

KyivPost

REAL ESTATE

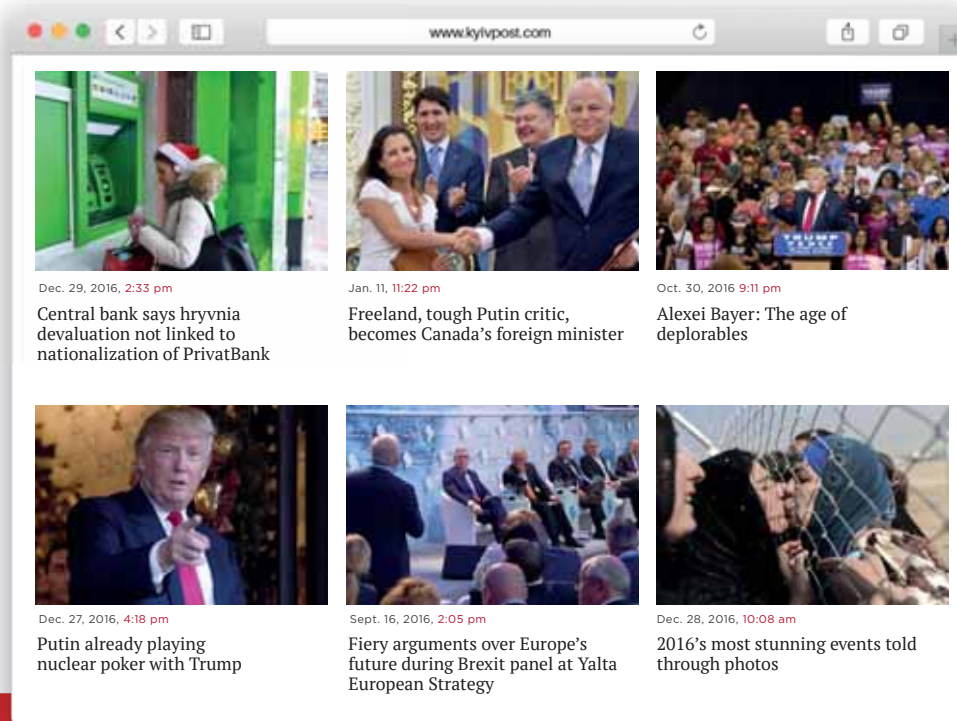
November 10, 2017, Vol. 1, Issue 2

Rebuilding The Ancient City



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Editor's Note

Meeting pent-up demand in real estate

Maybe Ukraine's richest 20 percent of people are satisfied with their living arrangements. But many people and families in the bottom 80 percent are smashed into tiny, Soviet-style apartments with small closets that they rent for a big portion of their income — or own perhaps, if they are lucky enough.

While new construction is taking place of modern apartment buildings with better amenities, Ukraine's real estate market still is distorted in so many ways that prevent a true construction boom from happening to meet the demand.

From the side of investors, Ukraine's property market can be a paradise. Property taxes are pitifully low and municipal governments allow buildings to decay and remain empty while owners speculate on increasing land values. This persistent reality prompted us to write our third and latest installment of a periodic series we call "Ghost Town."

From the perspective of most buyers, however, Ukraine's residential housing stock is overpriced compared to incomes, especially given the lack of low-interest, long-term mortgages available in the West.

Still many bright new spots dot the landscape. This edition of Kyiv Post Real Estate, our second one this year, rounds up the most attractive construction projects under way in the residential, office and retail sectors. We also highlight trends that could shape the real estate sector in coming years. We've enjoyed putting these reports together for the public. Please let us know how we're doing and how we can improve our coverage of this vital sector. All of our contacts are available at: www.kyivpost.com/contact-us

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KyivPost

**REAL
ESTATE**
Commercial and Residential

November 10, 2017, Vol. 1, Issue 2

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A view of Kyiv's skyline. (Shutterstock)



Residential complex Varshavsky Mikrorayon is under construction in the northwestern part of Kyiv on Nov. 4. (Oleg Petراسиuk)

These hot new properties are getting built in Kyiv

By **Olga Rudenko**
rudenko@kyivpost.com

Ukraine's economy is recovering and Kyiv's real estate market is no exception. The capital is dotted with working construction sites, so the Kyiv Post looked into what exactly is being built.

Here's the Kyiv Post guide to the best residential, commercial, and retail properties under development in the capital.

Residential

Supply still far exceeds demand on the residential property market. For buyers, this means a wide selection and attractive prices.

According to City Development Solutions, a Kyiv-based real estate consulting firm, nearly 40,000 new apartments were added to the capital's market during the first nine months of 2017 due to the beginning of sales in 36 new residential properties and 52 buildings that were expansions of existing apartment complexes.

Only a small share of them will find new owners by the year's end: In 2016, a little over 29,000 apartments were purchased in Kyiv in both new and old buildings, according to the Ukrainian Trade Guild (UTG), a Kyiv-based real

estate consultancy firm.

As apartment complexes under construction offer the lowest prices, Kyivans are often suspicious about purchasing them, having learned from past scams, where a developer disappeared with money or the property's completion was delayed for years.

Varshavsky Mikrorayon

Address: Pravdy Avenue

Developer: Stolitsa Group. The company was founded in 2003 and has developed 49 apartment buildings since then, according to Lun.ua.

Starting price: \$27,800 for a studio of 39.7 square meters, \$50,550 for a two-bedroom apartment.

Varshavsky Mikrorayon (Warsaw Neighborhood) is the most searched-for property on LUN.ua, Ukraine's top real estate database. It is located on Pravdy Avenue, in the capital's northwestern section.

The large complex is planned to include 21 buildings of between 13 and 25 floors, which will be constructed in seven phases. Apartments will have one, two, three or four rooms, and range in area from 39 to 122 square meters.

The buildings are being constructed simultaneously and none of them are yet finished. Six buildings are scheduled to open by the end of the year.

The complex has no metro stations nearby, but getting to the city center by car should take about 20 minutes if traffic conditions are good. The private Meridian International School and Retroville shopping mall are across the road. The mall is under construction and scheduled to open in 2018.

Evrika

Address: 6 Akademika Hlushkova St.

Developer: Bank Arkada. The company has built 28 residential buildings since 2010, according to LUN.ua. It is constructing two large residential complexes: Evrika on the right bank and Patriotika on the left.

Starting price: \$25,500 for a studio apartment of 38.6 square meters, \$39,000 for a two-bedroom apartment.

Evrika (Eureka), is planned as a 30-house apartment complex close to the southern border of Kyiv in the Teremky neighborhood. Several apartments are nearly finished, but the construction of the remaining ones have been delayed by a few months. The perks include a large park area next to the complex, metro access, affordable prices and mortgage opportunities. The downsides: dense construction, lack of parking spaces and remoteness from Kyiv's city center.



Fayna Town

Address: 2B Saliutna St.

Developer: KAN Development is the company behind the popular residential complexes Comfort Town and Parkove Misto. It has finished 12 buildings since 2001, according to LUN.ua.

Starting price: \$26,500 for a studio of 29.5 square meters, \$45,000 for a one-bedroom apartment.

Fayna Town (Good Town) is an especially big complex that will include 70 high-rise buildings, according to the

Construction of the Fayna Town residential complex takes place in the western part of Kyiv on Nov. 5. (Oleg Petراسиuk)

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5

REAL ESTATE INVESTMENT:

WHERE THE STABLE AND CHANGING MEET



Sergiy Sergiyenko
Managing Partner, CBRE Ukraine

With 25 years of real investment under the belt, the Ukrainian real estate market is a case study of an accelerated boost-and-bust model. Whereas real estate is a typically long term, stable income industry, the Ukrainian experience shows quite different facets of the business. In an emerging economy where old school local business has its roots in the soviet past and international business' mindset focused on best international practices, the marriage of the two contrasting cultures has produced some interesting examples.

In the mid-nineties (1994-1998) the professional real estate market began in the office segment, with conversions trending. The first newly delivered business centers were conversions of historical communal apartment buildings, previously unfinished apartment construction (where government financing was drained due to change in political landscape), a factory canteen and public baths. Except one, all developments were funded by the international capital and were mostly done as best they could be, given physical limitations of the old structures.

Office stock has now grown more than 10X since 2000. The max supply growth of 52% was recorded in 2007, when 269,000 sqm were delivered (largest was Parus 53,000 sq m GLA). The development pace declined in 2008-2010, while the construction activity recovered in 2011-2013 (101 Tower, Toronto-Kyiv, Gulliver, Senator, Silver Breeze, SP Hall). Latest large addition to the stock was IQ (30,000 sq m GLA) in 2014. The years of 2015-2016 were marked by building extensions and small-scale BC construction, as war prevented large scale systemic investment. Astarta BC (38,000 sq m GLA in 3 phases - 2017/2018) is currently the only large-scale project under way. Otherwise the currently prevailing trend is redevelopment (Unit City) and growing number of reconstructions in CBD, as ground-up construction remains prohibitively expensive due to low rents and no debt financing. With virtually no new A-class CBD supply in the last 3 years, a new bottleneck is in the cards. Once rental rates reach sustainable level of \$25 psm/m, new development will resume.

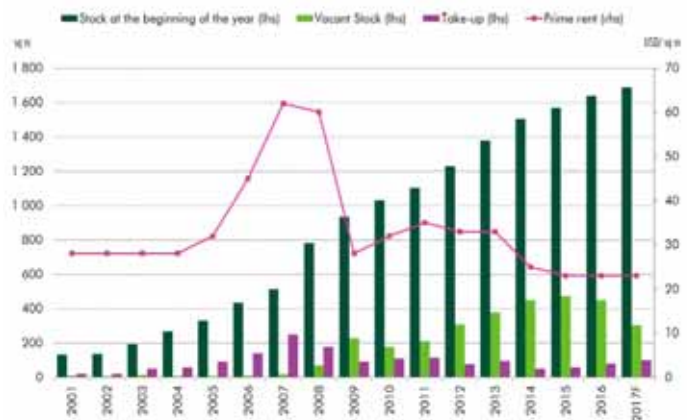
An overall trend to note is the evolution of demand alongside the evolution of supply. Quite likely all pre-2009 developments are bound to lose out in the mid to long run, as new development hits the markets within the next 3-5 years. The average tenant has grown significantly in size and expectations. In the late 90's and

early 2000's, a 500 sqm occupier was a hot target for brokers and landlords alike, and requirements were limited to good looking renovated building, nice lobby and a fairly flexible layout. Nowadays, the hunt is on for a 2,000-5,000 sqm innovation-minded company, where office requirement is closely connected to employee retention in a highly competitive environment. Modern occupier is looking for 'iBuildings' of real estates, and not a '12-button-and-a-screen' version. Therefore, old stock is clearly out of fashion, and the demand is there for modern, international quality space, with large shared spaces in highly spaced main lobbies, plentiful amenities inside and immediately outside the building, large, well lit atriums, LEED & BREAM certifications, walking distance to subway, and large flexible floor plate with easy expansion/contraction flexibility. In 5 years, there will be almost no industry leading international companies in buildings developed pre 2009 by non-real estate developers.

Also trending:

- Emerging demand for HQ identity buildings of ca. 10,000 sqm
- Low interest of international developers towards Ukraine in the next 5 years
- Lviv is emerging as an international service and manufacturing hub, creating more demand than supply can match primarily among IT companies, shared service centers, and manufacturers (primarily auto industry).

Office Market Fundamentals



lhs – left hand side; rhs – right hand side
Source: CBRE Ukraine

Then retail market began with the first generation development schemes in early 2000's. Some were conversions (factories or unfinished construction) and some were new construction. 1st generation schemes, usually delivered before 2008, have tenant mix dominated by a food anchor (usually a large-scale hypermarket) with an adjacent shopping gallery, in total less than 20,000 sqm. About 15% of shopping center stock in Kyiv is represented by such schemes. Some of these first generation properties are hugely successful due to their novelty, location or properly developed concept. Unlike in the case with the first office development, almost no international capital was involved in the first wave of shopping center development or subsequent development cycles. Due to the fact that most international brands operate primarily via local franchisees, developer roles are also more natural for local players.

Second generation SC are shopping centers where fashion &

service variety is bigger and leasable surface is between 20,000 and 40,000 sqm. Currently some 34% of the shopping center stock falls into this category. 3rd generation schemes have the strongest and most complete tenant mix, they are much larger and usually GLA>40,000 sqm), and have a strong emphasis on entertainment & leisure components (cinema, bowling, billiard, children’s playground and extensive food-court options). Currently 50% of SC stock is in 3rd generation in 7 schemes.

Similar to the office trend, shopping centers are adapting to tenant trends, and those, in turn, are formed by shopper requirements. By the end of 2020, the market is expected to be dominated by large-scale entertainment-based SC and will account for 65-70% of total stock, with this number ever growing. Indoor experience vs a need to buy is and will continue to drive shopping center development the way it is doing so in the US and Europe. E-commerce is forcing substantial shifts in shopping center size, function mix and shopper experience. Shopping centers and retailers in Ukraine will be bound to compete with European outlet centers, as €19 airplane connections to ever more European cities are becoming available from major cities nationwide.

The warehouse market began in the mid 2000’s, with construction booming in the hay days of 2007-2008. With debt financing plentiful, time short construction, and a general business boom, both international and local developers poured into the segment. As a market did not exist prior to that time, all properties were newly built, albeit the quality varied depending on developer experience. Demand was outpacing supply, and contracts were often signed on high expectations and non-typical terms. When the market crashed in 2008-09, development stopped, vacancy soared, and rates plummeted. With the on-and-off market during the 2009-2016 period, relatively little new supply was added, vacancy stayed high, and rates remained low and mainly UAH denominated.

With a sluggish supply and economic recovery, 2017 will most likely see most leftover supply being taken up, and rates will start to rise. New development, however, will be quick to catch up, and no significant bottlenecks are expected. The market is due to stay dynamic on both demand and supply side, with retail and logistics operators currently taking up lion’s share (ca. 88%)of the stock.

Warehouse Market Fundamentals



lhs – left hand side; rhs – right hand side
Source: CBRE Ukraine

The investment market began at around 2005 and pretty much ended in 2008. After a protracted pause due to financial and political crises of 2008-2015, investment market started its rebirth in 2016. With international community shunning Ukraine wholesale and MIPIM trips being for Ukraine’s representatives more of early spring sunny break rather than trade expos, a large real estate cycle can be considered closed as of 2015/2016, with some important and interesting conclusions to be drawn.

Investment volume in 2007 – 2017



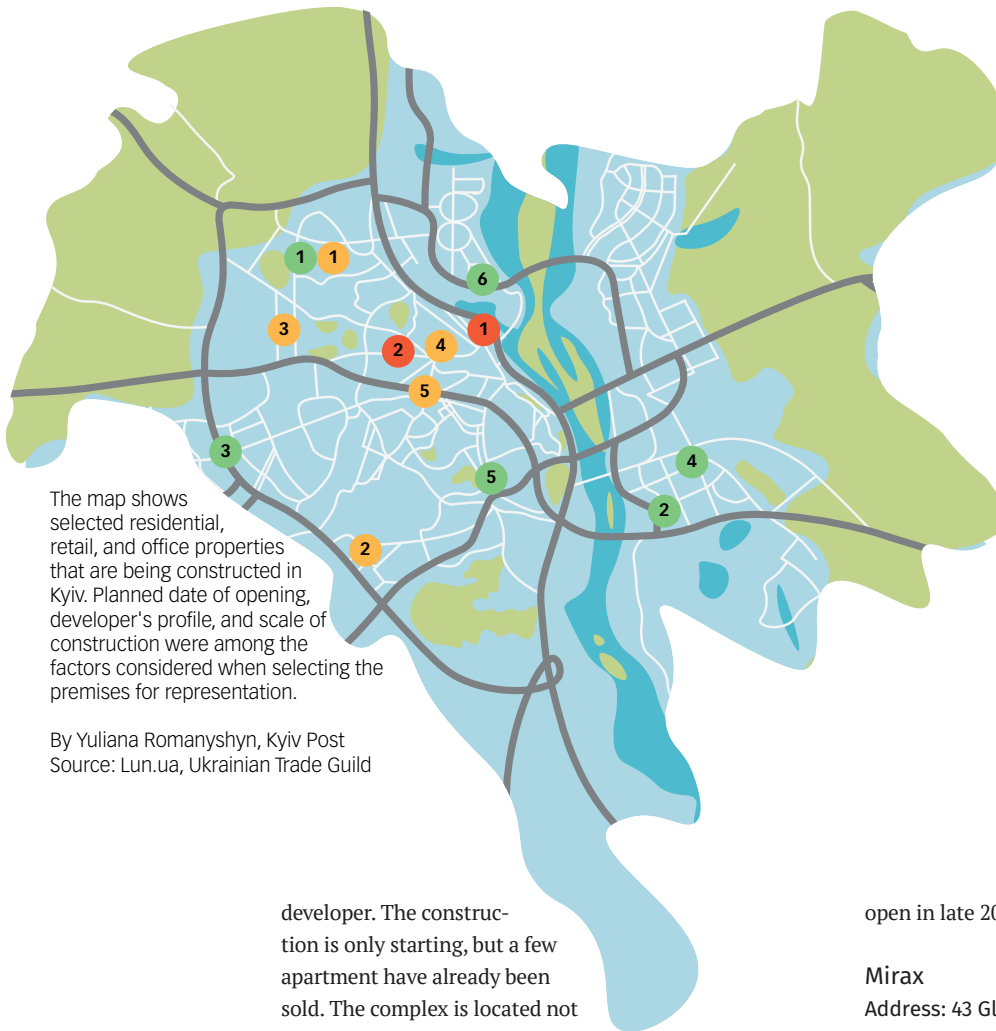
Source: CBRE Ukraine

In the years following the development boom of 2006-2008 had left a lot of leveraged developments in the red zone. As banks were busy foreclosing on apartments and cars and in general learning to deal with massive foreclosures, the real estate market was grappling with a new reality too, trying to fill the vacancy and buy time from the lenders. And whereas some managed to fill vacancies, the rental rates hardly ever permitted to keep pace with mortgage payments, and LTV ratios were always in the default zone. From 2012 onwards, the lenders started losing patience, and as rates stayed low, economic forecasts bleak, banks, not willing to accept partial loan write-offs, started foreclosing. As a result, as of 2015, banks became owners of a sizeable chunk of professional real estate.

2005-2007 saw a number of high price investment transactions throughout Ukraine, where mostly private international investors were venturing into a new then-high yielding market, with opportunities in more developed markets that were hard to come by, where cash rich funds were outbidding smaller players for best assets. A number of first generation properties thus changed hands at values not to be expected in a lifetime. In 2016 those early investors joined the banks in creating a window of opportunity for value driven investors. Deal flow for bank-owned, value added real estate thus began in 2016 and picked up speed in 2017. It can be expected that by the end of 2018 most bank-owned professional real estate will be traded, and classical investment market will start to renew.

Large international players either on development or investment market should not be expected in Ukraine in near turn future, so smaller private groups are bound to dominate the field either directly or via proxy fund managers. Exit is thus best planned for medium size, modern property that can cater to primary occupier audience in its segment. All three segments will remain equally attractive to investors, with value based on quality of occupier contracts. Kyiv is bound to dominate investment-scape, with Lviv second in line.

Property under construction in Kyiv



The map shows selected residential, retail, and office properties that are being constructed in Kyiv. Planned date of opening, developer's profile, and scale of construction were among the factors considered when selecting the premises for representation.

By Yuliana Romanyshyn, Kyiv Post
Source: Lun.ua, Ukrainian Trade Guild

Residential buildings

1. **Varshavsky Mikrorayon**
Pravdy Avenue
2. **Evrika**
6 Akademika Hlushkova St.
3. **Faina Town**
2B Salyutna St.
4. **Mirax**
43 Glubochytska St.
5. **Manhattan City**
Peremohy Avenue/Borshchahivska Street

Office centers

1. **Astarta**
58 Yaroslavska St.
2. **K/Most**
5A/1 Zoolohichna St.

Retail

1. **Retroville**
Pravdy Avenue/Marshala Hrechko Street
2. **River Mall**
10-14 Dniprovska Naberezhna
3. **April**
19A Lesya Kurbasa St.
4. **Auchan Rive Gauche**
15 Zdolbunivska St.
5. **Ocean Mall**
Druzhby Narodiv Street/Horkoho Street
6. **Blockbuster Mall**
34B Stepana Bandery Ave.

developer. The construction is only starting, but a few apartment have already been sold. The complex is located not far from Nyvky and Svyatoshyn metro stations, next to ExpoPlaza exhibition complex and close to the famous Antonov airplane plant. There are two parks nearby: one small one across the road and Syretsky Park, a large park located several blocks away. The first buildings are scheduled to open by end of 2018.

Manhattan City

Address: Pobedy Avenue/Borshchahivska Street
Developer: Kyivmiskbud (also Kyivgorstroy) is a construction holding owned by the city.
Starting price: \$47,200 for a studio of 52 square meters, \$87,000 for a two-bedroom apartment.

Manhattan City is a complex of three high-rise 36-story buildings that are in the early stage of construction on Peremohy Avenue. The complex is one of the most controversial new projects. While it boasts spacious apartments and a nearly central location close to the main railway station, it is surrounded by three streets with heavy traffic, where jams are very frequent. Next to it is an unfinished 22-story business center, Sky Towers, where construction has stopped. The first of the three buildings is scheduled to

open in late 2018.

Mirax

Address: 43 Glubochytska St.

Developer: Kyivmiskbud

Starting price: \$22,900 for a studio of 29 square meters, \$54,300 for a two-bedroom apartment.

Several residential properties are under development on Glubochytska Street, a busy thoroughfare connecting the Lukianivka area with Podil. One of them is Mirax, a medium-sized apartment complex, with the highest building having 28 floors.

Years ago, a different company started constructing an ambitious business complex at the same location. But the construction stopped when one of the 42-story towers was less than half-way built, and stayed like that for several years. Currently the unfinished business center is being re-designed into a residential complex.

Mirax boasts a convenient location, being within a 20-minute walking distance from Kontraktova Square metro station and from Lukianivska metro station, and having access to the infrastructure, schools and restaurants of both neighborhoods. Mirax is scheduled to be finished by the end of 2019. There are also two more unrelated complexes under construction nearby: Lvivsky Kvartal and Podil Plaza and Residence.

Taryan Towers

Address: 12 Ioanna Pavla St. (former Patris Lumumba St.)

Developer: Poznyakizhystroy

Starting price: \$141,500 for a studio of 61 square meters, \$276,700 for a two-bedroom apartment of 122 square meters.

The construction of this premium complex in Pechersk District is in early stage. The first of the three 31-story towers is scheduled to open in 2019. A transparent corridor will connect the top floors of the towers. The rooftops will be used for family entertainment. The developer Poznyakizhystroy also built the Royal Tower apartment buildings and Tsarsky City Resort sports club.

Commercial: Office centers

The only business center that has opened in Kyiv since the beginning of 2017 is the Astarta Business Center, according to UTG. The 28,000-square-meter building is located in Kyiv's historic Podil neighborhood. Last year the growth of Kyiv's office center market was unimpressive, as only 43,100 square meters of space were added to the city's supply.

In mid-2017, the vacancy rates in Kyiv's office centers reached 18 percent.

But there's an upside to those numbers, says Dmytro Terokhin, a senior real estate analyst at UTG.

"Such a low number of new office centers serves as a



market stabilizer," Terokhin says. "It will bring the rent prices up and reduce vacancy rates."

The following are business centers under development in Kyiv.

Astarta

Address: 58 Yaroslavska St.

The first part of the Astarta Business Center opened in 2017, and now the developer is constructing the next stage

Manhattan City residential complex (left) is under construction in Kyiv on Nov. 5. Next to it is the abandoned construction site of a half-finished office center. (Oleg Petراسиuk)

Advertisement

Spaces with soul from BR Interiors

BR Interiors – a studio that mainly specializes in creating luxury interiors – is the latest word in the world of Ukrainian design for living! Non-standard approaches, original, fresh solutions, as well as completely individual interior designs: BR Interiors is able to make the most daring dreams of its clients come true!

The studio's main activity is designing and building luxury interiors, creating architectural designs, and providing designer's supervision of construction, repair and finishing work. Moreover, BR Interiors is not limited to the design of residential and commercial premises, but also has unique experience of working with the interior designs of yachts, and the designing of hunting estates.

Another special service provided by the studio is the creation of its own designer range of products, namely furniture, decorative accessories, and lighting. The studio's unique custom-made interior details, made from high quality materials, are especially designed to perfectly match the overall concept of your project.

Among the other benefits of the studio is its fully integrated service, which frees you, the customer, from worry over issues such as searching for contractors or picking out top-quality materials. The studio does all of that for you, saving you time and producing a result that you will love at first sight. And BR Interiors combines both beauty and functionality to the fullest possible extent, tailoring its work to its clients' lifestyles.

BR Interiors is also always open to new ideas. Inspired by international design trends, the studio's professionals adapt them to the client's space, while bringing in their own creative elements. At the same time, the studio's



designers try to make sure every square centimeter of a room is utilized to bring pleasure and comfort to its owner.

Seeing that most of the projects offered by modern studios are indeed beautiful, but can sometime be impractical in everyday life, BR interiors decided to take a completely different approach – to combine beauty and functionality as harmoniously as possible.

The main designer, the artistic and creative director of the studio, Maryna Rets, leads the studio's main interior design division. With more than 10 years of experience working on the development and implementation of a diverse range of projects, she continues to bring the most creative and, at the same time most comfortable living ideas to the BR Interiors studio. She believes a truly successful design is the one that organically interweaves style, functionality, and the latest technologies, and

applies this same principle to all of her own designs. Maryna also has a lot of experience in working with precious materials, such as onyx, marble, and natural wood, to create exquisite decorative elements.

BR Interiors will soon open its own showroom in the center of Kyiv: the opening is planned for the end of December 2017.

Do you want to make your own living space bright and inspiring? Then order a designer's project from BR Interiors. You can contact studio representative by sending an email to info@br-interiors.com, or by calling +38 (044) 22 999 22. A detailed description of services offered and examples of the studio's work can be found at our website: br-interiors.com





Astarta Business Center opened in Podil neighborhood in Kyiv in 2017. Now the developer is constructing the second stage of the complex, to open in 2018. (Kostyantyn Chernichkin)

of the complex.

Astarta is an A-class business center of 9–11 floors conveniently located in Podil neighborhood close to the Dnipro River. The nearest metro station, Kontrakrova Square, is a 10-minute walk away. The average monthly rental rate of the business center is \$18 per square meter.

The complex is designed in such a way that it fits in with the neighborhood’s historic buildings. The biggest available single-floor open-space office is 4,100 square meters. The final part of the complex is scheduled to open during the third quarter of 2018.

K/Most

Address: 5A/1 Zoolohichna St.

K/Most has been under construction for years, its opening date being postponed several times until it was finally set on 2018. This eight-story business center will boast a space of 7,500 square meters.

It is located between two important traffic junctions, Lukianivska and Shulyavska metro stations, close to the Kyiv Zoo, and next to Ronin, a popular Asian restaurant.

Commercial: Retail

Not a single new shopping mall opened in Kyiv since the beginning of 2017, according to JLL, a commercial property and investment management services firm. Several malls that were scheduled to open in 2017 postponed their openings.

This comes after the December opening of the 140,000-square-meter Lavina Mall, the biggest shopping mall in Kyiv.

With this addition, the average vacancy rate in Kyiv malls stood at 6.5 percent as of June, according to UTG. For comparison, the average vacancy rate in the United States is around 8 percent for regional malls and even higher for strip malls.

Some 15 malls are scheduled to open in 2018–2019. Malls with less than 20,000 square meters are trending, according to UTG’s Terokhin. They are cheaper and faster to build and easier to fill with tenants.

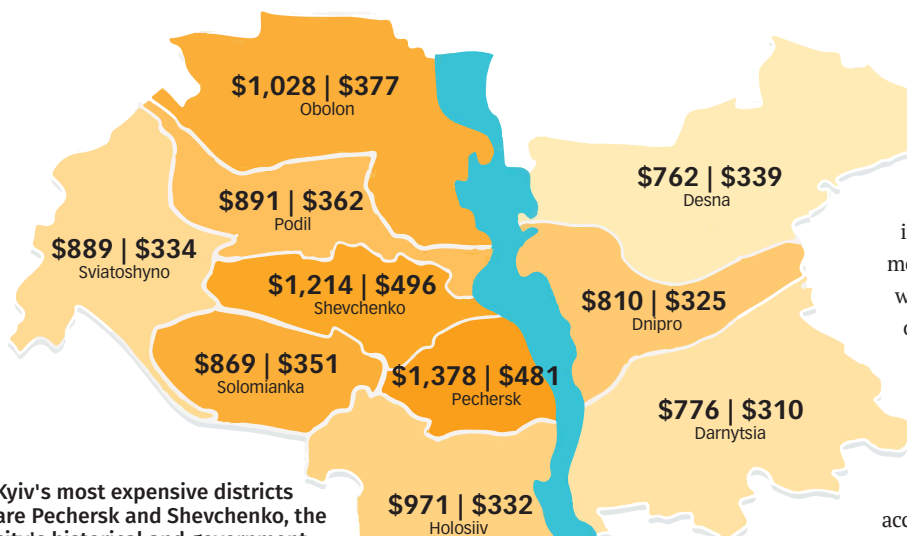
Here are some of the biggest shopping malls to be added to the Kyiv scene soon.

Retroville

Address: Pravydy Avenue — Marshala Hrechko Street

Retroville is the biggest mall to open in 2018. It will boast over 91,000 square meters of gross leasable area, and offer a Novus supermarket, sports club, and office space for rent.

Average sales prices for new apartments and average rents in Kyiv city districts



Kyiv’s most expensive districts are Pechersk and Shevchenko, the city’s historical and government centers. The lowest prices are on the less fashionable left bank of the Dnipro River. Obolon in the north and Holosiiv in the south, although out of the center, have seen a great deal of development in recent years, reflected in apartment prices in these areas.

— Sales price per square meter
 \$900 | \$300 – Rent price per month
 Sviatoshyno – Kyiv city district

Exchange rate: \$1=Hr 27

By Anastasia Shevchuk, Kyiv Post. Source: SV-Development

The mall is under construction in the northwestern part of Kyiv, near Vynohradar neighborhood and with fast access to the Obolon neighborhood. Across the road from it is Varshavsky Mikrorayon, one of the biggest residential complexes developed in Kyiv now.

River Mall

Address: 10–14 Dniprovska Naberezhna

Scheduled to open in 2018, River Mall is about to become the key shopping destination for residents of the left bank. It is located on the busy Dniprovska Naberezhna Street near the banks of the Dnipro River, in the densely populated Poznyaky neighborhood in the south part of Kyiv's left-bank section. The River Mall will have nearly 60,000 square meters of leasable area. Its special perk will be a river boat station. The nearest metro station, Osokorky, is a 2-minute drive away.

Aprel

Address: 19A Lesya Kurbasa St.

Aprel (April) is one of the main shopping destinations in the far western neighborhood of Borshchahivka. It opened in 2014, and is about to open an expansion in 2018. The mall already has a Billa supermarket and a McDonald's restaurant. However, the leasable area here is just 5,900 square meters. The 2018 expansion will add 24,000 square meters, providing enough space for a movie theater, according to UTG.

Auchan Rive Gauche

Address: 15 Zdolbunivska St.

The first part of the Auchan Rive Gauche shopping mall, will be operated by Immochan Ukraine, a branch of the French company Auchan, and will open in 2018, offering 20,000 square meters of leasable area. The majority of it will be taken up by an Auchan hypermarket store. The mall will also feature some 60 shops, including Turkish clothing brand LC Waikiki and electronics retailer Eldorado. The food court will include a KFC fast food restaurant and a restaurant of its Ukrainian competitor Kryla. The second part of the mall will be finished in 2019 and will add 35,000 square meters to its leasable area.

The 10 most popular apartment complexes under construction

Below are the 10 apartment complexes under construction in Kyiv that got the highest number of views during the past three months on LUN.ua, a popular real estate website.

1. Varshavskiy Mikrorayon (Pravdy Avenue)
2. Evrika (6 Akademika Glushkova St.)
3. Fayna Town (26 Salyutna St.)
4. Zamkovetska-Novomostytska (corner of Zamkovetska and Novomostytska Streets)
5. Mirax (43 Glubochytska St.)
6. Nova Anhliya (24 Mykhaila Maksymovycha St.)
7. Lvivsky Kvartal (13 Glubochytska St.)
8. Misto Kvitiv — Parkovy Kvartal (43 Tyraspolska St.)
9. Patriotyka (between Borysa Hmyri and Kollektorna Streets)
10. Comfort Town (4 Regeneratorna St.)

Ocean Mall

Address: Druzhby Narodiv Street — Horkoho Street

The owners of Kyiv's most successful shopping mall Ocean Plaza are expanding their territory. Ocean Mall is under construction right next to Ocean Plaza. Ocean Mall will be the city's third biggest mall when completed, following Lavina Mall and Blockbuster Mall.

Although the mall is to open in 2019, the developers claim they already rented out half of its whopping 100,000 square meters of leasable area.

Blockbuster Mall

Address: 34B Stepana Bandery Ave.

Blockbuster Mall is a shopping expansion of the popular Blockbuster entertainment center, famous for having Kyiv's only IMAX movie theater. With a total of 120,000 square meters, the mall is the biggest one under development in Kyiv, and will be the second biggest after Lavina Mall.

It boasts a prime location near the Petrivka metro station and two large residential neighborhoods: Obolon and Troyeshchyna. It will have a close competitor — the well-established Sky Mall, which stands just across the river from it. ■

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A view of downtown Kyiv and Olympic Stadium on May 15. (Oleg Petراسиuk)

Ukraine's murky real estate market may soon face blockchain revolution

By Denys Krasnikov
krasnikov@kyivpost.com

The purchase of a \$60,000 apartment in Kyiv by U.S. citizen Michael Arrington doesn't at first sound like a real estate deal that would merit global attention.

But when you add in the facts that Arrington is the founder of the popular U.S. tech news website TechCrunch, and that he purchased the property with a cryptocurrency, using blockchain technology, from across the Atlantic, via the internet, the significance of the deal becomes apparent.

The media entrepreneur struck the historic deal without the use of banks or real estate brokers: it was arranged through a smartphone application called Propy that runs on blockchain — a public ledger of all transactions done through cryptocurrencies, a technique used to secure the integrity of recorded data.

Blockchain is a relatively new technology, initially designed to verify the ownership of assets and exchange digital information without the need for intermediaries. The same technology is now being tested as a potentially reliable method to record transactions of physical assets like land and real estate.

The technology makes details of the transaction available to the public, with an online ledger being updated on

thousands of computers at the same time, while the buyer and seller remain anonymous. Anyone who wanted to tamper with past transaction information would have to alter all of the thousands of copies of the blockchain data — a virtual impossibility.

Still being tested by the real estate market, blockchain deals in this field are slowly gaining popularity due to their transparency and security. The United States, for example, has already had its first home sales via blockchain in Miami, California, and Texas. In the United Arab Emirates, a real estate developer has started to accept cryptocurrency as payment as well.

Arrington's purchase of a Ukrainian apartment, however, was the first transatlantic electronic agreement involving real estate. Arrington paid 212.5 units of a cryptocurrency called Ethereum (RTH), the equivalent of about \$60,000 when the agreement took place, and used smart contracts to sign all necessary documents online.

The arrangement still involved intermediaries — the Ukrainian law firm Juscutum and U.S. firm Velton Zegelman — to make sure the deal complied with U.S. and Ukrainian law.

Juscutum managing partner Artem Afian told the Kyiv

Post that after his company completed the agreement, lots of people in Ukraine had started asking him about the legal possibility of buying property using cryptocurrency.

“It means people who sell and who buy property are looking for new ways to do it,” Afian said.

Blockchain skeptics

But Eduard Brazos, head of the committee of information systems and analytics at Ukraine’s Association of Real Estate Experts, is skeptical. The real estate agent agrees that blockchain could bring some changes to the industry, but doubts that Ukraine will embrace them.

“Ukraine’s real estate industry is super-regulated,” Brazos told the Kyiv Post. “Our (Justice Ministry) still requires physical documents signed by buyers or their representatives in the presence of an attorney.”

Brazos does not believe that Arrington’s purchase is actually secure, since he views it as a simple barter exchange, meaning that after the buyer and seller agreed they would exchange digital money and the apartment, they both signed gift certificates to secure the transaction, without anything else.

And he sees no point in using blockchain while Ukraine’s laws still require lawyers to be involved in real estate transactions, and do not recognize cryptocurrency transactions.

“I don’t see why anybody needs to use it anyway, except just to show off,” Brazos said.

Unreliable documents

Nevertheless, for countries like Ukraine, which rely on paper records to register land and other real estate rights, blockchain does make sense as a way to avoid corruption.

Traditional real estate systems ensure the integrity of information by placing it in the hands of state entities they trust. In the United States, courthouses and city halls are charged with the safekeeping of land deeds. The United Kingdom entrusts this responsibility to the government-controlled Land Registry. In Ukraine, it is the responsibility of the Ministry of Justice.

However, any government representative or lawyer who can access the register on behalf of their client, if corrupt, can alter the content of paper records such as deeds and claims. Considering that Ukraine is 131st out of 176 states in the world’s ranking of the least corrupt countries, according to Transparency International, the country’s registries may not be secure.

Apart from corruption, the process of conveying and confirming property ownership on paper is considered to be costly, opaque, bureaucratic, and highly vulnerable to fraud.

Acting Minister of Agrarian Policy and Food Maksym Martyniuk agrees.

“For the average person, (blockchain) means a better level of control over their property, because if you only have a piece of paper to verify your right to a piece of land, that can be a little worrying,” Martyniuk told the Kyiv Post on Oct. 21.

“It’s more reassuring when all your property is recorded in an electronic database.”



Cryptocurrencies – Bitcoin and Ethereum being the two most popular ones – are gaining traction. The digital currencies, which are based on blockchain technology, boast anonymity and security, prompting thousands of people and businesses to start using them. The technology has become one of the most discussed topics around the globe, and promises to impact many industries, including banking, cybersecurity, retail and real estate.

Blockchain on the rise?

Work to put such registries in Ukraine in a blockchain format is already going on.

In cooperation with blockchain company BitFury, Ukraine transitioned the registration of land ownership records into the company’s blockchain system in October. State authorities are sure that the property registry information is now secure and transparent.

The system also allows the use of smart contracts – automated online documents that work algorithmically, allowing the transfer of money or property only if all the conditions of a contract are fulfilled. This can automate some bureaucratic functions and help reduce the number of staff needed to carry out the process.

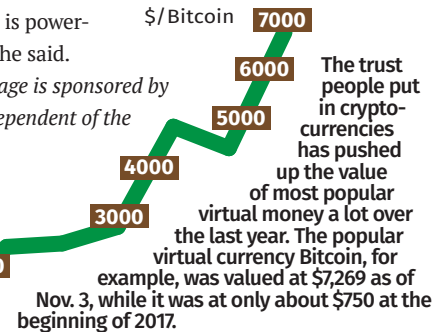
But even though real estate agent Brazos believes that blockchain will indeed make the register more secure, future success still depends on how the Ukrainian authorities implement the technology.

“If you give savages the best tools, you might not achieve anything,” Brazos said. “Give the most accurate tool to officials and they could spoil everything.”

Private lawyer Ruslan Chernolutsky agreed with Brazos. He thinks that while blockchain does secure information once it’s in a registry, it still doesn’t ensure that all the information is correctly entered initially. Some people deliberately enter false data into registries for purposes of deception, Chernolutsky said.

“Obviously, blockchain is powerless here. It’s just a tool,” he said.

The Kyiv Post’s IT coverage is sponsored by Ciklum. The content is independent of the donors. ■



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How much does it cost to buy a vacation house in Ukraine?

By Anna Yakutenko
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Ukraine boasts some magnificent natural beauty, from the rugged Carpathian Mountains to forest and steppes, the banks of the broad Dnipro River, and the enchanting Black Sea coasts.

Any of these places would be a great site for a vacation home, and with the two-thirds devaluation of the hryvnia since 2014, it's never been cheaper to buy a dacha, cottage or house in the country.

The Kyiv Post checked out cottages and houses for sale near Kyiv, in coastal areas and in the mountains for a range of prices, based on real estate classified ads aggregated by websites lun.ua, dom.ria, address.ua and others.

Kyiv Oblast

Those who want to get out of the big city but don't want to travel too far from Kyiv have an extensive variety of cottage houses and private homes to choose from in Kyiv's suburbs.

Apart from being close to the city, the country around

Kyiv is beautiful, with pine forests and numerous lakes, as well as the mighty Dnipro River.

According to the address.ua real estate aggregator, a house in Kyiv Oblast with less than 100 square meters costs around \$30,000.

However, most of those cheaper than \$50,000 are modest, Soviet-era "dacha"-type constructions. For instance, a three-floor summer house in the village of Vyshenky (40 minutes from Kyiv by car) with old furnishings is listed for only \$27,000.

The average price of a house ranging from 100 to 200 square meters is around \$70,000. For this price, buyers can expect to get a smaller summer house that has been recently repaired by its former owners. Generally, the summer houses that are listed on real estate aggregator websites for less than \$100,000 either have no furniture or an old-fashioned design (a brick fireplace, Soviet-style carpets, old TV sets, and so on).



Various options for vacation homes in the picturesque Carpathian Mountains in the western Ukraine are for sale starting from \$10,000. (UNIAN)

The prices of houses in the more modern cottage villages that have sprung up around Kyiv in recent years, which often have security and are connected to utilities networks, start from around \$80,000 for homes that are currently being built.

The price of a new build starts from approximately \$150,000, while a property from 200 to 400 square meters costs approximately \$170,000. For example, the 174-square-meter unfurnished white-brick house in the resort village of Novosilky, about an hour from Kyiv by car, is on sale for \$170,000.

For the price of a high-end apartment in Kyiv — about \$500,000 — one would buy a spacious house in the luxury segment in one of the prestige villages near Kyiv, such as Koncha Zaspa, just 20 minutes' drive from the city center.

However, the highest prices are those for homes in private cottage villages such as Riviera Villas, where 400-square-meter houses are on offer at lun.ua for as much as \$2 million. The price includes developed infrastructure, such as kindergartens, spa clubs, swimming pools, tennis courts, football and volleyball grounds, playgrounds, beaches, restaurants, and a pier for boats.

Near the sea

Since Russia started its occupation of Ukraine's Crimea in 2014, the villages and cities in the south of the mainland in Odesa, Mykolaiv and Kherson Oblasts at the Black Sea shore have become hot spots for those vacationing near the sea.

The widest choice of expensive summer houses can be found in Odesa, a city of nearly one million people, and at popular resorts close to the city, such as the villages of Zatoka or Koblevo.

According to real estate aggregator address.ua, in Odesa Oblast the prices for cottages are even higher than in Kyiv: the average price for a house of up to 100 square meters in area is \$46,000, for a house of 100–200 square meters — \$120,000, for one 200–400 square meters — \$240,000, and the biggest ones, larger than 400 square meters, the cost goes up to around \$520,000.

Those looking for a summer house cheaper than \$50,000 would be unlikely to find anything fancier than old Soviet-style houses or unfinished constructions in the suburbs of Odesa.

Those for whom location is more important than size can opt for a 70–80-square-meter house not far from the sea in the Prymorsky and Kyivsky districts in the south of

Odesa for \$50,000–100,000. The area has lots of shops, good beaches, and is located just 15 minutes away from the city center and only 10 minutes from Odesa International Airport. Larger houses in the same area mostly cost around \$160,000–200,000.

Prices in other oblasts are cheaper: In Mykolaiv Oblast, one can buy a house of 70 square meters in the town of Ochakiv near the Black Sea coast for \$37,000. A house of 140 square meters in the same town costs \$85,000. One can also find relatively cheap options in the nearby town of Luhove, for \$20,000–40,000. However, most of the houses on sale are of Soviet design and will probably be in need of repair. Moreover, the smaller towns in Mykolaiv Oblast tend to have ramshackle infrastructure and poor roads, and not many big stores nearby.

Houses at similar prices, from \$20,000 for an 80-square-meter house near the Black Sea, can be found in seaside and riverside villages in Kherson Oblast, such as Skadovsk, Zaliznyi Port, Gola Prystan, and others. Such villages, however, all suffer similar problems: bad roads, a lack of big stores, and not many options for a night out.

Moreover, the Black Sea near Kherson and Mykolaiv Oblast can be full of jellyfish and tangled with seaweed in summer. In other places, the coasts are edged with mud flats rather than sandy beaches.

Western Ukraine

Another popular vacation destination is the Carpathian Mountains in western Ukraine, which attract crowds of tourists with their magnificent landscapes.

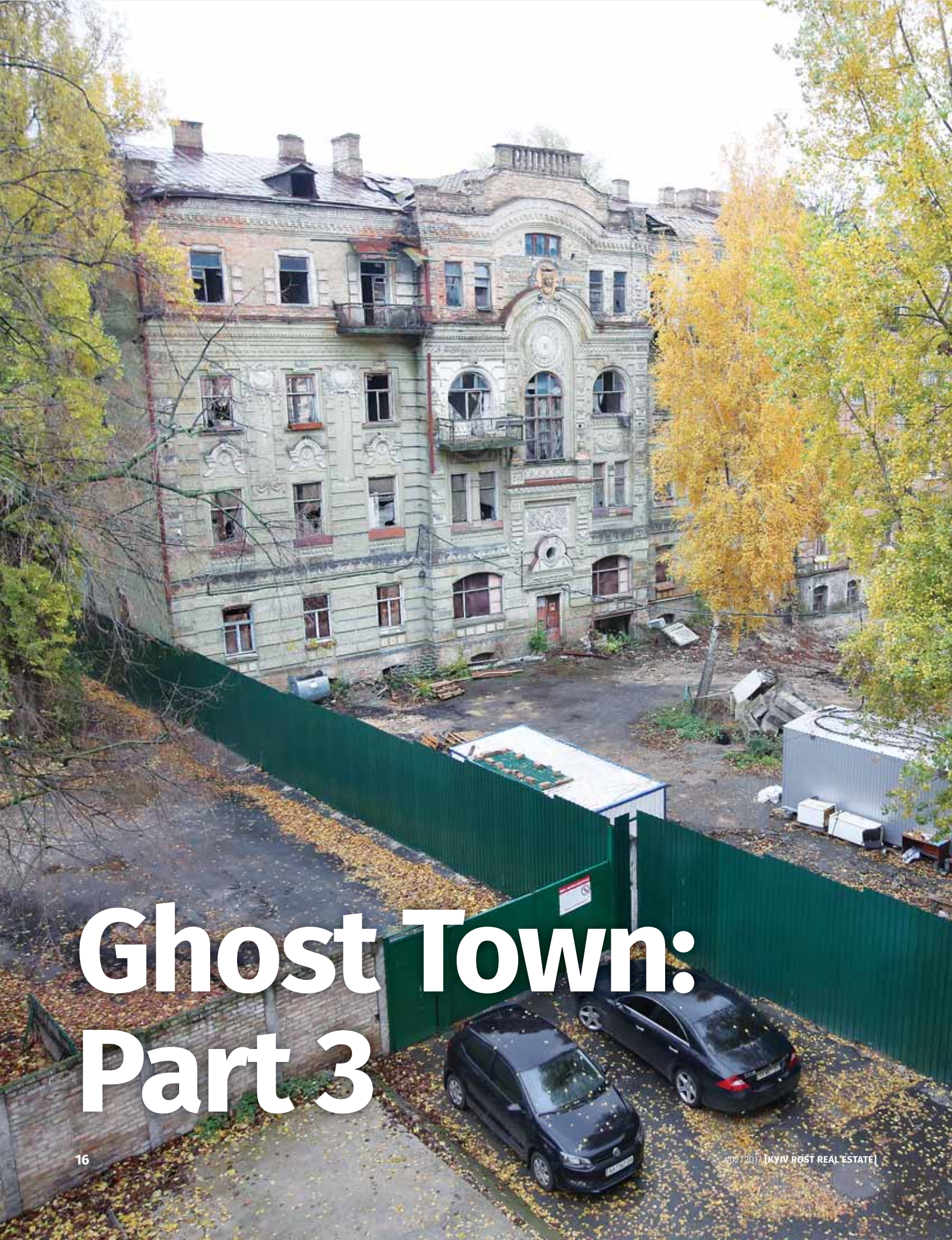
Houses with breathtaking views are for sale here for more affordable prices than near Kyiv or Odesa. The main disadvantages, however, are poor roads and undeveloped infrastructure in the smaller villages that are off the tourist trails.

A decent wooden house will sell for less than \$50,000. For example, a house of 140 square meters with three bedrooms in Verhovyna in Ivano-Frankivsk Oblast, some 620 kilometers from Kyiv, costs \$48,000. The average price of a house in Zakarpattya Oblast in the west is \$86,000, according to address.ua.

Those looking for a bit more will find plenty of options in the large villages of Yaremche and in Bukovel, the popular ski resort. But expect to pay a lot more — current options include an 819-square-meter, 12-room house near the ski slopes in Bukovel, which is on offer for \$1.57 million. ■

What's available

Price	Up to \$50,000	\$50,000 – \$100,000	\$100,000 – \$200,000	\$500,000
Description	<ul style="list-style-type: none"> • Mostly Soviet-style design, or a wooden house in the Carpathians. • Old furniture. • Up to 100 square meters. 	<ul style="list-style-type: none"> • No furniture or old-fashioned design. • Old but renovated, or a new building. • Up to 200 square meters. 	<ul style="list-style-type: none"> • New buildings. • In a housing estate. • Up to 400 square meters. • Minimalistic or luxury design. 	<ul style="list-style-type: none"> • New buildings. • In a gated residential area. • Minimalistic or luxury design. • Over 400 square meters. • Best locations.



Ghost Town: Part 3



By Josh Kovensky
kovensky@kyivpost.com

A lot of rot is under way in Kyiv's historical center.

Buildings that date back to the 1700s are often abandoned, owned through layers of shell companies that conceal the true owners, who have no intention of restoring the structures.

Why? Land prices in Kyiv's center remain extremely high, owners pay little or no property tax and developers want to maximize the amount of space available in a given building. It's cheaper for developers to allow a building to collapse and then build a new structure than to restore a historically valuable

home in accordance with legal requirements.

The situation — while dire — has led to spots of activism and creative projects to revitalize damaged portions of the city center.

One interactive map, created by Texty.org.ua and called "Kyiv's remains," visualizes all of the abandoned, historic buildings across Kyiv.

"At the current moment, without working mechanisms to return these buildings to the housing fund and determining their legal status, little can be done," said Stanislav Dyomin, a Kyiv architect.

See for yourself

Kyiv Mayor Vitali Klitschko, after elected in 2014, promised to tackle the problem of abandoned buildings.

Klitschko commissioned a study of historical buildings, resulting in the following findings: Out of the city's old residential buildings, 101 are not safe for residency, while 150 are in an unsatisfactory condition.

And 40 percent of these buildings are in private ownership.

But many activists think that these findings lowball the amount of buildings in danger. An investigation by watchdog

"Dostup do pravdy" identified dozens of decaying buildings by addressing neighborhood councils.

As Dyomin, the Kyiv architect who has worked on restoring damaged historical buildings said, "you can see for yourself."

Mikhelson

One shining example is the so-called "Mikhelson House" on Pushkinska Street in the city center.

Stretching from 33 to 37 of the street's house numbers, the ornate mansion dates to 1884. It was then that the wealthy Kyiv merchant Friedrich Mikhelson decided to build the complex for his two daughters.

The buildings have an ornate exterior, with detailed frescoes that are now decaying from lack of maintenance. Some historical records compare the interiors to that of the Tsar's Winter Palace in St. Petersburg. One of the buildings was used to film Soviet dramas set in the Tsarist period.

"The most beautiful buildings in the city are being destroyed by developers and the city government," said Mykola Zhukov, a pensioner-activist who leads the Pushkinska-Chervonoarmiyska Street Residents Defense Committee.

The building has been abandoned since the late 1990s, and is located next to a kindergarten that was also abandoned after a 2007 raider attack.

"At eight in the morning a bulldozer came and started to tear the building down," Zhukov recalled, saying that the destruction only stopped when a local resident decided to stand under the vehicle's blade.

"Then a local 'maidan' started, and our volunteers started to defend the kindergarten," he added.

Mikhelson House was sold to a group called "D.I.B." by the Kyiv city government, which didn't have the money to conduct repairs on the building. From there, it was resold twice and ended up in the hands of an anonymous company called "House on Pushkinska," which entered into a joint-venture with Kyiv Developer NEST for the project.

NEST denies any link with "House on Pushkinska" beyond the joint venture, and maintains that court challenges from Zhukov's group are keeping it from restoring the buildings and eventually putting them back into use.

Zhukov, along with other neighbors, say

The Kyiv Post has since 2010 published a periodic series of stories headlined "Ghost Town," about the failure of Kyiv's municipal authorities to force building owners to either renovate or rebuild rotting and vacant properties in the capital. Many property owners have no interest in developing the buildings. They are "sitting" on them, anticipating the price of land in the city center will rise or the buildings will crumble so they don't have to meet rebuilding regulations. Kyiv's government encourages such urban blight through low property taxes and weak action against vacant properties.

Ghost Town – July 9, 2010
Greedy owners and lack of property taxes have left parts of Kyiv resembling a ghost town. Rather than finding investors who could fix them up, many of the city's most beautiful and historic buildings are falling apart.

<https://www.kyivpost.com/article/content/ukraine-politics/ghost-town-72769.html>

Ghost Town Revisited – Aug. 3, 2012
Ghosts are the only things living in some of Kyiv's wonderful, ancient mansions. Dozens of such buildings stand abandoned along the central streets.

<https://www.kyivpost.com/ukraine-politics/ghost-town-revisited.html>



The Mikhelson House on Pushkinska Street in downtown Kyiv is one of the most notorious abandoned old buildings in the capital. (Kostyantyn Chernichkin)



Many old buildings in downtown Kyiv are in very poor shape, yet still expensive to buy or rent.

that NEST intends to let the buildings collapse before building a residential high-rise on the site.

Baron, Guest house

Mikhelson House, like other old Kyiv buildings, have the legal status of historical monuments.

And while that has succeeded in warding off their destruction in the past, Dyomin said that a well-intentioned new

law which established an electronic registry for historical buildings may have changed the situation.

“There is a very bizarre formulation in the law,” said Dyomin, saying that the registry does not include all of the abandoned buildings in the city center.

“Many buildings that appear to be historical monuments have not been placed into the register,” Dyomin said.

That issue could threaten such architectural achievements as the Baron’s House on 1 Yaroslaviv Val.

That dark red building, which features a spire rising out of its ornate facade, was built over a period from 1850 to 1898, going from being an unremarkable two-story house to its final, towered firm after Polish nobleman Mikhail Podgorsky bought it in 1892.

But since the building’s communal apartments were ended and the building was privatized in the early 2000s, neither nobleman nor commoner have been able to inhabit the building.

Kyiv media reports have linked the building to former city council deputy Oleksandr Loyfenfeld.

Ongoing litigation over the object’s future has gone nowhere.

“Restoring that building would be long and complicated, with a heavy financial burden,” Dyomin said.

Gostiny Dvor, a pre-revolutionary building takes up a huge area in central Podil, operated as a shopping mall until 2011, when Party of Regions Prime Minister Mykola Azarov’s Cabinet of Ministers removed the building from the list of historical monuments, allowing a private company to undertake extensive renovations.

In February 2013, a fire destroyed the building’s roof, leaving it as a gaping ruin in the historical district’s center.

Since the 2014 EuroMaidan Revolution, the government has restored the building’s historically protected status, but decisions over what to do with it have been caught up in more litigation.

Limited options

Part of the issue of litigation surrounding the decaying building is that lengthy court proceedings play to the interests of those who would want to see the buildings collapse.

The longer the cases take, the more likely it is that a 19th century building will disintegrate, destroying the historical monument and allowing the owner to build a glass-covered high-rise in its place.

“The market is very inflated,” said Viktor Hleba, an architect and activist on real estate issues. “But some companies will make money off of selling the bricks and parts in a ruined old building.”

Zhukov, the Pushkinska Street activist, remains hopeful. “We’ve won many court decisions,” he said. “We’ll keep trying.” ■

Key office property market indicators in Kyiv

	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	First half of 2017	Annual outlook for 2017
Stock (sq m)	1,784,240	1,784,240	1,784,240	1,792,840	1,805,000	1,805,000	▲
New supply (sq m)	69,960	0	0	8,600	12,140	6,000	▲
Take up (sq m)	174,400	31,200	44,300	49,500	52,100	41,210	↔
Net absorption (sq m)	88,000	3,500	35,000	39,800	46,000	48,000	↔
Vacancy rate (%)	21.6	21.3	19.4	17.5	15.6	13.0	↔
Prime rents (USD/ sq m/ month)	17-28	16-26	16-25	15-25	15-25	25	↔

Source: Cushman & Wakefield

Notes: All figures are year-end and due to non-transparency of the market are subject to continued revision. Take-up and vacancy figures do not include sub-lease opportunities.

New public real estate register already needs some upgrades

By Yuliana Romanyshyn
romanyshyn@kyivpost.com

While it was only in January 2015 that Ukraine got its first public real estate registry, an online database that allows every Ukrainian to find out who owns what real estate in the country, the system is flawed.

When the registry was first launched by the Ministry of Justice, lawmaker Yehor Sobolev called it “the most important anti-corruption law” on the real estate market and land ownership data.

The register is indeed a step forward for transparency, as investigative journalists and activists, as well as real estate professionals, can now make background checks and monitor real estate deals much more easily.

But the system still has problems, including missing and incorrect data, limited search functions and possible security shortcomings.

How it works

The service, for a fee (Hr 20 or \$0.70), grants users access to names of property owners, building maintenance records, its mortgage history and much more. But despite masses of information now being available in the register, users still complain about missing records and poor search options, as well as lots of data-entry errors.

Olena Biberova, general director of real estate agency Blagovist, has been using the register since its launch and has generally been satisfied with the results.

“It’s very convenient, easy and transparent,” said Biberova.

Her agency’s legal department checks the register for information on building ownership, court decisions or any legal violations before performing each real estate deal. This reduces potential risks, Biberova said.

Outdated system

Having access to all this information is good, but only if you can find what you’re looking for among those mounds of data.

However, when it comes, for instance, to common Ukrainian last names such as Shevchenko, the registry’s search engine lacks the filters that allow users identify a specific person. Biberova also said that data-entry errors are also common.

And according to a report done by investigative journalist Denys Bigus, who analyzed more than 80,000 records within the register, sometimes the required data is simply missing altogether.

For instance, most records prior to 2012 are not available. Data on previous owners is lacking as well.

Moreover, while the Justice Ministry is responsible for keeping real estate data, land documentation is administrated by another institution – StateGeoCadastre – an executive body agency overseen by the Cabinet Ministers of Ukraine. StateGeoCadastre registers land ownership and manages the state land cadaster.

Justice Minister Pavlo Petrenko said both registries should be merged to eliminate the possibility of abuses and raider attacks: even though

StateGeoCadastre keeps its registry mainly in electronic format, there are still a lot of hard-copy records as well, which are harder to search. Back in August, Pavlenko said that this would be taken care of once StateGeoCadastre was placed under his ministry’s jurisdiction.

A public register of properties and owners is a major anti-corruption tool, essential for government and everyone involved in real estate.

Oleksiy Viskub, deputy head of the State Agency on Issues of Electronic Government, said that many Ukrainians have worries about the integrity of the register’s data.

“We have to admit that there is a lack of confidence from society in the work of some basic state registries,” Viskub said. “The main concern comes from possibility that documents could be backdated.”

Possible solutions

To secure data, the Viskub’s agency plans to use blockchain technology to upgrade the register by the end of 2017.

Blockchain, an encrypted technology that links and stores data in chains, will secure the information effectively, Viskub said.

“Each action is not only written chronologically, but (blockchain) records contain data on who modified date, when, and how many times,” Viskub told the Kyiv Post via email. “It will be impossible to delete this information.”

Viskub hopes the technology will increase trust and cooperation between the authorities, citizens, and business.

While the state real estate service is seeking to improve the registry, tech company Liga Zakon has developed a service called SMS-Mayak that allows its users to monitor any changes on real estate in the registry without the need to repeatedly send requests for access.

The service was developed as a tool to protect real estate and land from scammers and raider attacks.

SMS-Mayak allows a client to monitor multiple objects and receive notifications if the data about it in the registry changes. The service monitors buildings for a fee (Hr 30 or \$1.1 per month) and sends a message or an email to the client if there are any changes, such as a change in property ownership.

A more advanced feature notifies users of any requests or applications related to a building, according to Andriy Kravchenko, an SMS-Mayak product manager. The fee is Hr 300 (\$ 11) per building per month.

Kravchenko said the second option is handy if an owner is afraid their property is at risk of a raider attack. Owners will be notified of any changes to the register as soon as they are made, allowing them to counter an attempted attack early on in the courts. ■



Residential complex Vynogradnyi (formerly Syneozernyi) in Podil District of Kyiv is categorized as illegal construction as part of the property scam of an indicted businessman Anatoly Voitsekhovskiy. (Oleg Petراسиuk)

Scam victims seek justice in Kyiv's poorly regulated residential market

By Bermet Talant
bermet@kyivpost.com

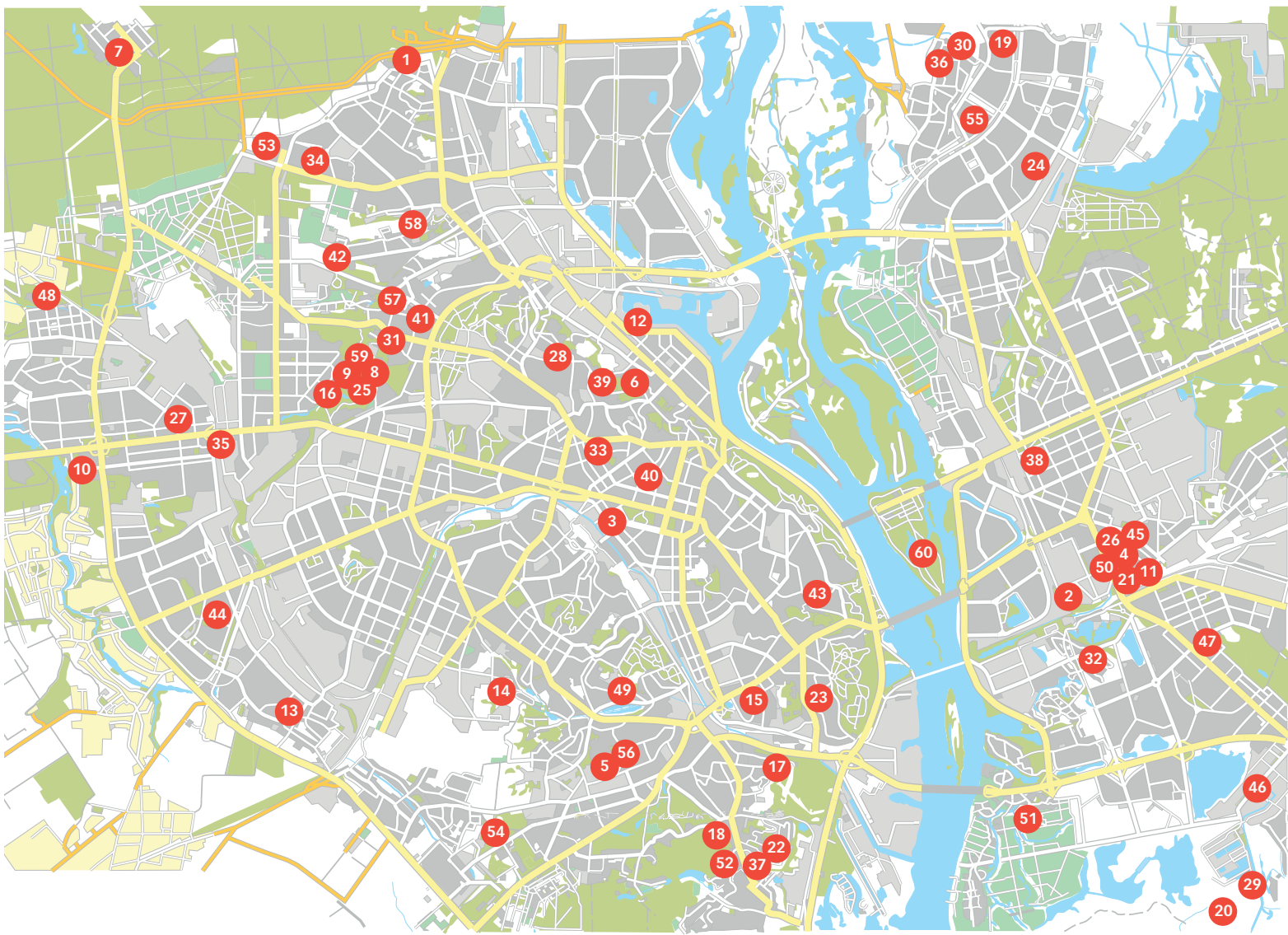
Three years ago Roman Gen-De-Fu bought a one-bedroom flat in the Flahman residential building development in Kyiv. Located in the Darnytsya district on the left bank of the Dnipro River, this 27-story, seven-section behemoth in yellow, green and turquoise colors promised to stand out among the old, low-rise Soviet blocks in the area.

Like many other Ukrainians, Gen-De-Fu thought he would save money by investing in property under construction. But years on,

Flahman still stands unfinished, while investors have found themselves entangled in a complex web of lawsuits and disputes with the municipal authorities. Flahman, it turned out, was the center of a massive construction scam involving businessman Anatoly Voitsekhovskiy.

Anatoly Voitsekhovskiy's case

Voitsekhovskiy is believed to be the mastermind and owner of the collapsed Uko-Group and Citi-Group construction companies, which have left behind them 40 unfinished



Illegal residential construction in Kyiv

The Kyiv city cadastre features hundreds of illegal constructions, namely gas stations, redevelopments, cafes and others. Of these, the register shows at least 60 residential building categorized as illegal by Kyiv City Administration. Common breaches include squatter housing and violations of construction norms. Check the full map at www.kyivpost.com.

 Illegal residential building

- | | | | |
|---|----------------------------|--------------------------------------|---------------------------|
| 1. Bella Vista | 16. Molodizhna initsiatyva | 32. Pryozerny | 47. Slavhorodsky |
| 2. Domino | 17. Mozaiika | 33. Residential complex for soldiers | 48. Sosnovy bir |
| 3. Elehant | 18. Mriya | 34. Residential house | 49. Sovski Stavky |
| 4. Flahman | 19. Muloslavskiy ryad | 35. Residential house | 50. Starodarnytsky |
| 5. G-House | 20. Na Levadniy | 36. Residential house | 51. Status hrad (phase 3) |
| 6. InCo home | 21. Nova Khvylya | 37. Residential house | 52. Symphoniya |
| 7. Kurortny | 22. Panoramne mistechko | 38. Residential house | 53. Syneozerny |
| 8. Kuzminsky | 23. Pechersky Bastion | 39. Residential house | 54. Teremok |
| 9. Kuzminsky 2 | 24. Perlyna Troyeshchyny | 40. Residential house | 55. Troyeshchenski Lyvky |
| 10. Kyiv International University dormitory | 25. Posolsky | 41. Residential house | 56. Tykhoretsky |
| 11. Lego house | 26. Private house | 42. Residential house | 57. Yasnohirsky |
| 12. Loft House Podol | 27. Private house | 43. Residential house | 58. Zamkovetsky |
| 13. Marharyta | 28. Private house | 44. Residential house | 59. Zatyshny |
| 14. Merydian | 29. Private house | 45. Rodynny Zatyshok | 60. Cottage house |
| 15. Mia Villa | 30. Private house | 46. Skhidna brama | |
| | 31. Prybaltiysky | | |

By Yuliana Romanyshyn, Kyiv Post. Source: Kyiv city cadastre at www.monitor.mkk.kga.gov.ua



Kyiv's construction boom is outstripping the capacity of the municipal infrastructure. Experts say that problems with gas, electricity, hot water and heating exist in new homes.

residential projects around Kyiv, and scammed an estimated 10,000–12,000 investors between 2009 and 2014.

In 2016, Voitsekhovsky was arrested and charged with evading Hr 12.5 million (\$480,700) in taxes, organizing a crime group that illegally seized land plots through a network of private companies, and embezzling private investments.

According to Voitsekhovsky's lawyer, Yulian Voloshyn, his client denies all of the charges against him, is out on bail of Hr 14 million (\$538,000), and is wearing an electronic tag. Voitsekhovsky's pre-trial hearing, which has been cancelled three times already, is now scheduled to take place on Nov. 14.

The residential projects built as part of Voitsekhovsky's scheme were blacklisted as squatter housing built in violation of construction norms. The projects have been frozen and the land plots arrested.

'Nobody cares about us'

In the last year, little has been done to resolve the problem, lawyers at the Association for Assistance to Scammed Investors say.

In fear of losing their flats and money, desperate buyers have moved into the unfinished buildings. At the same time, many are trying to get compensation or have their ownership rights recognized in court. As a result, every project is embroiled in a number of individual lawsuits.

Several of the unfinished projects were taken up by other developers, such as the Perlyna Troyeshchyny development. Others, such as the Skhidna Brama development were approved for demolition by the city authorities. Most, however, like the Flahman and Sosnovyi Bir projects, are in limbo, with residents trying to finish construction with their own resources.

"Nobody cares about us," Gen-De-Fu said. He is a member of a self-organized cooperative union of residents who are trying to improve their living conditions.

No gas or heat

Kyiv City Administration is reluctant to legalize the uncommissioned property, which stands on an arrested land plot, or connect the residential blocks to utilities. Today the residents of the Flahman project only have electricity — no gas or heat supplies.

"There is a fine line. If we legalize those buildings, it will be against the law and create a precedent. If we tear them down, the investors will be left without any property at all," a Kyiv city administration official said.

The position of the Kyiv City Administration is non-intervention in contractual relations between individual investors and private companies. Instead, the administration has worked out a procedure that should allow investors scammed by Voitsekhovsky's companies to finish the construction of their apartment blocks and legalize their property, which is currently categorized as squatter housing.

The plan has 11 stages, from recognition of the investors ownership rights through the courts, to registering a company to take over the land plot and obtain a construction permit to finish the buildings.

Missing documents

Maksym Chepelenko, a lawyer of the Association for Assistance to Scammed Investors, says that documentation for many residential projects built as part of Voitsekhovsky's scam is missing, complicating litigation.

"The investors are to blame as well. People just look at the low prices and location and don't consult with lawyers before signing contracts," Chepelenko said.

The Ministry of Regional Development, Construction and Housing of Ukraine will propose a new law to protect investors, Deputy Minister Lev Partskhaladze told the Kyiv Post. The ideas include insurance funds and a registry of ownership rights to real estate planned to be built in future.

In the meantime, residential construction in Kyiv is on the upswing. As of October, 66,000 new apartments were on the sales market.

Property is still viewed as an investment, despite the risk of losing money. However, there's reason for buyers to beware about new construction.

Moreover, the city's infrastructure isn't keeping up. It's common for new buildings to go up before independent utility lines are laid. In many cases, the new constructions are simply connected to the networks of buildings nearby, causing the overloading of water and sewage lines, damage to networks, and the risk of supply disruptions to entire neighborhoods. ■



Construction workers insulate a residential building in Obolon neighborhood in Kyiv on Oct. 15, 2014. With central heating becoming more expensive due to increased natural gas utility prices, people are seeking ways to reduce heat loss and increase energy efficiency in their apartments. (Volodymyr Petrov)

High heating costs lead to search for apartments that waste less energy

By **Josh Kovensky**
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It costs a lot to stay warm these days. The government in April 2016 more than doubled the price of gas, to keep commitments to its international backers and to bring prices to consumers to realistic market levels as a way to end corruption in the gas trade.

The price of gas for households is now Hr 6,122 (\$227) per 1,000 cubic meters, with the average household using just over 1,200 cubic

meters over the heating season, which lasts from October until April.

However, a lot of the heat supplied via the country's centralized systems, which pipes hot water through vast networks to radiators in every home and workplace, is wasted due to poor building standards. Vice Prime Minister Hennadiy Zubko estimates that 47 percent of the country's heating losses are due to building inefficiencies.



An employee of DTEK energy company uses a thermographic camera to estimate the heat loss in a residential building in Kyiv on March 18. (UNIAN)

When combined with heating systems designed for Soviet-era communal apartments, where the vast majority of individual apartment residents have no way of controlling how much they will spend on heating, Kyiv has begun to see huge demand for individual heating systems in new constructions, and innovative solutions for older buildings.

“It’s been an explosive hit for consumers, and a real factor for improving energy efficiency,” said Oleksiy Orzhel, head of Better Regulation Delivery Office’s energy analytics division.

Priorities

Many losses — especially in buildings that were erected during the Soviet or pre-revolutionary eras — come from poorly made windows, as well as decaying centralized heating systems that hemorrhage heat, either from poor insulation or regular pipe bursts and leakages.

Top Ukrainian officials have publicly stated that energy efficiency is a priority for them.

“We consume five times more heat energy than Germany, three times more than Poland and twice as much than neighboring Belarus,” Zubko said in a speech in February. “We Ukrainians have to plan how to drastically reduce the energy costs of the state and Ukrainian

families, and bring them closer to the indicators of the civilized world.”

But these statements are only partly accurate.

A \$3.65 billion loan package offered by the Chinese government and targeted specifically at revamping the country’s energy infrastructure has yet to be approved, years after it was offered, due to infighting in the government.

According to the 2006 State Building Norms of Ukraine, as approved by the Ministry of Regional Development and Construction, buildings in Kyiv’s climate shouldn’t lose more than 82 kilowatts per hour per cubic meter.

But according to Vladimir Sementsov, CEO of EC Service Development company, only 2 percent of homes in Kyiv meet this norm. “Among older homes, heat losses can reach 200 kilowatts per hour per cubic meter,” he told the Kyiv Post. “Many developers do not follow legal norms.”

Do it yourself?

Some Ukrainians have taken the situation into their own hands. That does not include modifying the centralized heating system in one’s apartment to create one’s own. Although there are rumors that some Kyivans do find ways to pull that off, the practice is illegal.

“If they don’t want to sign an agreement with us, that’s their right,” said Kyivenergo spokeswoman Tetyana

Orlenko. “But one can’t remove oneself from centralized heating.”

The situation has a few exceptions. Some old buildings in Lviv and Odesa were never hooked up to the central heating network, leaving their residents to install their own individual heating networks.

New developments allow this option to an extent, said Aleksandr Skubchenko, head of Ukraine’s residential union.

“It’s possible to create an individual heating point,” Skubchenko said. “But there’s a lot of bureaucracy — you need approval from the whole apartment building to do it legally.”

There is also the option of installing an individual meter, Skubchenko said, which allows residents to regulate the amount of heating they receive.

“There are state programs for this, but they are unfortunately not very widespread,” he said.

New developments

Some developers of new buildings have made installing thicker windows and modern heating systems a priority.

Orzhel said that new buildings are generally better, and many of them offer residents the ability to control their own property’s heating via individual heating points.

“But there’s a certain conflict of interests here,” he added, saying that since the consumer does not control the amount that is delivered — only the amount that is used — he can still be overcharged while energy is still lost.

He added that long-term investment would be needed to rectify the problem. “Energy efficiency requires long-term and cheap money,” he said.

One proposal would be to



require households receiving subsidies on energy tariffs to invest the part of the subsidy that exceeds the amount paid during the heating season into energy efficiency improvements like thicker windows or insulated walls.

But Orzhel doubted that the government would act, given the early start to the election season. Ukraine’s presidential and parliamentary elections are scheduled for 2019, but politicians are already jockeying for favor.

“We are hostages to the political situation,” he said. ■

Kyivenergo repairs cracked pipes covered in rust near Velyka Vasylkivska Street on Oct. 31. The process has been ongoing for two weeks as the pipes remain uncovered. (Pavlo Podufalov)



With winter approaching, central heating was still off in some buildings in Kyiv. The main supplier of heating and electricity in Kyiv is Kyivenergo, part of DTEK, an energy holding owned by Ukraine’s richest oligarch Rinat Akhmetov. According to the company, Kyiv consumers failed to pay more than Hr. 2.6 billion (\$96 million) in heating and hot water bills.

Soviet-style residential complexes: Same on outside, different inside





A view of Kyiv's Khreshchatyk Street, which has many buildings constructed in the Stalinist Empire style of the late 1930s–1950s. (Volodymyr Petrov)

By Mariya Kapinos
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Most of the buildings constructed in Kyiv during the 20th century, 70 years of which were the Soviet period, have a similar look – grey and gloomy.

The center of the city, however, boasts buildings from both sides of the Soviet era – pre-revolutionary neoclassical apartment blocks, many dating back to the 19th century, and post-Soviet multi-story residential and business constructions.

Nevertheless, the bulk of Kyiv's housing stock still dates from the times of Soviet leaders Josef Stalin, Nikita Khrushchev and Leonid Brezhnev. Their architectural styles reflect the standards, styles and policies of that long-dead empire.



A woman enters an old Soviet building on Khreshchatyk Street, built in the Stalinist Empire style in the late 1930s-1955, with a Soviet emblem on the front door, on April 23, 2015. (Volodymyr Petrov)

Constructivism, post-constructivism

Kyiv's first Soviet-era architecture style was constructivist, which started to appear on the capital's streets in the 1920s and lasted until the early 1930s. This new school of architecture challenged traditional design aesthetics and ideas, rejecting conventional ornamentation for strict geometrics and new building materials. Many buildings were often stark, experimental, sometimes pompous but rarely emotional, as the Soviet Union tried to establish a new style that was dissimilar to Russian imperialistic architecture.

Since Kharkiv was Ukraine's capital during the 1919

– 1934 period, Kyiv's real estate did not develop as rapidly the eastern city did during this time.

The most notable of the constructivist buildings in Ukraine thus appeared in Kharkiv, creating a similar architectural vibe as in Minsk and Moscow. That is not to say that Kyiv was completely overlooked - its Central Railway Station, the TsUM department store, and the Doctor's House on 17/2 Velyka Zhytomyrska St. were all built in the constructivist style.

Constructivism, however, was replaced by post-constructivism in 1932, which lasted until the beginning of World War II.

Postconstructivism brought back to buildings decorative elements, such as paintings on facades - an architectural element common during the Russian Empire. Most post-constructivist buildings are residential, like the one on 30 Peremohy Ave., which was built in 1934. These buildings often had facades that were decorated with murals depicting the Soviet proletariat at work.

Historian Semen Shyrochyn says that during the 1930s there were two types of Soviet architects: the young generation, familiar only with constructivism, and the older generation of experts who vividly remembered the Russian Empire and its architectural preferences.

Kyiv real estate, by the numbers (2016, early 2017 estimates)

Office: 1.8 million square meters

Retail: 1.2 million square meters

Hotels: 110 hotels.

Residential: 1.1 million apartments, 65 million square feet; 22.6 square meters per resident' average price per square meter in February was \$879 for a new apartment; average price of used apartment in Kyiv was \$35,566 in 2016.

297,300 – 1 room (26.7 percent)

442,800 – 2 room (39.8 percent)

311,100 – 3 room (28.1 percent)

49,900 – 4 room and more (4.5 percent)

Sources: Ukrainian Trade Guild, Cushman & Wakefield, CBRE, Colliers International Ukraine

Post-constructivism thus provided a rare case in history when the older generation felt much more comfortable working in the new style, Shyrochyn says. Unlike constructivism, the new style minimized the use of steel and cement, and returned to more primitive masonry with wooden floors and partitions.

But the adjustments required careful attention from architects as they decided how to balance the new style: it was not uncommon for architects to be jailed if they indulged in an excessive amount of decoration, as the Soviet government tried to gradually erase architectural leftovers from the Russian Empire.

“It was hard to guess the level of changes,” Shyrochyn says. “Architects wondered if they should add more asymmetric facades, or copy classical architecture.”

Stalin era

A murderous dictator he was, but nonetheless, Ukraine’s Soviet-style architectural aesthetics saw progress. The Stalinist style, also referred to as socialist classicism, is a term given to the Soviet architecture period between the late 1930s and 1955.

The Stalin era brought back to life classical architecture, with its high-columned entrances, large, solemn buildings and new construction materials such as metal, ceramics and mosaic facades.

Shyrochyn said the higher quality of these buildings was Stalin’s expression of power.

“Stalin aspired to express the greatness of Soviet cities through architecture,” Shyrochyn says. Buildings had to be comfortable on the inside and breathtaking on the outside.

Stalin-inspired buildings are often nicknamed “Stalinkas.” Their spacious rooms, big bathrooms, high ceilings and parquet floors mean they are still considered desirable properties.

After Stalin’s death, however, the architecture changed again and cheap, easy-to-build housing became the new norm.

Cheap, easy, simple

In 1955 Soviet leader Nikita Khrushchev ordered the elimination of anything that was considered to be “excessive” in engineering and construction. This resulted in cheaper and simpler Soviet buildings that were easier to build.

Since 1958, these simple buildings, called Khrushchovkas, started emerging all over Kyiv. The five-story residential buildings had small four-to-six-square-meter kitchens, thin brick walls and tiny rooms. Some typical examples of this style of building can be found on Druzhby Narodiv Boulevard near Druzhby Narodiv metro station, and on Nimanska and Mykhaila Boichuka streets.

Historian Lev Shevchenko says that Khrushchovkas gradually improved.

“Khrushchovkas became more spacious, higher, and with bigger enclosed balconies,” Shevchenko says. Examples of these later Khrushchovkas can be found on Ihoria Shamo

Boulevard and Amvrosiya Buchmy Street.

The era of Soviet leader Leonid Brezhnev, who was in power from 1964 to 1982, saw residential buildings become even simpler, made from prefabricated materials, and higher – in many cases 16 floors or more high. While many of these simple and rapidly constructed buildings were ugly, and of poor quality, by the mid-70s new buildings were being constructed with more than one balcony per apartment. For a time it seemed that the Soviet Union was beginning to tackle its chronic problem of housing shortages.

However, it was at this time that the Soviet Union’s economy entered the era of stagnation – a long period of economic, social and political decline that would eventually put an end to Soviet mass housing projects, an end to Soviet architectural innovation and an end to the Soviet Union itself. ■

A residential building on Peremohy Avenue, built in 1960s and decorated with mosaics showing the state emblem of the Soviet Union, the hammer and sickle. (Volodymyr Petrov)





People explore science-themed installations at the opening of the Science Park in the Park Avenue residential complex on Oct. 5. (Courtesy)

Competition for amenities: Residential complex offers first science park in Ukraine

By **Toma Istomina**
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In the race for customers, Kyiv’s real estate projects offer various amenities — beauty salons, restaurants and fitness centers — but Park Avenue apartment complex has taken such incentives to a whole new level by building a science-based amusement park for its residents.

Aimed at entertaining and educating children, the park consists of various attractions that demonstrate the laws and theories of physics.

Designed by Ukrainian and Israeli engineers, the park is located outdoors in the green area of the complex, entertaining current residents and attracting new ones.

Yaroslav Kolomiets, 35, a businessman who has lived in the complex for more than a year and who plans to buy another apartment there, says that the science park is “an amazing idea.”

“Children should get to understand things by touching them, not just by reading about them in books,” Kolomiets told the Kyiv Post. “It’s much better and clearer when they

experience this knowledge by themselves.”

The building of the park is another step in the complex’s goal to build a “city inside the city” that has its own infrastructure, cultural life and a set of rules, according to its developers.

How it was made

The idea to create a science park first came to Arie Swartz, the CEO of Seven Hills, an international company that built Park Avenue in Kyiv, around a year ago.

A native of Israel, Swartz was inspired by Madatech, Israel’s National Museum of Science, Technology and Space in Haifa, where 400,000 visitors explore and experience science through play and entertainment every year. For Park Avenue, Swartz wanted to make a smaller version of the museum with free access for residents.

The project involved Israeli and Ukrainian engineers and a local construction company that worked on redesigning

the museum's attractions.

Vladyslav Maksymyak, the head of the sales department at Park Avenue, says that it was painstaking work.

"We couldn't just duplicate their (Israeli) machines and bring them here, because we have a different climate," Maksymyak told the Kyiv Post.

The engineers had to redesign the attractions and use materials that could withstand Ukrainian weather conditions, he said. Despite the exacting work required, "it wasn't difficult because everyone was inspired," Maksymyak says.

The park's attractions demonstrate physical laws and theories. For instance, children can check out Greek mathematician and philosopher Archimedes' famous saying "give me a place to stand, and I shall move the earth." In one attraction, a child can lift a heavy sphere with people sitting inside by standing at the right distance and pulling a lever with a rope.

Another attraction is a swing connected to a pendulum. By swinging on the swing, a child also swings the pendulum, which then continues to move and swings the swing by itself.

All the attractions have explanatory signs beside them with information about the physics principles that it teaches.

The developers were unwilling to reveal the cost of the science park. However, Hila Felz, vice president of marketing at Seven Hills, said that although it wasn't cheap, it was still a financially reasonable outlay.

"We wanted our clients to be satisfied, and if they are satisfied, they buy more apartments, and recommend the project to family and friends," she told the Kyiv Post.

City inside the city

The Park Avenue complex is located in between the Demiiivska and Holiivska metro stations, close to Holiivsky Park. Its first building opened seven years ago, and today it has around 1,000 residents living in three buildings. The project still has two more buildings to be commissioned, but the complex is already operating in full, and all its own infrastructure is up and running.

Their amenities include a kindergarten, a beauty salon, a supermarket, a dentist's office, a notary office and a couple of banks and restaurants, which means residents don't even need to leave the area during the weekend, Maksymyak says.

Apart from that, the complex has a football field, playgrounds and an outside gym for working out. There are also plans to build a fitness center.

"We're always upgrading the project," Maksymyak said.

As a family-oriented complex, Park Avenue has a set of rules that residents agree to follow by signing contracts. They are allowed to carry out renovations only on business days from 9 a.m. to 7 p.m. If an infant is living in the building, its residents have quiet hours from 1 to 3 p.m. during which time they are not allowed to make loud noises.

It is also forbidden to drive and park cars on the neighborhood's territory — there is an underground parking lot. Residents are fined if they violate these rules.

The complex also has strict security. Park Avenue is a closed neighborhood with a restricted access system using keycards, intercoms, cameras, concierges in every building, and a private security service.

"You cannot get in if you don't know where you're going and nobody's waiting for you," Maksymyak said.

Friendly atmosphere

Park Avenue also has its own cultural life, with regular events supported by the management of the complex.

Maksymyak says that they regularly hold a football championship, complete with trophies. Matches are played between different sections of the complex, or between residents and people who work at the complex.

But Maksymyak says that playing football wasn't enough for the residents — they also wanted to watch the big international games. So the complex's managers set up an outside cinema area with a big screen, a sound system, and seating.

The residents watch big football games involving the Ukrainian national team and the country's professional football clubs. They also arrange weekly movie screenings and pick what to watch by voting on Park Avenue's website beforehand.

Apart from that, the neighborhood regularly throws barbecue parties and an annual "Back to School" party in September.

Maksymyak says that such events are a part of the complex's marketing, as residents invite their friends, which brings in more potential customers. However, it also gives residents an opportunity to socialize, he says.

"They gather in groups, get to know each other and exchange contacts"

And Maksymyak stresses that the atmosphere in the complex is very friendly.

"It's like a family," he said. ■

Children play at the Science Park in the Park Avenue residential complex on Oct. 5. (Courtesy)





A view of a residential complex on Kyiv's left bank on May 16. (Oleg Petراسиuk)

Ukraine's property taxes fail to capture home's true value

By Ilya Timchenko
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If there's one tax that Ukraine should increase, it's the property tax.

An estimated 90 percent of Ukraine's population is exempt from paying taxes on their real estate. And those who are required to do so have to pay very little to the government.

Although fairly new to Ukraine, the idea of paying tax on property is hardly a novel concept.

Most developed countries apply such taxes, in significant amounts annually, to boost local government revenues. Property taxes go to finance police, roads, schools and a host of other public services at the municipal and regional levels. The more valuable the property, the higher the amount of property tax assessed.

Vadim Medvedev, a lawyer with Ukrainian law firm Avellum's tax practice, says that Ukraine should not overlook the tax as a way to raise revenues.

"Ukraine definitely has bigger problems... but still this tax is very important, because it is a tool used worldwide to improve local budgets," he said. This tax also "decreases

the wealth gap," Medvedev said, by forcing wealthier citizens in wealthier homes to pay more for government services.

But Ukraine's rich have little to fear from Ukraine's property tax. Introduced only a few years ago, back in 2012, it still only raises a tiny percentage of Ukrainian cities' overall budgets. In Kyiv, for example, the tax contributed less than 1 percent of the city's overall budget in 2016. By contrast, in Fairfax County in the state of Virginia, property taxes accounted for more than 60 percent of local governments' revenue.

Ukraine's tax

In Ukraine, most real estate owners are exempt from the tax. Owners of apartments do not need to pay if they live in apartments that are under 60 square meters; most apartments are this size or smaller. Owners of houses do not need to pay if the property is under 120 square meters in area, as most such homes are.

"The tax started with residential real estate only, and

then it was expanded to other types of real estate, like commercial,” Medvedev said.

Real estate that is exempt from the tax includes production and storage premises, hospitals, agriculture production sites and other industrial sites.

The formula for calculating the tax is also odd, compared to the West, where property is assessed for taxes based on its market value.

In Ukraine, the property tax is up to 1.5 percent of Ukraine’s minimum salary (Hr 3,200). That is then multiplied by the area of the property above the tax-exempt area of 60 square meters for apartments and 120 square meters of housing.

Municipal governments have the power to charge less than the 1.5 percent rate, but not higher — only the central government can increase the capped rate. Over the past three years alone, the cap has jumped back and forth, from 1 percent to 3 percent to the present 1.5 percent.

But it actually makes little difference whether the rate is 1 percent or 3 percent, since the amounts raised are so low. The owner of a 90-square-meter apartment pays less than \$60 per year with a rate of 1.5 percent.

By contrast, in Washington, D.C., the owner of a small 51 square meter apartment with a market value of \$237,000 pays \$1,400 in property taxes each year.

And even if someone in Ukraine owns an apartment larger than 300 square meters or a house larger than 500 square meters, the annual tax will be only an additional Hr 25,000 (less than \$1,000). Lawyers say, however, that in practice, there are very few who can afford such properties.



How property tax works in other countries

Country	Base	Rate
Germany	0.35 percent of the assessed value of the property (a historic value).	0.35 percent of the assessed value of the property (a historic value), multiplied by a municipal factor. The effective tax rate in major cities usually is between 1.5 percent and 3 percent of that historic value.
France	For companies, the fair market value of the property. For individuals, cadastral rental value of the property.	Companies are charged 3 percent. For individuals, local authorities determine the rate.
Poland	Taxable base varies depending on the category of real property: area for land, utility area for buildings and parts thereof, value for fixed installations used in business activities and parts thereof.	Rates are fixed amounts per area unit or percentages in case of fixed business installations. For buildings, the rate of the business space is \$6.22 per square meter. Apartment space is taxed at 21 cents per square meter.
Russia	In most cases, the average book value of fixed assets is taxed. Certain real estate properties are taxed based on their cadastral value (which is close to their market value).	The tax rate for such properties may not exceed 2 percent. Actual tax rates and special rules for determining the taxable base for certain properties are currently set by individual constituent regions. The tax rates are 1.4 percent in 2017.
Spain	Cadastral value for property	Maximum of 1.3 percent of the cadastral value for urban property and up to a maximum of 0.9 percent of the cadastral value for rural property

Source: Avellum law firm, Confederation Fiscale Europeenne, Kyiv Post research.

Value vs. square meters

Ukraine’s universal property tax formula fails to account for regional variations in property value.

Prime property in downtown Kyiv is taxed at the same rate as property in Lviv or Odesa.

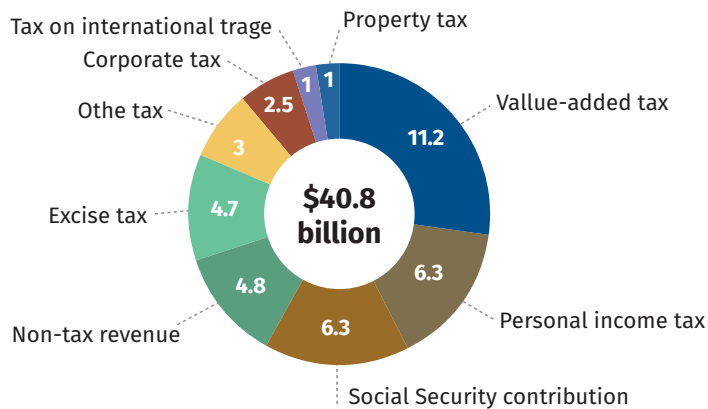
“The area of the building is not the best indicator of how valuable it is,” Medvedev said. In other countries such as France, Germany and the United States, property taxes are based on a property’s market value.

But Roman Drobotkiy, a senior associate at Kyiv’s Asters law firm, says that Ukraine is not

Real estate taxes are a relatively new concept for Ukraine, in effect only since 2012. But such taxes are a major source of government revenue in many Western nations.

Buyers of new apartments in Kyiv appear willing to forget that they live in Kyiv. There are apartment complexes under construction that are named New York, Chicago, San Francisco, Manhattan City and New England, as well as one named after Lviv.

Ukraine's projected revenue in 2017 (\$ billion)



Source: International Monetary Fund

Property taxes are a major source of government revenue in the West, but only 2 percent of Ukraine's tax base. Moreover, Ukraine's government assesses property tax based on size of dwelling rather than on the market value of the property.

ready to switch to a value-based system. The problem? It is practically impossible to value property accurately in Ukraine.

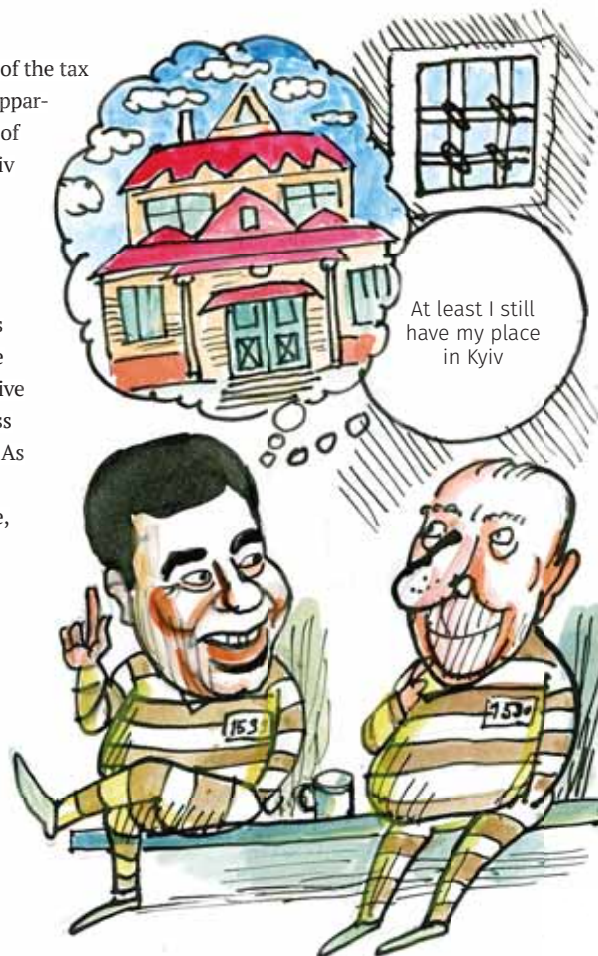
Ukraine doesn't have an "instrument that allows the calculation of a fair market price of a property," he said.

The problem is compounded by the fact that the country's real estate market is distorted, with many properties overvalued. That's because of the weakness of the national currency, the hryvnia, and the public's distrust of banks. People tend to use real estate as bricks-and-mortar piggy banks to protect their savings from devaluation.

Empty buildings

The dysfunctionality of the tax system is even more apparent when the number of empty buildings in Kyiv is taken into account. Because of the minuscule property tax, property owners who use empty apartments as a way to store value have very little incentive to sell for anything less than a goldmine deal. As a result, Kyiv has high demand for real estate, lots of supply, but few buyers because of low wages and overblown prices.

Two sources familiar with the situation told the Kyiv Post that U.S. political adviser Paul Manafort owned property in Kyiv. Manafort, who worked for ex-President Viktor Yanukovich and the former ruling Party of Regions, as well as for U.S. President Donald J. Trump during his campaign in 2016, was indicted on 12 counts related to money laundering in U.S. on Oct. 30.



The system also has loopholes which allow builders to avoid the tax even if they have completed a building — they will not register the building with the tax authorities until the property is sold.

"The tax is applicable to the owner whose real estate is registered in the state register," Drobotkiy said. "So until the property is registered, the tax is not applicable."

Practical solutions

Despite its flaws, Ukraine's property tax system could work, however. Countries like Poland and the Czech Republic also base their property taxes on area, as they too are still struggling to find a real estate valuation system. Their systems are more successful because their tax rates are higher and collection much more efficient.

"The first and most important thing is just to collect the tax we have now properly," Medvedev said. "That would mean bringing Ukraine's real estate register fully up-to-date, as the local authorities are still missing a lot of information."

Drobotkiy agrees. "The problem is not in the taxing, it is in the administration," he said. An electronic system would fix many of the problems, as the tax authorities are still working with hardcopy documents on each property owner.

"The tax authorities are actually physically unable to do this amount of work," Drobotkiy said.

"In fact, in many instances they don't even send a tax notification to people, and people just don't pay this tax."

If taxpayers don't get a property tax bill within three years, they do not have to pay.

Another possible solution is to establish a tax system based on city zones or "regions," Avellum's Medvedev said. For example, in Kyiv the cadastral or assessed value of a property could be based on the minimum price of a square meter, which is close to \$600. "We could easily tax all properties on this cadastral value, and then the tax would be significantly higher," Medvedev said.

Another option is to simply increase the tax or decrease the tax exemption figure to make the tax-exempt square meter threshold lower, to 30 or even 20 square meters.

"Then the amount of taxable property will increase significantly," Drobotkiy said. ■

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