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Market Perks Up For Spring



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Editor's Note

Ukraine's chaotic real estate market

It's the Wild West in Kyiv's real estate market – big gains or painful losses.

While the government fails to provide strict construction rules and protect its historic architecture, many real estate firms are taking advantage of the situation.

Some are building multi-story “monsters” in the heart of Ukraine's cultural heritage, some are trying to quickly cash in on poor quality constructions, some falsely promise to include social infrastructure in their development plans to lure in buyers, while others plan to stay closely connected to the government and gain preferences from the state.

Despite the lawlessness, the real estate sector is showing stronger signs of recovery and stability: Kyiv's office market has been showing the lowest levels of vacancy since 2008 and, with a hike in prices, retail vacancy rates are at an all-time low since 2013. Investors are showing a growing appetite for commercial buildings – most notably the IT sector.

But the problem in Kyiv's real estate market is as it is with every market in the city – without strong rule of law and the punishment of wrongdoers, the market will continue to be a high-risk business.

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KyivPost

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Commercial and Residential

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Contents

- 4 Tensions rise between preservationists, developers
- 10 How to people buy apartments without mortgages?
- 14 Kyiv's approach to urban planning amounts to chaos
- 18 Soviet architecture worth saving?
- 20 Kyiv's hotel market rebounds
- 22 Developers ignore demands for schools, parking, other amenities
- 24 Lviv's \$150 million IT park
- 28 Modern R&D centers are in high demand, but hard to find
- 32 Finding 'American Dream' in Kyiv



On the cover: A worker cleans the windows of the 27-story luxury business center “101 Tower” located on 57 Lva Tolstoho Street in Kyiv on May 21. (Volodymyr Petrov)



The former mansion of Ukrainian-American aircraft designer Ihor Sikorsky in Kyiv was built over a century ago and now stands vacant and decaying, despite its status as an historic monument. (UNIAN)

What should Kyiv preserve and get rid of from its architectural past?

By **Bermet Talant**
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Dozens of beautiful but decrepit historical buildings are scattered around Kyiv's city center. Protected by the law from demolition, they slowly disintegrate from age and neglect. City planners and preservationists disagree on how to fix the problem.

'Even homeless don't live here'

Strolling around Kyiv's iconic Yaroslaviv Val Street, an unaware walker would never guess that an old yellow building, No. 15B, was the home a century ago of the famous Ukrainian-American aircraft designer Ihor Sikorsky.

Built in 1903, the three-story house stands empty and in terrible condition with bricked-up windows and crumbling walls. The floors and staircases inside collapsed long time ago, so even homeless people consider it unsuitable for living.

Last year, a Kyiv court returned Sikorsky's house to state ownership after 16 years on lease. There have been reports that it will be renovated and turned into an aviation museum, but there are no concrete plans.

Similarly, an early 19th century trade complex, Hostynnyi Dvir in Podil neighborhood was saved from

being refurbished into a shopping center, although the word “saved” might be incorrect here.

It took a court several years to transfer property rights, seized from a negligent leaseholder, to the government. By that time, the 9,000-square-meter premises in the heart of Kyiv had reached a state of utter disrepair and had been damaged by fire.

Fires aren’t rare in historic buildings. Last winter blazes broke out in three 19th century houses with rental apartments and shops — known as “revenue houses.” Preservationists suspected the buildings might have been intentionally set on fire.

A revenue house at 19/33 Shchekavytska St. in the historic neighborhood of Podil became so dilapidated that its brickwork would crumble and fall off on the road. Another one, at 12–14 Bohdana Khmelnytskoho St. in the heart of Kyiv, wasn’t better: In 2016, its top floor collapsed, killing two people.

Oleksandr Nikoryak, head of the Kyiv administration’s department for historic preservation, says his office has registered over 50 historic buildings in critical condition.

They were privatized years ago with the hope that they would be rebuilt into business centers or high-rise residences, he says. But the law prohibits their demolition or remodeling.

In the meantime, property owners and developers see the biggest value of Kyiv’s historic building stock not in its history but central location.

“I believe buyers hoped to have the historic status removed and tear the old houses down in order to build something more suitable for their commercial goals,” Nikoryak told the Kyiv Post.

In the past, a number of historic buildings in Kyiv were destroyed for the sake of new construction. A 24-story apartment block at 51 Melnykova St. in the western part of the city was built where a 100-year-old historic mansion used to stand until 2011.



The renovation and maintenance of historic buildings are costly, and many owners prefer to allow them to collapse and start clean with a vacant space for a new construction. Fires help speed this process along.

Urban preservationist Olga Rutkovskaya shows dilapidated historical buildings in the Imperial Russian architectural style on Kyiv's Andriyivsky Uzviz Street on March 23. (Volodymyr Petrov)

Carrots and sticks

So far Ukrainian officials have been unable to resolve the fundamental conflict of business interests and heritage conservation.

Nikoryak says his administrative powers are quite limited. His department can fine negligent owners for not maintaining their historic property: the current rate is Hr 1,700 (\$65) for individuals and Hr 170,000 (\$6,500) for legal entities.

They can take negligent owners to court. But if the city manages to win cases that dragged out for years, historic buildings will be returned to the state, not to communal ownership. Often, it is hard to identify the real owners



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The Value of a Business's Flexibility and Agility

Shared workplaces are a tool that can be used to reflect an organization's culture, values and priorities. The type of shared workplace a company uses gives insight into the norms that company operates within, whether intentionally or not. For example, serviced offices reflect a more formal, private and customary culture, whereas co-working facilities reflect a more progressive, transparent and modern culture. Although both models may reflect much more than just a business culture, choosing one model over the other is certainly a lens into the type of values a company has. Organizations are starting to initiate the use of this new and innovative space model to satisfy the requirements of specific departments or project teams that may not fit the cultural mold of legacy office space. Whether it be to promote innovative thinking, or access a better work experience for employee retention, contemporary shared workplaces offer diverse ways to support the needs of occupiers - from small private firms to large public institutions (Global CBRE Research).

A local survey of the top largest co-working centers and serviced offices in Kyiv conducted by CBRE Ukraine found that core demand for shared workplace in Kyiv originates from IT and Business Services specialists aged 25-44, working remotely as solopreneurs and consultants, or as a part of small project teams and start-up companies.

Co-working spaces offer a diversity of environments that give occupants options to choose where and how they want to work—and optionality is a key value for modern mobile employees. A recent survey of large corporate occupiers by Global CBRE Research revealed that today's labor force puts a high degree of importance on the desire for a great "work experience"—specifically, the functionality of the workplace, the freedom of work style and the sense of community between related organizations. These spaces offer a unique opportunity for employers to access the work experience much of their talent base is calling for (Global CBRE Research).

There are a number of elements to consider besides the headline lease cost when comparing the costs of shared workplaces

with those of traditional leased offices (Global CBRE Research). Aside from vibrant infrastructure and flexible culture at the core of the concept, Kyiv's shared workplace model attracts modest space users seeking lower-cost and shorter-term solutions compared to those offered by traditional office lease agreements. Besides lower lease cost, the lack of a contract negotiation process, transparent pricing, and turnkey solutions are the other major benefits of co-workings and shared offices.

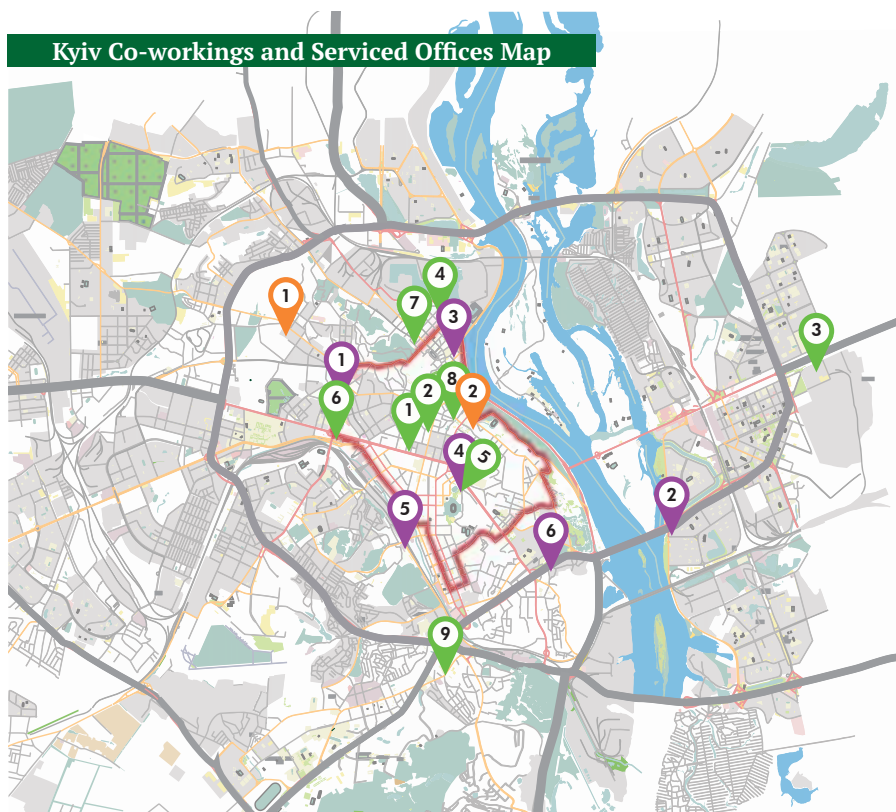
“There are a number of elements to consider besides the headline lease cost when comparing the costs of shared workplaces with those of traditional leased offices.”

The average desk cost in a given co-working space in Kyiv ranges from \$70 to \$300 per month, with the price rising the closer the location is to the city center. The cost range for private offices in co-working spaces is therefore higher, starting from \$100 per month and reaching \$700 per month. Among the two key formats both open space setting and private offices are popular with shared workplace users in Kyiv, where demand for open space seating - whether a hot desk or a dedicated desk - slightly dominates at 55%. With the aim of benefiting from the highest cost efficiency, more than 80% of users choose a monthly rate plan as opposed to daily or weekly, with monthly plans usually resulting in rates 1.5-2 times lower than those offered on a daily basis.

According to a survey of co-working users conducted by Global CBRE Research, community and networking is a top feature co-working space users look for when choosing space – of course, in addition to a convenient location that takes them out of their home environment. With the ever-growing number of alternative office locations in Kyiv, employees have better chances of finding a workplace that meets their location and office infrastructure preferences. Such tailored working environment settings spur workers' well-being, as the quality of a workplace has been shown to have a growing impact on health and stress levels.

The importance of community and networking is valued by

Kyiv Co-workings and Serviced Offices Map



Source: CBRE Ukraine

- Co-workings
(GLA 1,000 sq m and over)
 1. #PeremogaSpace
 2. Coworking Platforma Leonardo
 3. Coworking Platforma Art-Zavod
 4. Creative Quarter (BC Astarta)
 5. Creative Quarter (BC Gulliver)
 6. DataHub
 7. HUB 4.0
 8. iHUB
 9. Main HUB
- Regus Serviced Offices & Co-workings
(GLA 1,000 sq m and over)
 1. Regus (BC Forum West Side)
 2. Regus (BC Silver Breeze)
 3. Regus (Kiyv, Podil)
 4. Regus (BC Gulliver)
 5. Regus (BC Kyiv Horizon Park)
 6. Regus (BC IQ Centre)
- Co-workings under construction
 1. Chasopys.UNIT
 2. New Work Labs
- Central Business District (CBD)

employees of companies large and small, and landlords are responding to this call to action. They are focusing on making the physical building a more connected ecosystem of diverse uses, rich programming and amenities supporting a sense of community. The primary objective is to improve the occupier experience and promote retention, but the outcomes are vibrant campuses that serve a greater purpose than simply being places to work. Today's business strategy calls for the rapid testing of ideas—the idea of “failing fast.” Co-working models draw on concepts first developed for business incubators by universities to promote shared learning and co-innovation (Global CBRE Research).

In Kyiv, for instance, Ukraine's first innovation park, Unit City, is about to open a Chasopys-UNIT co-working, a national co-working brand operating another location in Central Business District (CBD) from 2013. Co-working will work within Unit City in order to capture the target audience of start-ups and entrepreneurs from data driven industries. The idea is to allow residents to co-create in the environment where knowledge sharing is welcome.

An overall trend to note is the acceleration of new supply on the shared workplace market. One of the first international shared offices and co-working space companies, Regus, entered the Ukrainian market in the late 1990s. The company is continuously expanding, with a new location about to open in Forum West Side BC, by taking 1,500 sq m of space, in addition to their already existing seven office locations in Kyiv, predominantly located in CBD. Another international co-working brand, New Work Labs, has recently entered the market, settling in the heart of Kyiv in SC Globus with 1,000 sq m in take-up.

Considering the growing shared workplace supply, ca. 70% of respondents indicated no negative impact of growing competition on their business performance. In fact, ca. 90% of those surveyed have further expansion plans looking ahead to 2018-2020 period, responding to growing interest on the market. Among companies-respondents planning to expand, the majority of respondents (45%) indicated no preference in terms of the geographical location of their future offices. Nevertheless, a clear majority of existing supply is concentrated in Kyiv's CBD, which is why ca. 40% of respondents still consider CBD as their preferred geographical area for future expansion.

Analyzing interest by property type, almost 70% of respondents favor business centers over standalone buildings and street retail for their properties in the pipeline, as this kind of real estate tends to offer a central location, large floor space, and include installed HVAC and fire safety systems. We anticipate that the shared workplace market of Kyiv will stay dynamic on both the demand and supply side, encouraged by substantially reduced good quality traditional office supply on the market.

The article is based on Global CBRE Research report “U.S. Shared Workplaces Part 2” and a local survey conducted by CBRE Ukraine.

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The inside of a crumbling historical building at 26 Andriyivsky Uzviz. Photo taken on March 23 in Kyiv. (Volodymyr Petrov)

hidden behind offshore companies and nominee directors listed on paper.

Measures against irresponsible owners should be toughened, Nikoryak believes.

The city administration has recently submitted a draft bill to the parliament with amendments to the heritage preservation law. They are seeking to increase fines to millions of hryvnias and allow municipalities to confiscate and manage historic buildings.

expert and activist Olga Rutkovskaya favors another approach: financial incentives for owners and investors who can't rebuild the property as they wish, but are still required to make costly restorations by law.

"Transformation of historic buildings into businesses is restricted in all European countries," she says. "We need to develop public-private partnerships and offer benefits or tax exemption to investors. Historic buildings could be sold to new owners for one hryvnia under strict conditions that the owner maintains them."

Historic preservation



Furthermore, existing construction regulations don't have a detailed algorithm for a developer who wants to build on a heritage site or in cases in which the property has historic status. The public registry of property rights isn't synchronized with the list of historic buildings, Rutkovskaya says.

Officially, Kyiv has 3,500 objects flagged as historically or culturally significant. But the list is a mess. Along with ancient churches and czarist-era buildings, there are graveyards and monuments. In addition, there are hundreds of so-called "newly discovered objects" whose status as heritage hasn't been established yet.

Fires aren't rare in historic buildings in Kyiv. Preservationists suspect owners set their properties on fire to get rid of the old buildings that can't be demolished due to their historic value.

Raising public awareness

Does Kyiv even need so many historic buildings? Do they all need to be saved and protected? All sides agree it does.

“The value of historic architecture is it can make city attractive for tourists. Look at European cities. The revenues from tourism are huge and can cover costs for restoration,” says Nikoryak from the city administration.

“The problem is that not only businessmen don’t see the value of historic architecture, neither do regular citizens,” says Vitaly Beletskiy, an activist of the public community Save Andriyivskiy Uzviz, which works to preserve the Kyiv’s iconic street.

The variety of architectural styles in Ukrainian cities captures the country’s rich and complex history under the rule of Austro-Hungarian empire, the Russian empire and Soviet Union. Kyiv alone exhibits a splendid mix of Christian Orthodox architecture, imperial baroque, art nouveau, neoclassicism, and Soviet modernism.

“We need to popularize our cultural heritage. These buildings witnessed the history and contain the spirit of their time. They have to be preserved to tell future generations about past events and people who lived in them,” says Elena Rofe-Beketova, head of the cultural projects at the Kharkiv With You foundation, which has recently premiered a documentary which explores the decaying architecture of Ukrainian cities. ■



Retail Park Petrivka is Ukraine’s first retail park and was opened during this year’s first quarter. It provides 12,000 square meters of retail space to such brands as Argo, Comfy, Jysk, LC Waikiki and Colin’s. Supermarket Auchan Rive Gauche also opened its doors the same quarter and provides 22,000 square meters of retail space. This year Kyiv expects two more shopping centers – Smart Plaza Polytech (15,000 square meters) and River Mall (62,200 square meters). Despite the new shopping centers, Kyiv’s retail vacancy rates are at an all-time low of 4.5 percent since 2013, while prime rent increased by 6 percent exceeding \$1,000 per square meter per year, according to JLL commercial real estate services firm. (Volodymyr Petrov)

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A man looks from his balcony at brightly-colored apartments belonging to Comfort Town, a 2010 development with its own financial structure. (Kostyantyn Chernichkin)

Even with mortgages hard to get, Ukrainians are still buying homes

By Aisha Down
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It's one of Ukraine's great real estate mysteries: How do people buy homes when the mortgage options are few and expensive?

The short answer: Most have to save up a lot of money, get very creative or stay in debt for a long time.

When Anatoly Schmargun got a job near the Comfort Town residential complex in 2012, its brightly colored apartment buildings on the left bank of the Dnipro River immediately caught his eye.

"When I saw the place, I was like—'Wow! In Kyiv, such colorful buildings, and not too high!'"

He decided to buy an apartment there and took out a

mortgage. Six years later, and still owing tens of thousands of dollars for his apartment, Schmargun's opinion has changed.

"This is not a good system," he told the Kyiv Post. "It's theft. Ukraine is a poor country. But we have such high prices for everything."

The 2008 global financial crisis brought the near-collapse of Kyiv's mortgage lending. After years of economic and political turmoil as well as war, during which time the hryvnia lost most of its value, the credit market still hasn't revived. This makes buying a home, for most Ukrainians, difficult and costly.

But with trust in the banks still low, real estate remains Ukraine's preferred store of value. Despite there being few options and bank loans being wildly expensive, many, like Schmargun, are still weathering the costs and sinking their money into houses and apartments.

Paying up front

The breakdown of how people finance their homes in Kyiv hasn't changed much since 2015, says Tim Louzonis, a partner at AIM Realty, an elite real estate agency.

He estimates that about two-thirds of Ukrainians pay entirely up front. One third, he says, use short-term financing offered by a developer — like Comfort Town, which initially offered Schmargun a seven-year payment scheme.

Three to four percent, he says, take out a bank loan. With interest rates around 20 percent annually, it's the last resort.

"Basically, they ask all their relatives, they ask their grandmother, and then, for the difference, they go to the bank and say, 'we'll take that out and pay it back as quickly as possible.'"

The loans aren't mortgages, says Louzonis — they're short-term, usually less than 10 years, and the sum borrowed is generally small. "The amount borrowed is usually more like 'bridge financing' than a home loan," he says.

For his part, Louzonis advises clients — almost all



expatriates — to pay for apartments up front. "This is not a place where you can speculate," he says.

Bas Schuiling, from the Netherlands, is one such expatriate. The employee of an American IT company, Schuiling paid some 80,000 euros — or about \$94,000 for an apartment in Podil, after saving up for some time. "I didn't try to get a mortgage here," he says, explaining it was prohibitively expensive.

Pricey financing

With average salaries in Kyiv now at around \$350 per

As mortgage rates remain high in Ukraine — around 20 percent — many Ukrainians try to find alternatives such as borrowing cash from relatives, using short-term financing from developers, or paying upfront.

A luxurious, classic mansion in a secure village community, at a location close to the city, with the purest air and beautiful nature - all this will make this house especially attractive to those who are tired of the big-city bustle.



The residence is designed in a strictly classical style, and was constructed under the guidance of a professional architect. The technology used, the construction standards, and also the quality of all materials used were closely monitored. The personal touch and unique character of the project is obvious, as the house was built for personal use. Thanks to this, the house will give reliable and long-lasting service to its owners.

The classic elegant interior, features bronze French lamps made in 1842. The furniture is from Italian and English manufacturers, such as Borgia, Polany and Victoria. The wooden interior doors and windows were made in Germany. The floors are a combination of parquet made of precious hardwoods, and Italian



marble tiles. The fireplace is faced with marble, with cast-iron fixtures made to individual order, and the building's unique stained-glass windows are made using the Tiffany technique, by Czech producers.

The residence, which has a total area of 1,064 m² has four aboveground levels and provides everything necessary for the comfortable, busy life to which you are accustomed — all without leaving the mansion.

The Levels

Basement — a billiard room, sauna, hammam steam bath, wine cellar, gym with access to an indoor pool (14 meters), bathroom and technical rooms. All rooms are fully equipped.

First floor — an entrance hall with access to garage for two cars, hall, kitchen-dining room, spacious fireplace room, guest bathroom.

Second floor — a study, large library, two bedrooms with their own bathrooms.

Third floor — three bedrooms with bathrooms, one of which is grants access to the balcony. Games room with access to the balcony.

Fourth floor — a lounge area with beautiful views, and an attic with a technical room.

The whole house has underfloor heating, and is equipped with a combined extract-and-input ventilation system, air conditioning, security and fire alarm systems.

The house is situated on a land plot of 0.9 hectares with a carefully planned landscape design and Alpine hill. A range of coniferous and deciduous trees have been planted, making the air incredibly clean, fresh and fragrant. The large territory has plenty of space for the large gazebo with barbecue area (complete with cast metal furniture), as well as an additional garage with a maintenance room, which is almost invisible due to the carefully positioned trees.

The property is located in an elite, gated community. The territory is completely closed, guarded and

has only 22 houses. In the community there is a tennis court and a sports ground (basketball, mini-football) for general use. There is a 50-hectare forested park with illuminated paths for walks or jogging. The services to the community include: own condominiums, a central sewerage system, uninterrupted power supply (TPU), private well with clean drinking water, security, and a service station.



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Construction proceeds on a Kyiv residential development built by Ukrbud, Ukraine's state construction company, which has built tens of apartment buildings around Kyiv. (Volodymyr Petrov)

month, paying for an apartment up front isn't an option for everyone.

A slew of developers — Comfort Town, Fina Town and Crystal Park, for instance — offer another way to pay: an in-house financial structure, in which residents can pay for their apartments over five to seven years.

The president of KAN development, Comfort Town's parent company, declined to answer the Kyiv Post's questions about how exactly Comfort Town's financial plan worked.

Schmargun says his apartment, up front, would have cost \$110,000. In 2012, he made a \$23,000 down payment. He takes out a calculator to figure out how much he will have to pay in three years, after his payments are completed.

"\$170,000. More than 50 percent more," he says.

Short-term financing through a developer may soon become more reasonable.

Valeria Malakhova, head of Oschadbank's retail department, says that the bank partnered with five developers in January — Comfort Town, Faina Town and Crystal Park among them. Declining to give specifics, Malakhova says that the partnerships will offer longer payment plans -- 10 to 20 years.

But interest rates will still be high, says Malakhova, at

around 19–20 percent annually, although some might be lower, depending on the partner.

Meanwhile, although most don't see bank loans alone as a viable way to finance a house, Malakhova says Oschadbank is managing to attract customers with ordinary loans for periods of a few years.

Interest on these loans is, again, 19 to 20 percent, sometimes higher. "It's a very high interest rate from (a Westerner's) point of view," she says. But, with the National Bank of Ukraine setting its own deposit rate at 15 to 17 percent, it's about as low as Oschadbank can go.

"(Loans) give a client an opportunity to buy their own flat and live in there. Rent payments are, anyway, just as much as monthly credit payments."

Flight to suburbs

While Comfort Town and developments like it offer more accessible payment plans, Louzonis casts doubt on whether they're the best option — at least from an investment standpoint.

"Ukrainians want to live in new buildings, with underground parking," he says. "Not Stalinkas," he adds, referring to Soviet-era buildings built from the 1930s-1950s.

But, with no eminent domain laws in Kyiv's city center, moldering historic buildings remain standing, and new apartments have to be built farther and farther away from the center, says Louzonis. In the long term, as commute times go up, their value as investments — property to rent out — is questionable at best.

"It's not an investment. It's a place to live," he says. "The sale price isn't lower — but the rent will be lower, and the investment yield will be low."

For Schmargun, despite the years of ever-increasing payments, his home purchase is still worth it.

"Our last apartment, when we rented, we paid \$550 a month. You paid for...we call it for nothing. You're paying, but you don't get anything. But when it is your apartment, everyone hopes that in five or seven years — it'll be yours. You won't have to pay," he says.

And three years from now, his apartment will be his.

"I can spend that (money) on traveling, a MacBook, etc. Thank God that I'll have the possibility to do this." ■

Prime real estate yield rates in Europe, end of 2017

| Country | Office | Retail | Industrial |
|----------------|--------------|--------------|--------------|
| Austria | 2.9 | 2.85 | 5.75 |
| France | 3 | 2.25 | 5 |
| United Kingdom | 3.25 | 2.5 | 4 |
| Germany | 3.4 | 3 | 4.8 |
| Italy | 3.5 | 2.75 | 6 |
| Spain | 3.5 | 3.3 | 5.75 |
| Sweden | 3.5 | 3.25 | 5.25 |
| Switzerland | 3.5 | 3 | 5.55 |
| Norway | 3.6 | 3.75 | 5.25 |
| Denmark | 3.75 | 3 | 6 |
| Finland | 3.8 | 4.5 | 5.9 |
| Portugal | 4.5 | 4.5 | 6.25 |
| Czech Republic | 4.6 | 3.5 | 5.75 |
| Poland | 5.25 | 5.25 | 6.75 |
| Hungary | 6 | 5.25 | 7.75 |
| Slovakia | 6.25 | 7.5 | 6.5 |
| Estonia | 6.8 | 6.8 | 8 |
| Latvia | 6.9 | 6.75 | 8 |
| Lithuania | 7 | 7 | 8.5 |
| Romania | 7.25 | 7.5 | 8.75 |
| Turkey | 7.25 | 6.5 | 9 |
| Bulgaria | 7.75 | 8.25 | 9 |
| Slovenia | 7.75 | 7 | 10 |
| Greece | 8 | 6.8 | 10.5 |
| Croatia | 8.25 | No data | 9 |
| Serbia | 8.75 | 7.75 | 11 |
| Russia | 10 | 12 | 12.25 |
| Ukraine | 12.25 | 12.75 | 13.25 |

Kyiv has one of the highest prime yields — returns on investments — for office, retail and logistics real estate as its market is considered to be high risk. Ukraine's yields, however, are unleveraged, meaning that they are not combined taking into account financial obligations such as debt. As the economy showed signs of stabilization and an increase in investment demand in 2017, the market witnessed a decrease in risk for its commercial real estate market lowering the yield rates, according to Cushman & Wakefield real estate services firm.

Source: Cushman & Wakefield

BUSINESS ADVISER

PECULIARITIES OF THE MORATORIUM ON INSPECTIONS IN UKRAINE, WITH EXAMPLES OF INSPECTIONS CARRIED OUT BY THE STATE EMERGENCY SERVICE OF UKRAINE



Alexander Burtovoy
Partner of
Antika Law Firm

The State Emergency Service of Ukraine (SESU) carries out state supervision (checks) to identify and prevent violations of legislation by business entities, and also to protect the interests of the community through carrying out scheduled and unscheduled inspections.

There has been a moratorium on conducting business audits in Ukraine since 2014.

However, from year to year, at the level of laws and regulatory legal acts, and exceptions to the general rule are being established. Today, the list of such exceptions is so great that the use of the term "moratorium" seems questionable.

For instance, resolution No. 1104 of the Cabinet of Ministers of Ukraine as of 18.12.2017 approved a list of state supervision bodies to which the moratorium does not apply.

Among them are the SESU and its territorial bodies (in relation to the implementation of state supervision (checks) on institutions for the rehabilitation and recreation of children, boarding schools, pre-school institutions, general secondary education, vocational and specialized education, as well as business entities with a high degree of risk).

In practice, however, even the statutory grounds are not sufficient for SESU bodies. Often, government officials interpreted statutory exemptions freely. As the result, the rights and interests of economic entities are violated.

For example, the bodies of SESU carry out unscheduled inspections based on decisions of investigating judges, issued in criminal cases, which often have no relation to any economic entity.

And in fact, the Criminal Procedural Code of Ukraine does not provide the possibility for the investigating judge to make any such decisions, but does establish an exhaustive list of decisions of the investigating judge that can be appealed against separately from the verdict. As a result, a decision that is not provided for by the law can exist that is impossible to appeal against from a formal point of view. Confirmation of this is the huge number of decisions of the courts of appeal on this topic throughout Ukraine.

This is happening as follows: an appeal by law enforcement bodies with a procedural request within the framework of a certain criminal case is satisfied by the investigating judge. At the same time, the entities in respect of which the audit is planned are not called to the court session.

Economic entities are increasingly appealing such decisions in cassational procedures.

Several of these cases are under consideration now by the Grand Chamber of the Supreme Court of Ukraine.

Concerning the inspections, it seems that their main goal is to stop economic activity. Inspectors try to "detect" as many violations as they can, even those that do not exist, or which can be eliminated at the time of verification.

If a violation is detected, an act is drawn up. On its basis, the body of the SESU, if there are grounds for a complete or partial suspension of proceedings, applies with an appropriate claim to the administrative court.

If other measures of response are necessary, an improvement notice, an order, or another administrative document are prepared to rectify the violations discovered. As a rule, a month is provided by the SESU for rectifying violations.

The key factor in deciding whether to completely or partially suspend production, based on the rule of law, is the existence of justification. The legal basis for the application of this type of response is danger to life and / or human health.

A systematic analysis of the rules, incl. rules of proceedings (a decision must be taken by a court), allows us to assert that the claim for the application of such response measures should be justified by the SESU authorities — in accordance with the adversarial principle of the parties.

A decision on the application of such response measures has to be justified, proceeding from the general requirements established in procedural law.

Experience has shown that in most cases, the courts are on the side of the inspectors, and often take unreasonable decisions to stop the operation of objects of various purposes based on a single inspection report (act) drawn up by the bodies of the SESU.

We hope that the newly formed Supreme Court will analyze the practice of considering such disputes within the context of Art. 19 of the Constitution of Ukraine, and will take a position that takes into account not only the interests of the state, but also those of business.

Until then, we recommend you carefully check the documents by which inspectors justify the right to conduct a check for their completeness and correctness of registration since, in the case of non-compliance (in the case of denial of access to inspection), fines can be avoided.



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Birdhouses oversee Kyiv's left bank that is being clogged up with residential buildings as construction companies often ignore city regulations. (Oleg Petراسиuk)

Chaotic construction: Greedy real estate companies continue to ignore Kyiv rules

By Natalia Datskevych
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Judging by the city's ever-rising skyline, Kyiv's residential real estate market appears to be on the move again, with the frames of skyscraping housing complexes shooting up amid cranes.

But at ground level, Kyiv residents have a different view.

Construction companies are clogging up the city, ignoring regulations by fencing off construction sites, blocking access and leaving residents inconvenienced. Moreover, often when new developments start work, they linger unfinished for years as developers try to raise money to complete the projects.

Meanwhile, city zoning plan after city zoning plan has been violated by well-connected developers. As greed prevails over strategy, regulation and common sense, Kyiv's city center and its inhabitants are paying the price.

Impunity

Maxim Bakhmatov, a managing partner of UNIT City, a Kyiv innovation park that rents offices to tech companies, says that the problem can be summed up in one word — “impunity.”

FIVE FEATURES OF SUCCESSFUL DEVELOPMENT PROJECT



Andriy Vavrysh
CEO SAGA Development

The residential real estate market of Kyiv is abundant with supply, but it is difficult for a potential buyer to choose between properties. Buyers are becoming increasingly demanding, and are now familiar with development projects in Europe and the world, following world trends. Most Kyiv developers, in contrast, continue to follow the old-fashioned Soviet National Building Codes.

Under such conditions the most successful development projects will be those that are in line with global trends, including the following ones:

Human-centricity in designing residential complexes and cities. It

is very important to understand how a person will live in a city, in a new district, or a housing complex, and what kind of lifestyles a person will have. It is necessary to create architecture commensurate with a human, and infrastructure that will allow them to follow their lifestyle without leaving the boundaries of their district or residential complex.

Multi-functionality

Today, all over the world, people prefer multi-functionality rather than the construction of purely business, residential or industrial districts. The combination of residential real estate with public spaces, retail, entertainment, social infrastructure and business centres ensures that a district can be functioning at any time of the day, promoting security, while improving the transport situation and the environment. Multifunctional neighbourhoods allow their inhabitants to work, live and have fun all within walking distance, saving time that was previously spent on travel.

We took this principle as the basis for designing not only our RYBALSKY neighbourhood and Novyi Podil district, but also our infill developments. These are multifunctional objects with developed residential, trade, business and social components, able to support a range of activities within their territory at any time of the day.

Public spaces of high-quality and improvement of territory

There are two problems in the improvement of the territory around a buildings under construction. Firstly, such improvements are usually carried out after the completion of construction work – until then the buyers and all who are walking nearby have to put up with construction fences and limitation of movement on the pavement, or perhaps have waded to the sales department through a construction yard.

We decided to take another approach and improve the territory first. In the RYBALSKY residential area we redeveloped a pedestrian boulevard and opened it for everybody one year before putting the first buildings into operation. Qualitative redevelopment of the territory around the NEW YORK Concept House and CHICAGO Central House residential complexes was also carried out in parallel with the construction of the buildings.

Openness

The second problem of the modern residential complexes in Kyiv is that they are fenced and look like reservation areas. This leads to problems with infrastructure: well-developed infrastructure has not been provided here because there is a small number of inhabitants and the existing infrastructure impairs the quality of life inside of the residential neighbourhood. We are supporters of open urban systems, that is why RYBALSKY and other objects are open to all. This ensures economic efficiency of their infrastructure.

High-quality service after start of operation

Understanding that our responsibility is not limited to putting objects into operation, we started to look for a managing company that provides inhabitants with services that correspond to the quality of the project. It turned out that there were no such companies, and private housing maintenance offices rendered services of a low quality. This was unacceptable for us, and we established a managing company called ATMOSFERA that starts rendering services to residents from the beginning of a building's operational stage. Its services are transparent to the best extent possible and automated through the use of the SFERA mobile application. This enabled us to provide our buyers with services at the level they expected, and it has since become an innovation that we will offer to other members of the market.



Over one-and-a-half years we have already been able to see the effectiveness of observing these principles. In future the demands of buyers will increase, and this means that developers will have to improve their standards of quality.

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This Podil Prestige building was built four years ago, yet stands empty in Kyiv's historic Podil district on May 21. City regulations require that the height of new buildings in historic areas not to exceed 27 meters while this 13-story monolith dubbed as "Podil's monster" stands out. It might soon be demolished, as an extra five floors were constructed over the eight allowed. (Oleg Petراسиuk)

"There is no general plan in the city and now Kyiv is simply clogging up, being built up chaotically," Bakhmatov told the Kyiv Post. "This is because of the greed of people, the absence of punishment for violating laws, and (developers) having the opportunity to purchase anything they want."

Over the past five years, the number of new residential complexes in Kyiv has grown apace, with more than one million square meters of housing approved for construction every year, according to Ukraine's State Statistics Service.

Behind this construction is a city zoning plan, but it is vague and unenforced, meaning many Kyivans wake up to new residential complexes being erected right next to their windows, and previously shady, arboreal neighborhoods being turned into concrete jungles.

Olena Terestchenko, founder and coordinating board member of Kyivske Viche, an advocacy group, outlined the problem to reporters:

"We have a current general plan of Kyiv. It is in place, but it is constantly violated. Developers began to violate it even during the time of Mayor Oleksandr Omelchenko, at the beginning of the 2000s, when green areas and historic zones were opened up to construction."

The general plan has been revised several times, with new iterations blotting out previous green areas and legitimizing previously illegal constructions, says Terestchenko. Now, powerful builders are lobbying for the adoption of a new master plan that will give them even more concessions.

The result isn't just unsightliness.

With the city's spotty landscape of decades-old buildings, the developers' ambitions threaten straight-out ruin. In places like 2/1 Kruglouniversitetska St., companies are build large multistory complexes next to low-rise or older buildings, a particular problem in the city center. Now residents are posting on social media photographs of the

cracks that are appearing in the walls of some of Kyiv's historic buildings.

Disappearing parks

And it's not just built-up areas that are at risk: at times, city parks turn into illegal construction sites.

One example is the Autograph residential complex on the left bank of Kyiv, under construction since 2015. The complex was placed right in the middle of the park, and 600 trees were cut down to make space for it.

DIM, the developer of the scandalous construction site, is unpopular: StroyObzor, a ranking created by journalists, experts, public organizations and investors, rates it as the second-worst developer in Kyiv.

But developers often find a way to hide damaging monymaking schemes until after the city has approved them. Local media outlets allege that developers have a simple scheme: register an unknown company that strikes an agreement with a city official on where to locate a construction site, then weather the public outcry until locals accept the building, which they can then claim.

In the case of DIM, the developer entered the market under a different name — Budinvest KM.

The same company has built residential complexes in two other city parks — "Radunka" and "Kristerova Gorka" — according to StroyObzor.

Spoiling the view

Another problem in Kyiv involves newly constructed buildings that are taller than the maximum legal height. In Kyiv, for example, regulations say that the height of new buildings in historic areas cannot exceed 27 meters.

But there are examples of companies that have violated that law. One is the Podil Prestige complex, a 13-story monolith built four years ago in Kyiv's historic center. The building, also dubbed by Kyivans as "Podil's monster," might soon be demolished, as an extra five floors were constructed over the eight allowed.

But Dora Peteli, the director of the developer's legal entity Patel Leasing, says that the Podil Prestige complex did everything legally.

"I do not know who organizes these campaigns against us, but this building is beautiful. Maybe because we did not give someone 10 apartments for free, or because I did not give a bribe of half a million dollars?" Peteli told Kyiv Post.

Activists agree that the extra five floors of this building spoil the general view in Podil, since it is higher than all the houses nearby. The building also blocked an entrance to an underground crossing.

Frozen construction

After prolonged campaigns, the Podil Prestige complex now stands empty. It's a fate shared by about 200 unfinished buildings in Kyiv, with completion dates sometimes delayed for decades, said Glieb Shemovniev, a spokesman at state building company Ukrbud.

Construction on these buildings often halts because developers run out of money to continue the work.

And in some cases people who already bought apartments in such buildings were deceived — the developer abandons the project, but keeps the money. The fraud victims don't have many options, other than wait in hopes that another company will finish the project or that a court will rule in their favor. Both options are unlikely.

One notorious example of this is the Akademgorodok residential complex, which has been under construction since 1992. Its first three sections were completed in 2002, while the last one is still unfinished, and more than 120 families are waiting for construction to be finished.

This site will be finished by another company — Ukrbud. The state-owned builder is now making progress in completing the project.

And there are signs that Kyiv's developers are becoming more professional.

Even though there haven't been any major cases of developers being taken to court for failing to complete building projects over the past decade, they are doing better financial planning, Shemovniev said.

"Developers have become more experienced, and already know how to finalize projects and correctly calculate their financial resources so as not to fail." ■



Kyiv has about 200 unfinished buildings that stand still with completion dates sometimes delayed for decades, according to Ukrbud, a state-owned real estate developer. Construction can stop due to various reasons such as raider attacks, developers running out of money or being paid enough down-payments from early birds who have been tricked into purchasing unfinished apartments.

BUSINESS ADVISER

HINTS FOR REAL ESTATE INVESTMENT



Kornev Ihor
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Despite all the difficulties connected with political instability, the Russian occupation of Ukraine's Crimea, and Russia's war on Ukraine in the east, certain branches of the economy are showing growth. Construction is one such branch. Notably, in a situation in which one third of all banks were declared bankrupt in the last few years, a significant number of citizens prefer keeping their savings in the form of real estate. That has only increased the number of investors and strengthened the attractiveness of the construction market for national and foreign investors.

On the basis of knowledge received from supporting construction projects since 2010, and experience of participating in construction investment projects of various degrees of complexity, a short list of really useful recommendations has been prepared, highlighting the issues necessary to pay attention to when making decisions about construction investments.

1. Check the records concerning the investment facility carefully.

When choosing an investment facility, it is necessary to pay attention not only to its legal status to date, but also to make a retrospective study: to obtain an extract from Town Planning Cadaster, and data from the Property Inventory and Registration Authority concerning history of construction object/ construction in progress located or previously located on the land plot; to analyze title transfers and validity of grant of a land plot; to know if the land plot detailed plan drawing-up was started, to size up the possibility of its approval, as well as possibilities of altering a land plot's designated purpose.

Mala fide possessors use widely different ways to put a gloss or to sterilize the history of real estate.

Violations that took place in the past can be successfully concealed or hidden, intentionally or otherwise. Special attention should be given to the data from old (paper-based) registers concerning ownership, as well as the mortgage and encumbrance registers.

2. Verify contractor data

It is best to start with getting information about partner companies and beneficiary owners, and study the register of debtors and bankrupts. The way the contractor has behaved in the past can reflect how the partner may be expected to behave in course of your relations.

Besides, it is necessary to understand that this information will be studied not only by you, but also by potential purchasers of your product, as project investor credibility is of great importance in Ukraine.

If you don't acquire assets but enter a partnership for a certain period, we recommend you to use an instrument which is new for Ukraine – an agreement to exercise participant's (shareholder's) rights:

3. Engage escrow agents to arrange payments

You must have been long used to one convenient and trusted payment mechanism – the escrow account. But up to December last year, such a mechanism was not present in Ukrainian legislation. Now things have changed. A trusted bank, broker, notary, lawyer, etc. can act as an escrow agent in any transaction, increasing its reliability both for seller and purchaser.

4. Consider the use of investment funds in the transaction structure

The use of modern investment mechanisms in a transaction structure enables the optimization of expenses on the purchase of an asset, its holding and divestiture.

This will also allow you to obtain additional guarantees and tax preferences over the whole investment cycle.

This is certainly not a complete list. And of course your local legal advisor will give you many other useful recommendations. But these hints are a basic set of recommendations based on long-term experience and should be used to ensure a successful and secure investment.



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The 310-room Aloft Kiev hotel opened in February, in time to enjoy an industry on the rebound. (Oleg Petراسиuk)

Kyiv's hotel market rebounds from post-revolution slump

By **Josh Kovensky**
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For Kyiv's hoteliers, there's good times and bad times in the market.

The May 26 UEFA Champions League final football match, which drew thousands of foreign guests, confronted price gouging. It was a rare moment of beauty for a market that suffered a massive drop in tourists and businesspeople following the 2014 EuroMaidan Revolution that drove President Viktor Yanukovich into Russian exile.

Neither feast nor famine today, demand is rising and supply is staying flat, giving the city's hoteliers an opportunity.

"It's not about taking advantage, I don't see it that way," said Levent Cengiz, general manager of the newly opened Aloft Hotel in central Kyiv. "It's pretty normal. You can sell a room for maybe 20,000 euros."

Aloft opened in February, and belongs to Starwood Hotels, a subsidiary of conglomerate Marriott International. The hotel added 310

rooms to Kyiv's market targeted at, as Cengiz said, a younger, millennial demographic.

"There is an opportunity here, but we're not forcing anybody to pay this money. It's there. Take it or leave it," Cengiz said. "It's the free market."

Rebound

But Champions League finals are few and far between. Other big events that drove tourism included Eurovision 2017 and the Euro 2012 football championships.

Still, hotel occupancy rates are recovering, said Alexandra White, an executive at STR, a company that conducts market research in the hospitality sector. "Kyiv is gaining back the image of a safer city, and is quite attractive, not only for tourists but also businesspeople," White said.

Average daily room occupancy rates hit 50.9 percent in 2017, up from 44.8 percent in 2016 and 49.9 percent in 2013.

Hospitality association Hoteliero's CEO Andriy Skipyan offered a less sanguine view, saying that "we still remain behind the majority of European capitals, where occupancy is between 60–70 percent on average."

And thanks to the hryvnia's massive devaluation, prices have dropped since 2013.

According to data provided by STR, the average price of a hotel room in Kyiv in 2013 was Hr 1312 (\$164) per night, according to the exchange rate of eight hryvnia to the dollar.

But in 2017, the average price has changed to Hr 2,706 (\$103) per night, a drop of around \$60 from the 2013 average.

According to Michal Rao, an STR analyst who covers the Kyiv market, "It's not unusual for the hotels to be charging much higher rates during these events."

"In countries like Russia and Ukraine it's much more visible because the (regular) rates are generally lower in these markets."

Stagnating supply

In spite of the improvements in the country's image and the steady growth in demand and occupancy rates, almost no new hotels are planned to be built.

Aloft Kiev was restarted at the end of 2016 after being put on hold by Starwood in 2014, Cengiz said.

"The idea was to open the hotel in 2013," he said. "The events of 2014 in Ukraine, in Kyiv postponed the opening once again, so we were (only) able to achieve it in February of this year. There was uncertainty with the political situation in the country, so it was on hold."

The Park Inn by Radisson Kyiv recently opened, as did the Ibis Kiev Railway Station hotel.

"Today Kyiv has a deficit of middle-market hotels," said Skipyan, adding that some brands — like Best Western — are interested in the market as a space for "further development." Best Western only had one project in Ukraine's Sevastopol, a city in Ukraine's Crimea currently occupied by Russia.

But most of the city's recently opened hotels were initially planned before the events of 2014, suggesting a drop in interest lately.

"There is not much supply coming into the market, so that's partially driving occupancy," said White. "We don't see huge additions in the pipeline, it's rather flat."



A hotel room in the Aloft Kiev. The 310-room hotel is managed by Marriott International. The is centrally located near the corner of Basseina and Esplanada streets, near Olimpisky Stadium and the Guliver shopping mall and business center. (Oleg Petراسиuk)

Rao said that corruption perceptions are still preventing new investment.

"There's been a huge thing about corruption, bribes and things like that," Rao said. "With all of that in mind from the past, it's still hard to change minds of people to convince investors to come into the country and build new hotels and invest into the local industry." ■

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By Bermet Talant
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Preservationists seek protection of Soviet modernist architecture



The Soviet-era "Flying Saucer" building in Kyiv is being taken over by a mall being built nearby. Photo taken on May 9 in Kyiv. (Volodymyr Petrov)

Kiyiv's iconic Soviet-era "spaceship" building risks being swallowed up by a new mall that will soon rise near Lybedska metro station. The controversy over the mall's construction plans has raised the question of whether examples of Soviet modernist architecture even deserve to be preserved in Ukraine.

New urban movement

The Soviets launched Sputnik 1, the first satellite, on Oct. 4, 1957. Less than four years later, on April 12, 1961, Soviet cosmonaut Yuri Gagarin's orbited earth — the first human to do so — in his Vostok spacecraft. These event put the Soviet Union far ahead in its space race with the United States at the time, but America pulled ahead by the time of the first U.S. Apollo mission moon landing on July 20, 1969.

But, throughout the 1960s, owing to its early successes, the idea of human domination of space and Soviet space achievements continued to be reflected in Soviet architecture.

The famous "Flying Saucer" was built in 1971 by architect Florian Yuriev as part of the building of the Ukrainian Institute of Science and Information. Yuriev, now 89, spoke at the Kyiv Biennale last November. His lecture was a huge success and inspired a group of activists to start a movement called Save Kyiv Modernism to preserve and protect Soviet modernist architecture in Kyiv.

Initially, the developer of the Ocean Mall, which is being built behind the Ukrainian Institute of Science and Information, and right next to the recently built Ocean Plaza Mall, pledged to renovate the Soviet building and its "Flying Saucer."

However, the project was changed and, according to the photos, the saucer will now be incorporated in the new building as part of its entrance. Moreover, the construction of the mall will destroy the unique concert hall located inside the saucer, urban activists say.

Under current legislation, buildings constructed between 1955 and 1991 aren't considered a part of the city's historical or cultural heritage, and therefore aren't protected from demolition and reconstruction — unlike historic buildings from the 18th or 19th century.

In addition, anti-Soviet sentiment in Ukraine has risen since the 2014 EuroMaidan Revolution, which saw former President Viktor Yanukovich ousted from power, Russia's seizure of Crimea and the start of the Kremlin's war on Ukraine in the Donbas. In 2015, the

Ukrainian government launched a decommunization campaign in a bid to get rid of the symbols of communist rule, which resulted in a nationwide campaign to topple Lenin statues and rename Soviet-Russian city, town and street names.

But architect and urbanist Oleksiy Bykov believes Soviet modernism is just as valuable as any architectural style from other historical periods.

"We need to preserve all history," he says.

What is Soviet modernism?

Soviet leader Nikita Khrushchev ended the era of Soviet monumental classicism with an order on Nov. 4, 1955 introducing a "Fight With Excesses in Construction" concept. New Soviet architecture was required to be practical and plain in form. All the same, architects still managed to exercise some creativity even within strict rules of Soviet architectural orthodoxy.

Some of the resulting modernist buildings have become landmarks in Kyiv, such as Kyiv Crematorium or the Salyut hotel, while others remain relatively unknown even to locals. The Save Kyiv Modernism group recently released its first map featuring 70 modernist buildings that are in various states of disrepair.

Bykov fears that, in the absence of any legal protection and state conservation policy for Soviet modernist buildings, they will become an easy target for property developers. In his opinion, urbanists, architects and developers have to work together to find a solution.

"Revitalization is a global trend that re-thinks how old buildings can be converted into something new functionally, while preserving their form and cultural value," Bykov explains. "A good example in Kyiv is Platforma, a former Soviet plant that has been turned into an art and public space."

Soviet architecture could also be a tourist attraction, he added.

Once considered "ugly and bleak architecture," modernism and brutalism have gained popularity, attracting scores of foreign tourists, artists, photographers, and researchers to former Soviet cities since the fall of the Iron Curtain.

The obsession with abandoned and decaying post-communist infrastructure has even got its own term — "ruin porn."

However, this has often been criticized for fetishizing the repressive Soviet regime, and glossing over the effects of economic decline following the collapse of the Soviet Union. ■



Residents of Comfort Town residential complex walk near its education center on May 22. (Kostyantyn Chernichkin)

Kyiv's developers flout requirements for social amenities

By Natalia Datskevych
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Kiyiv authorities are facing a swelling challenge: not enough kindergartens.

Part of the problem is just population growth. While Ukraine's overall population has shrunk to 42 million over the past four years, Kyiv's metropolitan area keeps growing — to about 3 million people — as people in rural areas seek better opportunities in the capital.

But part of the problem is profit-hungry developers. A longstanding city regulation requires all construction firms building residential developments to allocate 1.2 hectares for an on-site kindergarten.

Authorities and residents, however, say that this law is ignored in the interests of commercial development.

This year, Kyiv City Administration estimates that almost 3,800 children are on waiting lists to get into

kindergartens, with some parents filling out kindergarten applications immediately after their children are born.

Kyiv authorities are mulling a stricter rule that requires developers to place a kindergarten on the first floor of every residential building, according to the Ministry of Regional Development and Construction.

Reliable companies?

It's difficult for Kyiv residents to know where to buy. Developers will often fool potential buyers by including social infrastructure, such as medical centers and fitness centers in plans, as well as spacious parking, schools and kindergartens.

But, once construction is finished, residents move in

to find that the promised benefits don't materialize. The trees aren't planted and the nearest kindergartens are out of the district.

One such instance provoked an outcry late last year, when local media reported about a scandal involving a residential complex along Solomii Krushelnyskoi Street in Kyiv's Osokorky district.

StroyObzor reported in November 2017 that owners who had invested in apartments under construction protested when a promised public school with swimming pool and stadium did not materialize. Instead of putting in a school, the developer, Zhitloinvestbud-UKB, planned to build two more residential buildings. The press service of Zhitloinvestbud-UKB refused to comment.

The lack of kindergartens is an even more serious problem. Currently, the most overloaded districts in Kyiv are Darnytsky and Svyatoshynsky, forcing parents into years-long waiting lists or suffering the inconvenience of having to take their child to another district.

Perverse Incentives

The incentives to ignore city legislation are high, since money can be made by selling apartments on the 1.2 hectares allocated for kindergartens in each building.

But even developers who do build public kindergartens run into problems. Authorities are often not in a hurry to recognize the kindergartens, as it's expensive to fill the space with equipment, hire teachers and pay for communal payments.

"After the kindergarten has been built, the city simply refuses to consider it in the balance. Perhaps, because there is nothing to earn money from," said Gliub Shemovniev, press secretary of constructing corporation Ukrbud.

The online news portal MinFin keeps a list of reliable construction companies in Kyiv, based on the number of residential units they've planned and completed. Among them are Ukrbud, Zhitlobud, Arcada, Intergal-Bud and Comfort Life. However, Olena Terestchenko, a coordinating board member of the non-governmental organization Kyivske Viche, says that many of these construction companies have close ties with Ukraine's lawmakers.

"Construction companies lobby for their interests at the Verkhovna Rada," Teresychenko said.

"For example, the

former head of Ukrbud (Maksim Mikitas) is currently a member of the Verkhovna Rada, while Intergal-Bud belongs to the former deputy of the Party of Regions Vladimir Zubik."

Whether these connections assist them or not, the bottom line is that many developers, having received land in Kyiv, don't want to build schools or kindergartens, because they aren't profitable. Some, like Comfort Town, turn their kindergartens into private kindergartens, extracting high fees from needy parents.

Making Kyiv comfortable

But there is a trend that is gaining popularity — residential complexes are being built as small towns inside a metropolis. Such complexes include all the necessary infrastructure to meet the social needs of residents: health clinics, kindergartens, schools, parking space and shops.

But such developments also tend to be more expensive than the average apartment in Kyiv. Schools and kindergartens will typically be private with much higher prices. For example, the tuition fee for sending a child to first grade at a school at Comfort Town, a residential complex with a total area of 40.7 hectares, is Hr 12,500 per month. Meanwhile, the average monthly salary in Kyiv is Hr 13,300.

Such high prices are justified considering that building a private school can cost \$10 million, Ihor Nikonov, founder of KAN Development and main shareholder of Comfort Town, said. "I do not

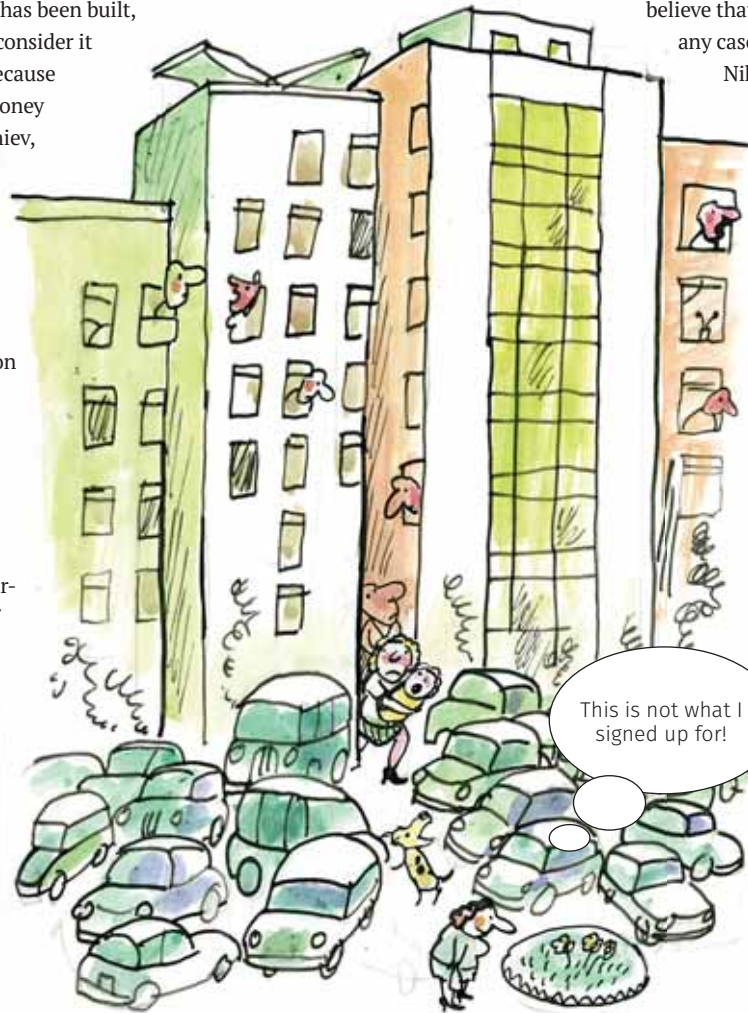
believe that the state can do such projects. In any case, the school will not bring us profit," Nikonov said.


Such amenities are good ways to keep construction firms accountable since there is a stronger sense of community among the neighbors in such complexes, he says. "Residential complexes create a mood for people, create feedback and if the developer deceived everybody and did not plant even a single tree, this creates negative energy around," Nikonov added.

Maxim Bakhmatov, managing partner of UNIT City, a Kyiv innovation park that rents offices to tech companies, agrees. UNIT City will include two schools and two kindergartens; one set is public, the other is private.

"Residents are expected to be representatives of Ukraine's creative economy and we will continue to create an environment for them," Bakhmatov said. ■

Kyiv developers sometimes fool potential buyers by including social infrastructure — medical centers, fitness centers, spacious parking, schools and kindergartens in their plans — but then fail to deliver after buyers complete their purchases.





A model of IT Park, which will offer 100,000 square meters of office space in Lviv by 2020. This real estate project is specifically designed for tech companies. (Courtesy)

Lviv's \$150 million IT park to offer high-tech office space

By Denys Krasnikov
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Ukraine's unofficial western capital of Lviv, the city of 730,000 people more than 500 kilometers west of Kyiv, takes information technology seriously.

With talented Ukrainian graduates increasingly pursuing work abroad, and tech businesses in the city facing a real estate squeeze, IT companies in the city have unveiled an ambitious solution to attract and keep tech businesses.

That project is Lviv IT Park — a 10-hectares office park worth \$150 million, under construction, according to its website, about five kilometers from downtown Lviv.

Intended specifically for IT firms, the park is the result of cooperation between Lviv IT Cluster, an association of tech companies that advocate for economic and social change. Designed with programmers in mind, it's meant not just to remedy Lviv's perennial office space shortage, but also to offer social perks and community to tech workers in the city.

Shrinking office space

Locals have been vocal about Lviv's underdeveloped business infrastructure for several years, describing most of the office space as "outdated."

And, says Nick Cotton, a Kyiv-based real estate agent, offices aren't just old, they're scarce: demand increases



Stephan Veselovsky, the CEO of Lviv IT Cluster, talks with journalists, presents the model of a real estate project, IT Park, at a tech conference in Lviv in June 2017. (Coutresy)

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Selected major office lease transactions in Kyiv in 2017

| Period | Tenant | Area (sq m) | Occupier sector* | Building | Location** |
|----------|---------------------|-------------|------------------|-----------------------------|------------|
| Q4, 2017 | Lifecell | 5,050 | ICT | BC Eleven | NC-WB |
| Q3, 2017 | Netcracker | 4,150 | ICT | ASTARTA Organic BC | Podil |
| Q1, 2017 | Microsoft | 2,980 | ICT | Eurasia BC | CBD |
| Q2, 2017 | Creative Quarter | 2,400 | BS / ICT | ASTARTA Organic BC | Podil |
| Q1, 2017 | Coworking Platforma | 2,300 | BS / ICT | Leonardo BC | CBD |
| Q2, 2017 | Megogo | 2,270 | ICT | Rialto BC | Podil |
| Q1, 2017 | Nextiva | 1,970 | ICT | 101 Tower BC | C |
| Q3, 2017 | Siemens | 1,837 | Industrial | ASTARTA Organic BC | Podil |
| Q2, 2017 | FragLab | 1,800 | ICT | Forum West Side BC | NC-WB |
| Q2, 2017 | Grammarly | 1,500 | ICT | Gulliver BC | CBD |
| Q4, 2017 | DataRobot | 1,200 | ICT | BC at 101 Volodymyrska Str. | C |

Source: Cushman & Wakefield, Kyiv Research Forum

* ICT – Information and Communication Technologies, BS – Business Services

** CBD – Central Business District, C – central outside the CBD, NC-WB – non-central area on the western bank of Dnipro River, NC-EB – non-central area on the eastern bank of Dnipro River.

every year, while new construction has stagnated owing to Ukraine's exorbitant interest rates on credit.

Scarce, bad offices have helped fuel the brain drain, say Lviv locals. IT companies in particular feel the squeeze: an average tech startup grows by about 20 percent a year, according to Lviv IT Cluster.

Despite this, Lviv authorities were reluctant to provide a strategic solution. So Lviv IT Cluster took the matter into its own hands, said the head of the cluster Stephan Veselovsky to the Kyiv Post.

"Real estate market was stagnating, construction companies didn't want to invest money into projects with long returns," Veselovsky said.

So he decided to do something about it.

The first step was to survey Lviv IT Cluster members – 60 tech firms with nearly 10,000 employees – to understand the real demands for office space.

This eventually led Veselovsky to hire a construction consultancy firm to come up with the project: a massive industrial park called the Innovation District IT Park.

Attracting investment

Lviv IT Cluster presented the idea of the innovation park in 2016 during the Lviv IT Jazz Conference and Lviv IT Arena, important annual tech-related events in the city. Investors immediately were interested, says Veselovsky, especially as dozens of companies vouched for the project, promising to occupy offices once it was built.

Property development company Galereja Centre, directed by Volodymyr Zhenchak, who earlier had built the Forum Lviv mall, was the first to back the project. Later, there appeared several other investors, but Veselovsky is not willing to disclose their names yet.

To Zhenchak, who is overseeing the construction site, the project is important for its social impact. A mall or residential building would bring money in much faster, but this

one, he says, will bring longer-term profit to Ukraine.

"This project is a social one, it is important for the future of Lviv and Ukraine," Zhenchak told the Kyiv Post. "Everyone supports tech industry around the globe for it to move countries further in their technological development (and so should Ukraine)."

That said, Zhenchak expects the project to be solidly profitable, given the city's need for office space.

"There's a demand in Lviv for such premises and nobody else seems to be eager to fulfill it," he said. "So I will."

Social benefits

The IT park is to be constructed south of Lviv at Ivana Chmoly Street. It will break ground on June 30, and its first stage is slated to be completed by 2020.

The list of amenities includes impressive social infrastructure. In addition to 100,000 square meters of office space in six office buildings, and two business centers, it will have a sports and shopping centers, a kindergarten, and a university campus belonging to Ukrainian Catholic University for tech-related courses.

Right now Lviv IT Cluster does not disclose the price of a square meter. But Veselovsky says 70 percent of all planned rent space is already occupied. There are 12 tech firms, including SoftServe, N-iX, and Global Logic, all which have signed a contract with the IT Park.

SoftServe's Board Member Taras Kytsmey sees the IT Park as "a platform that creates synergy between computer companies."

He says the park offers plenty of conveniences, and SoftServe's employees would love to work in a place like this – with kindergartens and supermarkets nearby.

Besides, Kytsmey says that there is a positive effect having a university nearby since both companies and students will benefit.

"Companies will be able to compete for the best

Lviv IT Park will include a university campus belonging to Ukrainian Catholic University for tech-related courses.



students, and the students themselves will be able to start their careers at the country's best tech firms, right after their graduation," Kytsmey said.

The IT park is a project with a business model that is expected to generate revenue. But the IT Cluster does not own any equity.

Rather, says Veselovsky, it serves strictly as an evangelist ■

for the project's development and a bridge between construction companies and tech business.

If the project is successful, says Veselovsky, it will improve Ukraine's business reputation.

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Major office projects scheduled for completion in Kyiv in 2018

| Project | Location* | Area (sq m) | Developer / Owner |
|---|-----------|-------------|--|
| Innovation Park UNIT.City (phase 1, part 2) | NC-WB | 25,300 | UNIT.City |
| Business park 'Europassage' | C | 13,800 | local developer |
| BC at 98 Velyka Vasylkivska Str. | C | 9,200 | VS Energy / Dragon Capital Investments Limited |
| ASTARTA Organic Business Centre (phase 3) | Podil | 8,930 | Energoinvest |
| BC KIMost | NC-WB | 5,450 | Liudmyla Pharma |
| BC at 101 Volodymyrska Str. (phase 2) | C | 5,000 | INOR |
| BC at 1L Bazhana Ave. | NC-EB | 4,800 | local developer |
| BC Amurskyi (phase 1) | NC-WB | 1,500 | local developer |

Source: Cushman & Wakefield

* CBD – Central Business District; C – central outside CBD; NC-WB – non-central area on the western bank of Dnipro River; NC-EB – non-central area on the eastern bank of Dnipro River.

** Based on the information available as of January 2018



A view of 101 Tower, home to Samsung's Kyiv R&D center, in central Kyiv. (Courtesy of 101 Tower Business Center)

An aerial photograph of Kyiv, Ukraine, showing a dense urban landscape. On the left side, a tall, modern skyscraper with a blue glass facade is prominent, featuring the 'TO WER DTEK' logo at the top. The rest of the city is filled with various multi-story buildings, some with balconies, interspersed with green trees and parks. The sky is a clear, light blue.

R&D centers in Kyiv are attractive, but hard to find

By Aisha Down
down@kyivpost.com

In 2016, when Ericsson, the Swedish multinational telecommunications company, acquired Ericpol, a Polish software company with a branch in Lviv, they knew that expanding their work in Ukraine was a good idea.

Like many other multinational companies, Ericsson was attracted by Ukraine's surplus of information technology talent, and wanted to set up a research and development center. IT is a booming market, accounting for



With few new developments, office space is getting increasingly hard to find in downtown Kyiv. (Volodymyr Petrov)

an estimated \$3.2 billion — or 3.3 percent — of the nation's annual economic output.

"Ukraine is an important market for Ericsson," Iryna Shadeyko, Ericsson's communications manager, told the Kyiv Post. "Our Lviv engineers have a high degree of competence in software and product development."

But, as a Swedish company, Ericsson had a list of re-

Information technology, one of Ukraine's fastest-growing economic sectors, accounts for 3.5 percent of the nation's economic output. IT companies are also driving demand for modern office complexes.

quirements. Buildings needed to meet "Swedish standards of quality," Olesya Semerenko, Ericsson's facilities manager, said. That meant meeting 83 pages of technical requirements about the building's lighting, ventilation and utilities.

Offices had to be comfortable and support "ergonomic design."

That was a tall demand for Ukraine's landscape of hastily-erected business centers and moldering historic buildings. But one law firm — Alcor — has made the office needs of international R&D centers into a profitable enterprise.

With its slogan "Your own R&D center in Ukraine," the firm now services international businesses who want to set up an IT office in Ukraine — either for tech support, or as a research and product development center.

Demand is growing, says Dmitry Ovcharenko, Alcor's head, but finding quality real estate is difficult.

Happy IT workers

Ericsson isn't Ovcharenko's client. But, with eight years in the business of finding office real estate for IT companies, he's received his share of very specific requests.

"We had one client who insisted on an office only in the area of the metro of Lva Tolstoho. Only in that district. They could pay any kind of money, but only there," he said.

Another IT client was sure they'd be a "unicorn" — a startup company valued at more than a billion of dollars — in a year. They gave Ovcharenko a list of criteria, he said, and told him if they liked the building enough, they were prepared to "push out" all its other residents.

Over-the-top as these requests may seem, Ovcharenko says there's a reason behind them.

"IT talent is the only resource that U.S., North American companies are interested in in Ukraine," he says. "They need to fight for it. One of the instruments of this fight are cozy and comfortable offices."

That said, Ovcharenko characterizes most of his client's demands as pretty standard: A-class real estate, in a downtown business center like Leonardo or Gulliver.

Affordable property

In many ways, these offices are a good deal for international clients, as high-quality real estate is relatively inexpensive in Kyiv compared to other European capitals.

Data from JLL, a real estate services and investment company, puts the average price of A-class real estate at \$348 per square meter per year — less than a quarter of London's prices, though slightly more than office space costs in Warsaw and Budapest.

Meanwhile, landlords are happy to accommodate client demands, renting them smaller parts of a floor of a business center. They prize international clients, says Ovcharenko.

"IT companies in Ukraine experience really aggressive growth," he said. "They start with 10 people... but by the end of the calendar year they might rent the whole floor."

Alexandra Globina, head of JLL's office group, agrees.

"Landlords highly appreciate foreign tenants, since they are stable and reliable partners in the long-term perspective," she says.

Trouble brewing

Although landlords are friendly and prices are low, costs are moving up.

The average rent price — \$348 per square meter per year — has crept up for the first time in five years, according to JLL. In the last quarter of 2017, the average price was just \$336 per square meter per year.

The increase, while small, signals a shortage of good real estate.

JLL puts office vacancy in Kyiv at 10.6 percent, "a record low in a decade."

Nick Cotton, a partner at Cushman and Wakefield, a real estate services company, says the vacancy rate is more like 6 to 7 percent.

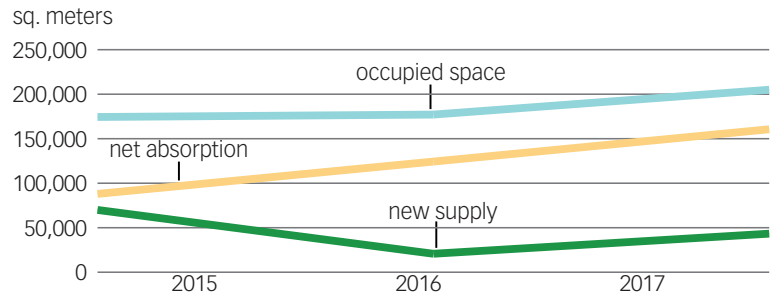
For Alcor, this has meant a major business slowdown.

"Some years ago, given two or three weeks, we could come up with a few good solutions," says Ovcharenko. "Now, it takes us two or three months to secure an office. Sometimes longer. Four months. Five months, in some cases."

Limited space

The reason, according to Ovcharenko and Cotton, is straightforward: there are few new offices being built. With no credit options in Ukraine's market, developers who want

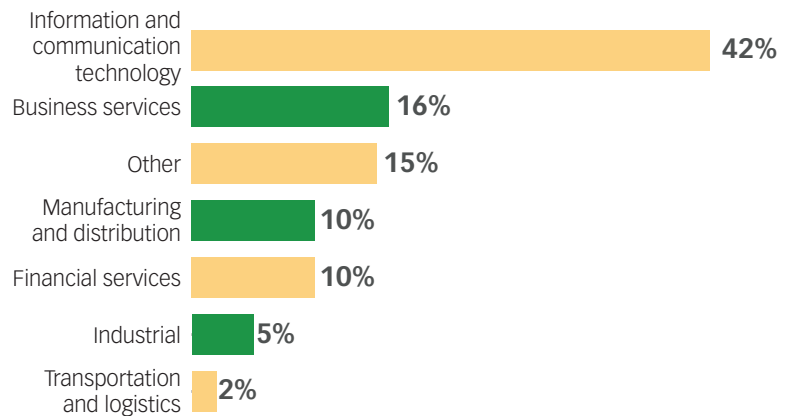
Office property market indicators in Kyiv



The three real estate market indicators went up along with prime rent price since 2015. Almost 2 million square meters are now available for sale.

Source: Cushman & Wakefield

Kyiv's office occupancy by sector in 2017



Source: Cushman & Wakefield

Office space in Kyiv is predominantly occupied by information and communication technology companies such as Lifecell, Netcracker and Microsoft covering almost half of the market. Business service companies like Creative Quarter and Coworking Platforma make up the second most popular sector taking up a 16-percent share of the market.

to build real estate have to finance it entirely by themselves, says Cotton.

And with Kyiv's rent prices at a flatline for the past three years, that's not an appealing path, says Cotton.

Ovcharenko believes that some solution is coming. He points at UNIT City and Lviv IT district, two large developments designed to house Ukraine's growing IT industry.

At 300,000 square meters, UNIT city can house hundreds of IT companies, says Ovcharenko.

But it isn't enough. Lviv IT City, he says, is already entirely pre-leased.

"There's still a big need for other developers. We need more real estate premises. Not just in Kyiv, but in all big cities," he says. ■



In search of Kyiv's 'American Dream'

By Aisha Down
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Workers get a lift to build Chicago, (right) a new apartment development in downtown Kyiv. Chicago is meant to attract clients with a bohemian, extroverted outlook, says its developer, Saga Development. It's one of a slew of new developments that's using American names to sell real estate near Kyiv. (Volodymyr Petrov)

Just 12 kilometers west of Kyiv, in front of a gated development of white stucco houses set into scrubby pine forest, Liudmyla Vlashchenko says her family moved here hoping for security and American-style comfort.

In his downtown Kyiv office, Anton Freedland, the creative director of Saga Development, uses the same American allure to sell chic apartments, by naming the company's buildings New York, Chicago and San Francisco.

Whether big-city apartments or quiet suburbs with roomy, detached houses, developments branded with American and European names sell for good money in Kyiv.

But while ambitious marketers offer stylish dwellings and attractive branding, those in pursuit of Kyiv's "American dream" are often in search of something more elusive than a place to live.

Belgravia

Named after a high-class neighborhood of London, Belgravia is a cottage settlement not far from Dmytrivka, a village about 12 kilometers west of Kyiv along the E40 Zhytomyr highway. Gated and bucolic, it has a small English-style red telephone box at its entrance, a nod to its namesake.

Vlashchenko has lived here for two years, she says, with her husband Oleksandr and her young son. Sitting at a café on one side of the development, Vlashchenko says Belgravia, for them, conjures up images of suburban America.

"We've never been to England. Here it's like a small town in the United States," she says. "An open place, no fences. We like this."

Other places in Kyiv have patchy zoning regulations, says Vlashchenko.

"You have a small house, but next door, they can buy the land and build a five-story building. Here, you know you won't have that problem."

In Belgravia, all houses are built

Real estate branded with American and European names sell for good money and are gaining popularity amid gloomy Soviet-inherited buildings in Kyiv.

of the same material — white stucco — and neighborhood rules and a security guard govern who can come in and out.

"We like this place. It's quite comfortable for us. It's safe," says Vlashchenko.

The only trouble, she says, is the commute to Kyiv — with traffic, now well over an hour.

This means that, despite Belgravia's small-town appeal, the Vlashchenkos say they don't really have time to get to know their neighbors.

"We're working a lot," says Vlashchenko.

Middle-class life?

The vision of Belgravia's designer, Albert Zrazhevsky, was American middle-class life, he says. He built the development in 2010. It has about 100 houses, 75 of which are occupied.

His clientele, he says, are "people who have succeeded and made some money. The middle-class, not oligarchs."

A house in Belgravia costs roughly the same as one in Kyiv's other luxury suburb developments—\$250,000 for 160 square meters, says Zrazhevsky's sister, Iryna Zrazhevskaya, who works in Belgravia's administration.

While average wages in Kyiv were about \$350 per month in early 2018, Albert



Chicago, a new apartment development in downtown Kyiv, offers American-style architecture. (Volodymyr Petrov)



Zrazhevsky insists that Belgravia's denizens are middle-class. He repeats it several times.

"Lawyers, company managers, doctors — the middle class, like in America," he says.

Tim Louzonis, a partner at AIM Realty in Kyiv, comments that residential real estate is the most trusted asset for Ukrainians; families tend to put all their savings into houses.

Still, with its streets lined with high-end vehicles, Belgravia's target clients seem more accurately like a middle class from Europe or America. Unlike suburbs there, however, Belgravia is patrolled by security guards, who escorted reporters out when they tried to talk to its residents.

"It's against the rules to disturb them," Zrazhevskaya explained.

Saga

If suburbs like Belgravia try to sequester themselves from Kyiv, a new set of American-branded buildings are trying, instead, to transform the city's landscape — and its community.

"Our CEO visited America many times," says Victoria Zyma, marketing director of Saga Development, the firm behind the buildings.

"He's very inspired by the culture, by the space, by the comfort there. When he came back to Ukraine, he wanted to bring these things from other cities."

Headed by Andriy Vavych, Saga Development is building four American-named "concept houses" — residential apartment buildings scattered around Kyiv's center.

Chicago, with a green marble facade, is at the

intersection of Zhylianska and Antonovycha streets. New York, in brick and cement, is several blocks farther south on Antonovycha Street. San Francisco and Philadelphia, both in the works, are further from the city's center.

Each of these houses has a concept behind it, says Freedland. Chicago is "extroverted and bohemian," — close to downtown and Kyiv Operetta Theater.

New York is about a "stylish, smart, society concept," says Zyma. San Francisco, with creative workspaces, a library, and a lot of in-building conveniences, is designed "for IT people."

Saga's apartments are high-end; Chicago sells for \$2,000 per square meter, while New York and San Francisco range from \$1,200 to \$1,800 per square meter.

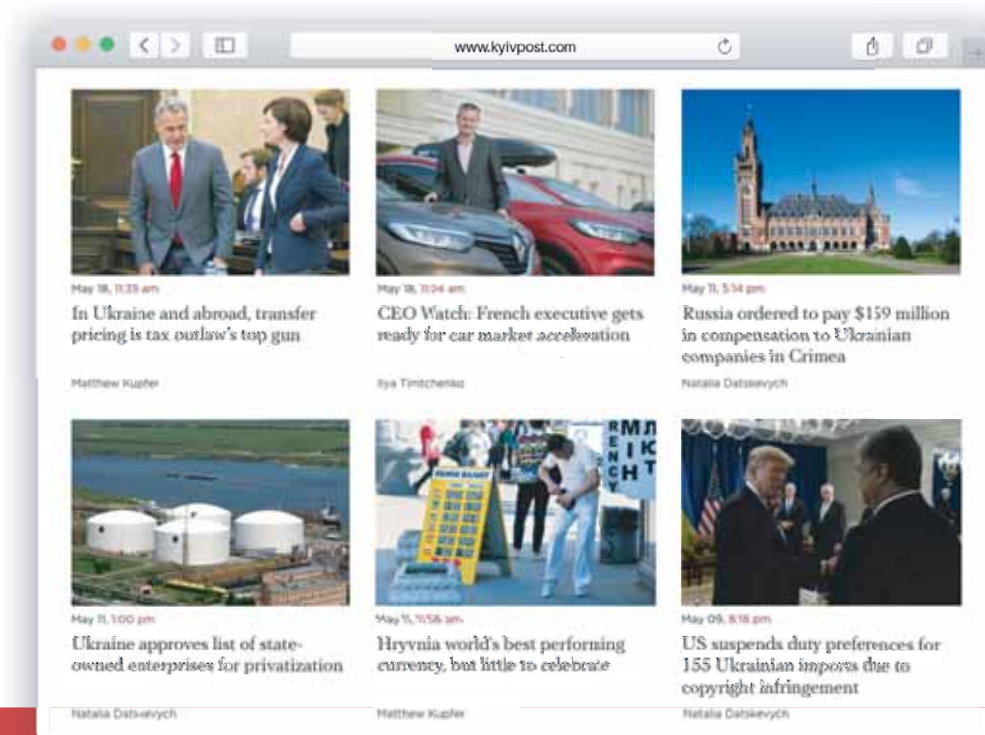
But Freedland and Zyma say they are focusing more on the personality of their target clients than their economic class.

"We thought about this question, and we understood that we don't measure them by marketing characteristics like age, sex," says Zyma.

"We measure them by their style. New York, for example, is for busy people who work, who are active, who travel a lot... People who have these same values (will live in) New York."

Meanwhile, they say, Chicago will have a catchy piece of digital sculpture that, they hope, will get the attention of the neighborhood.

"We predict these will be the architectural symbols of the district, and people will come and visit and take pictures and just enjoy it," says Zyma. "When you go through this street, it will be like 'Kyiv, Kyiv, Kyiv — wow! — Kyiv.'" ■



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