

HOT TOPICS

- Absence of speculative completions, with 102,000 sq m of new deliveries for owner-occupation
- Minor uplift in take-up reaching 100,000 sq m (+8% y-o-y) by year-end
- Slight reduction in vacancy from 15.9% to 15.0 %
- Rental decline: base rents for prime properties fell by 10% from \$5.0 to \$4.5/sq m/month in H1 2015, remaining stable by year end

DEMAND

Despite weak economic fundamentals throughout 2015, the estimated take-up of warehouse space reached approximately 100,000 sq m (+8% y-o-y). While leasing demand noticeably contracted in the first six months of the year, there was an increase in particularly acquisition activity of warehouses in H2 2015. In total, sales transactions amounted to 16% of industrial take-up, with two specialized warehouses being sold to the end user. In contrast, no remarkable sales transactions occurred on the market during 2014. On the one hand, a growing incentive to buy industrial assets for owner-occupation was stipulated by declining rents and falling capital values. At the same time, demand for owner-acquisition has shown relative resilience in specialized market segments in view of generally lower supply of speculative space available for larger occupiers.

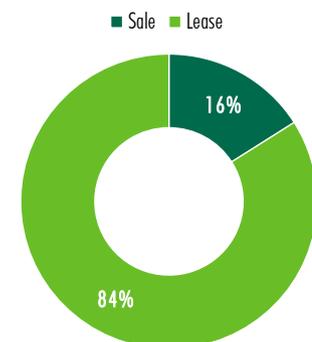
KEY TRANSACTIONS IN 2015

OCCUPIER	INDUSTRY	PROPERTY	DIRECTION	SQ M	DEAL TYPE
Ekol	3PLs, Transportation	Impeco	Warsaw (M-07, E-373)	9,000	lease
Ekol	3PLs, Transportation	Andakta	Warsaw (M-07, E-373)	5,000	lease
DSV	3PLs, Transportation	Kyivshchyna Terminal 1	T-1027	5,000	lease
Arda	Wholesale and retail trade	ADG	Kharkiv (M-03, E-40)	3,500	lease
Nokian	Wholesale and retail trade	Merks	T-1012	3,000	lease
ND Logistics	3PLs, Transportation	UKR DC Logistic center I - 3J Holding	Odesa (M-05, E-95)	2,000	lease
Gloria Jeans	Wholesale and retail trade	Pharmplaneta	Zhytomyr (M-06, E-40)	2,000	lease
Ditrade	Wholesale and retail trade	San Factory	Kyiv city	1,300	lease
KFC	Wholesale and retail trade	Santa Frost II	P-04	900	lease
ATB	Wholesale and retail trade	FIM Service - 1	Zhytomyr (M-06, E-40)	4,700	lease
Unilever	Manufacturing	Impeco	Warsaw (M-07, E-373)	10,000	lease
Confidential	Wholesale and retail trade	RLC	Moscow (M-01, E-95)	4,000	lease
BADM	Healthcare and Pharmaceuticals	Andakta	Warsaw (M-07, E-373)	6,300	sale
Pharmplaneta	Healthcare and Pharmaceuticals	VVS	Odesa (M-05, E-95)	10,000	sale

Source: CBRE Ukraine

As before, transactional activity in the industrial sector was largely dominated by 3PLs&Transportation (31%) and retail operators (23%). However, the share of transactions from retail occupiers continued to steadily decline posting twofold drop in the structure of gross take-up during 2015. This fact is mostly attributed to sharp slump in retail turnover and retailers' business, who were quick to reduced their warehouse requirements. The geographical structure of take-up reveals that transactional activity was primarily focused on the Warsaw (M-07, E-373) corridor, which accounted for 43%

TAKE-UP STRUCTURE BY TYPE OF TRANSACTION*



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

of all sales and lettings completed in Kyiv and region in 2015. The most notable lease transaction was signed by Unilever Company that leased 10,000 sq m in Impeco warehouse in Warsaw (M-07, E-373) direction in H2 2015.

Small transactions of less than 5,000 sq m were still most common comprising about 62% (-5 pp y-o-y), whilst the share of medium-sized deals (5,000-10,000 sq m) increased by 9 pp over the year, reaching 38%. No transactions of over 10,000 sq m were registered during the period.

SUPPLY

Kyiv warehouse market did not witness any new speculative completions over the course of the year. However, due to few acquisitions of warehouse properties by end users, total speculative stock of warehouse space decreased slightly to ca. 1.26 mln sq m (-2.2% y-o-y) as of the end of December 2015. Moreover, speculative construction activity was virtually halted, as developers were reluctant to start new speculative schemes in the current market conditions with declining rents, high vacancy and inaccessible debt funding.

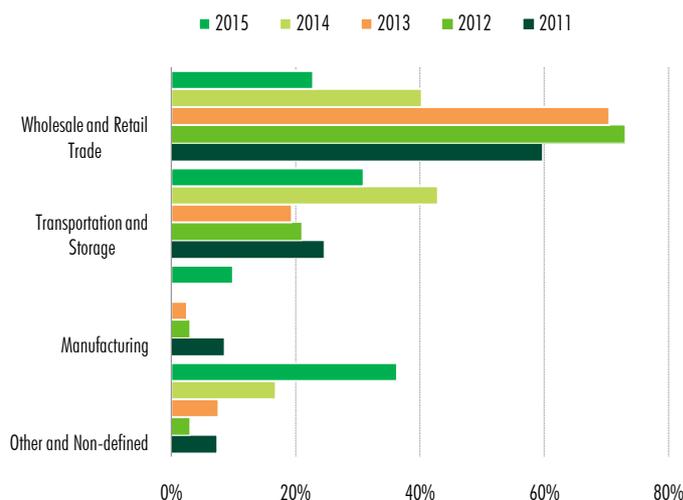
At the same time the trend of increasing construction activity in the owner-occupied sector continued to dominate development in the industrial sector in 2015. Annual new supply of warehouse space for own use amounted to 102,000 sq m within six warehouse properties, with 80% of that volume reaching the market in the second half of the year. However, this visible trend applied predominantly to the largest market players relatively resilient to economic backdrops. For instance, among the notable deliveries, major DIY operator Epicentr opened its 40,000 sq m warehouse in Kalynivka, whilst extension to existing specialized warehouses were delivered by FM Logistics and Biocon comprising 14,000 sq m and 15,000 sq m respectively.

KEY WAREHOUSE SCHEMES IN 2015*

NAME	DEVELOPER	WAREHOUSE PREMISES, SQ M	COMPLETION/ANNOUNCED COMPLETION
FM Logistics (Phase III)	FM Logistics	14,000	H1 2015
Warehouse complex	Imperial Tobacco	8,000	H1 2015
Warehouse complex	Epicentr	40,000	H2 2015
Biocon (Phase III)	Biocon	15,000	H2 2015
Warehouse complex	Slavutich	15,000	H2 2015
Warehouse complex	Agrosvit	10,300	H2 2015

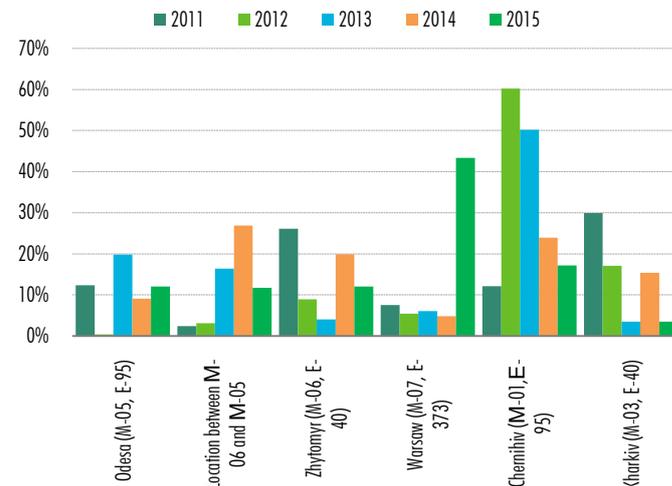
* for owner-occupation
Source: CBRE Ukraine

TAKE-UP STRUCTURE BY INDUSTRY*



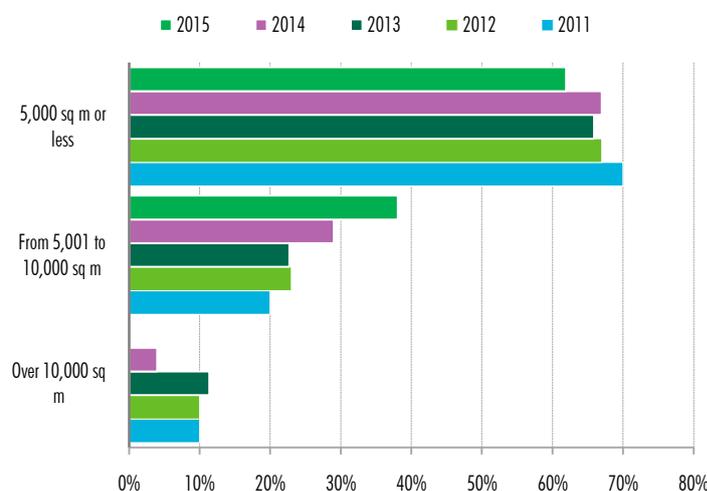
* base – volume of transactions, sq m
Source: CBRE Ukraine

TAKE-UP STRUCTURE BY HIGHWAYS*



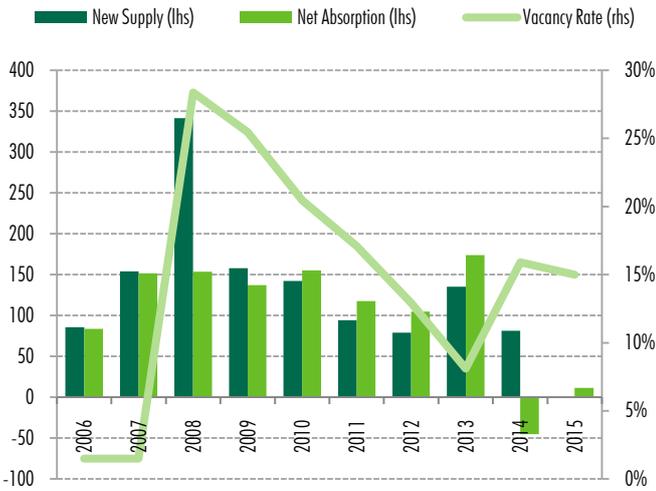
* base – volume of transactions, sq m
Source: CBRE Ukraine

TAKE-UP STRUCTURE BY TRANSACTION SIZE*



* number of transactions
Source: CBRE Ukraine

NEW SUPPLY, NET ABSORPTION AND VACANCY RATE



lhs – left hand side
rhs – right hand side
Source: CBRE Ukraine

VACANCY

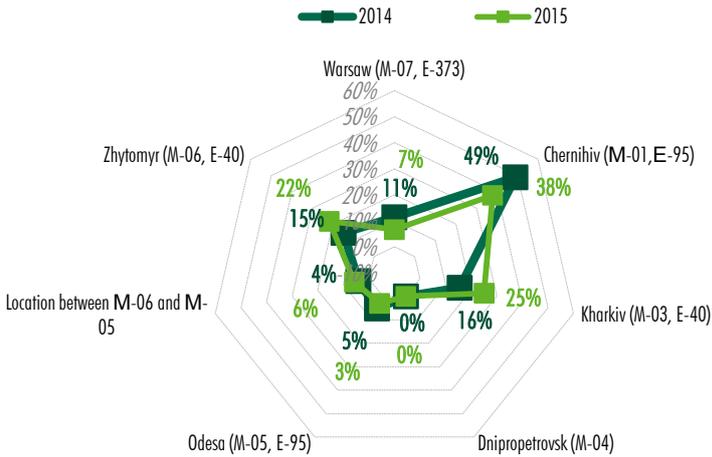
In the first half of the year deepening economic downturn mirrored a severe drop in business activity, which led to key occupiers downgrading their warehouse space requirements. As a result, vacancy grew by 1.2 pp from 15.9% to 17.1% by the end of June 2015. The trend has since reversed in the second half of 2015: modest decline in vacancy (-2.1 pp) was registered across the market. Generally average market vacancy notched downwards by 0.9pp from 15.9% to 15.0 % as of the end of 2015 compared to the end of 2014. However, this minor decline in market vacancy is predominantly the result of several warehouse acquisitions for owner-occupation combined with the absence of new supply.

Geographically, the largest share of vacant space (38%) is still located along the Chernihiv Highway (M-01, E-95) in the Brovary direction. Considerable portions of unoccupied stock are located along the Kharkiv (M-03, E-40) and Zhytomyr (M-06, E-40) Highways comprising 25% and 22% respectively of the total vacant space . The share of space available for lease on other submarkets does not exceed 7% in the total vacancy structure. Particularly sharp decline in available space from 11.4% to 6.6% was recorded over 2015 along the Warsaw (M-07, E-373) Highway which witnessed the highest pace of take-up.

RENTS

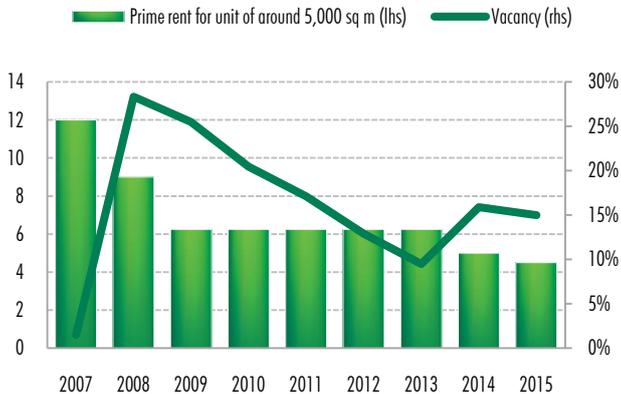
In 2015 rents for warehouse space remained under pressure as national currency sharply devalued at the beginning of the year. The prime achievable USD-based rent for the lot size of ca. 5,000 sq m declined by 10% from \$5.0/sq m/month to \$4.5/sq m/month over the course of the first six months of 2015, maintaining stability by the end of the year. However, as landlords compete to attract and retain tenants, rents for A class warehouses displayed significant variations across the market from \$3.0 to \$4.5 sq m/month depending upon the size of transaction, location and particular situation with the particular property in question. Secondary rents for competitive schemes varied in the \$2.0-\$3.0 sq m/month range posting approximately 35% decline. Landlords were increasingly opting to decrease rents instead of bearing the costs of vacant premises. Moreover, the trend of quoting rents in UAH in new lease contracts, as well as including OPEX into rent, accompanied by broader incentives, was becoming widely used across the board and especially in secondary properties.

VACANT STOCK BY HIGHWAYS*



*base – total vacancy
Source: CBRE Ukraine

RENTAL AND VACANCY RATES (USD/SQ M/MONTH)



Source: CBRE Ukraine

OUTLOOK

In light of cautiously optimistic economic forecast for the year ahead, it is expected that occupiers' demand will improve moderately during 2016. The transactional activity is forecast to be dominated by relocations, with more frequent cases of expansion likely in the second half of the year. On the supply side, given that rents for quality warehouse space are likely to stay broadly stable at the levels recorded at the end of 2015, and finance will remain unavailable, speculative development will remain unviable. Hence, we do not expect any improvement in development activity other than customized expansion and 'build-to-suit' projects. The only extension of 4,100 sq m of ambient warehouse space within Phase III of SAN Factory is forecast to enter the speculative warehouse market in 2016. Such ignorable low level of construction activity in the segment will not only deter growth of vacancy, but will inevitably lead to gradual reduction in average market vacancy by 3-5 pp over the course of the year. And in view of the relatively short development cycle, the recovery phase -once the leasing activity picks up will be shorter in comparison to other real estate segments.

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**

RESEARCH REPORT

Kyiv Industrial Big Box

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2015

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