

Commercial Real Estate Market

Kyiv • Q1 2008

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Executive Summary

- There was steady growth of rents on the Kyiv office market in the first quarter of 2008 while the vacancy rate remained low, showing that demand is outpacing supply.
- The class A warehousing segment expanded by 31,300 sq m in the first quarter thanks to opening of phase I of the MLP-Chaika project and phase I of West Gate Logistic.
- Opening of 84,000 sq m of retail space in Q1 2008 had almost no effect on levels of market saturation.
- Rates of supply growth on the Kyiv hotel market remain very low. Not a single new hotel was opened in Q1 2008.



Mikom Palace Business Centre,
Degtyarivska str., 27

Office Market

Key indicators	Class A	Class B (B+/B-)
Total high quality office area (classes A and B),* thousand sq m	941.6	
Commissioned in Q1 2008, thousand sq m	32.4	
Vacancy rate, %	1–2	2–3
Base rents**, \$ per sq m per annum	720–1,080	576–720
Operating expenses, \$ per sq m per annum	60–84	48–60
Sale prices, \$ per sq m	15,000–30,000	6,000–12,000

* Figures take account of reclassification of office property

** Excluding operating expenses and VAT

Source: Knight Frank Research 2008

Key office projects commissioned in Q1 2008		
Name	Location	Total area, sq m
Class A		
NTBC–2	Zhylyanska str., 47–50	9,600
Class B+		
Mikom Palace	Degtyarivska str., 27	11,000
Renome	Dymytrova str., 5	6,700
Business Centre	Antonovycha str., 172	5,100
Total		32,400

Source: Knight Frank Research, 2008

“Total 32,400 sq m of office space was opened in the first quarter of 2008, mainly in class B+.”

Key office projects scheduled to open in Q2 2008		
Name	Location	Total area, sq m
Class A		
Alliance Centre	Yaroslaviv Val str., 23	14,500
Class B+		
Illinskiy (phase II)	Illinska str., 8	30,000
Business centre	Verkhniy Val str., 4	15,000
Business centre	Phizkultury str., 28	11,500
Vremena Goda	Mekhanizatoriv str., 2	8,100
Class B–		
Capital Hall	Zhylyanska str., 31	12,000
Mega–City (mixed–use complex)	Kharkivske hw., 19	11,700
Business centre	Khoryva str.	4,800
Fargo	Ryzka str., 8A	4,500
Total		112,000

Source: Knight Frank Research, 2008

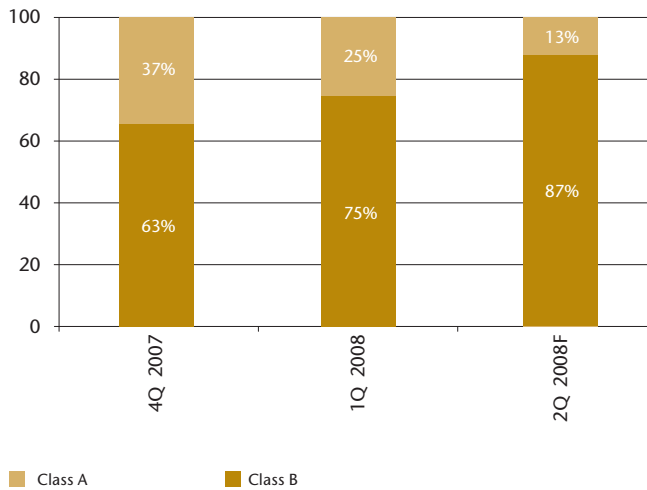


Renome Business Centre,
Dymytrova str., 5

- There was further steady growth of rents for quality office space as the vacancy rate remained low. Rents for professional office space rose above \$1,200 per sq m per annum.
- Only 32,400 sq m of new office space was opened in Q1 2008.
- Most business centres, which came onto the market in the second half of 2007 and first quarter of 2008, were let on the basis of pre-lease agreements ahead of opening.
- Quality of some new assets does not match their class description.
- Geography of new business centres is gradually expanding beyond the business district. Office projects are multiplying in the districts of Podilsky, Shevchenkivsky (Lukyanivka) and Golosiivsky (Zhylyanska and Antonovycha streets).
- The first large office projects have been announced in Obolonsky district of Kyiv.
- Nearly all projects for 2008 are small office centres.
- Large-scale office complexes are not expected before 2010–2011.
- Limited volumes of new supply will continue to drive up rent levels in the office segment.

“Market saturation is unlikely before 2011–2012.”

New openings by class, % of total



Source: Knight Frank Research, 2008

“Supply was boosted in Q1 2008 by two class-A warehousing complexes with 31,300 sq m total space.”



Logistics complex West Gate Logistic (phase I), Zhytomyr road, 9 km from Kyiv

“Four warehouse complexes with total space of about 181,000 sq m should be opened by the end of Q2 2008.”

Warehouse Market

Key indicators	Class A	Class B
Total high quality warehouse area, thousand sq m	214.7	174.3
Constructed in Q1 2008, thousand sq m	31.3	–
Projects planned for delivery in Q2 2008, thousand sq m	294.9	
Vacancy rate, %	0	0.5
Rental rates, \$ per sq m per annum	115–130	90–115
Operating expenses, \$ per sq m per annum	15–30	15–30

Source: Knight Frank Research, 2008

Key events

- GLD Invest Group sold the logistics complex, East Gate Logistic, to Akron Group (Austria). Deal value was €35 million with a capitalization rate of 11%.
- The company Roshen officially opened its logistics complex at Yagotyn in Kyiv Region on 22 February, 2008. Total space is 60,000 sq m and capacity is 45,000 sq m. Total investments in the project were about \$46 million.
- GLD Investment Group began work on the first phase of a class A logistics complex, Odessa Logistic Park with total 60,700 sq m space, located 5 km outside Odesa.
- VK Development plans to built two logistics complexes in Kyiv and Donetsk Regions with 100,000 and 30,000 sq m of space, respectively, by 2011.
- Delin Development acquired a 55-hectare plot in Kharkiv, 4 km from the intersection of the Kharkiv ring road and the Kyiv highway. The company plans to built a warehousing complex on the site.

Supply

Warehousing projects opened in Q1 2008		
Name	Class	Rentable area, sq m
MLP–Chaika (phase I)	A	25,300
West Gate Logistic (phase I)	A	6,000
Total		31,300

Source: Knight Frank Research, 2008

Forecast

Main warehousing projects scheduled to open in Q2 2008		
Name	Class	Rentable area, sq m
West Gate Logistic (phase II)	A	78,000
Comodor	A	66,960
Ghelamco	A	27,000
Prommash–Brovary (phase II)	B	9,000
Total		180,960

Source: Knight Frank Research, 2008



Kvadrat Retail and Entertainment Complex, Perova blvd., 36

Retail Market

Key indicators	
Total high quality retail area, thousand sq m	683.1
GLA, thousand sq m	431
Total stock commissioned in Q1 2008, thousand sq m	84
Vacancy rate, %	1–3
Base rents, \$ per sq m per annum: anchor tenants	180–480
shopping gallery operators	960–3,600

Source: Knight Frank Research, 2008

Key events

- The MIPIM annual international property exhibition was held in Cannes (France) on 11–14 March. Ukraine was represented for the first time on a single stand of over 200 sq m, showing 64 real estate projects. Project portfolios of companies taking part in MIPIM totalled 200 projects with overall value of about \$20 billion.
- The development company, Steltex Investments, plans to build a network of 100 retail centres, each with 5,000–10,000 sq m, in medium-sized cities (50–200,000 population) around Ukraine in the next 5–7 years. Investments will be about \$420 million.
- On 27 March the French retailer, Auchan, opened its first hypermarket (15,000 sq m) in Kyiv on Moskovsky av.
- Karavan group of companies announced plans to sell the Karavan Retail and Entertainment Centre in Kyiv at the end of 2008 or start of 2009. The sale should raise about \$200 million, which will be used for purchase of land plots.
- MegaMax retail group plans to build a mixed-use complex on the site of the former Pismenny Factory (Gorkogo str., 50). The project is for construction of a 17-floor, 4* hotel with 320 rooms, a 30-floor business complex and a retail and entertainment centre. Start of construction is planned for 2009 and completion of the first phase is due in 2012.

“Total retail openings in Q1 2008 were 84,000 sq m. So total supply on the market was 683,100 sq m.”



Auchan Petrovka Retail Complex, Moskovsky avenue

Supply

Key projects, opened in Q1 2008			
Name	Location	Total area, sq m	GLA, sq m
Kvadrat	Perova blvd., 36	41,000	19,800
Bolshevik (phase II)*	Getmana str., 6b	28,000	22,000
Auchan Petrovka	Moskovsky avenue	15,000	10,000
Total		84,000	51,800

* Opening was announced in Q1 2008, but the Centre was actually opened in Q4 2007
Source: Knight Frank Research, 2008

Forecast

Key projects scheduled for opening in Q2 2008			
Name	Location	Total area, sq m	GLA, sq m
Blockbuster	Moskovsky av., 34a	33,000	26,300
Materik	Dniprovska emb.	33,000	22,000
Total		66,000	48,300

Source: Knight Frank Research, 2008

“Two new retail centres with 66,000 sq m total space are due to open before the end of the second quarter of 2008.”

“No new hotels were opened in Q1 2008. However, four new projects were presented for mixed-use complexes with hotel components.”

Hotel Market

Key indicators	
Total operating hotels	122
Total rooms	9,203
Number of hotels opened in Q1 2008	–
Room stock in hotels opened in Q1 2008	–

Source: Knight Frank Research, 2008

Key events

- ITT-Plaza signed a preliminary agreement with the international hotel chain, Intercontinental Hotels, for management of the 4* Crowne Plaza Hotel on Korolenkovskaya str. The new hotel with 225 rooms will be part of the ITT-Plaza multi-functional complex. Construction of the complex will begin in Q2 2008.
- Starwood Hotels & Resorts Inc. reached agreement with DeVision on management of the 5* Le Meridien Hotel in the cottage settlement of Koncha-Zaspa. DeVision is continuing negotiations with Starwood Hotels & Resorts Inc. on management of two more 5* hotels, which DeVision is planning to build in Kyiv.
- InterContinental Hotels Group (IHG) will open the first InterContinental Hotel in Kyiv, with 280 rooms, before the end of 2008 and will open the first Holiday Inn in 2009.
- The city planning council approved pre-project proposals for a mixed-use office-and-hotel complex on Gorky str., 54. A 17-floor, 4* hotel will be built.

Key hotel projects, scheduled for opening in 2008–2011				
Name	Class	Location	Number of rooms	Year
InterContinental	5*	Zhytomyrska str., 2a	280	2008
Rixos	5*	Prorizna str., 24	209	2009
Hotel	3*	7 km from Kyiv on the M-06 road	220	2009
The Radisson SAS Airport Hotel Kyiv	4*	Schaslyve village, near Boryspil Airport	300	2009–2010
Pan Ukraine	4*	Gonchara str., 69	105	2009
Hilton	5*	Shevchenka blvd., 28–30	257	2009
Sofitel	5*	Lyuteranska str., 14b	292	2010
Stolichny	5*	Khreschatyk str., 5	120	2010
Posolskiy Dvor	3–4*	Lavrsky lane	140	2010
Kyianovskaya	3–4*	Kyianivsky lane	300	2010
Vyrlitsa	3*	Left Bank, Vyrlitsa Lake	300	2010
Aerostar	3–4*	Inzhenerna str., 1a	500	2010
Crowne Plaza	4*	Korolenkivska str.	225	2011
Hotel	4–5*	Zlatoustivska str., 11	300	2012
Total			3,548	

Source: Knight Frank Research, 2008

“Average daily rate at hotels in the Ukrainian capital remain among the highest for European tourist centres at \$462 (for 3–5* hotels).”

Overview

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