CBRE Ukraine
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Kyiv Office Market Snapshot

KEY PERFORMANCE INDICATORS

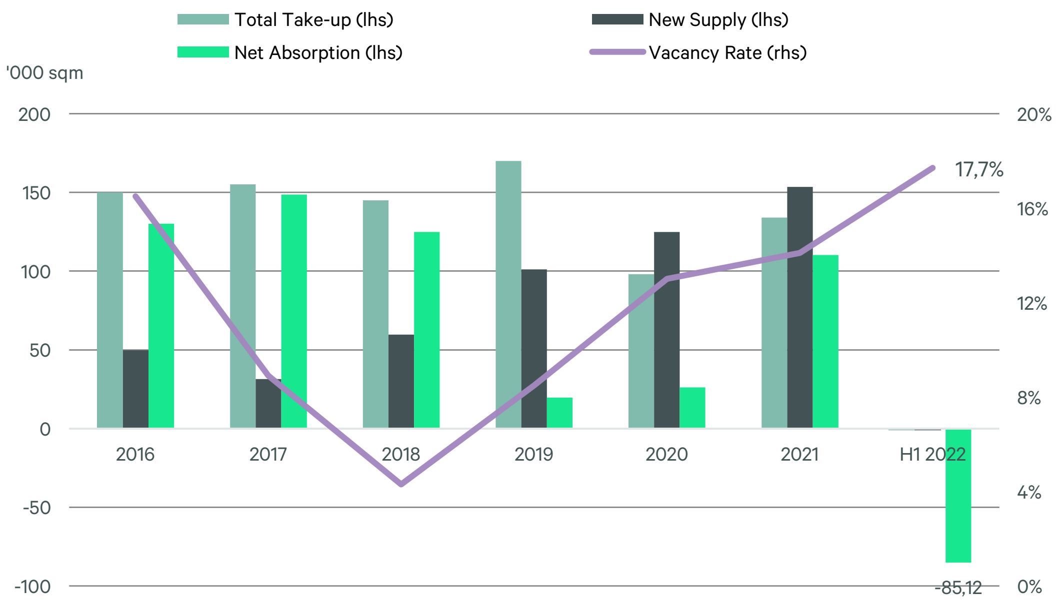
▲ 17.7%
Vacancy Rate
(+3,6 pp YTD)

▶ 2.10M
Total Stock, sqm
(0% YTD)

▼ $20-$26
Asking Rents, A Class
(-7% YTD)

▼ $9-$20
Asking Rents, B Class
(-9% YTD)

FIGURE 1: Stock Development, Supply and Vacancy, as of Q2 2022



Source: CBRE Ukraine, Q2 2022

Q2 2022 Highlights

- Leasing activity remained mostly subdued and was primarily driven by office optimization, as well as lease renewals and renegotiations
- On the backdrop of space reduction by tenants, combined with lack of leasing activity and existing vacancy in H2 2021, net absorption remained negative in Q2 2022
- No new business center entered the market, which is entirely due to the hostilities in Ukraine
- Total office stock remained unchanged at 2.1 mio sqm, YTD
- Ca. 114,000 sqm of new office supply is expected to be delivered by the end of the year in case of complete end to military aggression in the country
- Average vacancy rate increased to 17.7% YTD (+3.6% pp YTD)
- Asking rents for long-term leases remain roughly unchanged for A-class at $20-$26 and have taken a dip for B-space ranging $9-$20 psm/month

Demand

After four months of Russian military aggression in Ukraine, deterioration of the macroeconomic situation and major reduction in business activity in the first months of 2022 has brought leasing activity in the Kyiv office market to a near standstill. As of June 2022, leasing activity was primarily driven by office optimization, as well as lease renewals and renegotiations of existing leases. Tenants reacted to the war with two main approaches: large international companies did not reduce leased office space and adopted the wait-and-see approach, paying full or partial rent, whereas smaller and local companies, where possible, shrank office space or moved to smaller, more budget-friendly business centers, mostly on short-term leases.

As of the beginning of June, we observed a slight recovery in the level of office occupancy by employees who continued to work or who returned to Kyiv. Typical office attendance among corporate occupiers was ca. 10%. Many tenants in IT, High Tech & Telecommunications, Healthcare and Pharmaceuticals, Agriculture, FMCG and Industrial Sectors are planning to increase occupancy to 15% from July 2022. Such plans largely depend on military aggression dynamics the security policies of the companies and business centers, with the former being typically the decisive factor for the resumption of operations.

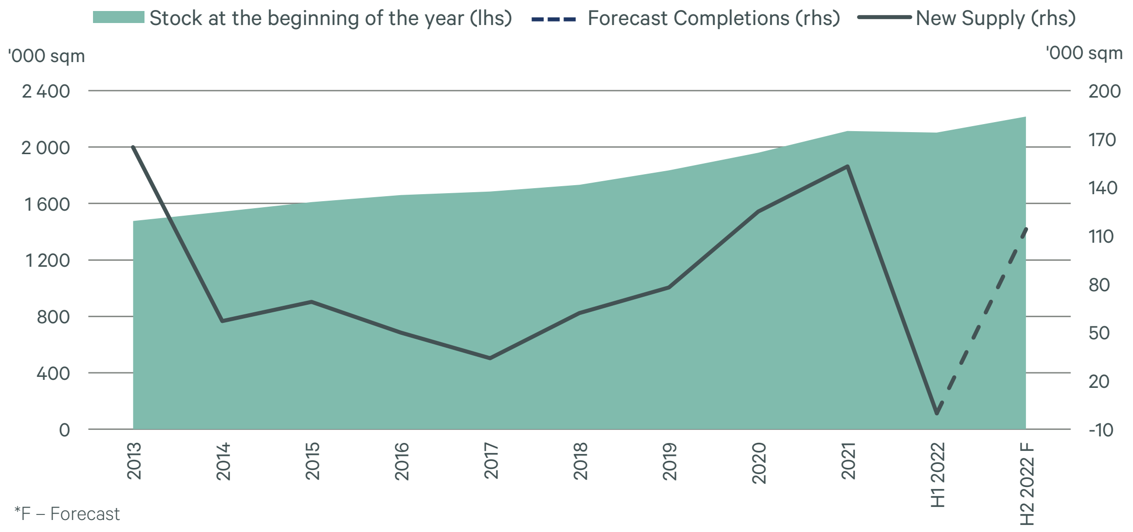
Supply

No new business centers have entered the market in the first half of 2022. The total volume of office space remained unchanged at of 2.1 mio sqm. At the same time, 11,000 sqm of office space in the Retroville BC was damaged, as the result of a massive missile strike in March 2022. According to developer statements, however, there are plans to fully reconstruct the building.

Lack of new office supply in H1 2022 can be fully attributed to the war. Majority of business centers announced for delivery in 2022 were expected to be delivered in H1, as they were in the final stages of development (estimated total of new supply for 2022 stood at 215,000 sqm per H2 2021 report). Nonetheless, according to recent developer statements, roughly 114,000 sq. m. of new supply may be expected to be delivered by the end of 2022, provided complete end of hostilities some time in 2022. However, should the war not end in 2022, none of the declared properties will enter the market due to significant business risks and difficulties in obtaining relevant commissioning permits. It should be note that approximately 55% of new supply is concentrated in one building at 4 Korolenkivska St, which is largely technically completed.

Among the announced properties are Phase II of office building at 4 Korolenkivska St (62,100 sqm), 3 new campuses in UNIT.City in B6 (14,300 sqm), B4 (13,300 sqm) and B15 (9,200 sqm), reconstruction of office premises in mixed-use complex Lake Plaza (11,700 sqm) and office premises in Pyramida BC (3,500 sqm). Whereas some office projects initially planned for delivery at the end of 2022 have been fully suspended till at least 2023, a significant number of projects resumed activity to the extent possible.

FIGURE 2 : Kyiv Annual and New Supply, as of Q2 2022



*F – Forecast

TABLE 1: Office Pipeline, 2022-2023

Name	Class*	Address	GLA, sqm.	Status
2022				
Office Scheme	AA	4 Korolenkivska St.	62,100	Final Stage
UNIT.City (B6)	AB	3 Dorohozhytska St.	14,300	Final Stage
UNIT.City (B4)	AB	3 Dorohozhytska St.	13,300	Final Stage
Lake Plaza	BC	12A Marshala Malynovskoho St.	11,700	Reconstruction
UNIT.City (B15)	AB	3 Dorohozhytska St.	9,200	Final Stage
Pyramida	BC	4 Oleksandra Mishugy St.	3,500	Reconstruction
2023				
Capital Towers	AA	22 Korolenkivska St.	40,000	U/C
Stend II	BC	14 Vasylkivska St.	10,000	U/C
Magnett II	AB	137-139 Velyka Vasylkivska St.	8,750	U/C

*Quality and location of object
Source: CBRE Ukraine, Q2 2022

Vacancy

As of June 2022, average vacancy rate in the office market increased to 17.7% (+3.6% pp YTD). Analyzing vacancy in terms of classes, vacancy rate in Class A grew by 2.9% YTD to 11.7% and in Class B to 21.6% (+4.3 YTD). The increase was caused by reduction of space by larger occupiers and relocation of smaller and local companies to more budget-friendly business centers, alongside with near-complete absence of new demand. Cost-cutting strategies took center stage across the board, whereby corporate safety policies coupled with employee out-migration to safer regions of Ukraine and to other countries reduced the need in office space.

Comparing the current vacancy dynamics to those of 2008 and 2014-2015 crisis years, the increase in vacant space by only 3.6% in 2022 was significantly moderated absence of new supply, which would otherwise create additional downward pressure on rents. Precise volumes of space that has become vacant due to military invasion will be possible to estimate in Q3-4 of 2022.

Rents

Tenants have stepped up negotiation processes in the last few weeks of Q2 2022. Under conditions of a significant market swing in tenant's favor, tenants are actively working on obtaining more favorable terms when extending leases. Such extensions are typically short term, and landlords show significant flexibility in providing reductions of 30%-60% for the duration of martial law. However, the situation is not homogeneous across the market. Rent discounts and special rental conditions vary significantly among office properties. Thus, most of successful business centers are less flexible, while older & especially poorly-located buildings are forced to make significant discounts and concessions. Some properties go as far as allowing rent not to be paid during the martial law, with tenants responsible only for OPEX and utilities.

Generally, asking rents for long-term leases in Class A remain at $20-$26 (-9% at the lower bound and -7% at the upper bound YTD) and $9-$20 (-25% at the lower bound and -9% at the upper bound YTD) in Class B. As for effective rent, no major transactions in high-quality Class A business centers have occurred since the beginning of the war. Considering the ongoing lease renewal deals in Class A in Q2 2022, the prime effective rent has decreased to an average of 4%-8% and is believed to stand at $23-$24 per sqm. Due to the non-transparent nature of the market, actual or effective deal terms often go substantially below the headline levels. Thus, in some cases, effective rental rates may be 20%-30% below headlines rates; however, more precise analytics will be available in the fall 2022.

FIGURE 3 : Kyiv Office Prime Rents and Vacancy, as of Q2 2022

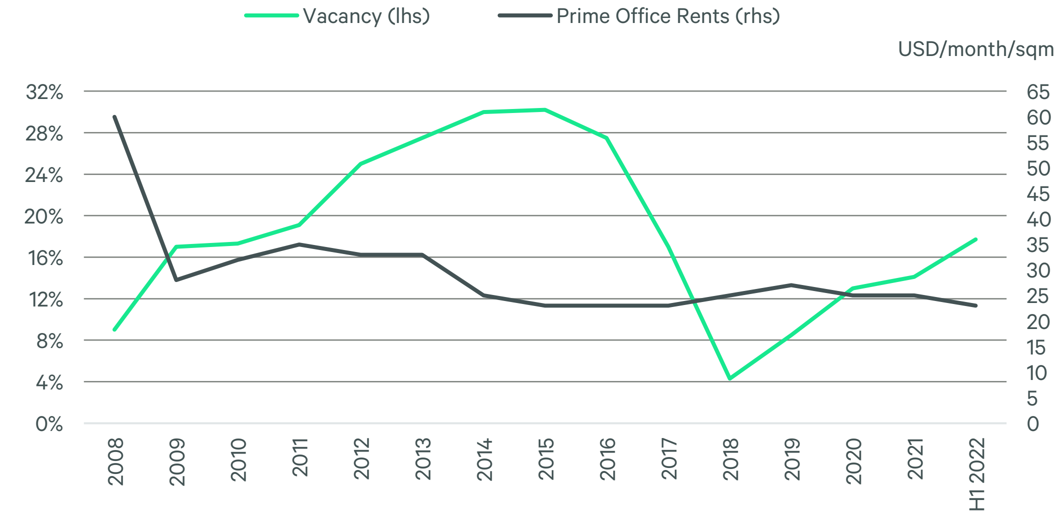
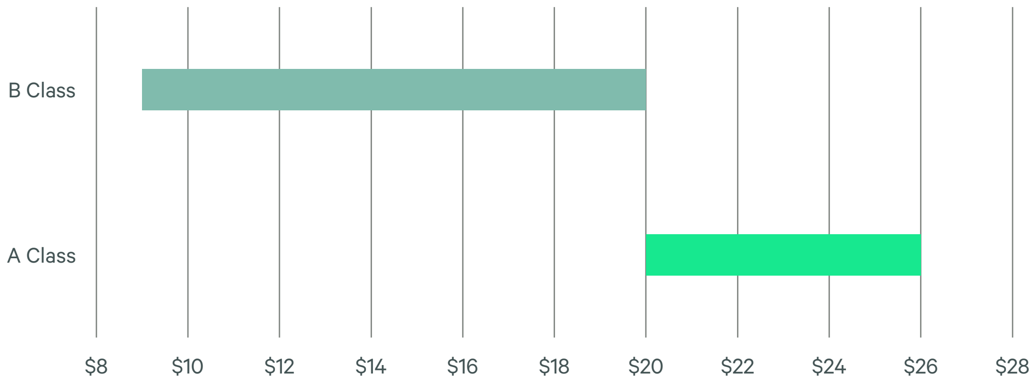


FIGURE 4: Asking Rents* by Classes as of June 2022 (USD/sqm/month)



*The range includes office space for rent in different construction stages

Source: CBRE Ukraine, Q2 2022

Outlook

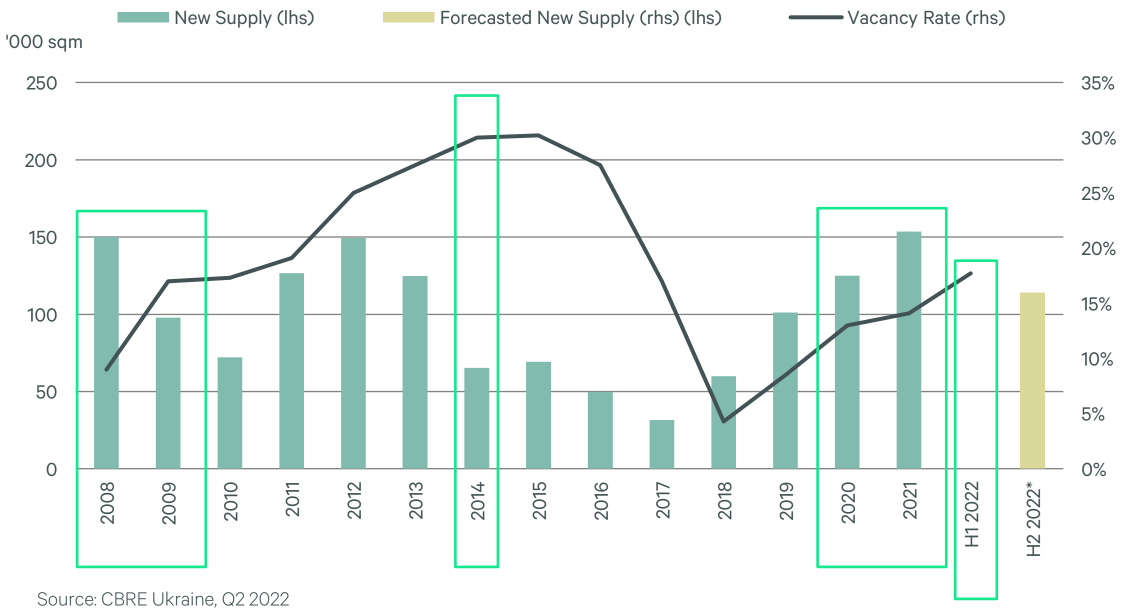
In the short-term perspective, the situation in the office market is expected to remain complicated, as demand – in particular employment – will remain constrained under war-time economics. However, the experience of market reaction to the crisis years of 2008, the 2014-15 war in the Donbass and occupation of Crimea, as well as the two-year covid-related lockdown of 2020-2021 has made the Ukrainian market more prepared to weather the current storm. If re-escalation in the region does not happen, the first trends in the market will tentatively be formed in the fall of 2022, by which time both occupiers and landlords will be gradually coming to terms with new market realities.

When solid end of hostilities will be clear on the horizon, future office projects currently halted are likely to gradually resume. However, given lack of delivery of new business centers as of June 2022, new supply is likely to reach its cyclic low shortly after the entire pipeline currently in the final stages of construction (~114,000 sq m) will be delivered to the market post-war. For the time being, however, the demand for office space will remain subdued until the general situation stabilizes. And with very few occupiers using their space at full capacity, sublease practice will become more widespread.

Vacant stock will most probably continue to grow over 2022, with the growth likely to slow down towards the end of the year. A more stable vacancy rate is therefore expected no earlier than 2023, alongside positive changes in business activity, employment dynamics and demand for office space. Prime rent will likely remain broadly unchanged or may decrease slightly, as demand for best quality premises in the form of renewals and renegotiations will remain relatively small but stable. For the rest of the stock, the most likely scenario is for wide fluctuations with a downwards trend until end of war.

A positive sign over May-June 2022 is revival of long-term plans of some international companies, which, prior to the military aggression, were planning to move to new offices in 2023-2024. Although such corporate moves, as well as resumption of construction, are still rare, these positive signs instill belief that the market is building in positive business dynamics for the country for the near-term future.

FIGURE 5: New Supply and Vacancy Rate during crises of 2008-2022



Source: CBRE Ukraine, Q2 2022

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