

## Ukraine's commercial property market

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**Growing Ukrainian wages have fostered an increase of consumer spending power and at the same time an increase in demand for both basic necessities and luxuries. The growing retail sector is causing a surge in demand for warehouse space, which is currently far behind the development of other commercial property market segments in Ukraine.**

A modern society demands high quality business space, but the growing number of new establishments along with local business expansions have caused a surge in the demand for office space. With the existing space now fully occupied, pipeline projects are eagerly awaited. The growing economy, a more stable political situation and an improved legal system will attract further interest from international market players, who will increase their demand for investment opportunities and contribute to a higher transparency, a more liquid market, exit options, and finally, a controlled risk.

Increasing demand for modern retail facilities and restricted supply of prime locations usually cause a decrease in yields as well as higher property prices. This also goes for Ukraine, where yields are expected to decrease as the economy stabilises, and the country is integrated in the WTO and other international organisations.

The following articles present the consequences of the development in three different markets: the office, retail, and warehouse market respectively.

## The retail market

Impressive growth in retail trade indicates increased consumer spending power and encourages retailers and developers to provide more shopping areas. The pace of retail development is strongest in Kyiv, which is mainly due to a high number of residents, a higher income level as well as the large number of both domestic and international visitors.

However, all cities with more than one million inhabitants are becoming more and more interesting for retailers and developers due to increasing population incomes and low market competition.

The retail market in the bigger cities can be broadly divided into three major segments: shops on high streets in the centre of the cities, hyper or supermarkets, and shopping centres. Every market segment has its own development peculiarities.

### High street shops, supermarkets, and shopping centres

Retail space on high streets is especially limited due to many restrictions on the construction of new buildings. The only way to increase the shopping area is thus to transform the existing premises into modern retail units.

There is little doubt that customers are still sensitive to the price level, and the quality standards of a supermarket are not of utmost importance – yet. So, the traditional bazaars selling food and household goods are still quite popular among low-income residents. However, ongoing real growth of wages shows potential for higher spending.

Today there are several shopping centres in Kyiv, some of which are placed in – and serving – residential areas, and some of which are centrally located.

### The rent level

In general, proximity to the city centre plays a major role in terms of shopping centre attractiveness, and this has a direct impact on the rent level. Prime rents for Kyiv retail premises vary from USD 80 to 180 per square meter per month, depending, of course, on location, size, lease terms and quality.

Obviously, Kyiv is Ukraine's most attractive city, causing a strong demand for retail space. At present, there are practically no vacancies in the city's shopping centres, which make it difficult for new brands and shops to establish themselves on the market.

### More shopping centres!

Growing retail turnover and demand for retail space on the one hand, and increasing investor interest in the retail segment on the other encourage developers to provide more shopping centre schemes. Because of the lack of space in the city centre and the availability of suitable spots for construction in the residential areas, new developments outside the city centre are now being initiated. Here, the main parameters are good accessibility, parking space, modern architecture and an interesting concept.

For a long period of time, the supply of warehouse property predominantly consisted of old Soviet building complexes, but the entry of international companies onto the Ukrainian scene has to some extent changed that picture. The growing number of new modern warehouses, however, does not meet existing demands for warehouse property, and the current level of occupancy of modern warehouses in Kyiv is close to a 100%. Preferred locations naturally include areas with good infrastructure. Obviously, almost all areas close to the highways are, or will become, A-class warehouse sites.

In the last couple of years, the warehouse property market volume has been growing – mainly due to the expansion of already existing warehouses and reconstruction of smaller ones.

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## The office market

**Like in any other post-Soviet country, the Ukrainian office market development started at the same time as the reinstatement of the country's independence. Currently, the bulk of development projects are in Kyiv, where major public and governmental institutions are located, making it a desirable place to establish one's headquarters.**

All emerging markets have to go through an initial phase of converting residential premises into office space. At the outset, most business tenants preferred locations in the city centre or in the older parts of Kyiv, since quality requirements were not very important. However, as a consequence of the general economic growth, requirements for office space quality, planning, attractiveness and accessibility increased, and the construction of new office buildings was initiated. In Kyiv, it is the same as everywhere else: the business centre of the city, which is also the historical centre, is the most popular location for prestigious office premises. The major demand today is for modern premises with an advantageous location and convenient parking possibilities. Other important characteristics, such as professional building management systems and future expansion possibilities, make it almost impossible to find desirable premises at the present time.

Strong international and local companies, e.g. from the consulting, pharmaceutical

or IT business, require certain flexibility in the size of premises, most notably in terms of expansion possibilities. There is also a significant interest in buying premises, as this will allow one to avoid rent increases and difficulties in finding new office space.

In all, this leads to a constant shortage of A-class premises on the one hand, and an increased demand for B-class and lower class office space on the other hand.

Despite the fact that several new offices have recently been made available on the market, the supply of modern premises in advantageous locations is still very limited. Therefore, several office projects further away from the city centre are already being contemplated. Here, land supply for development is bigger, and accessibility and parking conditions are better.

Finally, the office market development in other Ukrainian cities is far slower than in Kyiv. However, these secondary markets will experience the same development as Kyiv, but with a five to eight-year delay.

## The warehouse market

**Intensive growth of shopping centres and street retail units has given rise to an increased demand for modern warehouses. However, the limited supply of warehouses is an obstacle for further development.**

Today, a growing number of local companies demand modern warehouse premises, and the need for modern warehouse space is estimated to be approximately half a million square metres.

At first glance, it might seem easy to fulfill the existing demand with modern warehouse projects – especially when rent levels and occupancy rates look so attractive. But in reality, the lack of suitable land is a big obstacle since the most interesting parcels are either reserved for agricultural purpose or being developed for other residential or retail purposes. The acquisition procedure constitutes another problem because of its complexity and unpredictable timeline.

In the future, however, it is likely that this market segment will become more attractive for investors.