

Kyiv Warehouse Market, H2 2020

Growing Demand From E-Commerce Drives Recovery of Market Fundamentals



Take-up ▲
166,000
 sqm (+20% y-o-y)



Vacancy ▲
2.9%
 (+0.4 pp YTD)



Prime Rent ▼
\$5.3
 sqm/month

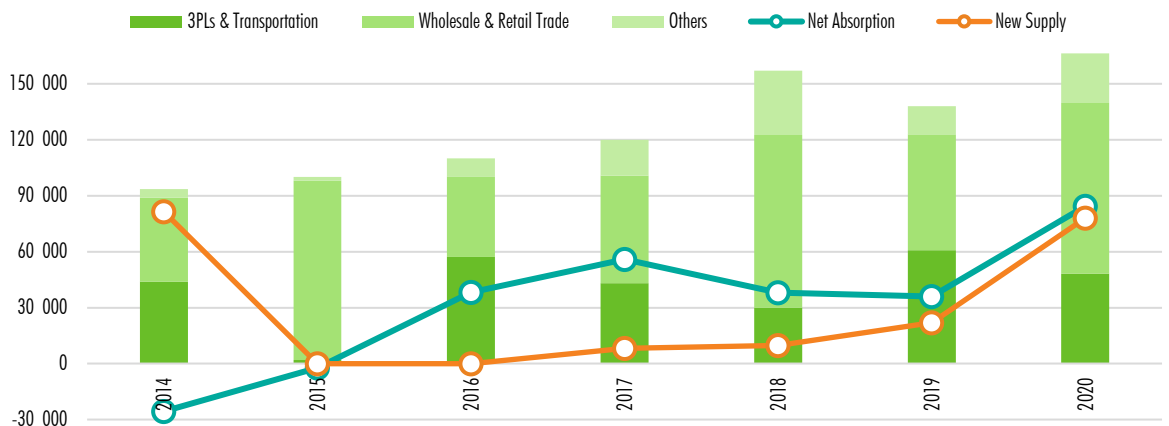
Demand

Warehouse market demonstrated the highest resilience of all commercial real estate segments in the wake of the COVID-19 crisis. Despite some contractions and a temporary slowdown in leasing activity during the lockdown, demand for warehouse space has rebounded with the gradual economic recovery in H2 2020. By the end of 2020, annual net absorption totaled ca. 84,000 sqm, the highest since 2013. Total take-up volume in the Kyiv market reached a healthy 166,000 sqm, demonstrating a 20% y-o-y growth primarily due to leasing activity in new warehouse space. Noteworthy leasing deals completed during the period included the expansion by Epicenter-K (20,000 sqm) in Viskozna Fulfillment Center, relocation and expansion of VESCO (18,000 sqm) in Amtel II, relocation and expansion of MHP (17,000 sqm) in Arctica, and relocation and expansion of Business Group (11,000 sqm) in Makarivskiyi Warehouse I. Demand stemmed from three sectors in 2020, with Wholesale & Retail Trade accounting for the largest share of take-up at 55%, followed by 3PLs & Transportation at 29%, and Manufacturing, Industrial & Energy at 16%.

The largest share of take-up was concentrated between M-05 and M-06 Highways, which accounted for 44% of the annual total. The majority of leasing transactions in this destination took place in the newly opened Amtel II (52,000 sqm), which was fully leased by the end of the year. Looking at the remaining take-up by highways, Chernihiv (M-01, E-95) Highway accounted for 18% of take-up, followed by 14% represented by Kharkiv (M-03, E-40) Highway and inner-Kyiv each. Occupiers displayed steady demand along Chernihiv Highway, particularly in and around Brovary, due to a sizeable concentration of Grade A facilities, as well as the town's proximity and relatively easy transportation connection to Kyiv.

The Wholesale & Retail sector, mainly e-commerce, drove up the demand in the warehouse market. As a result of changing consumer behavior amid the ongoing COVID-19 pandemic, more retailers were looking for additional warehouse space to accommodate the ever-increasing migration towards online business. Based on recent data published by

Figure 1: Annual Take up, Net Absorption, New Supply 2014-2020



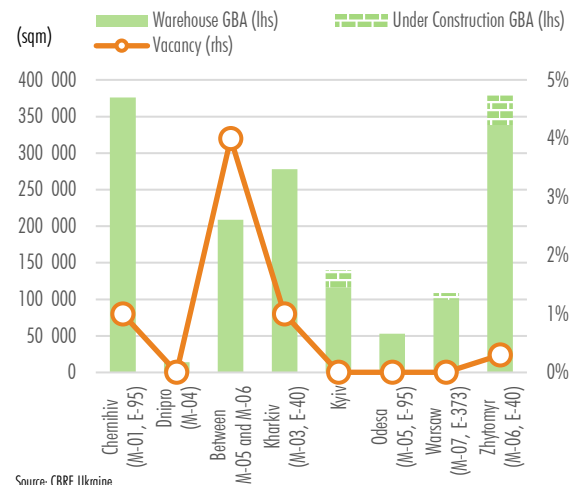
Source: CBRE Ukraine

a leading marketplace company EVO, online retail sales soared by 41% in 2020 and exceeded expert expectations by almost 3 times. The increase was mainly driven by the number of purchases increasing by 42%. In addition, according to Payoneer Global Seller Index, Ukraine was on the list of top-10 countries by the y-o-y e-commerce revenue growth in Q2 and Q3. Also, as stated by Euromonitor International, the share of e-commerce in the total sales structure is poised to reach 11% of total sales in 2025 vs. 8% of total sales in 2019, which is likely to support leasing activity in the warehouse market going forward.

Supply

The newly built supply amounted to 58,000 sqm and was represented by two properties, Amtel II (52,000 sqm) and Sofia II (6,000 sqm). In addition, re-purposing of Epicenter-K premises from retail to logistics at Viskozna Str. added ca. 20,000 sqm to the total stock. Besides the new supply, Falbi Pharm Logistics Complex entered the speculative market with ca. 11,000 sqm of vacant areas after change in ownership. Hence, the total speculative competitive stock in the Kyiv region reached 1.52mio sqm, which

Figure 2: Stock, Under Construction and Vacancy by Highways, 2020



Source: CBRE Ukraine

corresponds to the Warsaw region of 2007. Geographically, the largest volumes of speculative stock remain concentrated along Chernihiv, Zhytomyr, and Kharkiv Highways. Close to 0% vacancy was recorded along most highways, which speaks of both strong demand for warehouse space and dire lack of product. The zone between M-05 and M-06 accounted for the highest vacancy of 4% in the warehouse market, which is mainly attributed to the slow take-up of space in Falbi Pharm Logistics Complex, which registered the vacancy rate of 73% by the end of 2020.

Table 1: Key Lease & Sales Transactions in 2020

OCCUPIER	INDUSTRY	PROPERTY	CLASS	DIRECTION	SQ M	TYPE I	TYPE II
Epicenter-K	Wholesale & Retail Trade	Epicenter Fulfillment Center Viskozna	A	inner-Kyiv	20,000	Switch of purpose from retail to logistics	Expansion
VESCO	Wholesale & Retail Trade	Amtel II	A	M-06/M-05	18,000	lease	Relocation & Expansion
MHP	Manufacturing, Industrial & Logistics	Artica	A-	M-06/M-05	17,000	lease	Relocation & Expansion
NDA	3PLs & Transportation	Amtel II	A	M-06/M-05	11,000	lease	Expansion
Business Group	3PLs & Transportation	Makarivkyi Warehouse I	A	Zhytomyr (M-06, E-40)	11,000	lease	Relocation & Expansion
Rozetka	Wholesale & Retail Trade	Energoprylad/Amos	A	Chernihiv (M-01, E-95)	10,000	lease	Expansion
NDA	Wholesale & Retail Trade	BF Terminal I	A	Kharkiv (M-03, E-40)	9,500	lease	Relocation & Expansion
NDA	Wholesale & Retail Trade	BF Terminal II	A	Kharkiv (M-03, E-40)	9,000	lease	Expansion
Business Group	3PLs & Transportation	Logistic Invest	A	Ovruch (P-02)	8,200	lease	Expansion
Fozzy	Wholesale & Retail Trade	RLC Peremoha	B	Chernihiv (M-01, E-95)	7,300	lease	Expansion
NDA	3PLs & Transportation	Amtel II	A	M-06-M-05	5,000	lease	Expansion
NDA	Manufacturing, Industrial & Energy	Unilogic Park I	B	Chernihiv (M-01, E-95)	4,300	lease	Expansion
UVK	3PLs & Transportation	Unilogic Park II	B	Chernihiv (M-01, E-95)	4,300	lease	Expansion

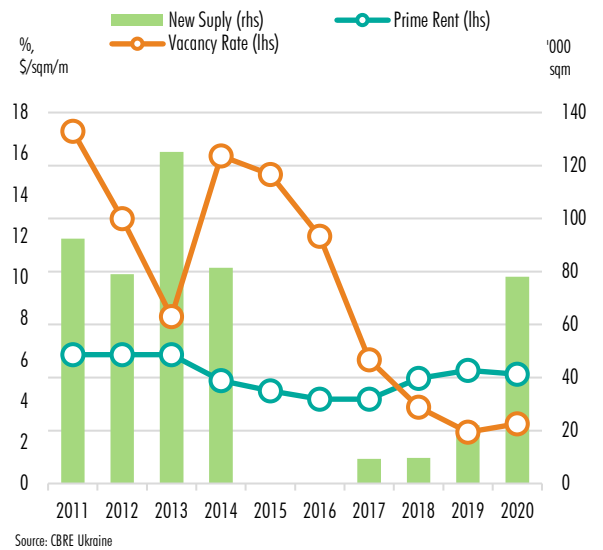
Source: CBRE Ukraine

Regardless of the strong demand for warehouse facilities, construction activity remained subdued. Developers continued to face pressures from multiple fronts in high construction costs, price-inelastic demand, and absence of debt financing. Nonetheless, the volume of new warehouse space under construction and planned for commissioning in 2021-2022 amounts to ca. 72,000 sqm represented by Makaroskiy Warehouse II (40,000 sqm), SAN Factory II (23,400 sqm), and Mirazh III in Hostomel (9,000 sqm). Although we do not expect growth in development activity at a fast pace over the short-term, we expect the scene to improve in the years to come, as completion of three large-scale projects is planned for 2022-2025. These large-scale projects are represented by E40 Industrial Park (up to 200,000 sqm), Kashtan Logistics Park (approx. 195,000 sqm), and Amstar (approx. 193,200 sqm) all located along Zhyhomyr Highway and owned by international developers. If delivered, these properties are bound to set a new quality benchmark in the Kyiv and Ukrainian warehouse market.

Vacancy & Rents

Over the first half of the year, average market vacancy increased by 1.7 p.p. to 4.2%. The increase was mainly attributed to the drop in net demand amid the lockdown, coupled with new supply entering the market. However, alongside gradual resumption of economic activity from June onwards, the market saw a rebound in leasing activity, with average vacancy decreasing by 1.3 p.p.

Figure 3: Actual Ambient Warehouse Prime Rental Rate, Vacancy and New Supply, 2011-2020



to 2.9% by the end of the year. Newly opened facilities saw a strong interest from occupiers, with Sofia (6,000 sqm) securing tenants before completion and Amtel II (52,000 sqm) being fully occupied within three months of completion. Looking at distribution of vacant space by submarkets, the zone between M-05 and M-06 accounted for 50% of the total, followed by Chernihiv Highway at 27%, Kharkiv Highway at 16%, and Zhytomyr Highway at 6%.

As a result of COVID-related uncertainties, landlords have partially returned to the denomination of rents in UAH from USD. Alongside softening of the UAH/USD exchange rate by 19% in H1 2020, the prime effective rent for existing and new ambient warehouse space followed suit and registered a mild decline of -3.6% y-o-y, standing at \$5.3/sqm/month.

Table 2: Key Warehouse Schemes in the Pipeline for 2021-2025

PROPERTY NAME	DEVELOPER	AREA (SQM)	STATUS	ANNOUNCED COMPLETION	DIRECTION
Makarivskiy Warehouse (II phase)	ADG	40,000	U/C	2021	Zhytomyr (M-06, E-40)
Mirazh (III phase)	Mirazh	9,000	U/C	2021	Warsaw (M-07, E-373)
San Factory Storage Area Network (II phase)	SkyLine Development	23,400	U/C	2021-2022	Kyiv
Amstar	Amstar Europe	193,200	Project	2022-2025	Zhytomyr (M-06, E-40)
Kashtan Logistics Park	Delin Property	195,000	Project	2022-2025	Zhytomyr (M-06, E-40)
E40 Industrial Parl	Dragon Capital	up to 200,000	Project	2022-2025	Zhytomyr (M-06, E-40)

Source: CBRE Ukraine

However, overall, rental rates for warehouses were more resilient than for other commercial real estate segments, with market remaining on landlords' side as a result of low vacancy coupled with strong migration of retail from shopping malls to screen tops. Therefore, in UAH terms asking rents for ambient warehouses increased y-o-y for all grades, with Grade A rents edging up by 6% to UAH133-159/sqm/month (\$4.7-\$5.6/sqm/month), and Grade B rents - by 19% to UAH95-110 (\$3.2-\$3.9/sqm/month). Cold warehouses remained more resistant to market fluctuations, with asking rents posting no y-o-y change in USD terms and ranging between UAH300-350/sqm/month (\$10.6-\$12.7/sqm/month) as of the end of the year.

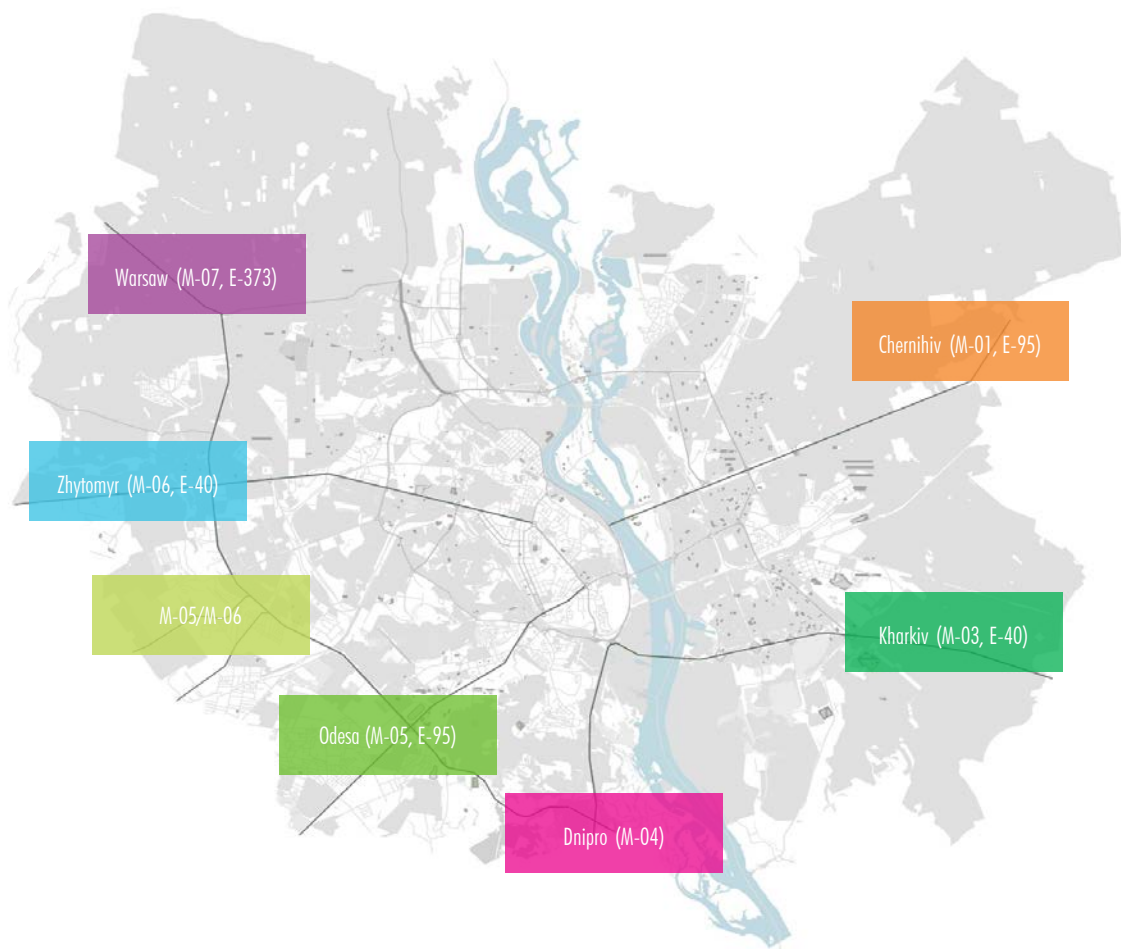
Investment

Annual investment transaction volume in warehouse real estate amounted to meager \$4.3mio (-86% y-o-y), as investors were in a wait-and-see mode due to the market

uncertainty amid the COVID-19 pandemic. The only mini transaction was the purchase of Falbi Pharm Logistics Complex (13,800 sm) by Dragon Capital Investments Ltd, which made it the fund's 11th logistics facility and its 1st pharmaceutical warehouse. At the same time, as reverse price gap (price to build exceeding price to buy/sell) persisted throughout Ukraine and build-to-suit projects remaining difficult due to \$1 ask/bid gap, owner-occupier appetite for acquisitions continued, with Caris Ukraine, a manufacturing company from South Korea purchasing a part of Strila Crane Factory (22,000 sqm). We expect owner-occupiers to remain active competitors to investors for medium term future.

Despite the economic turmoil, industrial prime yield compressed by 0.5p.p. in Q1 and remained stable at 12.50% for the remainder of the year (albeit without transactions this yield is notional). The investment volume is expected to recover in 2021, however, as the dust settles on the COVID crisis and the market returns to

Key Kyiv Region Highways & Routes on the Map



Source: CBRE Ukraine

relative normality and predictability. There is a cautious expectation that an emerging increased number of private international players braving the eastern EU frontier can drive up the prices, reduce the yields and close the reverse price gap, as returns in both Old Europe and New Europe are extremely low and competition with institutional players for prime product is difficult.

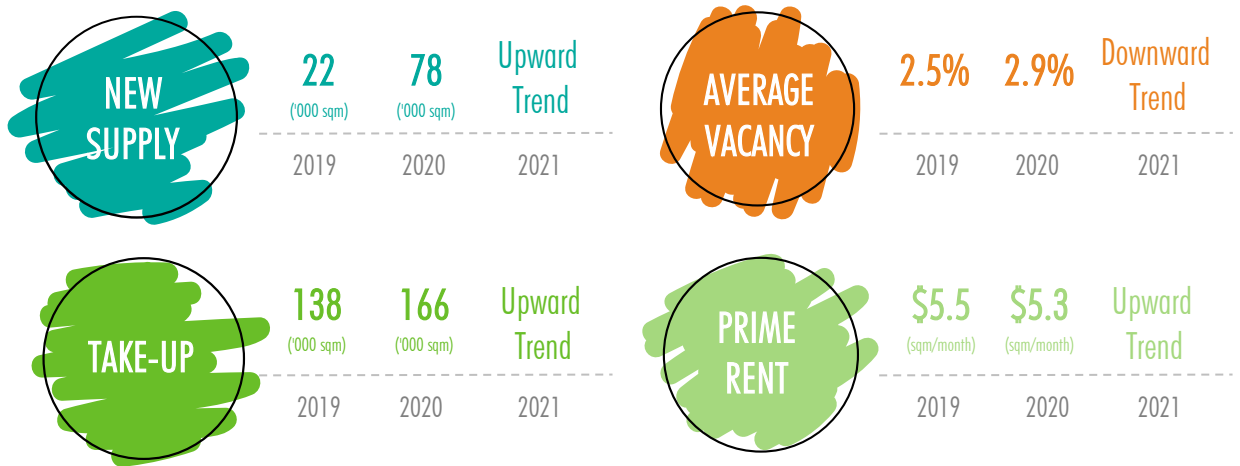
Outlook

Warehouse schemes under construction and scheduled for 2021-2022 amount to 72,000 sqm. Demand for warehouse space is expected to continue to exceed new supply. As some of the expected completions are fully pre-let, with leasing activity increasing, the vacancy rate is expected to decline even further. After softening in H1 2020, rents have continued to recover across the board in H2 2020. With the rebound in business activity, continued growth of

e-commerce, low vacancy, as well as limited new supply, rents may potentially slightly increase in 2021, possibly making build-to-suit projects viable along the way.

As warehouse development continues to be a low-margin business, development activity is forecast to remain scant in the near term. Nonetheless, the rising demand from retail and logistics sectors driven by the growth of e-commerce along with the scarcity of warehouse space may encourage a new development cycle to commence and support the game-changing three large-scale international development projects planned for delivery in 2022-2025. However, a noticeable increase in the development activity will be contingent upon availability of meaningful development financing, stability of exchange rate, and growing rental rates denominated in USD.

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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