

## Kyiv Office Market

# Business Activity Stays Upbeat Inducing Further Growth in Take-Up

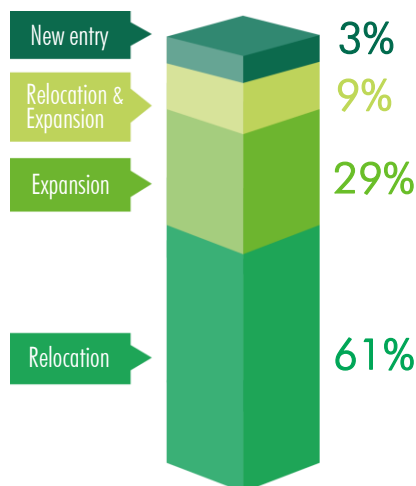


### Demand

A dynamic upturn in business activity over the first 6 months of 2018 pushed occupiers to pursue varied expansion strategies within the Kyiv office market. In H12018 take-up reached 81,000 sqm, which was a +36% y-o-y uplift that confirmed a maturing phase of the market. Total leasing activity in H12018 equaled to approx. 101,000 sqm. New leases accounted for 80% of total leasing activity, followed by 20% represented by renegotiations and renewals. In H12018 occupiers demonstrated rising demand for relocations, which accounted for 61% of lease take-up. Another 29% of leased space comprised expansions, mainly represented by tenants from IT, High Tech & Telecommunications industry. As in previous years, tenants in the industry of IT, High Tech & Telecommunications made up the lion's share of

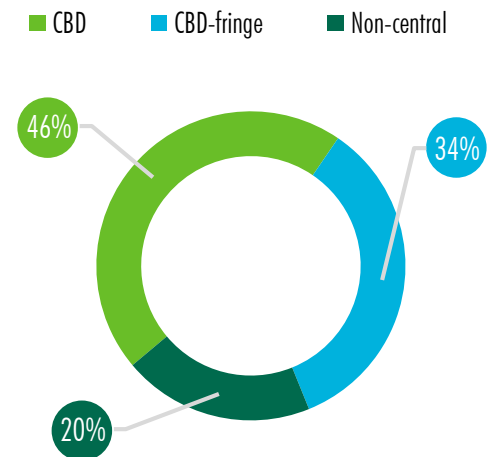
lettings producing an increase of 4.5pp YTD to 48%. The second largest share was taken by the segments of Business Services with 19% (+3.2pp YTD). Growth in co-working and shared offices in particular drove take-up within the Business Services segment, producing transactions of Regus in Podil Heritage BC and Maidan Plaza, Chasopys in Unit City BC, and New Work Labs in Globus SC. The highest demand levels were recorded in CBD and CBD-fringe locations, with a share of 46% and 34% of lease take-up, respectively. Amid occupiers' preference towards most active city locations, the share of Non-central locations in lease take up grew by 6pp YTD to 20%, partly fueled by more affordable rents compared to those in the city center.

Figure 1: Total Take-up Structure by Motivation (% share)



Source: CBRE Ukraine

Figure 2: Total Take-up Structure by Location (% share)



Source: CBRE Ukraine

Table 1: Key Office Lease Transactions in H12018

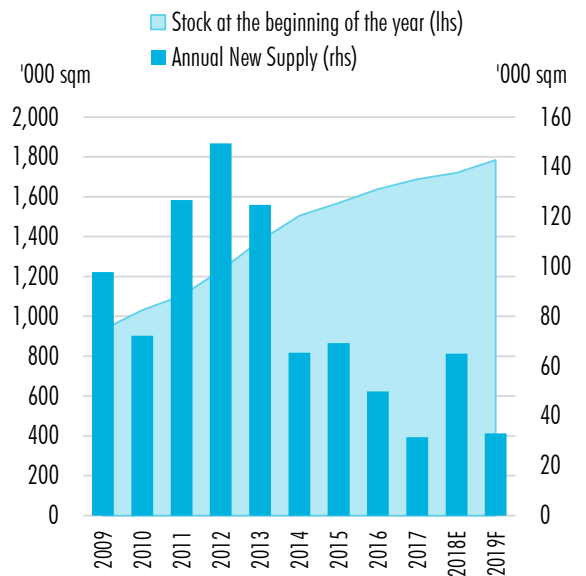
OCCUPIER	INDUSTRY	PROPERTY	ADDRESS	TRANSACTION TYPE	GLA SQ M
Regus (Spaces)	Business Services	Maidan Plaza	16 Khreschatyk St.	Expansion	4,700
Ciklum	IT, High Tech & Telecommunications	Horizon Office Tower	12-a Amosova St.	Expansion	3,000
Betlab	IT, High Tech & Telecommunications	Parus	2 Mechnikova St.	Relocation	2,000
EPAM Systems	IT, High Tech & Telecommunications	Eurasia	75 Zhylianska St.	Expansion	2,000
Regus	Business Services	Podil Heritage	28 Verhniy Val	Expansion	2,000
EPAM Systems	IT, High Tech & Telecommunications	101 Tower	57 L.Tovstoho St.	Expansion	1,700
Sandara LLC	FMCG	Senator	32/2-34 Moskovska St.	Relocation	1,500
Sierentz Global Merchants	Agriculture	Senator	32/2-34 Moskovska St.	Relocation	1,500
Bank Pivdennyi	Banking and Finance	Igorevskiy	13/5 Igorivska St.	Expansion	1,200
Chasopys	Business Services	Unit City	3 Dorogozhitska St.	Expansion	1,200
Vostok Games	Arts Entertainment and Recreation	Premium Center	62 I. Lepse Blvd.	Relocation	1,100
Mobichord	IT, High Tech & Telecommunications	101 Tower	57 L.Tolstogo St.	Relocation	1,100
New Work Labs	Business Services	Globus SC	1 Maidan Nezalezhnosti St.	New entry	1,000
Intetics	IT, High Tech & Telecommunications	Gulliver	1A Sportyvna Sq.	Relocation & Expansion	960
Louis Dreyfus Company	Agriculture	Gulliver	1A Sportyvna Sq.	Relocation	830
Netcracker	IT, High Tech & Telecommunications	Astarta Phase II	58 Yaroslavska St.	Expansion	700
May Company Ukraine	Manufacturing, Industrial & Energy	Forum Park Plaza	8 Moskovskiy Ave.	New entry	680
Bacardi Martini	Wholesale and Retail Trade	Gulliver	1A Sportyvna Sq.	Relocation	650
All-Stars IT Ukraine	IT, High Tech & Telecommunications	Gulliver	1A Sportyvna Sq.	Expansion	600

Source: CBRE Ukraine

**Supply**

In H12018 the Kyiv office market nominally expanded by a meager 2,200 sqm and remained almost unchanged at 1.72mio sqm of modern office space. The latest supply morsel was represented by a property within the Unit City Business Park Phase 1. The delivery of the remainder of Phase 1 was postponed to 2020, limiting the expected annual new supply in Kyiv by 23,400 sqm. The total amount of competitive space under construction in Kyiv stood at ca. 120,000 sqm as of H12018, with 53% of this space (ca. 65,000 sqm) planned to go live by the end of 2018. The properties under development are typically represented by rather small under 10,000 sqm buildings, with sizeable business centers still on hold awaiting further recovery in rental rates and improvement in lending market.

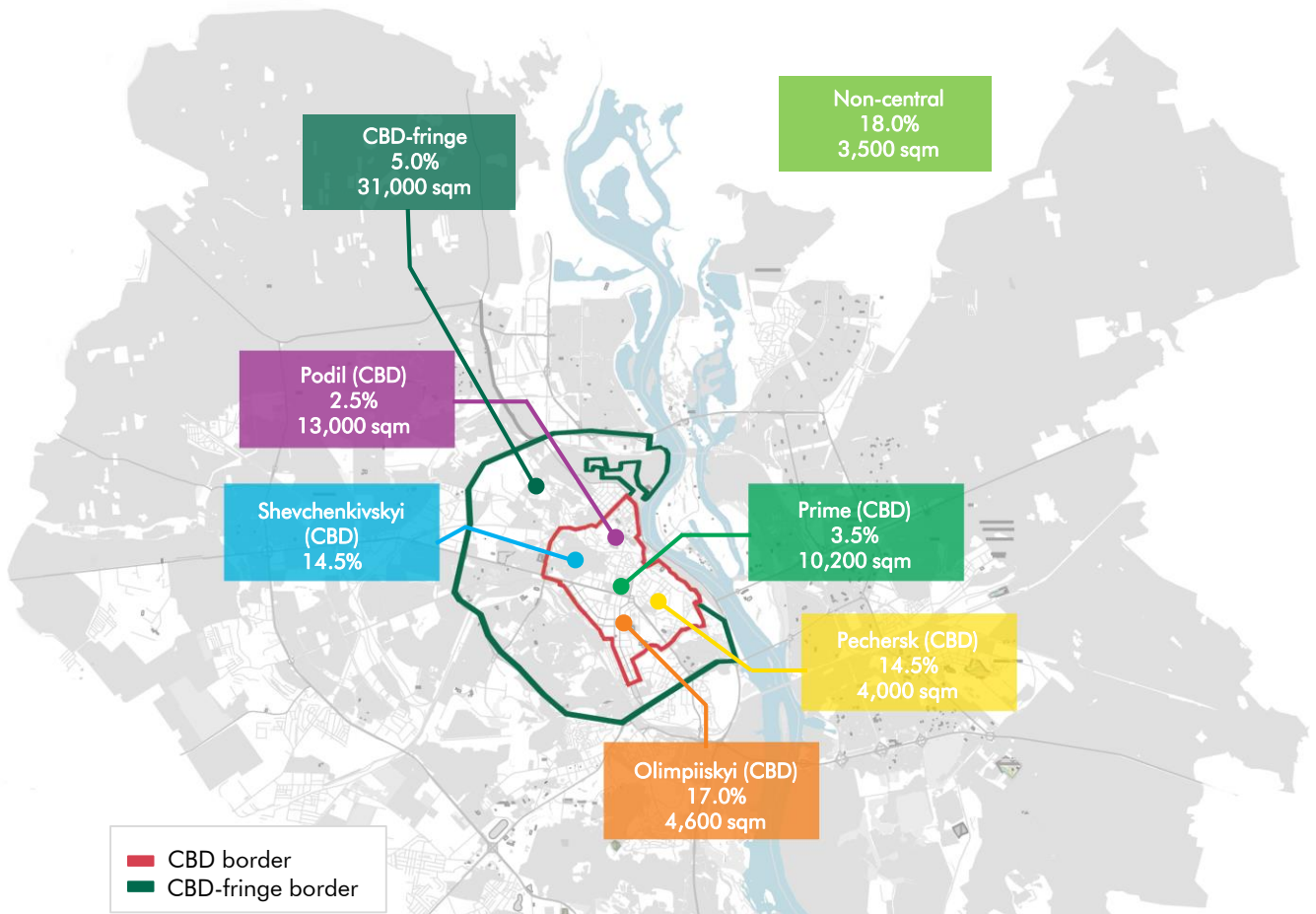
Figure 3: Kyiv Annual Development Completions and Total Competitive Stock ('000 sqm)



E- Estimate, F-Forecast  
Source: CBRE Ukraine

lhs – left hand side  
rhs – right hand side

Vacancy Rate (%) and Projected Annual New Supply 2018 (sqm) on the Map of Kyiv Office Submarkets



Source: CBRE Ukraine

Table 2: New Supply in H12018 and Pipeline for H22018-2020

NAME	CLASS (QUALITY & LOCATION)	ADDRESS	GLA SQ M	STATUS
<b>2018</b>				
Unit City (Co-working Chasopys)	AB	3 Dorohozhytska St.	2,200	Stock
Office building	BA	36 Volodymyrska St.	5,200	Reconstruction
Office building	BA	3 Tsytdelna St.	4,000	Reconstruction
Podil Heritage BC	BA	28 Verhnyi Val	3,000	Reconstruction
Europassag BC	BB	54 Haidara St.	13,000	U/C
Office building	BA	1B P. Sahaidachnoho St.	10,000	U/C
Astarta BC (Phase III)	AB	58 Yaroslavka St.	9,000	U/C
KMOST BC	BB	5A Zoolohichna St.	5,500	U/C
Office building	BA	10 Mykhailivska St.	5,000	U/C
Inor BC	BA	29 Zhylianska St.	4,600	U/C
Office building	BC	10-14 Dniprovska Naberezhna	3,500	U/C
<b>2019</b>				
Azor	BC	8 M. Maksymovycha St	5,400	Reconstruction
Gloria	BC	9 Smolna St.	5,000	Reconstruction
Retroville	BC	47 Pravdy Ave.	11,100	U/C
Level	BA	6 Laborotorni Ln.	7,200	U/C
Office building	BC	44A M. Boichuka St.	2,200	U/C
Office building	BB	14A V. Lypkivskoho St.	2,200	U/C
<b>2020</b>				
Unit City Phase I	AB	3 Dorohozhytska St.	23,400	U/C

Source: CBRE Ukraine

**Vacancy and Rents**

The average vacancy rate registered a decrease of 5pp from 17% to 12% at the end of H12018, as a result of limited new completions and accelerating leasing activity. Regarding geographical distribution, vacancy continued its

downward trend testifying to business expansion as opposed to mere demand shifts between submarkets.

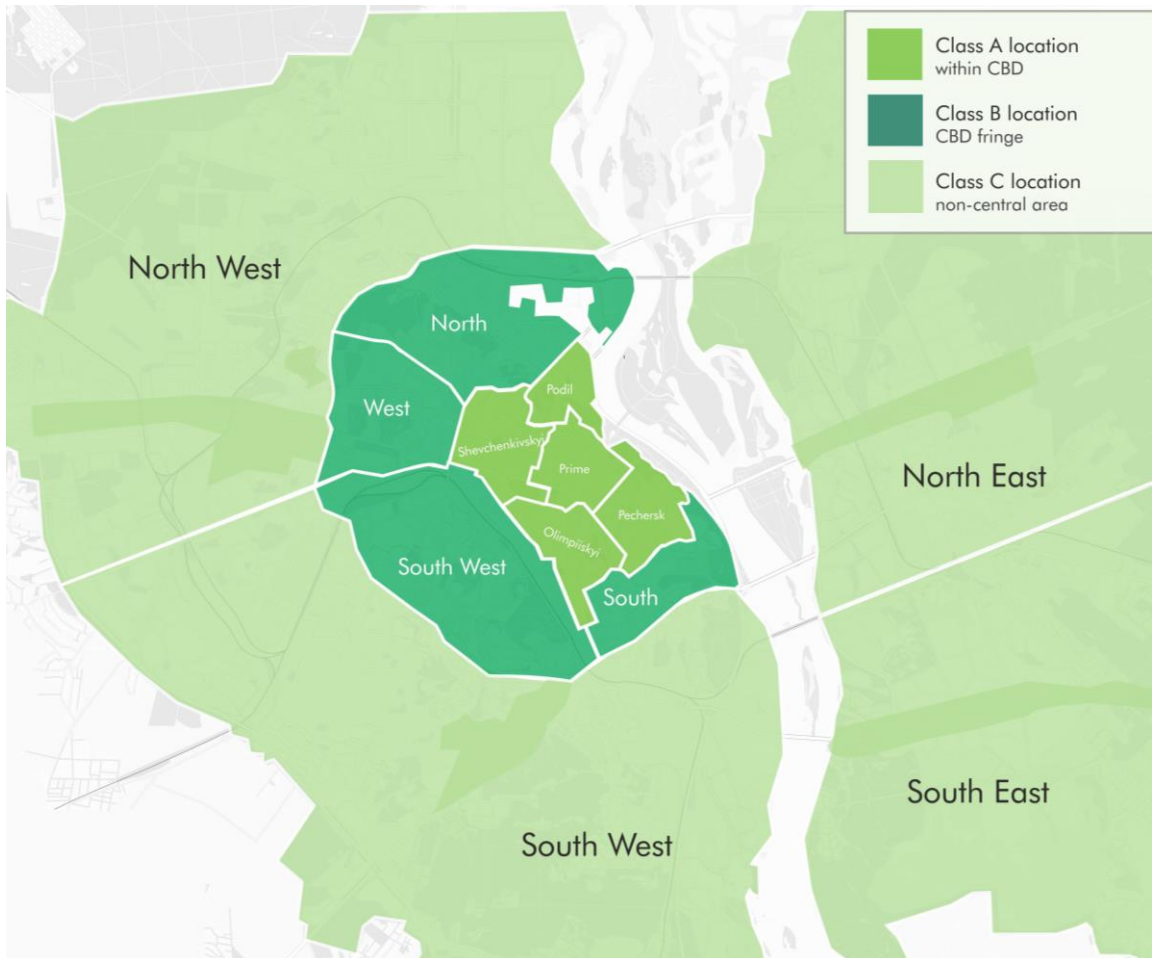
Asking rental rates posted an increase of 10% to 20% during the first 6 months of the year, owing to the strengthening in leasing activity. Across three key submarkets, asking rental rates for A class properties varied in the \$15-\$38/ sqm/ month range, whereas asking rents for B class were ranging between \$10-\$25/ sqm/ month. Significant gap between the lower and the upper bound of the ranges was determined by the characteristics of a leasable unit, such as fit-out condition (shell & core, basic fit-out or turn key solution), floor height or space configuration options. Although asking rents felt upward pressure from compressing vacancy in all submarkets, as of H12018 prime effective rent remained stable at \$23/sqm/ month.

**Table 3: Kyiv Office Asking Base Rental Range\* by Location as of Q2 2018 (USD/ sqm/ month)**

Class A location	Quality A	Quality B	Vacancy Q2 2017	Vacancy Q2 2018
Prime	\$28-38	\$20-25	9.9%	3.5%
Pechersk	\$16-32	\$19-25	23.2%	14.5%
Podil	\$18-25	\$16-23	5.1%	2.5%
Shevchenkivskiyi	-	\$14-22	11.1%	14.5%
Olimpijskiyi	\$16-35	\$14-23	21.9%	17.0%
Class B location	Quality A	Quality B	Vacancy	Vacancy
CBD fringe	\$19-32	\$12-22	22.3%	5.0%
Class C location	Quality A	Quality B	Vacancy	Vacancy
Non-central area	\$15-17	\$10-16	34.4%	18.0%

\*The range includes office space for lease in different fit-out conditions  
Source: CBRE Ukraine

**Map of Kyiv Office Submarkets**



Source: CBRE Ukraine

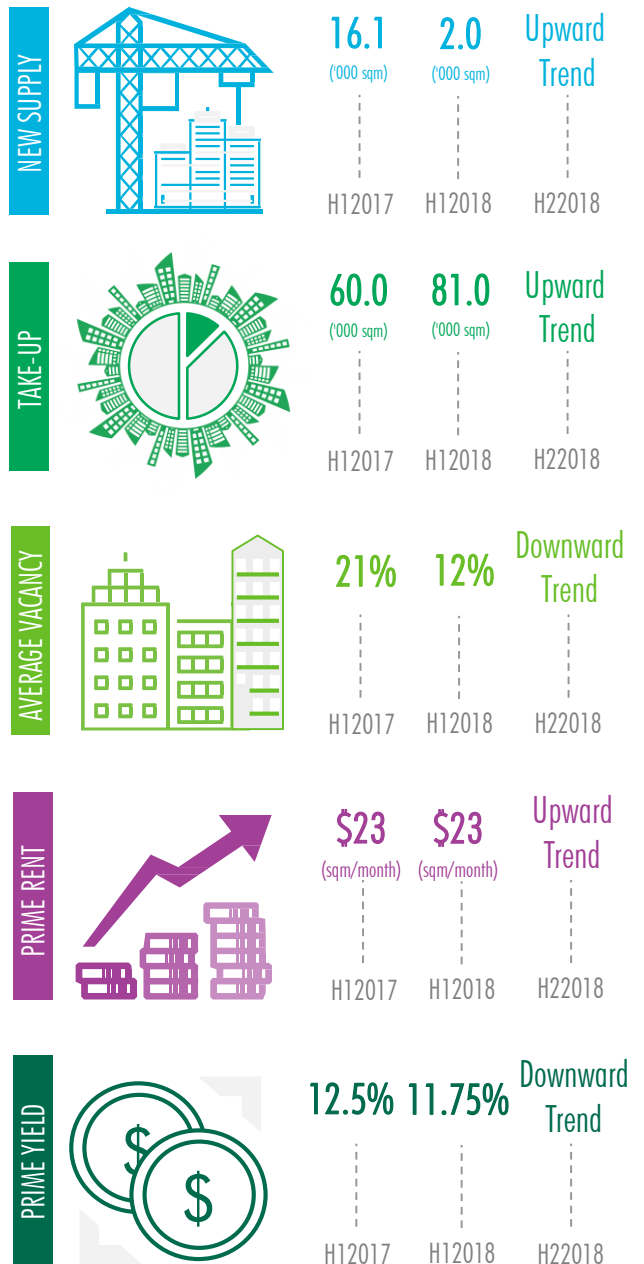
### Investment

In H12018 investors were more prepared to tolerate a higher amount of risk by broadening investment spectrum to sub-prime and value-added opportunities. Among most prominent transactions, were acquisitions of an office building at 98 Velyka Vasylkivska St. (9,000 sqm) and Pory Roku BC (8,000 sqm) by Dragon Capital Investments Limited, as well as the acquisition of an office building at 100 Velyka Vasylkivska (5,600 sqm) by Kovalska Group. Prime yields contracted by a further 0.25pp YTD and stood at 11.75% for office properties in view of improving investor sentiment.

### Outlook

Considering an increasing pace of economic recovery, corporate occupier demand is likely to follow suit. Given limited development activity, average vacancy is projected to shrink further, thereby narrowing the gap between asking and effective rents. With a number of large occupier requirements in active pipeline, the scarcity of quality office space is bound to spur new speculative development in the near to mid-term perspective. With a number of larger office schemes of 20,000 to 30,000 sqm in size entering early development phases, a boost in speculative supply is on the cards in 2 to 3 years perspective. Alternatively, large companies may consider built-to-suit or flexible space solutions to satisfy the need of accommodating large space requirements.

### Key Office Market Indicators Summary and Outlook



Source: CBRE Ukraine

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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:

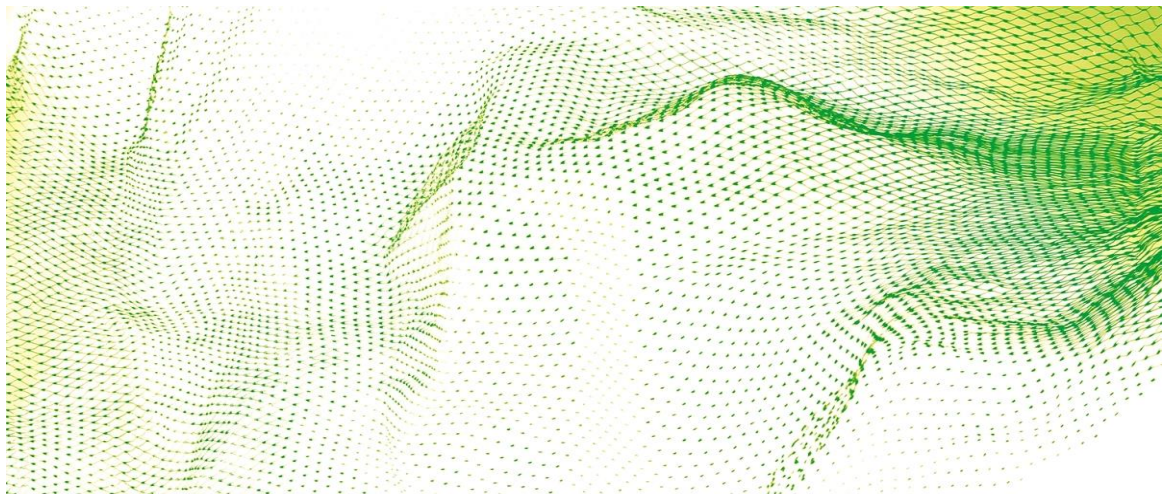
- an office unit of standard size commensurate with demand in each location, typically 500 sqm
- an office unit of highest quality and specification within the local market
- an office unit within the prime location (CBD, for example) of a market

**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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