

Kyiv Office Market

Prime Rent on the Rise Due to Strong Demand for Scarce Quality Space



Annual Take-up ▲
170,000
 sqm (+17% y-o-y)



Vacancy ▲
8.5%
 (+4.2 pp y-o-y)



Prime Rent ▲
\$27
 sqm/month (+8% y-o-y)

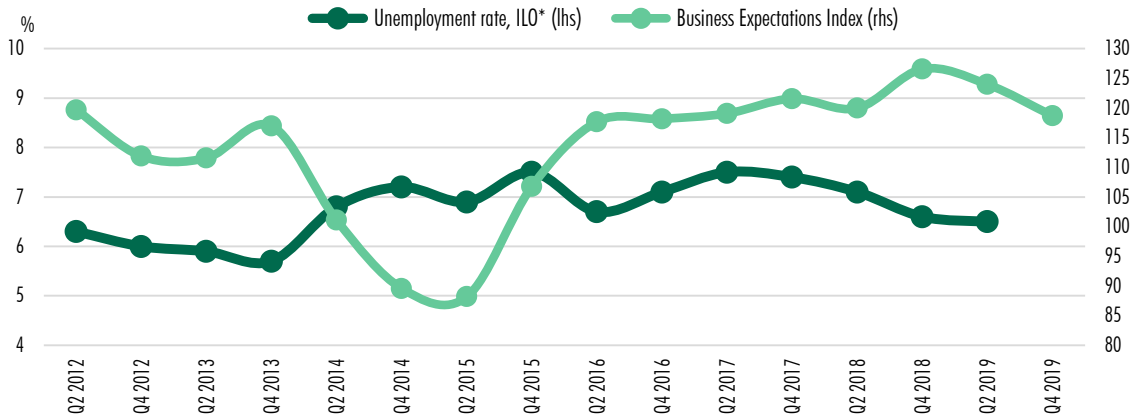
Demand

Macroeconomic situation largely improved in 2019 despite increased political risks stemming from double elections in Ukraine. Real GDP demonstrated moderate growth for the fourth year in a row, adding 3.3% y-o-y in 2019 (latest NBU estimate). Kyiv business expectations for 12 months ahead went slightly down to 118.7 in Q4 2019 (-7.9pp y-o-y), with the parameter, nonetheless, remaining in the positive territory starting from Q2 2016. Thus, along with further decline of unemployment rate (-0.4pp y-o-y to 6.1% in January-September 2019) and rapid growth of IT cluster (ca. +20% y-o-y in 2019), the need for office premises continued to expand.

Annual take-up totaled 170,000 sqm (+ ca. 17% y-o-y), thereby beating post-crisis period (2015-2018) record of 155,000 sqm in 2017, with IT, High Tech and Telecommunication sector representing 44% of the total absorbed area (+4% y-o-y).

The largest transactions of this industry in 2019 included expansion of SoftServe in Avenue 53 BC (12,700 sqm GLA) and relocation & expansion of EPAM Systems in Europassage BC (7,100 sqm GLA). Beyond dramatic expansion of IT sector in Ukraine, strong demand from these companies over the past five years has been due to the flexible nature of their work. Majority of IT specialists provide outsourcing/outstaffing services for international corporations and are often engaged in temporary projects, thereby increasing labor mobility. This factor has simultaneously stimulated the demand for coworking spaces, which was high enough to warrant separation of Coworking & Serviced Offices sector from other Business Services (lawyers, auditors, consultants, etc.) in 2019. This way, flexible office providers represented 12% of the total take-up, with transactions of

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



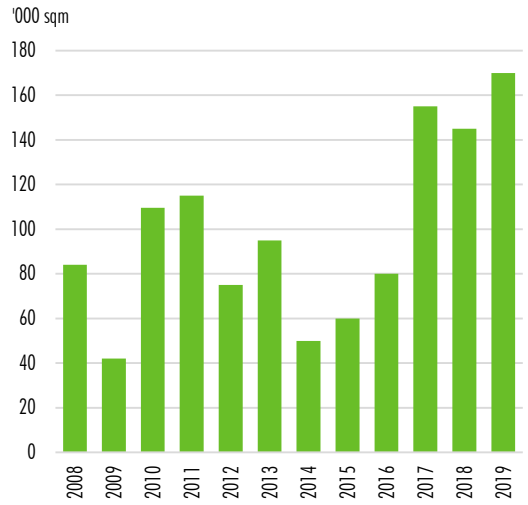
Source: National Bank of Ukraine, Ukraine State Statistics Committee; *latest available data as of the end of Q1-Q3 2019; lhs – left hand side; rhs – right hand side

Kooperativ in Paladis BC (3,900 sqm GLA) and Platforma at 35 Borychiv Tik St. (3,900 sqm GLA) being the most notable. Manufacturing, Industrial & Energy sector increased its share from 1% in 2018 to 25% in 2019 owing to sizable transactions of Energoatom at 22-24 Hoholivska St. (9,000 sqm GLA), DTEK Academy (4,400 sqm GLA) and Metinvest (2,500 sqm GLA) in Unit.City Business Park.

With revival of the economy underway, business activity improved in 2019, increasing the share of new entries in the take-up structure by 19 pp y-o-y to 28%. The trend is indicative of a growing number of start-ups and increased interest from international companies in Ukraine. At the same time, occupiers motivated by relocation decreased their share by 29 pp y-o-y to 24%, indicative of a growing market trend, where relocation opportunities are becoming even costlier and are typically made when driven by quality rather than cost.

Lease transactions of more than 1,000 sqm led the way with ca. 90% in the take-up structure by volume, indicating the trend of growing average unit size. The share of transactions of more than 4,000 sqm increased markedly in 2019 to 14% (+10 pp y-o-y), with the trend set to continue. As average unit size is growing, developers are facing the reality of having to develop office

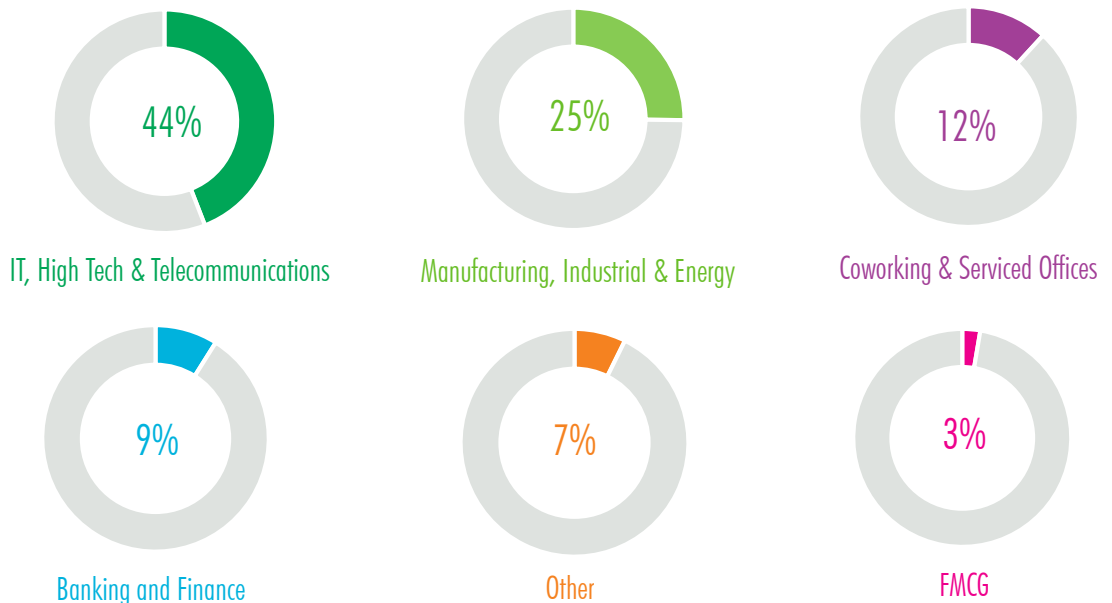
Figure 2: Take-Up in 2008-2019, '000 sqm



Source: CBRE Ukraine

buildings with ever larger floor plates. Whereas in the mid 2000's a floor plate as small as 500 sqm appeared normal for a typical tenant, as subdivisions in larger professional buildings were often made to accommodate units as small as 150-200 sqm, a new modern property has to offer a floor plate of well over 1,000 sqm to be competitive on both occupier as well as capital markets. And this trend is putting an ever growing pressure on the ageing stock by re-profiling its occupiers towards more traditional, less agile and less flexibility-driven entities who are making up an ever smaller portion of the market.

Figure 3: Total Take-Up Structure by Motivation (% share)



Source: CBRE Ukraine

Table 1: Key Office Lease Transactions in H12019

OCCUPIER	INDUSTRY	PROPERTY	ADDRESS	TRANSACTION TYPE	GLA SQ M
SoftServe	IT, High Tech & Telecommunications	Avenue 53	53 Peremohy Avenue	Expansion	12,700
Confidential	Manufacturing, Industrial & Energy	Confidential	Confidential	New Entry	10,700
Energootom	Manufacturing, Industrial & Energy	Office Scheme (Merx Group)	22-24 Hoholivska St.	Relocation & Expansion	9,000
EPAM Systems	IT, High Tech & Telecommunications	Europasage	54 Simi Prakhovykh St.	Relocation & Expansion	7,100
Confidential	Banking and Finance	Confidential	Confidential	Relocation	6,400
DTEK Academy	Manufacturing, Industrial & Energy	Unit City Business Park	3 Dorohozhitska St.	Relocation & Expansion	4,400
Confidential	IT, High Tech & Telecommunications	Confidential	Confidential	New Entry	4,100
Confidential	Banking and Finance	Confidential	Confidential	Expansion	3,900
Platforma	Coworking & Serviced Offices	Office Scheme	35 Borychiv Tik	Expansion	3,900
Kooperativ Mind	Coworking & Serviced Offices	Paladis	23A Sichovykh Striltsiv St.	New entry	3,900
Borjomi	FMCG	IQ	13-15 Bolsunovska St.	Relocation	3,700
Confidential	IT, High Tech & Telecommunications	Confidential	Confidential	New entry	3,600
Confidential	Agriculture	Confidential	Confidential	Relocation	3,000

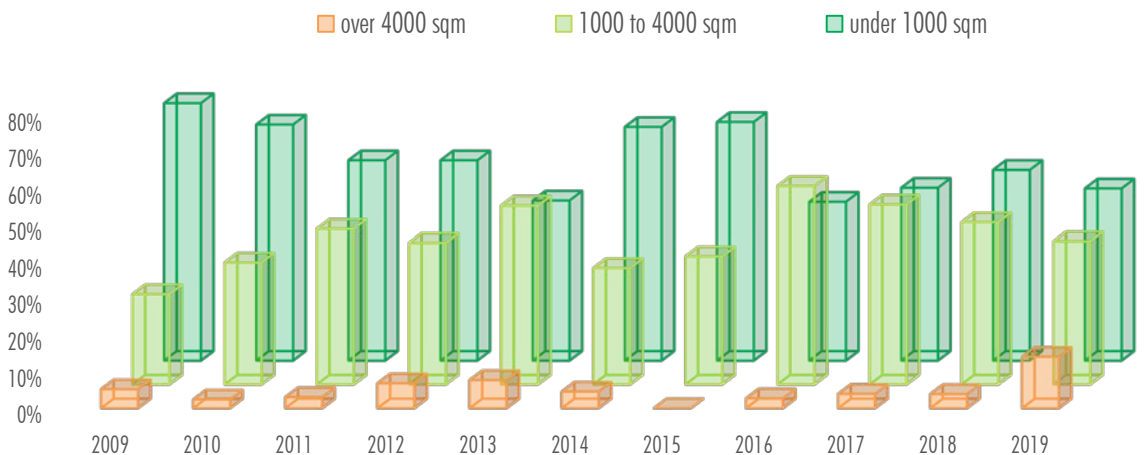
Source: CBRE Ukraine

Supply

The last four years were characterized by a rapid recovery of the Kyiv construction index (measures construction output by type with the comparison base of 100.0 points in 2010), with non-residential buildings component reaching an eight-year-record in 2019 (137.9 points). New office supply almost doubled in 2019 vs 2018 and amounted to ca. 100,000 sqm, with major new deliveries being Sigma BC (19,000 sqm GLA), Wave Tower BC (15,000 sqm GLA) and UNIT.City B10 (10,400 sqm GLA). The first two were delivered in the third quarter of 2019 and were still fully vacant at the end of the year, being thus indicative of lower

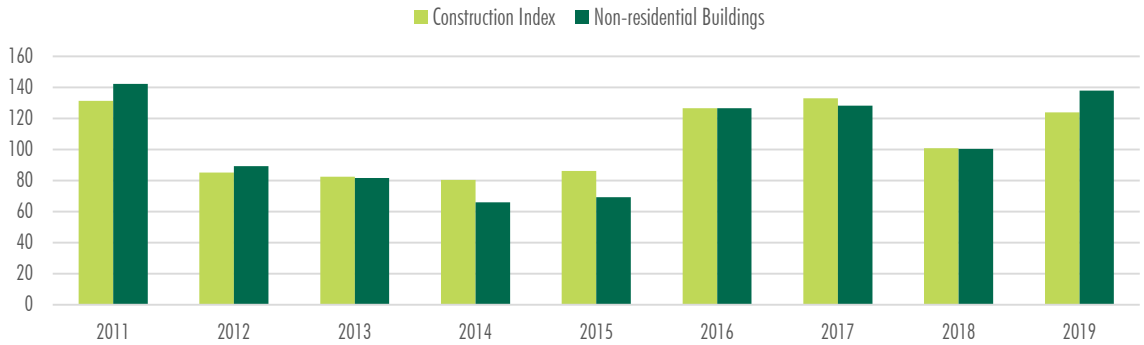
demand in non-central submarkets. The rest of new supply in non-central locations was represented by B-class properties in Amarcord BC (6,700 sqm GLA), XSpace BC (6,000 sqm GLA), Azor BC (5,400 sqm GLA) and Forum City Garden BC (5,100 sqm GLA). In central business districts new supply was limited to the technically commissioned Rich Port BC (9,000 sqm GLA) in Podil and reconstructed office scheme at 22-24 Hoholivska St. (9,000 sqm GLA) which accounted for ca. 80% of the new supply in A-class locations. As a result, total competitive stock edged marginally upwards by 6% to 1.8 mio sqm by the end of 2019.

Figure 4: Lease Take-up Structure by Transaction Size*



*number of lease transactions
Source: CBRE Ukraine

Figure 5: Kyiv Construction Index in 2011 – 2019



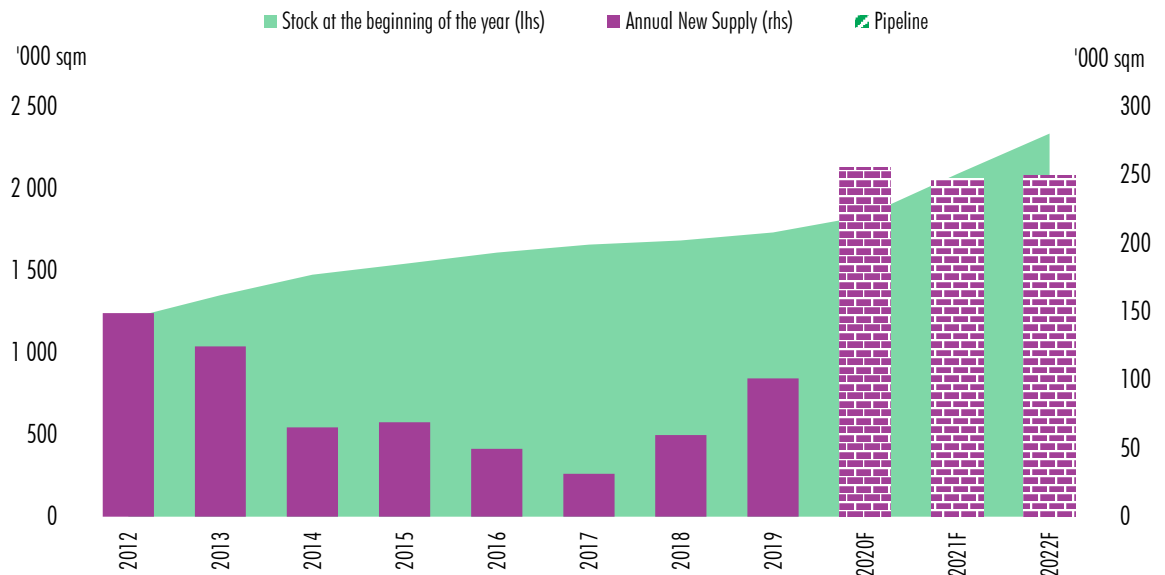
Source: Ukraine State Statistics Committee

A particular mention should be made of the mismatch of demand for and supply of larger units of over 4,000 sqm in size. As occupiers of this size are popping up increasingly faster, existing availability of properties to accommodate such units is becoming even more limited. And occupiers of 8,000 sqm or more are nearly exclusively left to consider unfinished or build-to-suit projects. Thus, the expanding need for large units is reflected in the increasing trend of pre-leases in projects under-construction. This way, most of the new developments offering large floor plates of over 1,500 sqm and availability of contiguous units of 5,000-10,000 sqm are being increasingly leased out well ahead of completion. And whereas a typical business plan calls for 1-2 years to lease up a new business center of ca. 20,000 sqm, today's reality is that such properties

are fully leased pre-completion. According to announced developer plans, new supply in 2020 is bound to increase significantly, reaching ca. 255,000 sqm for the year. Moreover, nearly the same amount is expected to be delivered in 2021 (ca. 247,000 sqm) and possibly as much again in 2021 (ca. 200,000-300,000 sqm).

A noticeable portion of Kyiv's office pipeline for the mid-term perspective includes reconstructions of obsolete industrial facilities, reflecting a continued trend of redevelopment of abandoned industrial spaces in central locations. Thus, part of former Arsenal plant and Voronin knitting factory are to be converted into M8 BC at 8 Moskovska St. (11,000 sqm GLA) and Platforma BC at 3 Korolenkivska St. (19,500 sqm GLA) respectively.

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



Source: Ukraine State Statistics Committee

Vacancy and Rents

Average vacancy rate increased by 4.2 pp y-o-y to 8.5% amidst growing new supply. It should be noted, however, that in 2019 CBRE Ukraine recalculated vacancies retrospectively based on a more scientific approach instead of the prior methodology, which used to allow for more weight being given to a qualitative opinion. Thus, according to our new calculations, the vacancy in Q4 2018 stood at 4.3% vs 9.8% per prior calculations, thus leading to the y-o-y growth of the average vacancy rate as of Q4 2019. Non-central submarkets retained the highest level of vacancy at 19.2%, as larger-size properties, such as Sigma BC and Wave Tower BC, delivered in 2019, remained vacant at the end of the year. Meanwhile, Pecherskyi district

had the lowest vacancy rate (2.7%) with no new delivery being present in this submarket in 2019. Prime rent grew by 8%, reaching **\$27/sqm/month** by the end of the year, as landlords were increasing rates amidst current shortfall of high-quality spaces. Asking rents in A-class ranged between **\$26-45/sqm/month** in Q4 2019, with lower and upper bounds increasing by 53% and 29% y-o-y respectively. Asking rents in B-class followed this trend, as both bounds rose by 16% y-o-y to \$14-30/sqm/month. Significant gap between lower and upper bounds of the ranges is determined by characteristics of the leased unit, with fit-out condition, location of the property and overall building vacancy being the determining factors.

Vacancy Rate (%) and Annual New Supply 2019 (sqm) on the Map of Kyiv Office Submarkets

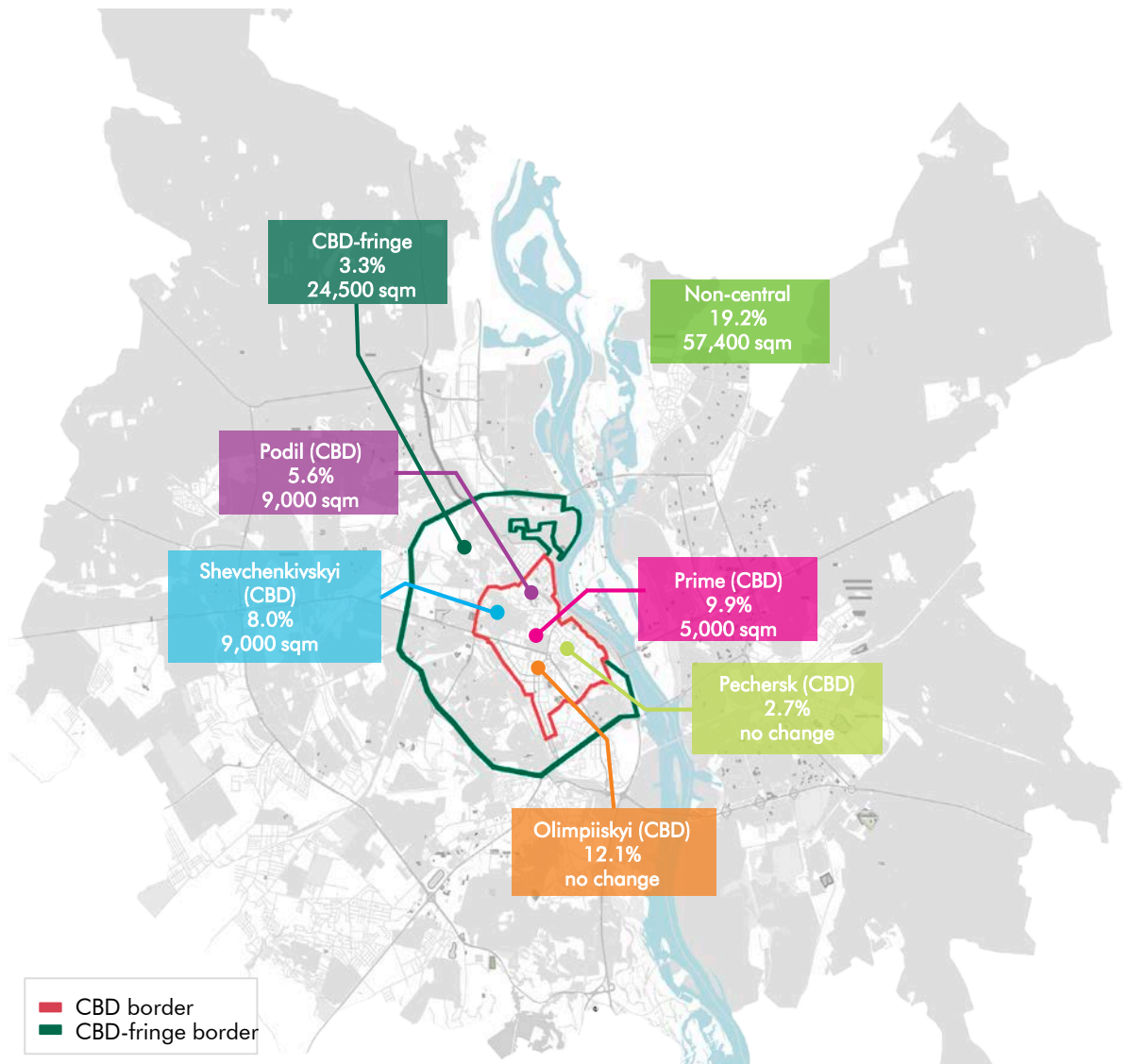
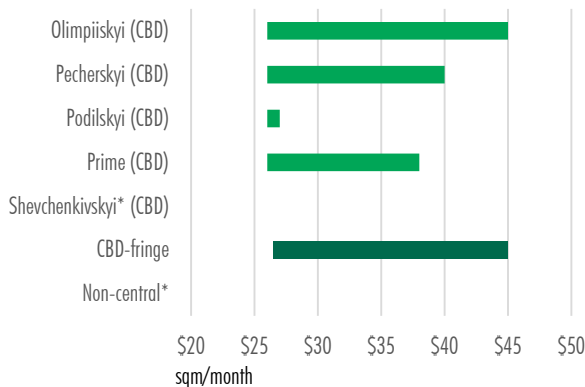


Figure 7: Kyiv A-class Asking Base Rental Range¹ by Submarket as of the end of 2019 (USD/sqm/month)



¹Range includes office space for lease in different fit-out conditions

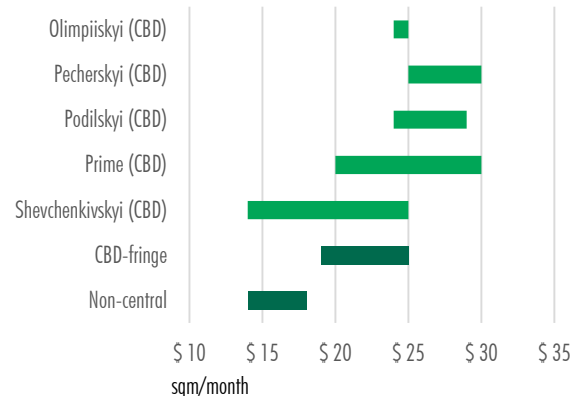
*No vacant premises as of research date

Source: CBRE Ukraine

Investment

Ukrainian presidential and parliamentary elections were key deterrents to investors in 2019, clouding business forecasts. Investment activity came to a near standstill from introduction of the Martial Law in late 2018 until parliamentary elections in June 2019. Nonetheless, after a 7-month standstill, investment activity kicked back into gear in H2, as investors increasingly felt prospects for growth of the Kyiv office market amidst macroeconomic stabilization and overall government reform agenda. Total investment volume in Kyiv for the year declined to ca. \$73mio in 2019 vs ca. \$130 mio in 2018. Key transactions were completed by Merx Group in the acquisition of office building of former Kreshchatyk Bank for ca. \$17mio and Incom BC for ca. \$15mio. Next, Dragon Capital bought three small office buildings in Kyiv with the total area of 12,900 sqm, increasing the number of office buildings in its real estate portfolio to 11. Despite the decreased investment volume, 2019 was characterized by several sizable development investments (purchases of properties which require heavy capital expenditures before they become income-generating). One such transaction was the sale by VTB Bank of unfinished Sigma BC at 6 Vatslava Havela Blvd. to Merx Group for the reported amount of ca. \$13mio. Another notable transaction was between Ukrgazbank and Ukrbud, with the latter purchasing Block 4 of Arsenal Plant for ca. \$21mio. However, the developer went bankrupt at the end of 2019, leaving the fate of the project unclear.

Figure 8: Kyiv B-class Asking Base Rental Range¹ by Submarket as of the end of 2019 (USD/sqm/month)



Overall positive trends of the real estate market in H2 2019 counterbalanced the scale of the wait-and-see approach in H1, with prime yields remaining broadly flat in 2019 at 11.75%.

Outlook

Shortage of quality office spaces in Kyiv re-activated development, with new supply increasing by 70% y-o-y in 2019. Furthermore, ca. 255,000 sqm is expected to be commissioned in 2020 if the announced new properties are delivered as intended. And despite such number representing a surge in supply, we believe the bulk of this new space will be absorbed pre-completion via deferred demand for large, high-quality premises from fast-growing IT & Flexible Office sector in Ukraine. Thus, average vacancy rate will probably remain stable or demonstrate a slight increase by keeping rental rates broadly stable, with moderate growth likely for premium space. Going beyond 2020, as supply and demand are expected to match each other in the next 2-3 years, we do not expect significant fluctuations in the rental rates in the medium term future either. Investment activity in 2020 is expected to step up after the slow-down of H1 2019. Yields are expected to strengthen moderately, as financial markets improve and more interest from international investors is expected. However, noticeable positive shifts in both local and foreign investment will only be possible if Ukraine continues to implement sound structural reforms, improve rule of law, and no exogenous shocks materialize.

Key Office Market Indicators Summary and Outlook



H2 2018 **60.0 ('000 sqm)**
 H2 2019 **100 ('000 sqm)**
 H1 2020 **Upward Trend**



H2 2018 **145 ('000 sqm)**
 H2 2019 **170 ('000 sqm)**
 H1 2020 **Upward Trend**



H2 2018 **9,8%**
 H2 2019 **8,5%**
 H1 2020 **Stable/Upward Trend**



H2 2018 **\$25 (sqm/month)**
 H2 2019 **\$27 (sqm/month)**
 H1 2020 **Upward Trend**

Source: CBRE Ukraine

Table 2: Office Pipeline for 2020-2022

NAME	CLASS (QUALITY & LOCATION)	ADDRESS	GLA, SQM	STATUS
2020				
Avenue 53	AC	53 Peremohy Ave.	18,500	U/C
Forum Park Tower	AC	7A Parkovo-Syretska St.	7,500	U/C
Forum Infinity	AA	53/80 Saksahanskoho St.	8,500	Reconstruction
UNIT.City B11 (B4)	AB	3 Dorohozhytska St.	5,100	U/C
UNIT.City (B14)	AB	3 Dorohozhytska St.	8,900	U/C
UNIT.City (B15)	AB	3 Dorohozhytska St.	7,700	U/C
UNIT.City (B16)	AB	3 Dorohozhytska St.	9,100	U/C
UNIT.City (B17)	AB	3 Dorohozhytska St.	12,400	U/C
K/MOST	AB	5A Zoolohichna St.	5,500	U/C
Retroville	BC	47 Pravdy Ave.	11,100	U/C
Hillfort Business Mansion	AA	12 Mykhailivska St.	8,600	U/C
Platforma (Fabrika Voronin) I	AA	3 Korolenkivska St.	19,500	Reconstruction
Office Scheme (D/Z21H)	AB	21H Dehtiarivska/Zoolohichna St.	11,000	U/C
Office Scheme (K4-6) I	AA	4-6 Korolenkivska St.	20,000	U/C
M8	AA	8B Moskovska St.	11,000	Reconstruction
Arcenal K 14	BA	8 Moskovska St.	3,800	Reconstruction
Zoranyi	BA	31/33 Moskovska St.	7,800	Reconstruction
Lukianivskiyi (ex Topaz)	BB	2/10 Yurii Illienka St.	22,000	U/C
Office Scheme (H4)	BC	4 Harmatna St.	12,400	Reconstruction
Office Scheme (S26/14)	BA	26/14 Spaska St.	9,400	U/C
Eleven III	BB	11 Solomianska St.	16,500	U/C
Gloria	BC	9B Smolna St.	4,500	Reconstruction
Office Scheme (Pr8A)	AA	8A Prorizna St.	6,000	Reconstruction
Forum City Garden II	BC	6 Amurska St.	8,500	U/C
2021				
UNIT.City (B0)	AB	3 Dorohozhytska St.	7,600	U/C
UNIT.City (B18)	AB	3 Dorohozhytska St.	18,900	U/C
Magnett I	AB	137-139 Velyka Vasylkivska St.	33,000	U/C
Magnett II	AB	137-139 Velyka Vasylkivska St.	10,000	U/C
Office Scheme (K4-6) II	AA	4-6 Korolenkivska St.	60,000	U/C
Portal	BB	71 Kostiantynivska St.	34,500	Project
Protasiv Business Park	BB	2/1 Mykoly Hrinchenka St.	58,700	Reconception
Office Scheme (L16)	BB	16 Lavrska St.	15,000	Reconstruction
Andriyivsky Business Space	AA	19 Andriivska St.	9,600	Reconstruction
2022				
UNIT.City (B1)	AB	3 Dorohozhytska St.	12,000	U/C
UNIT.City (B2)	AB	3 Dorohozhytska St.	7,800	U/C
UNIT.City (B3)	AB	3 Dorohozhytska St.	9,600	U/C
ITT Plaza	AA	16-20,22 Korolenkivska St.	77,000	U/C

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**

CONTACTS

For more information regarding this Market Report, please contact:

Sergiy Sergiyenko

Managing Partner

e: sergiy.sergiyenko@cbre-expandia.com

Radomyr Tsurkan

Managing Partner

e: radomyr.tsurkan@cbre-expandia.com

Diana Starunchak

Head of Marketing and Research

e: diana.starunchak@cbre-expandia.com

Liudmyla Dunaieva

Senior Analyst

e: liudmyla.dunaieva@cbre-expandia.com

FOLLOW US ON:



DISCLAIMER 2020 CBRE

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by Expandia LLC | Part of the CBRE affiliate network clients, and cannot be reproduced without prior written permission of Expandia LLC | Part of the CBRE affiliate network.

© Copyright 2020 Expandia LLC | Part of the CBRE affiliate network