

Kyiv Office Market

Prime Rental Growth Amidst Limited Available Office Space



Take-up ▼
145,000
 sqm (-6.5% y-o-y)



Vacancy ▼
9.8%
 (-7.2 pp y-o-y)



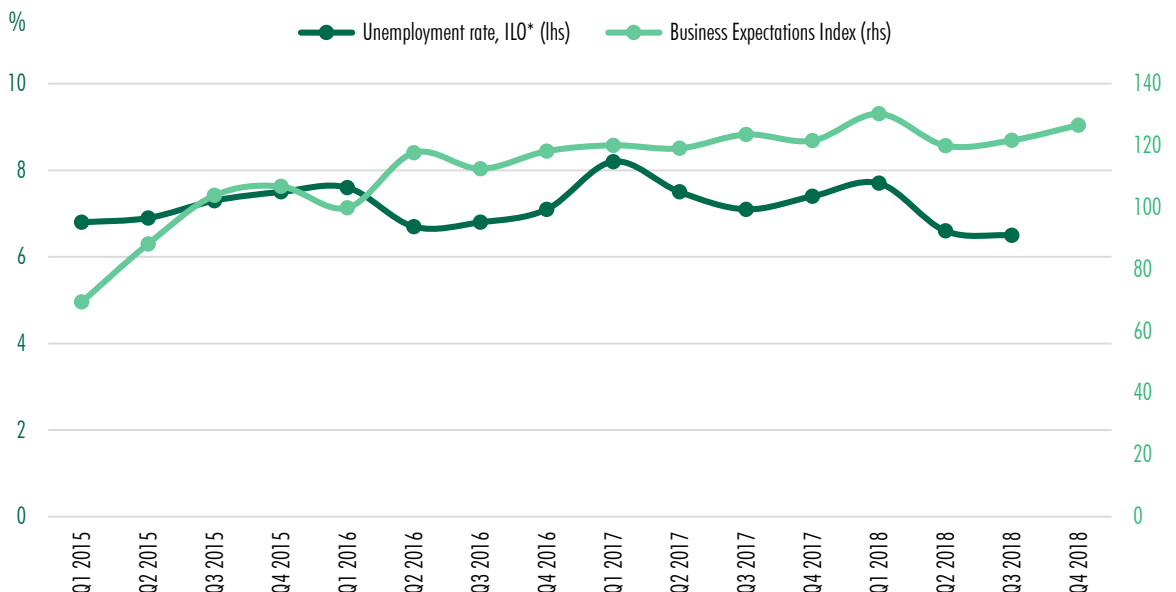
Prime Rent ▲
\$25
 sqm/month (+8.7% y-o-y)

Demand

Economic growth in Ukraine was experiencing a healthy resurgence in 2018, speeding up to +3.3% y-o-y (according to preliminary NBU data), as opposed to +2.5% y-o-y in 2017. According to NBU, Kyiv business expectations for 12 months ahead improved by 5.0pp to 126.6, anticipating potential recovery in economic activity. Nevertheless, take-up totaled ca. 145,000 sqm (-6.5% y-o-y) slightly hindered by a decline in completion of leasing transactions during the introduction of martial law in the last quarter of the year. Looking more closely, 75% of take-up was represented by new leases (including end-user acquisitions), followed by 25% represented by renegotiations and renewals.

In the lease take-up structure by industry, 40% was represented by IT, High Tech & Telecommunications occupiers (-3.4pp y-o-y), 22% by Business Services (+6.1pp y-o-y), 14% by FMCG (+12pp y-o-y), and 24% by other sectors. Companies from IT and Business Services remain the biggest tenants in Kyiv, occupying offices in the 1,000-3,000 sqm range. The expansion of Ciklum and relocation of Levi9 were the most notable transactions in the IT sector, leasing 3,000 sqm in Horizon Office Tower BC and 3,400 sqm in the office scheme at 101 Volodymyrska St. Similarly active take-up was recorded by flexible office providers,

Figure 1: Kyiv Business Expectations Over the Next 12 Months and Kyiv Unemployment Rate



Source: National Bank of Ukraine, Kyiv State Statistics Committee
 *latest available data as of the end of Q3 2018
 lhs – left hand side;
 rhs – right hand side

which constituted almost 80% of all new leases in Business Services segment. Regus serviced offices pursued active expansion strategy opening three new locations in 2018: 4,700 sqm in Maidan Plaza BC, 1,600 sqm in Podil Heritage, and 1,600 sqm in IQ. In 2018 increasingly more companies were willing to branch-out and expand their operation, emphasizing the presence of an ongoing business activity uplift. As such, ca. 32% of leasing demand was represented by expansions. Occupiers with a view to relocate, traditionally led the way, with over 50% share of take-up, whilst another 9% and 6% shares were taken by new entries and tenants relocating with expansion, respectively.

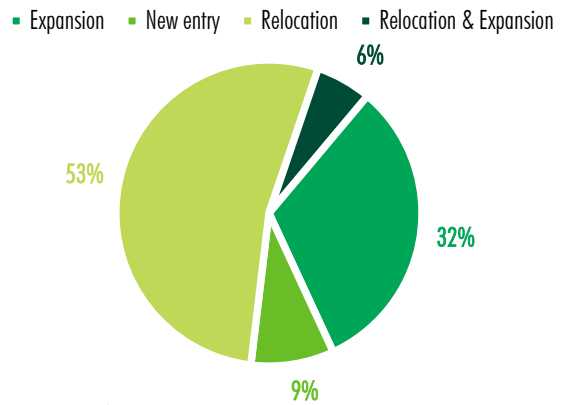
Looking into demand by business center class, occupiers showed most preference towards A-class properties across all three submarkets, with the gap between office center classes particularly wide in the CBD submarket. Such demand for high quality well-located offices came from IT, High-tech & Telecommunications and Business Services companies willing to open most competitive offices in the fight for the best talent on the market.

Table 1: Key Office Lease Transactions in 2018

OCCUPIER	INDUSTRY	PROPERTY	ADDRESS	TRANSACTION TYPE	GLA SQ M
Regus (Spaces)	Business Services	Maidan Plaza	16 Khreschatyk St.	Expansion	4,700
Metro Cash & Cary	FMCG	Rele III	201-203 Kharkivske highway	Relocation	3,600
Levi9	IT, High Tech & Telecommunications	Inor/Technoloft	101 Volodymyrska St.	Relocation	3,400
Creative Quarter	Business Services	Gulliver	1A Sportyvna Sq	Expansion	3,200
Ciklum	IT, High Tech & Telecommunications	Horizon Office Tower	12A Amosova St.	Expansion	3,000
Ukrbud Development	Construction and Development	Office building	27 Pushkinska St.	Relocation	2,200
Creative States	Business Services	Senator	32/2 Moskovska St.	New entry	2,100
Betlab	IT, High Tech & Telecommunications	Parus	2 Mechnikova St.	Relocation	2,000
EPAM Systems	IT, High Tech & Telecommunications	Eurasia	75 Zhlyianska St.	Expansion	2,000
Lift99	Business Services	Inor/Technoloft	101 Volodymyrska St.	New entry	1,830
EPAM Systems	IT, High Tech & Telecommunications	101 Tower	57 L.Tovstoho St.	Expansion	1,700
Regus	Business Services	Podil Heritage	28 Verhniy Val	Expansion	1,600
Regus	Business Services	IQ	13-15 Bolsunovska St.	Expansion	1,600
Sandora LLC	FMCG	Senator	32/2-34 Moskovska St.	Relocation	1,500
Sierentz Global Merchants	Agriculture	Senator	32/2-34 Moskovska St.	Relocation	1,500
Snap	IT, High Tech & Telecommunications	UNIT.City	3 Dorohozhitska St.	New entry	1,400
Johnson & Johnson	FMCG	Senator	32/2 Moskovska St.	Relocation	1,370
Bank Pivdennyi	Banking and Finance	Igorevskiy	13/5 Ihorivska St.	Expansion	1,200
Chasopys	Business Services	UNIT.City	3 Dorohozhitska St.	Expansion	1,200
AstraZeneca	Healthcare and Pharmaceuticals	Europassage	54 Simi Prakhovykh St.	Relocation	1,130
Asters	Business Services	Leonardo II	19-21A B. Khmelnytskoho St.	Expansion	1,120
Vostok Games	Arts Entertainment and Recreation	Premium Center	6Z I. Lepse Blvd.	Relocation	1,100
Mobichord	IT, High Tech & Telecommunications	101 Tower	57 L.Tolstogo St.	Relocation	1,100
Itera Consulting	Business Services	Astarta	58 Yaroslavska St.	New entry	1,100
New Work Labs	Business Services	Globus SC	1 Maidan Nezalezhnosti St.	Expansion	1,020
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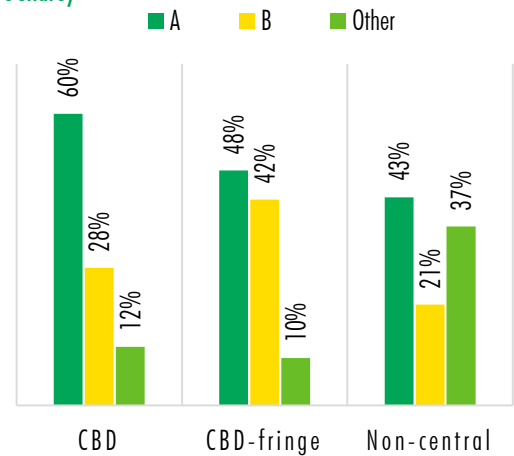
Source: CBRE Ukraine

Figure 2: Total Take-Up Structure by Motivation (% share)



Source: CBRE Ukraine

Figure 3: Total Take-Up Structure by Class within Submarket (% share)



Source: CBRE Ukraine

Office Classification

According to the 2014 URE Club Classification (designed in cooperation with market players and consultants, including CBRE), Kyiv office stock was divided into: class A and class B. The criteria of classification were determined based on the key factors: architectural characteristics of the property, parking, engineering and property management systems. Location-wise, classification implies the areas of CBD (class A), CBD-fringe (class B), and Non-central (class C). CBD submarket, in turn, consists of *Prime*, *Pechersk*, *Podil*, *Shevchenkivskiyi*, and *Olimpiiskiyi* submarkets.

CBD (Class A Location)

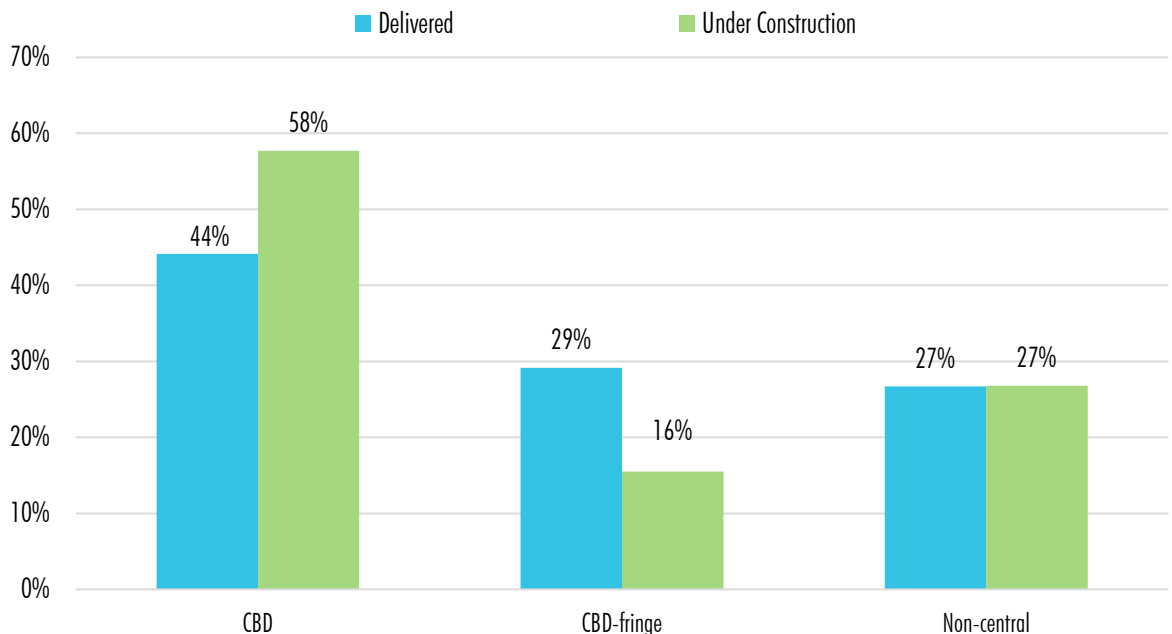
Total competitive stock of CBD accounts for 44% of the city’s total office stock and for 62% of all A-class stock. Within CBD, *Olimpiiskiyi* submarket is the largest by volume, with some of the most notable business centers located here: Gullilver BC (70,000 sqm), Eurasia BC (27,900 sqm), and Toronto-Kyiv (33,500 sqm), which is however primarily an owner-occupied property. Other large business centers include Parus BC (52,700) and Senator BC (41,700 sqm) in CBD (*Pechersk*), as well as two phases of Leonardo BC (37,300 sqm) in CBD (*Prime*). In 2018 CBD remained the most sought-after submarket by taking 52% of total Kyiv office demand.

Vacant premises in *Pechersk* and *Podil* submarkets shrank most significantly by ca. 20pp y-o-y to 1% and by ca. 8.8 pp y-o-y to 17.8% respectively, as a result of limited deliveries registered in these submarkets in 2018. The highest asking rent on the Kyiv office market is registered within CBD (*Olimpiiskiyi*) standing at \$35/sqm/month, although highest achieved rate for small prestige offices in best locations have not yet breached the \$30 sqm/month marker.

CBD-fringe (Class B Location)

This submarket is the second by size, accounting for 29% of the city’s total office stock, with the majority of premises in the segment categorized as class B. Nevertheless, some of the city’s most competitive properties are located within its borders, namely 101 Tower BC (46,400 sqm), Astarta BC (37,800 sqm), IQ BC (29,300 sqm), and UNIT.City (12,900 sqm). Kyiv’s largest business center Horizon Office Park is located within this submarket with the total leasable area of 53,700 sqm. In 2018 33% of lease transactions were signed within this submarket. As a result, vacancy level of CBD-fringe decreased by 6.4pp y-o-y to 3.6%, while asking rents varied between \$22-\$32/sqm/month for class A and between \$14-\$22/sqm/month for class B.

Figure 4: Submarket Structure in Terms of Existing Stock and Properties Under Construction

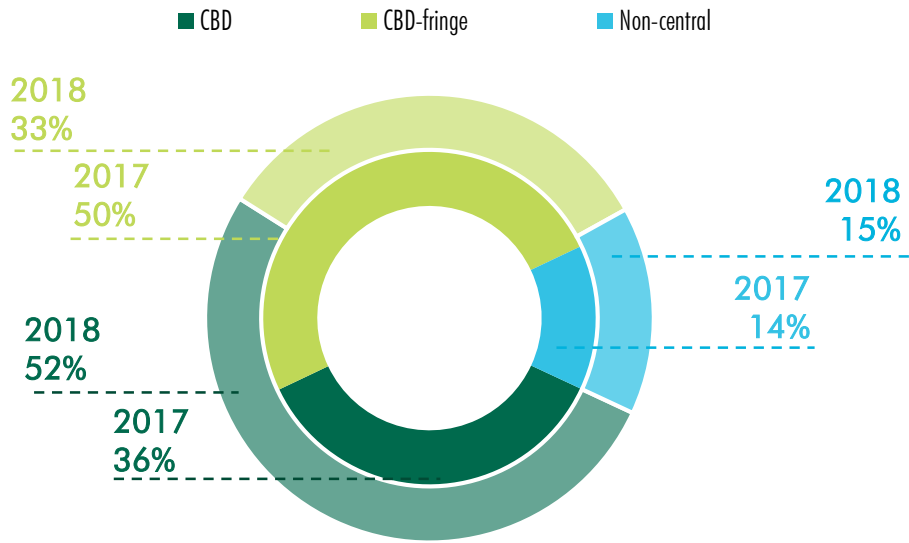


Source: CBRE Ukraine

Non-central (Class C Location)

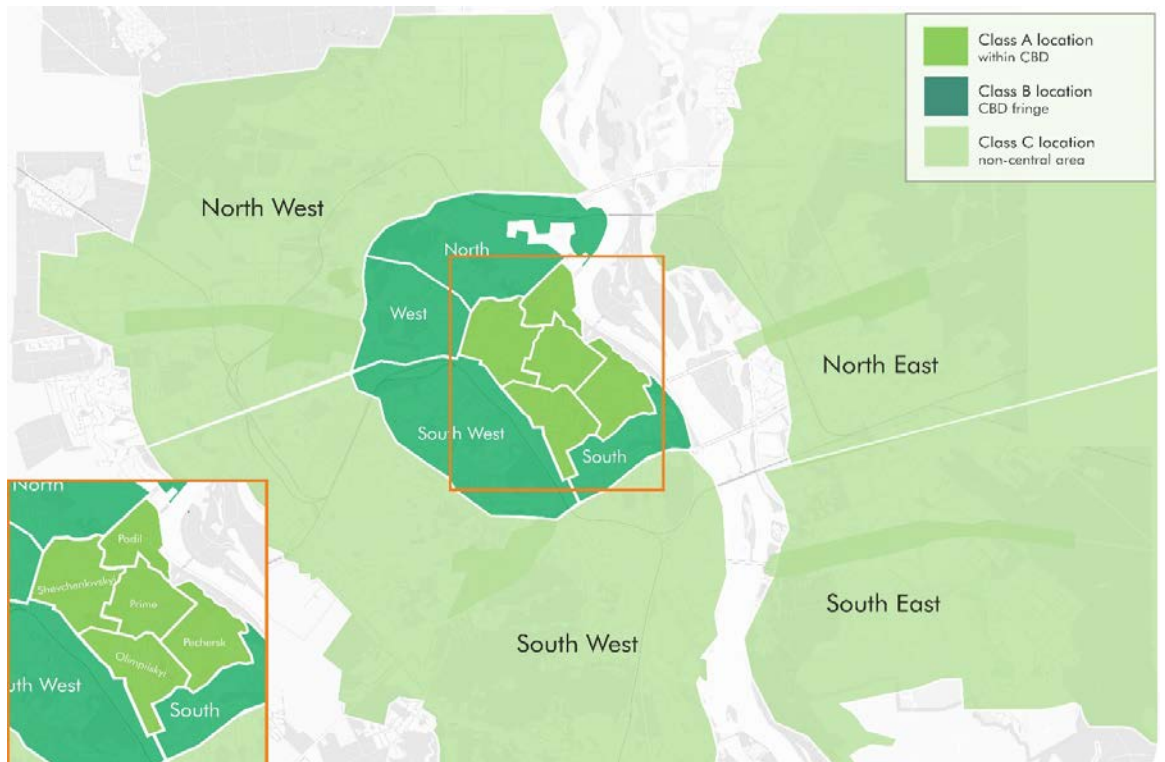
Non-central Submarket is least saturated with high quality premises and therefore accounts for 27% of total stock. Currently Silver Breeze BC (36,500 sqm) is the highest quality property in this submarket and the one that was fully occupied as of the end of 2018. In 2018 only 15% of take-up was represented by the Non-central Submarket, causing a 4.2pp y-o-y reduction in vacancy level, which reached 23.8%. Considering that only B-class premises were available within the submarket by the end of 2018, asking rents varied in the \$12-\$18/sqm/month range.

Figure 5: Take-up Structure by Submarket



Source: CBRE Ukraine

Map of Kyiv Office Submarkets

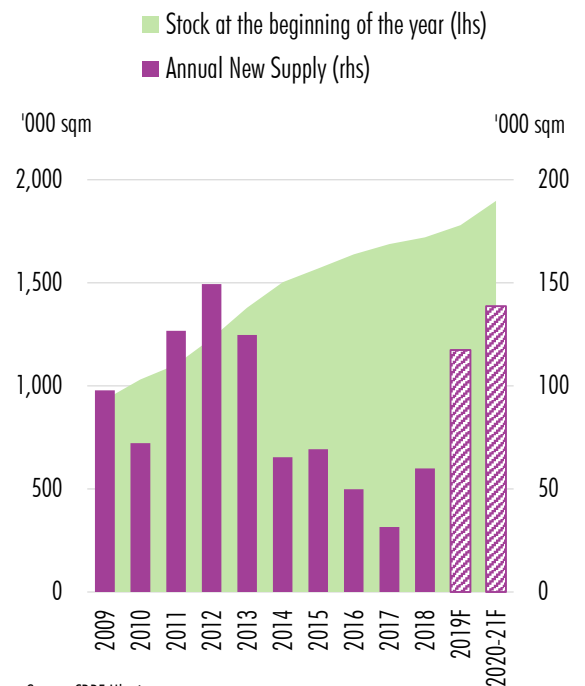


Source: CBRE Ukraine

Supply

New supply of 2018 exceeded the volume of prior year's and amounted to ca. 60,000 sqm, thereby taking total competitive stock to 1.78 mio. Among new additions to the stock were: Phase 3 of Astarta BC (9,000 sqm), Europassage BC (13,000 sqm), Maidan Plaza BC (5,700 sqm), Park Plaza mixed use (2,600 sqm), Podil Heritage BC (1,600 sqm), Techno loft BC (4,600 sqm), B5 building of UNIT.City (10,700 sqm), B9 building of UNIT.City (2,200 sqm), and an office scheme at 64 Verkhnyi Val St. (1,100 sqm). In addition, an A-class property at 98 Velyka Vasylykivska St. (9,200 sqm) entered the open market in Q4 2018. Given the upbeat occupier sentiment and scarce new supply of 2017, vacant areas were rapidly absorbed upon delivery. Offices in Phase 3 of Astarta were subject to active pre-leases before the property's delivery, thereby testifying to scarce supply in the Podil district. Thus the total amount of competitive space under construction in Kyiv stood at ca. 117,000 sqm as of the end of 2018, with half of the projects expected for delivery in the first two quarters of 2019.

Figure 6: Kyiv Annual Development Completions and Total Completions Stock ('000 sqm)



Source: CBRE Ukraine
lhs – left hand side; rhs – right hand side; E- Estimate, F-Forecast

Table 2: Office Pipeline for 2019-2021

NAME	CLASS QUALITY & LOCATION	ADDRESS	GLA SQ M	STATUS
2019				
Avenue 53 (Phase I)	AC	53 Peremohy Ave.	16,700	U/C
New Wave	AC	98 Stepana Bandery St.	15,000	U/C
Retroville	BC	47 Pravdy Ave.	11,100	U/C
Office scheme	BA	1B P. Sahaidachnoho St.	10,000	U/C
UNIT.City (B10)	AB	3 Dorohozhytska St.	9,130	U/C
Office scheme (Merx Group)	n/a	22-24 Hoholivska St.	9,000	Reconstruction
Forum Amurska	BC	6 Amurska St.	9,000	U/C
Level BC	BA	6 Laboratornyi Ln.	7,290	U/C
KVMOST BC	BB	5A Zoolohichna St.	5,500	U/C
Azor	BC	8 M. Maksymovycha St	5,400	Reconstruction
Gloria	BC	9 Smolna St.	5,000	Reconstruction
Zitradelle	BA	3 Tsytdalna St.	3,800	Reconstruction
Office scheme	BC	10-14 Dniprovska Naberezhna St.	3,500	U/C
Office scheme	BC	28 Dniprovska Naberezhna St.	2,500	U/C
Office scheme	BC	44A M. Boichuka St.	2,200	U/C
Office scheme	BB	14A V.Lypkivskoho St.	2,200	U/C
2020-21				
Business Center (Phase 1 & 2)	AA	4-6 Korolenkivska St.	40,000	Project
Business Center	n/a	139 Velyka Vasylykivska St.	33,000	Project
Business Center (Inor)	BA	25 Zhylianska St.	25,000	Project
Platforma BC (Voronin)	n/a	3 Korolenkivska St.	15,000	Reconstruction
Office scheme	AB	Dehtiarivska St./Zoolohichna St.	11,000	Project
Office scheme	BA	10 Mykhailivska St.	5,000	Project
Office scheme	BA	36 Volodymyrska St.	5,200	Reconstruction
UNIT.City (B11)	AB	3 Dorohozhytska St.	4,480	Project
Office scheme	n/a	8b Moskovska St.	n/a	Project
Office scheme	n/a	2/10 Yuriiia Illienka St.	n/a	Project

Source: CBRE Ukraine

Vacancy & Rents

Vacancy continued to edge downwards standing at 9.8% (-7.2pp y-o-y), due to the steady demand and scant supply dynamics. Such concurrent strengthening in occupier sentiment and diminishing office availability put landlords at an advantage, resulting in a prime effective rent increase to \$25/sqm/month (+8.7% y-o-y). Effective rents for actual transactions in A-class properties oscillated around **\$16-\$25/sqm/month**. Asking rents strengthened as the lower bound of

the range for A-class and B-class properties grew by +31% y-o-y and +50% y-o-y, respectively. Hence, asking rents for class A properties stood in the **\$17-\$35/sqm/month** range, with B class properties averaging **\$12-\$26/sqm/month**. Significant gap between the lower and the upper bound of the ranges is determined by the characteristics of a leased unit, such as fit-out condition (shell & core, basic fit-out or turn key solution), floor height or floor configuration options.

Figure 7: Kyiv A-class Asking Base Rental Range¹ by Submarket as of 2018 (USD/sqm/month)

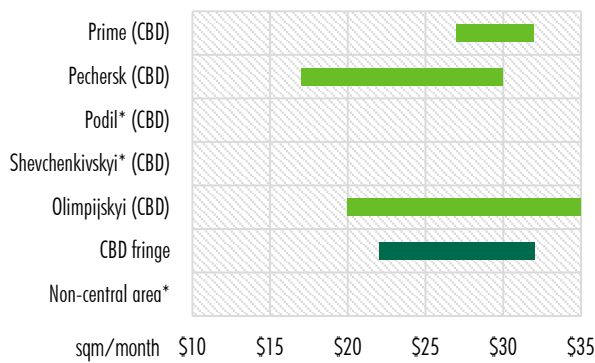
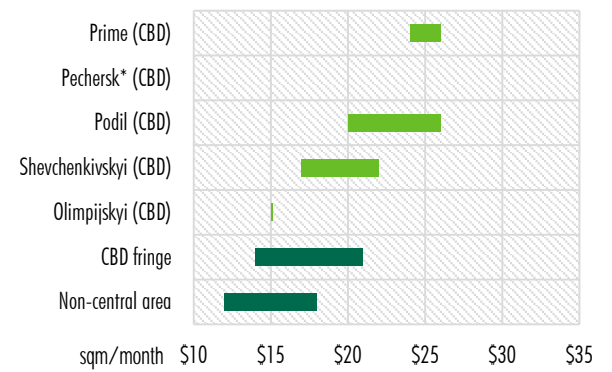
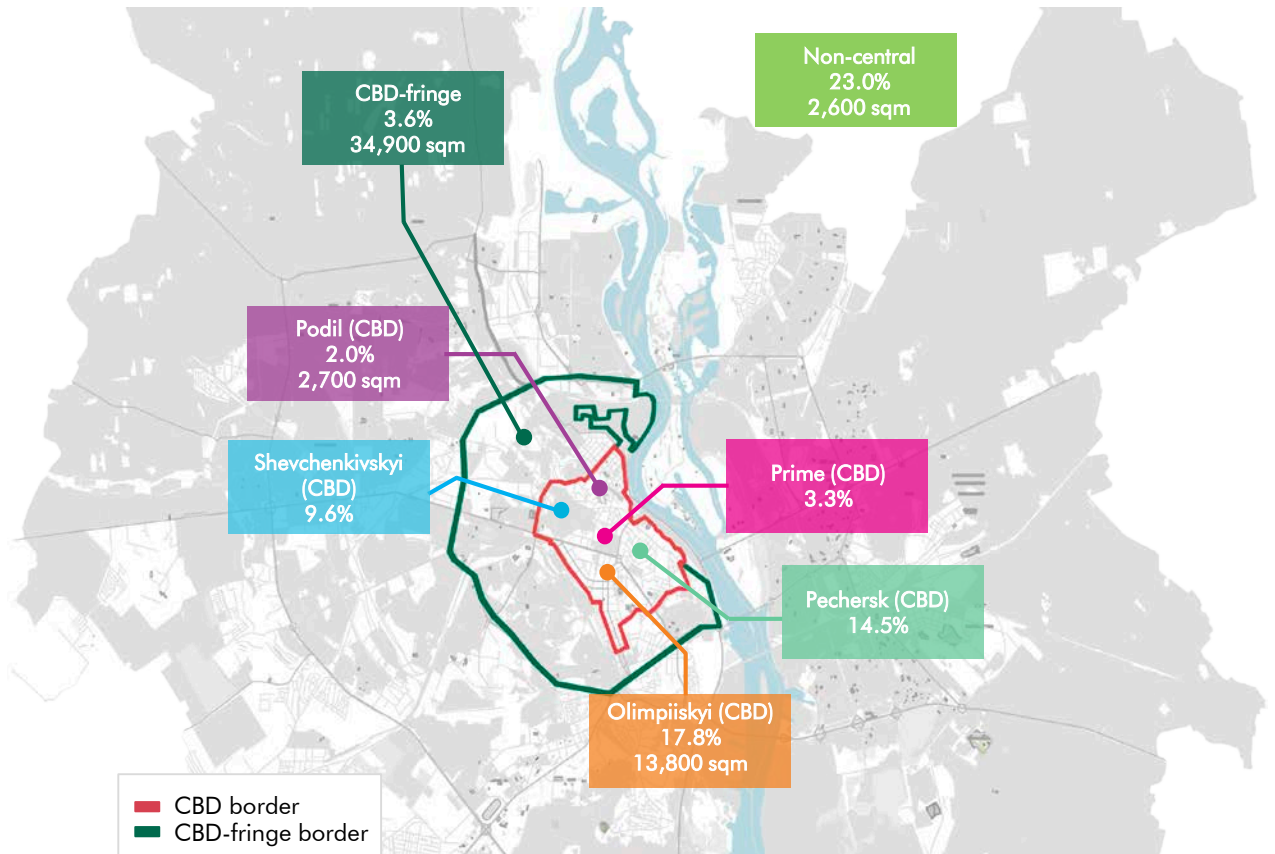


Figure 8: Kyiv B-class Asking Base Rental Range¹ by Submarket as of 2018 (USD/sqm/month)



¹Range includes office space for lease in different fit-out conditions *No vacant premises as of research date
Source: CBRE Ukraine

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



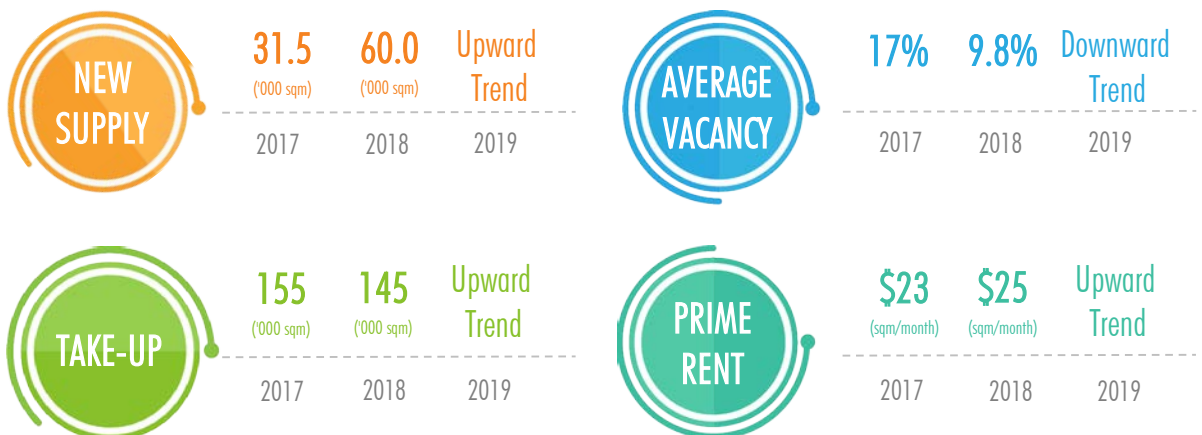
Investment

With yields strengthening and rents trending upwards, the Ukrainian office market saw a steadily growing interest in CRE. In 2018 ca. \$130mio of known investment transactions were confined to the Kyiv office segment – the highest recorded in the office segment since 2008. Investors continued to be focused on Kyiv; although, a notable transaction finalized in Zaporizhzhia city, as Eco Tower BC (9,200 sqm) was purchased by Dragon Capital Investments Ltd. Office investments contributed to almost 50% of the total transacted volume in Kyiv. Office sales completed by Dragon Capital Investment Ltd made the market this year and grew the company’s Kyiv office portfolio by ca. 78,000 sqm GLA with the acquisition of: office scheme at 98 Velyka Vasylykivska St. (9,200 sqm GLA), Pory Roku BC (7,000 sqm GLA), Horizon Office Park (53,700 sqm GLA), office scheme at 35V Borychiv Tik (4,000 sqm GLA), and Platinum BC (4,100 sqm GLA). Other investment targets included the acquisition of the office scheme at 100 Velyka Vasylykivska St. by Kovalska Group (5,600 sqm GLA) and the acquisition of the office schemes at 29 Kovpaka St. (5,200 sqm GLA) and at 8b Moskovska St. by Intergal-Bud. Transaction closures slowed down in the second half of 2018 but are expected to improve following presidential elections in March 2019. The yield evolution was consistent with investment sentiment, driving the indicator to 11.75% down by 0.25pp y-o-y.

Outlook

2019 is set to continue its steady performance in terms of leasing volumes albeit with more cautious approach to expansion strategies fueled with elections-related uncertainty (Presidential elections in March 2019 and Parliamentary elections in October 2019) hovering over strategic business decisions. Effective rental levels will see positive but slowing rates of growth over the next year amidst anticipated political risks, while lease take-up is likely to be supply-constrained over the first half of the year. Nonetheless, large demand volumes in circulation and lowering vacancy will assist landlords in signing leases at attractive rents before sizeable volume of new speculative supply enters the market. 2019 will see a greater focus on flexible office trend transforming the market, with increasingly more coworking and serviced office providers appearing among conventional offices. Although planning approvals and lack of debt financing will continue to hold back development activity, approximately 117,000 sqm of office space is currently under construction and is announced for delivery in 2019. Larger scale projects (25,000-40,000 sqm) are, however, scheduled for delivery starting in 2020-2021 period and will aid in balancing the supply deficit accrued on the market in the interim. Despite the projection of timid investment activity in anticipation of elections, sound economic fundamentals and secured IMF funding under the Stand-by Agreement are expected to have a positive impact on inbound investment volumes over the second half of 2019.

Key Office Market Indicators Summary and Outlook



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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