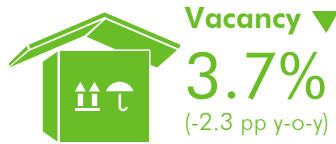
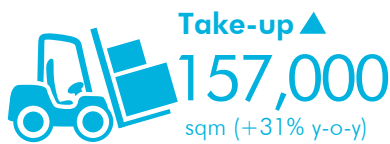


Kyiv Warehouse Market

Market Seeks New Supply, as Vacancy Falls to Ten Year Low

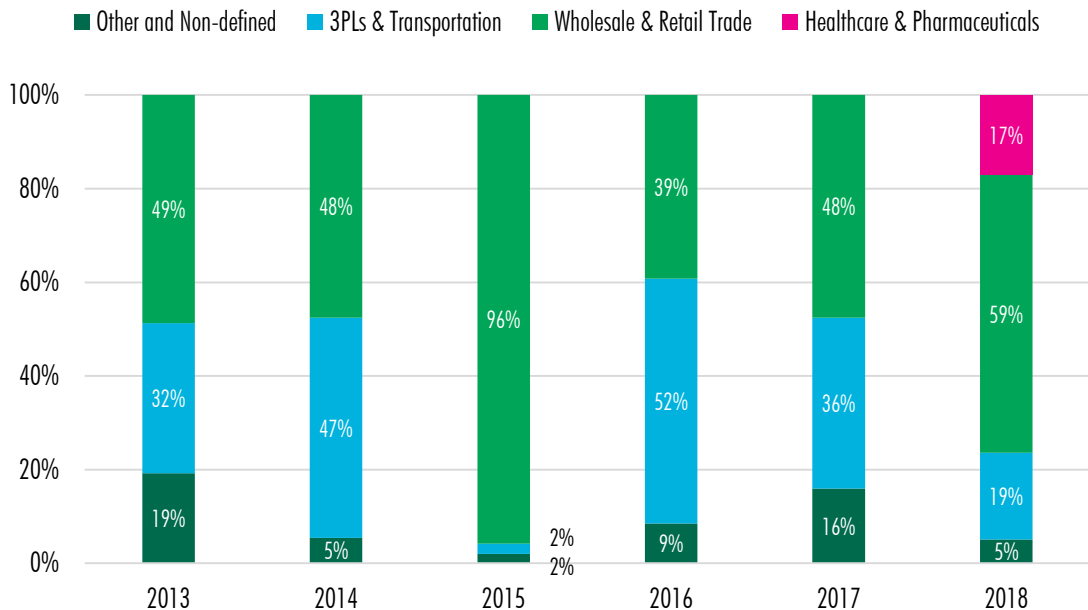


Demand

2018 was a positive year for the warehouse sector, due to a 31% upturn in take-up volume that reached ca. 157,000 sqm (including end-user acquisitions). As a general trend, leasing activity in 2018 was subject to a pent-up demand effect, following a period of uncertainty in 2014-2016. Almost the entire transaction volume consisted of leasing transactions, with 3% of take-up represented by the end-user acquisition of Euro Foods GB Ukraine Warehouse (4,000 sqm) by Fabrika Rosa. Wholesale & Retail Trade sector tenants were the primary demand drivers for warehouse space with a 59% share of the total take-up volume. Sustainable growth of retail turnover in Kyiv (+2.7% y-o-y) was a key positive

impact factor on the leasing activity in the warehouse segment. The rest of the take-up volume was represented by Healthcare & Pharmaceuticals (17%), followed by Logistics Operators (19%) and other industries (5%). A slight downturn in the volume of lettings by Logistics Operators was the result of scarcity of the required unit size on offer, as 3PL occupiers were mainly after large warehouse space. Only several small to medium transactions finalized in this sector, including 6,600 sqm leased by Fiege in BF Terminal, 5,000 sqm leased by Business Group in RLC, 3,770 sqm leased by Yar Trans Logistic in MLP Chaika, and 3,500 sqm leased by Business Group in Top Trans, among others.

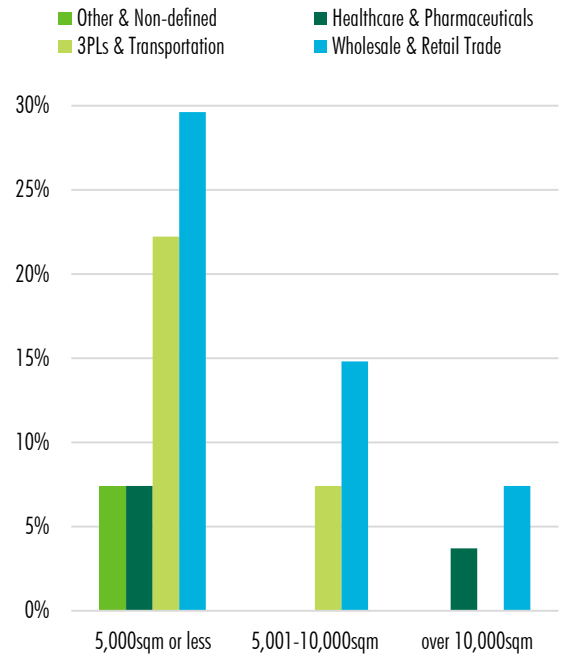
Figure 1: Total Take-up Structure by Industry*



*volume of transactions
Source: CBRE Ukraine

Notwithstanding the fact that small leases (5,000 sqm and less) dominated the take-up structure with a 67% share, the share of large transactions (over 10,000 sqm) posted an upward trend, accounting for 11% in 2018 vs 5% in 2017. Such trend was the result of growing business activity, supported by steady economic fundamentals of 2018. Markedly, tenants from Wholesale & Retail Trade segment led the way in all sizes of transaction types, where the largest transactions were of Eldorado leasing 20,000 sqm in RLC Fozzy and Comfy leasing 20,000 sqm in Raben. In 2018 relocation remained the key reason behind new lettings, comprising 52% in the total volume, while the next largest stake was taken by the occupiers entering the market (20%), followed by those expanding (19%), and others (9%).

Figure 2: Lease Take-up Structure by Industry and Transaction Size*



*number of lease transactions
Source: CBRE Ukraine

Table 1: Key Warehouse Lease Transactions in 2018

OCCUPIER	INDUSTRY	PROPERTY	DIRECTION	SQ M	DEAL TYPE I	DEAL TYPE II	CLASS
Comfy	Wholesale & Retail Trade	Raben	Chernihiv M-01 E-95	20,000	lease	market entry	A
Eldorado	Wholesale & Retail Trade	RLC Fozzy	Chernihiv M-01 E-95	20,000	lease	relocation	A
Farmak	Healthcare & Pharmaceuticals	Komodor	Zhytomyr M-06 E-40	17,100	lease	relocation	A
Adidas	Wholesale & Retail Trade	MLP Chaika	Zhytomyr M-06 E-40	6,700	lease	reloc. & expan.	A
Fiege	3PLs & Transportation	BF Terminal	Kharkiv M-03 E-40	6,600	lease	relocation	A
Novus	Wholesale & Retail Trade	Sofia Ltd	Fastiv M-05/M-06 P-04	6,200	lease	market entry	A
Mir Instrumenta	Wholesale & Retail Trade	WWM	Fastiv M-05/M-06 P-04	5,700	lease	relocation	A
Kolo	Wholesale & Retail Trade	Amtel	Vyshneve M-05/M-06 T-1012	5,000	lease	expansion	A
Business Group	3PLs & Transportation	RLC	Zhytomyr M-06 E-40	5,000	lease	expansion	A
Puma	Wholesale & Retail Trade	BF Terminal	Kharkiv M-03 E-40	4,820	lease	relocation	A
Fabrika Roza	Other & Non-defined	Euro Foods GB Ukraine	Chernihiv M-01 E-95	4,000	sale	sale	B
Yug Kontrakt	Wholesale & Retail Trade	MLP Chaika	Zhytomyr M-06 E-40	4,000	lease	expansion	A
Yar Trans Logistic	3PLs & Transportation	MLP Chaika	Zhytomyr M-06 E-40	3,770	lease	relocation	A
Business Group	3PLs & Transportation	Top Trans	Zhytomyr M-06 E-40	3,500	lease	relocation	A
NDA	Healthcare & Pharmaceuticals	Warehouse at Viscozna	Kyiv	3,200	lease	expansion	B
ABB	Other & Non-defined	RLC Pobeda	Chernihiv M-01 E-95	2,950	lease	relocation	A
Fitolek	Healthcare & Pharmaceuticals	RLC	Chernihiv M-01 E-95	2,900	lease	relocation	A
Schenker	3PLs & Transportation	Amtel	Vyshneve M-05/M-06 T-1012	2,000	lease	expansion	A
Pernod Ricard	Wholesale & Retail Trade	RLC	Chernihiv M-01 E-95	2,000	lease	relocation	A
DSV	3PLs & Transportation	San Factory	Kyiv	1,700	lease	expansion	A
Yar Trans Logistic	3PLs & Transportation	MLP Chaika	Zhytomyr M-06 E-40	1,670	lease	expansion	A
Retail Group	Wholesale & Retail Trade	Vorzal Terminal	Warsaw M-07 E-373	1,650	lease	expansion	B
Unknown	Wholesale & Retail Trade	ADG Schaslyve	Kharkiv M-03 E-40	1,500	lease	market entry	n/a
Regno	Wholesale & Retail Trade	San Factory-IV	Kyiv	1,300	lease	reloc. & expan.	A
Logistic Plus	3PLs & Transportation	BF Terminal (phase-2)	Kharkiv M-03 E-40	1,000	lease	expansion	A
TBM Market	Wholesale & Retail Trade	Warehouse Scheme	Chernihiv M-01 E-95	1,000	lease	relocation	B
Studio Moderna	Wholesale & Retail Trade	Komodor	Zhytomyr M-06 E-40	1,000	lease	expansion	A

Source: CBRE Ukraine

Supply

2018 registered a modest volume of new supply represented by a meagre ca. 9,700 sqm of warehouse space, comprised of E&E Cable Solutions Warehouse (3,500 sqm) in the direction of Zhytomyr (M-06, E-40) and Sofia Ltd Warehouse (6,200 sqm) in the direction of Fastiv (M-05/M-06, P-04), with the latter being leased to food retailer Novus immediately after completion. As such, total speculative stock increased marginally to 1.26 mio sqm (+0.8% y-o-y) as of the end of 2018. Looking into the pipeline, speculative stock awaits ca. 100,000 sqm of new deliveries over the 2019-2020 period, including projects both in outer- and inner-city locations. Importantly, the evolution of e-commerce projects and marketplace platforms serves as a driver for growing demand for modern warehouse premises within the city to ensure efficient supply chain management from the moment of order receipt to delivery. A number of fundamental factors in the warehouse segment, in particular scarce supply and appreciating rents, make the market ripe for built-to-suit development, although effective rental rates are yet to reach economically viable levels for investors to follow through.

Vacancy & Rents

The impact of concurrently growing demand and slackening delivery of new supply resulted in the reduction of average market vacancy to 3.7% (-2.3pp y-o-y). On the one hand, vacancy has been generally decreasing over 5 years in a row and reached a new record low in 2018, while

Figure 3: New Supply, Net Absorption and Vacancy Rate

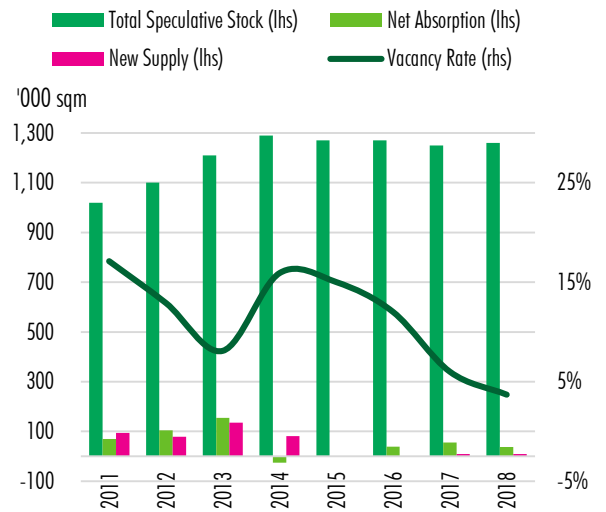
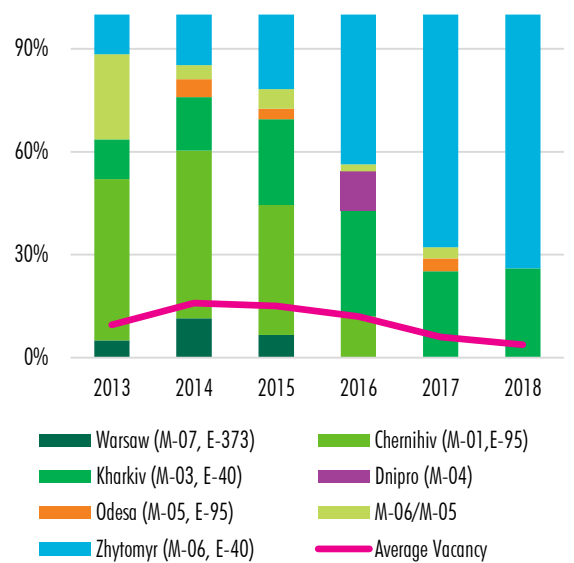


Figure 4: Vacant Stock Distribution by Highways*



*base – total volume of vacant space
Source: CBRE Ukraine

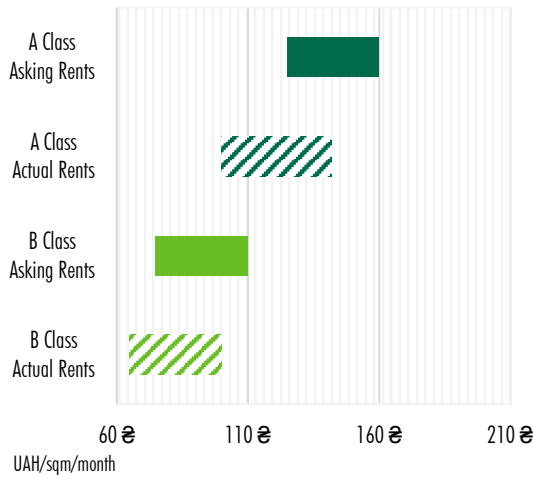
lhs – left hand side
rhs – right hands side

Table 2: Key Warehouse Schemes in the Pipeline for 2019-2020

NAME	DEVELOPER	WAREHOUSE PREMISES, SQ M	STATUS	ANNOUNCED COMPLETION
Unilogic Park III	MERX	22,000	Under Construction	2019
Mirazh 3	Mirazh	9,000	Under Construction	2019
Amtel (Phase II)	Amtel Properties	52,000	Project	2019
SAN Factory 2 Storage Area Network	Skyline Development	23,400	Project	2020

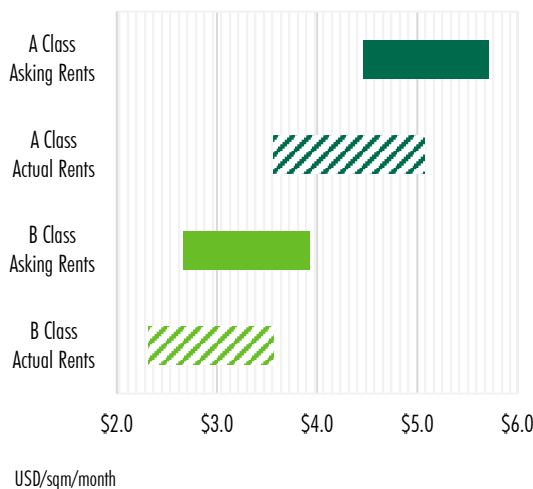
Source: CBRE Ukraine

Figure 5: Rents for Ambient Warehouses (UAH/sqm/month)



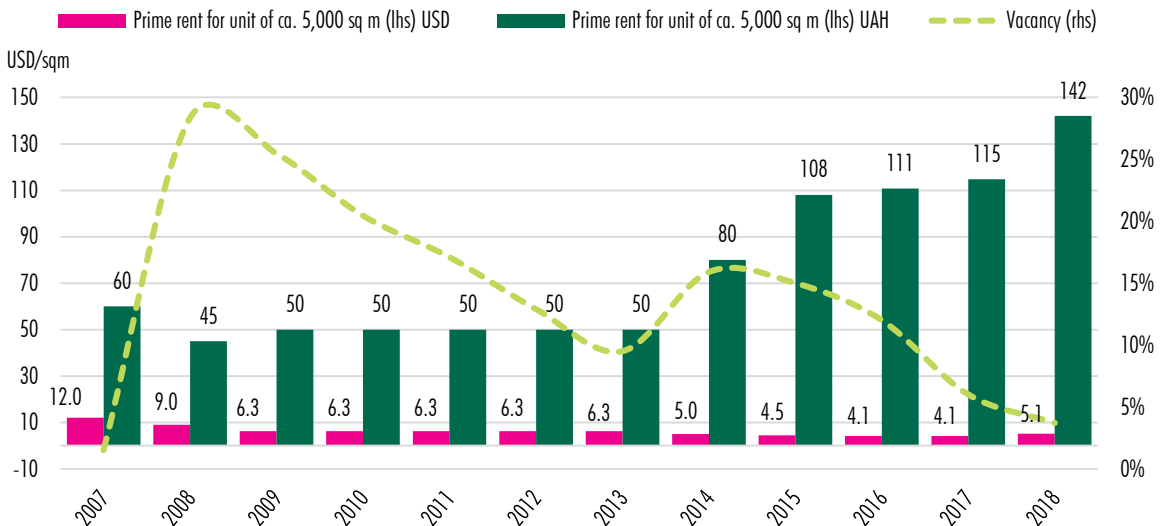
Source: CBRE Ukraine

Figure 6: Rents for Ambient Warehouses (USD/sqm/month)



Source: CBRE Ukraine

Figure 7: Actual Prime Rental Rate and Vacancy, as of 2018



lhs – left hand side; rhs – right hand side

Source: CBRE Ukraine

at the same time net absorption edged down, restricted by lack of available supply. Such market condition allowed landlords to gradually convert leases to USD-denominated rents again, following foreign currency flight of 2014-2016. Looking into the distribution of vacant space across submarkets, the scant available supply was distributed along Zhytomyr (M-06, E-04) and Kharkiv (M-03, E-04) highways accounting for 74% and 6%, respectively. The rest of the directions registered no vacant premises as of the end of 2018, as the remaining warehouse morsels were taken alongside Odesa (M-05, E-95) and the zone between M-05 and M-06 routes, taking the number of available premises along these highways to zero.

Asking rents remained mostly denominated in UAH, ranging from **UAH125 to UAH160 (\$4.5-\$5.7)/sqm/month** for A-class ambient warehouse, and from **UAH75 to UAH110 (\$2.7-\$3.9)/sqm/month** for B-class ambient warehouses. While demand for the leftover warehouse space stimulated an increase in UAH denominated rent, rents denominated in USD were slightly handicapped by deflationary pressure in the second half of 2018. Therefore, **prime effective rent** stood in the **UAH100-UAH142 (\$3.6-\$5.1)/sqm/month** range, posting 20-29% y-o-y growth in UAH and 20-24% in USD. In 2018 asking rents for Class A cold warehouse facilities (0-6°C temp.) varied in the UAH210-UAH230 (\$7.5-\$8.2) /sqm/month range, while actual rents were between UAH190 and UAH210 (\$6.8-\$7.5) /sqm/month.

Investment

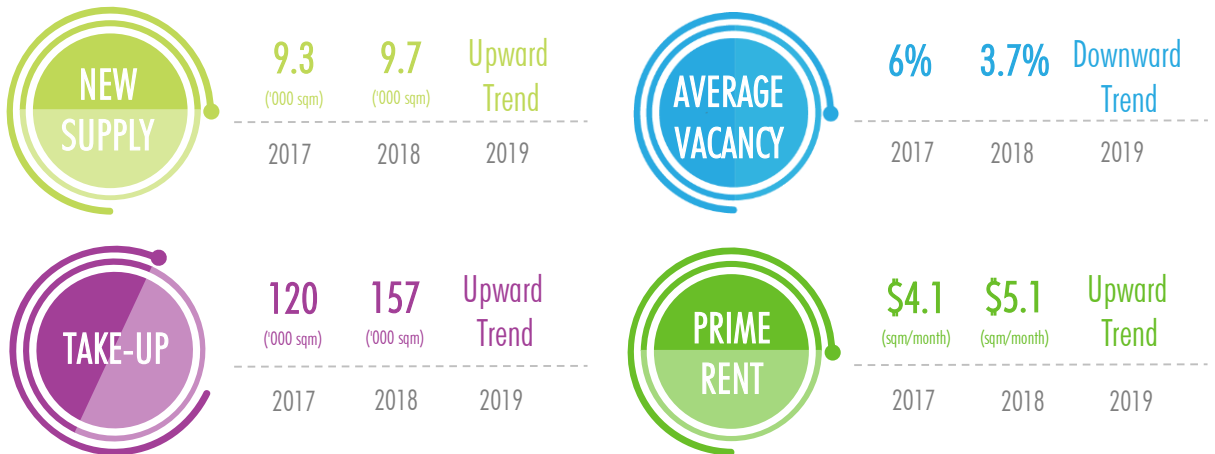
Investor sentiment within the warehouse segment emulated the general strengthening of economic indicators and thus growing demand for storage space requirements. Ultimately, Dragon Capital Investments Limited dominated by the number of transactions in the sector with the acquisition of Omega 1 (19,000 sqm), Omega 2 (33,000 sqm), and UKR DC (20,000 sqm) warehouses. The warehouse segment holds potential for yield-searching investors to benefit from forecast strengthening on the market, evident from steadily growing rental rates and their gradual transition to USD. Following a number of deals finalized in the segment during the year, prime yield firmed up by 0.75 pp to 13%.

Outlook

We expect occupier demand for warehouse space to grow, with more expansion requirements coming from logistics operators

and e-commerce players. However, large-scale requirements will be hard to accommodate in the current market condition due to low vacancy and sluggish development activity. Owing to such imbalance on the market, the volume of take-up in 2019 is likely to be supply-constrained, triggering a consequent increase in prime rental rate for best leftover warehouse space. In view of progressive expansion of postal and fulfillment services, the market is craving for centrally-located warehouses to gain competitive advantage in delivery times, and this trend is likely to come to the fore of demand in the segment. The projected volume of new additions over 2019-2020 period (ca. 100,000 sqm) is likely to be absorbed rapidly upon delivery, following the ongoing trend of diminishing average market vacancy. With rents poised for growth to pre-crisis levels in the next few years, an increase in built-to-suit projects will follow suit.

Key Warehouse Market Indicators Summary and Outlook



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CLASSIFICATION

Class A:

Newly built ground level modern industrial space that meets A-class standards in terms of warehouse depth and floor height, temperature requirements, sandwich panels, maneuvering areas, number of dock shelter gates and dock levelers etc.

Class B:

Newly built or reconstructed ground or one level industrial space of rectangular shape that meets B-class standards in terms of warehouse depth and floor height, temperature requirements, maneuvering areas, number of dock shelter gates and dock levelers etc.

Class C:

Old stock that due to its configuration, location and overall condition cannot be classed as professional industrial property.

DEFINITIONS (in alphabetical order)

Development Completions (new supply) – represents the total rentable area of completed new and significantly refurbished/renovated (stripped back to shell and core) floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit, where required, has been issued during the survey period. Development completion data includes properties dependent on **total competitive stock** definition or **total stock definition** (see below).

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.

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 (speculative stock) – represents the total completed space (occupied and vacant) in the private sector at the survey date, recorded as gross rentable 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. Total competitive stock = total stock (see below) - owner-occupied properties.

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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