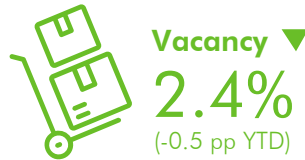


# Kyiv Warehouse Market

## Acute Shortage of New Supply Puts Occupiers in Limbo



### Demand

The Kyiv warehouse market maintained its resilience throughout H1 2021 on the back of strong demand amid very tight supply. The 32% decline in take-up to 40,000 from 59,000 in H1 2020 was much more a result of low availability than a drop in demand. As a result, total vacant space in Kyiv declined by 52% YTD, standing at modest 37,000 sqm. Wholesale & Retail companies continued to be the primary drivers of demand with 40% of total take-up in H1 2021. Professional equipment and tools retailer Budpostach expanded by 7,400 sqm in the Komodor logistics complex, while online book retailer Yakaboo occupied 4,000 sqm in Falbi Pharm Logistics Complex. Manufacturing, Industrial & Energy sector also displayed strong demand and accounted for 23% of total take-up. Electronics manufacturer AJAX leased 4,000 sqm in Falbi Pharm Logistics Complex, with aluminum profile systems and door manufacturer Alutech expanding by 4,300 sqm in Unilogic Park.

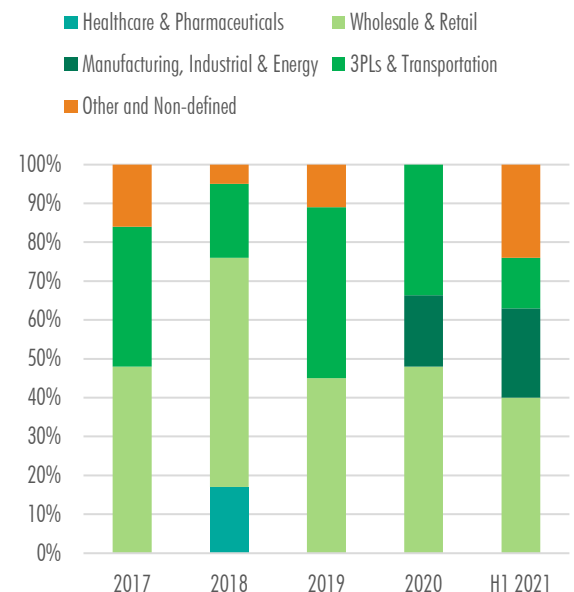
In the geographical structure, the largest share of take-up remained concentrated between M-05 and M-06 Highways along Kyiv’s Southern Ring Road, which accounted for 36% of the total figure. The most significant portion of take-up in this area was attributed to active leasing activity in Falbi Pharm Logistics Complex, which entered the speculative market in 2020. Zhytomyr Highway (M-06, E-40) accounted for almost equal share of take-up at 35%. The remaining take-up was divided between Odesa (M-05, E-95) and Chernihiv (M-01, E-95) Highways, with their respective shares standing at 17% and 12%.

In terms of transaction size, there was a significant increase of 42 p.p. to 73% in the share of lettings between 5,000 sqm to 10,000 sqm. The remaining 27% of transactions was represented

by units below 5,000 sqm. The period saw a notable absence of transactions over 10,000 sqm due to acute shortage of larger size warehouse units around Kyiv. Approximately 70% of transactions were attributed to expansions, while relocations accounted for ca. 30% of the total.

One of the key trends on the warehouse market since the start of pandemic has been a rapid acceleration of grocery e-commerce. Many large-scale offline food retailers, among them Silpo, ATB, Metro, and Auchan, developed their online stores or allowed orders via delivery platforms. With this development of omnichannel grocery retailing, the Kyiv warehouse market has seen a rise in lease requests from grocery retailers and cold chain logistics providers.

Figure 1: Total Take-up Structure by Industry\*



Source: CBRE Ukraine

### Supply

In H1 2021 only 11,000 sqm were added to the Kyiv warehouse market, a figure equivalent to less than 1% of the total stock (ca. 1.53 million sqm). New supply was represented by a single logistics complex Makarivskiy Warehouse II along Zhytomyr Highway. Growth in warehouse supply is set to remain low in H2 2021-2022, with ca. 67,000 sqm of speculative space expected to enter the market. Zhytomyr Highway will continue to account for the largest share of new supply in H2 2021-2022 with 62% of the total, while inner-Kyiv and Warsaw (M-07, E-373) Highway will account for 25% and 13%, accordingly.

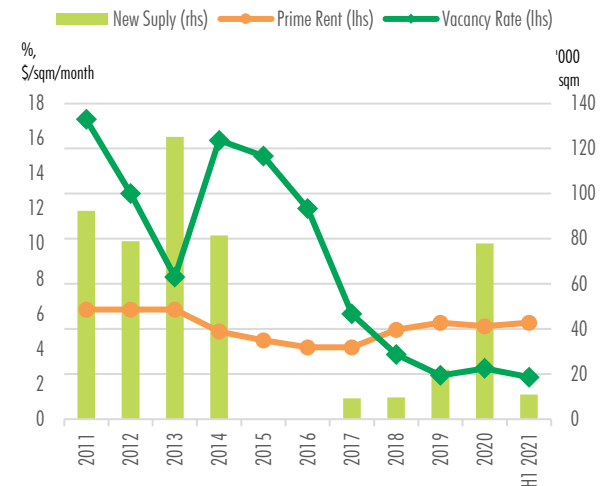
The supply of warehouse space has been particularly low in the last several years, with the annual average growth rate of warehouse space in the Kyiv region standing at 6% between 2015 to 2020. At the end of H1 2021 vacancy stood at 2.4%, compared to 12% in 2016. Together with rapidly increasing demand for warehouses, the shortage of vacant stock can be expected to increase speculative construction in the next years. However, due to the on-going negative value phenomenon in the warehouse market (where the value of the finished warehouse is lower than the construction cost), we estimate that new supply will be predominantly restricted to small speculative completions, with the bulk of the volume coming via build-to-suit arrangements. The two industrial parks scheduled for completion over the next two years are likely to take much longer to bring to life than originally expected and will not bring any significant difference to the overall market vacancy in the near-term future.

Table 1: Key Lease & Sales Transactions in 2020

OCCUPIER	INDUSTRY	PROPERTY	CLASS	DIRECTION	SQM	TYPE I	TYPE II
Budpostach	Wholesale & Retail	Komodor	A	Zhytomyr (M-06, E-40)	7,400	lease	Expansion
PrivatBank	Other & Non-defined	VVS	A	Odesa (M-05, E-95)	6,400	lease	Relocation
NP Global	3PLs & Transportation	Amtel II	A	M-06/M-05	4,600	lease	Relocation
Yakaboo	Wholesale & Retail	Falbi Pharm Logistics Complex	A-	Odesa (M-05, E-95)	4,400	lease	Expansion
Alutech	Manufacturing, Industrial & Energy	Unilogic Park	B	Chernihiv (M-01, E-95)	4,300	lease	Expansion
Oriflame	Wholesale & Retail	Makarivskiy Warehouse	A	Zhytomyr (M-06, E-40)	3,000	lease	Contraction
AJAX	Manufacturing, Industrial & Energy	Falbi Pharm Logistics Complex	A-	Odesa (M-05, E-95)	2,600	lease	Expansion
MOF	Customs Services	MLP Chaika	A	Zhytomyr (M-06, E-40)	2,500	lease	Expansion
AJAX	Manufacturing, Industrial & Energy	Falbi Pharm Logistics Complex	A-	Odesa (M-05, E-95)	1,500	lease	Relocation & Expansion

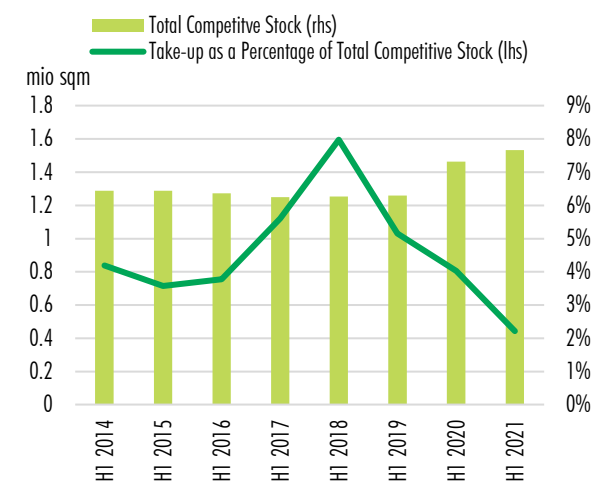
Source: CBRE Ukraine

Figure 2: New Supply, Prime Rent and Vacancy Rate



Source: CBRE Ukraine

Figure 3: Semi-annual Take-up as a Percentage of Total Competitive Stock, H1 2015-H1 2021



Source: CBRE Ukraine

### Vacancy & Rents

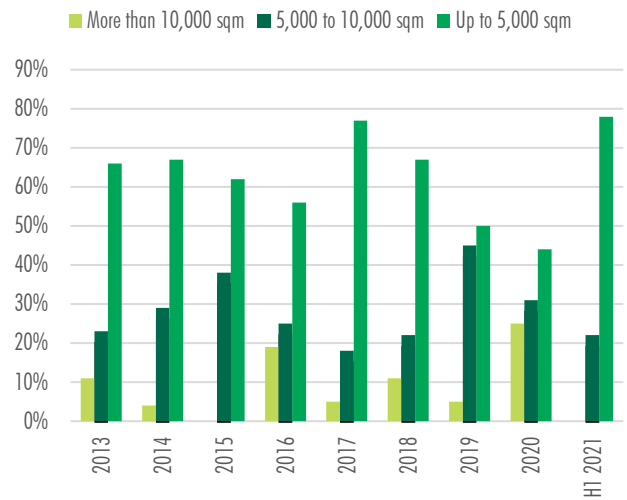
H1 2021 witnessed a progressive tightening of the Kyiv warehouse market, as remnants of available space were being absorbed. The absence of new construction in the last few years has led to high occupancy levels and little choice in existing stock. Demand from Wholesale & Retail, as well as Manufacturing, Energy & Industrial sectors continued to be upbeat on the back of strong growth in e-commerce coupled with gradual economic recovery. As a result, at 2.4% the Kyiv warehouse market recorded its lowest vacancy since 2008.

As of the end of H1 2021, asking rents for ambient warehouses posted no change YTD and stood at UAH133-159/sqm/month (\$4.9-\$5.9/sqm/month) for Grade A and UAH 95-110/sqm/month (\$3.5-\$4.0/sqm/month) for Grade B properties. Rents for cold warehouses remained stable YTD, with asking rents ranging between UAH300-360/sqm/month (\$11-\$13.2/sqm/month) and effective rents between UAH270-320/sqm/month (\$9.9-\$11.8/sqm/month). Effective rents were 6%-19% lower than asking rents on average. Effective prime rent rose by 4% YTD to \$5.50/sqm/month mainly due strengthening of the UAH to USD rate, as most leases remain UAH-denominated.

### Investment

Kyiv commercial real estate investment reached more than \$54 million in H1 2021 vs. \$4.3 million in H1 2020. Warehouse sector recorded one sizeable transaction which alone accounted for the lion's share of the total investment volume. The transaction was the acquisition of Amtel Logistics Complex (100,200 sqm) by Dragon Capital from Amtel Properties. The purchase became the largest property in Dragon Capital's warehouse portfolio of 11 assets and extended the company's warehouse portfolio to 294,000 sqm in/near Kyiv. Overall positive investor sentiment contributed to moderate yield compression, with prime warehouse market yields tightening by 0.50 p.p. to 12.00% in H1 2021. Owing to its resilient performance, warehouse sector is likely to be the preferred asset class for many investors, albeit with bargain prices long gone and meaningful financing hard to come by, transactions are going to be few and far between.

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



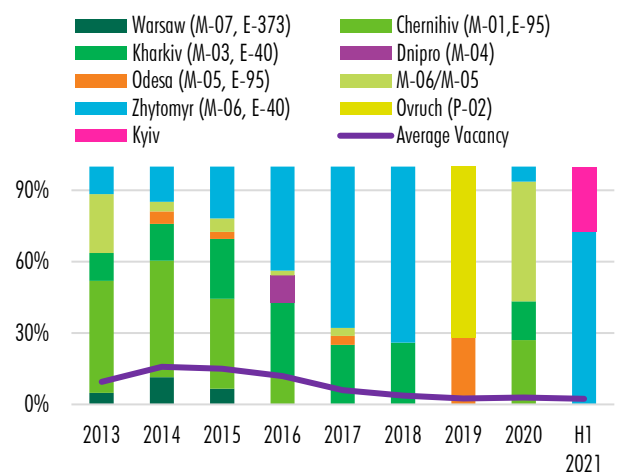
Source: CBRE Ukraine

Table 2: Key Lease & Sales Transactions in 2020

PROPERTY NAME	DEVELOPER	WAREHOUSE PREMISES (SQM)	STATUS	ANNOUNCED COMPLETION	DIRECTION
Makarivskiy Warehouse (III phase)	ADG	10,000	U/C	2021	Zhytomyr (M-06, E-40)
Makarivskiy Warehouse (IV phase)	ADG	11,000	U/C	2022	Zhytomyr (M-06, E-40)
Mirazh (III phase)	Mirazh	9,000	U/C	2022	Warsaw (M-07, E-373)
San Factory Storage (II phase)	SkyLine Development	17,000	U/C	2022	Kyiv
E-40 Industrial Park	Dragon Capital	20,000	U/C	2022	Zhytomyr (M-06, E-40)

Source: CBRE Ukraine

Figure 5: Vacant Stock Distribution by Highways



Source: CBRE Ukraine

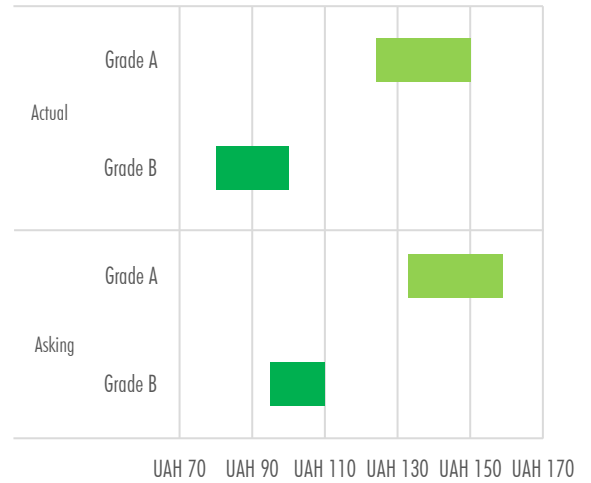
**Outlook**

Overall, the Kyiv warehouse market is looking strong and solid for the mid-term future. Under the conditions of healthy demand, economic recovery, and ever-growing online retailing, conditions are there for more development. However, the near non-existent financial market is driving up construction costs and depressing capital values, thereby restricting healthy speculative supply. Speculative development will exist in very small volumes of ca. 20,000 – 30,000 sqm per unit, with large-scale almost solely reserved for build-to-suit projects.

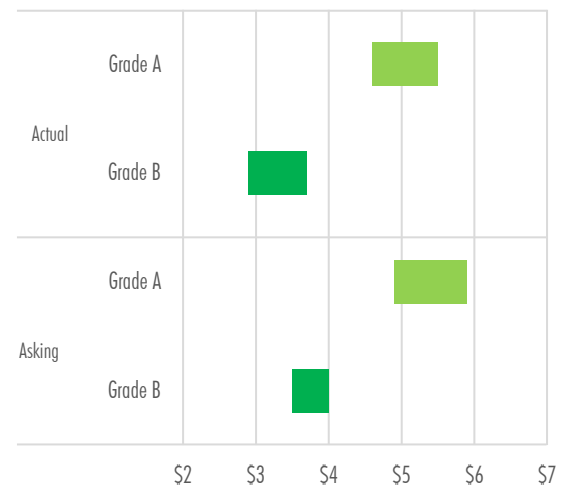
At the same time, we expect an uplift in end-user transactions, as surging demand and nearly no supply leave few options for larger occupiers. As construction costs continue to outweigh the price to buy an existing property, many larger users continue to favor the buy-to-own solution. However, the choice of properties to buy has significantly gone down over the last 3 years.

Under the conditions of healthy investor demand for medium-sized product and healthy occupier demand for good product at a sustainable price, only the financial market is missing to galvanize a new development cycle. International developers, capable of putting up large product at a lower cost, will also continue to shy away from the market until the judicial reform takes shape and level playing field is created in Ukraine. Therefore, for the time being, the market will continue to be represented by multiple mini-developments, with rental rates staying broadly unchanged and both owners and occupiers favoring or resorting to build-to-suit projects in case of requirements exceeding ca. 25,000 sqm.

**Figure 6: Asking Rents (excl. VAT) and Actual Rents for Ambient Warehouses (UAH/sqm/month)**



**Figure 7: Asking Rents (excl. VAT) and Actual Rents for Ambient Warehouses (USD/sqm/month)**



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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