

LIV OFFICE MARKET SNAPSHOT Q4 2019



Prime Effective Rent ▲
\$15/sqm/month



Vacancy ▼
2%



Total Stock ▲
174,000 sqm



New Supply ▲
17,100 sqm

Market Performance

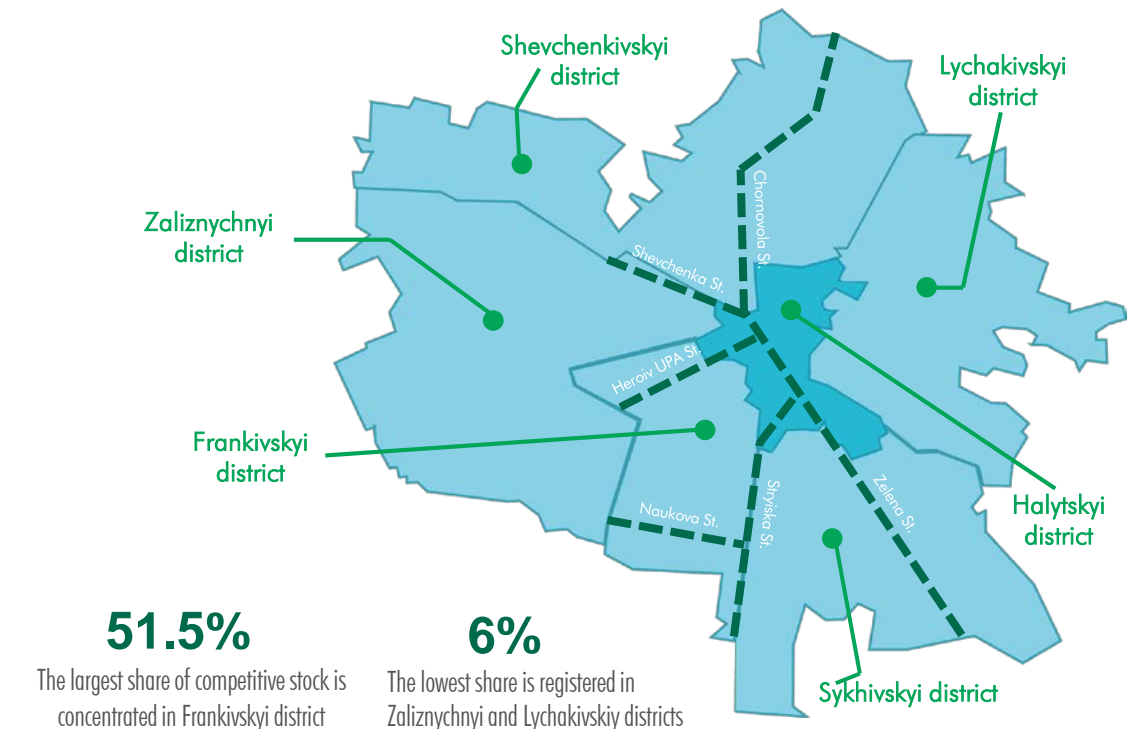
Key demand driver is the growing IT Cluster: as new job vacancies emerge, the need for office spaces continues to grow. Since 2015 unemployment rate in Lviv has declined to 6.6% as of the end of H2 2019 – the lowest level in 10 years. However, this indicator does not account for the share of shadow economy, which significantly impacts real economic performance.

Other than IT Telecommunications & High-Tech, demand for competitive Lviv office space is shaped mainly by Construction & Development, Wholesale & Retail Trade, as well as Banking & Finance and Business Services industries. Companies from these sectors usually have their main country offices in Kyiv, while Lviv stands as a secondary location. Hence, the size of their offices in Lviv usually varies between 150-300 sqm. Demand for larger office spaces (of more than 400 sqm) is mainly generated by IT, Telecommunications & High-Tech sector, as Lviv is considered the largest IT sector in Western Ukraine. Among the largest IT outsourcing companies in Lviv with offices of 5,000-10,000 sqm are: SoftServe, Global Logic, EPAM, Eleks, Intellias, Perfectial and N-ix.

Lviv office market does not have a well-defined division into submarkets. Business centers are predominantly located along key transport routes, such as Stryiska St., Naukova St., Heroiv UPA St., Chornovola St., Zelena St. and Shevchenka St. In contrast, competitive and modern office supply in historical center remains limited due to its inconvenient accessibility and construction restrictions established by UNESCO.

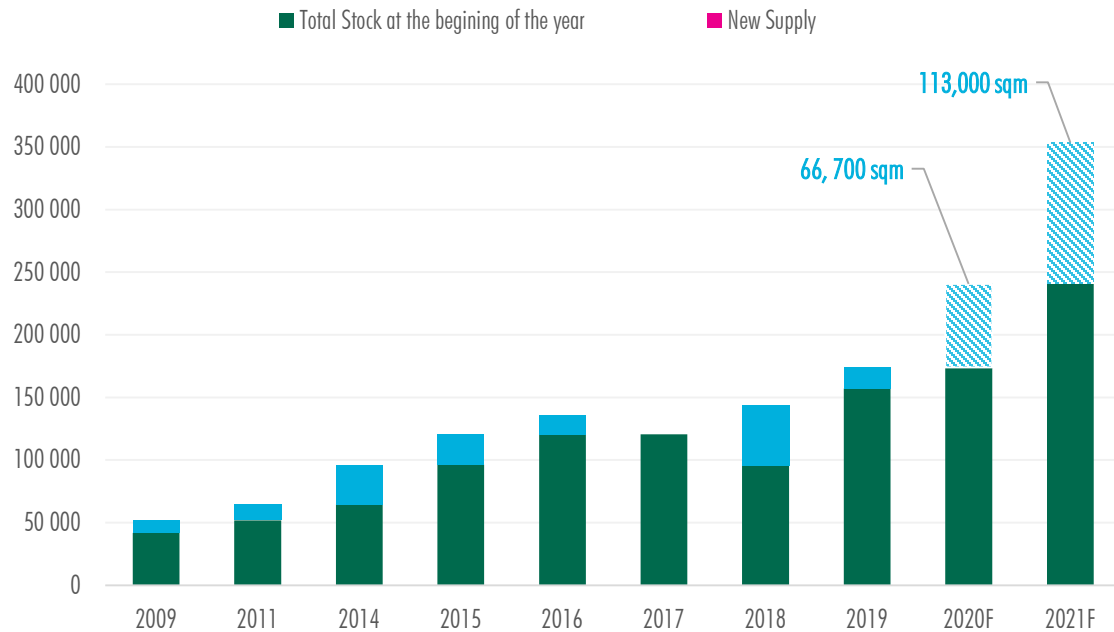
Total competitive office stock in Lviv amounted to ca. 174,000 sqm GLA as of the end of Q4 2019, with 17,000 sqm of the new office space delivered in 2019. As typical of Ukrainian regional markets, existing office supply in Lviv is mostly unprofessional. Offices are predominantly located on the ground floor of residential buildings, in apartments, in Soviet-heritage administrative buildings or public institutions, which have been refurbished into offices with chopped up cabinet layouts. The lion's share of total competitive stock is concentrated in Frankivskiyi district and accounts for ca. 51.5%, followed by Shevchenkivskiyi district with ca. 17.6%. The rest of the volume (ca. 31%) is spread across other districts. Despite the fact that Halytskyi district has the most central location, only 9% of the total competitive stock is concentrated there due to development restrictions of historical city center, which is included in UNESCO World Heritage List.

New Supply in 2019 & Total Office Stock Structure by Major Streets



In 2019 annual development completions amounted to ca. 17,000 sqm, represented by Phase 4 of Business City Technopark (10,500 sqm GLA), Office Scheme at 10 Mitskevycha St. (2,700 sqm GLA), Futura Hub (2,400 sqm GLA) and office spaces of Victoria Gardens SEC (1,500 sqm GLA). Approximately 180,000 sqm (GLA) of the new supply is projected to enter the market in 2020-2021, with a large portion of the volume being represented by Innovation District IT Park (ca. 106,000 sqm GLA), which is targeting occupiers specifically from the IT sector. Other large office schemes are represented by Dominant Plaza BC (21,500 sqm GLA), Viking Park (13,300 sqm GLA) and LvivTech.City (9,100 sqm GLA). However, the likelihood of delays remains strong, as some of the projects are still at early development stages.

Lviv Annual Development Completions and Total Competitive Stock, sqm



F- Forecasted
Source: CBRE Ukraine

New Supply Under Construction 2020-2021

Property Name	Address	Class (Quality)	Office GLA (sqm)	Announced For Delivery
BC Dominant Plaza	14 Ugorska St.	A	21,500	2020
Viking Park	151 Zelena St.	B	13,300	2021
LvivTech.City	48 Stryiska St.	A	9,100	2020
Graphite	253 Zelena St.	B	8,300	2020
Semytsvit	60 Shevchenka St.	B	5,000	2020
Holosko	4 Pid Holoskom St.	B	4,400	2020
Victoria Gardens Office Spaces	226A Kulparkivska St.	B	6,500	2020
Office Scheme	36 Lypkivskoho St.	B	2,500	2020
Ploshcha Rynok	32 Ploshcha Rynok	B	2,000	2020
Innovation District IT Park (I phase)	Stryiska St. – Chmoly St.- Luhanska St. - Kozelnytska St.	B	106,000	2021
Business City Technopark (B8)	72 Heroiv UPA St.	A	9,000	2021

Source: CBRE Ukraine

Average vacancy rate currently stands at 2% due to limited new completions, coupled with strong occupier demand. Vacant offices are mainly represented by small spaces of 200-400 sqm, which are available across business centers. Asking rents oscillate between \$12-\$20/sqm/month (triple net). Unsaturated demand cannot be precisely determined; however, it is presumed that Lviv can adsorb new 50,000 sqm per annum for the upcoming 2-3 years. In 2020 the demand from occupiers is expected to continue to grow due to a strengthening business sentiment and continued expansion of mainly IT and High Tech & Telecommunications sector. Given the current disbalance between demand and supply, delivery of new projects during the next few years will likely lead to the stabilization of asking rates.

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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 sqm
- 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**

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