

Kyiv Industrial Market, H1 2016

Retail and logistics operators continued to dominate the leasing activity in the sector

Total Competitive Stock
1,27 million sq m
(0% YTD)

Take-up
48,000 sq m
(+4.3% Y-O-Y)

Average Vacancy
13.5%
(- 1.5 pp YTD)

Prime Rents
\$4.5/sq m/month
(0% YTD)

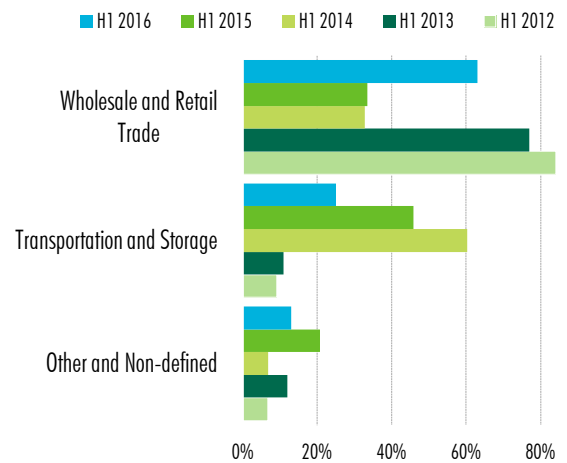
Demand

Warehouse market experienced moderately rising occupier demand owing to healthier economic circumstances emerged during H1 2016. Retail (including e-commerce) and logistics sector continued to dominate the leasing activity in the sector. Unlike the previous year, when demand was represented mostly by relocations and renegotiations, several expansion requirements materialized in H1 2016. Total leasing activity reached ca. 110,000 sq m as of the end of June 2016, with two large renewals signed in Q2 2016. At the same time, take-up volume amounted to approximately 48,000 sq m (+4.3% y-o-y) during January – June. Among most notable deals negotiated in H1 2016, Secure Property Development and Investment PLC signed heads of terms for the sale of Terminal Brovary warehouse to Rozetka, large e-commerce Ukrainian retailer. As the completion of the disposal is subject to certain conditions to be finalized, the retailer also signed the lease agreement for ca. 20,000 sq m with SPDI. If the property disposal occurs by the end of October 2016, the rent payments will be deducted from the asset price.

Supply

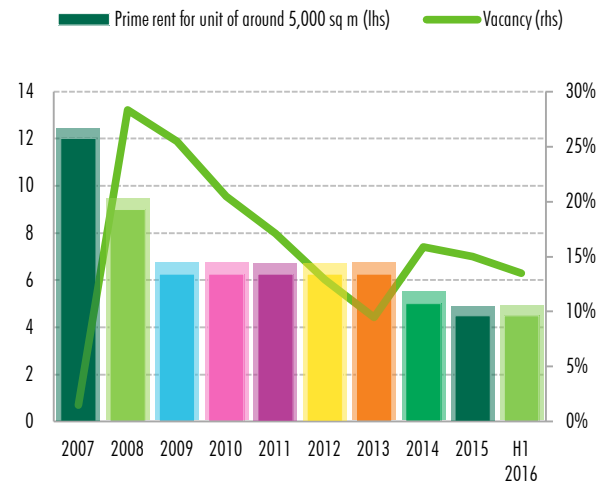
On the supply side, no new warehouses were delivered to the market over the first six months of the year. Therefore, the total competitive stock remained unchanged at ca. 1.27 mln sq m as of the end of June.

Figure 1: Take-up by Industry



Source: CBRE Ukraine

Figure 2: Prime Rents & Vacancy



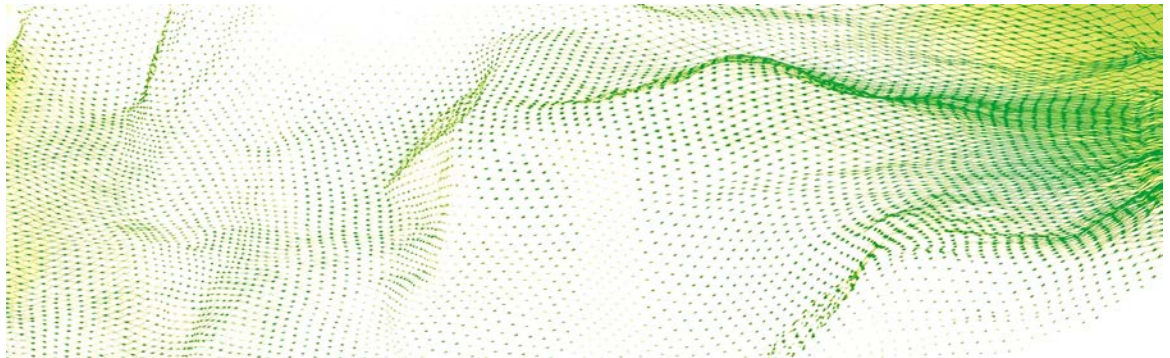
Source: CBRE Ukraine

Vacancy & Rents

Average market vacancy decreased by 1.5 pp from 15.0% to 13.5% on the back of gradual demand revival during January – June 2016. Rents for professional warehouse space stood flat in H1 2016: prime rents for top-quality properties remained at \$4.5/sq m/month (net of VAT and OPEX), with significant variations between \$3.0 and \$4.5 sq m/month for A-class warehouses. Rents for B-class warehouses are varied in the \$2.0-\$3.0 sq m/month range.

Outlook

With economic prospects now showing tentative signs of recovery, we believe that warehouse market will mimic the general strengthening of key economic sectors impacting the demand for storage, including retail, logistics and manufacturing. Several large space requirements forming the deferred demand for warehouse space are expected to stimulate the take-up in H2 2016. Currently, approximately 26,100 sq m of ambient warehouse space is under construction. We expect Phase III of SAN Factory (4,100 sq m) to be delivered over H2 2016, while the delivery of Merx warehouse (22,000 sq m) is likely to take place in 2017. Development of large-scale schemes is only possible to start under build-to-suit arrangements, given the risks associated with the delivery of speculative new stock on still fragile market. Rents are forecast to maintain stability by the end of 2016, as demand recovery remained faint and price-sensitive. What's more, average market vacancy is forecast to diminish further following the positive projections of demand revival later this year.



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