Kyiv Office Market

Office Market Shifts in Favor of Tenants

Take-up ▼ 98,000 sqm (-42% y-o-y)

Vacancy ▲ 13% (+4.5 pp YTD)

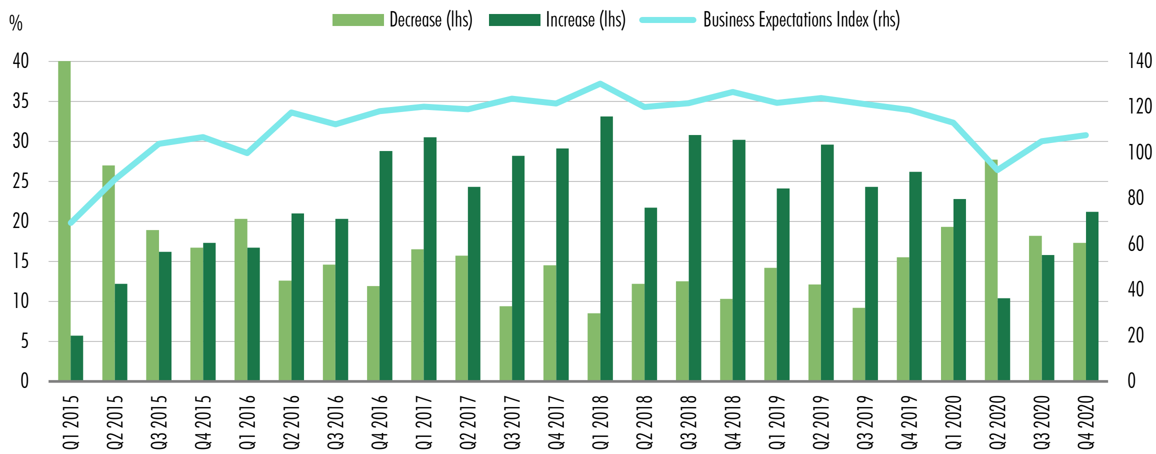
Prime Rent ▼ $25 sqm/month (-7% YTD)

Demand

Ukraine's economy was on a steady growth path prior to the onset of the COVID-19 pandemic which led to government-imposed business and social restrictions, which, in turn, dramatically slowed down commercial activity from mid-March onwards. By the end of 2020, Ukraine experienced four consecutive quarters of negative y-o-y GDP growth, which led to an annual GDP plunge of 4.4% y-o-y. The unemployment rate in Kyiv reached 6.6% in Q3 2020, 0.4pp up vs. 2019. However, the unemployment rate in IT, business services, finance and insurance industries remained relatively low at 1.5%, 2.1%, and 2.4%, respectively, indicating stable demand for white-collar workers. Kyiv Business Expectations Index for the 12 months ahead declined to 107.7 in Q4 2020 (-11.0 pp y-o-y), with the indicator, nonetheless, remaining positive, pointing towards positive expectations of economic dynamics.

As a result of the general lockdown and economic restrictions, office leasing activity dampened in 2020, albeit not as severely as initially expected. Full-year take-up amounted to 98,000 sqm, the lowest since 2017, however, still a historically healthy number. IT, High Tech & Telecommunications sector dominated the leasing activity, accounting for 42% of the take-up and 9 out of 18 largest transactions. The most notable transactions of this sector included a market entry of a large international company (13,300 sqm) in a new office scheme at 5A Zoolohichna St., relocations of 2 IT companies Playtika and Tech Hosting company leasing jointly ca. 15,100 sqm in Platforma BC, and the expansion of Vodafone (7,800 sqm) in Sigma BC. Manufacturing, Industrial & Energy sector (ca. 13% of take-up) continued to display steady demand, with the Energy company occupying

Figure 1: Kyiv Business Expectations and Corporate Hiring Expectations Over the Next 12 Months

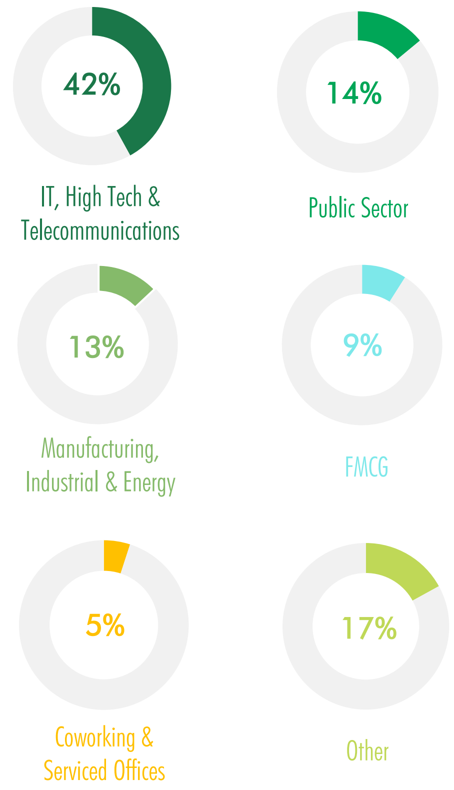


Source: NBU; Lhs – left hand side; Rhs – right hand side the entire Hillfort Business Mansion BC with the GLA of 8,500 sqm and Insolut leasing 1,300 sqm in Renaissance BC. Once one of the major demand drivers, the footprint of Coworking & Serviced Offices sector registered its first decline since 2018 and accounted for only 5% of the annual take-up. Only established Coworking & Serviced Offices operators continued to grow, while small players remained in wait-and-see mode due to a spike in vacancy of this type of space over Q2-Q3 of 2020.

The most considerable impact of COVID-19 on the office real estate market was the widespread shift towards remote working for previously office-based employees. In Ukraine, the number of remote IT job vacancies has quadrupled in 2020 and accounted for 40% of total job advertisements in December, according to the digital services company GlobalLogic. Several large IT companies permanently adopted remote work, including EVO and Jooble.

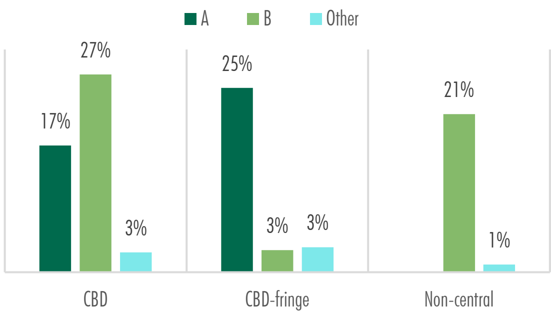
Despite a significant increase in working from home, the productivity created by human interaction in the workplace continued to be a critical factor in occupier strategies. According to the 2020 Global Occupier Sentiment Survey conducted by CBRE, over 60% of respondents leaned towards combining remote work and work from the office. Also, 67% of respondents globally anticipate all employees to have access to the physical office by mid-2021, but this sentiment remains much dependent on success of vaccination and reduction in the risk of virus transmission.

Figure 2: Total Take-up Structure by Industry, 2020 (% share)



Source: CBRE Ukraine

Figure 3: Total Take-up Structure by Class within Submarket (% share)



Source: CBRE Ukraine

Table 1: Top-10 Office Lease Transactions in 2020 (>1,000 sqm)

OCCUPIER	INDUSTRY	PROPERTY	ADDRESS	TRANSACTION TYPE	GLA, SQ M
NDA	IT, High Tech & Telecommunications	Office Scheme	5A Zoolohichna St.	Market Entry	13,300
Deposit Guarantee Fund of Ukraine	Public Sector	Nadra Bank Office Building	17 Sichovyh Stritsiv St.	Sale to end user	11,200
NDA	IT, High Tech & Telecommunications	Platforma	3 Korolenkivska St.	Relocation	8,600
NDA	Manufacturing, Industrial & Energy	Hillfort Business Mansion	12 Mykhailivska St.	Relocation	8,500
Vodafone	IT, High Tech & Telecommunications	Sigma	6 Vatslava Havela Blvd.	Expansion	7,800
Playtika	IT, High Tech & Telecommunications	Platforma	3 Korolenkivska St.	Relocation	6,500
NDA	FMCG	Magnett	137-139 Velyka Vasylkivska St.	Relocation	5,100
EvoPlay	IT, High Tech & Telecommunications	MERX III	15 Leiptsyzka St.	Relocation	4,500
NDA	IT, High Tech & Telecommunications	Summit	9B Hrushevskogo St.	Relocation	4,000
Novus HQ	Wholesale and Retail Trade	Retroville	47 Pravdy Ave.	Relocation & Expansion	4,000

Source: CBRE Ukraine

Supply

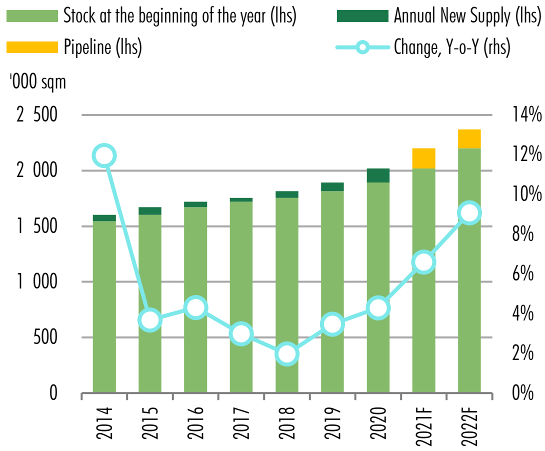
Full-year new supply measured about half of what was initially scheduled. The main reasons for the decline in new sqm were cash flow constraints in combination with declining leasing rates as a result of pandemic-induced changes in office use, and the decision by some developers to slow down the construction tempo with the goal of entering the market in post-COVID realities. However, majority of projects at last construction stages as of March 2020 did go ahead and complete on time, with the total new supply of 125,000 sqm still exceeding the volume of the prior year by 25%. Thus, as of the end of 2020 the total competitive stock stood at 2.02mio sqm, which is Warsaw of 2004. Among new additions to the stock were Platforma BC (19,500 sqm GLA), Avenue 53 BC (18,500 sqm), Forum Park Tower BC (11,500 sqm), M8 BC (11,000 sqm), Hillfort Business Mansion BC (8,500 sqm), Forum Infinity BC (8,500 sqm), Nyvky City BC (7,200 sqm), UNIT.City B4 (5,100 sqm), and Arsenal K-14 BC (3,800 sqm). Geographically, new supply was in Non-Central (40%) and CBD-fringe (13%) submarkets, with the remaining 47% delivered in CBD in Olimpiiskyi (22%), Pecherskyi (18%), and Shevchenkyvskyi (7%) submarkets.

The forecast new supply in 2021 amounts to ca. 183,000 sqm (vs. 250,000 sqm of new supply forecast for 2021 at the start of 2020). Notable expected completions include Phase I of Magnett BC (33,000 sqm), LUWR (Lukianivska Work & Relax) (22,000 sqm), Office Scheme at 4-6 Korolenkivska St. (20,000 sqm), and Phase III of Eleven BC (16,500 sqm). Subsequently we expect the volume of new supply in 2022-2023 to slow down noticeably due to few construction starts over 2020-2021. As more companies re-evaluate long-term demand for office space and adopt a flexible work model, it is expected that over 2021-2022 more existing stock will continue to be released to the market, as companies re-size by adjusting long term space strategy with to the WFA (work-from-anywhere) reality.

Flexible / Serviced Office Supply

With the majority of companies adopting varying degrees of remote work amid the COVID-19 pandemic, demand for flexible office space has noticeably declined over the past year. Some co-working space reduction was registered, with notable closings of Platforma Podil (4,500 sqm) at 35B Borychiv Tik St. and Tceh Park (1,500 sqm) at 9B Hrushevskogo St.

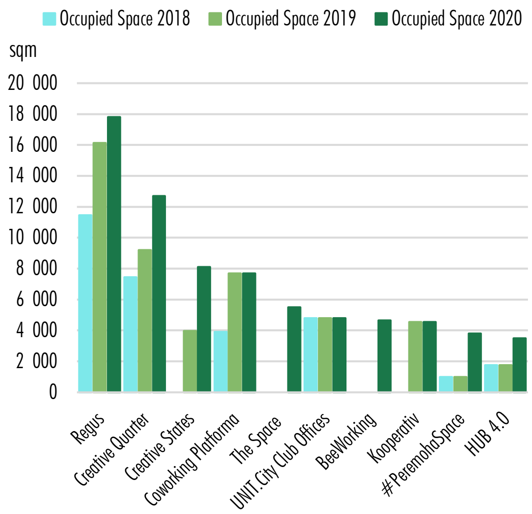
Figure 4: Kyiv Annual Development Completions and Total Completions Stock ('000 sqm)



Source: CBRE Ukraine

However, the pandemic's sudden and severe impact highlighted the value of flexible space for many occupiers with little or no upfront fit-out costs, office size and lease length flexibility, and efficient office space utilization (with all common features on pay-per-use basis). In 2020 seven Coworking & Serviced Offices operators opened new locations with a total of 24,000 sqm GLA. Flexible space proposition is expected to grow further by relatively modest 29,000 sqm over 2021. Continued growth in a segment severely hit over 2020 represents a significant short-term gamble for the operators; however, adopting a long-term view, the consensus international opinion speaks in favor of increased popularity of this solution for mainstream companies, not only for the typical gig economy clientele.

Figure 5: Major Coworking & Serviced Offices Operators in Kyiv, 2018-2020



Source: CBRE Ukraine

Table 2: Office Pipeline for 2021-2023

NAME	CLASS (QUALITY & LOCATION)	ADDRESS	GLA, SQM	STATUS
2021				
Retroville	BC	47 Pravdy Ave.	9,500	U/C
Office Scheme I	AA	4-6 Korolenkivska St.	20,000	U/C
LUWR (Lukianivska Work & Relax)	BB	2/10 Yuriia Illienka St.	22,000	U/C
Office Scheme	BA	26/14 Spaska St.	9,400	U/C
Eleven III	BB	11 Solomianska St.	16,500	U/C
Office Scheme	AA	8A Prorizna St.	6,000	Reconstruction
Office Scheme	BC	1V Bazhana St.	11,000	U/C
Office Scheme	BC	38 Bazhana St.	6,000	U/C
Office Scheme	BA	9 Bohdana Hmelnytskogo St.	1,800	U/C
UNIT.City (B14)	AB	4 Dorogozhytska St.	12,600	U/C
UNIT.City (B15)	AB	5 Dorogozhytska St.	10,600	U/C
LAVRSKYI	BB	16 Lavrska St.	15,000	Reconstruction
Magnett I	AB	137-139 Velyka Vasylkivska St.	33,000	U/C
Adriyivsky	BA	19 Andriivska St.	9,600	Reconstruction
2022				
Magnett II	AB	137-139 Velyka Vasylkivska St.	10,000	U/C
ITT Plaza	AA	16-20, 22 Korolenkivska St.	77,000	U/C
UNIT.City (B16)	AB	6 Dorogozhytska St.	9,100	U/C
Office Scheme II	AA	4-6 Korolenkivska St.	60,000	U/C
UNIT.City (B17)	AB	7 Dorogozhytska St.	12,400	U/C
2023				
UNIT.City (B1)	AB	5 Dorogozhytska St.	12,000	U/C
UNIT.City (B2)	AB	5 Dorogozhytska St.	7,800	U/C
UNIT.City (B3)	AB	5 Dorogozhytska St.	9,600	U/C
UNIT.City (B18)	AB	5 Dorogozhytska St.	18,900	U/C

Source: CBRE Ukraine

Vacancy and Rents

The largest in a decade new supply and weak demand caused the average vacancy rate to increase to 13% (+4.5 pp y-o-y). In addition to direct vacancy, some tenants are trying to sub-lease parts of their office footprint that they consider as redundant due to reorganizations and adaptation of remote working. However, sublease market in Kyiv is rather defunct in that the sublease durations are so short that very few occupiers will look seriously at such solutions. Geographically, most submarkets saw an increase in vacancy, most notably in Pecherskyi (+4.3 pp y-o-y) and Podilskyi (+2.8 pp y-o-y) submarkets. Even though leasing activity started to pick up in H2 2020, net absorption improved in only three submarkets, with vacancy declining in Olimpiiskyi (-5.9 pp y-o-y), Shevchenkyvskyi (-1.2 pp y-o-y) and Non-central (-3.2 pp y-o-y) submarkets.

Amid a net drop in office demand, prime rent slid by 7% y-o-y to $25/sqm/month. Asking rents fell y-o-y for all grades, with Grade A rents edging down by 4% in the lower and 33% in the upper bound to $25-$30/sqm/month, and Grade B rents – by 7% in the lower and 17% in the upper bound to $13-$25/sqm/month. While the rental activity declined across all Kyiv submarkets in 2020, asking Grade A and Grade B rents declined the most in Podilskyi, Olimpiiskyi, CBD-fringe, and Non-central submarkets where net absorption was broadly negative. However, the rates in smaller Grade A office units (<200 sqm) with ready fit-outs showed resilience and ranged between $30-$36/sqm/month.

Landlords who found it challenging to maintain occupancy levels became more flexible in their leasing terms. To maintain occupancy, some landlords – especially in newly constructed, non-prime BC's – started offering additional concessions such as particularly low rates for large leases, discounted rates for the first 1-2 years of a 5-year lease agreement and CapEx contribution in form of loans or increased rent. Nonetheless, an interesting phenomenon during this difficult period of time was resilience of top-quality new projects vs. the rest of the market. Even though leasing is particularly difficult for new projects in a sluggish market, top-quality projects with experienced landlords have historically demonstrated resilience by being nearly fully leased at prime rates and by their opening dates in witness to the maxim that quality never disappoints.

Vacancy Rate (%) by Kyiv Office Submarket as of the end of 2020

Submarket	2020	2019
CBD		
OLIMPIISKYI	6.2%	12.1%
PECHERSKYI	7.0%	2.7%
PODILSKYI	8.4%	5.6%
PRIME	10.9%	9.9%
SHEVCHENKIVSKYI	6.8%	8.0%
CBD-fringe	4.4%	3.3%
Non-central	16%	19.2%

Source: CBRE Ukraine

Figure 5: Kyiv A-class Asking Base Rental Range[1] by Submarket as of the end of 2020 (USD/sqm/month)

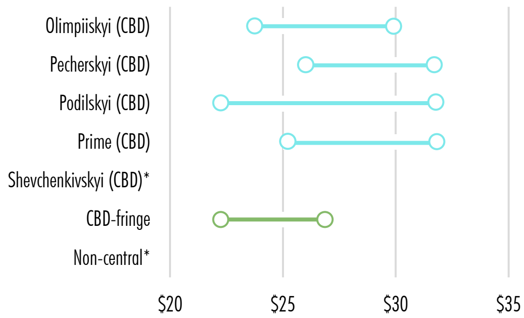
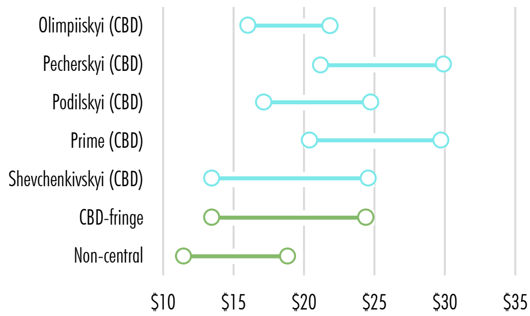


Figure 6: Kyiv B-class Asking Base Rental Range[1] by Submarket as of the end of 2020 (USD/sqm/month)



[1]Range includes office space for lease in difference fit-out conditions
Source: CBRE Ukraine

Investment

The Ukrainian commercial real estate investment market entered a wait-and-see period starting in mid-March 2020. Expectedly, investment volume into Kyiv's commercial real estate declined by 89% y-o-y and totaled a meagre ca. $21.6mio in 2020. The office sector accounted for 49% of transactions, with the balance of 31% and 20% going towards the hotel and industrial sectors, respectively. Total office transactions stood at a modest $10.5mio in 2020, down 86% y-o-y.

As the business environment was profoundly shaken by the onslaught of the pandemic and nationwide lockdown, no investment transactions were closed in H1 2020. In line with easing of restrictions and gradual economic rebound, H2 2020 witnessed a meek coming back to life of investment activity in the office sector, with 3 tiny transactions recorded in Q3. The only notable office transaction was the purchase of the office building (2,400 sqm) of former Expobank at 18-24 Dmytrivska St. from the National Bank of Ukraine by PJSC Dnirobudmashyna (affiliated with Vadym Grygoriev, the owner of MERX Group), which also purchased the office building of former Khreshchatyk Bank in 2019. In addition to the pandemic-caused economic unrest, concerns around the independence of the National Anti-Corruption Bureau of Ukraine, the resignation of the NBU Governor Yakiv Smoliy, and the actions of the Constitutional Court slowed down the recovery of investors' appetite in H2 2020. However, despite a virtual halt in the investment activity, no dramatic changes in prime office yield followed, as the indicator softened up to 12% (+0.25% pp y-o-y). At the same time, to counterbalance inactivity in the investment market, a number of end-user transactions were completed with a total value of $54mio. The office sector accounted for 21% of end-user transaction volume transactions with the acquisition of an ex-office building of Nadra Bank (11,200 sqm) at 17 Sichovyh Striltsiv St. by the Deposit Guarantee Fund. It should be noted that 74% of the non-investment volume was represented by a single transaction – a ca. $40mio acquisition of Dnipro Hotel. The industrial sector accounted for the remaining 5% with the purchase of the part of Strila Crane Factory (22,000 sqm) by Caris Ukraine.

Outlook

We maintain a positive outlook for a recovery in the Kyiv office market over the course of 2021. As the world, including Ukraine, is working to vaccinate its entire population (at least those willing to vaccinate) in 2021, we expect the leasing momentum to build up over the course of the year. Average vacancy in Kyiv, which stood at 13% as of the end of 2020, is expected to remain steady over the first half of 2021, supported by the recovering business activity. However, the scheduled completion of 185,000 sqm in 2021 may push the vacancy up in the short term. With the gradual pace of economic recovery, cost-saving will remain a priority for tenants over the closing phase of the COVID period. Therefore, the gap between asking rents and effective rents may temporarily widen.

Existing office footprint will continue to right-size over the following 3-5-year term, spurred by the efficiency of remote work experiment. Along with right-sizing, occupier requirements for the office building will also transform to account for wellbeing, team-centric design, flexibility, and better space utilization. In the demand-driven office market, landlords will be increasingly expected to implement a range of modalities particularly into new office schemes. Office development will be increasingly dominated by hotel-like office designs, which would promote a greater degree of flexibility and shared services such as conference facilities, open terraces and gyms. Service selection will also grow to include concierge service, wide food selection, cafes, catering, and the like. The successful post-pandemic office will not be the one that only corresponds to workplace protocols but one that enhances experience.

Strong demand for new and high-quality office space and a rebound in leasing activity should encourage investor appetite in the Kyiv office sector in the near term. As investment activity is expected to renew over 2021, moderate yield compression should follow suit. However, noticeable positive shifts in investment volumes will be dependent on continued improvement in the rule of law and implementation of structural reforms in Ukraine.

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

Net Average Asking Rent – represents the weighted average asking rental rate for all known available space in existing competitive buildings at the survey date.

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**

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