

Kyiv Warehouse Market

Vacancy Set to Remain Low as Limited New Supply Entered the Market



Lease Take-up
100,000
sqm (ca. +43% y-o-y)



Vacancy
4.3%
(ca.-2 pp YTD)



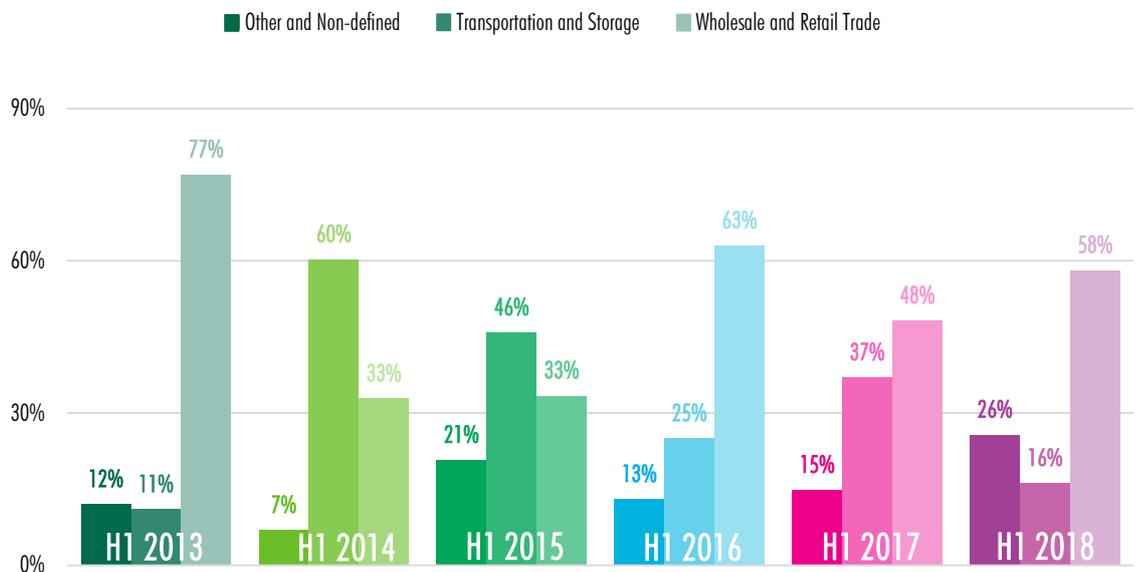
Prime Effective Rent
UAH 135 (\$5.2)
sqm/month (ca. +17% YTD)

DEMAND

In H12018 total take-up volume on the Kyiv warehouse market (including end-user acquisitions) reached ca. 100,000 sqm (ca. +43% y-o-y) on the back of rising occupier demand. Such boost in leasing activity in H12018 epitomized the effect of pent-up demand following a period of 2014-2016 downturn. Wholesale and retail occupiers account for the major share in take-up structure with 58%, due to growth of retail turnover and, as a result, growing demand for warehouse areas. The second largest share of 26% was taken by other segments that include occupiers from light industries and health & pharmaceutical companies. The acquisition of Euro Foods GB Ukraine Warehouse (4,000 sqm) by its end-user Fabrika Roza accounted for 4% of total take-up, with lettings accounting for the remainder. Notwithstanding the fact that transactions by logistics operators constituted only 16% of take-up, FMCG businesses were still

looking for ways to optimize their business in the long-run through turning to logistics services. There was a marked rise in the development of fulfillment services on the Kyiv market, with Fozzy Group announcing the launch of a new fulfillment operator Justin. This business unit is aimed at providing both B2B and B2C logistics services, with smart parcel shops located in grocery stores of Fozzy Group (i.e Fozzy, Silpo, and Fora) across Kyiv, Kharkiv, Dnipro, Lviv, and Odesa. The company aims to open 700 locations by the end of 2018. As consumers become more tech-savvy, reliable fulfillment services are a potential room for development of 3PL operators, especially those with an existing customer base. The future development of fulfillment services will result in reduction of stock density in warehouses; however, it will create a new, more complex segment that can co-exist with traditional logistics operations.

Figure 1: Total Take-up Structure by Industry*



*volume of transactions
Source: CBRE Ukraine

Table 1: Key Lease & Sales Transactions in H12018

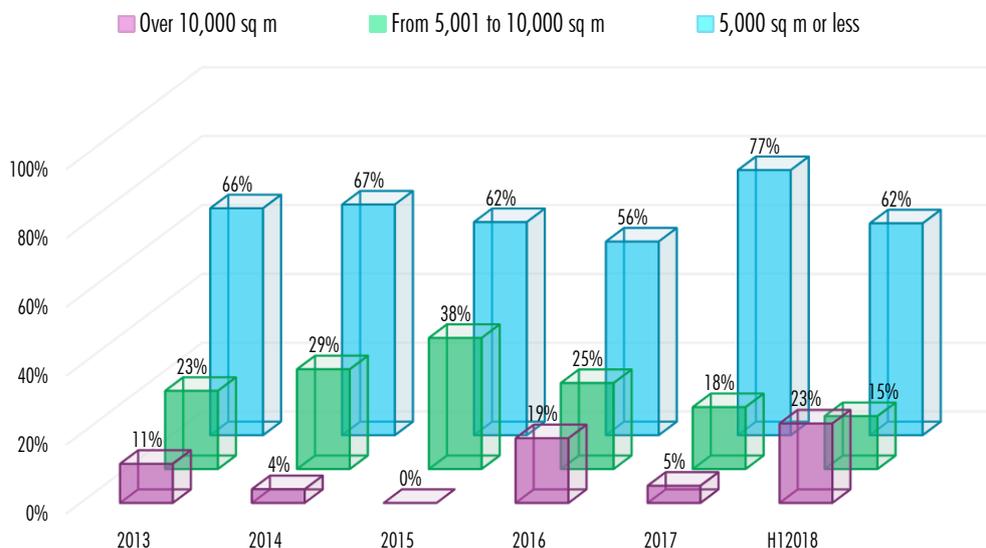
OCCUPIER	INDUSTRY	PROPERTY	DIRECTION	SQ M	DEAL TYPE I	DEAL TYPE II	Class
Comfy	Wholesale and retail trade	Raben	Chernihiv (M-01, E-95)	20,000	lease	market entry	A
Eldorado	Wholesale and Retail trade	RLC Fozzy Distribution Center	Chernihiv (M-01, E-95)	20,000	lease	relocation	A
N/A	Healthcare & Pharmaceuticals	Komodor	Zhytomyr (M-05, E-40)	17,200	lease	relocation & expansion	A
Fiege	3PLs, Transportation	BF Terminal	Kharkiv (M-03, E-40)	6,600	lease	relocation	A
Adidas	Wholesale and retail trade	MLP Chaika	Zhytomyr (M-05, E-40)	6,000	lease	relocation & expansion	A
Yar Trans Logistic	3PLs, Transportation	MLP Chaika	Zhytomyr (M-05, E-40)	5,000	lease	relocation	A
Yug Kontrakt	Wholesale and Retail Trade	MLP Chaika	Zhytomyr (M-05, E-40)	4,000	lease	expansion	A
Fabrika Roza	Other	Euro Foods GB Ukraine Warehouse	Chernihiv (M-01, E-95)	4,000	sale	sale	B
Business Group	3PLs, Transportation	Top Trans	Chernihiv (M-01, E-95)	3,500	lease	relocation	A
Fitolek	Healthcare & Pharmaceuticals	RLC Refrigerated Logistics Center	Chernihiv (M-01, E-95)	2,900	lease	relocation	A
Pernod Ricard	Wholesale and Retail Trade	RLC Refrigerated Logistics Center	Chernihiv (M-01, E-95)	2,000	lease	relocation	A
Regno	Wholesale and Retail Trade	San Factory-IV	Kyiv inner city	1,300	lease	relocation & expansion	A
TBM Market	Wholesale and retail trade	Warehouse Scheme	Chernihiv (M-01, E-95)	1,000	lease	relocation	B

Source: CBRE Ukraine

Nearly 62% of H12018 lease transactions were driven by relocations as well as relocations with expansion, where nearly half of requirements came from retail occupiers. Such activity was a result of business expansion and occupier preference towards higher quality warehouse space. The market also witnessed a large new entry from regions to the capital, represented by Comfy leasing 20,000 sqm in Raben warehouse.

Looking into the take-up by transaction size, small lease transactions of 5,000 sqm or less continued to dominate in the take-up structure with a 62% share. At the same time, the number of large transactions in excess of 10,000 sqm increased from last year and comprised 23% in the total volume, represented by Comfy's 20,000 sqm lease and Eldorado leasing 20,000 sqm, as it relocated to RLC Fozzy Distribution Center.

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



*number of lease transactions

Source: CBRE Ukraine

SUPPLY

In H12018 a meager volume of competitive new supply entered the market represented by 3,500 sqm of warehouse space in the direction of Zhytomyr (M-05, E-40). In addition, the acquisition of Euro Foods GB Warehouse by an end-user – Frabrika Roza – resulted in a marginal decrease of the speculative stock by 4,000 sqm. Hence, total speculative stock remained almost unchanged at 1.25 mio sqm. The volume of new speculative warehouse space currently planned for commissioning in H22018 amounts to modest ca. 6,200 sqm in a warehouse scheme on the P-04 highway between the directions of M05 and M06, with Phase III of Unilogic Park (22,000 sqm) and of Mirazh 3 warehouse scheme in Hostomel (9,000 sqm) pushed further back until 2019.

Such nearly non-existent new competitive supply throughout 2017 and 2018 is the result of several fundamental factors affecting the market over the last several years. Firstly, a huge

vacancy and precipitating rates of 2014-2015 scared off nearly all development activity until complete market saturation is reached again. These factors led to widespread foreclosures of a number of properties by the lenders, with very few leveraged properties not ending up being taken over by banks in the low economy of 2014-2016. The market situation was further exacerbated by macro factors of constraints of the financial markets, where long term development financing virtually disappeared. The market is currently finding itself in the final predevelopment phase where wary developers are reluctant to undertake new projects until rental rates reach artificially high, ‘bottleneck’ levels that would justify new construction and typically with dollar-denominated preleases. Such leasing arrangements would be highly precarious due to volatile nature of the economy, but with the market overall craving new product, the means arguably justifies the end.

Table 2: Key Warehouse Schemes in H22018-2019

NAME	DEVELOPER	SQ M	STATUS	COMPLETION
Warehouse of E&E Cable Solutions	Local developer	3,500	Stock	H12018
Warehouse of Sofia Ltd	Local developer	6,200	Under Construction	H22018
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

Source: CBRE Ukraine

VACANCY & RENTS

In H12018, scarcity of quality warehouse came to the fore, as large requirements went into circulation, and no considerable new competitive stock entered the market. Hence, average vacancy decreased by almost 2pp to 4.3% from 6% over the course of 6 months. An upward trend of net absorption points towards occupiers’ tendency towards expansion of their businesses and therefore of the leased warehouse areas. With such low vacancy level, landlord’s market is well back on, with rents beginning to be quoted in USD terms again.

Looking into the distribution of vacant space across submarkets, vacancy along Warsaw (M-07, E-373), Chernihiv (M-01, E-373), and

Dnipro (M-04) Highways stayed at 0%, with no quality new speculative stock available for lease across these highways as of the end of H12018. The largest share of available warehouses across vacant space was located along Zhytomyr (M-06, E-40) highway, accounting for 70% (+2pp YTD) due to relocation of Eldorado. The rest of the vacant space was spread along Kharkiv (M-03, E-40) and Odesa (M-05, E-95) Highways, accounting for 25% and 5%, respectively.

As of the end of H12018, asking rents stood in the UAH120–UAH155 (\$4.6 - \$6.0) /sqm/month range in A-class dry warehouse properties, with the upper bound of UAH-denominated range rising by 11% YTD. The upper bound of the actual rents for A-class dry warehouses posted a

ca.+17% YTD increase in UAH, reaching UAH135 (\$5.2) /sqm/month), whilst the lower bound grew by ca. 6% YTD to UAH90 (\$3.4) /sqm/month. Effective rents for B-class dry warehouse schemes stood in the UAH65-UAH90 range (\$2.5-\$3.4) /sqm/month, with the upper bound posting a +13% YTD upturn. Affected by fluctuations in the exchange rate, rents in USD were subject to volatility when trying to keep up with the recovery of rents in UAH. Amid several transactions signed with USD quoted rental rates in H12018, such agreements were more of an exception rather than the rule. In H12018 asking rents for Class A cold warehouse facilities (temp. between 0-6°C) varied in the UAH180-UAH200 (\$7.0-\$8.0) /sqm/month range, while actual rents were between UAH160-UAH180 (\$6.0-\$7.0) /sqm/month).

INVESTMENT

On the back of growing market imbalance and favorable economic recovery, a number of transactions in the sector closed in H12018. Among most notable deals were the acquisitions of Omega 1 (19,000 sqm), Omega 2 (33,000 sqm), and UKR DC (20,000 sqm) warehouses by Dragon Capital Investments Limited. Investors proved interest in purchasing secondary assets with a view to renovating and offering quality speculative supply within a few years. Nevertheless, for the segment to become even more investment-attractive, it is necessary for prime rents to recover to pre-crisis levels and to be consistently quoted in USD. Owing to a better economic backdrop, improving investors sentiment, and scarce vacant stock, prime yields firmed up by 0.5 pp YTD and stood at 13.25% for prime properties.

Figure 3: New Supply, Net Absorption and Vacancy Rate

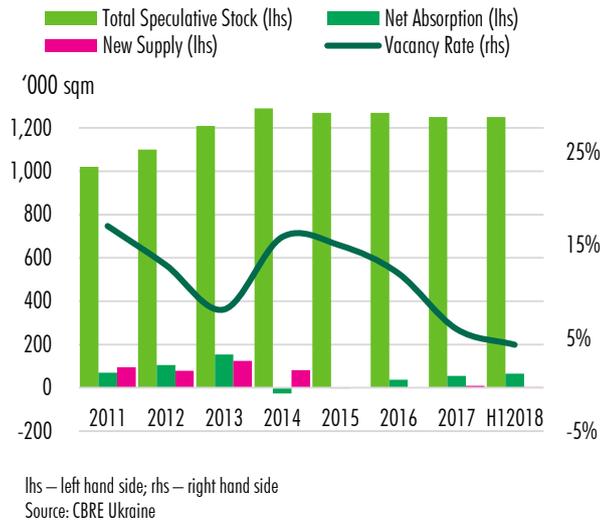


Figure 4: Vacant Stock Distribution by Highways*

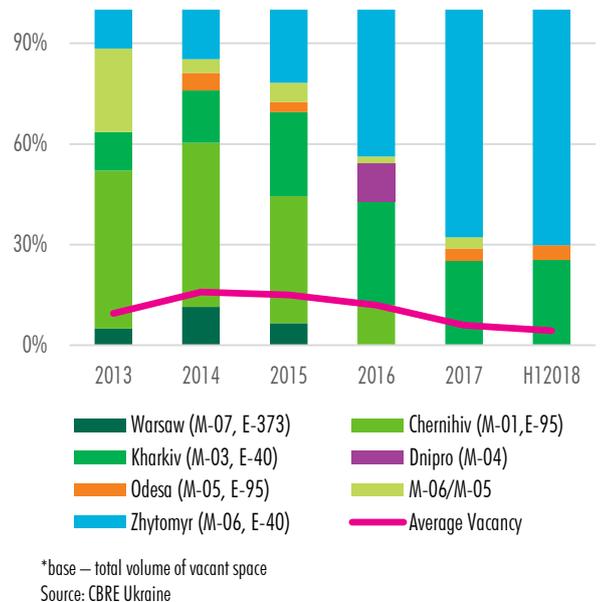
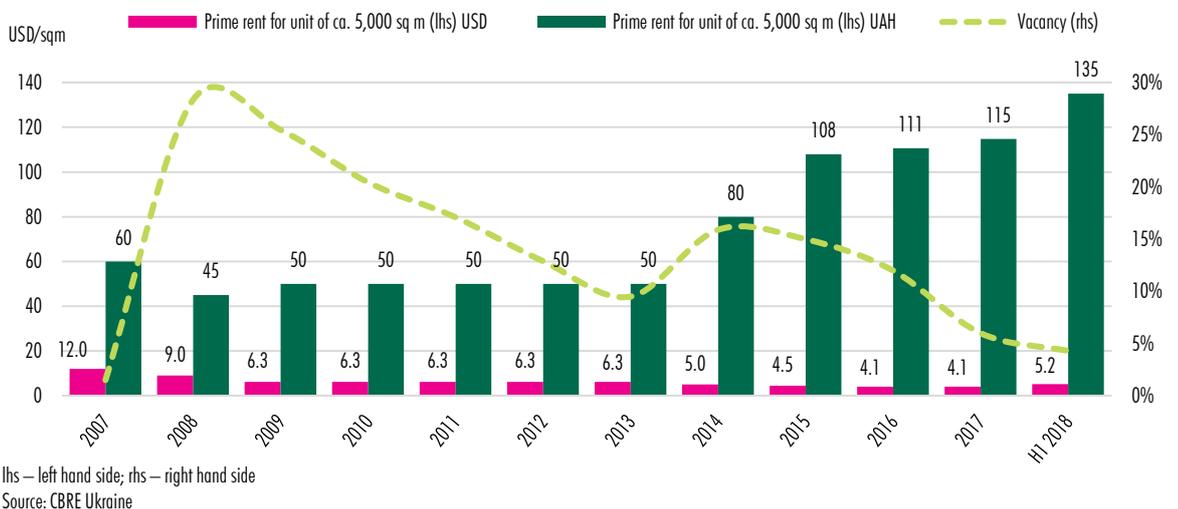


Figure 5: Actual Prime Rental Rates and Vacancy Rates, as of the end of H12018

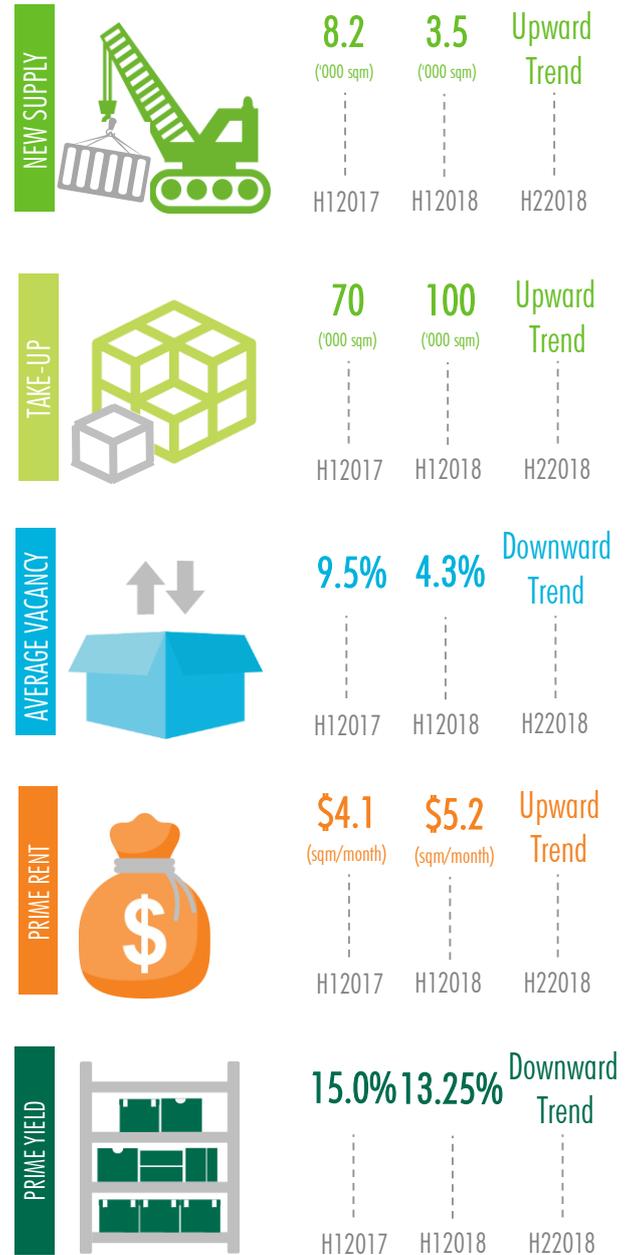


OUTLOOK

Judging by a gradually growing domestic economy, investor interest in the segment is likely to remain, considering the deficit of available prime assets. In H12018 investors were considering not only prime, but also secondary assets as value-added investment opportunities. The specifics of built-to-suit developments started to be explored by investors, although in a cautious manner. Current lack of suitable supply and decline in space availability should eventually trigger more active speculative construction and a rise in built-to-suit projects; however, as mentioned above, new development activity is only likely with the support of substantial rental growth in USD terms.

With respect to new trends, the segment of fulfillment services in Kyiv, albeit in its infancy, has the potential to expand, as e-commerce gains momentum. Class A warehouse facilities are likely to be at the forefront of demand for warehouse space in the coming years, being driven by the need for quality storage and distribution space from wholesale and retail occupiers in particular. As average vacancy is expected to keep trending downwards, the next cycle of development activity continues to be held back by absence of any meaningful development financing, which puts additional upward pressure on rental rates.

Key Warehouse Market Indicators Summary and Outlook



Source: CBRE Ukraine

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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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