

Kyiv Warehouse Market

Acute Shortage of Available Space Nudges Prime Rent Upwards



Take-up ▼
138,000
sqm (-12% y-o-y)



Vacancy ▼
2.5%
(-1.2 pp y-o-y)



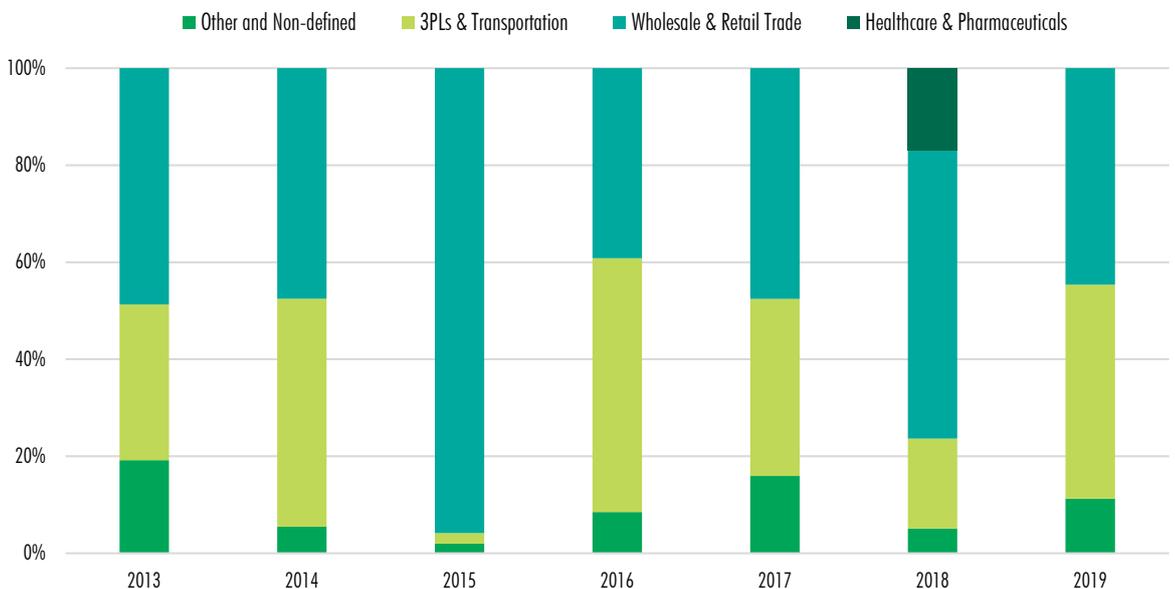
Prime Rent ▲
\$5.5
sqm/month (+8% y-o-y)

Demand

Despite political uncertainty in the wake of double elections in Ukraine along with martial law introduced at the end of 2018, leasing activity on the warehouse market was not impacted, with ca. 20 transactions completed evenly throughout 2019. Annual take-up amounted to ca. 138,000 sqm, demonstrating a 12% y-o-y decline primarily due to scarce volume of vacant space, as unsatisfied demand remained strong. Wholesale & Retail Trade sector was the primary demand driver with 45% share in the take-up structure, owing to further growth of retail turnover in Ukraine (+10.5% y-o-y in 2019). This industry saw the most notable transaction in 2019, with BudPostach, a leading national operator of

professional equipment and tools, relocating to Komodor and expanding its warehouse space to 22,000 sqm. 3PL & Transportation operators were similarly active, increasing their share by 25 pp y-o-y to 44%, reflecting an ongoing growth of e-commerce in Ukraine (+26.6% y-o-y in 2019). The largest transactions in this sector included relocation & expansion of STV in Esma (7,600 sqm), as well as expansion of IN Logistic in RLC Peremoha (7,000 sqm) and in BF Terminal (6,300 sqm). Smaller lease transactions of up to 5,000 sqm led the way with 50% in the take-up structure; however, they still posted a drop for the second year in a row (-17 pp y-o-y in 2019), as mid-size lots of 5,000 -10,000 sqm became more

Figure 1: Total Take-up Structure by Industry*



*volume of transactions
Source: CBRE Ukraine

popular (+23 pp y-o-y to 45% in 2019). Despite the fact that ever more companies require large-size warehouse units, transactions of over 10,000 sqm have shrunk to mere 5% in 2019, more as a result of supply shortage for large units rather than falling demand. The majority of transactions in 2019 were related to expansion as well as relocation & expansion (75% and 15%, respectively), with only 10% left to pure relocations. Such a structure of the annual take-up is indicative of positive business expectations on the back of macroeconomic improvements in the country.

Supply

In 2019 new supply on the warehouse market was limited to meagre 22,000 sqm, which was fully attributed to the delivery of Unilogic Park III in the final quarter of the year. This single completion was significant enough for the annual figure of completions to double, compared to 2018, pointing to minuscule new supply in the previous periods as well. Looking at the dynamics of the last five years, new supply was significantly constrained (and even non-existent in 2015-2016), as large vacancy and rental levels were insufficient to justify new development. Another deterrent to supply over the last several years was negative development value, with a completed project costing more to build than its resulting investment value. However, with rental levels finally heading towards break-even-point for

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



*number of lease transactions
Source: CBRE Ukraine

developers, preparations for new projects are again actively underway. An additional major constraint for new development remains immature financial market. Despite noticeably positive changes over the past 6-8 months in macro indicators, development finance for commercial projects remains non-existent and is still nowhere in sight. And in view of the fact that warehouse development is a low margin business, financing costs are more acutely felt in this segment than in office or retail development. We therefore expect continued subdued levels of new supply until rental rates breach the \$6/sqm/month ceiling – to go into the unsustainable territory – and/or project finance becomes available, the latter being the less likely of the two in the short to medium term.

Table 1: Key Warehouse Lease Transactions in 2019

OCCUPIER	INDUSTRY	PROPERTY	DIRECTION	SQ M	DEAL TYPE	Class
BudPostach	Wholesale & Retail Trade	Komodor	Zhytomyr M-06 E-40	22,000	relocation&expansion	A
Good Wine	Wholesale & Retail Trade	West Gate Logistic	Zhytomyr M-06 E-40	9,800	expansion	A
BF Group	Manufacturing, Industrial & Energy	BF Terminal	Kharkiv M-03 E-40	9,200	expansion	A
STV	3PL & Transportation	Esmo	Kyiv	7,600	relocation&expansion	B
IN Logistic	3PL & Transportation	RLC Peremoha	Chernihiv M-01 E-95	7,000	expansion	B
Fozzy	Wholesale & Retail Trade	RLC Peremoha	Chernihiv M-01 E-95	7,000	expansion	B
IN Logistic	3PL & Transportation	BF Terminal	Kharkiv M-03 E-40	6,300	expansion	A
Supermarket KOLO	3PL & Transportation	Plazma Logistic	Kharkiv M-03 E-40	6,000	relocation	B
Kosmo	Wholesale & Retail Trade	Unilogic Park III	Chernihiv M-01 E-95	6,000	expansion	A
NP Logistic	3PL & Transportation	Unilogic Park III	Chernihiv M-01 E-95	6,000	expansion	A
Zammler	3PL & Transportation	BF Terminal	Kharkiv M-03 E-40	4,600	expansion	A
Logistic Plus	3PL & Transportation	West Gate Logistic	Zhytomyr M-06 E-40	4,500	expansion	A
BDU Logistic	3PL & Transportation	Shchaslyve 2	Kharkiv M-03 E-40	4,100	relocation	B
Makita	Wholesale & Retail Trade	Unilogic Park III	Chernihiv M-01 E-95	4,000	expansion	A

Source: CBRE Ukraine

Despite the fact that new development completions amounted to moderate 22,000 sqm in 2019, total competitive stock increased by ca. 13% y-o-y to 1.4 mio sqm, as 4 existing properties totaling ca. 100,000 sqm were reclassified from owner-occupied into competitive stock. Annual take-up as percentage of total competitive stock edged gradually upwards starting from 2016 (except 2019 due to amendments in the database), indicating growing pressure on rates, as supply and demand continued to diverge. Considering that in a normal to growing market, in which Kyiv currently finds itself, take-up can go upwards to 15% of total stock, a conclusion can be made of a palpable volume of unsatisfied demand in Kyiv.

In 2020-2021 a meagre 84,400 sqm of the new supply is currently scheduled to be delivered in Amtel II (52,000 sqm) towards Boyarka (T-1012) and in-city SAN Factory 2 Storage Area Network (23,400 sqm), with the latter catering to the increasing trend of urban warehouses on the back of fast-growing e-commerce and food delivery services. At the same time, subject to continued healthy demand and improvements in the financial market, new schemes are likely to spring up in the interim, as warehouse construction has very short lead times for delivery. In particular, two new projects totaling 390,000 sqm in one location along M-06 highway are being test marketed by two prominent international developers. If launched as intended in 2020, these projects can be delivered over 2021-2024.

Vacancy & Rents

Strong demand for warehouse space along with subdued new supply resulted in further decline of average vacancy rate, a trend which started in 2016. Thus, the vacancy contracted to 2.5% in Q4 2019 vs 3.7% in Q4 2018. Looking into the distribution of vacant space by submarkets, the scant available supply was distributed along Ovruch (P-02) and Odesa (M-05, E-95) highways, accounting for 72% and 28% of the total, respectively. The rest of the locations registered no vacant premises as of the end of 2019.

Figure 3: New Supply, Net Absorption and Vacancy Rate

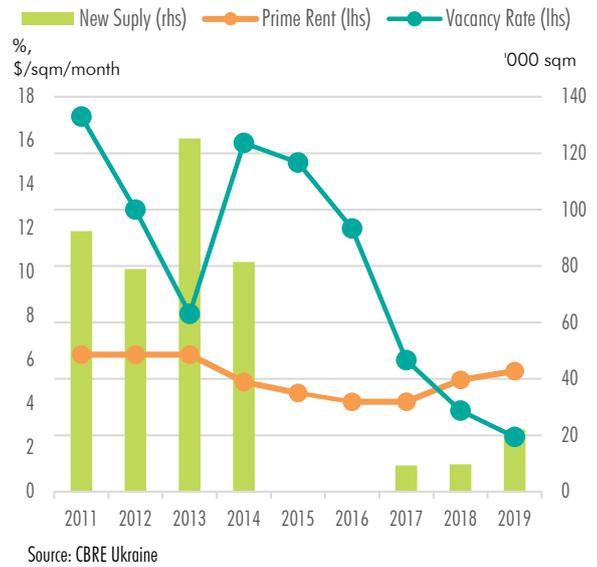


Figure 4: Annual Take-up as a Percentage of Total Competitive Stock in Kyiv in 2009-2019

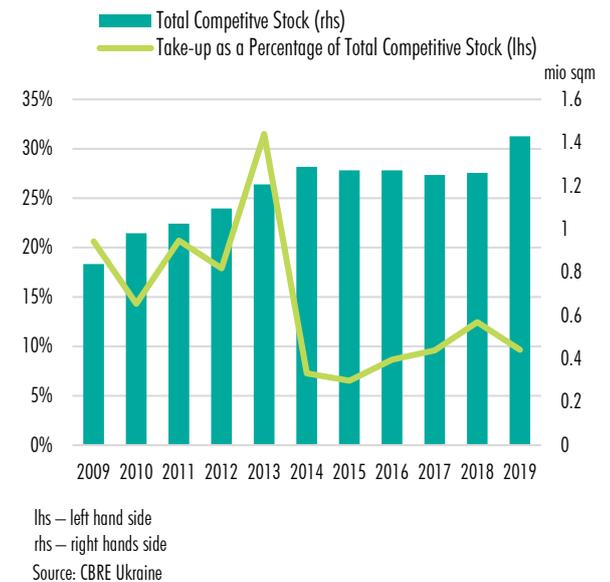
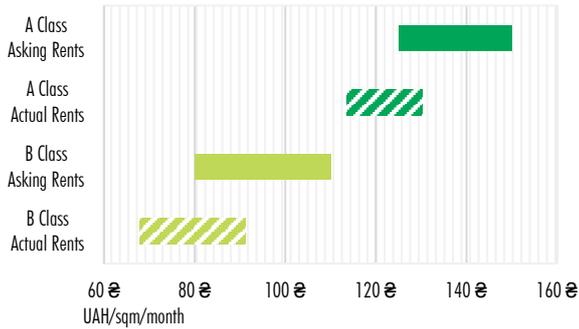


Table 2: Key Warehouse Schemes in the Pipeline for 2020-2021

Property Name	Developer	Warehouse Premises (sqm)	Status	Announced Completion
AMTEL Phase II	Amtel-Properties	52,000	Under Construction	2020
MIRAZH Phase III	Mirazh	9,000	Under Construction	2020/2021
SAN FACTORY 2 STORAGE AREA NETWORK	SkyLine Development	23,400	Under Construction	2021

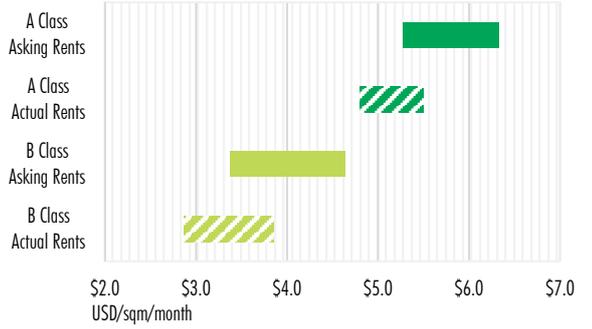
Source: CBRE Ukraine

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



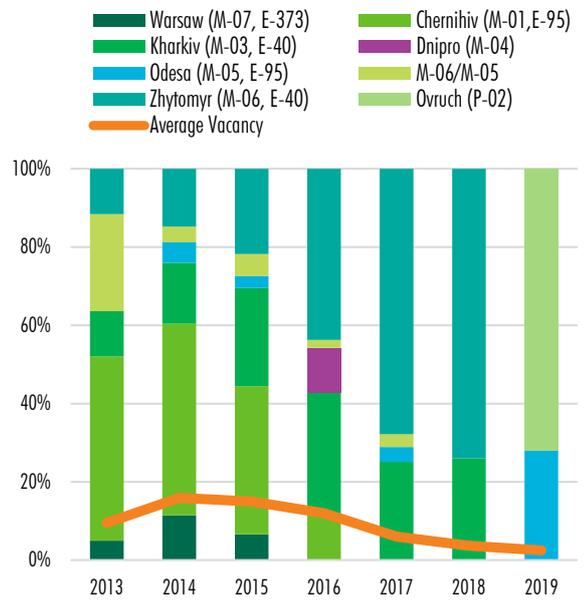
Source: CBRE Ukraine

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



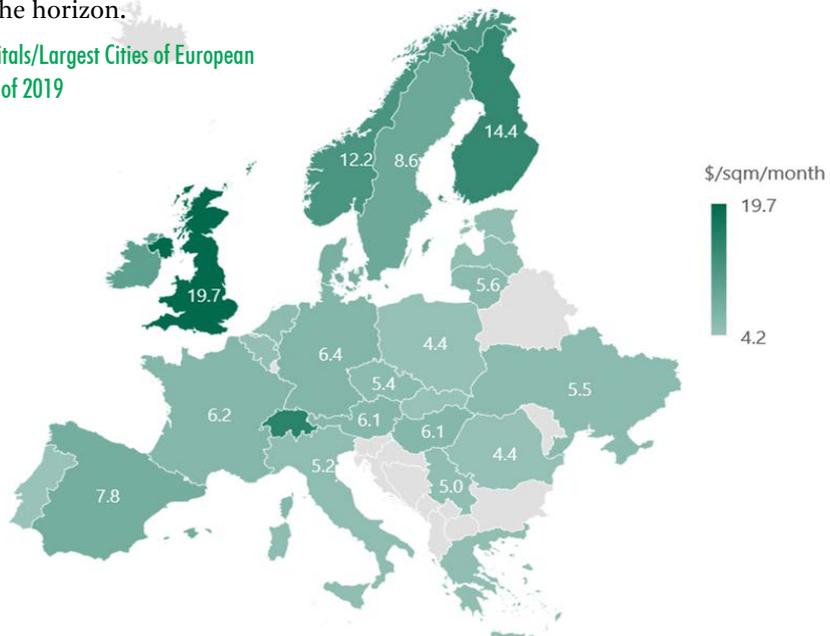
Asking rental rents for cold warehouses remained denominated in hryvnia, ranging between UAH250-300/sqm/month (\$10.6-\$12.7/sqm/month) in Q4 2019. At the same time, asking rents for ambient warehouses started to get back to denomination in USD, oscillating in the \$5.3-\$6.3/sqm/month (UAH125-150/sqm/month) range for A-class properties. Thus, with the widening gap between demand and supply on the market, lower and upper bounds of the range increased in dollar terms by 18% and 11%, respectively. Prime effective rent in ambient warehouses followed the upward trend and varied from \$4.8/sqm/month to \$5.5/sqm/month in Q4 2019 (+34% and +8% y-o-y, respectively), exceeding the level of some CEE countries (\$4.3/sqm/month in Bratislava, \$4.4/sqm/month in Warsaw and Bucharest, ca. \$5.0/sqm/month in Riga and Tallinn, \$5.4/sqm/month in Prague). Asking rental rates for B-class ambient warehouses also increased from \$2.7-\$3.9/sqm/month (UAH75-110/sqm/month) in Q4 2018 to \$3.4-\$4.6/sqm/month (UAH80-110/sqm/month) in Q4 2019 hopefully setting the stage for more supply on the horizon.

Figure 7: Vacant Stock Distribution by Highways*



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

Prime Rents in the Capitals/Largest Cities of European Countries as of the end of 2019



Investment

Annual investment volume on the warehouse market amounted to moderate \$31mio (-12% y-o-y), as investors were in the wait-and-see mode due to political uncertainty in Q4 2018 – Q2 2019. After picking up in H2 2019, investor sentiment remained relatively positive in view of strong macroeconomic fundamentals and a positive outlook for the warehouse market going forward. Prime yields, thus, remained broadly stable in 2019 at 13.00%.

Among notable transactions were the sale of FIM Service warehouse (26,700 sqm) in Chaiky and Arktika warehouse (21,500 sqm) in Sofiivska Borschahivka. Additionally, end-user acquisitions took place in 2019 in Brovary (10,500 sqm) and in Chaiky (10,800 sqm), pointing towards continued shortage of premises for lease. Lack of supply on the market is becoming a growing restraint on investment activity in the warehouse segment, as existing stock is ageing and new supply is slow to arrive.

Outlook

In 2019 landlord market gained ground, as shortage of available warehouse premises reached a critical point, with vacancy falling to almost none. Strong demand, driven by the increasing trend of e-commerce and retail trade in Ukraine, along with a scarce amount of vacant space, contributed to the growth of rental rates, with the trend set to continue. Rental rates are starting to pave the way for developers to transition from purely built-to-suit projects towards speculative development. However, such trend will be contingent upon further improvement of macroeconomic indicators, stability of exchange rate and revival of the lending market. Whereas in 2020 only one new sizeable project is expected to be delivered with little influence on any market indicators, 2021 can bring about a game changing supply volume, provided that favorable market conditions continue. Hence, investment sentiment can be expected to step up, potentially leading to a slight strengthening of the prime yield.

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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