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April 2, 2021, Vol. 4, Issue 1



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Editor's Note

Welcome back, Kyiv Post Real Estate!

It's been two years since the Kyiv Post published its last Real Estate magazine. But we are back in business with a comprehensive overview of Ukraine's real estate market, both residential and commercial.

Nobody knew exactly how the property market would change when COVID-19 hit Ukraine on March 3, 2020. Many said that office life would never be the same as people worked from home, and they were right. Others said that people would invest in more spacious homes to make life easier in self-isolation, and they were right. Also, online shopping soared. It's true that the tourism & hospitality industry underwent deep crisis, with hotel occupancy rates in 2020 sinking to 23%, perhaps a record low.

But even now, offices are leased in healthy quantities. Shopping malls keep generating profits, despite three extended lockdowns. Warehouses are seeing insatiable demand. Most hotels are hanging on for better times.

The residential sector saw record numbers of mortgages taken out in 2020, as interest rates dipped to 14% and as low as 10%, a bargain compared to 20.6% in 2019.

Developers keep building. People keep buying. Businesses keep selling. In our fifth Real Estate edition, we look at how all of this is happening in a nation that suffered recession and that still battles a Russian invader and the coronavirus.

All of our contacts are available online at <http://www.kyivpost.com/contacts/>

KyivPost

**REAL
ESTATE**
Commercial and Residential

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Cover: Even in a nation that suffered recession in 2020, people need homes, offices, shopping centers and more.



The Pozniaky residential area is popular among those looking to buy an apartment. More Ukrainians borrowed money to buy property in 2020, as mortgage rates decreased from 20.6% in 2019 to 14%. (Oleg Petراسиuk)

With relatively low interest rates, more Ukrainians can borrow for homes

By **Liza Semko**
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Accountant Olga Didkevich, 36, took a mortgage to buy a 1-room apartment near the Lisova metro station in Kyiv last year. Now, instead of paying \$200 in rent every month, she pays \$260 in mortgage payments.

Despite paying more and being committed to a 20-year loan, Didkevich is happy she's finally the boss of her own 31-square-meter apartment.

Just like Didkevich, many Ukrainians got mortgages

last year, borrowing a total of Hr 3.8 billion (\$137 million) from banks — 36% more than in 2019. Experts say such a huge spike happened due to a sharp decrease in mortgage rates — from 20.6% in 2019 to 14% today.

"If the rates don't go up much, more and more Ukrainians will get mortgages," said Olesia Verchenko, vice president at the Kyiv School of Economics.

The number of mortgages is still low, however: only 5% of agreements on the purchase of real estate are financed

with them. Experts say the high rates are still the main reason and once the rates are affordable, more young families will try to own a least a tiny flat.

Standard options

Ukrainian officials had been promising mortgages at lower rates for a long time until, last year, the government decreased the central bank's key policy rate from 16% in 2019 to 6% in 2020, making possible mortgages at a 10% rate.

But there's a problem: Very few are eligible to get a loan at such a favorable rate.

PrivatBank, Ukrgasbank, Oschadbank, Pravex Bank and Kredobank — the only banks that work with this program — give 10% loans only to longstanding clients or particular categories of the population; some offer low-rate mortgages only for a short period of time. Each bank has its own rules.

"If the rates don't go up much, more and more Ukrainians will get mortgages"

— Olesia Verchenko, vice president at the Kyiv School of Economics.

State-owned bank Oschadbank, for instance, gives 10%-rate mortgages to civil servants and medical staff. Or it offers them an 8% rate for six months, after which, it increases to 13.5%.

And since the banks are so selective, most of Ukrainians have got to take loans at standard rates, 14%–17% rates.

Didkevich got one of such standard mortgages for her \$27,000 apartment, at a 14% fixed rate, from Oschadbank.

Her other option was to take a mortgage at a variable rate — a standard offer by local banks. This rate is based on two things: a bank's fixed rate and the Ukrainian Index of Retail Deposit Rates (calculated every day and dependent on Ukraine's deposit rates). For reference, PrivatBank's variable rate in on a particular day in February was 12.4%

Verchenko thinks that although it's possible to save money by paying off interest based on a variable rate, taking out such mortgages can still be risky.

"If the (the NBU's key policy rate) goes down," she said, "you have a chance to lower your mortgage payment. But if it goes up, then mortgage installments will increase too."

Lower rates

In 2021, some Ukrainians will have an opportunity to receive mortgages at even lower rates.

Initiated by President Volodymyr Zelensky, the government issued a decree on Jan. 27 on affordable mortgages at a fixed 7% rate. It will allow banks to give out nearly 5,000 mortgages worth \$180 million this year, according to Finance Minister Sergii Marchenko.

On paper, people will still be taking mortgage loans at a 12–15% rate but will pay only 7%. The government will cover the rest to the banks through the state-owned Entrepreneurship Development Fund. The

GENERAL RECOMMENDATIONS FOR MAKING A DECISION ON ACQUISITION OF A LAND PLOT FOR COMMERCIAL BUILDINGS



Alexander Burtovoy
Partner of
Antika Law Firm

The decision to acquire a land plot for commercial real estate is quite difficult for a potential investor. Just like every business project, choosing the right land plot comes with risks that one must not only identify and predict, but also carefully analyze and try to find an opportunity to eliminate or at least minimize them. The main risks for the developer are the possibilities of losing a land plot title, as well as the impossibility of implementing the construction project. In this regard, before acquisition of a land plot, its legal due diligence should be carried out, the scope of which always depends on the goals and objectives of the investor.

Initially, the choice for the acquisition a specific land plot is based on the analysis of various documents and information to comprehensively assess the existing legal title. Within the framework of this important part of the audit, one must focus on the study of a land plot's title documents, constituent documents (in the case of the sale of a land plot by a legal entity), documents on the land plot's management, as well as information from public registers (State Land Cadastre, Public Cadastral Map, State Register of Proprietary Rights to Immovable Property, Unified State Register of Court Decisions).

A comprehensive study of these documents and information from the registers will allow the investor to conclude on the compliance with the legislative procedure for the land plot development, whether a seller has legally acquired a land plot's title in the context of its entire legal history, as well as the seller's authority to alienate the land plot. Also the investor can understand whether there is a presence or absence of encumbrances and (or) restrictions on rights to a land plot, and whether it is permitted for its use for commercial development. At the same time, the opportunity for litigation in relation to a land plot is also assessed, in particular, the previous owner's ability to reclaim a land plot by, challenging the sale and purchase agreement, appealing the decisions of the authorized state authorities and local authorities on transferring land ownership, etc.

In accordance with Part 3 of Art. 375 of the Civil Code of Ukraine, the owner exercises the right to build, subject to the observance of architectural, construction, sanitary, environmental and other rules and regulations, as well as the use of the land plot for its intended purpose. The need to maintain the limits on its designated use is also mentioned in Part 2 of Art. 24 of the Law of Ukraine "On Regulation of Urban Planning Activities". In the case of the construction of a real estate object on a land plot, that is not allotted for this purpose, there is a risk that this construction will be found unauthorized, as a result of which the developer will not have ownership rights, and the object itself may be forcibly demolished at the expense of the developer. In this regard, it is important to resolve the issue of compliance between designated use of a land plot and planned use of the construction object in the first stages of due diligence.

After studying of the documents for the presence of risks regarding the possible loss of the legal title, it is advisable to carefully analyze the investor's prospects to achieve their main goal - the construction of a commercial real estate object. At this stage of the audit, one should focus on studying the existing town planning documentation, the content of which must be consistent with designated use of a land plot. In such a way, in accordance with Art. 39 of the Land Code of Ukraine, the use of residential and public buildings is carried out in accordance with the general plan of the settlement, other urban planning documentation, land management plan in compliance with construction rules. At the same time, Part 4 of Art. 24 of the Law of Ukraine "On Regulation of Urban Planning Activities", it is prohibited to change the designated use of a land plot that does not correspond to the zoning plan of the territory and/or the detailed plan of the territory. The Supreme Court confirmed the illegality of local self-government bodies' decisions to grant permission to develop a management project for a land plot's designated use in the event of a discrepancy between the designated use and the requirements of general urban planning scheme (Resolution of the Supreme Court of August 14, 2020 in case No. 809/1602/16).

The Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Land Use Planning" dated 17.06.2020 will come into force on July 24, which is supposed to overcome the contradictions between designated use and functional use of a land plot. The Cabinet of Ministers of Ukraine must approve the classifier of the types of designated use of a land plot, types of functional use of territories and the relationship between them, as well as the rules for its application with the definition of categories of a land plot and types of designated use of a land plot that can be provided within the relevant functional zone. In addition, the procedure for changing the use of a land plot is simplified. Such changes are positive signals from the legislator for potential tenant builders. We hope that the new legislative provisions will be effectively implemented.

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fund has allocated nearly \$11 million for this purpose for 2021.

At the same time, experts raise concerns that if the government doesn't budget this program in 2022, it will collapse, leaving many paying more than they were promised.

"Parliament is unpredictable, and this (program) may be lost during the budget consideration. This is, of course, a risk," said Mykhaylo Demkiv, financial analyst at Investment Capital Ukraine.

But Demkiv also thinks that if this program does have success among people, the government won't be able to neglect it.

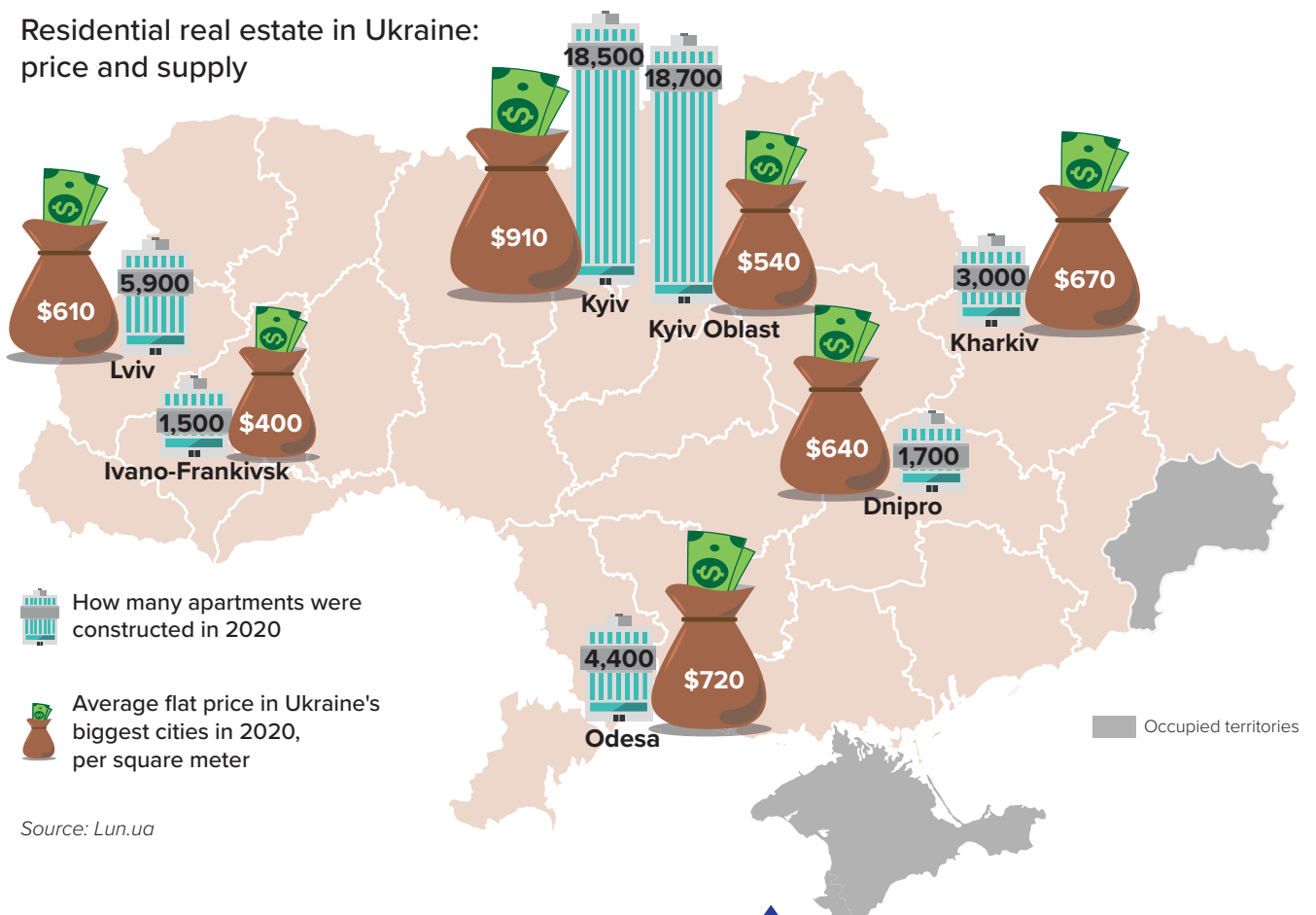
As with the 10% mortgages, there are great limitations to who can take out a mortgage like this, however.

According to the program, borrowers can get a 20-year mortgage at a 7% rate for property that's not older than three years old and not more expensive than \$90,000. The maximum possible mortgage is \$72,000 and the minimum down payment must equal at least 15% of the property's price.



The vast majority of Ukrainians selling apartments ask for the money in cash — often in dollars — because they don't trust banks and, well, there are certain tax advantages in unreported income. The situation can reach absurd levels for apartments apartments costing \$100,000 or more.

Residential real estate in Ukraine: price and supply



Source: Lun.ua

SURPRISES DURING REAL ESTATE PURCHASE



Max Lebedev
Partner at GOLAW

Like other industries, real estate was not immune to the impacts of COVID-19. At the same time, interest in industrial property has seen continued growth from professional and private investors, mostly referred to entire property complexes such as grain elevators, plants, factories, office centers as well as distressed assets. Recent privatization reform business deregulation, and opening of the land market unlocked new opportunities.

Due to the rise in the number of transactions, we can also see that businesses often make the same mistakes by chasing interesting objects, which may cost a lot and in certain circumstances lead to loss of the investment.



Oleksandr Melnyk
Associate at GOLAW

During due diligence, the history of the asset's ownership to some extent can become Pandora's Box. For instance, if an asset was acquired by a seller within the privatization procedure, the sale and purchase agreement probably contained additional limitations, such as an intended purpose for the use of the asset or similar conditions. Using the asset for unauthorized purposes, carries a big risk of losing the asset. A buyer may not be aware

of this, as it's not publicly available information and from first glance, the asset may look crystal clear.

Also, the asset may have several owners, meaning the sale needs their consent. This information is contained in one tiny line of an excerpt from a state registry. Another common surprising issue is absence of legal grounds for use or ownership title to the land under the asset, which may affect legitimacy of the deal and raise tax risks.

Absence of encumbrances stitched to the asset still requires checks for disputes and any criminal proceedings against the seller, its affiliates and the asset itself. Arrests imposed on the asset within the scope of criminal proceeding are much harder to cancel.

During technical due diligence of integral property complex it is highly important to thoroughly determine all the elements of such a complex (equipment, machinery, product lines, work stations etc.), unless the investor wants to purchase only the building. It is essential to determine which parts are integral, which are considered separate movable property and who owns it. Unfortunately, it is not always clearly stated in ownership documents.

In addition, acquiring ownership of the assets in the form of the entire property complex (office center, manufacturing plant, grain elevator, production facility etc.) is deemed concentration, which may require prior consent from the Antimonopoly Committee of Ukraine. For example, the privatization of Dnipro Hotel, as well as the purchase of ethanol production facilities of UKRSPiRIT by Nemiroff required respective prior approval. Ignorance of this requirement may surprisingly cost up to 5% of the annual income of the buyer's business group.

Another important issue is the proper structuring of the deal, which depends on different factors: parties to the deal, tax implications, financing of the purchase by third parties, condition or type of a target asset etc. In case the purchase is financed by a bank or another creditor, it is essential to confirm the deal structure with the financiers first.

When choosing between direct or indirect purchase, it should be noted that although the purchase of the real estate by means of a corporate M&A may provide benefits and the possibility to conduct the transaction under foreign law, it may create additional risks coming out of international treaties and national tax legislation on tax evasion.

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A borrower must be an internally displaced person, scientist, teacher, lecturer, medical worker or civil servant. Incomes of a borrower and family members mustn't exceed the average monthly salary in the oblast where the new housing is located by more than 10 times. The area of the property cannot exceed 50 square meters if it's a family of one-two people.

And these only basic requirements. The law specifies the rest.

As of March, seven banks joined the program: state-owned UkrGasbank, PrivatBank and Oschadbank, as well as private Kredobank, Megabank, OTP Bank, Alliance Bank and Globus Bank.

OTP Bank and UkrGasbank on March 1 already lent the first mortgage loans to two families — the Lapchenkos and Maximyuks. On the same day, a 32-year-old woman from Kharkiv got a 7% loan from Globus Bank.

According to Demkiv, this program can "shake the economy up." Since the program allows to borrow money only for newly constructed flats, Ukrainians may be the ones to build it, moving to Kyiv, Odesa or Lviv for construction work — not to Poland.

"I don't expect that loans at the 1–2% rate are possible, because people aren't ready to bring (money for) deposits at the 0% rate"

— Mykhaylo Demkiv, analyst at Investment Capital Ukraine

"Money will stay in the economy," Demkiv said.

Lev Partskhaladze, president of the Confederation of Ukrainian Builders, supports this statement. According to him, every Hr 1 allocated to the construction, brings Hr 6 more to Ukraine's budget annually; and it gives jobs to people.

Apart from this program, the government plans to start another one, through state Financial Housing Company (UkrFinZhytlo), founded by the Finance Ministry.

UkrFinZhytlo will also be an intermediary between banks and borrowers, but won't be dependent on the country's budget, as it will make money itself through a complicated scheme of shares and securities.

"The borrower won't depend on the state budget money to cover the mortgage interest," UkrFinZhytlo's stated on Facebook.

If all goes well, the program will roll out in the middle of 2021.

Although many Ukrainians are waiting for interest rates that are even lower than 7%, experts say it's hardly possible. The mortgage rate depends on the deposit rate, the discount rate by the NBU and inflation. If these figures rise, the mortgage rate will increase too.

The consumer inflation rate was 5% in 2020, not exceeding the NBU's goal. On March 4, the central bank increased the discount rate from 6% to 6.5%.

"I don't expect now that loans at the 1–2% rate are possible, because people aren't ready to bring (money for) deposits at the 0% rate," Demkiv says.

Anyway, Ukrainians will likely take out more mortgages, even at the 7% rate, but according to Demkiv, "it depends on whether (Ukraine) can keep inflation." ■



A passerby walks past Ocean Plaza, one of Kyiv's largest shopping malls with over 70,000 square meters of leasable area dedicated to international brands including Zara, Marks & Spencer, Adidas and Lacoste. Malls keep generating profit for their owners despite the pandemic. (Volodymyr Petrov)

Developers keep building malls despite coronavirus, rise in online shopping

By Alexander Query
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Malls keep popping up in Ukraine although quarantine restrictions and the growth of online shopping continue to hit the brick-and-mortar retail sector hard.

Since the beginning of the quarantine, online shopping has grown by 26% while, during the current three-week

coronavirus lockdown ending April 10, Ukraine's shopping malls are mostly empty – with only food stores, banks and pet stores allowed to operate.

In November-December alone, when Ukraine introduced a so-called weekend lockdown for three weeks, shopping centers lost \$250 million in rent and other fees and 40% of

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revenues, according to the Ukrainian Council of Shopping Centers.

Yet developers still see pent-up demand and keep building across the country. By the end of 2022, Ukrainians will see 20 new malls with over 1.8 million square meters of leasable area.

Today Ukraine has 268 malls. Most of them are based in Kyiv, including Lavina Mall, Epicenter K and Ocean Plaza.

At a rate of \$20-\$25 a month per square meter, calculation shows that Ocean Plaza — one of the capital’s biggest shopping malls with over 70,000 square meters of the gross leasable area — can generate at least \$1.75 million a month.

In 2019, the total leasable area of shopping malls accounted for 3.2 million square meters in the country, according to retail management firm Shen. The biggest malls provide shopping areas for global brands like H&M, Zara and IKEA.

And they are profitable.

Investor and retail tycoon Vagif Aliyev earned \$61 million in 2020 from Ocean Mall, Mandarin Plaza, Lavina Mall and Blockbuster Mall combined, according to Forbes Ukraine.

Viktor Polishchuk, the owner of the Gulliver shopping mall located in central Kyiv, made \$70 million in 2020.

Attendance decrease, sales increase

Customers increasingly buy in malls despite repeated lockdowns. They also tend to spend more money in malls — \$620 in four visits per month in 2020 compared to \$488 in 2019.

The sales turnover in Ukrainian shopping malls amounted to almost \$36 million in September 2020 — an increase of 8.9% compared to the previous year, according to the Ukrainian Trade Guild.

Still, compared to 2019, when Kyiv’s Gulliver and Ocean Plaza alone had collectively 40 million visitors, attendance at shopping malls decreased on average by 26.5% in 2020, according to the Watcom analysts and NAI Ukraine.

Daria Zavadskaya, commercial director of Ocean Plaza, said fewer people went shopping in 2020 because of mass layoffs, low incomes and rising unemployment. “We are seeing a sharp decline in consumer happiness which makes it difficult for buyers to return to shopping malls,” Zavadskaya told the Kyiv Post.

As a result, rent payments for retailers went down by 10–20% in shopping malls such as Dreamtown, a mall in Kyiv’s district Obolon, Roman Yemets, the mall’s CEO told the Kyiv Post.

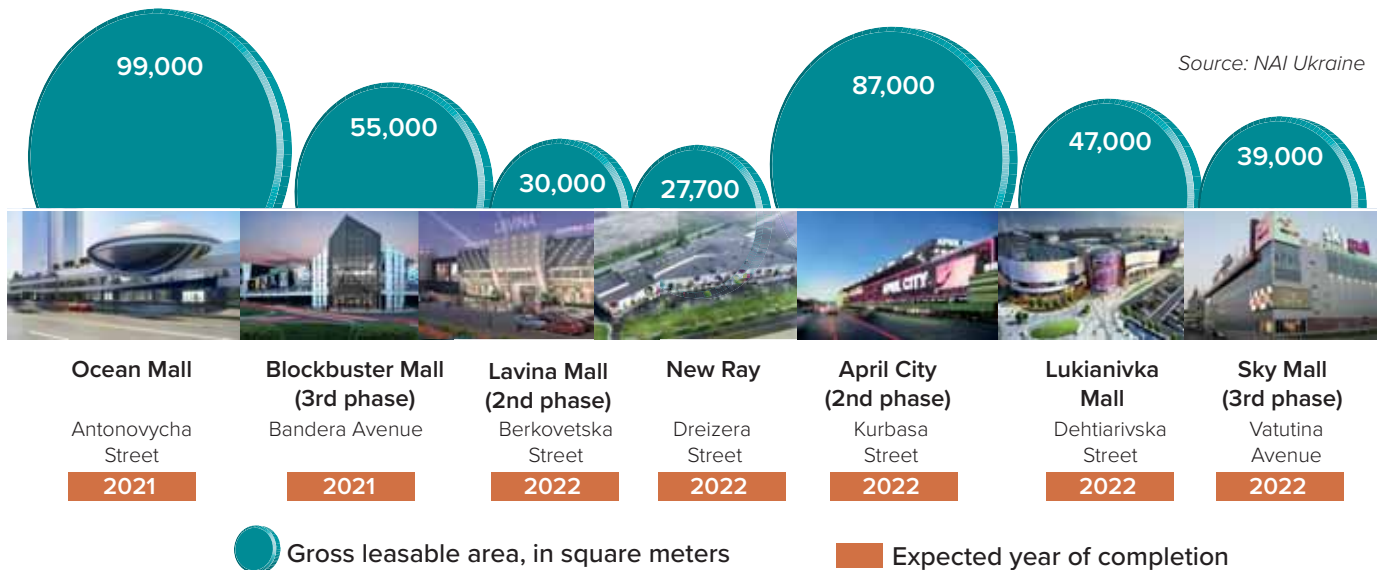
However, he believes the mall will soon increase rent. “It’s rather a short-term crisis than a not a long-term situation,” Yemets said.

While large malls have not experienced a significant outflow of visitors, local malls are facing much worse quarantine challenges, because they are usually smaller and have fewer revenue sources like cinemas, indoor water parks, gyms.

Overall, the entertainment sector in malls suffered the most from quarantine restrictions, forbidding people to gather in large numbers in cinemas and bowling alleys. “This sector altogether with restaurants has been damaged by COVID-19 even more than fashion retailers,” Yemets said.

Still, Zavadskaya remained optimistic for 2021, because such a situation is challenging shopping malls to adapt to their customers and therefore improve. “We understand that consumer preferences will change, but we are ready to adapt,” she said. ■

Malls under construction — top 7 projects in Kyiv in 2021-2022





The Parus Business Center in Kyiv on April 22, 2020. The vacancy rate in Kyiv doubled to 11% in 2020 as many companies switched to remote work during the pandemic. (Kostyantyn Chernichkin)

Pandemic forces tenants to look for flexible office space as IT drives demand

By Natalia Datskevych
datskevych@kyivpost.com

Several lockdowns and quarantine measures have pushed many companies to switch to remote work or move to smaller offices to save money.

As a result, the vacancy rate in Kyiv, Ukraine's busiest city, doubled to 11% by the end of 2020. This is a record high figure since 2014 when almost one-fifth of offices were empty.

"The number of relocations is amazing," said Andrii Todorov, lease manager at the Illinskyi business center.

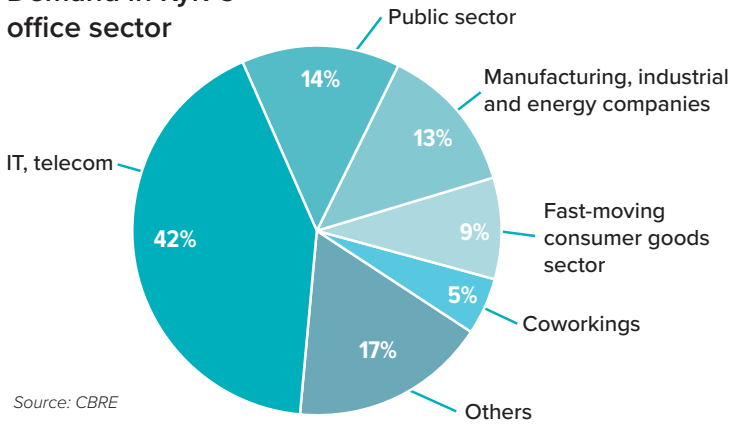
In Lviv, the busiest city in western Ukraine, the situation was even more dramatic — the office vacancy rate soared from 2% to 25%.

On the other hand, with lower demand, rental prices go down. Kyiv's premium class offices, offering top-of-the-line spaces and amenities, reduced rental rates by 15% to \$26 per square meter.

In simpler offices, the price fell by almost 20% and ranged between \$11–19 per square meter, according to Alexander Nosachenko, managing director at Colliers Ukraine, a commercial real estate services company.

"The market took the side of the tenant," said Nosachenko.

Demand in Kyiv's office sector



Source: CBRE

The gross leasing activity in 2020 — also known as take-up — exceeded 125,000 square meters. The information technology sector is driving new demand, accounting for 42%. Kyiv has about 2.1 square meters of office space.

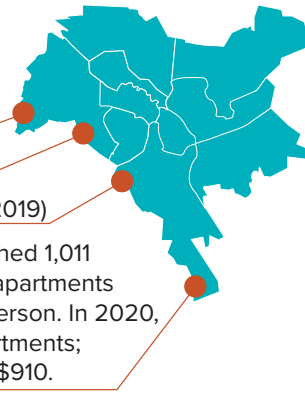
Kyiv real estate, by the numbers

Office: 2.02 million square meters

Retail: 1.6 million square meters

Hotels: Around 10,900 rooms (as of 2019)

Residential: Total housing stock reached 1,011 million square meters, or 17.3 million apartments as of 2019; 24.2 square meters per person. In 2020, Kyiv added 18,500 of newly built apartments; average price per square meter was \$910.



Sources: CBRE, Colliers International, State Statistic Service of Ukraine

Overall, by the end of 2020, Kyiv's office market reached 2.02 million square meters, something that Polish capital Warsaw had in 2004.

The largest new business centers in Kyiv include Platforma (19,500 square meters), Avenue 53 (18,500 sqm), Forum Park Tower (11,500 sqm), and M8 (11,000 sqm).

However, due to weaker economic activity and reluctance of developers to enter the office market during the coronavirus crisis, the city added only 125,000 square meters of new spaces — half of what was initially scheduled, according to real estate analyst CBRE Ukraine.

Kyiv will have constructed 160,000 square meters — or about 30 soccer pitches — of new offices by the end of 2021, as forecast by experts from the Cushman & Wakefield real estate consultancy.

Trends and influencers

Over the past three years, the IT industry has been driving the demand in Ukraine's office market.

Growing by 20–30% annually, tech companies occupied nearly half of what was leased in Kyiv in 2020—54,000 square meters, Colliers reported. Tech companies usually rent more than they need to ensure they have enough space when they hire more people.

In 2020, many tech companies switched to remote work or to work-from-anywhere, or desk-sharing format, C&W report said.

As a result, the hot-desking trend, when workspace can be used by different people at different times, as well as increasing sanitary measures in offices were among the most demanded.

“The practice of 2020 has shown that offices are perceived, first of all, as a place of collaboration,” said Nosachenko. “Typical old-style office space will inevitably become obsolete,” CBRE report read.

In 2021, CBRE analysts expect that the market in Kyiv will add 29,000 square meters of flexible space to the market. ■

Warehouses benefit from global pandemic

By Natalia Datskevych
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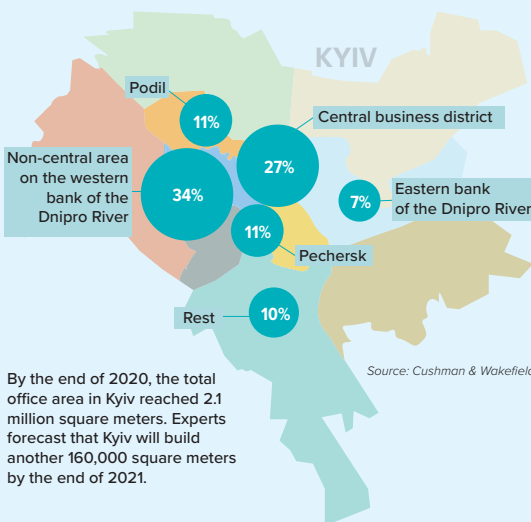
Fueled by online commerce and growing demand for faster delivery, Kyiv's warehouses were demanded as never before in 2020, renting storage areas at prices even higher before the pandemic — up to \$5.5 per square meter.

According to a report by the Cushman & Wakefield real estate consultancy, new supply in Kyiv's logistics property sector exceeded 85,000 square meters in 2020, which is the largest annual new supply for the past six years.

But “still, it is not enough to satisfy existing occupier demand,” the report said.

Overall, the total amount of

Offices across Kyiv's districts in 2020



By the end of 2020, the total office area in Kyiv reached 2.1 million square meters. Experts forecast that Kyiv will build another 160,000 square meters by the end of 2021.

Source: Cushman & Wakefield

warehouse space in the region reached 1.7 million square meters. The vacancy rate remains low — 2% in 2020.

According to Marta Kostyuk, head of the analytics department at C&W in Ukraine, the warehouse segment today is one of the “most promising not only in Ukraine, but also in the world.”

The COVID-19 only accelerated the interest in it. In June, right after the first major lockdown was over in the country, Ukrainian investment firm Dragon Capital bought logistical complex Falbi, which has a total area of 13,800 square meters.

The market is so hot that now half of Dragon Capital's commercial real estate portfolio consists of warehouses.



Vasily Grogol, executive director of the Bursa Hotel in Kyiv, poses for a picture on April 15, 2020. Ukraine's hoteliers have had to shift gears during the pandemic, pivoting their business strategy to the domestic market. (Oleg Petراسиuk)

Ukrainian hoteliers take big hit in 2020, rely on domestic tourists

By Liliane Bivings
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Ukraine's hotel market was one of the hardest hit during the COVID-19 pandemic — hotels across the country reported revenue losses from anywhere between 25–60%.

Hit on two fronts by strict travel restrictions and bans on public events, such as conferences and other business events popular at hotels, occupancy in hotels in Ukraine's major cities plummeted from averages of 35–50% to 20–25%.

During the strictest lockdown in March–May 2020, hotels in Ukraine sat completely empty for two months.

And yet, domestic tourism grew in 2020 as closed borders forced Ukrainians to vacation closer to home, raising revenues at resorts across the country. Urban hoteliers

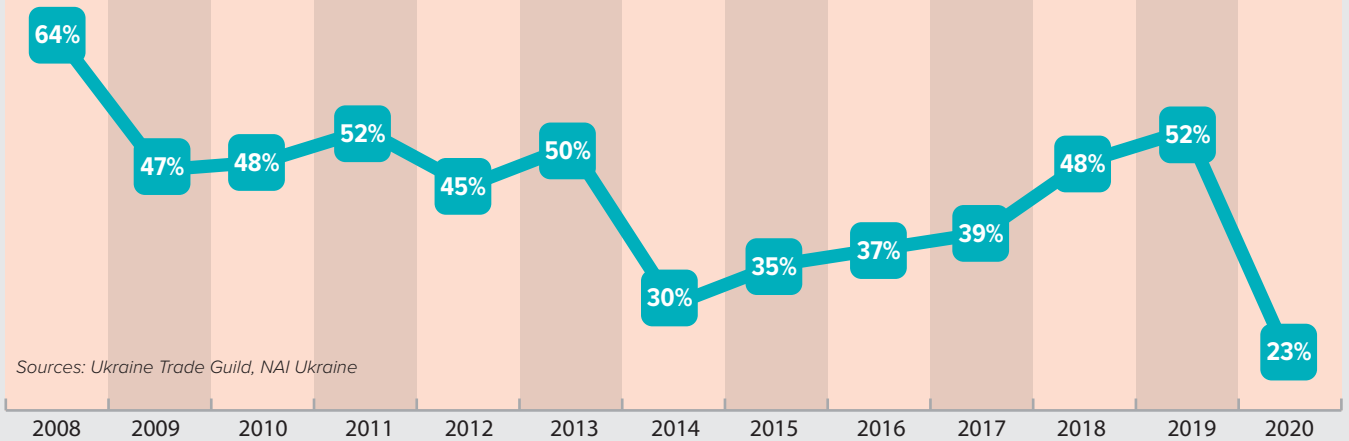
shifted gears and found ways to stay afloat, remaining optimistic for a swift recovery in 2021.

Sergii Kozhukhalov, head of the hospitality department at accountancy firm PKF in Ukraine, says that while occupancy in city hotels, especially in Kyiv, was low over the past year, “demand grew at resort destinations and in the countryside.”

According to geo-analytics of Ukrainian mobile operator Vodafone, domestic tourism at Ukrainian sea resorts grew by 30% in 2020. One small village, Bilosarayska Kosa, about 20 kilometers from the front line city of Mariupol, saw a 177% increase in visitors compared to 2019.

And during the New Year and Christmas holidays Ukrainian resort hotels recorded almost 100% occupancy,

Average hotel occupancy rate in Kyiv



Hit by strict travel restrictions and bans on public events imposed to curb the spread of the coronavirus, occupancy in hotels in Ukraine's major cities plummeted to 23% in 2020.

founder of Ribas Hotels Group Artur Lupashko told Interfax-Ukraine.

The Ukrainian Hotel and Resort Association found that, in 2020, only countryside hotels reported growing revenues. Kozhukhalov noted that this increase in domestic tourism has become an opportunity for new developments.

Vasily Grogol, executive director of Bursa Hotel in Kyiv, told the Kyiv Post in December that due to this shifting demand, he is working on a new hotel complex outside of Kyiv, designed specifically for local travelers.

Urban hotels

While seaside and countryside resorts enjoyed an uptick in demand, urban hotels had to find new ways of adapting to the pandemic.

Artem Prykhodko, general manager of the InterContinental Kyiv, a five-star hotel in central Kyiv, says they were hit badly by the pandemic, with occupancy rates falling to about 25%.

To survive, the hotel had to reduce costs and staff, while still trying to maintain a luxury level of service – something Prykhodko said was hard to do.

The hotel also used the time off to do some repair work and refurbishing, to do some of the “noisier jobs” that are important, but harder to do when the hotel is open.

InterContinental had the full support of capital investment to maintain the quality and keep the hotel “bright and shiny,” Prykhodko said.

Prykhodko remains optimistic about 2021 and says the hotel is already in a recovery phase. Before the most recent lockdown, the hotel had been hiring 10 new employees per week for the last few weeks.

“If you had asked me in April of 2020 how many hotels will survive, I wasn’t sure everyone would make it, but I am happy to see the main players are still on the market,” he said.

The Ukrainian Hotel & Resort Association says that about 70% of hotels it surveyed, mainly mid-market, plan to continue operating.

So-called apart-hotels have also gained momentum over the year. Although technically considered residential real estate, these are serviced apartment complexes that use a hotel-style booking system.

They already represent around 10% of the overall apartment market and are attractive to investors because they are low risk, Kozhukhalov said.

New hotels

According to NAI Ukraine, a commercial real estate brokerage firm, there is no information about the opening of new hotels in 2020.

Kozhukhalov says that many hotels postponed their opening, taking the time to rebuild and rebrand before opening.

And while hotels that managed to survive the pandemic may begin to see some recovery in 2021, Kozhukhalov believes that for new hotels, growth won’t happen until at least 2025.

NAI noted that the law on legalization of gambling could potentially open new horizons for further growth in the hotel industry, as it allows casinos to operate in five-star hotels in tourist areas. ■

Available commercial real estate in Kyiv, in square meters

Source: NAI Ukraine





A section of the luxury Yaroslaviv apartment complex in Kyiv's historic center. A new apartment here costs about \$150,000, but would require major renovation, including walls and flooring. (Kostyantyn Chernichkin)

What can you buy for \$500,000, \$100,000 & \$50,000 in Kyiv?

By **Liliane Bivings**
bivings@kyivpost.com

Ukraine's real estate market outperformed expert predictions in 2020, remaining one of the most stable asset classes in the country even amid the coronavirus pandemic.

Developers and buyers alike are optimistic — prices are expected to rise, while demand for residential real estate will remain high.

And while the COVID-19 pandemic did not destroy Ukraine's real estate market, it contributed to its transformation: buyers and developers alike are trading economy for comfort.

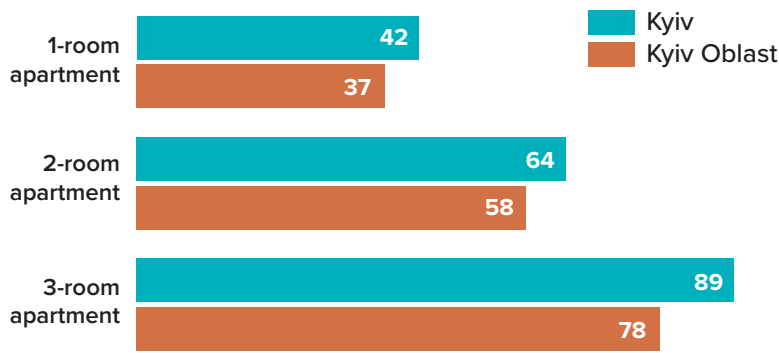
“If you have to spend all day between four walls, you

start paying more attention to the quality of your living space,” says Andrey Mima, cofounder of Lun.ua, an online real estate database.

Meanwhile, real estate prices have been increasing in Ukraine. According to the international real estate agency Knight Frank, real estate prices in Ukraine grew 10.3% year on year. Higher real estate prices, usually, mean better quality housing.

Lora Kim, founder of All Star Kiev Realty, confirmed these trends in Kyiv's real estate market over the past year. She says that luxury offerings have especially risen over the last year.

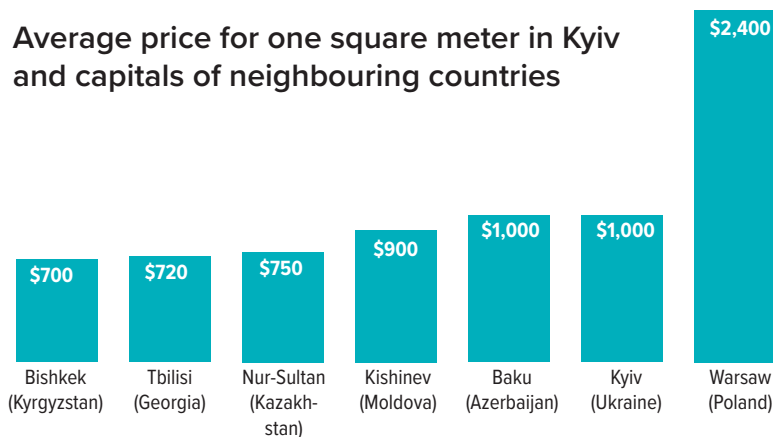
Average size of apartments, in square meters



Source: Lun.ua

Real estate prices in Ukraine grew 10.3% in 2020 year on year. Higher real estate prices, usually, mean better quality housing, experts say.

Average price for one square meter in Kyiv and capitals of neighbouring countries



Source: Lun.ua

Property in Kyiv is nearly two and a half times cheaper than in other European capitals, making local real estate market attractive to foreign investors

Room for growth

Property in Kyiv is currently nearly two and a half times cheaper than in other European capitals, making Kyiv's real estate market very attractive to foreign investors.

And there isn't enough residential real estate in the country. According to estimates by construction firm Kyivmiskbud, there is an average of 20 square meters of living space per person in Ukraine, compared to the European average of 40.

To Andrey Mima, cofounder of Lun.ua, this means that it is necessary to keep building residential real estate and developers will certainly do that to meet demand, which may keep growing as gross domestic product is expected to rise and the overall economic situation is improving.

At the same time, Lada Hudson, real estate agent with Jones East 8 has observed the property market becoming more professional and sophisticated. "If before, renters and owners weren't always the most honest people, the new generation is made up of young businessmen and women with a completely different perspective on how to do business."

\$500,000

With half a million to spend, Kim recommends purchasing a large apartment in a classic building and doing quality renovations. The apartment should be on a good street, with a clean and safe entrance and in close proximity to parks to make it suitable to rent out, Kim says.

Jones East 8 Real Estate has an offering for a two-floor, 170-square-meter three-bedroom apartment in a recently renovated four-story building on Honcharova Street — a historic street in central Kyiv that Tanya Golota of Jones East 8 says is very popular with embassy officials and foreigners.

Golota says that even with \$500,000 her clients can spend up to two years finding a classic apartment in an older building that meets proper standards. So instead, Golota says, people are opting for the new constructions that are being built all over the city.

Within this price range, construction firm KAN Development is offering 100-square-meter, fully renovated two-bedroom apartments on the 20th floor of their Tetris Hall building — a modern, stylish building in the very heart of the Pechersk district. This building has a rooftop pool and is located near some of Kyiv's most popular restaurants.

Kim says it is also possible to find a 150 to 200-square-meter single family home within this price range in the Svyatoshynsky and Solomyansky districts, a bit away from the center, but still within walking distance to the metro.

\$100,000

While a budget of \$100,000 in Kyiv may limit your search slightly, there are still many options in Kyiv within this budget, including in and around the center.

Kim says to purchase something right in the center, it will be a very small apartment requiring major renovations. Quality apartments at this price in the center also sell very quickly, which makes the competition tough within this price range.

And buyers do get lucky. Real estate agent Lada Hudson says, however, that her firm Jones East 8 recently sold a classic, quality two-bedroom apartment in the center for \$100,000 that required only minimal renovations. "The apartment was almost immediately ready to be rented and was listed for \$1,500 per month."

Kim agrees that it's still possible to find a quality residence in the center for that price, but "the buyer might have to follow the market and wait up to a year for something worthwhile to come around."

A little further away from the city center sprawling residential complexes are popping up that offer several amenities and conveniences and are well-suited for small and medium sized families, according to KAN Development.

For example, KAN Development is offering fully renovated, 53-square-meter two-bedroom apartments in the \$100,000 price range in their brand new residential complex, Fayna Town.



Located outside of the city center, but within two kilometers of the metro, these apartments offer a promenade with a bike path, places for recreation and activities, spaces for children, sports facilities, a BBQ area and two outdoor pools.

Alternatively, a 183-square-meter single-family townhouse, located in the Svyatoshynsky district about 30 kilometers away from Kyiv goes for \$100,000. There is a bus stop nearby that will take you directly to the Vydubychi metro station as well as a school, supermarket, mall and an equestrian club and a lake nearby.

\$50,000

While it's practically impossible to find \$50,000 assets in the center of Kyiv anymore, that doesn't mean there aren't opportunities to buy property within that budget. New and older apartments are available for that price away from the city center and in suburbs outside of Kyiv.

For example, a 35-square-meter studio apartment in the Svatoshyn district goes for \$50,000. The apartment is a renovated "Krushovka" located about 10 kilometers from the city center and within walking distance to the metro. The same amount also buys a 40-square-meter one-bedroom apartment in the Obolon district in northern Kyiv close to the Obolon metro and the banks of the Dnipro River.

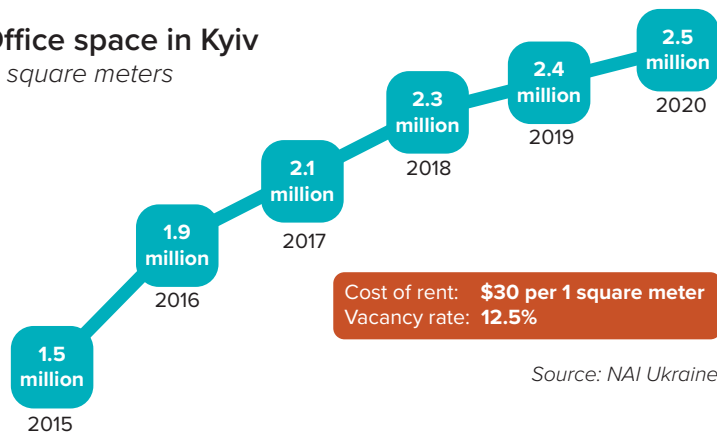
It's not all about the city center these days. Many people are opting for suburbs as they offer quieter, cozier living while still easily accessible to Kyiv.

Hudson from Jones East 8 says a lot of people are moving outside the city these days to places like Irpin, a city located on the Irpin River in Kyiv Oblast, 25 kilometers from the center. It has fully renovated two-bedroom apartments for \$50,000 with nearby parks and forests and access to good schools.

Hudson says she's even noticed many foreigners starting to buy investment properties in suburbs like Irpin and Brovary over the last couple of years. ■

Children play in KAN Development's Fayna Taun apartment complex in Kyiv's Nyvky district, about 10 kilometers outside the city center. Apartment complexes offering several amenities outside the city center have been growing in popularity for locals and foreigners alike. (Volodymyr Petrov)

Office space in Kyiv
in square meters



Source: NAI Ukraine





Oleksii Teriakhin, a real estate consultant and a landlord, smiles as he poses for a picture at one of the housing rentals that he owns on March 4, 2021. (Kostyantyn Chernichkin)

Rental property business in Kyiv keeps money safe but needs capital, effort

By Asami Terajima
asamin.2000@gmail.com

Some say putting money in real estate is a gamble, but most of the world's millionaires grew their wealth this way, claiming that it is the best investment option.

While purchasing a property is a big commitment that requires a lot of time as well as a good starting capital, becoming a landlord and getting into owning rentals has been an attractive option for many Ukrainians.

Approved by Forbes as the top 10 best passive investments for 2021, rental property business usually brings investment back within 12 years, according to Dmytro Sheinert, director of Kyiv-based real estate agency Next Realty.

A number of factors make such an option attractive in Kyiv.

February's average cost of new apartment

buildings in Kyiv was around \$1,160 per square meter, with a 14.7% growth compared to the real estate prices back in February 2020, the first Realtor Group reported.

And while landlords need to advertise vacancies, communicate with tenants, pay utility bills and collect rent, this business still looks like one of the best ways to keep money safe amid economic turbulence in Ukraine.

Promising investments

Oleksii Teriakhin, a real estate consultant who rents properties, says investing in real estate is a long-term commitment but it's still "quite profitable" in Kyiv: tenancy laws are pro-landlord and the tax is low.

Even though those registered in Ukraine's taxation system as physical persons have to pay a tax of 19.5% from their income, one can become a private entrepreneur and pay a simple 5% tax.

Teriakhin said that the current rental yield for his apartment is roughly 10%, meaning he covers 10% of the cost of the apartment by renting it out every year. It is much higher than in other capitals in Europe like Berlin, where the average yield is lower than 3%.

The 32-year-old rents out two central flats: a 30-square-meter apartment that he bought for \$75,000 back in 2010 and a 45-square-meter home purchased in 2019 for \$80,000.

The cost of renovation for the first apartment was \$15,000 and \$22,500 for the second. "That is the only way you can receive good money from rent and good yield," he said. It took him six months to finish renovating the flats.

Teriakhin began renting his properties last February. Since then, he has earned \$8,355 for the \$75,000 apartment and \$5,570 for the \$80,000 apartment.

The rental price for the first apartment is around \$430 and around \$640 for the second one. The average rent price for a one-room flat in Kyiv is \$380.

Now Teriakhin plans to purchase a three-room apartment in downtown Kyiv and divide it into four tiny flats, 12–15 square meters each with their own bathrooms and kitchens, and rent them out.

Teriakhin expects to invest \$110,000 to buy and renovate an apartment like that. The rental yield will be 12 to 15% by offering each for \$1,200 a year.

Rising prices

French estate explorer Ladislav Maurice expects demand for apartments to continue growing and the prices to increase further in the next few years. Even just over the last year, the price for a square meter in Kyiv increased by \$130.

Real estate remains one of the safest and best options for holding money.

Dozens of banks in Ukraine went bankrupt and became insolvent even last year. Ukraine's State Guarantee Fund compensates just about

\$7,000 to a single depositor of a failed bank. Plus, the hryvnia's value fluctuates often.

The author of "The Wandering Investor," a real estate blog for investors looking into investing in countries abroad, Maurice argued that more foreigners will want to purchase assets in Kyiv when they realize that the city has the highest rental yields in Europe and relatively low price per square meter.

"Kyiv makes one of the top three markets in the world for real estate," said Maurice.

Falling demands for rental properties in Kyiv amid the pandemic gave power to tenants. According to Next Realty's real estate specialist Taras Svynar, about half of landlords in Ukraine agreed to reduce the rent. It remains a renter's market, but Svynar doesn't expect that to last long.

Unexpected career

Oksana Matviychuk never planned to start a rental business.

Matviychuk bought the first 94-square-meter apartment in 2001 for \$100,000, and her second 137-square-meter one in 2007 for \$230,000 to keep her money in safety and maybe live there someday.

After a staggering \$120,000 renovation for the first apartment and \$100,000 for the second, she began her career in the property management business and continues to this day from her current place of residence, Austria.

The 47-year-old loves her job: there is always a steady stream of income, even if the rents were reduced due to the pandemic; she is able to meet people from different cultures and have more time for herself.

Matviychuk began renting out the first apartment 19 years ago, and within three years, she earned enough to cover the initial costs of the property. "It was a very profitable business," she said.

The landlord said today it has become more difficult to make money in real estate, and it took 10 years to get a return on the second investment.

There are also the challenges of managing rental properties from abroad. It is "difficult to understand for what and when something happens," Matviychuk told the Kyiv Post.

Nevertheless, the Vienna resident still believes that investing in quality real estate is the safest way to keep her savings since European banks often charge fees to keep an account open and Ukrainian banks are unreliable.

Real estate, on the other hand, will always be there, and in case of an urgent need for a large amount of money, Matviychuk can sell the property and get her money back. Right now, the rental price for the first apartment is \$1,700 a month and the second for \$2,600.

"This business can be passed on to the children," Matviychuk said. "Of course, they will need to learn how to run it, but it's something that anyone can learn fast." ■

Landlords say that, in order to make money on rentals in Kyiv, one needs to be ready to invest in renovation. The figure can be 50–100% of the cost of the apartment, or even more.





Nicholas O’Connell, a U.S. national, speaks with the Kyiv Post on March 2 in his Vagabond Cafe, located in Kyiv’s Podil district, where he also owns a flat. He believes his investment will return quickly as the demand for property in Kyiv keeps growing. (Oleg Petراسиuk)

Ukraine’s affordable housing and quick, easy transactions seduce foreign investors

By Alexander Query
query@kyivpost.com

If you’re a foreigner looking to buy property in Ukraine, now is the time. Compared to most Western countries, houses and apartments are still affordable in Ukraine. In downtown Kyiv, one square meter is worth an average of \$1,000 compared to \$2,000 in Warsaw or \$12,000 in Paris.

Foreigners willing to invest at least \$100,000 and then renovate their new flat can easily find two-room apartments in the center of Kyiv.

Daniel Williams, a 44-year-old retired hedge fund manager who lived in the United States, is one of them. He bought a 94-square-meter apartment in Kyiv and doesn’t regret his choice.

“Before you hear ‘complicated’ and get afraid, consider the massive realtor fees (6%) and flimsy build quality of comparably priced U.S. properties,” Williams told the Kyiv Post.

However, the market is still developing. While the

process of buying property is quick and straightforward, a foreigner should know a few things before buying.

Lawyer up

Williams bought his flat in May 2020 directly from its previous owners and it was as easy as in the U.S., where he used to live, he said.

They agreed on a price, Williams' lawyer drafted the contract and both signed the sale; a notary handled everything from there.

"(It was) all very clean and straightforward," Williams said.

However, there are rules.

The first one is simple yet critical: Always understand what you sign. The contract has to be translated to English or to the foreigner's native language, and a translator has to be there when the buyers sign the contracts, according to the law.

As a Russian speaker, Nicholas O'Connell, a 30-year-old bar owner in Kyiv, didn't have this problem. He found his 63-square-meter flat in the center of the capital for \$50,000 and "signed a contract quickly through an agency."

"The realtor's price was very good and dealing with the owners was easy and nice," O'Connell told the Kyiv Post.

Foreigners have to pay a 2% tax on the purchase and realtor's fees, which can range from 2% to 5%, depending on the agency.

But first they have to get a Ukrainian tax identification number to pay taxes and complete the transaction. This requires going to a tax office with a notarized copy of their passport and asking to be registered as a taxpayer in Ukraine. Many lawyers offer to do this for a few hundred dollars, but it's better to do it in advance because it takes a week or two.

Getting a lawyer is crucial because a lot of property owners can still have claims on the property. The lawyer checks if there's no other property owners such as family members who could cancel the sale or prove in court that they own part of the apartment.

Luis Ow, 23, who works in a financial company and assists Spanish speakers with legal procedures in Kyiv, insisted on that point. "Do not buy property if there's still someone registered there," he told the Kyiv Post, adding that the owner or the agency should provide the proof that

"If you want to live or own property in Ukraine — just do it. You can live for less in an amazing and developing country!"

— Daniel Williams, U.S. expat in Ukraine

the apartment is "free."

The flat has to be precisely documented. If there are errors in the so-called "technical certificate," a document describing the flat changing hands, previous owners can claim a right to the flat and create endless legal problems, Ow said.

Only when everything is cleared and the paperwork is ready, is it time for the transaction.

Transaction

When it comes to signing, the Ukrainian Orthodox tradition stipulates that no business contract can be signed within 40 days after a death in the family, which is why it's crucial to meet the owner first and decide on the date together.

Terms for 10-year 7% mortgage if property costs Hr 1 million

The graphic shows how much borrowers will pay for an apartment if they get a mortgage on a Hr 1 million property at a nominal 7% rate through Ukraine's largest bank PrivatBank.



Hr 1 million

Source: PrivatBank

Minimum downpayment — Hr 250,000

Real property insurance — Hr 5,000 per year

Life insurance — Hr 3,750 per year

One-time fee — Hr 3,750

Pension fund — Hr 10,000

Notary's service — Hr 12,000

Property appraiser's service — Hr 3,500

Monthly instalments — Hr 8,746 per month

Actual mortgage rate
10.34%

If a person takes out a 10-year 7% mortgage, over the years, she will pay an additional Hr 361,000.



American Nicholas O'Connell speaks with the Kyiv Post on March 2 in front of his Vagabond Cafe. O'Connell bought a flat in Kyiv's historical district Podil in October 2020. (Oleg Petراسиuk)



Landlords can spend months doing noisy renovations in their new property before moving in, that's why living in newly built flats can often be inconvenient.

Before the transaction, foreigners have to open a “foreign investment account” in a Ukrainian bank linked to the real estate agency and show the property purchase documents to the bank.

The money from abroad will go to that account and then be transferred to the owner's account. This is done to prevent money laundering through real estate.

The vast majority of Ukrainian owners prefer cash because they don't trust banks. If a foreigner agrees to pay in cash, one should have a notary and a lawyer because there is no guarantee of safety without both.

Yet, there is one occasion where the future buyer might need cash — the so-called “previous contract.” One month before the sale takes place, the buyer signs this document, promising to buy the flat and to pay the agency's fees before an established date.

In exchange for a cash deposit, the agency and the seller promise not to sell the property to anyone else, leaving time for both parties to prepare the paperwork.

This deposit can range between \$1,000 and \$2,000, which is deducted from the final price. If the agency breaks the contract, it has to pay back the deposit.

“Make sure you bring an amount of money big enough to make them hesitate to break the contract,” Ow said.

Renovation

When the sale is done and one gets the keys to a flat, congratulations — the time has come to pour money into renovation.

Prices are more affordable in Kyiv's secondary market because central buildings are often decades old. A buyer's budget should include the future cost of the renovation, O'Connell said.

He expects to put in about \$10,000 while doing the repairs himself, but his property's value will increase when it's done, he said.

“In the summer, I will knock down walls and change my three-bedroom flat into a two-bedroom and open kitchen place,” O'Connell said.

Williams invested more, but chose to renovate his place with the help of a local guy “who worked miracles,” he said. “We have invested around \$30,000 in putting in new floors, a new bathroom and kitchen, completely new tiling in both and all the walls were skimmed and refinished.”

It was worth it, Williams believes.

“If you want to live or own (property) in Ukraine — just do it,” Williams said. “Accept that there will be setbacks and enjoy the fact you can live for less in an amazing and developing country.” ■



American citizen Sean Almeida talks to a colleague in his office on March 3, 2021. Almeida's agency Vestor provides high-end properties to foreign investors in the very heart of Kyiv. (Kostyantyn Chernichkin)

Kyiv can be a safe market for brave investors, CEO of real estate agency says

By Alexander Query
query@kyivpost.com

K yiv's historical district around the Golden Gate became Sean Almeida's golden goose since he set up his agency in Ukraine.

A veteran of the capital's real estate, Almeida, 40, has been running his own real estate agency Vestor Estate for over a year, while living in Kyiv since 2012. The firm operates in a niche market — it provides properties to foreigners who have fallen in love with the charm of Kyiv's old buildings.

But even though buying a historic flat in Kyiv is lucrative — foreign investors can expect double-digit yields in 10 years — Kyiv's real estate suffers from old practices: ubiquitous cash and absurd expectations from sellers distort the prices and slow down the market.

Still, he believes foreigners shouldn't hesitate to invest in Kyiv's historical center. "The market suffers from massive inefficiency, but brave investors can catch quite good yields for that reason," Almeida told the Kyiv Post.

Solid investment

Almeida's agency offers central flats in tsarist, pre-revolution buildings built before 1917 and Stalin-era buildings from the 1920s to 1950s, with thick walls and ceilings up to 4 meters high.

"They might look rundown, but there are solid buildings that just need aesthetic renovation and some investment to increase their value," he said.

Undervalued buildings come with the cost of renovation. New pipes, new electricity networks and ceiling reinforcement can be costly but their charm attracts Europeans and Americans. Expats who rent prefer older buildings because of their atmosphere while foreign investors appreciate their solidity.

Investor closed up to 25 deals in 2020, with 90% of its clients buying apartments to later rent them out to foreigners.

Investors can see up to 11% returns on their real estate investment in less than 10 years in Ukraine. In Prague, the returns would be 3–5% and just 1–3% in Paris, depending on the property.

"We see here higher investment returns than in Western capitals," Almeida said.

It's a promising market for investors because thousands of foreigners want good quality housing, but there are not enough properties in the market for them.

"The supply of nice rental apartments is very low because it's hard to get everything done in time, that's why you see such high rent prices sometimes," he said.

Inefficient market

It is hard to get nice rentals onto the Ukrainian market because everything needs to be double-checked, Almeida said.

Ukraine doesn't have an open data registry where buyers, sellers and real estate agents can check prices according to fixed criteria like the location or the way the property is built. Instead, real estate agencies often have to

investigate and calculate the prices themselves which slows down deals.

"It's difficult to know exactly what the market is," Almeida said, "and data is only as good as what people put in there."

The inputs of the market are skewed and this is linked to the history of Ukraine's real estate, he said. The vast majority of Ukrainian sellers inherited the property from the Soviet Union, when authorities gave properties to their families. They don't know the market prices and put unreasonable price tags, which complicates negotiations with buyers.

"They just want what they want and make up prices sometimes. It can be really difficult," Almeida said.

Such expectations create a price discrepancy between similar properties, even when apartments are in the same building. One seller might be asking \$2,000 while another would ask for \$8,000 — for an apartment of the same area.

Such differences distort the market's data, making the average price higher than it should be, Almeida said.

Ubiquitous cash

The prevalence of cash adds up to the difficulty of setting prices. Local sellers distrust Ukrainian banks and prefer to be paid in cash, which leads to misleading sales.

With a 7.5% tax on the purchase of a property, Ukraine's real estate taxes are already low, but some sellers want to pay even less, reducing the real price and paying part of the property sale in cash under the table.

Such transactions add up to the opacity and inaccuracy of the market in Ukraine, Almeida said.

Meanwhile, banks have to adapt their policy too. Almeida's agency uses bank transfers to close transactions, but it's not a widespread phenomenon because banks tend to be suspicious when large amounts of money are involved.

While making transactions, "we had to explain to banks that such transfers were beneficial to them too. A lot of banks were suspicious at first transferring such amounts of money," he said.

In 2020, banks started allowing dollar-to-dollar transfers within the country as long as one party is not a resident.

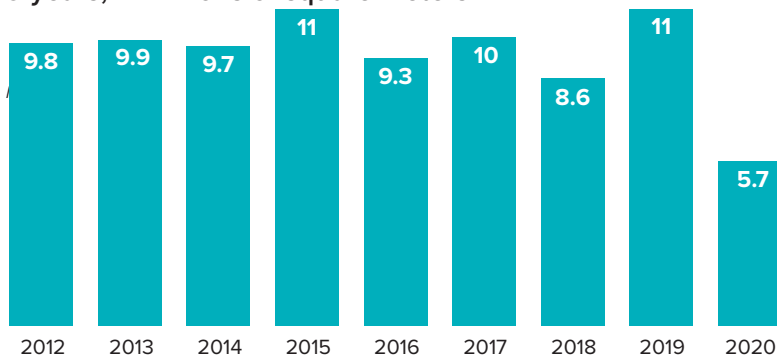
If a foreigner buys a property, they can open a Ukrainian account in dollars that's dedicated to the purchase. They can then transfer the payment to the seller in dollars. This makes life a bit easier by "limiting risks and cutting down the time of a single transaction," Almeida said.

Overall, Almeida is optimistic about the market's evolution, especially concerning corruption. Ukraine's real estate is safer than people think because individual properties are too small to involve any kind of corruption schemes, he said.

"If you're a foreigner and want to buy a real estate property in the center properly, with bank transfers and having a lawyer — don't hesitate," Almeida said. ■

There isn't enough residential real estate in Ukraine. According to estimates by construction firm Kyivmiskbud, there is an average of 20 square meters of living space per person in Ukraine, compared to the European average of 40.

Residential property constructed in Ukraine over 9 years, in millions of square meters



Source: State Statistics Service

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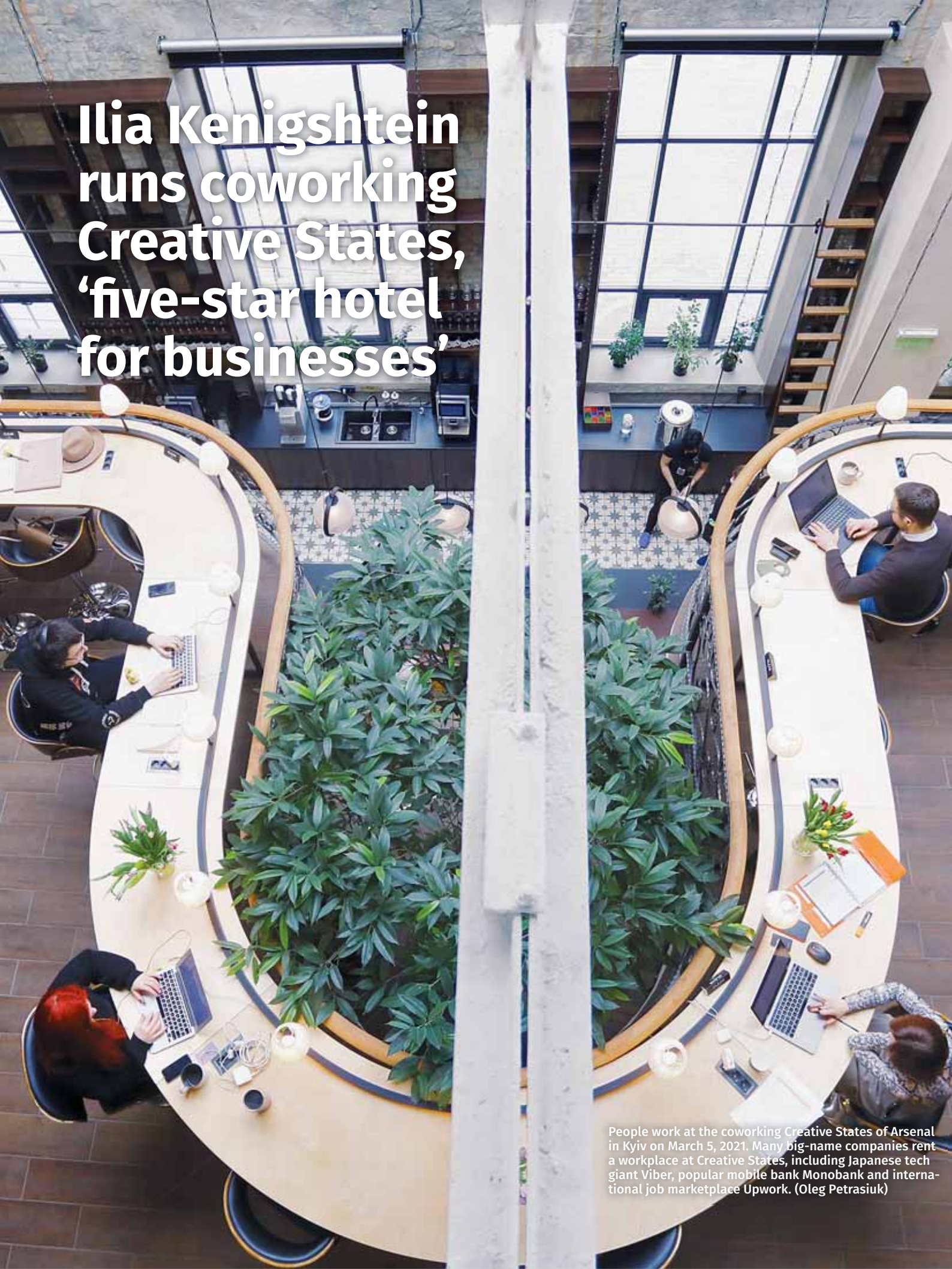
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Ilia Kenigshtein runs coworking Creative States, 'five-star hotel for businesses'



People work at the coworking Creative States of Arsenal in Kyiv on March 5, 2021. Many big-name companies rent a workplace at Creative States, including Japanese tech giant Viber, popular mobile bank Monobank and international job marketplace Upwork. (Oleg Petراسиuk)

By **Daryna Antoniuk**
antoniuk@kyivpost.com

Through his coworking business Creative States, Ukrainian entrepreneur Iliia Kenigshtein, 48, is rethinking the concept of tech-centered spaces that have recently dominated the market.

Instead of glass office cubicles for aspiring techies and young startups, Kenigshtein opened a chain of premium-class coworking spaces in downtown Kyiv for all kinds of businesses that can pay the price.

Kenigshtein's Creative States coworkings look jazzy and posh, reminiscent of America's Great Gatsby era of the late 1920s with their sumptuous colors, lavish ornamentation and Art Deco furniture.

Creative States' style is not just a whim of its founder — it is a strategic move aiming to encourage businesses, including well-established ones, to work there, Kenigshtein said.

Since 2018, when Kenigshtein opened his first coworking in Kyiv's business center Senator, many big-name companies from around the world have become its residents, including Japanese tech giant Viber, popular mobile bank Monobank, the European Business Association and international job marketplace Upwork.

While hanging out in a lobby of a Creative States coworking, one can encounter tech entrepreneurs, chief executives of big enterprises and government officials.

"Everyone is equal here," Kenigshtein said in an interview with the Kyiv Post held at the newly-opened Creative States coworking at the former Arsenal factory in Kyiv on March 5.

Right now, four Creative States coworkings take up 11,000 square meters in Kyiv and Dnipro, a city of almost 1 million people 480 kilometers southeast of Kyiv. Apart from Arsenal, Kenigshtein built offices in Kyiv's elite business centers Senator and Gulliver and business center Kudashevsky in Dnipro.

Creative States is already one of the most expensive and one of the largest coworkings in Kyiv after Belgian

coworking IWG (formerly Regus) that takes up nearly 17,800 square meters and Creative Quarter with 12,700 square meters.

Kenigshtein said that he plans to grow further — to expand his business to the European Union, open two new locations in Kyiv and launch franchises in other Ukrainian cities. In the future, coworkings will replace traditional offices and Creative States will be a part of this revolution, he said.

"My dream is to change the concept of work through the buildings I create"

— Iliia Kenigshtein, founder of coworking business Creative States

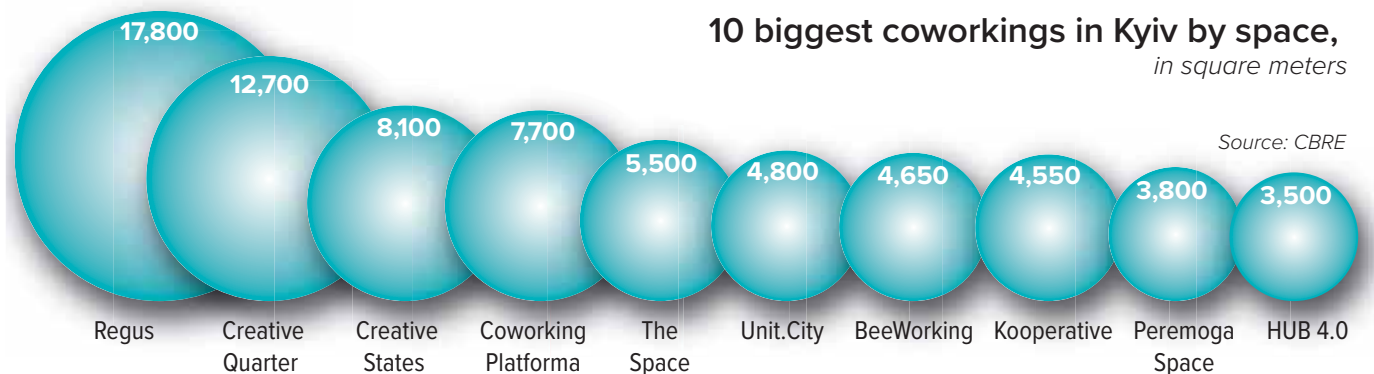
Transforming market

Coworkings are cheaper and more flexible than traditional offices, fueling greater demand.

In 2014, Kyiv had less than 10,000 square meters of coworking spaces, but now it has over 91,000 square meters — nearly 4.5% of all commercial real estate. The same trend is happening in Paris, Amsterdam and Berlin, according to real estate analyst CBRE.

Coworkings provide businesses with cleaning services, internet connections, and kitchen and bathroom amenities — things that typically burden companies that want to open their own offices.

Kenigshtein said that, after moving to Creative States, many chief executives seem to have more free time that they can spend working rather than "serving their offices." In coworkings, businesses only pay for the space they need and can scale the team at their own pace, while in rented offices they are restricted by long-term leases.



Kyiv coworkings offer 91,000 square meters of office space — 4.5% of all the office space in the capital. The largest coworkings are Belgian Regus (works in 11 locations), Creative Quarter (three locations) and Creative States (three locations).



Entrepreneur Ilya Kenigshtein, 48, talks with the Kyiv Post in Kyiv on March 5. Kenigshtein owns three Creative States coworkings in Kyiv and one in Dnipro. (Oleg Petراسиuk)

The pricing in Creative States is higher than in other popular coworkings like Platforma, Kooperative or Hub 4.0. It charges its residents \$430 a month for renting a private office and \$250 for a hot desk.

Kenigshtein said that his price is justified because Creative States has high standards. “We’re like a five-star hotel but for businesses,” he said.

Companies that reside in Creative States seem to like it. “Creative States, to my mind, is a piece of art,” said Oleg Gorokhovskiy, cofounder of neobank Monobank. “I can’t find anything to complain about.”

“It is a place where professionals can meet one another, a place that inspires,” Tatiyana Karelskaya, head of human resources at the European Business Association, said in the association’s promo video about their new office in Creative States.

Having been acclaimed by such successful businesses, Kenigshtein is ready to expand it to Western Europe and the U.S., where he’s sure he can outrun giants like U.S. Knotel or WeWork.

Work with investors

To open a coworking, the company first has to lease the space, renovate it and then rent it out. It is a business model used by nearly all coworkings, including Kenigshtein’s.

But to turn a leased place into a luxurious coworking,

one has to put in a lot of money — up to \$2 million. Kenigshtein needs trusted investors.

To transform Kyiv’s Arsenal factory, for example, Kenigshtein attracted money from tycoon and founder of construction company UDP Vasyi Khmelnytsky and local developer Oleksiy Baranov, who built the shopping mall Smart Plaza in Kyiv. In business center Senator, Kenigshtein works with its owner Oleksandr Spektor and in Gulliver — with the heads of construction company Denza, Eduard Polekhin and Pavlo Podtopta.

All of Kenigshtein’s coworkings are profitable, he said. Even Creative States of Arsenal, which opened in June, broke even during the pandemic.

The company invested up to \$600 per square meter of each coworking in Kyiv, Kenigshtein said, meaning that opening a space in Senator cost the company nearly \$1 million. In Arsenal, it cost over \$2 million.

Kenigshtein said that investors will break even and start seeing returns in three-four years.

At first, landlords were wary of coworkings “inhabited by hippies and techies” but today more business centers jump on the opportunity to open one in their buildings. For them, it’s a good deal. Apart from paying rent, coworkings make these business centers more popular.

Business centers are still the most popular locations for coworkings, according to CBRE. But Kenigshtein said that he likes to invest in separate venues like Arsenal, because it’s easier to reconstruct them.

Kenigshtein wants to launch a franchise and open Creative States branches in other big cities like Kharkiv.

Facing competition

Keeping things under control in Creative States is essential to Kenigshtein because he knows how it feels to be kicked out of his own business.

In 2016, Kenigshtein and his partner Roman Khmil, former director of Ukrainian tech company GlobalLogic, opened their first coworking in Kyiv. Called Creative Quarters, it had the same vogueish style as Creative States and consisted of 2,800 square meters in business center Gulliver.

In 2018, Kenigshtein was ousted from Creative Quarters, which, two years after the launch, was valued at \$7 million.

Khmil said that Kenigshtein didn’t invest in the company and, when it was hard for partners to find common ground on several issues, investors fired him. Kenigshtein said the company was stolen from him.

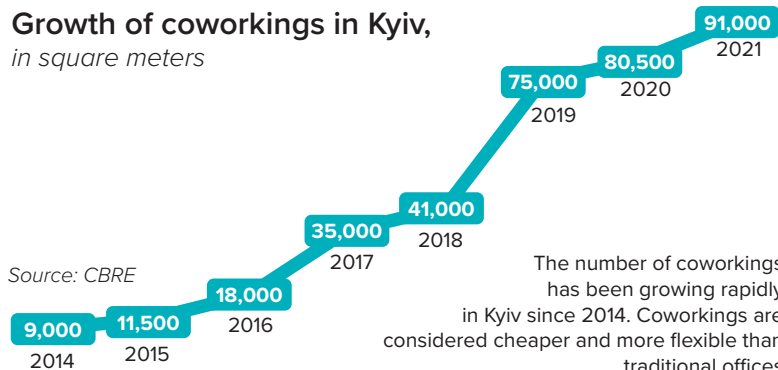
Although Creative Quarters and Creative States each have one of their coworkings in Gulliver, they have different entrances and the founders don’t see each other.

After losing Creative Quarters, Kenigshtein is now trying to build a company that is “bigger and better.”

“I’m sure that infrastructure changes the mindset,” Kenigshtein said. “Therefore, my dream is to change the concept of work through the buildings I create.” ■

Growth of coworkings in Kyiv,

in square meters



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Esports players compete during the Mortal Kombat tournament at the WePlay Esports arena on Dec. 10 in Kyiv. As esports turned from a solitary hobby into a multimillion-dollar industry, professional gamers started to look for bigger venues to play. (Courtesy of WePlay)

Does Ukraine have the potential to become a 'mecca for esports' if infrastructure improves?

By Daryna Antoniuk
antoniuk@kyivpost.com

Competitive video gaming, or esports, is now an official sport in Ukraine. And just like in football or tennis, local esports athletes need a place to train and play.

They used to do it in the comfort of their homes or in local internet cafes where tech-savvies competed in video games like Dota or Counter-Strike.

But as esports turned from a solitary hobby into a multimillion-dollar industry, professional gamers started to look for bigger venues to play. Today they open modern esports

clubs and build arenas to hold competitions and stream them online.

Places like that have started to pop up across Ukraine too. Real-life arenas attract sponsors, a crucial revenue stream for esports. They also make people realize that esports is not just about video games played by geeks — it is a real sport.

Such arenas, however numerous in Ukraine, aren't very profitable yet. But that could change soon.

Untamed market

Ukraine has esports arenas of all types. Some of them look like bars with hookahs, bean bags and high-end computers dotted around the place. Others are equipped with massive screens and cameras to stage live esports events.

Esports athletes from China, Brazil, the U.S. and Western Europe visit Ukraine often. For foreign players, Ukraine is a convenient location with high-speed internet and cheap accommodation.

Local esports enthusiasts open arenas mostly in big cities like Kyiv, Kharkiv and Dnipro, but smaller towns have esports venues too, albeit more modest.

For many Ukrainians these are the only places where they can meet like-minded people and play video games on modern computers, said Genadiy Veselkov, cofounder of Kyiv's esports arena ASUS CyberZone and local esports bar NaVi bar.

But it's still niche. The country doesn't need more esports at the moment, according to Ivan Danishevsky, president of Ukraine's Esports Federation. "Now it is more important to fill arenas with people rather than cities with arenas," Danishevsky told the Kyiv Post.

New opportunities

Globally, esports is a \$1 billion industry with 500 million followers. Nearly \$600 million of its revenue in 2020 came from sponsorships and only \$50 million from selling merchandise and tickets to esports events.

However, businesses around the world continue to construct facilities for esports and try to make them financially sustainable.

For example, the \$50 million Fusion Arena in the U.S. can host up to 3,500 esports fans, while the world's first esports stadium built from the ground up in China can seat over 7,000 viewers.

Ukrainian experts said that esports need arenas to thrive. Arenas allow players to compete in equal conditions — with the same internet connection and equipment, according to Maksym Bednarsky, the founder of Esports Club Kyiv, an esports team that competes in Counter-Strike tournaments.

Besides, real-life tournaments bolster competition and challenge esports athletes, Bednarsky said.

"You can play online endlessly but both viewers and esports athletes love to perform in big stadiums, go to the stage, feel support from the audience," said Stepan Shulga, head of esports at Parimatch Tech, a software developer belonging to betting firm Parimatch.

Esports businesses benefit from such tournaments too: When the tournaments are held offline, it is easier to attract sponsors and advertisers, said Maksym Bilogonov, general producer at Ukrainian esports media holding WePlay Esports.

Lucrative business

The explosive growth of esports in Ukraine has caught the eye of companies like Pepsi, McDonald's and Parimatch. Popular esports sponsors also include electronics manufacturers and retailers like Citrus, GT Race and Hator. They give professional gamers computers, keyboards, headsets and monitors, according to Denis Zhurid, an esports commentator.

Tech companies are interested in esports because it helps them to reach the audience that brings profit, said Artur Yermolayev, founder of Windigo Arena in Dnipro, the city of almost 1 million people located 480 kilometers southeast of Kyiv. According to esports analytics firm Newzoo, the majority of esports enthusiasts in Europe are age 25, so they are more likely to buy expensive esports devices.

Sponsors are also willing to support star esports players. Athletes can make millions of dollars by winning prize money and starring in ads.

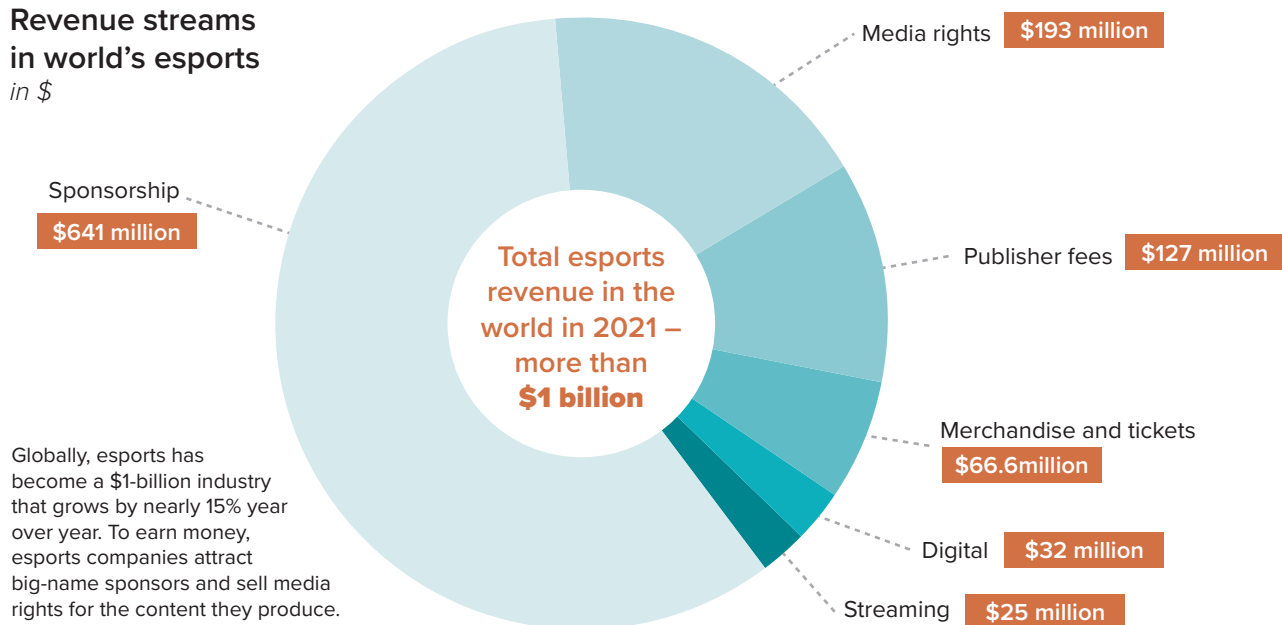
For example, Ukraine's accomplished esports team NaVi has earned nearly \$11 million in prize money in the past 10 years. It has many sponsors, including Newzoo, U.S. tech company Nvidia, Chinese streaming service Huya and Swedish electronics manufacturer Logitech.

Ukrainian arenas

Big esports tournament is a show accompanied by music and special effects. To arrange it, arenas need to have a stage, massive screens and a lot of seats.

Revenue streams in world's esports

in \$



Source: Newzoo

Countries ranked by revenue generated by game industry (2020)

Source: Newzoo

1.	China	\$40.8 billion
2.	United States	\$37 billion
3.	Japan	\$18.6 billion
...		
44.	Ukraine	\$261 million
45.	Romania	\$255 million

In 2020, the Ukrainian video game industry earned \$261 million. During the coronavirus pandemic, more Ukrainians started to play video games to relax or kill time.



Esports athletes play video games during a Mortal Kombat tournament at the WePlay Esports arena in Kyiv on Dec. 10, 2020. Like other athletes, esports players need equipped venues to train and play. (Courtesy of WePlay)

An arena like that cost Ukrainian WePlay Esports \$5 million.

To build a 1,000 square-meters esports stadium tucked inside a historic building at Kyiv's VDNG exhibition center was a challenge for WePlay Esports. VDNG is considered Ukraine's cultural heritage, so the company couldn't redesign the old building or change its exterior. Bilogonov said that the company needs "dozens of permits" even to repair the roof that leaks.

Despite the



Ukraine recognized professional video gamers as athletes in September 2020, making esports an official sport in the country. Esports is now considered a non-Olympic sport.

Soviet-like style of the building, the arena inside it looks futuristic. It has a 60-square-meter stage surrounded by huge screens and bleachers for nearly 200 visitors. It also has rooms for the production and media teams and areas for hosts and commentators.

Before WePlay Esports opened its own arena in Kyiv, it organized tournaments in places temporarily redesigned for esports tournaments.

One of them, the international Dota 2 competition with a prize pool of \$300,000, took place last January in Bukovel, Ukraine's biggest ski resort. Nearly 160 people visited it for free, while 9.3 million viewers watched the games online.

But temporary venues aren't flexible and it takes time to reach agreements with their owners. Having its own place, the company can host esports competitions at any time and adjust the stage to different games, Bilogonov told the Kyiv Post.

For example, during the Mortal Kombat competition in December 2020, the stage was decorated with Chinese pagodas and fake sakura trees to fully immerse viewers into the fighting game.

"This arena meets all our creative desires," Bilogonov said. "We can do whatever we want there."

WePlay Esports streams games for thousands of viewers on YouTube or Twitch, the Amazon-owned streaming platform. The company can also sell media rights for this content to other esports platforms.

Other Ukrainian arenas have a different business model. They look more like gyms where esports athletes train and play.

Yermolayev's 1,100-square-meter Windigo Arena in the center of Dnipro has 154 powerful computers and a massive screen to broadcast games. Visitors pay \$1.2 per hour to play there.

Zeus Arena in Kharkiv, the city of 1.4 million people located 480 kilometers east of Kyiv, has a bar, a restaurant and many playing areas for gamers. The arena also hosts tournaments and streams the games on Twitch.

Esports entrepreneur Alexander Kokhanovskyy also bought Kyiv's central Dnipro Hotel for \$41 million earlier in July to turn it into the first hotel in Europe dedicated to esports. Hotel rooms in Dnipro will be equipped with huge screens and computers, Kokhanovskyy said in an interview with the Kyiv Post earlier in September.

According to him, esports could bring thousands of jobs and millions of dollars to the country through gaming tournaments, given Ukraine has good infrastructure to host such events.

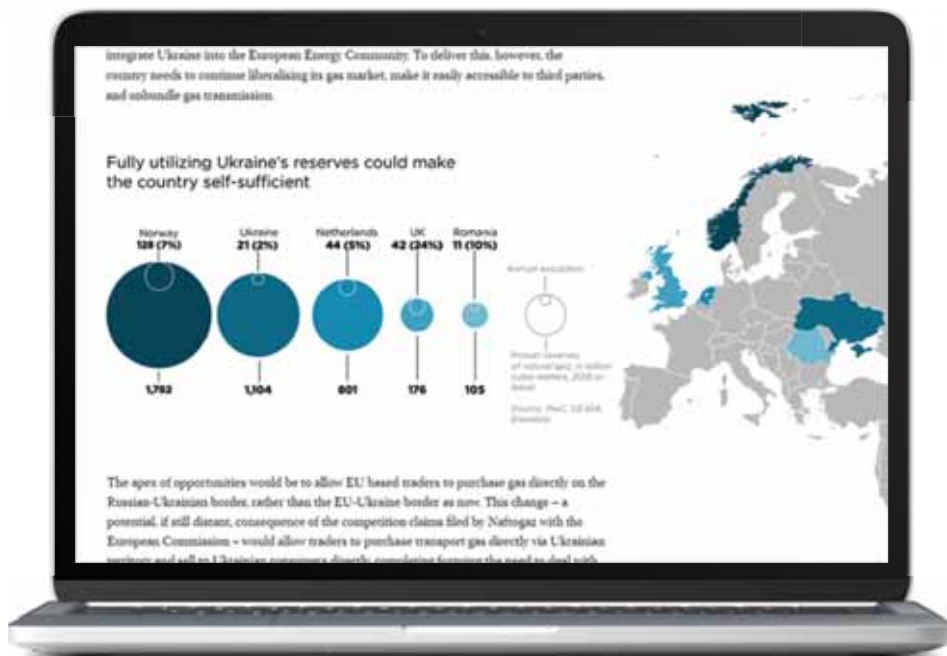
"We want to make Kyiv a European mecca for esports," Kokhanovskyy said. ■

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The decaying home of Ihor Sikorsky, the Kyiv-born aviation pioneer, in central Kyiv in February 2021. The building where the aircraft designer was born has stood dilapidated for years and is mired in legal disputes. (Kostyantyn Chernichkin)

Home of aviation legend Ihor Sikorsky decays because of neglect, bureaucracy

By Mark Rachkevych
ghousemark@gmail.com

Ihor Sikorsky, the Kyiv-born aviation pioneer, has plenty of namesakes in Ukraine's capital.

They include the municipal airport, a polytechnic university, a preparatory school for the nation's aviation university, a commemorative coin issued by the central bank and a street where the U.S. embassy is currently situated.

Yet the only museum to his name is a virtual one, a three-dimensional online exhibit of Sikorsky's life and achievements in revolutionizing aviation by advancing helicopter and airplane technology.

The building where the famous aircraft designer was born and reared, a prime real estate location near the historic Golden Gate, has stood neglected and dilapidated for years and is mired in legal disputes.

Its ultimate owner, the Defense Ministry, didn't respond to the Kyiv Post's request for comment about the building's current status, estimated value, plans for renovation and legal situation — the Kyiv Pechersk District Court in January 2018 froze the asset because the building lacks a code in an official database.

'Bureaucratic hurdles'

The three-story, brick and yellow-colored building enjoys landmark status at 10-B Yaroslaviv Val near the Golden Gate metro station and is in an "emergency state and requires immediate priority emergency work with subsequent restoration," the Kyiv City Department of Communal Property told the Kyiv Post by email.

Since 2017, the municipal government said it had asked the Defense Ministry and other national government bodies more than once to give it the property so that "restoration work" could begin before it decays completely.

Kyiv Mayor Vitali Klitschko's office told the Kyiv Post that "bureaucratic hurdles" are the cause of the 1,692-square-meter (18,212 square foot) building's structural demise.

"We have repeatedly stated that the municipality is ready to take possession of the building to restore it and set up a museum recognizing the world-famous aircraft designer," the mayor's office said.

Klitschko added that the city has invited the Defense Ministry to jointly design "a museum concept" with no results. He has also been in contact with Sergiy Sikorsky, the son of the legendary aircraft designer who also retired as a senior executive of the Sikorsky Aircraft Corporation that his father founded.

However, "(Sergiy Sikorsky) is in his 90s already," the mayor said.

In a separate response to the Kyiv Post, the municipal cultural heritage preservation department said "the landmark isn't being utilized, is kept in an improper and neglected state... (and there) is no security contract signed with the (cultural heritage) department to protect the premises."

Help from US

News of foreign assistance to help restore the building — mainly from the United States — briefly made the news when Servant of the People lawmaker Arseniy Pushkarenko on Feb. 4 said in parliament that both the Sikorsky Corporation and the U.S. government "are ready to financially take the implementation of this project."

When contacted by the Kyiv Post, Pushkarenko clarified that his statement referred to his communication with Jim Slattery, who last served as a congressman in the U.S. House of Representative in 1995.

Perhaps best known for the world's first production helicopter, the R-4, and the flying S-42 Clipper boat, Sikorsky's corporation, now owned by defense giant Lockheed Martin, didn't respond to a Kyiv Post request for comment.

The U.S. Embassy in Ukraine said it was "aware of interest in renovating the former home of Ihor Sikorsky."

However, U.S. Embassy spokesperson Daniel Langenkamp told the Kyiv Post that the "U.S. government has no plans to be involved" in renovation efforts.



Turning it into museum

A murky nonprofit had a 49-year lease of the building, intent on its preservation until the Defense Ministry — through the Kozatky Hotel it also owns near Independence Square — secured its annulment in 2016, lawmaker Pushkarenko said.

Pushkarenko said he and about 50 other lawmakers have petitioned the Defense Ministry to transfer ownership of the building either to the Culture Ministry or the city for restoration work to begin and move forward with its conversion to a museum.

According to the Justice Ministry's real estate registry, the building's "inventory objects" were frozen by a court ruling three years ago. The only reason given is that it lacks a code number.

The Cultural Heritage Preservation department stated that a Kyiv City Court ruling from 2018 had frozen any sale or purchase of the building. The freeze was based on a legal motion filed by the military's prosecutorial office "to preserve physical evidence in a criminal case against the management of the Kozatsky Hotel... that prevents the transfer of the property to the communal property of the territorial community of Kyiv."

As of Feb. 22, when the Kyiv Post visited the address, the hollow building languishes in disrepair. Parts of its roof is exposed from damage, bricks fill some lower-level windows presumably to prevent squatters or people without shelter from living there. Signs warn that parts of the façade survived a fire.

As a consolation, fans and Sikorsky history buffs were treated to an online, virtual tour and museum at the location starting in summer 2020.

Aviation pioneer Ihor Sikorsky (1889-1972). He emigrated to the United States in 1919. Sikorsky founded the Sikorsky Aircraft Corporation. (Courtesy)

The Creative Ukraine nonprofit group, headed by Viktor Hirza, launched the endeavor with financial assistance from the Culture Ministry's Ukrainian Cultural Foundation.

Available in English and Ukrainian, the museum website offers a three-dimensional layout of the building, including Sikorsky's bedroom, biographical information, lectures and excursions.

Based in Slavutych, 124 miles by car from Kyiv, Girza declined to talk to the Kyiv Post by phone and insisted on meeting in person.

Derelict building

Kyiv historian Mykhailo Kalnytsky said the Sikorsky building was once an auxiliary unit of the Soviet Union military's Red Star hotel on the same street. Ownership was transferred to the Defense Ministry after Ukraine's independence in 1991.

He said the building can be characterized as "brick architecture" in that it uses "unusual compositions" that highlight the qualities of the building material.

Sikorsky's father, Ivan Sikorsky, bought the home in 1885 as a single-story wooden structure before having it upgraded to three floors with an outbuilding. A row of garbage cans line what used to be the main entrance of the building, now with a semi-collapsed roof.

Preservationists have lined the tunnel walls leading into the courtyard with sheets of paper describing the aviation designer's biography and achievements, including pictures of him and his models in the courtyard where he often experimented.

In 1904, the family moved into the first floor of the building while Ivan Sikorsky, a trained psychologist who taught at the Saint Vladimir University (currently Taras Shevchenko University), used the upper

two floors as a medical and pedagogical institute for children who were mentally challenged and suffered from nervous system problems.

Famous Ukrainian composer Mykola Lysenko also rented space there for his musical and drama school that later was transformed into an institute.

In the courtyard, Ihor Sikorsky built his first prototype aircraft that resembled air sleds. A scale model of one of his first helicopter designs stands in the courtyard, placed there by local conservationists.

During World War II, the building served as the headquarters of the Soviet Kyiv Air Defense Corps.

Ihor Sikorsky completed his studies at the Kyiv Polytechnic University after in 1906 quitting the maritime cadet school in St. Petersburg, then the capital of Tsarist Russia of which the greater portion of Ukraine, including Kyiv, was a part. He had also studied in Paris before returning to Kyiv in 1907.

He fled the country after the Bolshevik revolution began in 1917 and ended up back in Paris. Two years later, he emigrated to the U.S. where he eventually found the Sikorsky Aero Engineering Corporation in 1923.

By 1939, he personally took off on his Vought-Sikorsky VS-300 (S-46) helicopter. It received the model number 300 for being the third helicopter he built. He built the previous two unsuccessful models in Kyiv, according to the virtual Sikorsky museum.

"I had learned enough to recognize that with the existing state of the art, engines, materials, and — most of all — the shortage of money and lack of experience... I would not be able to produce a successful helicopter at that time (1909–1910)," he said, according to Encyclopedia Britannica.

Ihor Sikorsky died in 1972. ■



The only museum to Ihor Sikorsky is a virtual one: a three-dimensional online exhibit of Sikorsky's life and achievements in revolutionizing aviation by advancing helicopter and airplane technology. (Courtesy)



**Business, government want
the same — privatization of
state-owned property**



An aerial view of the Kyiv's state motorcycle plant on March 4, 2021. The plant was largely unused until tycoon Vasyl Khmelnytsky privatized it in 2012. Now Khmelnytsky uses its territory to build innovation park Unit.City. (Oleg Petراسиuk)

By Liza Semko
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K yiv's state motorcycle plant used to produce legendary Dnepr bikes, but it had been run-down for years until tycoon Vasyl Khmelnytsky acquired it for nearly \$8 million.

Khmelnytsky, however, didn't buy the plant to manufacture bikes. Instead, he used its territory to build the Unit.City innovative park that hosts tech startups.

"This is an absolute win-win — the state, business and all citizens of the country win," Khmelnytsky told the Kyiv Post. He said the old plant will now bring "new opportunities."

It is a happy ending for a decrepit property, which many other state-owned buildings can't boast about. Ukraine still has 3,600 state enterprises and most of them have neglected premises, maintenance of which brings only losses to the state coffers.

The only way to save this real estate (and budget money) is to sell them to private businesses. For entrepreneurs, it's a bargain, because they can get affordable property in a good location with all the needed utilities, including electricity and plumbing.

Transparent privatization

For years until 2018, the state had sold few old enterprises to private investors — often for knockdown prices and through shadow schemes, which only few knew and had access to.

Khmelnytsky, a seasonal politician back then, was one of those lucky people who bought the state property in 2012. It took him five years to turn its territory into the Unit.City industrial park.

Dubbed Ukraine's Silicon Valley, the park offers office space for over 100 Ukrainian and foreign tech companies, cultural projects and investment funds.

The park is growing, and by 2025, it will have five new campuses. Besides, Khmelnytsky's company UDP and KAN Development are constructing a residential complex there.

Just as Unit.City is sprawling, so the process of privatization is becoming more transparent.

When in 2018 the government made the privatization of small state property (under \$9,000) official, things have started to pick up pace.

The procedure has become straightforward too. To buy a state asset, potential investors have to register on the website of e-procurement system Prozorro.Sale. They need to upload documents and pay warranty and registration fees to later participate in an auction. The biggest bidder wins, signs a contract and pays for the property.

According to Dmytro Sennychenko, head of the State Property Fund, privatization in Ukraine has many advantages even for foreign investors, as state specialists prepare "financial, technical, tax and legal audits" that can be checked remotely from abroad.

Ukraine — and its assets — may attract investors with its "geopolitical position, skilled labor, and the association agreement with the European Union."

Last year automotive company Bastion Group used new transparent privatization rules and acquired the major stake in state-owned enterprise Kyivpasservis. For \$8.3 million, it bought six bus stations in Kyiv, including the central one, and 18 bus stations in Kyiv Oblast.



Denys Malyuska, Ukraine's justice minister, speaks during a presentation of "big sale of prisons" on Aug. 6, 2020. (AFP)

The company's marketing head Dmytro Ozhyhov said that although the "Soviet-era" buildings are decrepit and the equipment is obsolete, he can make use of them after a little renovation.

Bastion will build waiting areas for passengers, stores, food courts and a motel. The company plans to preserve some of the Soviet architecture, including by renovating mosaics at some of the bus stations.

The company has already spent about 2 million euros on the renovation of the Central Bus Station in Kyiv. It plans to redo all the other bus stations too, but the company hasn't yet calculated the cost of it, Ozhyhov said.

What's next

Apart from run-down factories and bus stations, the state has also put prisons out for sale. Pre-trial detention centers will be sold too.

It's likely



that, after they're sold, most of them will be destroyed to build factories, residential complexes or shopping malls in their place.

The benefit for potential investors is that external and internal engineering networks and water connections are already there.

Some state facilities, however, cannot be destroyed since they are architectural monuments. This includes pre-trial detention centers in Kyiv, Odesa and Lviv.

Denys Malyuska, Ukraine's justice minister, told Radio Free Europe/Radio Liberty that detention centers can be used for hotels or museums.

As the number of prisoners dropped from 137,000 in 2013 to nearly 53,000 last year, even operating prisons are now less than 70% full. Therefore, the state will shut down 35 prisons and will try to sell them.

The Justice Ministry, which owns detention and pre-detention facilities, said that 70% of the money it raises will fund the construction of new detention facilities, 30% will go to the state budget.

For now, however, the ministry hasn't sold a single prison yet. It tried to sell the Irpin Correctional Center, located just outside Kyiv, for \$7.9 million, but nobody bid for it.

Now the state asks \$3.9 million, advertising the place as the one that "opens opportunities for constructing a business center, logistics complex or residential property," according to the Justice Ministry website.

While small privatization is rather successful, the privatization of large-scale state assets, worth over \$9,000, is lagging.

The fund had to start selling big state assets in 2020, but the government put the privatization on hold due to the pandemic. The parliament voted for lifting the ban in the first reading in February.

In total, the state plans to sell over 550 of its enterprises, including Odesa Portside Plant.

Many state-owned enterprises have debts and other problems that discourage potential investors but the fund tries to cope with it.

According to Sennychenko, the fund attracts advisers for each case of big privatization. They collect the information about assets, analyze it, offer starting prices and develop plans of what to do with debts.

If the government lifts the ban on big privatization this year, the state budget may get \$320 million along with other \$110 million from "small" privatization. In 2020, the fund managed to make nearly \$110 million for Ukraine by selling unneeded small-scale assets, while the target was just \$18 million.

Khmelnysky, as an investor in state property, also thinks that Ukraine should push privatization forward. He doesn't see any risks or drawbacks in it.

"We need to get rid of old assets that cannot be restored as fast as possible and foster investors to privatize them to turn them into something useful for the country..." Khmelnysky said. ■

Apart from run-down factories and bus stations, the state has also put prisons up for sale. Potential investors can benefit from gas and water connections that are already there. Denys Malyuska, Ukraine's justice minister, says that detention centers can be used for museums or hotels.



Sergiy Sergiyenko, managing partner of CBRE Ukraine, says offices are here to stay even during the pandemic. (Courtesy of CBRE)

Interview with CBRE Ukraine's Sergiy Sergiyenko on changes in commercial property market

By Brian Bonner
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Editor's Note: Sergiy Sergiyenko is a managing partner of CBRE Ukraine. In 2019, CBRE Ukraine had 300 employees and managed 800,000 square meters of shopping centers and industrial space, as well as 32,000 square meters of corporate real estate. The Kyiv Post asked him about how COVID-19 affected the commercial property sector. The answers were edited for length.

Kyiv Post: Where did you see the most dramatic changes among the three commercial areas you work in — industrial/warehouse, office and retail?

Sergiy Sergiyenko: There was shock initially, but everyone adjusted. Office and retail were hit hard, as expected.

Warehouse was the segment that benefited. Everyone went online. More business for warehouses will hopefully mean more warehouse space. In 2015–2016, there was zero new supply. In 2017–2018, there were 10,000 new square meters; in 2019–20,000; in 2020–60,000 square meters. Very little. Vacancy declined from 30% to 3% now. But there's no long-term financing, no low interest rates to build new warehouse space. Everyone builds out of equity and it's extremely expensive. We are in a cul-de-sac — no huge supply but huge demand, yet leasing rates are not growing. Something has to give. Maybe developers will build and accept a lower return. But that is unlikely. Rental rates will have to go up to justify new construction or construction prices will have to go down.



People stand outside the Astarta Organic Business Centre in Kyiv on May 18, 2020. Over the past three years, the information technology industry has been driving demand in Ukraine's office market. Tech companies occupied nearly half of what was leased in Kyiv in 2020 — 54,000 square meters. (Oleg Petrusiuk)

KP: What about the office sector?

SS: There was lots of construction activity and a healthy amount of leasing activity — a surprise for all of us. While the office market declined noticeably, it did not disappear. Offices were locked down and employees locked out. But there was no broad dumping of leased offices. There was a revelation that working from home or from the cafe is actually effective. The office footprint will drop down maybe by one-fourth to one-third from March 2019 in about three-four years. In other words, if there are 2 million square meters in total supply — 400,000 to 500,000 square meters will be vacated. The market will re-adjust. Senior management of a given company is working

off the mindset of the last 20–30 years, while younger generations do not want to commute two hours anymore. We are blessed by the huge footprint of the information technology community, which is not dependent on the Ukrainian economy. High-quality business centers will be occupied, maybe resized from 3,000 square meters to 2,000 square meters. Offices are not going away. They are places for ideas, collaboration, socializing. A company is a social entity. It can't be a social entity if everyone is sitting at home and looking at the screen.

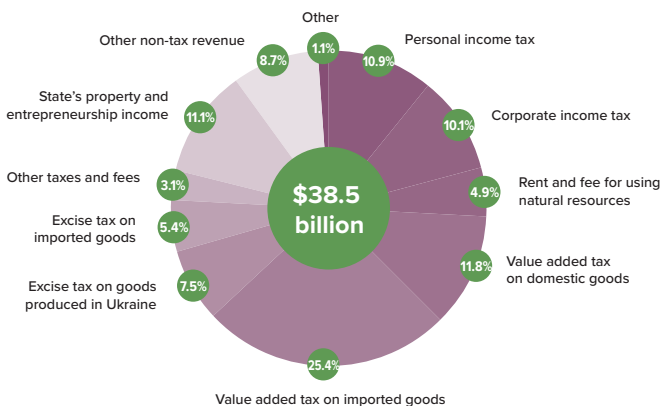
KP: What about shopping malls? Are they dying because of COVID-19 and the growth on online retail?

SS: Yes and no. Shopping malls provide more than a shopping function. Living in Kyiv and Ukraine, in general, there are no quality public spaces in winter. Once the weather gets unpleasant, there is nowhere to go. So, people go out and go to a mall. There's a higher rate of public interest than in North America, where malls are dying because you have to drive to them. Ukraine still has public transport. Malls are places for hanging out, for window-shopping or for trying on clothes. They may not be so profitable, but they still continue to be used, so they will continue to exist. Rental rates in shopping malls did get hammered, but they will recover gradually.

KP: You spoke two years ago about the high barriers to new construction projects because of the high level of corruption. Do the barriers still exist?

SS: Not to the same degree. There are some positive changes. But there are still many corrupt levers of the government approval machine. The construction industry is still only open to insiders because of the corruption. Internationals will not pay bribes. ■

State budget revenue in 2020 by sources



In many Western countries, property taxes provide the backbone of local budgets, often accounting for more than half of tax revenues. But in Ukraine, property tax contribution is worth only 3% of revenues. The State Treasury Service doesn't even have a separate category for the property tax and combines it with other personal income tax revenues, which together secure 10.9% of the budget. Source: State Treasury Service



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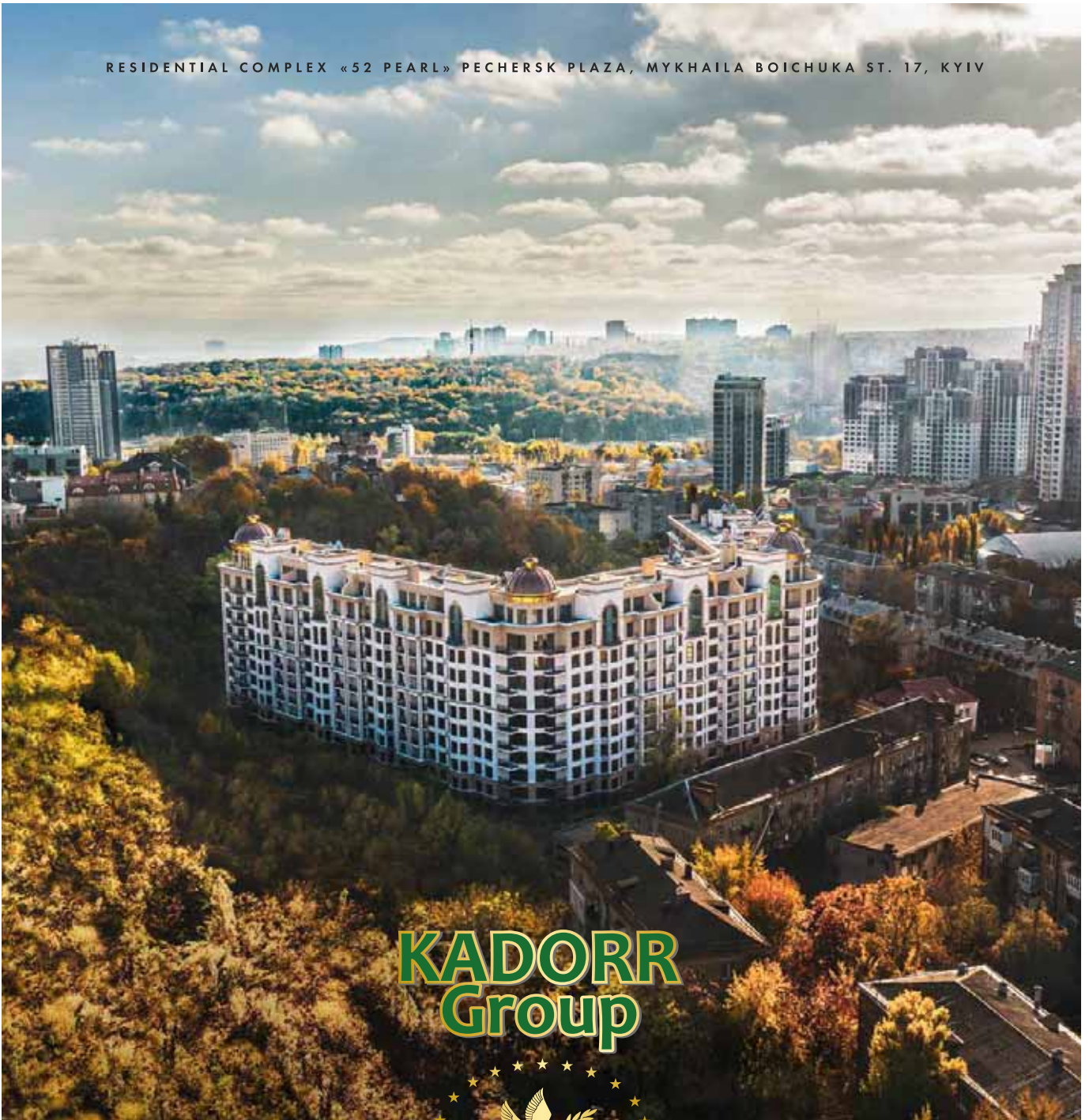


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