CBRE Ukraine
Part of the CBRE affiliate network

MARKET SNAPSHOT

Kyiv Office Market, H1 2016

Average market vacancy decreased from 30.5% to 29.7% over the course of H1 2016

Competitive Stock 1,7 million sq m (+2.3% YTD)

New Supply 38,000 sq m (-36.9% Y-O-Y)

Average Vacancy 29.7% (-0.8 pp YTD)

Prime rent $23 per sq m/month (0% YTD)

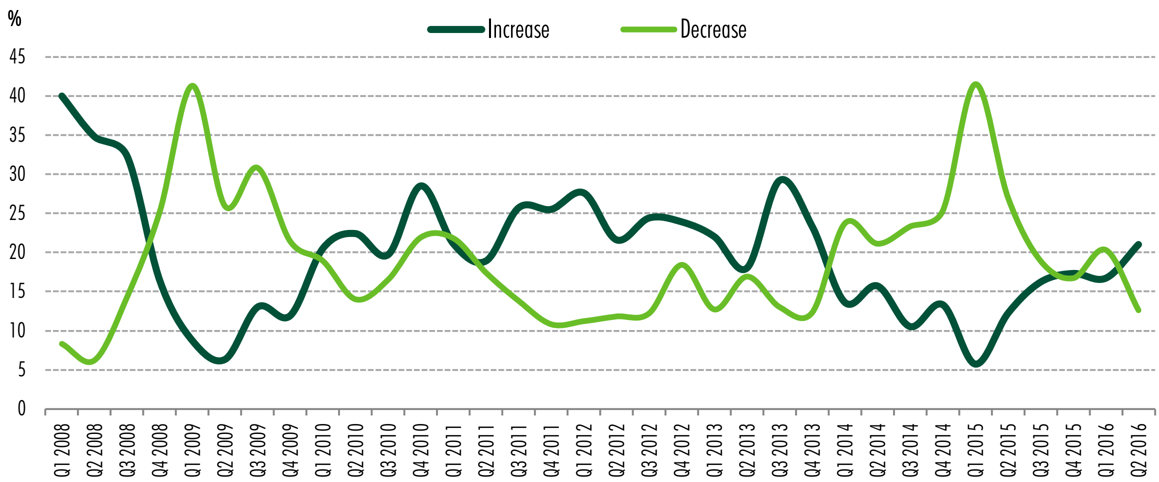
Fundamentals

In H1 2016 business activity was fuelled by general improvement in economic situation in the country. According to the latest survey of the National Bank of Ukraine, Index of business expectations advanced by 8.5% in Q2 after minor decline by 0.6% in Q1. Furthermore, positive shifts in business sentiment were recorded in hiring plans of corporate business: share of companies interested in expanding their employment increased by 3.7 pp, whilst the share of firms having plans to reduce their staff requirements declined by 4.1 pp over the course of H1 2016. However, there is a time lag for transferring those requirements into actual employment growth, which is a main factor shaping the demand for office space.

Demand

In H1 2016 occupiers actively examined the opportunities to upgrade quality of office space under beneficial lease terms. More transactions were closed during Q2 2016, with the largest new leases ranging from 1,000 to 2,500 sq m. Another visible trend was that companies focused on A-class business centers, in particular, those new office buildings, which were delivered over 2013-2015 offering competitive lease terms. Among most notable transactions were relocations of Ukrtransnafta (2,450 sq m) and Mondelez International (2,000 sq m) to A-class Senator BC, as well as relocation of OLX e-commerce company renting 1,000 sq m in IQ BC. Take-up volume reached approximately 35,000 sq m (+16.7% y-o-y) over the first six months of the year.

Figure 1: Kyiv Corporate Hiring Expectations Over the Next 12 Months



Source: National Bank of Ukraine

Figure 2: Key Office Lease Transactions in H1 2016

OCCUPIER	INDUSTRY	PROPERTY	ADDRESS	TRANSACTION TYPE	SQ M	QUARTER
Jacobs Douwe Egberts	FMCG	IQ	13/15 Bolsunovska St.	relocation	1,910	Q12016
BIC Ukraine	Wholesale and Retail Trade	BC Advance	10 Verkniy Val St.	relocation	780	Q12016
Ukrtransnafta	Manufacturing, Industrial and Energy	Senator	2/32-34 Moskovska St./Reznytska St.	relocation	2,450	Q22016
Smart Business	IT & High Tech, Telecommunications	Lahoda	21 Polyova St.	relocation	2,500	Q22016
Mondelez International	FMCG	Senator	2/32-34 Moskovska St./Reznytska St.	relocation	2, 000	Q22016
Confidential	Confidential	Office Building	28 Fizkulturi St.	relocation	1,600	Q22016
OLX	IT & High Tech, Telecommunications	IQ	13/15 Bolsunovska St.	relocation	1,000	Q22016
Yandex	IT & High Tech, Telecommunications	Leonardo (Phase II)	19-21 Bohdana Khmelnitskoho St.	renewal	1,690	Q22016
Nokia Solutions Network	IT & High Tech, Telecommunications	Horizon Park I	4 Mykloly Hrinchenko St.	renewal	1,380	Q22016
SAP	IT & High Tech, Telecommunications	Renome	5 Dilova St.	renewal	1,330	Q22016
Monsanto	Agriculture	Senator	2/32-34 Moskovska St./Reznytska St.	renewal	1,130	Q22016
Pfizer	Healthcare and Pharmaceuticals	Horizon Park II	12 Amosova St.	renewal	860	Q22016

Source: CBRE Ukraine

Supply

In H1 2016 new supply of office space amounted to 38,000 sq m (-36.9% y-o-y) in four office schemes, including the extensions of Lahoda business park (9,000 sq m GLA - phase III), Irva business park (8,000 sq m GLA - Phase III), Protasiv business park (15,000 sq m GLA – Phase IV) and reconstruction of the office building located at Sichovykh Striltsiv St. (6,000 sq m GLA).

Vacancy & Rents

Notwithstanding gradually rising supply, average market vacancy decreased from 30.5% to 29.7% (-0.8 pp y-o-y) over the course of H1 2016, owing to the general strengthening of leasing activity. Prime effective rents were stable during the same period standing at $23 per sq m/month (triple net) as of the end of June 2016.

Figure 3: New Supply Forecast 2016-2018

NAME	CLASS	ADDRESS	SUBMARKET	DEVELOPER	OFFICE GLA, SQ M	DELIVERY	STATUS
Lahoda (Phase III)	BB	21 Polyova St.	CBD-fringe	Kaskad Impex	9,000	H12016	Stock
Protasov Business Park (Phase IV)	BB	2/1 Hrinchenko St.	CBD-fringe	DMV Group	15,000	H12016	Stock
Irva (Phase III)	BC	10/14 Radischeva St.	Non-central location	Irva	8,000	H12016	Stock
Office building	BA	25 Artema St.	CBD	Local	6,000	H12016	Stock
Business Center (Phase III)	BA	Leiptzyzska St., 15	CBD	Merx Group	5,800	H22016	U/C
Astarta (Phase I)	BA	58 Yaroslavska St.	CBD	Local	15,000	H12017	U/C
K\MOST	BB	5A Zoolohichna St.	CBD-fringe	Local	5,500	H12017	U/C
Office building	BA	1B Sahaidachnoho St.	CBD	Local	10, 000	H22017	U/C
Astarta (Phase II)	BA	58 Yaroslavska St.	CBD	Local	20,000	2017-2018	U/C
River Mall	BC	10-14 Dniprovska Naberezhna	Non-central location	Local	3,500	2017-2018	U/C
Sky Towers	AB	Peremohy Ave.	CBD-fringe	Cimbrorum Holdings	95,000	2017-2018	Halted
Retroville	BB	47 Pravdy Ave.	Non-central location	Stolitsa Group	10, 800	2017-2018	Halted
Office Park	BC	1 Mahnitogorska St.	Non-central location	City Capital Group	60, 000	2017-2018	Project

Source: CBRE Ukraine

Outlook

Looking into the rest of 2016, the tentative economic revival is expected to accelerate the business activity. At the same time, vivid recovery of the demand for office space is conditional on the positive employment patterns. Thus, we expect occupier demand to remain in 'slow recovery' mode strengthening by the end of the year. 5,800 sq m of office space is expected to be delivered to the market in H2 2016, bringing the annual forecast completions to 43,800 sq m. In addition, around 30,000 sq m in three office buildings previously scheduled for delivery in 2016 was postponed for 2017. Vacancy in prime A-class business centers is expected to decline over H2 2016, while changes in average market vacancy will depend on the amount of new supply and actual take-up materialized by the end of the year. In spite of still high market vacancy, rents are forecast to remain stable due to better economic outlook and potential strengthening of occupier demand over the next six months.

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**

CONTACTS

For more information regarding this Market Snapshot, please contact:

CBRE Ukraine
Expandia LLC
4 M. Hrinchenka St.,
Kyiv 03680
t: +38-044-390-00-00
e: ukraine@cbre.ua

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

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

Kira Pruglo
Head of Research
e: kira.pruglo@cbre.ua