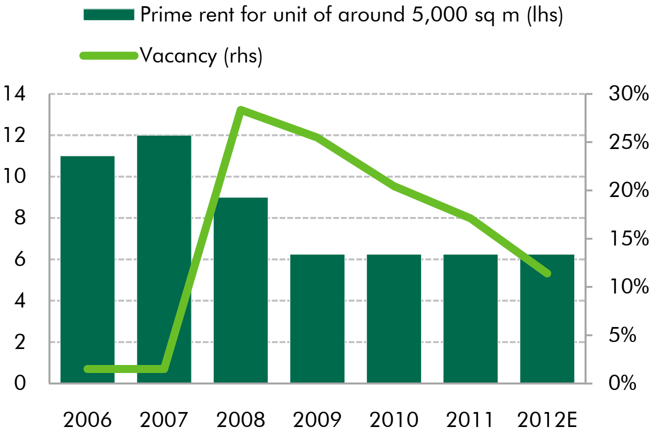
* - excludes premises within production units and unprofessional (low-quality) schemes, old industrial refrigerators, storage facilities, etc.
Source: CBRE

New Supply, Net Absorption and Vacancy Rate



lhs - left hand scale
rhs- right hand scale
E- estimate
Source: CBRE

Average Prime Rental Rate (USD/sq m/month) and Vacancy Rate



E – estimate
Source: CBRE

VACANCY

Largely thanks to sluggish supply, the overall vacancy rate on the market has fallen from 17.1% in Q4 2011 to 13.8% in Q2 2012.

The bulk of unoccupied space is still concentrated along Moscow highway (M-01, E-95). Nevertheless, the absorption rate on that submarket have picked up recently. In fact, it is here where most of warehouse space was taken-up in the last six months. As of Q2 2012 the share of Moscow highway in the total volume of unoccupied space has amounted to 42%, having declined by 19 pp. from Q4 2011. On the Right (West) Bank the biggest amount vacant space is concentrated in a single property – Phase I of *Amtel Logistics Complex* (submarket between M-05 and M-06). The vacancy rate on other submarkets does not exceed 7% of the total amount of unoccupied space.

RENTAL RATES

Prime rents in H1 2012 were flat at $5.5-6.5/sq m/month (net of VAT and operating expenses). Asking rents for warehouse space located close to the city range from $6 to $9/sq m/month. Vacant space on the Right (West) Bank are offered for $6-7/sq m/month (trip net), while professional schemes on the Left (East Bank) are priced at $5-7/sq m/month (triple net). It should be noted that landlords' expectations have increased recently with their minimal acceptable offers are now $0.5 higher. Furthermore, rental rates on the Left (East Bank) began to grow stronger: landlords of the premises located on Moscow (M-01, E-95) and Kharkiv (M-03, E-40) highways are showing less willingness to negotiate as the space in their schemes is gradually taken up. The landlords on the Right (West Bank), however, are more open to bargain, having lowered the upper limit of asking rents by $0.5.

YIELDS

No investment transactions were completed on the market in H1 2012. Given the lack of changes on the investment side of the warehouse market, we believe that the prime yield was unchanged from H2 2011 and stayed at 15%. We also believe that in the current uncertain environment when business expectations are moderate at best, yields will stay flat by the end of the year, but only subject to no economic shocks.

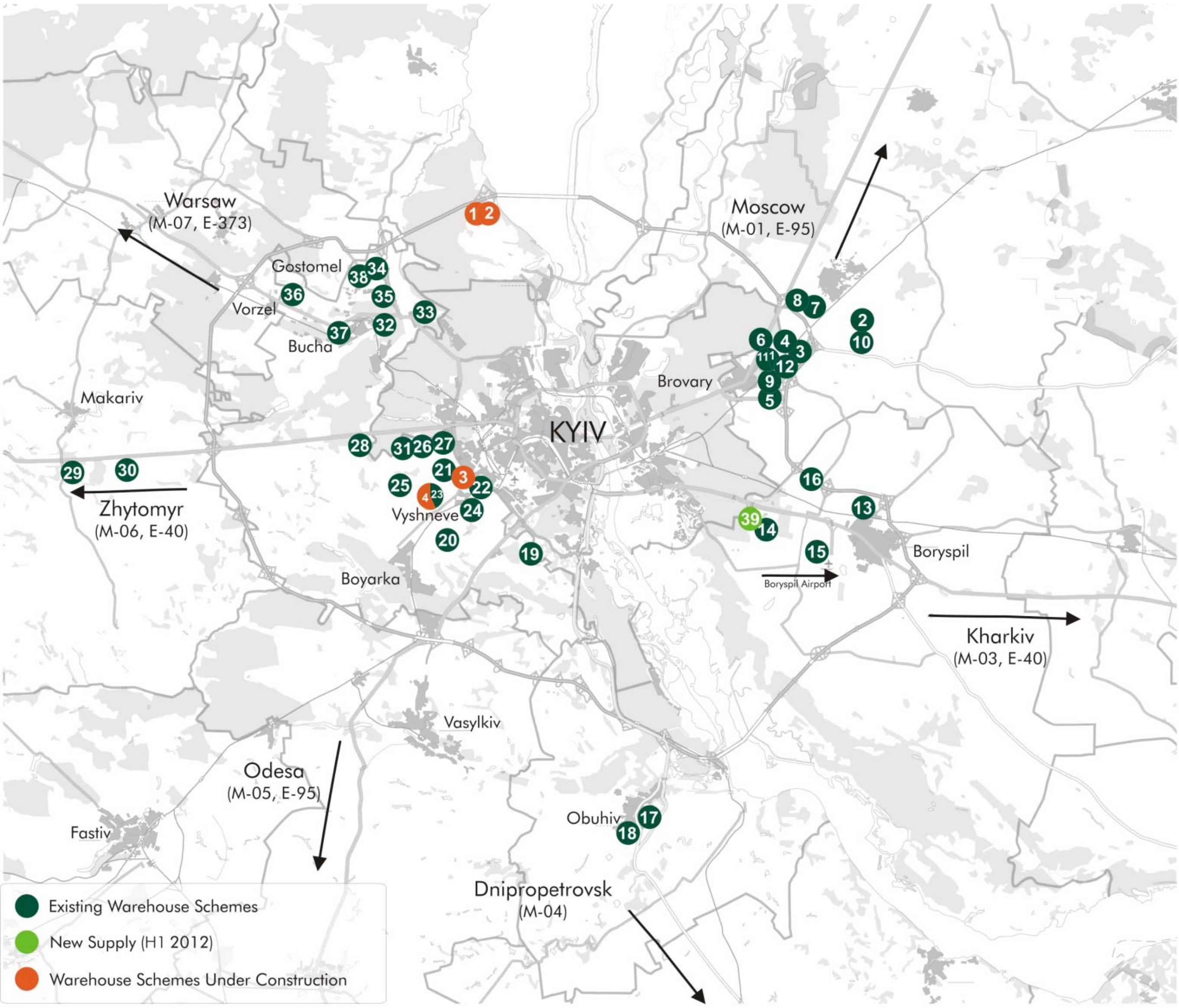
OUTLOOK

Strong retail sales have a positive impact on the warehouse market, which is evident in the healthy leasing activity on the part of retail operators. Still, it would be premature to declare that the market has recovered as vacancy rate remains high at 13.8%. Despite the fact that the rate of new supply has been falling for the past four years, tenants' business is not really booming and their demands in terms of warehouse space are not growing fast enough to bring vacancy rate down.

We believe that new supply in 2012 will amount to 47,300 sq m. By the end of the year we expect to see existing players to continue to optimize and/or expand their operations, relocating into better-quality space on better terms. Should the absorption rate witnessed in H1 2012 stay on the current level, vacancy rate may fall to 11%.

Consequently, we are not projecting significant changes in rental rates. We are, however, expect to see further strengthening of rents on the Left (East) Bank, which will be driven by increased tenant interest in this area and subsequently falling local vacancy rate. Most of the tenants are not ready to pay higher rents for warehouse space against the backdrop of very uncertain economic outlook.

KYIV WAREHOUSE COMPLEXES



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
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	H1 2012

Key Future Warehouse Schemes			
№	NAME	WAREHOUSE PREMISES, sq m	COMPLETION
1	Petryvtsi Logistic Complex	8,500	H2 2012
2	Warehouse scheme	6,000	H2 2012
3	Kyivschyna-2 Terminal	9,800	H2 2012
4	Amtel (Phase II)	51,100	2013

* - specialized warehouse
Source: CBRE

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 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**

CBRE is the market leading commercial real estate adviser worldwide - an adviser strategically dedicated to providing cross-border advice to corporate and investment clients immediately and at the highest level. The Company has approximately 34,000 employees (excluding affiliates), and serves real estate owners, investors and occupiers through more than 300 offices (excluding affiliates) worldwide. Our network of local expertise, combined with our international perspective, ensures that we are able to offer a consistently high standard of service across the world. For full list of CBRE offices and details of services, visit www.cbre.com

For More information regarding the MarketView, please contact:

CBRE Ukraine Office

4 M. Hrinchenka St.,
Kyiv 03680
t: +38-044-390-00-00

Sergiy Sergiyenko
Managing Partner
e: sergiy.sergiyenko@cbre.ua

Radomyr Tsurkan
Managing Partner
e: radomyr.tsurkan@cbre.ua

Marina Krestinina
Director of Strategic Consulting&Research
e: marina.krestinina@cbre.ua

Maryna Gavrylenko
Senior Research Analyst
e: maryna.gavrylenko@cbre.ua

CBRE