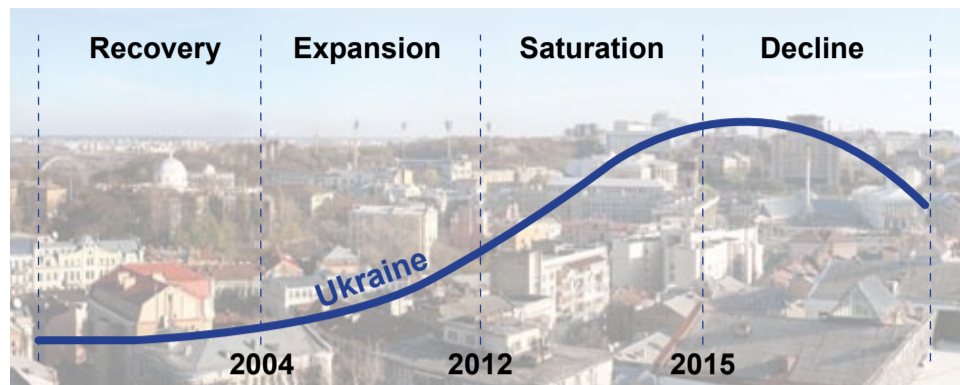


Highlights of a changing real estate market



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The financial crisis has distressed most countries and sectors, including Ukraine and its real estate market. Nevertheless, further development can be expected.

For the last few months, investors have observed how many sectors of the Ukrainian economy have been affected by the recent turn in the conjuncture of the world economy.

The major effect has been on the construction sector. Until recently, large numbers

of developers secured land plots and undertook massive construction projects without relying upon own funds. Now however, many of the green field sites and projects under development that required external financing have been put up for sale.

Shattered long term plans

The credit crunch and lack of equity financing have shattered the developers' long term plans and put their activities on hold. The foreign and local developers have frozen the large-scale projects and postponed the delivery date for one

or two years. As a result, the Ukrainian construction market has grinded to a halt.

The investments in the property market have also shrunk. The real estate investors are not rushing to invest in new projects - instead, they focus on consolidating their own equity and existing property portfolio. However, a significant interest in the Ukrainian property market does remain in the minds of large private-equity investment funds, industrial groups and retailers.

Players and drivers

Hence, it should be noted that the retail, industrial, and manufacturing companies - the so-called "establishment investors" - will be the major players on the real estate market within the next two years. Their focus will remain on turning brown field projects into income-producing properties.

The real estate market will continue to develop, albeit at lower pace and with different segment structures. The retail segment will still be the main driver, and together with the logistic and industrial segments it will retain the interest from market players' side. Driven by demand there will be a selective development of viable projects. For instance, the developers in the retail segment will shift their attention away from shopping mall development and towards to the construction of retail centers of a smaller format. A few local developers have already announced their plans to undertake the development

of small-format discount retail chains.

The near future of real estate The announced plan to hold Euro 2012 in Ukraine and Poland gives rise to the belief that further development of real estate market will take place. There is no doubt that the event will exhilarate the development of the hospitality market and lead to increased interest from the West. So far, however, there has been no significant Western capital brought in to satisfy the existing demand for hotels.

The same situation can be observed in the development of stadiums in the Ukrainian host cities. Apparently, the hopes and expectations that western capital and developers would be involved in the construction of stadiums were just pipe dreams. Now instead, the authorities will, together with local developers, undertake the construction of facilities. Ukraine is determined to host the Euro 2012 and is doing its utmost to complete the required

arenas. Nevertheless, it seems they will have a more modest look than expected, and be inferior in quality to well-known Western European stadiums.

Assessing the development

The Ukrainian property market is currently in the expansion phase of its development. With the present troublesome situation and prolongations of project deliveries of up to 1-2 years, it is hard to anticipate when supply will equate the demand, and hard to predict when the market will step into the next phase of development.

Overall, no one expects a big revitalization of the property market within 2009, however, the market development will continue due to big undersupply and significant demand from both local and foreign companies.

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