



Kyiv Warehouse Market


Shortage of Vacant Space as a Result of Meager Development Activity



Lease Take-up
65,000
sqm (ca. -35% y-o-y)



Vacancy
3.1%
(ca. -0.6 pp YTD)



Prime Effective Rent
UAH 125 (\$4.8)
sqm/month (ca. -6% YTD)

Demand

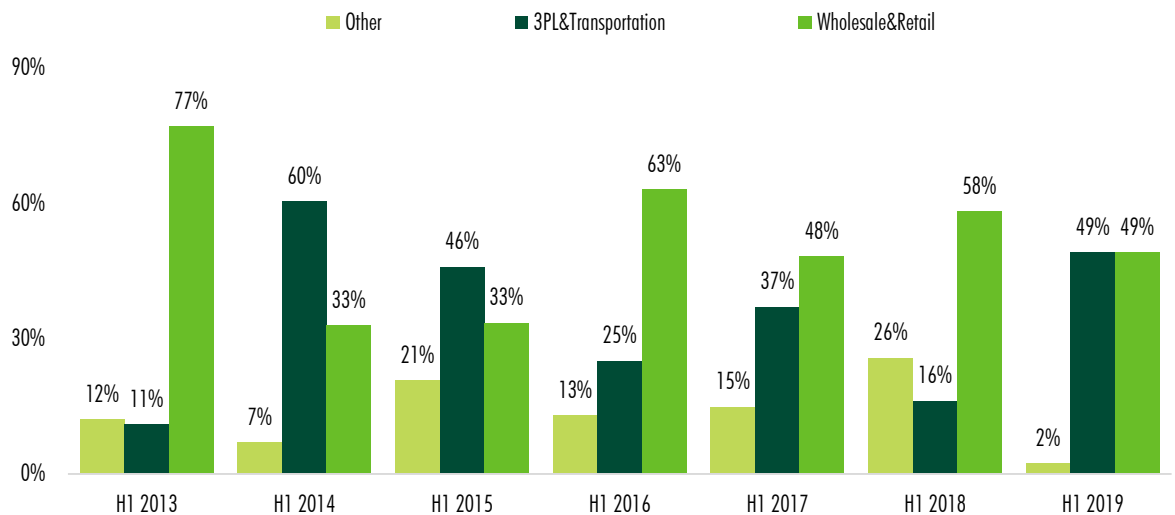
In H12019, total take-up volume on the Kyiv warehouse market reached ca. 64,700 sqm (-35%y-o-y). Such a sharp decrease was primarily the result of a lack of new completions since H12018 with only 9,700 sqm delivered in H22018 and no new supply in H12019. Consequently, the market was still waiting for new deliveries able to meet the strong demand from mainly Logistics operators and retailers.

In contrast to H12018, when Wholesale&Retail represented the highest volume of take-up, its share in H12019 declined to 49%(- 9pp YTD) on par with 3PL&Transportation, which registered a massive +33pp YTD increase. Other sectors represented the remaining 2% of total take-up (-24pp YTD). The shift in take-up structure in favor of 3PL&Transportation companies was primarily driven by increased demand for flexible storage and rapidly growing e-commerce in Ukraine.

In H12019, the demand for warehouse space was induced mainly by the growth of Retail Turnover (+10.3pp y-o-y) and Foreign Trade Turnover (+7.1pp y-o-y) in Ukraine. A slight improvement in the industrial output index (+0.5 pp y-o-y) did not contribute substantially to the leasing activity on the warehouse market as a reflection of negative results of natural gas production and distribution industry (-15pp y-o-y), energy distribution (-6.8pp y-o-y), and processing industry (-0.1pp y-o-y). Inflation decreased by 3.6pp y-o-y to 109 as of H12019 along with the strengthening of national currency, which was in line with the positive change in Foreign Trade Turnover.

Looking at the key leases in H12019, the most notable transaction was 22,000 sqm lease in Komodor by BudPostach, a leading wholesale&retail company on the Ukrainian professional equipment market. Other transactions were sub

Figure 1: Total Take-up Structure by Industry*



*volume of transactions
Source: CBRE Ukraine

10,000 sqm with average transaction size of ca 5,000 sqm. Regarding take-up structure by transaction size in H12019, one large lease of more than 10,000 sqm represented 11% of take-up. Small transactions of up to 5,000 sqm constituted 44.5% of transaction volume (-22.5pp YTD), roughly matched by those of average size leases between 5,001 and 10,000 sqm (+22.5pp YTD). Over the past 12 months the average transaction was hovering around 4,900 sqm, which was a convenient size for planning potential partitioning of a new speculative warehouse scheme.

Overall, occupier preferences are angling towards average-size and large warehouse schemes, take-up of which has been increasing since 2017, explained primarily by the combined expansion of 3PL&Transportation and e-commerce sector. At the same time, there has been a decrease in leasing volumes of small warehouses (up to 5,000 sqm) despite the fact that they still represent the largest share of take-up. Such gravity towards larger properties and larger lots is likely to continue, as the increasing demand on warehouses of larger sizes reflects the growing share of Logistics operators in the structure of take-up.

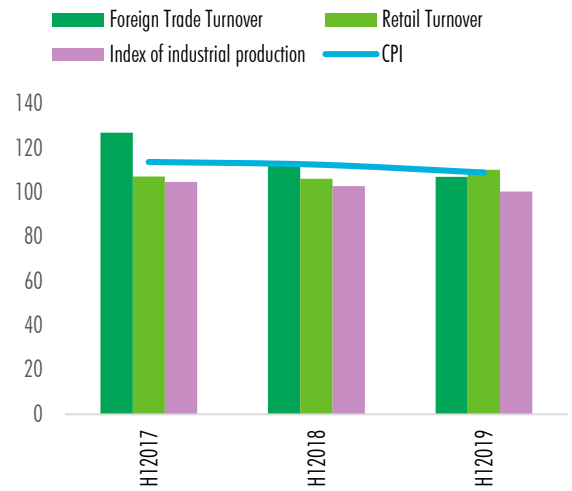
Table 1: Key Lease & Sales Transactions in H12019

OCCUPIER	INDUSTRY	PROPERTY	DIRECTION	SQ M	DEAL TYPE I	DEAL TYPE II	Class
BudPostach	Wholesale & Retail Trade	Komodor	Zhytomyr M-06 E-40	22 000,00	lease	relocation&expansion	A
Good Wine	Wholesale & Retail Trade	West Gate Logistic	Zhytomyr M-06 E-40	9 800,00	lease	expansion	A
IN Logistic	3PL & Transportation	RLC Pobeda	Chernihiv M-01 E-95	7 000,00	lease	expansion	B
IN Logistic	3PL & Transportation	BF Terminal	Kharkiv M-03 E-40	6 300,00	lease	expansion	A
In Logistic/Supermarket KOLO	3PL & Transportation	Plazma Logistic	Kharkiv M-03 E-40	6 000,00	lease	relocation	B
Logictic Plus	3PL & Transportation	West Gate Logistic	Zhytomyr M-06 E-40	4 500,00	lease	expansion	A
BDU Logistic	3PL & Transportation	Schaslivoe 2	Kharkiv M-03 E-40	4 100,00	lease	relocation	B
UKR Logistica	3PL & Transportation	RLC (Cold)	Chernihiv M-01 E-95	3 700,00	lease	relocation&expansion	B
ABB	Manufacturing, Industrial & Energy	RLC Pobeda	Chernihiv M-01 E-95	1 300,00	lease	expansion	B
Nova Poshta*	3PL & Transportation	West Gate Logistic	Zhytomyr M-06 E-40	1 300,00	lease	renegotiation	A

* Transaction did not result in change in occupied area but was only a change in tenure (from sublease to lease), thus it did not affect the amount of take-up

Source: CBRE Ukraine

Figure 2: Key Drivers of Warehouse Market in Ukraine, H12017-H12019

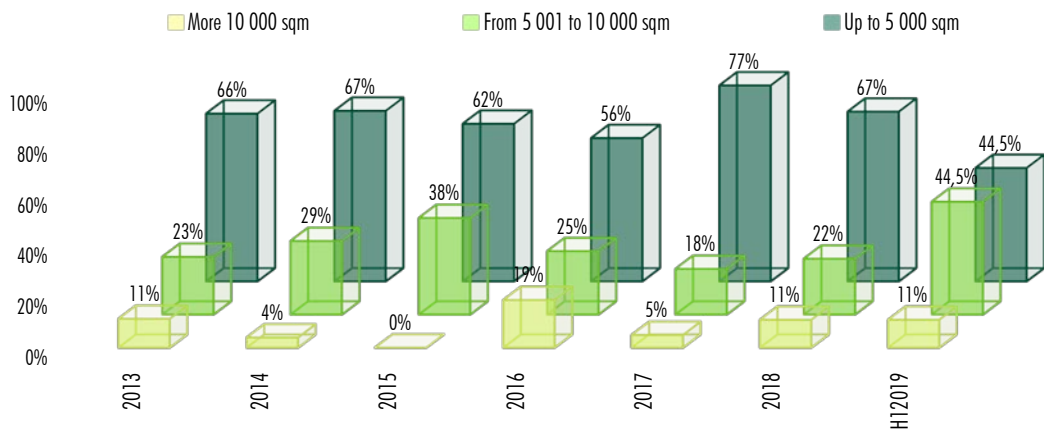


Source: Ukraine State Statistics Committee

Supply

No new warehouse schemes were delivered in H12019. Lack of new supply was caused by delays of existing construction projects and postponements of new starts, as insufficient level of rental rates did not motivate developers to break ground. The shortage of new supply is likely to persist in the near term future, as rental rates continue their slow growth and the financial market is approaching readiness to lend again.

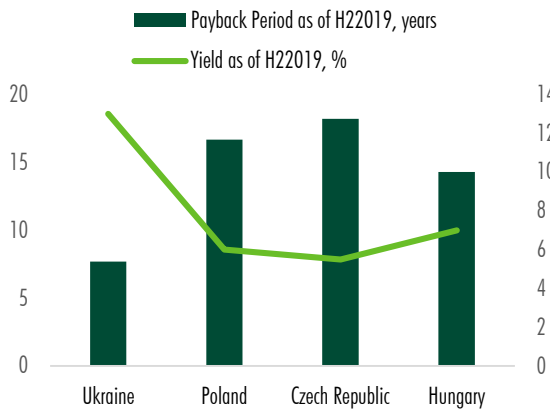
Figure 3: Lease Take-up Structure by Transaction Size*



*number of lease transactions
Source: Ukraine State Statistics Committee

The above being said, rental rates in the Kyiv area are already generally higher compared with CEE countries. However, absence of development finance combined with no large international developers in Ukraine drives RRRs and construction costs much higher, as developers typically face 100% equity structures on smaller volume projects.

Figure 4: Comparison of Payback Period and Yields as of H22019 among CEE Countries



Source: CBRE Ukraine

Thus, the break-even rental rate for new warehouse development in Ukraine currently stands at ca. \$5.5-6.0/sqm/month, which can be expected within 6-12 month period. When adding to this period another 12-18 months required to deliver new product, a new wave of supply can be placed in and around 2021-22.

The total competitive stock remained at the H22018 level of 1.26 mio sqm. However, the anticipated commissioning of Unilogic Park III by the end of 2019 will deliver additional 22,000 sqm, which is not expected to have any noticeable effect on the market. Regarding the pipeline for 2020-2021, very small additional volume of 84,000 sqm is currently planned for delivery in Amtel Phase II (52,000 sqm), Mirazh 3 (9,000 sqm), and SAN Factory 2 Storage Area Network (23,000 sqm). However, due to a very short project timeline for a warehouse scheme, new developments can be expected in the interim, should favorable macroeconomic conditions and rental rates come into play.

Table 2: Key Warehouse Schemes in the Pipeline for H22019-2020

NAME	DEVELOPER	WAREHOUSE PREMISES, SQ M	STATUS	ANNOUNCED COMPLETION
Unilogic Park III	MERX	22,000	Under Construction	H22019
Mirazh 3	Mirazh	9,000	Under Construction	2020
Amtel (Phase II)	Amtel Properties	52,000	Under Construction	2020
SAN Factory 2 Storage Area Network	Skyline Development	23,000	Project	2020

Source: CBRE Ukraine

Vacancy & Rents

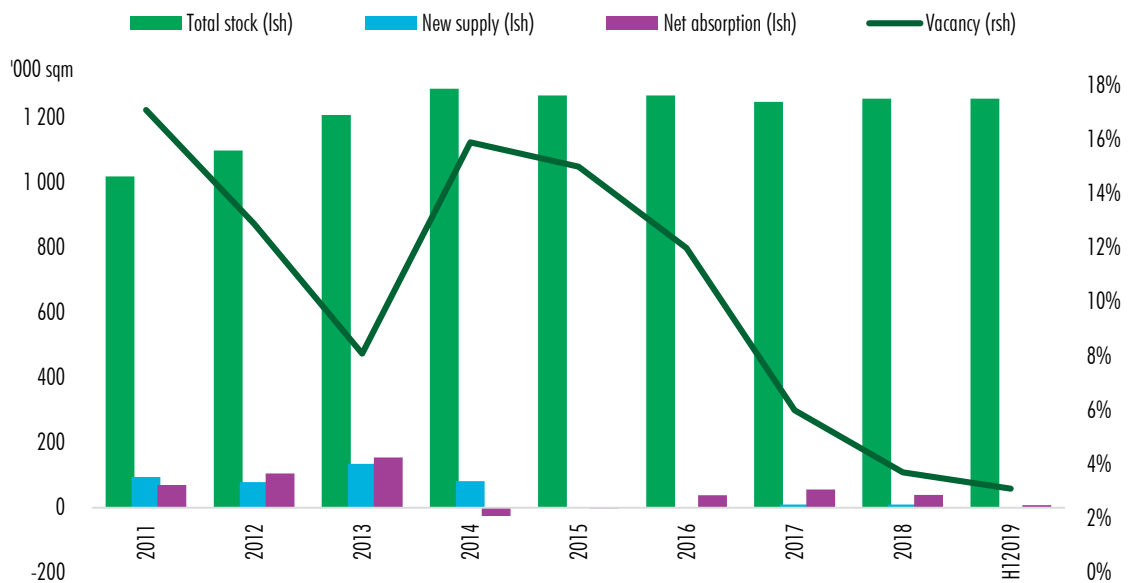
In H12019, average vacancy decreased to 3.1% (-0.6pp YTD) due to zero-amount new supply as well as strong demand for storage facilities from 3PL&Transportation companies. As a result, the market is now experiencing a noticeable shortage of warehouse space availability, which, in its turn, means that the landlords are increasingly holding off for higher rates. Therefore, even after completion of projects currently under construction and addition of new supply in the amount of 106,000 sqm over H22019-2020, the vacancy will unlikely increase, as the annual demand remains much higher than projected new supply. Ultimately, the market is waiting for acceleration of development activity and completion of new projects attributed to the growth in rental rates and improvements on the financial market.

In contrast to 2018, when 74% of the vacant space were concentrated along the Zhytomyr (M-06, E-40) Highway and the balance of 26% were available along the Kharkiv (M-03, E-40) Highway, in H12019, the available supply was distributed along Kharkiv (M-03, E-40), Zhytomyr (M-06, E-40), and Warsaw (M-07, E-373) highways, accounting for 67% (+41pp YTD), 20% (-54pp YTD), and 13% (+13pp YTD) respectively. Nonetheless, given the overall low

Volumes of vacant space across the board, the remaining vacancies are not indicative of relative attractiveness of one highway vs another. New and modern supply along any of the highways would be quickly absorbed by the so-called delayed demand.

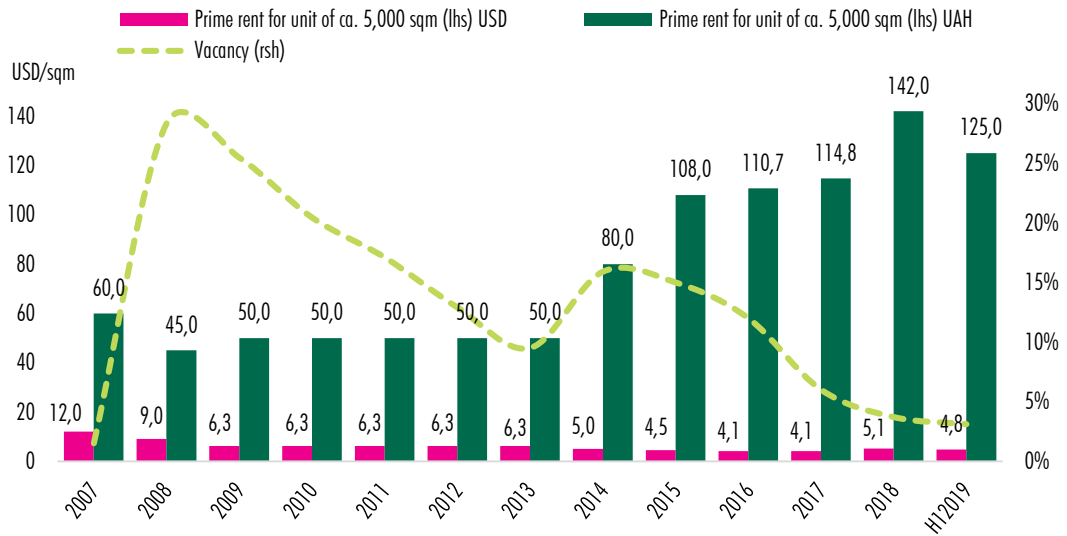
As of the end of H12019, asking rents varied in the UAH125–UAH157 (\$4.8 - \$6.0) /sqm/month range in A-class ambient warehouse properties. The upper bound of USD-denominated range rose by ca. 5% YTD as a result of low vacancy and no new completions. However, due to the strengthening of the national currency by 6.6% over H12019, the upper bound of asking UAH-denominated rates decreased by 1.9% YTD. The upper bound of the actual rents for A-class ambient warehouses decreased to UAH125(\$4.8)/sqm/month (-5.9% YTD for USD-denominated rate), whilst the lower bound increased to UAH110 (\$3.9) per sqm/month (+8.3% YTD). Rents for B-class ambient warehouse schemes remained stable in the UAH81-UAH110 range (\$3.1-\$4.2)/sqm/month, with the upper bound for USD-denominated rates posting a +7.7% YTD upturn. Asking rents for Class A cold warehouses (temp. between 0-6°C) varied in the UAH267-UAH292 (\$10.2-\$11.1)/sqm/month range, while actual rents were

Figure 4: New Supply, Net Absorption and Vacancy Rate



lsh – left hand side; rsh – right hand side
Source: CBRE Ukraine

Figure 6: Actual Prime Rental Rate and Vacancy, as of the end of H1 2019



lhs – left hand side; rhs – right hand side
Source: CBRE Ukraine

between UAH250-275 (\$9.6-10.5)/sqm/month. The upper bound of USD-denominated asking rates for cold warehouses increased by 35% YTD with actual rates rising by ca. 40% YTD. Limited new supply favored current landlords with the trend expected to continue in the short run.

Investment

In H12019, the volume of investment transactions on the warehouse market amounted to 19,000 sqm (-77% y-o-y) in one transaction (vs. 4 in H12018), in which Arktika warehouse was acquired by Dragon Capital in Q12019. With no substantial development in the pipeline, investment activity on the warehouse market is expected to remain subdued in the short to medium term. In general, with warehouse market being typically the third pick in the office-retail-w/h mix, and the segment presenting few immediate investment opportunities, investor attention in the immediate future is expected to focus more on office and retail segments with more opportunities on the table.

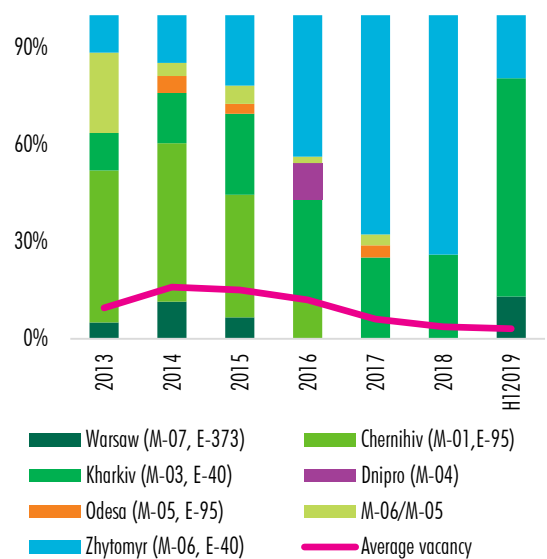
Yields for prime warehouse properties remained stable from the beginning of the year at 13.00%. The major factors impacting investor sentiment in H12019 were political uncertainty and lack of new supply. Although there were no negative signals for investors after the Presidential elections in April 2019, investors adopted the wait-and-see approach in anticipation of the

outcome of Parliamentary elections and change of Government. We expect that there will not be a substantial increase in the investment volume until the end of 2019, as few investment grade opportunities exist on the market before new supply is delivered.

Outlook

The demand on the warehouse market is expected to post moderate growth in the next 12 to 18 months, as economic growth accelerates, business sentiment improves, and the national currency continues to remain stable. At the same time, CBRE Ukraine expects further income and

Figure 5: Vacant Stock Distribution by Highways*



lhs – left hand side; rhs – right hand side
Source: CBRE Ukraine

capital appreciation of existing warehouses due to the lack of new supply over the next 18 months, as well as the resulting upward pressure on rental rates, as the economy and retail sector continue to expand.

From H12020, a substantial increase in the take-up vs prior periods is anticipated, as projects currently under construction are being pre-leased. With the currently developed new supply insufficient to meet the demand, landlord's market is going to last till the end of H22020 at least. Such situation will lead towards an increase in USD-denominated leases or leases with FX-hedge provisions. It is expected that most of the leases will be again USD-denominated by the end of 2020.

The other new market development, however, is being shaped by the growth of omnichannel

stores. Both e-commerce and omnichannel stores are creating additional demand for inner-city warehouses. As retailers continue to outsource logistics and storage processes and e-commerce continues to grow, Wholesale&Retail and 3PL&Transportation companies will likely remain key market players in the immediate future. This trend will, in turn, facilitate the development of cross-docking solutions which contribute towards reducing storage and handling costs. The imminent development and redevelopment of inner city warehouses is a new trend in warehouse development in response to growth in e-commerce and omnichannel stores . Small lot size, high rental rates and abounding city infrastructure make this sub-segment a hot potato as Ukrainian warehousing market continues to take shape.

Key Warehouse Market Indicators Summary and Outlook



NEW SUPPLY

H1 2018	3.5 ('000 sqm)
H1 2019	0.0 ('000 sqm)
H2 2019	Upward Trend



AVERAGE VACANCY

H1 2018	4.3%
H1 2019	3.1%
H2 2019	Downward Trend



TAKE UP

H1 2018	100 ('000 sqm)
H1 2019	65 ('000 sqm)
H2 2019	Upward Trend



PRIME RENT

H1 2018	\$5.2 sqm/month)
H1 2019	\$4.8 sqm/month)
H2 2019	Upward Trend

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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